



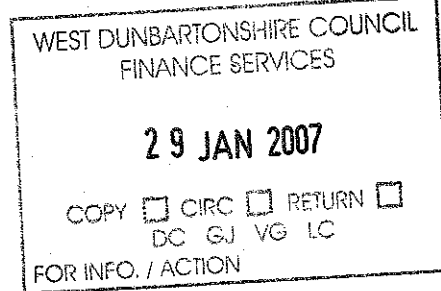
KPMG LLP  
Audit  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EG  
United Kingdom

Tel +44 (0) 131 527 6611  
Fax +44 (0) 131 527 6666  
DX 553002 Edinburgh 18  
grant.macrae@kpmg.co.uk

**Private & confidential**

David Connell  
Head of Finance  
West Dunbartonshire Council  
Garshake Road  
Dumbarton  
G82 3PU

Our ref jgm/kpm/207



26 January 2007

Dear David

**Measured term contract for repairs and planned maintenance of West Dunbartonshire Council's housing stock 2001-10**

I write in response to your letter of 15 December 2006 asking us to review the evaluation process and documentation used to determine the above contract. We have reviewed the following documentation in relation to the tender evaluation process:

- Report to the Social Justice Committee on 8 November 2006;
- Minute of the meeting of 8 November 2006 reflecting the Committee decision to call on the Council's external auditors to review the process used to evaluate the tender documents;
- Details of the tender evaluation methodology used;
- Model answer for quality and technical evaluation and price;
- OJEU contract notice;
- Appendix I – quality and technical evaluation; and
- Tupe terms and conditions for transferring employees.

We have also obtained the worksheets used in evaluating the contract to allow a sensitivity analysis to be performed.

Our review has been conducted only in respect of the award of the measured term contract for planned repairs and maintenance of housing stock and our findings can only, therefore, be considered in respect of this one decision, and not as a statement on the Council's overall tender evaluation process.

We note that the tender evaluation methodology advises that the quality and technical assessment has been based on a system of tender evaluation developed and used by Nottingham City Council. We have not confirmed or compared the model used with the reference model. Furthermore, the price evaluation was apparently based on the evaluation method described in the Construction Industry Board documentation "Selecting consultants for the team: Balancing quality and price". Again we have not compared the model used with this reference.

We report the following findings to you, based on our review:

- 1) We understand from our discussions with you that the conditions of the tender stated that in event of the contract being won by an external contractor all in-house staff would be transferred under TUPE regulations to the winning tender. Within the final tender report we note that it was highlighted that as the in-house team had been selected, no further consideration of the TUPE regulations was required. We would, however, consider it best practice that the summary report to committee finalising the tender process should include comment to remind members of the basis of the tender process and that no consideration was required of potential redundancy costs because of the terms of the tender documentation.
- 2) Within the price and quality spreadsheet, there was an inconsistency between use of formulae or hard entry of quality scores. This led to some rounding differences in the scores which could have impacted on the final decision in the event of a close result.
- 3) The quality score for City Refrigeration Ltd included a below average score for criteria Cb where no response had been received. This appears unusual considering the rest of the scoring and was perhaps reflective of a statement being inadvertently misplaced or not included in the tender documentation. While officers appeared, when asked, to have conducted a sensitivity analysis to identify that the missing statement would not have influenced the final result, this was not clearly documented within the process or included in the report to members.
- 4) The model used did not appear to be particularly sensitive to price, being only 60% of the total score. Further the score adjustment for being over the lowest tender price was only 2 points deduction out of 600 for every 1% increase in price.

The effect of a 2 point deduction per 1% price increase means that a 100% increase in price would still score 400 out of 600 in the matrix. We would consider that a cut-off price should be identified, eg double the price, at which the tender should score zero. This would have changed the price sensitivity to 6 points per 1% over the lowest score.

The effect of this can be considered if the internal tender is excluded for illustrative purposes.

<b>Tenderer</b>	<b>Price - £</b>	<b>Price - score</b>	<b>Quality – score</b>	<b>Total score</b>
City Refrigeration Ltd	40,006,517	600	313	913
Mears Group	54,749,663	526	376	902
Mitie Property Services Ltd	54,033,347	530	375	905

In this case, the total scores are very close and while City Refrigeration Ltd was ranked second, with a slight change in quality scoring, either of the other tenders could have outscored it. This would mean that a tender costing 35% more, or £14.0 million over 3 years, could still have been awarded the contract on the price-quality model.

Changing the sensitivity to price would, however, have resulted in a closer result between the in-house team and City Refrigeration Ltd. We think that some consideration of the sensitivity of the model should have been considered and a summary of this analysis presented and explained to members to aid in their decision making.

### **Summary**

Overall we would recommend that management consider the points raised above, and the possible cumulative effect of individual factors when conducting similar exercises in the future. Furthermore we believe the future content of reports to members would be improved through inclusion of these factors.

Should you have any questions then please let me know.

Yours sincerely



Grant Macrae  
Director

*Enclosures:*