RFP Perspective

Challenges & Benefits

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RFP Criteria

- Risk & certainty
- Valuation
- Transparency
- Pricing
- Subjectivity
- Media
- Politics
- Timing/speed
- Performance measurement
- Innovation/proprietary rights
- Objectives
- Exit/termination
- Market & competition
- Pros & Cons
- Alternatives to RFPs
- Process methods
- Contract vs. partnership
- Litigation
- Stakeholders/probability
- Control
Performance: Measuring P3-Style UK RFPs

- Claim that P3 RFPs takes longer unfounded
  - UK National Audit Office review of PFI RFPs
    - Of 9 delayed
      - Pre-PFI
    - Delivered on time
      - non PFI
    - Delivered to budget
      - non PFI
    - VfM to taxpayer
    - Client experience
    - 6 late by <2 months
    - 70% late
    - 76% for PFI (28 of 37)
    - 30%
    - 79% for PFI
    - 27% for non-PFI
    - 81% for PFI projects
    - 76% performed better
    - Most procurers satisfied

- Lesson: Good RFPs can work
  - Longer planning pays off, back end catches up
  - The key is focus: objectives and scope
Pricing & Valuation: Getting the RFP Focus Right
Pricing & Valuation: RFP Method

- Assembly Hall 15%
- Sports Facilities 15%
- Toilets 10%
- Catering 10%
- Library 5%
- Teaching Accommodation 35%
- Other Facilities 10%

Performance payment criteria
- Serving temperature of food
- Health & Safety
- Safe access/egress
- Availability of mandatory service elements
- Condition of area
- Range of food services
- Customer satisfaction
- Portion size
- Hygiene procedures

Availability
Performance

Key
Pricing & Certainty: The Outcome-Based Scope

Program & Need

OutPUT-Based Scope

OutCOME-Based Scope

Innovation

Business Case

Scope management

Costs, revenues, life cycle
Public Sector Comparator
Finance-ready business case

Prescriptive, specification-based, detailed, pre-defined

Descriptive, results-based, measurable, accountable

RICS Canada
Pricing, Certainty & Market: Aligning Objectives & Performance

**Procurer's Objectives**
Highest quality for least cost

**Contractor's Objectives**
Highest bid to secure project
Lowest cost
Gap = profit

Traditional contract process

Outcome-oriented re-aligned process

i) Ideal "target" performance

II) Failure point (if applicable)

III) Unacceptable performance & penalties

iv) Acceptable performance range

v) Excess performance & rewards/sharing

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Valuation & the Business Case: Whole Life Cycle Costing

- April 2005: RICS Report
- PFI has reduced delivery times: budgets being met
- Valuation of RFP results needs improving
- Improvement areas:
  - **Emphasise occupant benefit**
    - Largest item
  - Emphasise whole life cycle assessment
  - Extend PSC life cycle evaluation
Valuation & Pricing: Evaluating the Business Case

- Share risk, rewards
  - Financing, refinancing are an issue
  - Public sector recapture for windfall profits
  - Private sector benefit for performance
  - Penalties will tend to deter, reduce competition

- Requires comprehensive business case management
  - Integrated skills hard to find
Market, Certainty & Transparency: Are RFPs Starting to Fail?

- 80 people attend public information session
  - 1 winner : 79 losers

- Recent national RFP example
  - Two days to understand the RFP
    - 5 people full time for max. 6 weeks to prepare limited bid
  - Total of 56 standalone packages
    - Each area standalone, no x-references allowed
    - Change one item? Change it 56 times
    - One bidder: rented a one ton truck to deliver the RFP
  - Then it has to be evaluated, negotiated ...

- Proposal calls are getting too expensive, risky
  - Fewer people enter them: competition/quality suffer
  - Must invest in the next RFP
Transparency & Politics: Impact on Process & Outcome

- Politics impact transparency, fairness
  - Tendency: avoid "bad press" at all costs
  - Actuality: conflict may never happen
    being seen to be fair becomes overriding factor
  - Result: exclusion of otherwise sensible solutions
  - Solution: expectation management
    risk management for proven damage

- Example: Coquihalla Highway
  - Proposed P3, sale of paid-for highway
    - Business case "unproven"
  - Voter backlash cancelled proposal call
    - Staff "reassigned"

- Canadian Institute of Chartered Accountants
  - Must be 90% or less of the cost of the present value of traditional procurement
  - Must be for less than 75% of the life of the asset
  - Title cannot be recovered for a ‘bargain’
  - GAAP: debt is consolidated
    - BUT: Operating Lease determined afterwards
      - Failure = Capital = debt

- All change in 2010
  - Valuation for Financial Reporting
    - Move to increase market valuation
    - Will impact some results of RFPs
  - Should strengthen valuation discipline in an RFP
    - Will also change evaluating today's contracts, pricing, performance
Conclusion

- **RFPs have challenges but are working**
  - International causes for concern over costs
  - Canadian concern over competition, participation, complexity
  - Transparency & accountability still sometimes at odds

- **Evolving science**

- **On enquiry, failures often due to...**
  - Lack of integrated, quality skill sets
  - Make the business case lead not follow
  - Need for all-rounder as project lead, if not sponsor