



EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR EDUCATION AND CULTURE
Directorate R - Resources

Unit R3 - Accounting and finance

METHODOLOGY FOR EVALUATING THE FINANCIAL CAPACITY OF TENDERERS/CANDIDATES FOR PUBLIC CONTRACTS

Like all the other Directorates-General of the Commission, the Directorate-General for Education and Culture (DG EAC) uses public contracts to purchase the goods and services it needs to pursue its objectives: research, technical assistance, advice, conferences, advertising services, documentation, IT equipment, etc.

In principle, public contracts are awarded following invitations to tender published in the Official Journal.

Once tenders from the candidates or tenderers have been submitted, they are subjected among other things to an assessment on the basis of the selection criteria, including verification of financial capacity.

In order to perform this assessment of financial capacity, DG EAC established a methodology in accordance with Article 110 of the Financial Regulation (FR), and Articles 146 and 147 of its Rules of Application (RAP).

This methodology describes the scope, the documents required of the tenderers and candidates and, where an actual analysis is performed, the financial ratios used as well as the interpretation of the results obtained.

The financial analysis is based on the general guidelines (liquidity, solvency, profitability) of the Directorate-General for Budget (DG BUDG). The selected ratios and the thresholds applied are also those proposed by the same DG.

1. SCOPE

Evaluation of financial capacity as a selection criteria applies to all tender procedures.

In accordance with Article 146(4) of the RAP, proof of financial capacity cannot be required for contracts worth EUR 144 000 or less.

It was decided at DG EAC that a financial capacity analysis would be carried out (on the basis of ratios) when the value of the contract exceeds EUR 260 000. For values above this threshold, proof of financial capacity will be required on a case-by-case basis according to the hypothetical cases presented in points 3.3, 3.4 and 3.5 below, and the financial analysis will be performed as described in point 4.

2. ENTITIES SUBJECT TO EXAMINATION OF FINANCIAL CAPACITY

- All the economic operators involved in the tender procedure, including natural persons.
- For a consortium, the leader and all the members of the consortium.
- In the case of sub-contracting, all the sub-contractors, provided that the sub-contracting value is 10 % or more of the value of the contract.

3. DOCUMENTS DEMONSTRATING THE FINANCIAL CAPACITY OF THE TENDERERS/CANDIDATES

3.1. Contracts worth EUR 144 000 or less

For contracts of this type, proof of financial capacity consists of a declaration on honour by the economic operator (see Annex 2 in the published call).

3.2. Contracts worth more than EUR 144 000 but equal to or less than EUR 260 000

For this category of contracts, in addition to the declaration on honour referred to in point 3.1, proof of financial capacity is also provided by a statement of overall turnover and turnover specifically related to the supplies or services covered by the contract for the last two financial years for which accounts have been closed.

However, in case of doubt, the assessment committee reserves the right to request supporting documents and to carry out a financial analysis as described in point 4 below.

Along similar lines, entities falling into one of the following high-risk categories must provide proof of their financial capacity (see points 3.3, 3.4 and 3.5 below) and are required to undergo the financial analysis provided for in point 4 below:

- newly-established entities which have existed for less than a year and for which no financial history is available;
- new entities which have existed for between one and three years;
- entities against which one or more expired and unpaid recovery orders have been issued by DG EAC;
- entities that are the subject of suspicions of or findings relating to serious administrative errors or fraud;
- entities against which legal proceedings have been brought for serious administrative errors or fraud.

3.3. Contracts worth more than EUR 260 000

For contracts worth more than EUR 260 000, proof of economic and financial capacity is provided by the following documents:

- the declaration on honour referred to in point 3.1;
- the economic and financial capacity analysis form showing the financial data of the

economic operator, completed and signed by the operator (see Annex 3 in the published call);

- for economic operators required under national law to keep a complete set of accounts: the annual accounts (balance sheet, income statement and annexes) for the last two years for which accounts have been closed;
- for economic operators required under national law to keep a simplified set of accounts: the statement of expenditure and revenue and the annex showing assets and liabilities for the last two financial years for which accounts have been closed;
- in all cases, a statement of overall turnover and turnover specifically related to the supplies or services covered by the contract for the last two financial years for which accounts have been closed.

3.4. Exceptional cases referred to in Article 147(3) subparagraph 2 of the RAP

If, for some exceptional reason which the contracting authority considers justified, the operator is unable to provide the documents required, it may prove its economic and financial capacity by any other means deemed appropriate.

3.5. Special cases

Natural persons

Irrespective of the form in which they are party to a contract (for example, sole tenderer, member of a consortium or sub-contractor), natural persons do not have to provide proof of their financial capacity other than by means of the declaration on honour provided for in Annex 2 in the published call. This applies to all the cases referred to in point 3.

