

# Flexible New Deal – Phase One

## Invitation To Tender

### Pricing Proposal Guidance

30<sup>th</sup> July 2008

Before completing the Invitation to Tender Pricing Proposal and (ItT) Tender Form you are advised to read carefully the:

- Provision Specification and Supporting Information for this procurement and these instructions;
- Provider Guidance pages on the Contracted Employment Services section of the Supplying DWP website  
[http://www.dwp.gov.uk/supplyingdwp/what\\_we\\_buy/provider\\_guidance.asp](http://www.dwp.gov.uk/supplyingdwp/what_we_buy/provider_guidance.asp);
- Draft DWP Terms & Conditions applicable to this contract, which are available as part of the ItT document suite; and
- ItT Instructions For Bidders.

# SUPPORTING GUIDANCE FOR COMPLETION OF THE FLEXIBLE NEW DEAL (FND) PRICING PROPOSAL

## 1. Principles

1.1 Bidders will be required to provide predicted costs and margin/surplus for each contract year, including inflation. This will represent the fixed and firm Total Contract Price. NOTE: Bidders should provide their costs exclusive of any VAT chargeable to DWP.

1.2 DWP has stated its assumptions regarding inflation applicable to each contract year. Bidders are required to adjust these assumptions according to their perception of future inflation (see section B of the pricing schedule). We would also expect bidders to deliver efficiency savings throughout the life of the contract - these may have the effect of counteracting inflationary pressure (either in part or in full). Efficiencies should also be entered into section B of the pricing schedule). The net impact of these factors will represent the final and proposed Inflation Assumptions contained in the Total Contract Price (rather than the incremental adjustments to be applied to the Total Contract Price).

1.3 The Total Contract Price at start-up will be divided in the following overall proportions – 20% for Service Fee, 50% for Short Job Outcomes and 30% for Sustained Job Outcomes (note: payment of the full contract price will be dependent upon achievement of the number of Short Job Outcomes and Sustained Job Outcomes offered within the bid). The fees payable will be:-

1.3.1 **Service Fee** – The Overall Service Fee paid will represent a sum equal to 20% of the total contract price offered in the bid. This sum will be paid in the following profile per annex 5 para 5.4:

- a rate of 58% of the average annual contract value for the first six months of the contract.
- a rate of 32% of the average annual contract value for the next six months.
- a rate of 13.8% of the average annual contract value during years two to five.
- a rate of 0% for years six and seven.

1.3.2 For the avoidance of doubt this equates to the following profile of service fee payments:

- Months 1 to 6 – each month we will pay 4.833% of the total service fee.
- Months 7 to 12 – each month we will pay 2.667% of the total service fee.
- This will result in the first year service fee payments being equivalent to 45% of the total service fee payment, reflecting initial working capital support and the delayed revenue flows from outcomes.
- Over the following 48 months – each month we will pay the balance of the total service fee in equal instalments, each equivalent to 1.146% of the total service fee.

1.3.3 **Short Job Outcome** - the proportion of the contract price available for Short Job Outcomes will be divided by the total number of Short Job Outcomes bid. This

will represent the average rate payable per Short Job Outcome achieved over the life of the contract.

**1.3.4 Sustained Job Outcome** - the proportion of the contract price available for Sustained Job Outcomes will be divided by the total number of Sustained Job Outcomes bid. This will represent the average rate payable per Sustained Job Outcome achieved over the life of the contract.

1.4 These outcome payments will be adjusted for Inflation Assumptions in order to calculate the actual fees payable for each contract year.

1.5 There is a specific budget for FND and DWP will look to manage that budget across all FND provision. However, should there be a potential over-spend then DWP will seek to manage that risk from across its entire Employment Provision Funding. Should DWP not be able to manage such risk in this manner DWP reserve the right to implement contract caps and such implementation will be subject to formal contract negotiation.

1.6 Volumes for programme starters are not assured under the contract. To assist in the completion of your tender (which is based upon contract years), the indicative volumes provided in annex 3 (based on DWP financial years) have been pro-rated into contract years rather than being provided to you by DWP financial year.

1.7 It should be noted that the rate payable for either a Short Job Outcome or Sustained Job Outcome will be that rate prevailing for the contract year within which the Short Job Outcome or Sustained Job Outcome criteria was achieved, and the supplier becomes eligible for payment. This may not be the prevailing rate at the point of invoice.

## **2. Evaluation**

2.1 Anticipated revenue flows (Service Fee, Short Job Outcome and Sustained Job Outcome) will be compared with the available DWP budget per contract package; the budget includes the inflation allowance. DWP will consider the status of the overall total column and where this indicates that the overall total is above budget and is therefore potentially non-compliant, DWP reserves the right to exclude the bid from the competition.

