Site Characterisation Delivery Partner

Self-Funded Incentive (SFI) Handbook

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*Note: Within this document, the term “Consultant” applies to companies or individuals working in the capacity of consultant, contractor or supplier for the Site Characterisation Delivery (SCDP). The term “Client” shall be read to mean “Nuclear Waste Services” and “NWS”.*

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Definitions

|  |  |
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| **Authority:** | Means Nuclear Waste Services Ltd (NWS) “The Client”. |
| **Contract:** | The overarching agreement which governs the relationship between the Site Characterisation Delivery Partner and the Authority. The Contract will set out the mechanisms by which the Authority can instruct the Site Characterisation Delivery Partner to deliver services through the issue of Task Orders. |
| **Key Performance Indicators (KPIs)** | Quantifiable metrics that will be set out in the Contract and used to measure how well the Site Characterisation Delivery Partner is performing.  |
| **Milestones:** | TBA |
| **Non-SFI Task Level Indicators (Non-SFI TLIs):**  | Performance-based metrics that are applied either to individual Task Orders or at contract level but do not count towards the Performance KPI.  |
| **SFI** | Self-Funded Incentive is the mechanism where the Consultant puts at risk a percentage of their costs against performance output. |
| **SFI Task Level Indicators (SFI TLIs):**  | Metrics that are applied to individual Task Orders and scored monthly for the purposes of the Performance KPI.  |
| **SFI Retention:** | A fixed percentage retention (10%) that is a withheld from each application for payment, subject to specific exceptions. |
| **Site Characterisation Delivery Partner (SCDP):** | Consultant organisation(s) (being the counterparty or counterparties to the Client under the Contract) responsible for the delivery of the underpinning geological information (Site Descriptive Model (SDM)) though the design, specification, support of procurement, and management of the Site Characterisation programme (SCP) including borehole design and management of the Drilling Contractor. |
| **Task Level Indicators (TLIs):** | Metrics that are applied to individual Task Orders, comprising both SFI TLIs and Non-SFI TLIs.  |
| **Task Orders (or ‘Tasks’):** | An instruction from the Authority to the SCDP to perform a specific scope of work or defined set of services, within the overall scope of work and services under the Contract. |

Purpose of this document

Overview

The purpose of this document is to articulate the principles of the Self-Funded Incentive Mechanism (SFI) which is proposed for inclusion within the Site Characterisation Delivery Partner (SCDP) procurement. This document is intended to create a common understanding of the core principles and implications of the SFI mechanism to support market engagement and legal drafting of schedules in preparation for the procurement.

This document should be read in conjunction with the Performance Metrics Table.

*Please note: All information outlined in this document is indicative, remains under development, and is subject to change.*

Overview of the SFI

What is the SFI?

The Self-Funded Incentive (SFI) is a contract mechanism which will be used to incentivise SCDP contract performance. The value of the SFI will be **10%** of all applications for payment, subject to specific exclusions.

Which factors will determine the SFI performance calculation?

Three components will be measured and will form the basis of the SFI mechanism:

* **A ‘Performance KPI' (25% of the SFI = 2.5% withheld value):** The Performance KPI will provide an aggregated view of multiple SFI Task Level Indicators (SFI TLIs) covering: Quality, Cost, Time, Health & Safety, Security, and Environment.
* **Social Value & Sustainability KPI (25% of the SFI = 2.5% withheld value):** KPI which measures the delivery of agreed Social Value & Sustainability commitments.
* **Milestone performance (50% of the SFI = 5% withheld value):** Measures the on-time delivery of Milestones e.g. geotechnical report completion.



Figure 1: Illustration of SFI retention

The approach to each of the components is also described in turn throughout the course of this document. A worked example of the Performance SFI TLI and summary of the SFI components is provided in **Appendix A: Scenario Example** and **Appendix B: Summary of the SFI Balanced Scorecard & Performance Measures**, respectively.

Funding and applicability of the SFI

How will the funding work for the SFI?

For each Task Order commissioned under the Contract (other than Task 0) the Authority will withhold 10% of each application for payment for that Task Order, forming the SFI Retention. Further detail on the applicability to invoice components is outlined below.