Recently established entities (in existence for less than two years)

In the case of recently established entities which have not yet closed accounts for two financial years and which are therefore considered high-risk, the annual accounts for a single year (if available) will be required, together with an interim report on their annual accounts, the declaration on honour, the analysis form and the statement of turnover provided for in point 3.3. These interim accounts must cover the period between the date of establishment of the entity and the publication date of the tender. This applies to contracts worth more than EUR 260 000 but also to those worth between EUR 144 000 and EUR 260 000, given that new entities are considered to be risky.

For low-value and medium-value contracts (maximum of EUR 144 000 for contracts for supplies and services), the declaration on honour provided for in point 3.1 is sufficient.

Recent acquisition, merger and incorporation

The annual accounts for the last two years for which accounts have been closed will be required for all the entities involved in these incorporation, acquisition and merger

operations (except recent entities, see above) in accordance with the scenarios set out in point 3 ('Documents').

Consortia and sub-contractors

In the case of consortia, both the leader and all members of the group are required to submit the documents proving their financial capacity in accordance with the scenarios set out in point 3 ('Documents').

The sub-contractors referred to in point 2 above ('Entities subject...') must also submit documents to prove their financial capacity, in accordance with the scenarios set out in point 3 ('Documents').

N.B. The various headings in point 3 concerning documents apply to all the entities referred to in point 2.

4. FINANCIAL ANALYSIS AND INTERPRETATION OF THE RESULTS

The financial analysis involves calculating a series of financial ratios based on the financial data declared in Annex 3 in the publish call and verified on the basis of the financial documents required.

4.1. Financial ratios

Two types of calculation are used by type of economic operator, differentiated by the requirement to keep either a complete or a simplified set of accounts.

a. Economic operators keeping full accounts

Financial independence = own funds/total liabilities

Financial independence makes it possible to determine the proportion of own funds in total liabilities and therefore to measure the economic operator's degree of independence in relation to third-party funds. A ratio of less than 20 % is considered to be negative.

Debt ratio = own funds/medium- and long-term debts

This ratio measures the solvency and independence of the operator, by analysing the composition of the liabilities on the balance sheet. A ratio of less than 30 % will be considered to be negative.

Profitability = Gross operating surplus/turnover

This ratio measures the proportion of economic surplus generated by the operation, once operating expenses have been deducted.

These are the funds really generated by the operation. They must be positive and

sufficient to cover:

- depreciation;
- financial charges;
- any exceptional charges;
- the need for a business to make a profit.

There must therefore actually be a surplus (the ratio must be positive). A ratio of less than 10 % will be considered to be negative.

Liquidity = (available funds + claims)/current liabilities

This ratio measures whether total current assets actually cover current liabilities and therefore indicates whether the economic operator will be able to meet its current liabilities.

The value of this ratio must be equal to or higher than 1. Otherwise, current assets do not suffice to cover current liabilities, and the economic operator may not be able to meet its liabilities in the very near future (in less than a year).

Coverage ratio of third-party funds by self-financing capacity = self-financing capacity/medium- and long-term debts

This coverage ratio measures the proportion of medium- and long-term debts which could be reimbursed by the self-financing capacity of the financial year. It therefore measures the reimbursement capacity.

A value of 25 % means that four times the self-financing capacity of the last financial year is needed to reimburse medium- and long-term liabilities. Since this can be done only if the business does not invest and does not incur other medium- and long-term debts (and if profitability stays at the same level), a ratio of less than 25 % will be considered to be negative.

Activity index = (Total amount of tender/duration)/self-financing capacity

The indicator measures the annual value of the tender as a proportion of the tenderer's annual turnover.

b. Economic operators keeping simplified accounts

Financial independence = own funds/total liabilities

Financial independence makes it possible to determine the proportion of own funds in total liabilities. Sound financial autonomy is demonstrated by values above 20 %.

Liquidity = (available funds + claims)/current liabilities

This ratio measures whether total current assets actually cover current liabilities and therefore indicates whether the entity will be able to meet its current liabilities.

The value of this ratio must be equal to or higher than 1. Otherwise, current assets do

not suffice to cover current liabilities, and the entity may not be able to meet its liabilities in the very near future (in less than a year).

Debt ratio = own funds/medium- and long-term debts

This ratio measures the solvency and independence of the operator. For sound financial autonomy, this ratio must be above 30 %.

Adequacy of own funds = own funds/total revenue

This is the ratio of stable resources to total revenue, and measures the number of periods available to the entity to maintain its activity using own funds. A high value is therefore an indication of the entity's "survival" capacity. A ratio of less than 25 % is considered to be negative.

Activity index = (Total amount of tender/duration)/Total operating income

The indicator measures the annual value of the tender as a proportion of the tenderer's annual operating income.

4.2. Analysis of the results

The points awarded on the basis of the calculated value of each ratio range between 0 and 2. Adding the points awarded for each of the financial years analysed results in a three- level classification of financial capacity: INSUFFICIENT, SATISFACTORY and GOOD.

