

PWKP4-3

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Bringing Technology to Post Offices and Benefit Payments

FROM DEMONSTRATOR TO SELECTION

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1. PURPOSE

- 1.1. This paper provides an overview of the evaluation process from Stage 3 "Demonstrator and Negotiation" to the final selection decision in Stage 4 "Evaluation and Selection". The aim is to provide a common understanding of the evaluation framework within which further work will be undertaken.
- 1.2. The paper builds on the concept of using financial and non-financial information to aid the selection of the winning service provider and on the value factors for the non-financial assessment put forward in the "Evaluation Post Shortlist" paper (PWKP3-18). The ideas outlined in that paper for the evaluation process and for measuring the value factors are developed by this paper.
- 1.3. Section 2 considers the outputs needed from the evaluation to support the selection decision, while section 3 looks at the activities to produce them.

2. THE EVALUATION METHOD

2.1. Financial vs. Non-Financial Impact

- 2.1.1. The basis for financial business decisions is to consider the cost, benefits and risks of each option (i.e. risks of the costs not being contained and of the benefits not being

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delivered). The tendency in Government procurements has been to express these three factors solely in monetary terms. An overall cost of ownership can then be calculated for each option and the lowest selected as the winner. It has been decided that this programme is to take a wider view by also considering the impact of non-financial aspects. This is shown in context in Figure 1, where the "Financial" impact column shows the main items contributing to the total cost of ownership and the "Non-Financial" column shows the areas of non-financial impact.

	Impact	
	Financial	Non-Financial
Cost	Charges Internal costs	x
Benefit	Quantifiable benefits	Qualitative benefits
Risk	Attributable costs	Issues
	Total Cost	

Figure 1 - Financial and Non-Financial Impact

Key:

- *Charges* refer to the service provider's charges;
- *Internal costs* refer to the contracting authorities own additional costs (e.g. in providing accommodation for the service provider, in making staff available to attend training);
- *Attributable costs* are what may have to be spent to off-set the risk of poor service provider performance;
- *Issues* covers the various risks and issues to be managed in addition to those quantified as Attributable costs.

2.2. Assessment Results

2.2.1. Unlike the items for financial impact, it is not possible to add the non-financial benefit and risk items to give a single value. The benefit and risk headings are equivalent to the axes used in evaluating responses to the SSR, i.e.:

- (a) **Characteristics** – how well the characteristics of the proposed services assist BA and POCL in meeting their business objectives and the users in performing their operational roles. Benefits, or the lack of them, for a particular option are identified in relation to the baseline requirement.

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- (b) **Viability** – issues or concerns about the viability of the proposed services, taking account of how the underlying designs, methods, systems, procedures, tools, plans and resources enable the services to be delivered and function.

2.2.2. Thus the non-financial “value” view will be shown on a two-dimensional grid in a similar manner to the proposal evaluation (see Figure 2). The grid showing the overall view of the value assessment will be derived from the assessment of service providers’ proposed solutions and capability against each value factor, combined using agreed weights.

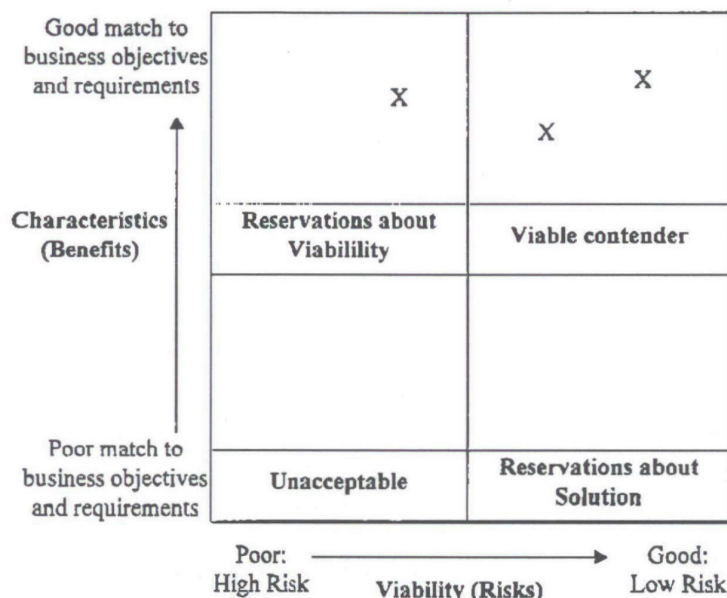


Figure 2 - Value Assessment Grid

2.2.3. The results from the financial evaluation will be reviewed against the Value Assessment Grid to support the decision process. This will draw out potential points such as the lowest cost solution falling into the “Reservations about viability” box from the grid in the ‘Evaluation PostShortlist’ paper (i.e. “cheap but ...”), or possibly the solution with the best characteristics and viability in the “Viable contender” box also being the most expensive (i.e. is it “Affordable?”).

