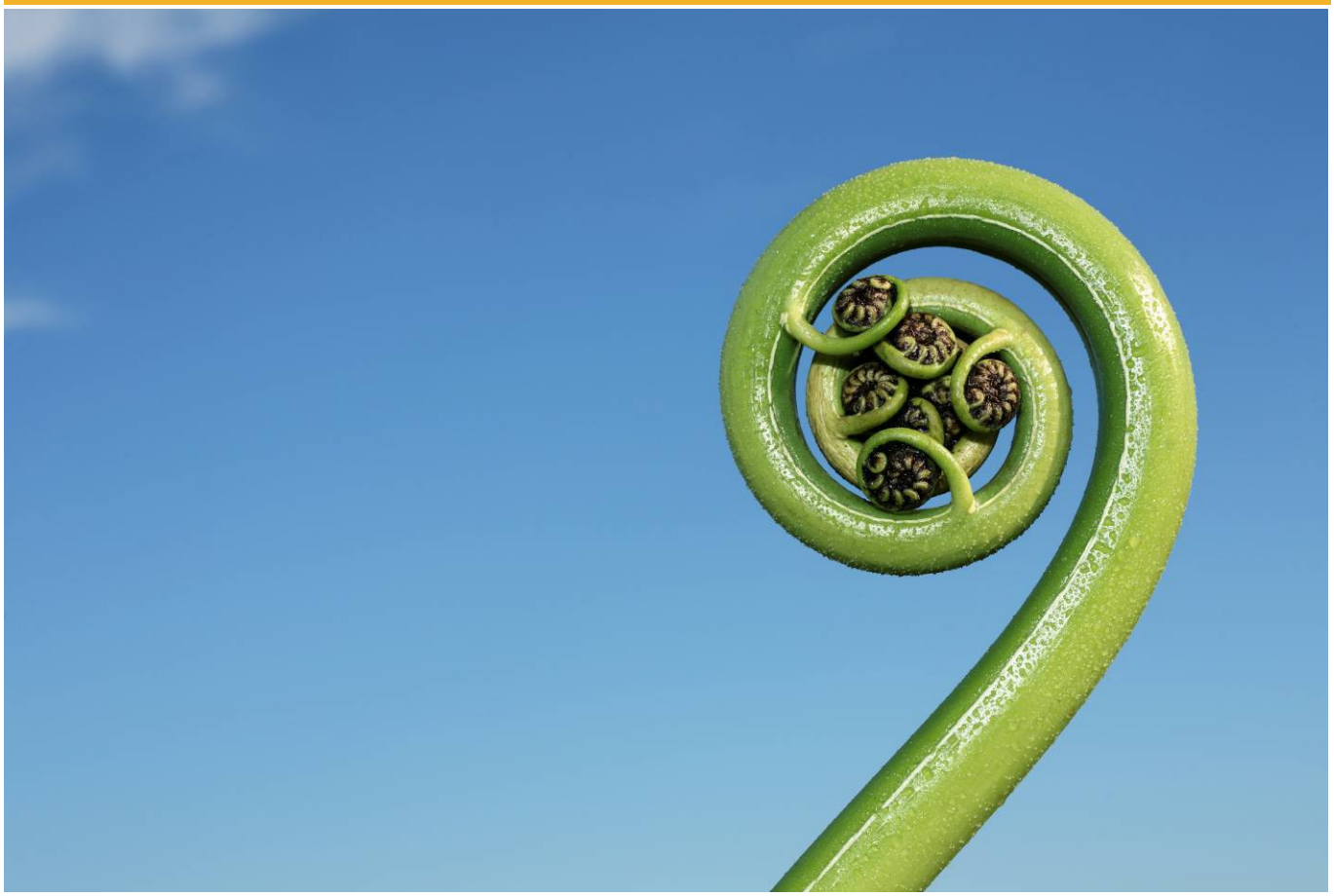
New Zealand Government

Procurement – driving better value for money



Guide 5 to Sustainable Procurement

Evaluate Suppliers and Award

A guide for agencies

July 2010

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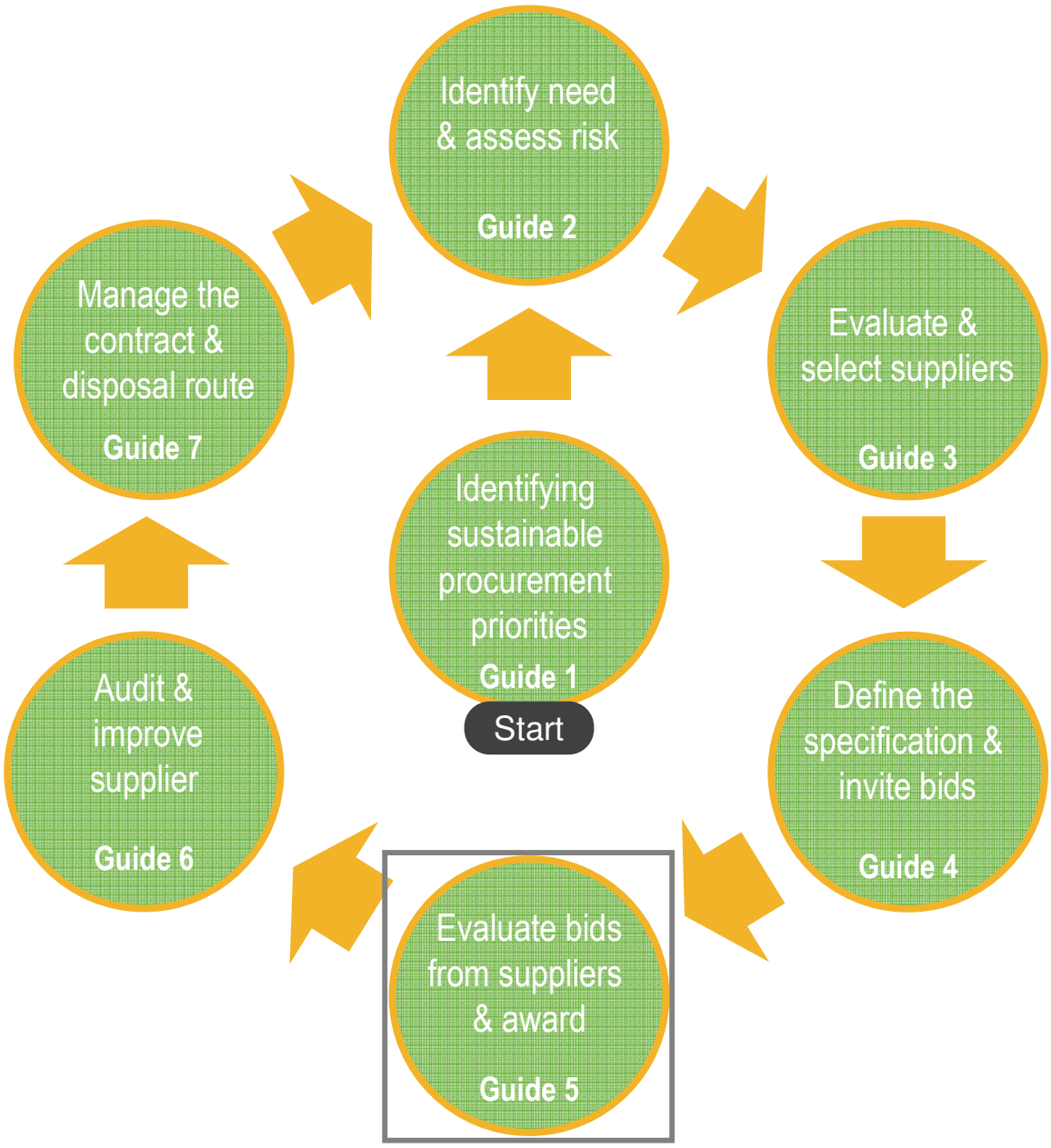
This guide is part of a series of documents focussed on 'Integrating Sustainable Procurement into Practice'. This material was developed by Sustainable Procurement Limited for the United Nations Marrakech Taskforce for Sustainable Procurement of which the New Zealand government is a member. The series is based around a typical procurement process with a guide for each relevant stage as identified below:



Please see the separate guidance notes referenced for other stages of the procurement process.

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To what extent does your agency include criteria other than price when evaluating offers from suppliers?