Where ratios are insufficient, an in-depth financial analysis will be performed. The following ratios will be used:

- for economic operators keeping a complete set of accounts:

Ratio	Formula
"Trade receivables" turnaround time	=Clients/turnover*360
"Supplier credit" turnaround time	=Suppliers/net purchases*360
Working capital	=Permanent capital-net fixed assets
Working capital requirements	=Current assets (non-financial)-current liabilities (non-financial)

Trade receivables turnaround time = clients/turnover*360

This is a financial ratio which indicates the speed at which a company covers its trade receivables. In other words, it expresses in number of days the average credit which a company grants to its clients (or the average time it takes for them to pay).

Supplier credit turnaround time = suppliers/netpurchases*360

This ratio can be used to measure the degree of payability of supplier debts. It expresses in numbers of days the average payment periods granted by the suppliers of the entity.

The trade receivables turnover time must be shorter than the supplier credit turnover time in order to avoid any deficit in financial resources and therefore inability to pay.

Working capital = permanent capital-net fixed assets

Working capital is the part of permanent capital (own funds, provisions for risks and charges and debts due in over one year) which exceeds the amount of intangible assets. The working capital will be used to finance the operating cycle of the economic operator.

It should cover the vast majority of working capital requirements. Working capital thus prevents the entity from having to rely more heavily on short-term banking finance which can generate substantial financial charges.

Working capital requirements = current assets (non-financial)-current liabilities (non-financial)

Working capital requirements (WCR) represent the funding discrepancy stemming from the daily business of the entity (the undertaking).

Working capital in excess of working capital requirements is a positive situation in which financial balance is achieved.

- for economic operators keeping a simplified set of accounts:

Ratio	Formula
Own funds (net assets)	=Assets-liabilities
Cash flow	=Revenue-expenditure

Own funds (net assets) = assets-liabilities

Own funds are the difference between total assets and liabilities. Positive net assets are essential to ensure a certain level of growth.

Cash flow = revenue-expenditure

Cash flow measures the flows of liquidity which the entity generates from its activities, and must be positive.

Following this in-depth analysis, the results will be classified into two categories:

- "unfavourable": if the cumulative results at the time of the in-depth analysis appear to be unfavourable, a decision is made to exclude the economic operator;
- "favourable": results which appear to be favourable could lead to the authorising officer responsible deciding to retain the economic operator while providing for safeguard measures.

4.3. Assessment of the financial situation of the special cases provided for in point 3.4, 'Exceptional cases referred to in Article 147(3) subparagraph 2 of the RAP'

For the exceptional cases provided for in point 3.4 ('Documents'), the economic operators concerned are authorised to prove their economic and financial capacity by any means considered appropriate. These documents will be analysed on a case-by-case basis in order to determine whether the economic and financial capacity is assured.

4.4. Assessment of the financial situation of the special cases provided for in point 3.5,

'Special cases'

Recently established entities

The analysis is carried out on the basis of the documents referred to in point 3.5 above. *Recent*

acquisition, merger and incorporation

The analysis is carried out for each operator involved in these incorporation, acquisition and merger operations on the basis of the documents required in accordance with the scenarios set out in point 3 ('Documents').

Consortia and sub-contractors

For consortia, the analysis is carried out for the leader and all the members of the consortium on the basis of the documents required in accordance with the scenarios set out in point 3 ('Documents').

In the case of sub-contracting, the analysis is carried out for all sub-contractors for which the sub-contracting value is 10 % or more of the value of the contract on the basis of the documents required in accordance with the scenarios set out in point 3 ('Documents').

If analysis of the financial capacity reveals that one or more members of the consortium/one or more sub-contractors do not have the financial capacity to perform the contract, the authorising officer may decide to apply the following approaches:

- reject the member(s)/sub-contractor(s) in question and continue with the other members/sub-contractors of the group. In this case they must prove that they have the financial and operational capacity to perform the contract. Furthermore, the change in the composition of the group may not substantially change the tender;
- require that the member(s)/sub-contractor(s) in question be replaced by another entity/other entities which are able to provide the same services while fulfilling the following conditions:
 - the new candidate is not excluded (a statement of non-exclusion will be required);
 - the new candidate still meets the selection criteria with respect to the request to participate/tender originally submitted;
 - the change in the composition of the group does not require a substantial change to the tender. This condition is met if:
 - > all the tasks assigned to the former member/sub-contractor are taken over by the new entity;
 - > the change does not make the tender non-compliant with the specifications;
 - > the change does not amend the assessment of the tender originally submitted according to the award criteria.

It should be noted that there may be a combination of all the hypothetical cases covered by this

methodology.

In all the hypothetical cases included in the methodology, the authorising officer reserves the right to make use of the solidarity clause for the performance of the contract.