

**Dstl Main Board Paper - Investment Decision (OGC Gate 3a)
Appointment of Project INSPIRE's Preferred Bidder**

1. Introduction

The purpose of this paper is threefold:

1. to set out the work done in evaluating the responses to INSPIRE's ITT;
2. to set out in headline form the results from the evaluation process; and
3. to seek the Board's approval to appoint Project INSPIRE's Preferred Bidder.

2. Background

Project INSPIRE is one of the portfolio of projects that sits within SIP 4 of the i lab programme. Each stage of the project has been subjected to a comprehensive investment appraisal process that included a full analysis of risk. Ministerial approval to proceed was granted in November 2003.

The scope of Project INSPIRE covers two principle requirements:

- the on-going delivery of a range of support services over a 15-year period from 1 August 2006; and
- the provision of and migration to substantial new accommodation at the core sites by 31 January 2008¹.

These requirements are expressed as 5 outputs:

- **Site consolidation** - enabling Dstl's consolidation onto its core sites;
- **Managed facilities** - managing and servicing Dstl's asset base;
- **Support for science and technology work** - providing a range of support services that enables Dstl to deliver high quality S&T solutions;
- **Supporting people at Dstl** - providing appropriate amenities and services to the Dstl estate to support the everyday needs of those working on it; and,
- **Management requirements** - the Preferred Bidder's managerial approach.

The weightings applied to the outputs are as agreed with the Board, Annex A refers.

3. Tender Evaluation – the process

Tenders from [REDACTED] and Serco were received on 21st April 2005. The process² employed thereafter is set out by way of the following stages:

- **Reference site visits** – Dstl took up two references from each Bidder. Details are provided in Annex B.

¹ At the 25th November 2004 Board meeting it was agreed to allow a relaxation on the completion date provided the reduction part-mitigated the Project's exposure to risk.

² The tender evaluation methodology set out the framework by which the tenders would be evaluated and included reference to the Board's approved weightings. Dstl reserved its right during the bi-lateral process to modify the process (not weightings) depending on the volume of each Bidder's response and the resultant workload.

- **Evaluator Briefings** – each evaluation team leader provided briefings and information packs to the evaluators such that they were able to familiarise themselves with the requirement and the information shared with the Bidders during the tendering phase.
- **Compliance check** – a thorough review of each Bidder's response to ensure that all compliance matters were adequately dealt with and that there was no cross fertilisation of commercial and technical information.
- **Initial reading** – each evaluator fully read each tender response such that they developed a good all round understanding of each Bidder's offering.
- **Focused reading** – depending on the evaluator's skills, background and business interest, each was assigned either specific outputs or questions to critique and analyse. This reading took place in privacy and no discussion of scoring was permitted. Based on the analysis and after cross Bidder benchmarking (ensuring equality of approach) a draft / initial score was submitted to the team leader. The scoring criteria are set out in Annex C.
- **Output related workshops** – these workshops occurred weekly. Their purpose was to ensure that those evaluators deployed on the same outputs / questions had an opportunity to discuss their understanding of the Bidder's response in relation to Dstl's requirement. At no time were scores discussed. The workshops were also used to iron out polarised views, for example using the scoring criteria, Annex C refers, it was considered unlikely that two evaluators reading the same response could provide a critique that scored 0 and 10. Polarisation of this degree was ironed out before the next stage.
- **Technical / Commercial Workshops** – once the evaluators had completed their analysis and scoring and before the workshops commenced, the evaluators' scores were frozen in the tender evaluation model to provide a pre-workshop score and provisional outcome. The respective evaluators then came together to discuss and substantiate to each other their understandings and scores. Minor adjustments to an evaluator's score were permitted in the workshop provided the evaluator had cogent reasons for making the change. Larger changes (2 scoring points or more) required the evaluator to review their work and provide revised scoring sheets. During the workshop the discussions and views of the evaluators were captured³ so as to provide areas of discrimination between the bids. At the end of the workshops the scores were frozen as the post workshop scores. It is these scores that have determined the final outcome.
- **Combined Workshop** – after the scores were frozen and the evaluators and the team leaders were content that due process had been followed, the technical and commercial teams came together and held a joint workshop. Its purpose was to assess the combined risks and issues facing Dstl as it approaches the onset of Preferred Bidder and due diligence. These risks and issues will serve as the basis for de-briefing Bidders and the initial scope of Preferred Bidder work, Annex D refers.