2.2.4. A future paper will identify how best to undertake the financial evaluation and present the results. It will address the method for taking account of the uncertainty in predicting business workloads and the speed of implementation.

2.3. PFI Perspectives

2.3.1. In addition to the financial and non-financial views, there are two specific perspectives that need to be considered due to the PFI / Programme objectives. These are:

- (a) **Partnership** – the capability and business compatibility of the service providers to make a good business partner (particularly for POCL) in ensuring the success of the initial services and helping to generate new business;

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(b) Risk Transfer – the extent to which risk is reduced and transferred to the Service Provider in accordance with the aim to minimise risk and place it where it can most effectively be managed. A major element of this will be the fraud risks associated with the benefit method of payment, but it also covers the other service delivery and business workload risks.

2.3.2. These commercial perspectives plus the value assessments and financial evaluation will form the information on which to base the selection decision.

3. THE EVALUATION PROCESS

3.1. Overview

3.1.1. The main activities and milestones for the Stage 4 evaluation process are shown in relation to the main Stage 3 activities in Figure 3 below, with the arrows indicating dependencies.

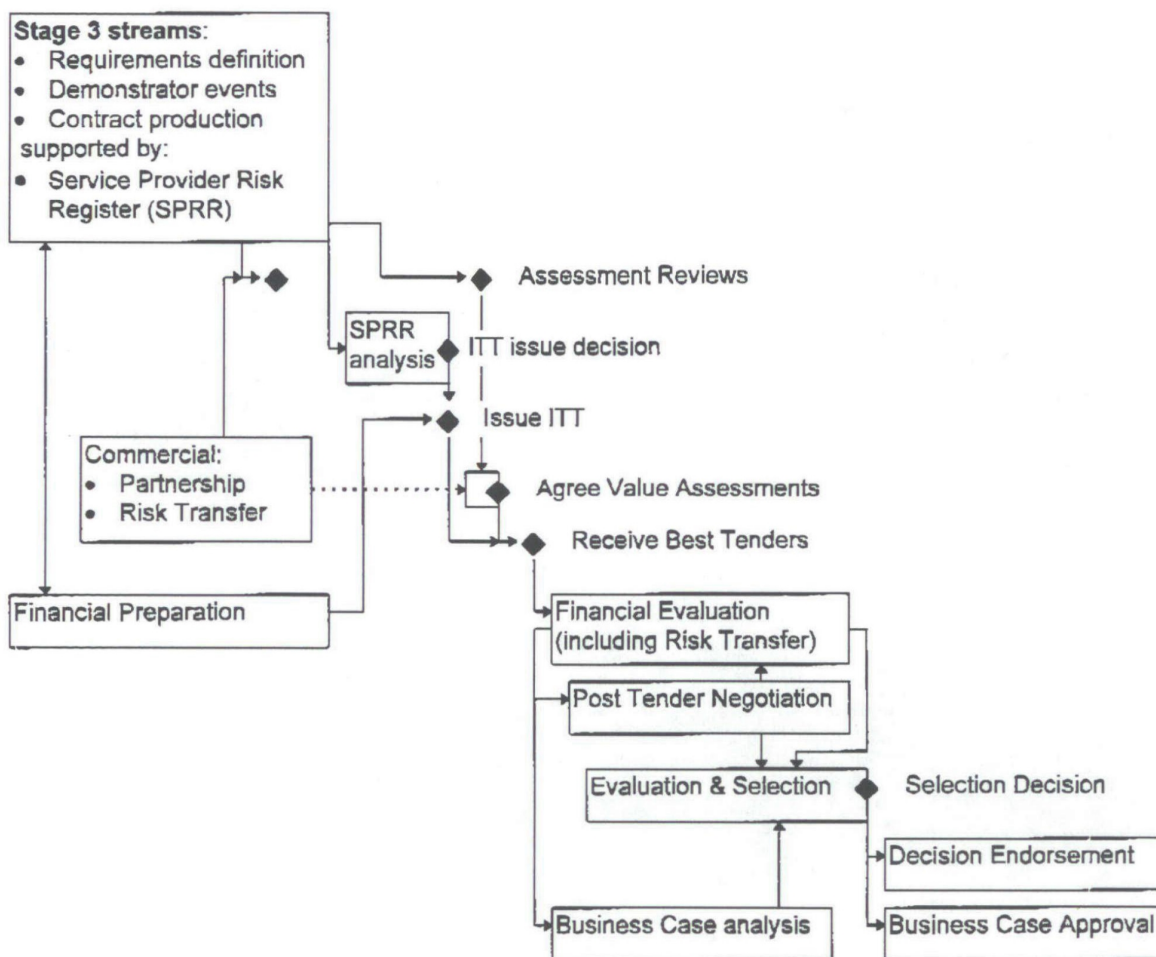


Figure 3 - Activity & Milestone Dependencies

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- 3.1.2. The general process is described as follows, with cross-references to the headings in Figure 3 shown in bold:
- (a) outputs from the **Stage 3 streams** of work (discussed later at 3.2) feed into regular Assessment Reviews (discussed further at 3.3);
 - (b) the **Commercial** assessments, Partnership and Risk Transfer, feed into the Assessment Reviews and where necessary into the Service Provider Risk Register (SPRR);
 - (c) the **Assessment Reviews** assess the service providers against the value factors, agree appropriate feedback to service providers where there are specific issues, and provide direction to the Stage 3 work and the commercial assessments;
 - (d) **Financial Preparation** work provides the groundwork for the financial evaluation and business case submission after receipt of best tenders. The format and content of information required in the tenders is needed prior to **Issue of ITT**;
 - (e) the **SPRR analysis** quantifies the outstanding risks on the SPRR at the end of Stage 3. These, and the outcome of the contract negotiations, then provide the basis for the **ITT issue decision**;