Background

This guidance document details the key issues involved in evaluating bids (offers) from suppliers. In particular, it explains the logic and method to apply non-cost criteria such as sustainability to the bid evaluation process. Specifically, it gives guidance concerning how different categories of contract should be evaluated, based on their overall sustainability risk profile as follows:

- Critical contracts - High value and High Sustainability Risk
- Secure contracts - Low value, but High Sustainability Risk
- Drive contracts - High value, but Low Sustainability Risk
- Routine contracts - Low value and Low Sustainability Risk

Whilst referencing inter-linked procurement stages, this guide focuses on developing bid evaluation criteria to manage sustainability impacts. This is primarily informed through a sustainability risk assessment process and specification setting. See Guide 3 – Evaluate and Select Suppliers and Guide 4 – Define the Specification and Invite Bids for further information. Sustainability risks that are best managed in the specification need to be turned into criteria that suppliers can bid against. These criteria then need to be evaluated, especially if suppliers are asked to propose innovative or specific solutions to a sustainability problem. This guide highlights the key issues that need to be considered in this process, different bid evaluation strategies dependent upon risk, the approach to cost versus sustainability, as well as some of the general commercial procurement principles involved in bid evaluation.

Why is this Important?

Bid evaluation will determine which supplier(s) win the contract and how sustainable the contract will actually be in practice. It is therefore critical and should be managed carefully to ensure the best decision is made.

This is also the procurement stage that probably receives the most scrutiny and is open to the most corruption. In bid evaluation, the supplier who will win the contract is selected. It is therefore critical that the approach taken is logical and structured, so it is defendable under scrutiny. Bid evaluation criteria should be informed through risk assessment and criteria in the specification.

How to use this Guide

The guide is structured by subject, so it can either be read fully in order to obtain a complete overview of the issues in bid evaluation or the reader can jump to a specific subject area. However, the guide does follow a logical order so it is recommended to start at the beginning and work through to avoid any confusion.

Introduction

If bids from suppliers are to be evaluated on criteria other than cost then a bid evaluation model should be produced. In effect the bid evaluation model is the formula/decision making process that you will use to judge the various bids from suppliers. It ensures that all suppliers are treated equally, that sustainability risks are managed and that the award decision can be justified. It should be common practice in the public sector for bids to be evaluated on value for money grounds.

It must however be recognised that in some instances (simple, low risk contracts) all the sustainability issues can be taken account of earlier in the contract and therefore the bid can be awarded on cost grounds only. It is recommended that agencies select the most appropriate mechanism to deliver value for money based on the sustainability risks identified at the appropriate stage of the procurement process.

Using risk assessment to inform bid evaluation

Guide 1 *Identifying Sustainable Procurement Priorities* details the use of risk assessment to identify and priorise sustainability impacts and Guide 2 – *Identify Need and Assess Risk* covers in detail the risk assessment process recommended for contracts. It is important that you understand these principles before reviewing this document further on bid evaluation.

To summarise key issues, at the initial stages the contract will have been risk assessed for sustainability issues and positoned on a sustainable procurement matrix as follows:

Table 1 – Sustainable Procurement Matrix

Risk	Value < $1M	Value > $1M
High	**Secure** High risk, but low value contracts	**Critical** High risk and high value contracts
Low	**Routine** Low risk and low value contracts	**Drive** Low risk, but high value contracts

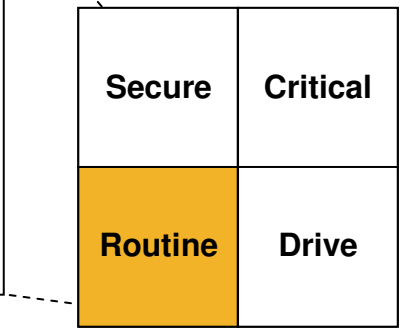
Matrix adapted from PMMS Consulting Group original works

The contract will also have had a procurement strategy determined based on risk. The procurement strategy, will have a direct influence on the approach to bid evaluation, in particular any weightings to cost and quality and the acceptability of any cost premiums to reduce sustainability risk. For each category within the sustainable procurement matrix, suggested procurement strategies are given below:

Table 2 Suggested procurement strategy for "Routine" commodities

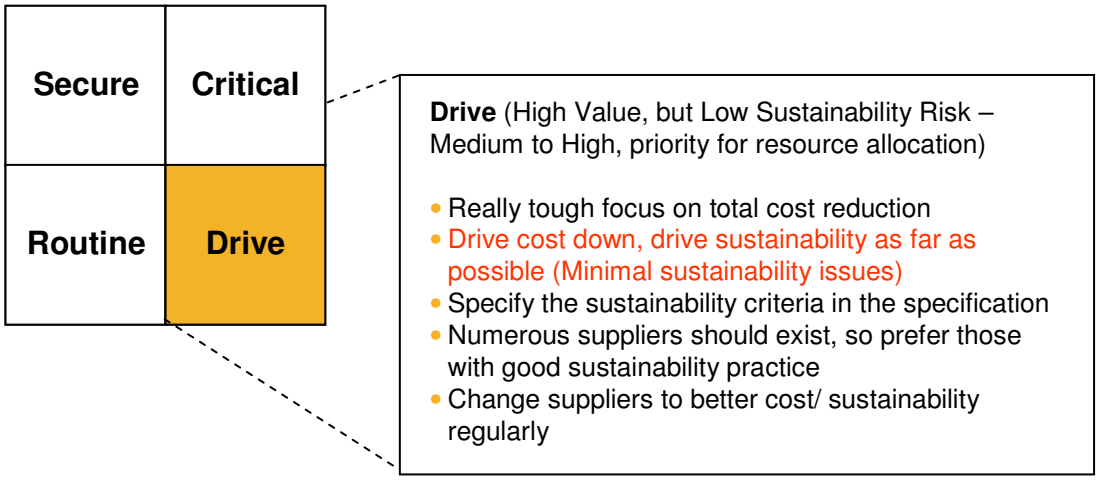
Routine (Low Value & Low Sustainability Risk – Lowest priority for resource allocation)

- Specify simple sustainability criteria in the specification
- Numerous suppliers should exist, so prefer those with good sustainability practice
- Do not pay a price premium for sustainability
- Change suppliers to better cost/ sustainability regularly
- Minimise transaction cost as far as possible



Matrix adapted from PMMS Consulting Group original works

Table 3 Suggested procurement strategy for "Drive" commodities



Note: Low sustainability risk expenditure areas have a high focus on cost reduction, so that savings can be used to fund improved sustainability in higher risk expenditure areas.

Table 4 Suggested procurement strategy for "Secure" commodities

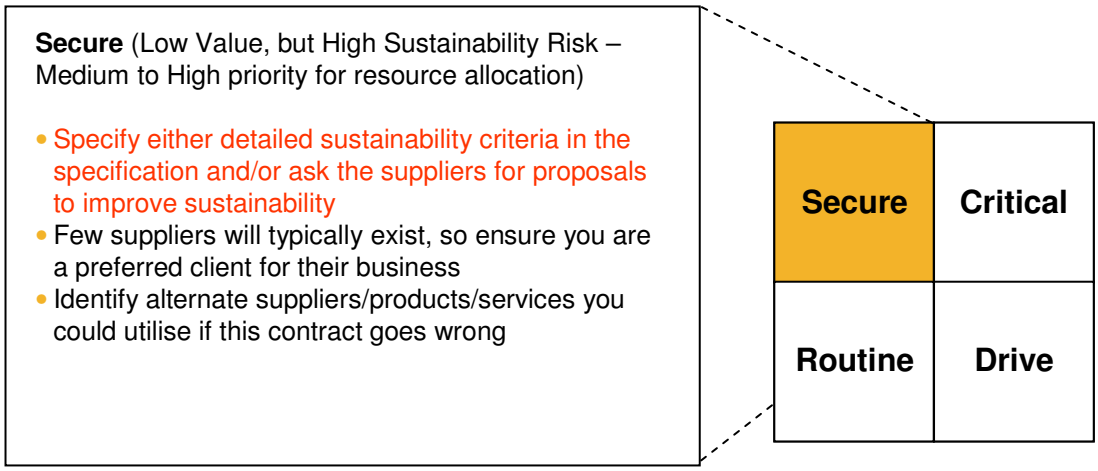
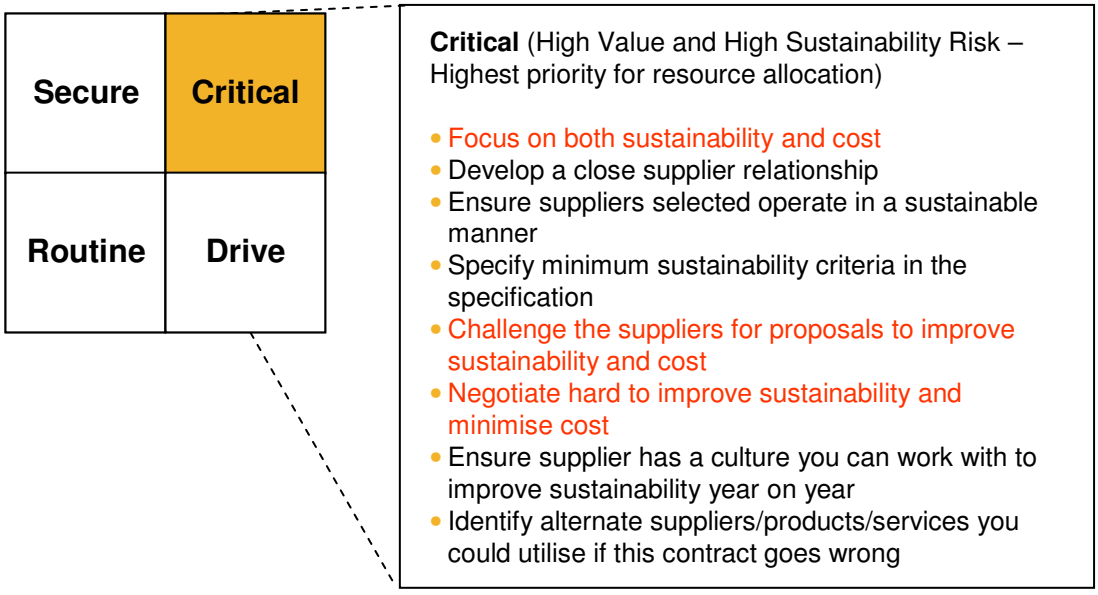


