



Support for Improvement in Governance and Management

A joint initiative of the OECD and the EU, principally financed by the EU

Brief 8

January 2011

Public Procurement

Setting the Award Criteria

CONTENTS

- General context: Equal discrimination, transparency
- Applying the lowest-price criterion
- Methods used to identify the most economically advantageous tender
- Defining the overall strategy concerning the award criteria to be applied: checklist

The award criteria are the criteria that constitute the basis on which a contracting authority chooses the best tender and awards a contract. These criteria must be established in advance by the contracting authority and must not be prejudicial to fair competition.

The Directive limits the criteria that a contracting authority may apply to award a public contract to either:

- the lowest-price criterion; or
- the most economically advantageous tender (MEAT) criterion, which means applying criteria in addition to or other than price.

The Directive sets out general rules concerning the formulation of the specific criteria that may be applied when the MEAT criterion is used, and it also lays down disclosure obligations concerning these criteria. The main objective of the Community legislator is to ensure that intra-Community trade is not restricted by discriminatory award criteria.

When setting the award a contracting authority is to operate with respect general law and Treaty principles and, in particular to ensure:

Equal treatment and non-discrimination which means that the award criteria must be non-discriminatory and must not be prejudicial to fair competition.

Transparency, which means that the award criteria must be set in advance and duly disclosed to tenderers. The purpose of establishing and formally disclosing the award criteria to be applied is to ensure that:

- tenderers can prepare their tenders in a more appropriate way, trying to best meet the stated priorities of the contracting authority;
- the evaluation of tenders is carried out by a contracting authority in a transparent and reliable way and as objectively as possible;
- the relevant stakeholders, for example, audit bodies, review bodies, other government bodies or economic operators can monitor the process so as to prevent discriminatory or non-authorized award criteria from being used.

The choice between the lowest-price criterion and the MEAT criterion is generally left to the discretion of the contracting authority except in the case of the competitive dialogue procedure or where the contracting authority accepts variants, in which case the MEAT criterion must be used.

For those procurement procedures requiring a contract notice, the contracting authority must announce in the contract notice whether it is going to apply the lowest price criterion or the MEAT criterion.

What does it mean to apply the lowest-price criterion?

When a contracting authority chooses to apply the lowest-price criterion, the contract is awarded to the tenderer offering the lowest price for a compliant tender. The price is the only factor that is taken into consideration when choosing the best compliant tender. Tenders received are evaluated against the set specifications on the basis of a pass or fail system. No cost analysis and no quality considerations can come into play in this choice.

Limitations of the lowest-price criterion: The lowest price criterion has the advantage of simplicity and rapidity, but it presents some limitations, including the following:

- It does not allow the contracting authority to take into account qualitative considerations. Apart from the quality factors built into the specifications, which must be met by all tenders, the quality of the requirement being procured is not subject to evaluation.
- It does not allow the contracting authority to take into account innovation and innovative solutions. Tenders that meet the set specifications are compliant.
- For requirements that have a long operating life, it does not allow the contracting authority to take into account the life-cycle costs of the requirement procured. When the lowest-price criterion is used, only the direct cost of the purchase or the initial purchase price within the set specifications can be taken into consideration.

What does it mean to apply the MEAT criterion?

When the most economically advantageous tender (MEAT) criterion is used, a contracting authority can take into account other criteria in addition to – or other than – the price, such as the quality, delivery time, and after-sales services. Each chosen criterion is given a relative weighting by the contracting authority, which reflects the relative importance that it has. The purpose of the MEAT criterion is to identify the tender that offers best value-for-money.

Value-for-money: The term value-for-money means the optimum combination between the various cost-related and non-cost related criteria that together meet the contracting authority's requirements. However, the elements that constitute the optimum combination of these various criteria differ from procurement to procurement and depend on the outputs required by the contracting authority for the procurement exercise concerned.

The concept of value-for-money recognises that goods, works and services are not homogenous and that they differ in quality, durability, longevity, availability and other terms of sale. The point of seeking value-for-money is that contracting authorities should aim to purchase the optimum combination of features that satisfy their needs. Therefore the different qualities such as intrinsic costs, longevity and durability of the various products on offer are measured against their cost. It may be preferable to pay more for a product that has low maintenance costs than a cheaper product that has a higher maintenance cost.