Evaluation Workshop Outcomes document dated 9th July 2005 refers.

4. Evaluation Results

The following table sets out the main strengths and weaknesses of each Bidder,

	Perceived Strengths	Perceived Weaknesses
	<ul style="list-style-type: none"> • Good approach to master planning • Excellent CIS / data centres • All labs on the ground floor • Component catalogue • Office security – minimal overlooking • Centre point building at Porton Down • Good travel arrangements • Competitively priced 	<ul style="list-style-type: none"> • Commercial response – Ts&Cs • Risk Management – seemingly brief • Lack of partnering approach • Construction rates • Separate PB contractual relationship • Heavy reliance on Dstl • Shortfall in the provision of laboratories • Largest amount of service outside of the MPTC⁴ – priced as volume services
	<ul style="list-style-type: none"> • Good approach to master planning • Good sustainability assessments • Transparency of their approach pricing • Better price certainty – mostly with the core services MPTC 	<ul style="list-style-type: none"> • Seemingly large managerial overhead • New building at Porton Down • Approach to CIS • Shortfall in the provision of laboratories • Not competitive
Serco	<ul style="list-style-type: none"> • Good understanding throughout of Dstl's requirements • Best vision in terms of I lab • iServe – FM front end on the desktop • Good recognition of Dstl's EDP⁵ • Construction rates • Least issues with Dstl's contract • Risk, overheads and profit in line with Industry norms • Honesty – clearly set out the problems Dstl faces • Laboratories separated from the Offices at Porton • Excellent management response 	<ul style="list-style-type: none"> • Weak approach to master planning • The Porton Down building's office space • Seek to waive damages clause • Unsure about the treatment of 100 people at Porton Down • Special Project Rooms at Portsdown West

The following sets out the areas where the Bidders' responses were similar and hence have a relatively neutral effect on the final decision:

- PDW's re-development. There is a limit to what can be done at PDW and all responses are similar in their approach. They all have issues but are considered non-discriminatory.
- All of the Bidders propose net working areas smaller than Dstl's planning assumption (which was shared with the Bidders) of 8m².
- All Bidders could have done more to spell out how services will be delivered.
- Bidders have not accepted the risk associated with attaining planning permission (this is normal for contracts of this type)

⁴ MPTC – Maximum Price Target Cost

⁵ Dstl's Estate Development Plan (EDP) – sets out the future Estate Management issues.

4.1. Technical and Commercial Results

- 9 The outcomes of the technical and commercial evaluations are illustrated in Figures 1 and 2 respectively.

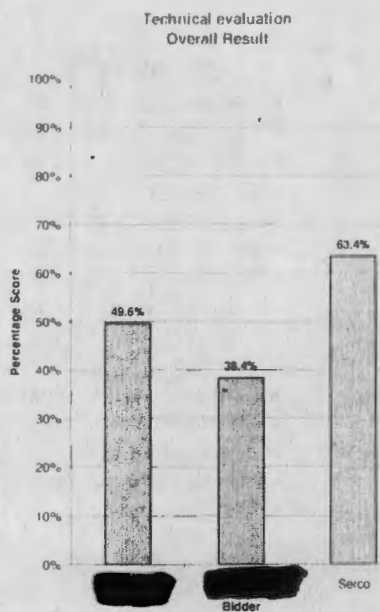


Figure 1: Technical Results

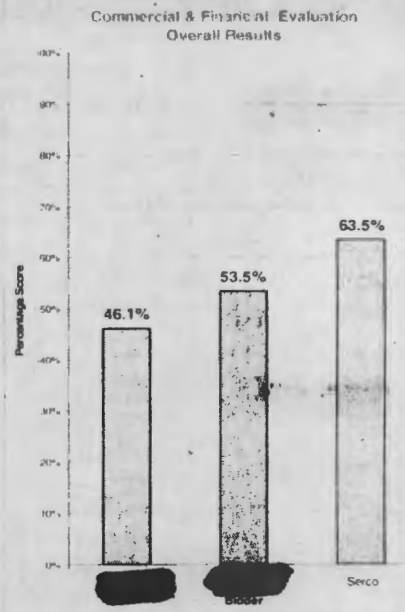


Figure 2: Commercial Results

- 10 The combined technical and commercial results are illustrated in Figure 3 and represent the overall qualitative outcome.

