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# Invitation to Tender (ITT) for School Meals and Shire Hall Catering Services Framework Agreement

**Appendix B Economic & Financial Standing- Methodology**

1. **Introduction**
   1. In Document 5a (Financial and Economic Standing) it was explained that GCC will use information provided by you to calculate a financial robustness score, using the scoring mechanism shown in the table below. There is a minimum requirement to score 40 or above by either the bidder or its parent company if provided as a guarantee. However any score between 30-39 will require a Letter of Credit to the value of the Contract. Failure to meet the financial robustness score of 40 or above will not result in automatic exclusion, but may be considered as grounds for discretionary exclusion.
   2. The information you provide in answer to question 4.1 (Document 6 Selection Questionnaire) must enable us to complete the whole financial robustness assessment of Profitability, Liquidity, Gearing, Turnover and Net Assets.
2. **General guidance**
   1. A score out of 100 will be awarded for the economic and financial standing assessment. A score of at least 40% (40 out of 100) will be required in order to pass the assessment of economic and financial standing[[1]](#footnote-1)
   2. If you are unclear of the calculation methodology please clarify with us before submission.
   3. Where the accounts have been submitted in another currency other than GBP we will use the published Bank of England spot exchange rate on the day of the financial assessment.
   4. You must provide accounts in English. Where your accounts have been prepared in another language please provide a translated copy. In addition the units used must be recognised English units, for example in thousands or millions as appropriate.
   5. Set out in Table B.1 is the framework to be used to derive the economic and financial standing score for each organisation. The analysis is dependent on reviewing the size, profitability and stability of each organisation, and its ability to deliver a project of this magnitude.

Table B.1: Economic and financial standing assessment framework

|  |  |  |
| --- | --- | --- |
| **Economic and Financial Standing Criteria** | **Maximum Score** | **Weighting (%)** |
| Financial Robustness | | |
| * Profitability | 20 | 20 |
| * Gearing | 25 | 25 |
| * Liquidity | 25 | 25 |
| * Turnover and net asset analysis | 30 | 30 |
| **TOTAL** | **100** | **100** |

* 1. **Financial solvency and strength criteria**
     1. The financial solvency and strength of each organisation will be assessed through consideration of the responses within the PQQ submitted, along with the organisation’s submitted financial information.
     2. Please note that the information provided must enable the Financial Assessment Team to make an evaluation of Profitability, Gearing, Liquidity and Turnover and Net Assets as set out below.
     3. For a consortium bid the economic and financial standing attributes that are assessed as part of the assessment of the financial robustness of the organisation will be weighted for each member of the consortium as shown in the example below;

Example - If three members in a consortium bid shared profit & liability on a percentage split basis of 30:45:25 then each company will be assessed on an individual basis as summarised below.

Company A has been individually assessed and scored 45

Company B has been individually assessed and scored 60

Company C has been individually assessed and scored 90

The scores will be adjusted to the percentage share to come up with the total consortium score of 63 as shown below:

Company A (percentage split is 30%) Score = 45 x 30% = 13.5

Company B (percentage split is 45%) Score = 60 x 45% = 27

Company C (percentage split is 25%) Score = 90 x 25% = 22.5

Overall consortium score to be considered for assessment = 63

* + 1. Please note failure of any one of the consortium members to meet the mandatory requirements set out in B1 will result in the whole consortium bid being excluded from the assessment.
    2. Searches of news information sources, Creditsafe reports and credit ratings will be undertaken to highlight any issues that should have been brought to the attention of the Authority by the organisation’s responses to the SQ.

* 1. **Detailed breakdown of stage one – financial solvency and strength**
     1. The Assessment Team will examine absolute values and trends in each of the following measures set out in Sections 2.7.2 to 2.7.5.
     2. **Profitability** 
        1. The Profitability of each organisation is assessed by evaluating turnover against:

Operating Profit Margin = Operating profit before tax from continuing operations

Turnover

Net Profit Margin = Profit before tax from continuing operations

Turnover

* + - 1. Turnover will be revenue from ordinary operations (IAS 1.82A) Operating profit (IAS 1.85 & BC55-56).
      2. The organisation’s Profitability trend will be reviewed with account taken of the nature of the organisation and its performance comparative to its industry.

* + - 1. The scoring framework shown in Tables B2 and B3 will be used.

