

## Separate technical and financial offers

### Summary

Separating technical and financial offers, also commonly referred to as the two-envelope system, is a way to ensure that price and non-price criteria are evaluated independently.<sup>1</sup>

The objective of this procedure is to ensure neutrality and objectivity in the tender-award decision, as it reduces the risk of biased technical evaluation where price considerations may take precedence over quality.<sup>2</sup> Separating technical and financial offers is therefore relevant when the contracting authority makes use of the Most Economically Advantageous Tender (MEAT) criterion, which is applicable to the majority of procurement procedures.

In practice, this means that tenderers required to send a paper version of their proposal must do so in two separate, sealed envelopes. For electronic submissions, tenderers may be asked to submit their proposal as two separate files uploaded on a dedicated e-submission platform, or two separate attachments sent by email. The first envelope/file contains the technical offer, which only describes the qualitative elements of the tender, while the second envelope/file contains the financial offer. The offer-evaluation process takes place in two steps, whereby the technical offer is evaluated first. In a second step, the evaluation committee evaluates only financial offers from tenderers whose technical offers receive enough points.<sup>3</sup>

The main benefits of this procedure include better-value-for-money contracts procured by contracting authorities and increased participation from suppliers, as the latter have a fairer perception of the evaluation system.

### Input

#### Cost – €

- Low set-up and operation cost



#### Time – Less than 6 months



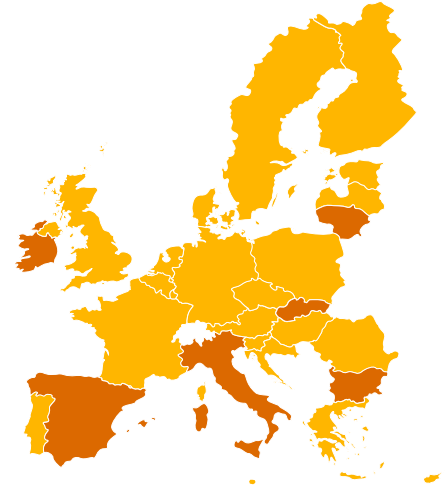
#### Complexity – Low

- Regulatory change required if separation of technical and financial offer is mandatory
- Creation of two-envelope template for electronic submission



### Good Practice Examples

- ✓ Bulgaria
- ✓ Italy
- ✓ Lithuania
- ✓ Spain
- ✓ Slovakia<sup>4</sup>
- ✓ Ireland



### Impact

#### Increase value for money



The goal of using non-price criteria when evaluating tenders is to empower contracting authorities to maximise their value for money by choosing the best combination of quality and price for contracts where quality can vary. Separating technical and financial offers ensures that higher-priced, higher-quality offers that provide better value for money will be considered fairly.<sup>5</sup>

#### Increase competition



Where the use of separate technical and financial offers is indicated in the tender notification, it signals to potential suppliers that a broader range of offers will be considered. It can also act as an indicator of the contracting authority's commitment to fair evaluation. This should attract more offers than a procedure where the lowest price is the only criterion.

### Related Good Practices

Split responsibilities for preparation and awarding phases

## Key success factors and potential pitfalls

### Provide details in the tender notification

Where the two-envelope system is used, the tender notification should always specify how tenderers must submit their proposal. For paper submissions, the tender notification should mention that the technical and financial offers must be submitted in separate, clearly marked envelopes,<sup>6</sup> and that these envelopes must be placed inside a single sealed envelope. For electronic submissions, the tender notification should indicate the means by which the proposal should be submitted i.e. via a platform or by email.

### Limited applicability if life-cycle costing is used

If the contract is awarded based on life-cycle costs, operational expenses must be verified against the technical description of the project, which is already predefined. In such cases, it is therefore not possible to dissociate the technical and financial offers.

### Undue inclusion of price-related information in the technical offer

Bidders may be tempted to include information in the technical offer that may give an insight into their financial offer. However, this goes against the main purpose of the two-envelope system and could be considered grounds for excluding the bid.

### Include a 'break' period between opening the two envelopes

Setting a 'break' period between opening the two envelopes is necessary to maintain the effectiveness of the two-envelope system in the event that the information of the first envelope needs to be re-evaluated. This 'break' should coincide with the deadline for submitting claims.

## Case Studies

### Spain – Use of the two-envelope system

The public procurement law (Article 150.2) introduces the obligation for tenderers to submit technical and financial offers in separate envelopes. This system allows for a more objective evaluation of tenders, as technical offers must always be evaluated in the first stage, while financial offers are considered in the second stage.

### Lithuania – Use of the two-envelope procedure obligatory for MEAT contracts

Lithuania is one of the few EU MS that has introduced rules on the use of the two-envelope system. The public procurement law stipulates that contracting authorities must use two envelopes for contracts where the MEAT criterion is used. The two-envelope system is applied to both above- and below-threshold procurement.

Specifically, the law requires the two envelopes to be opened at two separate meetings of the Procurement Commission, whereby the technical offer is opened at the first meeting, while the financial offer is opened at the second meeting. Before looking at the financial offer, the Procurement Commission must verify that the technical and qualification requirements are met by the bidders. If the tender is rejected, the envelope containing the financial offer remains unopened. Negotiated procedures or competitive dialogue do not require the submission of two envelopes.

For paper-form procurement, which is rare in Lithuania, the contracting authority sets a requirement in the tender documents to submit the bids in two envelopes, which are then put into one envelope. All three envelopes must be properly closed in order to prevent the possibility of anyone becoming acquainted with the provided information before the opening procedure.

Most procurement is conducted through the e-procurement platform. In this case, contracting authorities set a requirement in the tender documents to submit the bids in two envelopes and to choose the electronic procurement template with two envelopes. The suppliers submit appropriate information to each of the e-envelopes and submit the bid. The e-procurement platform does not allow anyone to become acquainted with the submitted information until the term to submit the bids ends. There must be a break between the opening procedure of separate envelopes in order to enable suppliers to submit any claims regarding the evaluation of the information in the first envelope.

### Contact

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<sup>1</sup> OECD, "Public Procurement in EU Member States - The regulation of contract below the EU thresholds and in areas not covered by the detailed rules of the EU Directives" (2010), see: <http://www.oecd-ilibrary.org/docserver/download/5km91p7s1mxv-en.pdf?expires=1498723865&id=id&accname=quest&checksum=21935D8D0ED20B340800D00542133854> <sup>2</sup> *Ibid* <sup>3</sup> European Investment Bank, "Guide to Procurement" (2011), see: [http://www.eib.org/attachments/thematic/procurement\\_en.pdf](http://www.eib.org/attachments/thematic/procurement_en.pdf) <sup>4</sup> See: <http://www.schoenherr.eu/publications/publications-detail/slovakia-substantial-changes-in-public-procurement-every-detail-counts> <sup>5</sup> R. Best, G. De Valence, "Building in Value: Pre-Design Issue" (2013), Routledge <sup>6</sup> Ma, Tony. "The Two-envelope Tendering for Contractor Selection-South Australian Experiences." PhD diss., University of Melbourne