Table 5 Suggested procurement strategy for "Critical" commodities



Note: High sustainability risk expenditure areas have a high focus on risk reduction, therefore cost premiums are considered in order to mitigate risks.

Comments highlighted red previous, show the direct link to bid evaluation. You will note that contracts identified as low risk (Acquisition and Drive) have fewer issues for bid evaluation. These contracts should primarily be awarded on cost grounds, assuming quality and sustainability issues have been adequately addressed during supplier selection and specification setting. Contracts identified as high risk (Secure and Critical) have many more issues for bid evaluation. For these contracts risk reduction usually takes a higher precedent than cost and it is particularly important to encourage suppliers to offer more sustainable solutions that will need to be evaluated.

Identifying potential areas for evaluation

The areas to be evaluated in a bid are a function of the risks identified in the contract. When a contract is first being planned risks should be identified and documented. See Guide 2 *Identify Need and Assess Risk*. Example risks may include:

- High CO2 emissions due to poor energy efficiency/ travel management
- Supplier sub-contracts the work to an organisation with poor sustainability credentials
- Suppliers staff are not properly trained in the sustainability issues associated with this contract
- Unsustainable materials in the product
- Employees exploited by supplier
- Reputation damage to the organisation through poor sustainability practices by supplier etc

The risks identified then need to be managed, there are five options available:

Option 1:	The risk cannot be managed and is therefore not addressed (these risks need to be closely monitored)
Option 2:	The risk is managed by the choice of supplier
Option 3:	The risk can be addressed in the specification
Option 4:	The supplier needs to provide proposals on their approach, so the requisitioner can evaluate how they propose to manage the risk
Option 5:	The risk is managed either by targets to be delivered once the contract has been awarded or generally as part of contract management activity

Each contract will typically employ a range of these management options. For risks that can be managed by option 4, (asking for proposals that need to be evaluated) a detailed bid evaluation model needs to be produced. The categories used in the bid evaluation model should relate directly back to the risk assessment undertaken at the start of the contract and clauses/questions asked in the specification.

If all risks can be categorised as options 1 to 3 then the contract can usually be awarded on cost grounds, closely monitoring any risks that cannot be managed. For contracts that are awarded on cost grounds there is little need to complete a formal bid evaluation model. However, you will need to identify how costs are being calculated if it is anything beyond the basic tendered price.

As highlighted in Guide 4 – *Define the Specification and Invite Bids*, sustainability criteria can be applied at all stages of the procurement process. As an example, see below sustainability criteria to manage carbon-dioxide/particulate emissions from travel in a computer services contract. Pay particular attention to the way the criteria become more specific and more difficult between supplier selection and specification. Also note that the bid evaluation criteria highlighted have a direct link to clauses/questions in the specification. Similarly, contract management criteria also link back to both specification and bid evaluation criteria and provide the method by which compliance is monitored and continuous improvement encouraged.