**Tables B2 and B3: Scoring framework for Profitability**

Table B2 Table B3

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Gross Profit** | |  | **Net Profit** | |
| Margin (%) | Score |  | Margin (%) | Score |
| <2% | 0 |  | <1% | 0 |
| 2-4% | 1 |  | 1-2% | 1 |
| 4-6% | 2 |  | 2-3% | 2 |
| 6-8% | 3 |  | 3-4% | 3 |
| 8-10% | 4 |  | 4-5% | 4 |
| 10-12% | 5 |  | 5-6% | 5 |
| 12-14% | 6 |  | 6-7% | 6 |
| 14-16% | 7 |  | 7-8% | 7 |
| 16-18% | 8 |  | 8-9% | 8 |
| 18-20% | 9 |  | 9-10% | 9 |
| >20% | 10 |  | >10% | 10 |

* + - 1. For each of the two years being reviewed, the gross profit margin will be calculated and a weighted average taken (the most recent year counting for 60%, the second most recent year counting for 40% of the average) to derive the score for that measure. A weighted average net profit margin will also be calculated (using the 60:40 split) to derive the net profit margin score.
      2. The scores for the gross and net profit margin will then be summed to give the total score for Profitability (maximum 20, minimum 0).
    1. **Gearing**

* + - 1. Assessing the financial gearing of each organisation will assist the Assessment Team in reviewing the financial risk of each organisation.
      2. The following Gearing ratios will be assessed using information provided in statutory accounts:
* Interest Cover = Profit on ordinary activities before tax

(interest payable and similar charges);

* Financial Gearing Ratio = long term debt

(net assets)

* + - 1. Please note interest payable & similar charges shall not be offset by interest & similar income in the calculation of the above Gearing ratio.
      2. Net assets will be taken as total assets less all current and non-current liabilities.
      3. The non-current liabilities will include all amounts falling due within more than one year and provisions. No adjustment will be made to the reported accounts for internal and external debt.

* + - 1. The Interest Cover represents the number of times historical interest expense is covered by profits and is an important indicator of an organisation’s historical financial risk. The Financial Gearing Ratio of an organisation provides an indication of the debt burden borne by that organisation. The lower the gearing ratios, the less constrained by debt the organisation is.
      2. The scoring framework shown in Tables B4 and B5 will be used.

**Tables B4 and B5: Scoring framework for gearing**

**Table B4 Table B5**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Interest Cover** | |  | **Financial Gearing Ratio** | |
| Multiple | Score |  | % | Score |
| <0 | 0 |  | 100% | 0 |
| 0-0.5 | 1 |  | 90-100% | 1 |
| 0.5-1 | 2 |  | 80-90% | 2 |
| 1-1.5 | 3 |  | 70-80% | 3 |
| 1.5-2 | 4 |  | 60-70% | 4 |
| 2-2.5 | 5 |  | 50-60% | 5 |
| 2.5-3 | 6 |  | 40-50% | 6 |
| 3-3.5 | 7 |  | 30-40% | 7 |
| 3.5-4 | 8 |  | 20-30% | 8 |
| 4-4.5 | 9 |  | 10-20% | 9 |
| >4.5 | 10 |  | 0-10% | 10 |

* + - 1. For each of the two years being reviewed the Interest Cover will be calculated and a weighted average taken (the most recent year counting for 60%, the second most recent year counting for 40% of the average) to derive the score for that measure. A Financial gearing percentage will also be calculated (using the 60:40 split) to derive the gearing score. The scores for Interest Cover and Financial Gearing Ratio will then be summed to give the total score for gearing (maximum 20, minimum 0). The score out of 20 will then be multiplied by a factor of 1.25 to give a score out of 25.
    1. **Liquidity** 
       1. It is proposed that each organisation’s Liquidity is assessed by reviewing the following ratios:
* Current Ratio = current assets

current liabilities

* Quick Ratio = (current assets - stock)

current liabilities

* + - 1. In reviewing the economic and financial standing of each organisation, the Assessment Team will ensure that each organisation has sufficient liquidity such that, in the short term, the organisation is in sound financial health and can meet its obligations as they fall due. The ratios in Section 2,7.4, when calculated, are a simple indication of the current trading position of the organisation.
      2. The scoring framework shown in Tables B6 and B7 will be used.