Advantages of the MEAT criterion: The MEAT criterion, as opposed to the lowest-price criterion, presents a series of advantages, including in particular the following:

- It allows contracting authorities to take into account qualitative considerations. The MEAT criterion is typically used when quality is important for the contracting authority.
- It allows contracting authorities to take into account innovation or innovative solutions. This is particularly important for small and medium-sized enterprises (SMEs), which are a source of innovation and important research and development activities.

- For those requirements with a long operating life, it allows the contracting authority to take into account the life cycle costs of the requirement purchased and not only the direct cost of the purchase or initial purchase price within the set specifications.

What criteria may be used to determine the MEAT?

A contracting authority may take into account various criteria to determine the most economically advantageous tender (MEAT). The Directive contains an *illustrative* list of these criteria, which are:

- quality
- price
- technical merit
- aesthetic and functional characteristics
- environmental characteristics
- running cost
- cost-effectiveness
- after-sales service and technical assistance
- delivery date and delivery period or period of completion

As the list is only illustrative it is left to the contracting authority to establish the criteria to be applied in order to determine the most economically advantageous tender from its point of view, taking into account the specific circumstances of each case and within certain specified limitations.

Award criteria may be divided into two broad categories: cost related and non cost related.

Cost related: cost related criteria, which are also referred to as economic criteria allow the contracting authority to determine the financial cost of the acquisition of the object of the procurement as well as the cost of using and operating it.

Life cycle costs

Life-cycle costs are the costs of the goods, works or services through the duration of their life cycle. In broad terms, the life-cycle costs comprise all costs to the contracting authority relating to the:

- acquisition
- operational life and
- end of life (such as disposal)

The life-cycle costs can be either “one-off” costs or “recurrent” costs. **One-off costs** are those that are paid only once with the acquisition of the requirement being procured, such as initial price, purchase and installation costs, initial training or disposal costs. **Recurrent costs** are those that are paid throughout the life cycle of the requirement being procured. They depend on its longevity and they normally increase with time. Recurrent costs include service and maintenance charges, repairs, consumables, spare parts and energy consumption.

Non-cost related: The non-cost related criteria concern key performance requirements and adherence to specifications. Examples of non-cost related criteria include:

- **quality** - the quality characteristics that the object of the procurement must satisfy, for example the number of pages per minute produce by a printer or its durability
- **technical merit** - if the object of the procurement is fit for purpose and how well it performs
- **aesthetic and functional characteristics** - how the object of the procurement looks and feels and how easy it is to use
- **delivery date** - the guaranteed turnaround time from order to delivery and the ability to meet the set deadline
- **after-sales services** - what support is required and available to the contracting authority after the contract has been signed

Sub-criteria – A contracting authority may also decide to sub-divide the criteria that are chosen to determine the MEAT into sub-criteria. The sub-criteria indicate the specific factors that are taken into account by the contracting authority within a specific criterion.

Are there limitations on the contracting authority's discretion when establishing the criteria to be applied to determine the MEAT?

The Directive refers to the tender that is the most economically advantageous “from the point of view of the contracting authority”, thus putting stress on the contracting authority's discretion in choosing the criteria to be applied. However, this discretion is not unrestricted and has some limitations:

- The criteria chosen must be linked to the subject matter of the public contract in question.
- The criteria chosen must be aimed at identifying the most economically advantageous tender and they cannot be aimed at other purposes.
- The criteria chosen must be objective and objectively quantifiable.

In order to guarantee the objectivity of the criteria to be applied and to prevent the unrestricted freedom of choice being conferred on the contracting authority, these criteria must be formulated in a precise and as far as possible measurable way. Tenderers should be able to prepare their tenders to take account of the way in which the assessment/evaluation of the tenders would be made.

MEAT criterion and contract specifications: some important considerations

In practice, the criteria that a contracting authority may apply to determine the MEAT must be chosen in such a way that they match the contract specifications. All specifications subject to evaluation should have criteria associated with them.

The preparation of the specifications and of the criteria to be applied to determine the MEAT goes hand in hand. The contract specifications cannot be prepared without taking into account the criteria to be applied and, vice versa, the criteria to be applied cannot be determined without taking into account the contract specifications.

When the MEAT criterion is used, in general terms, a contracting authority may decide to operate in particular in one of the following manners:

- Fix the minimum mandatory specifications that all tenders must meet, which will be evaluated on the basis of a pass or fail system, and then award scores to those tenders that have achieved a pass. The scores will reflect the degree to which a tender exceeds the minimum specifications.
- Fix, in addition or as an alternative to mandatory specifications, specifications that do not entail the application of a minimum “threshold” and that will be scored on the basis of the level of compliance of tenders with the contracting authority’s requirements. In this case, some variability with regard to the level of compliance is acceptable.