Table 6 – Example of possible sustainability criteria to manage Carbon-dioxide/ particulate emissions from travel associated with providing an IT Service

Procurement Stage	Possible Sustainability Criteria/ Actions
	• Ensure service provider has a sustainable travel Policy and has experience of sustainable travel planning & control
	• Set a target number of miles to be travelled to support this contract with yr on yr reduction targets, say 4,000 (if it is not feasible supplier will voice concerns in their proposals, negotiate total figure) • Supplier to produce a sustainable travel plan to minimise miles travelled by car and plane (should reflect principles below) and reduce carbon emissions from its vehicles • Require use of telephone conferencing/ VC conferencing wherever possible, all journeys must have a justification and be reported quarterly for review etc • Require train/ public transport where feasible, ask supplier how they will incentivise this with their employees • Ban use of domestic flights for journeys that can be undertaken in less than 5 hours by train • Proposals to reduce car/plane travel • Any proposals to carbon off set travel, by whom and to what level
Bid Evaluation	• Positive response to issues in specification (yes/no) • Robustness of sustainable travel plan • Incentives for low emission vehicles either as lease cars or through mileage rates or other staff incentivisation • Targets to reduce car/plane mileage beyond those in the specification • % target for carbon off set, value of fund, robustness of carbon off set fund/ mechanism proposed. 100% gets a maximum score.
	• Reduction in miles travelled to deliver and support the contract • Reduction in carbon emissions from transport • Continuous improvement against the sustainable travel plan, with financial incentives for the supplier • % carbon off set against miles travelled against the target agreed • Financial penalties for non-essential/ unjustified journeys when phone conferencing/ video conferencing could have been used

When considering bid evaluation it suggested that procurers categorise criteria as follows:

Mandatory - Mandatory qualifying criteria which a supplier must meet. Most of these should ideally be dealt with in the specification and/or form the basis of the minimum sustainability threshold for the contract.

Preferred - If the supplier cannot meet these, it does not necessarily stop them from winning the contract. However, these issues will inform the basis of the bid evaluation criteria.

Leading - Limit these to as few issues as possible. These issues will really differentiate suppliers' bids and separate the exceptional suppliers from the ordinary. These issues should have the highest weighting within the bid evaluation model.

To further assist procurers, the general approach to bid evaluation (non-cost criteria and total cost) can be linked to the contract category within the sustainable procurement matrix as follows:

Acquisition (Low sustainability risk and low value) contracts

Mandatory	Preferred	Leading
Reliable delivery	Procurers legal conditions	Good relationship
Appropriate quality	Low transaction cost	Organisational Reliability
Appropriate sustainability	Sustainability policy	EMS
Good management		Sustainable Procurement
Good administration		
Low total cost		

Secure (High sustainability risk, but low value) contracts

Mandatory	Preferred	Leading
Reliable delivery	Procurers legal conditions	Good relationship
High quality	Acceptable total cost	Security of supply
Excellent sustainability	Good administration	
EMS	Buyer/supplier culture fit	
Sustainable Procurement		
Excellent management		
Good financial health		

Drive (Low sustainability risk, but high value) contracts

Mandatory	Preferred	Leading
Reliable delivery	Procurers legal conditions	Good relationship
Appropriate quality	Low transaction cost	Programme to reduce costs
Appropriate sustainability	Sustainability policy	EMS
Good management		Sustainable Procurement
Good administration		
Financial stability		
Low total cost		

Critical (High sustainability risk and high value) contracts

Mandatory	Preferred	Leading
Reliable delivery	Procurers legal conditions	Good relationship
High quality	Lower total cost	Innovation
Buyer/supplier culture fit		Continuous improvement:
Excellent sustainability		
EMS		Sustainability
Sustainable Procurement		Total cost
Excellent management		Quality
Good financial health		
Good administration		
Acceptable total cost		

Material adapted from PMMS Consulting Group original works

Note: The above list is not exhaustive.

Difference between bid evaluation and supplier selection

The bid evaluation process is distinct and separate from the supplier selection process. The bid evaluation is usually always made on the basis of best Value for Money, this is defined differently by different organisations. The bid evaluation process must provide a fair, transparent and accountable method for evaluating supplier bids on the basis of balancing sustainability and other non-financial factors with cost. This is best applied and demonstrated by the use of a properly constructed bid evaluation model.

The bid evaluation process looks forward at the proposals for the specific contract, whereas the supplier selection process looks back at the status and performance of the suppliers. Whilst the two processes may cover similar topics, supplier selection and bid evaluation are two quite separate issues. The bid evaluation criteria must be appropriate and specific to the particular project. It must also be relevant in assessing whether bids provide Value for Money including sustainability.

The bid evaluation criteria should be considered before inviting suppliers to submit proposals. The best time to consider bid evaluation criteria is at the initial contract risk assessment and to finalise it whilst writing the specification. Thereby ensuring that criteria are founded in risk assessment and are able to be answered by clauses/information asked for in the specification.