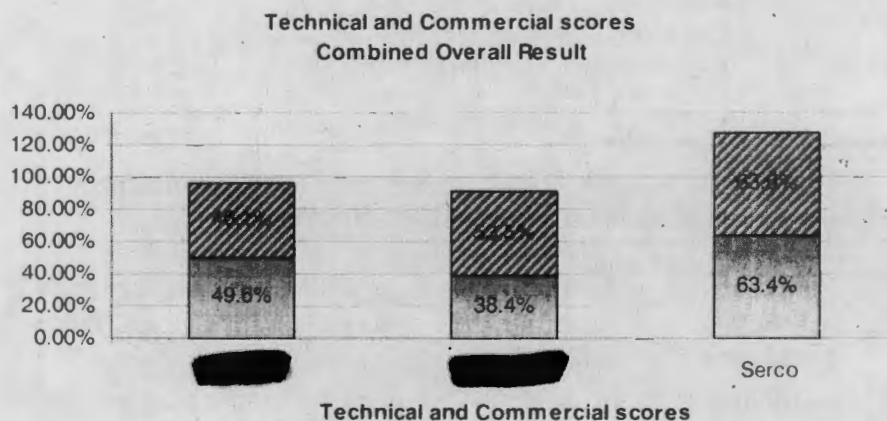


Figure 3: Combined Technical and Commercial Scores

- 11 Presenting the results as stand-alone histograms is not an adequate way of showing the robustness of the decision with respect to the spread of scores within the outputs. Figure 4 illustrates the commercial scores plotted against the technical scores with the standard error of the mean superimposed on the respective result. The axis of

each zone represents 2 standard errors of the mean to provide a 95% confidence level that the aggregated score is [.....].

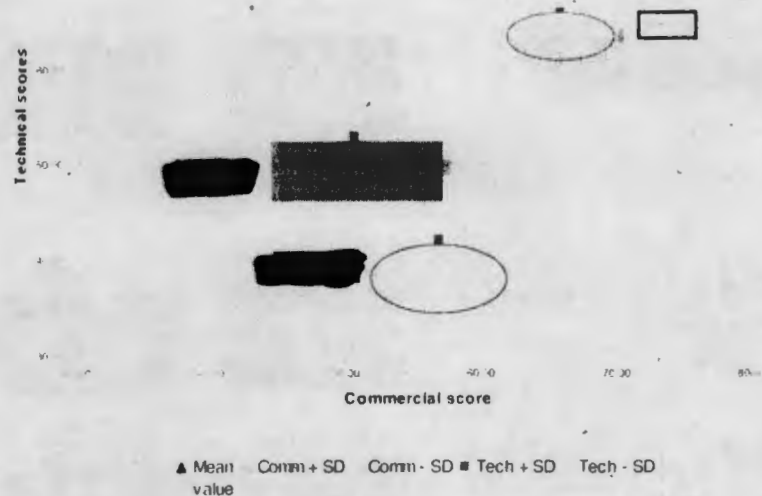


Figure 4: Overall Technical & Commercial results depicting Standard Error at 95% confidence level

- 12 While the competitive aspect of the Bidders proposals are evaluated and are included in the commercial results above, it is important to show the financial offerings against Dstl's pre-tender 3-point estimate⁶. Before doing so though it should be noted that the Bidders have, to varying degrees, used their competitive judgement to illustrate some service costs as volume services and are not therefore priced as distinct offerings in their MPTC. It has been necessary therefore to normalise the volume services to show them on a like-for-like basis. This is an issue that would need further discussion and investigation regardless of which Bidder is selected as Dstl's preferred Bidder.

4.2. Financial Performance

	Minimum	Average	Maximum
INSPIRE's 3-Point estimate			
Difference			

	Minimum	Average	Maximum
INSPIRE's 3-Point estimate			
Difference			

⁶ The mid value of Dstl's 3 point estimate which includes average commercial risk provisions is used in the Project's Business Case and Investment Appraisal and serves as the basis of the financial projections used in Dstl's Ministerial submission.