The SFI Retention made by the Authority will comprise three 'pools', one for each of: the Performance (SFI) KPI, Social Value & Sustainability KPI and Milestones. The cumulative total of the retentions held in respect of the Performance (SFI) KPI and Social Value KPI will be retained until the end of the year when a calculation will be made to determine the amount of withheld funds to be disbursed to the SCDP. Retentions held in respect of Milestones will be released upon achievement of the relevant Milestones.

The SFI Retention will start from the Contract commencement date and will apply to all years of the contract. The Performance (SFI) and Social Value & Sustainability KPI will run on an annual basis from 1st April to 31st March. For the first year the applicable period will run between the date of entry into the Contract and 31st March, and for the final year of the Contract the applicable period will run between 1st April and the contract Completion Date.

The Milestone element of the SFI Retention shall be independent of the calendar and/or financial year and shall operate against the full duration of the individual Task Order.

Which costs is the SFI Retention applicable to?

The SFI will be deducted from individual Task Order applications for payment as follows:

* **Will be** deducted from all applications for payment except those amounts set out below:
* **Will not** be applicable to:
	+ Task Order 0:
	+ Level 2 (Collaboration Joint Milestones) & 3 (Saving Share) incentive payments:
	+ routine expenses (e.g. authorised travel, accommodation, subsistence); or
	+ expenses identified by the Authority as a Task Order-specific expense (e.g. licences or equipment).

Application of SFI Retention to Task Order 0

* SFI will not apply to Task 0.
* However, for clarity, if a Key Person assigned to Task 0 is working on another specific Task Order that time spent on that other specific Task Order will be costed and billed to that other specific Task Order and that time cost **will** be subject to retention.

Management of performance

Determining SFI performance

To measure performance and apply the SFI mechanism, metrics and/or thresholds will be applied to the Performance (SFI) KPI, Social Value & Sustainability KPI, and Milestones.

How will the SFI reporting operate?

Each month SCDP performance will be reported on by the SCDP and reviewed by the Authority against the Performance (SFI) KPI, Social Value & Sustainability KPI and Milestones. This will be undertaken during regular monthly and quarterly progress meetings using cost, progress and schedule reports prepared by the SCDP under the Contract.

The SCDP will be required to report on various aspects of performance within each of the three SFI components in a monthly report:

**Performance (SFI) KPI (TLI reporting):** The Performance (SFI) KPI consists of a suite of performance-based metrics comprising the SFI Task Level Indicators Quality, Cost, Time, Health & Safety, Security, and Environment. See Section 4.2.

Performance against individual SFI TLI categories to determine an applicable score. Monthly scores will be assigned by the Authority for each live Task Order based upon identified SFI TLI scoring criteria.

**Social Value KPI reporting:** The Social Value KPI is a suite of metrics associated with the SCDP's delivery of its Social Value & Sustainability commitments. See Section 4.5.

Reporting will be required from the SCDP monthly to identify performance against social value delivery commitments. KPI scores will be applied on a quarterly and End of Year basis.

**Milestone reporting:** These are the required activity completion deadlines which are to be set within each individual Task Order (e.g. delivery of a report, completion of a design).See Section 4.6.

Reporting required from the SCDP monthly to identify progress against planned milestones, with application of the SFI determined on delivery of the relevant Milestone. The SCDP will be assessed on whether a Milestone has been delivered to the required quality standard, by the agreed date. Diminishing SFI returns will apply for late delivery.

The Performance SFI KPI

What are Task Level Indicators (TLIs)?

TLIs are metrics which are used to measure SCDP performance on a Task Order. TLIs can either be for the purposes of the SFI (determining SFI payout, being the SFI TLIs) or non-SFI performance (being the Non-SFI TLIs).

SFI TLIs are all grouped into, and inform the scoring of, the Performance SFI KPI and are identified below. Each SFI TLI has defined scoring criteria which determines which RAG score is assigned. Please see the Performance Metrics spreadsheet for further details.

It is possible that not all TLIs will be applied to Task Orders if the Authority deems that they are not relevant to the nature of the services – see FAQs for the approach to normalising scores where less than 10 TLIs apply.

How will the Performance (SFI) KPI be scored?