Determining sustainability/ cost ratio/ weighting

The appropriate ratio of sustainability to cost must be established as soon as possible. The final time that this should be set is up to the time that bidding closes for the contract. No amendment should be made to the sustainability criteria, ratio, weightings or any part of the bid evaluation model once the bidding has closed. To do so may invite criticism from suppliers and may lead to accusations of improper procurement practice. If amendments do not stop after bidding closes, then an unscrupulous procurer could change the weightings or criteria to favour a particular supplier regardless of how good their actual bid is.

In terms of the upper limit for non-cost criteria, different agencies will have different views. As stated previously, the approach/ weighting used in bid evaluation should relate directly to the risks

that can only be managed by supplier proposals. As an example, suggested ranges of non-cost (sustainability)/cost weightings for various types of contracts are:

Type of Purchase	Non Cost Ratio/ Weighting
Critical/ Secure contracts	Between 50% and 75%, in exceptional circumstances this may go up to 85%
Drive/ Acquisition contracts	Up to 50%, but this must be fully justified

It is not possible to give precise guidelines for sustainability/ cost ratios/ weightings as contracts and agencies policies vary. However, in many public sector organisations the majority of contracts are often tactical in nature. Therefore, the need to use non-cost weightings of more than 50% is limited and should only be applied to contracts identified as “secure” or “critical” on the sustainable procurement matrix.

Finalising the bid evaluation criteria

The extent and complexity of the bid evaluation criteria selected should reflect the nature of the contract. Procurers should bear in mind that it is better to use fewer, key criteria, rather than a long list, each one of which will carry little individual weight when compared to the total score.

In order to clarify suppliers’ ability to meet sustainability criteria, it can be useful to structure the issues into the form of a questionnaire, using questions drawn from and referenced in both the specification and original risk assessment. The list below is not exhaustive, but gives examples of criteria which may be suitable, including broader non-sustainability criteria, which will usually also need to be considered in a bid evaluation model:

Sustainability considerations

- How much experience have the supplier’s staff in managing sustainability issues pertinent to this contract
- How well does this supplier manage their overseas supply chain
- How well are the sustainability issues met
- Level of carbon-dioxide emissions associated with the contract

Team working arrangements:

- Partnering with client
- Partnering with sub-contractors and suppliers

Aesthetic and functional characteristics:

- Design
- Operating costs over the whole life of the project
- Ease of use/ degree of training needed
- Adaptability for changes in use
- Demonstration of innovation in proposals
- Maintainability
- Computability

Project team organisation:

- Qualifications and experience of team members, relevant to the project
- Appropriately experienced senior managers/partners

    - qualifications
    - length of service
    - directly relevant experience
- Quality of other senior personnel
    - suitably qualified
    - position within the organisation
    - amount of time devoted to the project
- Resources

Proposals for managing the contract:

- Methodology for planning, programming and management
- Programme for completing contract and milestones for achieving objectives
- Communication arrangements
- Quality plan
- Methods of dealing with landowners and the public

Identification and management of the risks within the contract

- Construction risks
- Risks to the environment/ sustainability/ Agency reputation
- Public relations issues
- Health and Safety Plan

Technical proposals for the contract:

- Appropriate to the client's needs and constraints
- Degree of flexibility in carrying out the contract
- Method of carrying out contract
- Quality of documentation
- Method of presenting information
- Standards of materials, checks and independent inspections

Services provided from external sources:

- Responsibilities of any joint venture;
- Arrangements made for sub-contracting;
- Ability to control and manage the delivery of any sub-contracted services.

Bids should then be assessed on how well they satisfy the specific bid evaluation criteria you have developed. It should be apparent from the risk assessment, that some sustainability criteria will be more important to a particular contract than others. Criteria that are more important should be given a higher weighting. Thereby increasing the score of more important issues and lessening the influence of lower priority issues. This is explained in more detail below.

It may also be necessary to establish minimum marks for certain critical sustainability criteria, so that suppliers scoring below the minimum mark may be deemed non-compliant.

Scoring Non-cost (sustainability) criteria

The scoring method aims to indicate how well each supplier's proposal meets each of the specific sustainability criteria. Care must be taken to differentiate between the marketing claims and the real achievements of suppliers. It is also essential to avoid personal preferences from having too strong an influence.