4.3. [REDACTED] Financial Performance

	Minimum	Average	Maximum
INSPIRE's 3-Point estimate	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Difference	[REDACTED]	[REDACTED]	[REDACTED]

	Minimum	Average	Maximum
INSPIRE's 3-Point estimate	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Difference	[REDACTED]	[REDACTED]	[REDACTED]

4.4. Serco's Financial Performance

	Minimum	Average	Maximum
INSPIRE's 3-Point estimate	[REDACTED]	[REDACTED]	[REDACTED]
Serco's Capex	[REDACTED]	[REDACTED]	[REDACTED]
Difference	[REDACTED]	[REDACTED]	[REDACTED]

	Minimum	Average	Maximum
INSPIRE's 3-Point estimate	[REDACTED]	[REDACTED]	[REDACTED]
Serco's Opex	[REDACTED]	[REDACTED]	[REDACTED]
Difference	[REDACTED]	[REDACTED]	[REDACTED]

4.5. Financial Performance – commentary

The above tables include within Dstl's 3 point estimates contingent or project related risks. These provisions are to cover those risks that best lie with Dstl. It is likely that project risk will materialise as the project progresses (for example ground conditions at Porton Down) and so the savings at both the target and maximum are overstated. It is not possible at this stage to refine Dstl's provision for risk as any refinement will need to be made following discussion with the Preferred Bidder about their view on contingent risk.

It is vitally important that readers understand that these prices represent tendered prices as opposed to contractual prices. Preferred Bidder phase does not conclude until the due diligence exercise has been successfully completed. Part of the due diligence process is the verification of the information upon which the contract will be predicated and as such refinement of the price will result as the data and understandings used to determine the price are refined. The data Dstl provided as part of the tendering phase was the best available but it did contain imperfections – condition of the asset register which has been used to price the migration programme being a good example.

Similarly readers should not assume that paragraph 14 represents an avenue to allow scope creep. There will be no change in the requirement without proper recourse to Dstl's governance regime; paragraph 14 is merely a reflection of reality.

4.6. Relationship

¹⁶ Relationship assessments have been performed throughout the procurement process. All Bidders have been assessed for their ability to strike up the right relationship with Dstl. In addition to the pre-qualification examinations the following took place during tendering:

- **Bi-laterals** – an assessment was formed at the end of each bi-lateral as to the behaviour and attitude of the bidding team. After several bi-laterals the process was dispensed with as it was proved to be non-differential with all Bidders displaying the right relationship traits.
- **Reference visits** – these did provide valuable feedback in that while the scopes of supply at the reference sites were somewhat different to Dstl's, it was very apparent that in all 6 instances, the relationships were very much dependant upon the individuals leading the respective sides of the relationship. Serco performed best overall.
- **Responsiveness** – While not formally assessed and used within the evaluation process proper (largely due to there being no need to find further discriminators), Dstl did pay attention to how responsive the Bidders were to delivering clarifications and requests for further information. [REDACTED] performed less well than the others.

5. *Management and Quality Assurance*

¹⁷ Several management processes / reviews were employed during the evaluation to ensure that the evaluation was coherent, equitable, based on fact and followed best practice. The processes / reviews were as follows:

- **Use of specialist evaluators⁷** – specialists were deployed throughout the whole evaluation to verify factual matters and provide advice. The specialist scores are not included in the overall results but were instead used as benchmarks.
- **Workshop Observers** – the workshops and their facilitation were observed by members of the Evaluation Board⁸ to ensure that the process was fair and equitable and that no undue pressure or influence was brought to bear.
- **Analytical Oversight** – at key times during the compilation of the Evaluation model and during the evaluation process itself Dstl's Department Manager for Policy & Capability Studies (PCS) reviewed and scrutinised the work of the evaluation team. Appropriate comments and advice have been acted upon.
- **Quality Assurance** - before the results were promulgated, the evaluation model was fully reviewed by an independent analyst thereby ensuring that the results were produced in accordance with the scoring mechanism and the Board's approved weightings.

⁷ Comprising Architects, Quantity Surveyors, SHEF advisors, Sustainable Development practitioners, Risk practitioners, Civil Engineers, Mechanical & Electrical Engineers, Planning advisors, Security, CIS, and Cost Allocation (CAS) or QMAC specialists

⁸ Evaluation Board comprises: Head of i lab, Head of Estates, Head of Commercial Services, DM PCS, PM INSPIRE, Commercial Manager INSPIRE and the Evaluation Manager

- **Red Teaming** - the Evaluation Board met to review and confirm the work of the evaluation team. In doing so the Evaluation Board tested the robustness of the process and hence decision by performing sensitivity analysis.
- **OGC Gateway 3a** - With the bringing forward of the decision from August's Board to July's it has not been possible to perform the in-house Gateway 3a health check. The formal OGC health check is required before contract award (April '06) but in order to reassure the Board that the governance of the project was of sufficient quality it was the intention to provide an in-house assessment. This process continues but it will not report before 21st July. Following the successful OGC health check at Gate 2 and based on the preliminary findings of the in-house reviewer the requirements of Gate 3 are in place.