 - (f) the **Value Assessments** (based on the Assessment Reviews) need to be agreed by the Evaluation Board and lodged with the lawyers prior to receipt of **Best Tenders**;
 - (g) following receipt of **Best Tenders**, work commences on the **Financial Evaluation and Business Case Analysis**;
 - (h) during the Financial Evaluation, the commercial assessment of **Risk Transfer** will be completed;
 - (i) initial results from the Financial Evaluation will provide input for any **Post Tender Negotiation**;
 - (j) the outcomes from the Value Assessment and Financial Evaluation will be analysed to aid the selection of the winner (**Evaluation & Selection**, leading to the **Selection Decision**);
 - (k) following the Selection Decision, the sponsor's organisations will need to **Endorse the Decision** and the **Business Cases** will need to be put through the final approval processes.
- 3.1.3. Other work will be progressing to initiate Stage 5 "*Operational Trial*" in addition to the Stage 4 activities covered in the above diagram and description. This is outside the scope of Stage 4.

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3.2. Stage 3 Streams

3.2.1. The evaluation model for shortlisting proposals contained a detailed hierarchy of evaluation criteria. At first sight, the use of the Value Factors may appear to be superficial by comparison. However it is important to understand that the Stage 3 work provides for a far more detailed and thorough evaluation of proposed solutions and service providers than was possible during shortlisting. The three main streams of work for Stage 3 are:

(a) Requirements definition

The requirements from the SSR are refined and evolved through feedback from service providers (to confirm that the requirements are clear and reasonable) and from input from the sponsors' organisations. Service providers' responses to the requirements are assessed and issues or concerns raised via the SPRR.

(b) Demonstrator Events

The aim of the Demonstrator is to reduce risk to the Programme and its sponsors by improving the understanding of and assessing the service providers' proposed solutions. A variety of events, including demonstrations, meetings and working papers, will be used to examine solutions from the perspectives of:

- i. Fraud-free Method of Payment
- ii. Infrastructure for POCL Automation
- iii. Applications for POCL Automation
- iv. Operational Trial and Implementation
- v. Service Management
- vi. End to End Service Delivery

Demonstrator events will involve sponsor representation (either directly or indirectly). Concerns and issues arising from events will be recorded on the SPRR, and the service providers will be given the opportunity to address these risks. The results from assessments will also be recorded to provide input to Assessment Reviews.