2.2 Price evaluation will be on the basis of the Average Price per Outcome. This will be calculated to incorporate Short Job Outcomes, Sustained Job Outcomes and Service Fee. In accordance with the financial scoring regime, this price will be converted into a score of 100 marks. This will form 50% of the overall tender mark.

2.3 Anticipated revenue flows (Service Fee, Short Job Outcome and Sustained Job Outcome) will also be compared with stated bidder cost assumptions. Based upon the net cash flow, bidders will be required to provide evidence regarding management of any working capital requirement.

2.4 Bidders will be expected to state discounts in the event of multi-contract award which the Department expects to be honoured during any post tender discussions.

## **3. Completing the Pricing Proposal documentation**

3.1 The Pricing Proposal documentation comprises a schedule subdivided into two worksheets labelled "Pricing Proposal" and "Assumptions". The Pricing Proposal schedule

and supporting Assumptions must be completed electronically using the attached model. The completed spreadsheet should be printed off and three paper copies, one of which must be signed, submitted, with a further electronic version on CD, by the closing date, along with the rest of your tender documents. The financial information should be placed in a separate sealed envelope within your overall tender documentation package. **Note - a separate pricing proposal is required for each individual tender package you are bidding for. The electronic version of each Pricing Proposal should be named using the following naming convention (N.B. items in italics to be completed with appropriate details for each specific bid):**

**FND Phase 1 Pricing Proposal\_ *Bidder name\_ Package name\_date.xls***

3.2 Within the first worksheet, the tab entitled 'Pricing Proposal', you will need to populate all sections with appropriate information and costs. To enable ease of input, all cells requiring your input are highlighted in yellow. **NB All costs should be input exclusive of any VAT chargeable to DWP.**

3.3 The second worksheet tab is entitled 'Assumptions'. All supporting information and detailed assumptions that you have made to arrive at the costs must be disclosed here. To help us understand how the figures input to the Pricing Proposal sheet have been arrived at, it would be helpful if the workings used in the calculations could be shown under the appropriate assumptions headings. It would also assist the evaluation process if these workings could be presented in a tabular format including formulae where applicable. There is no word/page limit within the assumptions worksheet and suppliers are encouraged to expand the pages accordingly to enable them to provide sufficient detail in order to minimise the need for clarification to be sought later.

3.4 To open the spreadsheet, click on the attachment, which should automatically open up the file. You will need to click on "*enable macros*" to ensure that the calculations and formulae within the Pricing Proposal Schedule are enabled. You will be required to enter the package name for the package the tender relates to via the drop down box; this input will automatically populate the package reference number (and the projected number of starts in Table D). You will then need to input the name of the organisation which is bidding and with whom DWP would contract.

#### **4. Completing the Pricing Proposal Spreadsheet**

4.1 The Pricing Proposal worksheet is divided into Tables A to J.

4.2 Table A – shows supplier costs broken down into four main categories:

- Staff Costs
- Participant Costs
- Accommodation Costs
- Other Operating Costs (includes TUPE costs and Risk premium)

Each of these main categories is then split into further sub-categories to capture detailed costs.

There is then a further cost line for Profit Margin/Surplus which should be completed where applicable.

The contract price shown at the end of table A represents the fixed and firm total contract price.

4.3 Table B - states the DWP assumptions regarding inflation. You will need to input any adjustments to these assumptions, together with your percentage efficiency reductions.

4.4 Table C - in the unlikely event that PRaP is unavailable to administer referrals and payments, and a clerical contingency process has to be invoked, you should give an indication of the anticipated costs to administer a clerical process per month.

4.5 Table D – will be automatically pre-populated with the projected number of starts for the package the Pricing Proposal relates to.

4.6 Table E - will need to be populated with your offer of Short Job Outcomes.

4.7 Table F - will need to be populated with your offer of Sustained Job Outcomes.

4.8 Table G - contains a range of automatically populated cells. These will be used to provide indicative working capital requirements. You will need to provide information regarding your proposals for the management of working capital requirements based on the funding model. An example at the end of Table G and a blank copy appears at Section 8 of the Assumptions, these should be used to provide Working Capital Range and Detailed Proposed Funding mechanism information relating to your own bid.