6. Conclusion

18 It can be concluded therefore that:

- The Bidders' tender returns have been subject to a detailed and thorough evaluation process that has resulted in a clear understanding of the Bidders' proposals and how they will impact upon Dstl in due diligence and beyond.
- In terms of Project INSPIRE's business case there is a positive effect, Annex E refers.
- The results are such that Dstl is able to appoint a Preferred Bidder that has clearly outperformed its competitors in all areas of the evaluation process, viz.:
 - Serco has outperformed both [REDACTED] in their technical and commercial responses;
 - Serco displayed and had verified by reference visits, the best relationship fit;
 - Serco is the most competitive in terms of all round pricing.

7. Recommendation

19 Notwithstanding the previously mentioned Preferred Bidder issues, Annex D refers, and based on this paper and the conclusions contained within, the Dstl Board are recommended to formally approve the appointment of Serco as Project INSPIRE's Preferred Bidder.

Author: [REDACTED] (INSPIRE Project Manager) [REDACTED]

Endorsed: [REDACTED] (Programme Manager SIP4 Head of i Lab) [REDACTED]

Approved: [REDACTED] (Programme Director SIP4) [REDACTED]

Annex A: Tender evaluation Model- Question & Output weightings

The Dstl Main Board approved the following weightings on 25th November 2004. All weightings were determined by use of a pair wise analysis (SAATY)

Output A – Site Consolidation	29%
Output B – Managed Facilities	18%
Output C – Support for Science & Technology Work	10%
Output D – Supporting People at Dstl	13%
Management Requirements	30%

Reference: RD020-01597

Issue date: 18th July 2005**Annex B: Dstl's Reference Site Visits**

Reference visits: MoD Main Building
Home Office Prison Service

Reference visits: Metropolitan Police Service
University College Hospital, London

Serco's Reference Visits: National Physics Laboratory
Joint Services Command Staff College, Shrivenham

Results:

NB: All evaluators are core members of the INSPIRE project team and hence have an intimate understanding of Dstl's vision and future requirements.

		Evaluator scoring						Overall Rank
Bidder	Site	PDH	APH	ADR	WB	LW	Total	
	Mod Main	3	1	5	1	3	13	
	HMP	5	4	7	5	5	26	
	total	8	5	12	6	8	39	
Rank		3	3	3	3	3		3

	MPS	1	3	5	3	3	15	
	UCHL	7	8	8	8	6	37	
	total	8	11	13	11	9	52	
Rank		3	2	2	1	2		2

SERCO	NPL	8	9	6	4	8	35	
SERCO	JSCSC	8	9	8	7	9	41	
	total	16	18	14	11	17	76	
Rank		1	1	1	1	1		1

Annex C: Tender Evaluation – scoring criteria

Criteria	Score
The Bidder has failed to address Dstl's bid submission requirements or little or no material or relevant detail has been provided. It has failed to identify and/or provide any supporting evidence and failed to propose any required solutions.	0
The Bidder has demonstrated a superficial understanding of Dstl's requirements, with a very limited amount of supporting evidence and explanation and/or with significant omissions or failings that are unlikely to be rectifiable during the Preferred Bidder stage.	2
The Bidder has demonstrated an understanding of Dstl's requirements and partially details how these will be met with some explanation and supporting evidence. Any omissions or failings are capable of rectification during the Preferred Bidder stage but there is a risk some may not be rectified. The Bidder's proposals are acceptable to Dstl with some minor reservations.	5
The Bidder has demonstrated a clear understanding of all Dstl's requirements and details how these will be met with explanations and supporting evidence. Any omissions or failings are likely to be rectified during the Preferred Bidder stage. The Bidder's proposals are acceptable to Dstl.	7
The Bidder has demonstrated that it shares in full Dstl's understanding of the requirements of Project INSPIRE, especially its wide reaching impact on the i-lab programme, and has detailed in full how these will be met with clear explanation and full supporting evidence. No omissions or failings are evident. The Bidder's proposals are fully supported by Dstl	10

Scores between the range of scores was permissible depending on the evaluator's discretion.