The Performance (SFI) KPI will be scored based upon TLI performance:

* Individual SFI TLIs will be scored monthly (in respect of each individual "live" Task Order in the relevant month) using defined criteria on a Red, Amber, Green (RAG) scale. Each RAG classification will have an associated points score for the SFI TLI:
	+ Green – 30 points
	+ High Amber - 20 points (where applicable)
	+ Amber – 15 points
	+ Low Amber – 10 points (where applicable)
	+ Red – 0 points
* A monthly points total, out of 240, will be calculated for each Task Order using the points scored for each SFI TLI.
* A quarterly score will then be created by calculating an average of the monthly scores achieved across all Task Orders underway in a quarter. A quarterly RAG classification will be applied using predetermined scoring thresholds (as set out below) for the purposes of reviewing performance at that point.
* An "End of Year" score will be calculated by taking the average of the quarterly scores, following the application of any ‘rules’ (as described below), to give a score out of 240.
* The SFI payout/release will then be based on a scale with thresholds:

**RAG Assigned to Score and End of Year Disbursement Thresholds:**

|  |  |  |
| --- | --- | --- |
| **Score** | **RAG Assigned to Score**  | **SFI Payout** |
| **>=210** | Green | 100% |
| **Less than 210, but >=195** | High Amber | 75% |
| **<195, but >=180** | Low Amber | 25% |
| **<180** | Red | 0% |

Table 1: Disbursement Thresholds

Which rules will apply to the Performance (SFI) KPI calculation?

Rules will also be applied to SFI TLI scores where unacceptable standards of performance are observed as follows:

|  |  |  |
| --- | --- | --- |
|  | **Rule/Criteria** | **Consequence** |
| 1 | 3 or more consecutive ‘Red’ scores in a TLI category, on a single Task Order (including rolling across quarters).  | Total monthly scores for the Task Order are reduced to ‘0’ for the 3 months where the Red scores were incurred.  |
| 2 | 2 or more consecutive ‘Red’ scores in a Health & Safety TLI category, on a single Task Order (including rolling across quarters) | Total monthly scores for the Task Order are reduced to ‘0’ for the months where the Red scores were incurred. |
| 3 | 6 or more monthly ‘Red’ scores on a single Task Order in any rolling 12-month period. | Total monthly scores for the Task Order are reduced to ‘0’ for the months where the Red scores were incurred. |
| 4 | Each average annual Task Order score must be a minimum of 170 | SFI payment due is lowered to the next applicable SFI reimbursement threshold if any single Task Order fails to meet the minimum threshold. |

Table 2: Standards of Performance

A worked example of the Performance SFI TLI measures is shown in **Appendix B**.

Actions on Receiving a Red RAG Rating

Where the SCDP receives a Red RAG score in any month the SCDP shall be required to undertake a "Lessons Learnt" exercise and submit a report identifying the cause of the failure, mitigations (how they intend to reduce the risk of the event giving rise to the Red score re-occurring), and remediations (how the SCDP will make good the failing), and will be required to submit the Lessons Learnt Report for approval by the Authority prior to the submission of the next monthly report, this will be in line with the reporting timelines as set out in XXXX. Failure to submit the Lessons Learnt Report or to obtain the Authority’s approval shall result in an Amber rating at the next monthly assessment (unless the assessment is determined to be Red, in which case the assessment will be Red).

‘Resetting’ a Red Rating

The general principle of ‘not being penalised twice’ shall apply.

If following a Red rating the SCDP submits a Lessons Learnt report which is approved by the Client, then scoring of the subsequent monthly RAG status shall be based on the reported performance for the month i.e. the previous Red RAG score is not carried over: unless the report has not been submitted or approved (Amber rating) or a new event is reported.

Social Value & Sustainability KPI

The Social Value KPI will measure delivery by the SCDP of its Social Value commitments, as set out in Social Value Delivery Plans.

Social Value & Sustainability KPI performance will be reported monthly and assessed quarterly based upon SCDP performance against the submitted plans. Performance will be scored at the end of the year, where a minimum standard must be met to be eligible for release of the SFI Social Value pot.

Further details of the Client approach to Social Value Delivery and the Social Value KPI will be provided in separate documentation.

Milestones

Milestones in the context of the SCDP SFI relate to those which are within the scope of the SCDP Task Orders and not milestones relating to the wider Site Characterisation programme e.g. completion of drilling.

How will the Milestones be measured?