4.9 Table H – This section will automatically calculate whether the contract price exceeds the budget for each of years 1 to 5 and for the overall total. Where this is the case, the under/over budget row within the table will turn red as an above budget bid. The table will turn green where the contract price is at or below the budget. For the years 1 to 5 columns this acts as an indicator to suppliers. DWP will consider the status of the overall total column and where this indicates that the overall total is above budget and is therefore potentially non-compliant, DWP reserves the right to exclude the bid from the competition.

4.10 Table I – gathers information on price reductions you are prepared to offer if you tender for, and are awarded, more than one contract from this tendering exercise. **NB Your offer of reductions will be taken to be a firm offer and will be pursued at the post tender stage.**

4.11 Table J – asks for a declaration that costs are based on corporate information and that they have been approved by an authorised official.

## **5. Table A –Supplier Costs**

5.1 Suppliers should include in this table only those costs relevant to FND and the package to which the bid relates. NOTE: If there are any cost categories where you have nil costs, a '0' (zero) should be entered into the relevant cell(s). This will indicate that the cost category has been considered and there are no costs associated with that cost category (rather than it having been overlooked).

5.2 Within the Participant Costs section, suppliers will need to include all support costs, allowances, expenses and disbursements, including any costs associated with subsidised employment with the exception of the JSA training allowance which is paid by the DWP, as no additional payments for such items will be paid. Jobcentre plus will remain responsible

for paying JSA and any training allowances, for fortnightly signing and for any JSA sanctions.

5.3 Costs should be given separately for each sub-category for each year of the contract. The five-year total for each sub-category will be automatically calculated and will be shown in the 'total' column.

5.4 To assist with the completion of the supplier costs in table additional information on the type of costs to be included under each category is available as notes, or comments boxes, shown by the small red triangles at the start of each sub-category. These notes will display when the mouse is hovered over the red triangles. In providing these notes, DWP does not intend to be prescriptive, it is up to suppliers to include any and all costs they feel are relevant to a particular cost line, supported by detailed assumptions where appropriate, in the Assumptions worksheet. For any costs that do not readily fall within the headings provided, please detail these under the "other" heading, providing the supporting assumptions and detail.

5.5 The compilation of costs for this tendering round is based on an 'open book accounting approach' that requires disclosure of profit margin/surplus. The relevant amount for this category must be provided in the appropriate cell and any supporting information/detailed assumptions set out in the 'profit margin/surplus' section within the Assumptions sheet.

5.6 To ensure consistency of layout, the Pricing Proposal sheet contains a column for year 6 and year 7 to reflect the achievement of Short Job Outcomes and Sustained Job Outcomes within the prescribed tracking period following the natural cessation of referrals at the end of year 5. Tables A, B, D and H gather information which is applicable only up to year 5 therefore no input is required to the grey-shaded year 6 and year 7 column of these tables. The year 6 & year 7 column is utilised in Tables E and F to gather information about your Short Job Outcome and Sustained Job Outcome.

## **6. Table B – Inflation assumptions**

6.1 DWP assumptions regarding inflation factors applicable to each contract year are automatically populated. Bidders will then be required to adjust these assumptions according to their perception of future inflation (positive or negative). This information should be entered for each year as a percentage (for example, 1% would represent an expectation that inflation would be 1% higher than the DWP expectation – i.e. 3.5%). The impact of efficiency reductions should also be entered for each contract year. The net inflation rate will be calculated automatically, and will represent the final and proposed Inflation Assumptions contained in the Total Contract Price. Note: these are not additional adjustments which will be applied to the Total Contract Price.

## **7. Table C – PRaP (Provider Referrals and Payment system)**

7.1 It is assumed that PRaP will administer referrals and payments. However, in the unlikely event that PRaP is not available, a contingency arrangement (clerical process) will be put in place until PRaP implementation. The exact arrangements for any contingency are yet to be defined and will be dependant upon the length of any delay. DWP acknowledges that suppliers may have a small increase in costs during any contingency period, in these cases DWP will discuss the proposed clerical arrangements and the potential impact on suppliers including costs. To inform such potential discussions, and for

illustrative purposes only, DWP is seeking indicative monthly incremental costs that may arise.

## **8. Table D – Number of Starts**

8.1 The anticipated number of starts will be populated automatically when the FND Package Number is input at the top of the Pricing Proposal Documentation. It will show the anticipated number of starts for the package the pricing proposal relates to. For choice areas only this is based upon 50% of the overall anticipated volume of starts for the package, which will be the basis for allocation at contract commencement.

## **9. Table E – Offer of Short Job Outcomes**

9.1 Suppliers are required to input their Short Job Outcome offer for each contract year as an absolute number (rather than as a percentage) in the year in which they become eligible for payment (meet the payment qualification criteria). The total figure and Short Job Outcomes as a percentage of starts will be calculated automatically. (Please refer to part 6 of the FND tender form).