**Tables B6 and B7: Scoring framework for Liquidity**

**Table B6 Table B7**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Current Ratio** | |  | **Quick Ratio** | |
| Ratio | Score |  | Ratio | Score |
| 0-0.2 | 0 |  | 0-0.1 | 0 |
| 0.2-0.4 | 1 |  | 0.1-0.2 | 1 |
| 0.4-0.6 | 2 |  | 0.2-0.3 | 2 |
| 0.6-0.8 | 3 |  | 0.3-0.4 | 3 |
| 0.8-1.0 | 4 |  | 0.4-0.5 | 4 |
| 1.0-1.2 | 5 |  | 0.5-0.6 | 5 |
| 1.2-1.4 | 6 |  | 0.6-0.7 | 6 |
| 1.4-1.6 | 7 |  | 0.7-0.8 | 7 |
| 1.6-1.8 | 8 |  | 0.8-0.9 | 8 |
| 1.8-2.0 | 9 |  | 0.9-1.0 | 9 |
| >2.0 | 10 |  | >1.0 | 10 |

* + - 1. For each of the two years being reviewed the Current Ratio will be calculated and a weighted average taken (the most recent year counting for 60%, the second most recent year counting for 40% of the average) to derive the score for that measure. A weighted average Quick Ratio will also be calculated (using a 60:40 split) to derive the Quick Ratio score. The scores for the Current and Quick Ratios will then be summed to give the total score for Liquidity (maximum 20, minimum 0). The score out of 20 will then be multiplied by a factor of 1.25 to give a score out of 25.

* + 1. **Turnover and net asset analysis** 
       1. In order to assess the ability of the organisation to deliver the Project, the following will be reviewed:
       2. The minimum annual turnover requirement for this contract compared to the total turnover of the organisation as shown below;
* Turnover = £1.5m

Turnover

* + - 1. As described in Guidance at start of this section, the minimum turnover of twice the value per annum is a mandatory requirement for progression.
      2. The net asset position of the organisation relative to the projected asset requirement for the delivery of the contract is shown below;
* Net Assets = \_\_\_\_\_\_\_\_\_Net Assets\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

£8m

* + - 1. Please note net assets will be taken as total presented assets less all current and all non-current term liabilities.
      2. This comparison will help establish the organisation’s potential to fulfil a contract of this value. The procurement process will evaluate the extent of an organisation’s dependency on this contract for its future viability. The value of the contract relative to the size of the organisation will also help to establish the likely capability of the organisation to fulfil the requirements of the contract.
      3. For each measure in Tables B8 and B9 the estimated income to the organisation from the contract will be expressed as a percentage of the income to the organisation for each of the previous two years, and the corresponding score for that percentage derived from Tables B8 and B9. As for the previous measures, a weighted average score will be calculated (with the most recent year counting for 60%, the second most recent counting for 40% of the average).

**Tables B8 and B9: Scoring framework for turnover and net assets**

**Table B8 Table B9**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Turnover | |  | Net Assets | |
| **Income from Authority as a percentage of historical results** | **Score** |  | **Net assets as a proportion of equity requirement on the Authority’s project** | **Score** |
| 0-5% | 10 |  | >15 times | 10 |
| 5-10% | 8 |  | 13 times | 8 |
| 10-15% | 6 |  | 10 times | 6 |
| 15-20% | 4 |  | 7 times | 4 |
| 20-25% | 2 |  | 4 times | 2 |
| >25% | 0 |  | Less than 4 times | 0 |

* + - 1. The scores for turnover and net assets will then be summed to give the total score (maximum 20, minimum 0). The score out of 20 will then be multiplied by a factor of 1.50 to give a score out of 30.
    1. **Financial Information**
       1. Your organisation will be asked to submit a written reference from your bank, confirming that you are in a satisfactory financial position to deliver the Service. The electronic SQ submitted through [www.supplyingthesouthwest.org.uk](http://www.supplyingthesouthwest.org.uk) MUST include a scanned copy of the original bank reference.
       2. **The original hard copy of the written Bank Reference will need to be submitted to the Authority, if your tender is successful at Contract Award.**
       3. If your parent company is providing a guarantee (cross reference) please provide the financial information for the parent company as set out in the Standard Selection Questionnaire (document 6) in accordance with the guidance set out in 1 (above). Please also provide an organisation structure chart for the entire organisation, including the ultimate parent company.

1. Please note that the definitions used are in accordance with Ernst and Young’s IFRS Core Tools Good Group (International) 2013. If the Authority’s Finance team is unable to find a directly comparable amount in the financial statements then it will be the nearest relevant IAS defined amount that will be used. The determination of relevance will be at the sole discretion of the Authority acting reasonably. [↑](#footnote-ref-1)