A variable number of Milestones will be set for each Task Order and will be identified for completion by a specific target completion date. Milestones will relate to specific Task Order objectives (as opposed to wider GDF programme objectives).

Milestones will be confirmed by the Authority in the relevant Task Order form.

Measurement of performance against each Milestone will be based on on-time delivery to the quality expectation of the Authority.

How will the SFI Retention pot be determined for each milestone?

For each Task Order (with the exception of Task 0) the Authority will set out draft milestones and a percentage retention weighting for each milestone at the "Request for Task Order Proposal" stage. The Contract mechanisms will allow the SCDP to propose alternative draft milestones and retention weightings for each milestone for the Authority’s consideration, but the Authority will have the ultimate decision.

The finalised Task Order issued by the Authority instructing the work will confirm the Authority approved milestones and retention weightings that will be applicable to the Task Order.

The Milestones will be applied for the full duration of the Task Order from commencement to completion i.e. it is not annual, and milestones may span financial years.

Changes to the Agreed Task Order Price will be reflected in future milestone payments but will not be retrospectively implemented.

What impact will the delivery date have on the SFI Retention amount released?

The Authority will determine whether a Milestone has been achieved and will be required to notify the SCDP whether this is the case within 10 working days of the SCDP's submission of evidence of Milestone completion, with a right for the SCDP to refer the matter to the contractual dispute resolution procedure if it disagrees with the Authority's determination. The SFI Retention release amount will be dependent on the actual Milestone completion date:

|  |  |
| --- | --- |
| **Category** | **RAG Scoring / Payment Approach** |
| **Milestones** | **Green:** the Milestone has been delivered to the Authority's required standard at, or before, the required Milestone Date = **100%** SFI milestone payment |
| **Amber:** the Milestone has been delivered to Authority’s required standard after but within 20 working days of the required Milestone date = **75%** SFI milestone payment |
| **Red:** the Milestone has been delivered more than 20 working days post-required date, or is not delivered to the Authority's required standard = **0%** SFI milestone payment |

Table 3: SFI Retention

Preventing sustained poor performance

In cases of persistent poor performance, where the Authority has advised the SCDP of the poor performance, and provided the SCDP an opportunity to rectify the performance, within a reasonable period (to be set out in the conditions of contract), the Authority will reserve the right to:

* Retain the full annual SFI Retention
* Re-assign Task Order scope to an alternative contractor
* Terminate the Contract

These outcomes will be explicitly set out in the conditions of contract. Further detail on these proposed mechanics will be provided separately in due course.

SFI FAQs

General - Milestones & KPIs

Will all KPIs and Milestones be incentivised?

The KPIs will be incorporated into the Contract to measure various aspects of the SCDP's performance. Not all KPIs and TLIs will be the subject of the SFI mechanics. Non-SFI TLIs will still be measured and subject to performance management – see section on contractual implications of Non-SFI TLIs further down this paper. Please see the Performance Metrics spreadsheet for details of the proposed Non-SFI TLIs.

All Milestones identified in the Task Order as incentivised Milestones will attract release of the applicable Milestone SFI Retention upon successful achievement/meeting the required criteria. The number of Milestones will vary depending on the nature of the Task Order.

Will the measures/thresholds/metrics change across the duration of the contract?

The Authority will be entitled (but with no obligation) to review and update the detailed TLIs, Milestones, and, applicable RAG rating descriptors, on an annual basis. The Authority will consult with the SCDP prior to making any such changes, and the SCDP will have a right to object if a change proposed by the Authority would have a material adverse effect on the SCDP's risk profile under the Contract.

What happens if poor performance is not the fault of the SCDP?

The SCDP will be relieved of "poor performance" where the failure has arisen as a result of specified matters (compensation events) which are outside the control of the SCDP. These will be clearly identified in the Contract. Milestones, schedules and budgets will also be adjusted as applicable where "changes" or "compensation events" are provided for in the Contract.

Performance KPI

What happens if a TLI is not applicable for a particular Task Order?