## **10. Table F – Offer of Sustained Job Outcomes**

10.1 Suppliers are required to input their Sustained Job Outcome offer for each contract year as an absolute number (rather than a percentage) in the year in which they become eligible for payment (meet the payment qualification criteria). The total Sustained Job Outcome figure and Sustained Job Outcomes as a percentage of starts will be calculated automatically. (Please refer to part 6 of the FND tender form).

## **11. Table G – Working Capital Requirements**

11.1 This section contains a number of automatically populated cells. Based on the information provided, and with reference to the principles outlined above, the anticipated Service Fee, Short Job Outcome Rates and Sustained Job Outcome Rates will be indicated for each year. Projected income for each contract year is also automatically populated. This includes Service Fee (profiled as indicated in the principles at section 1 above) together with the Anticipated Outcome Revenues (using annual rates and number of outcomes offered, these are adjusted for inflation). Predicted Working Capital Requirements are then indicated by comparing anticipated revenue with stated cost assumptions.

11.2 You will need to provide information regarding your proposals for the management of working capital requirements based on the funding model. The Working Capital Range and Detailed Proposed Funding Mechanism table at the end of Table G provides an example of how the table could be completed. Your proposals for the management of Working Capital Requirements will need to be input to Part 8 of the Assumptions table.

## **12. Table H – Budgets**

12.1 This table, which is populated automatically based upon your input to Table A, offers guidance regarding whether the bid is compliant on a budgetary level. If the total column turns red, the budget has been breached, the bid is potentially non-compliant and the DWP reserves the right to exclude the bid from the competition. If the total column is green the bid is within budget and is therefore compliant

### **13. Table I – Multi-contract price reductions**

13.1 This section gathers information on price reductions you are prepared to offer if you tender for, and are awarded, more than one contract from this tendering exercise. **Any price reductions offered will be taken to be firm offers and will be pursued at the post tender stage.**

13.2 You should show your offer of price reductions for the award of more than one contract from this tendering exercise at Table I. However, where the reduction is based upon the award of specific combinations of contracts, you should provide full details of the package combinations and the specific price reductions relating to these at Part 9 of the Assumptions worksheet. The price reductions offered should be shown in relation to the price of this contract and provided as a monetary amount and as a percentage of your Total Contract Price for this contract.

### **14. Table J – Declaration**

14.1 Suppliers will need to sign and date the declaration, stating their position in the organisation, before returning it to DWP with the rest of their tender by the published deadline.

### **15. Completing the Assumptions**

15.1 The assumptions comprise 9 parts, relating to each of the main areas of the Supplier costs sheet, namely:

- Staff Costs
- Participant Costs
- Accommodation Costs
- Other Operating Costs
- Profit Margin/Surplus
- Additional Assumptions
- Rationale regarding additional supplier inflation and efficiency
- Working Capital requirements
- Multiple contract price reductions

15.2 These assumptions should be used to capture full details about the costs detailed within the Pricing Proposal. They should also be used to detail any other information about your tender that you feel is necessary to enable the evaluation team to have a full and robust understanding of your tender price. As part of the evaluation process, the information provided in the Assumptions sheet will be cross checked for consistency with the corresponding entries in the ItT tender form. Where there appears to be a mismatch, clarification may be sought.

15.3 The example below illustrates how the assumptions sheet can be used to capture full details about the costs detailed in the Pricing Proposal. It shows the calculation for staff travel which we would expect to be shown under the Other Staff Costs heading and gives sufficient detail for the evaluation team to understand the cost associated with the specific cost area.

|                         |  |         |
|-------------------------|--|---------|
| Staff travel & expenses | £X per month x 12 months<br>(X journeys x X miles per journey x £0.40 per mile x X no of days x X no of staff) | =XXX.XX |
|-------------------------|--|---------|

It is helpful if calculations and workings are presented in a tabular format with formulae input to assist with the evaluation of your costs.

**16. Good Practices**

16.1 Where costs have been considered and there is no cost to be input to a cost line in Table A, "0" (zero) should be entered to indicate to the evaluation team that these areas have been considered and a statement made in the relevant assumptions section why you deem that these costs do not apply.

16.2 Within the Assumptions sheet there is no word or page limit. Suppliers are encouraged to expand the assumptions pages accordingly to enable them to provide sufficient detail in order to minimise the need to seek clarification at the post tender stage

16.3 Where possible, calculations and workings should be presented in a tabular format, using formulae where applicable. This will aid understanding of the calculations behind specific cost amounts.