

## **Appendix 3 - Further guidance on economic & financial standing assessment**

In order to progress to Phase 3 of the evaluation process, Tenderers must pass Phase 1 – Mandatory Criteria, and be identified as the Most Economically Advantageous Tender at Phase 2.

Where a Tenderer fails the financial stability test on their own financial information, a Parent Company Guarantee (PCG) may be offered. The Parent Company's financial information will be assessed and must meet the pass criteria. Failure to provide a PCG in would be deemed a fail.

Where a Tenderer fails the financial stability test the contract(s) will be awarded to the next Most Economically Advantageous Tender subject to Phase 3 evaluation.

### **GUIDANCE**

#### **1. Introduction**

1.1. The Council will assess the potential service provider's finances as follows; -

For tenders above the Public Contract Regulations 2015 ("PCR 2015") threshold (£213,477.00 at the time of publication of this ITT), the test will include an assessment of the finances as per section 3 below, and an assessment via Dun and Bradstreet as per section 4 below.

For tenders below the PCR 2015 threshold, the assessment will be via Dun and Bradstreet as per section 4 below. If the potential service provider fails the section 4 assessment, the assessment in section 3 will be conducted.

#### **2. Financial Submission Documents**

2.1. There is no requirement to submit financial documents with your Tender return. The potential service provider will be asked to submit their latest 2 years audited or signed accounts<sup>1</sup>. These must include both a statement of income & expenditure and balance sheet and be provided as a separate set of accounts for each year. See also paragraph 2.3.

2.2. Where it is not possible to submit the documents stated in paragraph 2.1 an income and expenditure account shall be submitted for the two most recent financial years and be provided as a separate set of accounts for each year<sup>1</sup>. These must either be signed by the potential service provider 's accountant or accompanied by the tax return to validate the figures. See also paragraph 2.3.

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<sup>1</sup>

- 2.3. Where the most recent financial year end for the documents specified in paragraphs 2.1 or 2.2 is greater than 6 months prior to submission, either an interim set of accounts (which reduces the period to less than 6 months) or a statement (which either confirms no significant change or states significant changes to the finances) signed by your Financial Director, Accountant or Company Director must also be submitted. For example, if the most recent accounts submitted have a year-end date of 31 March 2016 and the submission date is after 30 September 2016 this would be required.
- 2.4. If the potential service provider has not been operating for long enough to have 2 sets of financial statements, the requirements are set out in section 5 below relating to new companies.
- 2.5. When assessing charitable or not for profit organisations an allowance will be made in the tests, particularly the profitability test. It is therefore important that this status is made clear in any submissions.
- 2.6. The Council may also seek further evidence of the financial viability of the organisation to inform a risk assessment to determine whether the Council can be sufficiently satisfied of financial standing. The Council's determination of financial viability within these thresholds will be final and failure to satisfy the Council of sound financial standing will disqualify the potential service provider.
- 2.7. The Council will, when undertaking the assessment in section 3 and 4 below, check for any indicators that suggest there are any potential breaches of obligation to pay taxes as part of the due diligence of the potential provider's bid.

### 3. Financial Accounts Evaluation

3.1. Accounts will be assessed using the below criteria for the potential service provider.

Criteria	Sub-Criteria	Weighting	Pass Mark	Ratios
Ratio Analysis	Profitability	30%	15/30	Gross & Net profit to Turnover
	Liquidity	30%	15/30	Interest Cover & Gearing
	Gearing	30%	15/30	Current Ratio & Quick Ratio
Turnover		10%	5/10	Contract Percentage of Turnover
<b>Total</b>		<b>100%</b>	<b>50/100</b>	

Financial accounts and supporting information should wherever possible be provided in English and GBP Sterling. Where this is not possible, the Council will use an exchange rate where necessary as part of the assessment of financial standing. The source of the exchange rate will usually be [www.xe.com](http://www.xe.com) and the rate used can be notified to the potential service provider by the Council at the time the assessment is made.

3.2. The potential service provider must score the minimum pass mark for each test in the table above and meet the criteria to pass Procurement Dun and Bradstreet assessment in section 4 below. Where a company fails any of the sub criteria or the Procurement Dun and Bradstreet assessment the Council will carry out further analysis and may request further information to assure itself that the additional risk this poses is acceptable.

### 4. Procurement Dun and Bradstreet Evaluation

4.1. The Council will carry out assessment using ratings models available via Procurement Dun and Bradstreet reports:

- D&B Risk Indicator
- D&B Financial Strength Indicator

4.2. The potential service provider will be classified as financially stable if a pass rating is achieved on the checks identified and included above. The minimum pass ratings for each model is outlined below and a summary Table is also provided showing the Pass/Fail list that is created by this check.

- D&B Risk Indicator – Equals 1 or 2
- D&B Financial Strength Indicator – Must not be “negative” or “undetermined”.