(c) Contract Production

The contract production stream is responsible for the production, negotiation and agreement of the contractual documentation, ensuring that it properly reflects:

- i. the sponsors' commercial needs for the overall business agreement;
- ii. the requirements identified under (a) and key aspects of service provider solutions.

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3.2.2. It is expected that the service providers will address many of the risks raised on the SPRR during Stage 3 by clarifying or improving their proposals. As a consequence the Stage 4 evaluation approach is to look for the differentiators, on the basis that the detailed requirements and solutions have been examined with the service providers during Stage 3. The combination of Stage 3 and 4 work provides for a far more detailed evaluation than the paper-evaluation undertaken to shortlist proposals.

3.3. Assessment Reviews

3.3.1. Assessment Review meetings will be held to assess the service providers' performance against the value factors. These will take into account the views shown in Figure 4.

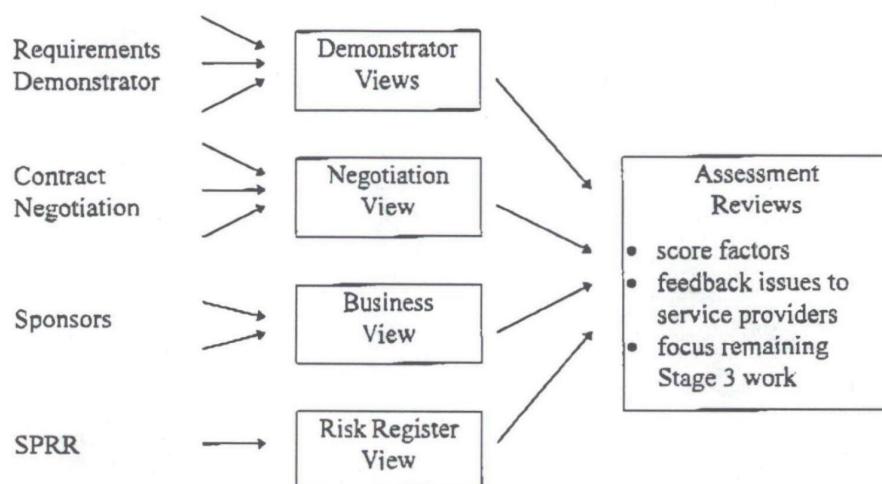


Figure 4 - Assessment Reviews

- 3.3.2. Where issues are identified with a service provider's performance, the Assessment Review will agree actions to resolve them as appropriate. Normally this will lead to a risk being raised against the SPRR, and/or the issue being addressed directly with the service provider.
- 3.3.3. If an Assessment Review has insufficient information on which to assess a value factor for a particular service provider, then it may commission work designed to provide suitable details.
- 3.3.4. It is intended that the Assessment Reviews will be undertaken by the BA and POCL representatives on the Programme Management Team and include representation from the six Demonstrator perspectives listed under 3.2.1(b) above. Sponsors will be able to present their views via their respective Programme Requirements Authority who will attend the reviews. Appropriate mechanisms for any feedback will need to be agreed.
- 3.3.5. While the final value assessments need not be agreed by the Evaluation Board until after issue of ITT but prior to receipt of best tenders, an Assessment Review must be held before the SPRR is closed to new risks (expected one to two weeks before the

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end of the Demonstrator). This is to ensure that any significant issues are identified on the SPRR prior to the ITT issue decision.

3.4. The ITT Issue Decision

3.4.1. Any service provider invited to submit a best tender must have cleared a number of "hurdles". The Stage 3 work and the commercial assessments will assess whether each service provider meets or exceeds:

- (a) the minimum service requirements acceptable to the sponsors;
- (b) the minimum requirements for partnership with POCL and the development of new business opportunities (as described in the Prospectus and the SSR);
- (c) sufficient transfer of risk for an acceptable risk profile, in particular for the fraud risks but also the general service development and business volume risks;
- (d) an acceptable funding method and financial structure.

3.4.2. The mechanisms by which failure to clear the hurdles will be detected are the SPRR and agreement to final draft contracts. A service provider will not be invited to tender if:

- (a) he has any "Critical" (category A) risks or an unacceptable profile of other risks outstanding at the time the SPRR is finalised; and/or
- (b) it has proved impossible to agree with him a contract acceptable to BA and POCL.

3.4.3. The final SPRR from Stage 3 will be analysed to identify the impact (both financial and non-financial) of the outstanding risks. This analysis and the outcome of the contract negotiations will be put to the Evaluation Board to decide if any service provider should not be invited to tender.