What methods may be used to identify the most economically advantageous tender?

The methods or methodologies for applying the chosen criteria are the ‘systems’ that a contracting authority may use to identify the most economically advantageous tender.

- **Weighting:** The Directive requires the contracting authority to specify the relative weight that it gives to each criterion chosen in order to determine the most economically advantageous tender.

Through the weighting system, the contracting authority notifies tenderers of the relative importance that it attaches to each criterion chosen and it allows tenderers to prepare more appropriate tenders. At the same time, through the weighting system, the contracting authority structures its discretion and restricts the possibilities for arbitrary decisions during the process of evaluation of tenders.

The contracting authority may express the relative weighting of the criteria used by providing for a range with an ‘appropriate’ maximum spread. The spread must be appropriate in the sense that it cannot be so broad (for example between 10% and 90%) that it would result in a breach of the transparency principle and that it would not provide any valuable indication to potential tenderers of the actual relative importance that the contracting authority attaches to each criterion used.

The weighting of the various criteria to be applied in order to determine the most economically advantageous tender must be carried out with due care. In-

appropriate weighting would cause problems when carrying out the evaluation of tenders, and could mean that the tender offering the best value-for-money would not be selected.

- **Descending order of importance:** Where weighting is not possible for demonstrable reasons, the contracting authority must indicate the criteria applied in descending order of importance. One of the reasons why weighting may not be possible is the complexity of the contract.

Disclosure obligations with regard to the criteria to be applied to determine the MEAT and with regard to the methods for applying them: The contracting authority must announce in the contract notice or contract documents or, in the event of a competitive dialogue, in the descriptive document:

- the criteria representing the most economically advantageous tender, **and**
- their relative weighting or the descending order of importance of such criteria (where, in the opinion of the contracting authority, weighting is not possible).

Except for these explicit disclosure obligations mentioned, the Directive does not specifically require a contracting authority to formulate a detailed evaluation methodology in advance. However, where a contracting authority has formulated such a detailed evaluation methodology in advance, this methodology must be fully disclosed to tenderers.

The tender documents should provide as much transparency as possible by providing clear information on how the evaluation process will take place and on all factors that will be taken into account (including their relative weightings) and the methodologies that will be applied to determine the most economically advantageous tender.

This will not only help potential tenderers in preparing more responsive tenders, but it will also make the whole tender process, including the evaluation process, more transparent. It will also allow the relevant stakeholders (in particular tenderers, audit bodies and other government bodies) to monitor the tender process in order to identify situations where the criteria or methodologies for evaluation have been developed and/or applied in a discriminatory manner.

Warning: change of the announced award criteria during the tender process: Under no circumstances may the announced award criteria (including their relative weighting, any sub-criteria applied and their relative weighting, and a more detailed evaluation methodology that has been announced) be changed or waived during the process of evaluation of tenders. At this stage, they must be applied as they stand.

Defining the overall strategy concerning the award criteria to be applied: checklist of the main points to be addressed

The overall strategy concerning the award criteria to be applied should be determined before a tender is launched. The checklist below sets out some of the main points that a contracting authority may choose to address when it defines its overall strategy:

- Decide which award criterion to apply: the lowest-price criterion or the MEAT criterion, where there is a choice.

- Whenever the MEAT criterion has been chosen:
 - Identify the individual criteria that will be applied and their relative weighting (or their descending order of importance in the case where weighting cannot be applied for demonstrable reasons).
 - Where it has been decided to break each criterion down into sub-criteria, identify these sub-criteria and their relative weighting within the weighting given to that individual criterion.
 - Where it has been decided to apply a more detailed evaluation methodology, define it in a clear way.
- Identify, in accordance with the requirements of the applicable law, where and how the following elements should be disclosed:
 - use of the lowest-price criterion or the MEAT criterion, as the case may be;
 - whenever the MEAT criterion has been chosen:
 - the individual criteria that will be applied and their relative weighting (or their descending order of importance if weighting cannot be applied for demonstrable reasons);
 - any sub-criteria into which each criterion to be applied is broken down and their relative weighting within the weighting given to that individual criterion;
 - any evaluation methodology that has been developed.

Further reading:

[SIGMA Public Procurement Training Manual](#)