### D&B Rating Codes

5A 1	1A 2	NB 3	5A 4	1A 5	D -
4A 1	A 2	NB 4	4A 4	A 5	E -
3A 1	B 2	NB 5	3A 4	B 5	F -
2A 1	C 2	NB -	2A 4	C 5	G -
1A 1	D 2	5A 3	1A 4	D 5	H -
A 1	E 2	4A 3	A 4	E 5	N 1
B 1	F 2	3A 3	B 4	F 5	O 1
C 1	G 2	2A 3	C 4	G 5	N 2
D 1	H 2	1A 3	D 4	H 5	O 2
E 1	NB 1	A 3	E 4	5A -	N 3
F 1	NB 2	B 3	F 4	4A -	O 3
G 1	NQ 1	C 3	G 4	3A -	N 4
H 1	NQ 2	D 3	H 4	2A -	O 4
5A 2	NQ 3	E 3	5A 5	1A -	N 5
4A 2	NQ 4	F 3	4A 5	A -	O 5
3A 2	NQ 5	G 3	3A 5	B -	N -
2A 2	NQ -	H 3	2A 5	C -	O -

Pass
Fail

### Colour blind version:

### D&B Rating Codes

5A 1	1A 2	NB 3	5A 4	1A 5	D -
4A 1	A 2	NB 4	4A 4	A 5	E -
3A 1	B 2	NB 5	3A 4	B 5	F -
2A 1	C 2	NB -	2A 4	C 5	G -
1A 1	D 2	5A 3	1A 4	D 5	H -
A 1	E 2	4A 3	A 4	E 5	N 1
B 1	F 2	3A 3	B 4	F 5	O 1
C 1	G 2	2A 3	C 4	G 5	N 2
D 1	H 2	1A 3	D 4	H 5	O 2
E 1	NB 1	A 3	E 4	5A -	N 3
F 1	NB 2	B 3	F 4	4A -	O 3
G 1	NQ 1	C 3	G 4	3A -	N 4

Pass
Fail

4.3. A potential service provider not achieving a pass rating on two or more of the models due to fail ratings or unavailable ratings will be subject to the assessment in section 3.

4.4. Please note that this company check is not a credit check search and will have no impact on your credit rating. The Council reserves the right to carry out company checks on your company throughout the life of this contract.

## **5. New Organisations**

5.1. For organisations with less than 2 years' accounts available, the financial submission documentation is:

- As much of the financial documentation set out under section 2 above as possible.
- Business plans and projections for the length of the contract.

5.2. Where a new company is created as a result of a merger the financial submission documentation is:

- As much of the financial documentation set out under section 2 above as possible.
- Accounts for the remainder of the prior two years for all businesses which were involved in the merger, along with an explanation of significant accounting or operational changes.

5.3. Based on the documents submitted testing will be carried out and an analysis of the risk level to the Council considered.

## **6. Parent Company Guarantee**

6.1. If a company wishes to rely on the accounts of their parent company, the above requirements and tests will apply to the parent company's accounts.

6.2. A letter from the parent company stating that they are willing to provide a parent company guarantee must also be submitted.

6.3. The parent company accounts will only be assessed where the Council deems this to be appropriate. The Council will normally rely on the accounts of the company itself.

6.4. Where a company fails to pass these tests on their own accounts they may be offered the opportunity to submit parent company accounts.

## 7 Contract Value Limits

7.1 All tenderers will be eligible to be awarded a minimum contract value of £25,000, as described in paragraph 2.5 if they are successful within other parts of the assessment.

7.2 Where tender documents submitted match those described in paragraph 2.2 above, tenderers may only be awarded a contract up to a maximum of £213,477.00. A turnover test listed in section **Error! Reference source not found.** above will be applied to risk assess the maximum annual contract value for each tenderer. This will be a minimum of £25,000 and a maximum of £213,477.00.

7.3 Where tender documents submitted match those described in paragraph 2.1 above, there will be no capped maximum contract value. The tests listed in section **Error! Reference source not found.** below will be used by the Council to assess the risks presented by the annual contract value for each tenderer.

7.4 Where a Dun and Bradstreet (see 4.2 above) pass is achieved tenderers in any of the above categories will automatically be awarded up to £213,477.00 as described in paragraph 7.3 above. Further testing may however increase this limit.

7.5 The table below provides a summary of tenderer contract value limits:

Financial Documentation Submitted	Maximum Contract Value
None	£25,000
Income & Expenditure Statement	£213,477.00
Dun & Bradstreet Pass Alone	£213,477.00
Income & Expenditure Statement and Balance Sheet	Unlimited <sup>2</sup>

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<sup>2</sup> The lifetime contract value is unlimited; however, an annual limit may be imposed or risk assessed following the assessment described in section **Error! Reference source not found.**