It is believed that the identified TLIs will be applicable to most Task Orders. Where a TLI is deemed to be not applicable then it will be identified as not applicable in the relevant Task Order Form. To enable comparison of Task Order scores and to ensure that a fair, consistent points and RAG score can be applied periodically, the points available will be normalised into a score out of 240. This will work as shown in the following example:

* **Environmental** TLI (30 points) is not applicable to Task Order 1.
* Total points available for Task Order 1 drops to **210** each month.
* SCDP scores 170 out of 210 (**80.9%)** in January for the categories that are measured.
* 80.9% of 240 = **194 points** which is the score assigned to Task Order 1 for that month.

Which score will be applied in months where no deliverable is due/it is not possible to score a TLI?

In circumstances where a TLI is assigned to a Task Order, but no deliverable is due, or an assessment is not possible, a ‘Green’ score will be applied for the given month.

How many months does a Task Order need to be live for it to be included in the Performance KPI calculation?

A Task Order will be included in the end of year Performance KPI calculation where at least one full month of performance has been captured. Where less than a month of work has been performed, the Task Order will not be included in the end of year score.

Where at least one month of performance scores have been captured, the score achieved will be included within the calculation of the relevant quarterly score.

Contract Implications

What will be set within the ITT and contract schedules?

The intention is that the following aspects will be set as part of the ITT and contract:

* SFI Retention percentage (10%)
* KPIs
* TLI (SFI and Non-SFI) metrics & thresholds
* Reporting requirements

Non-SFI TLIs and the Payment KPI (performance management clauses)

Non-SFI TLIs and the Payment KPI will remain vitally important to gain a holistic view of SCDP performance in the context of the programme objectives. Although no financial downside will be associated with failing to achieve targets/thresholds, the Authority will operate a strict performance and contract management regime to require the SCDP to adopt corrective action in cases where performance is below the standard expected.

In cases of persistent Non-SFI TLI and/or the Payment KPI poor performance and failure to take reasonable steps to put in place a remediation plan which is to the satisfaction of the Authority, the Authority will reserve the right to retain the annual reimbursement due for the incentivised Performance KPI (2.5% of the 10% SFI). Furthermore, the Authority may also elect to re-assign Task Order scope to other parties and/or terminate the contract.

Further details will be provided on these proposed mechanics in due course.

**6.3 Procurement Act (2023) Reporting Requirements**

Section 71 of the Procurement Act 2023 requires the Authority to publish a contract performance notice every 12 months. This notice is required to contain an assessment of the SCDP's performance against the 3 KPIs (which could be incentivised and/or non-incentivised) which the Authority regards, at the time the contract performance notice is published, as most material to performance of the contract obligations. The Authority currently proposes to publish an assessment of the SCDP's performance against the following KPIs:

* Performance (SFI) KPI
* Milestones
* Social Value

Further details will be provided on the proposed assessment of these KPIs for the purposes of the Procurement Act 2023 in due course.

**6.4 Where are Costs for Monthly Reporting and Administration of the SFI to be allocated?**

Costs associated with administration of monthly reporting and management of the SFI and measuring, reporting etc are to be allocated to the Consultants Overhead. See the separate document ‘Pricing Approach’.

Appendix A - SFI Performance KPI – Example Scenario

Summary of Task Order and SFI characteristics informing Performance KPI scenario:



**Performance KPI - points scoring thresholds:**



**Performance KPI - Example of Monthly TLI scoring:**

In this scenario, based on the scores attained, no rules were applied (6 month view of scores):



**Example Monthly TLI performance aggregated into Quarterly and Annual scores**



**Performance KPI SFI - Example End of Year outcome:**



Appendix B - Summary of the SFI Balanced Scorecard & Performance Measures

|  |  |  |
| --- | --- | --- |
| Category | Task Level Indicator (TLI) / Measure  | SFI Weighting (%) |
| **Performance KPI** | Quality of output | **2.5%** |
| Schedule  |
| Forecast Cost to Completion |
| Cost AWCP |
| H&S TRIR |
| H&S Near Miss |
| Cyber Security |
| Physical Security & Resilience |
| Environment – Near Miss |
| Environment – Environmental Total Recordable Incident Rate |
| **Social Value KPI** | Social Value Plan adherence | **2.5%** |
| **Milestones**  | N/A - c. 2-3 milestones to be identified for each Task Order.  | **5%** |
| **Non-SFI KPIs** | * People
* Risk & Opportunity
* Collaboration
 | **0%** |
| **Payment KPI** | Supply chain payment performance | **0%** |