Bids received which do not meet your minimum sustainability criteria should not be evaluated, i.e. they are treated as non-compliant. This must however, be fully explained and noted in the contract record.

Points are awarded to each supplier for each individual sustainability (non-cost) criteria, which are then weighted as appropriate

The total marks available for the assessment are irrelevant, as a mathematically normalised (factored) score is calculated, the same principle is also be applied to costs. For example, if suppliers A, B and C were awarded total sustainability points of 150, 220, and 240 respectively, scores are as follows:

Supplier C	Highest Score (240)	=	100	points
Supplier A	(150 x 100)/240	=	63	points
Supplier B	(220 x 100)/240	=	92	points

Note: You can only assess the bid on the information provided. Prior knowledge of the company and "we know they have the capability to do this" should not be taken into account.

Calculating and scoring cost

The whole life cost of the good (product) or service being provided is assessed for each bid. This could include:

- Basic tendered price
- Maintenance/ spares
- Training
- Licensing
- Insurance
- Call out charges (price you pay to "call out" a maintenance person before they even leave their premises – minimum charge)
- Warranties
- Manuals
- Future upgrades
- Compatibility/ integration costs etc
- Payment terms
- Disposal costs
- (Less any residual value or disposal income)

Total cost does not necessarily equate with initial price as other factors (as example above) have to be taken into account. Once the total cost is established, the lowest cost bid is given a cost score of 100 in the bid evaluation model. All other bids are then given a proportionately lower score calculated by using a factor as follows.

For example, if suppliers A, B and C submit bids with a cost of $10,000, $12,000 and $15,000 respectively, cost scores are calculated as follows:

Supplier A:	lowest cost (10,000)	=	100	points
Supplier B:	(10,000/12,000) x100	=	83	points
Supplier C:	(10,000/15,000) x100	=	67	points

Determining the best bid

Now both the total cost and sustainability criteria assessment are complete, the final bid evaluation calculation can be undertaken. Assuming in this example that the weight to cost and sustainability is set at 60/ 40 respectively, the final evaluation would be:

Supplier	Initial Cost Score	60% Weighted Cost Score	Initial Sustainability Score	40% Weighted Sustainability Score	**TOTAL VFM SCORE**
Company A	100	**60**	63	**25**	**85**
Company B	83	**50**	92	**37**	**87**
Company C	67	**40**	100	**40**	**80**

Company B is therefore selected as being the best value for money bidder, as they provide the optimum combination of cost and sustainability. The approach should always be to award the contract to the supplier with the highest Value for Money score after all weightings have been applied.

Minimum Sustainability Thresholds

If appropriate, a minimum sustainability threshold could be set within the bid evaluation model. The sustainability threshold is the minimum score required in the evaluation necessary for a suppliers bid to be awarded, even if it meets the specific minimum sustainability levels of each specific criteria. Where a bid is non-compliant because it falls below the overall sustainability threshold, the whole bid should be disregarded. Minimum sustainability threshold's are therefore to be used with caution as if it is not set at an appropriate level, all suppliers may fail. Taking the example above, if the overall minimum sustainability threshold was set at 90 points in the initial assessment, then "Company A" would immediately be disqualified.

Summary

The definition of bid evaluation criteria must be founded in the risk assessment process and reflected in the specification. In essence identifying sustainability risks, specifying "must have" criteria in the specification and asking the supplier for solutions/proposals for bid evaluation. Sustainability criteria can be applied at any stage of the procurement process from supplier selection, specification, bid evaluation to contract management. This guide primarily focuses on the approach necessary to fairly evaluate bids.

Procurers need to consider the risk profile of the contract and set sustainability criteria appropriately. The position with regard to the acceptability of a cost premium to reduce sustainability impacts also needs to be determined. Weightings applied to specific sustainability criteria as well as to the total sustainability proposal overall need to be considered, along side weightings to cost and other criteria. Finally, consideration needs to be given as to whether there will be a minimum sustainability threshold overall, below which suppliers bids are rejected.

Procurers must take into account the legal framework and ensure that any sustainability criteria they apply can be justified from a legal perspective if challenged.

Undertaking bid evaluation varies from a very simple approach of lowest price, to a much more detailed approach dealing with numerous non-cost factors. Having a structured and logical bid evaluation process will ensure that all suppliers are treated fairly, innovation is suitably rewarded and that the best award decision is made. This will ensure that the appropriate level of sustainability is applied, that risks are managed and that the organisation is actually awarding contracts based on sustainability and value for money principles. Effectively, practicing sustainable procurement.