Annex D: Issues and / or risks arising from Serco's proposal

The following represents a list of issues and/or risks arising from the analysis of Serco's proposal. It forms both debrief material and areas of activity that Dstl needs to focus on when it commences work during Preferred Bidder stage. At this stage none of the issues are deemed insurmountable.

Issue	Description
1	The new building at Porton does not seem to provide adequate office environs. It is unclear about what is being provided. Early work is required to refine and reassure Dstl's understanding.
2	The shortfall in office accommodation at PTN will have a knock-on effect to the network equipment rooms as they would be insufficient in size and location to serve the added floor area.
3	The choice of construction materials (cladding etc) adds through life risk as their specifications appear less durable than expected.
4	The street proposal appears too narrow for the expected breakout activities and general commuting within the building. Also the street may be best running north to south as opposed to east to west such that it aligns to the street with in Building 6. Consideration should be given to rotating the building through 90 degrees.
5	The spatial allocation seems to small per individual. The absence of any true space planning compounds Dstl's understanding.
6	The Top Secret working area seems to abut the atria spaces. This needs further scrutiny to ensure secure working is not compromised.
7	It is very unclear about the treatment of 100 CIS people and how they have been treated in Serco's design solution. Dstl assumes that they are not housed in the new buildings and will be located elsewhere at Porton - where are they going and what is Serco's plan?
8	There is no recognition of the EU directive on the performance of buildings (non-discriminatory but requires resolution)
9	Visitor access to the new building is not ideal as it is adjacent to and hidden by the enclosed area's security building. No statement!
10	There are no additional car parking spaces provided at PDW – does the proposal still work and how will the planning Authority respond?
11	Serco's transport plan for PDW is not included in the costings. What is the impact of this on the MPTCs? (not considered a material issue)
12	At PDW when creating their new entrance Serco do not mention the re-alignment of the road at it's narrowest point. Is widening of the highway required?
13	What is the M&E solution for PDW – no real information provided.
14	CIS solution and NERs in PDW west court present operational risk – how will it feed West court's floor plate?
15	Does Serco's data centre solution at Porton meet CIDA regulations?
16	Serco appear to be using larger desks (2m long?) at PDW. This present risk as there is no description as to how this will work throughout the floor plates.
17	Poor site Master plans need to be worked on to provide a richer understanding of Serco's proposal for the future development of Dstl's estate.
18	No shower facilities in new building. May be beneficial to provide some to compliment the Green Transport policy and plan.
19	Novation of the design contractual relationship is of concern – how will it impact on risk to Dstl? Better explanation / understanding is required
20	Early work is required to provide specifications for the move of the toxic store.
21	Serco's proposals for the fuel pump require discussions as the proposed works conflicts with other aspects of their plan.

Reference: RD020-01597

Issue date: 18th July 2005

Issue	Description
22	Proposals to relocate the electrical sub-station are vague and require further work.
23	There is a distinct lack of clarity over the relocation / reprovion of Porton's fire station.
24	The realigned enclosed area's security fence requires further definition as it appears to obstruct the movement of traffic
25	Dstl needs to provide definitive guidance on its requirement for the Recreational Club at Porton.

Annex E: Impact on Project INSPIRE's business case

	Unit	INSPIRE Nov 03 (Ministerial Submission)	INSPIRE Dec 04 (ITT Release)	INSPIRE July 05 (Tendered Prices)	INSPIRE April 06 (Contract Award)
Capital and rebuild costs (inclusive of average Commercial Risk and inflation to mid point of construction)	£Ms				
NPV of Option at year 25 inclusive of average commercial Risk	£Ms				
Estate Sales Proceeds	£Ms				
No. of Dstl staff transferred	No.				
Staff transfer costs	£Ms				
Running cost savings / year 10 year average 25 year average	£Ms				
Payback period Un-discounted	Years				
Discounted (3.5%)					
ROCE (5yr rolling average 2005-10)	%				
Manpower Rate @ 2005	£/hr				
@ 2014					
Peak Borrowing level & year	£Ms		None	None	