

RFP Perspective

Challenges & Benefits

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RFP Criteria

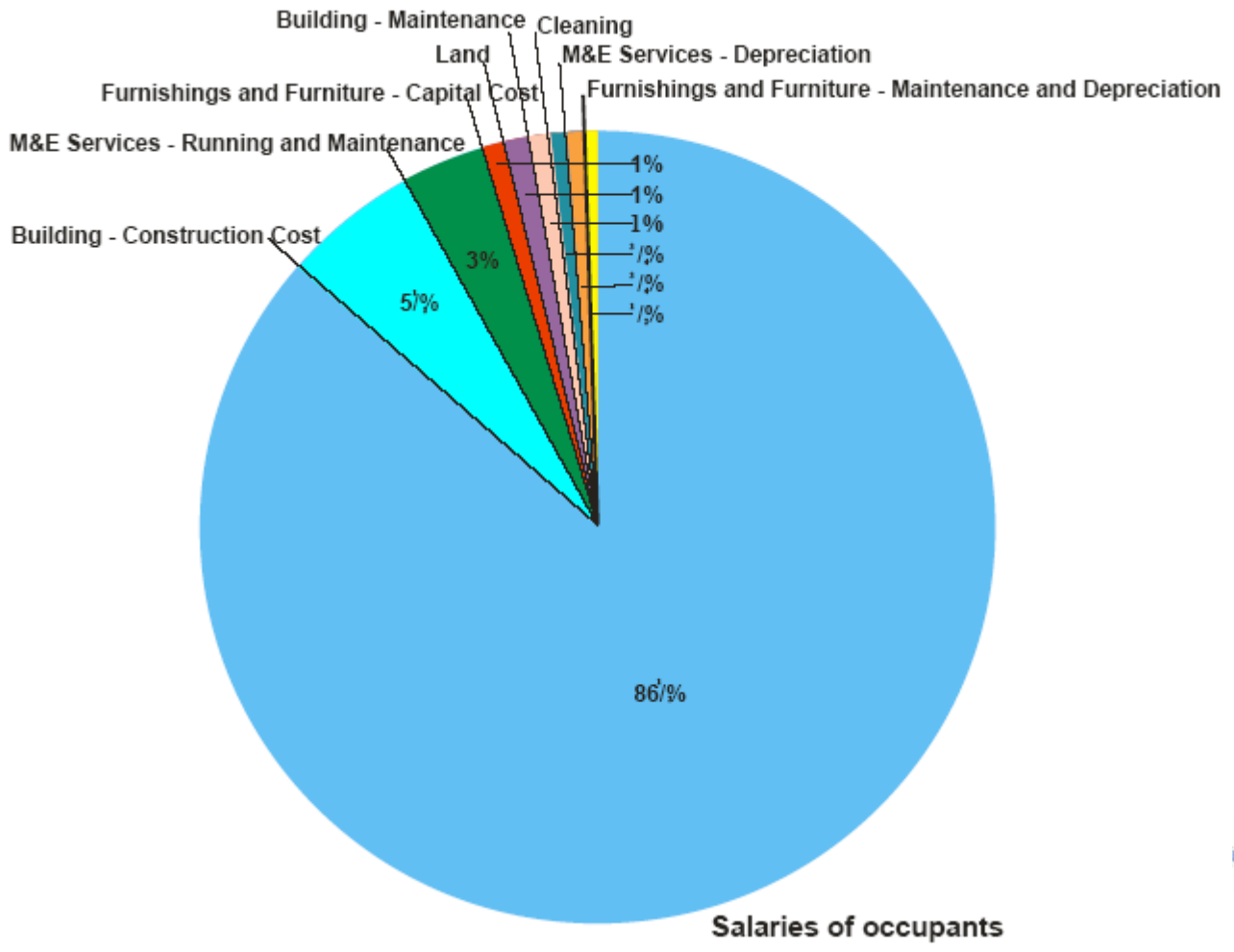
- Risk & certainty
- Valuation
- Transparency
- Pricing
- Subjectivity
- Media
- Politics
- Timing/speed
- Performance measurement
- Innovation/proprietary rights
- Objectives
- Exit/termination
- Market & competition
- Pros & Cons
- Alternatives to RFPs
- Process methods
- Contract vs. partnership
-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

Performance: Measuring P3-Style UK RFPs

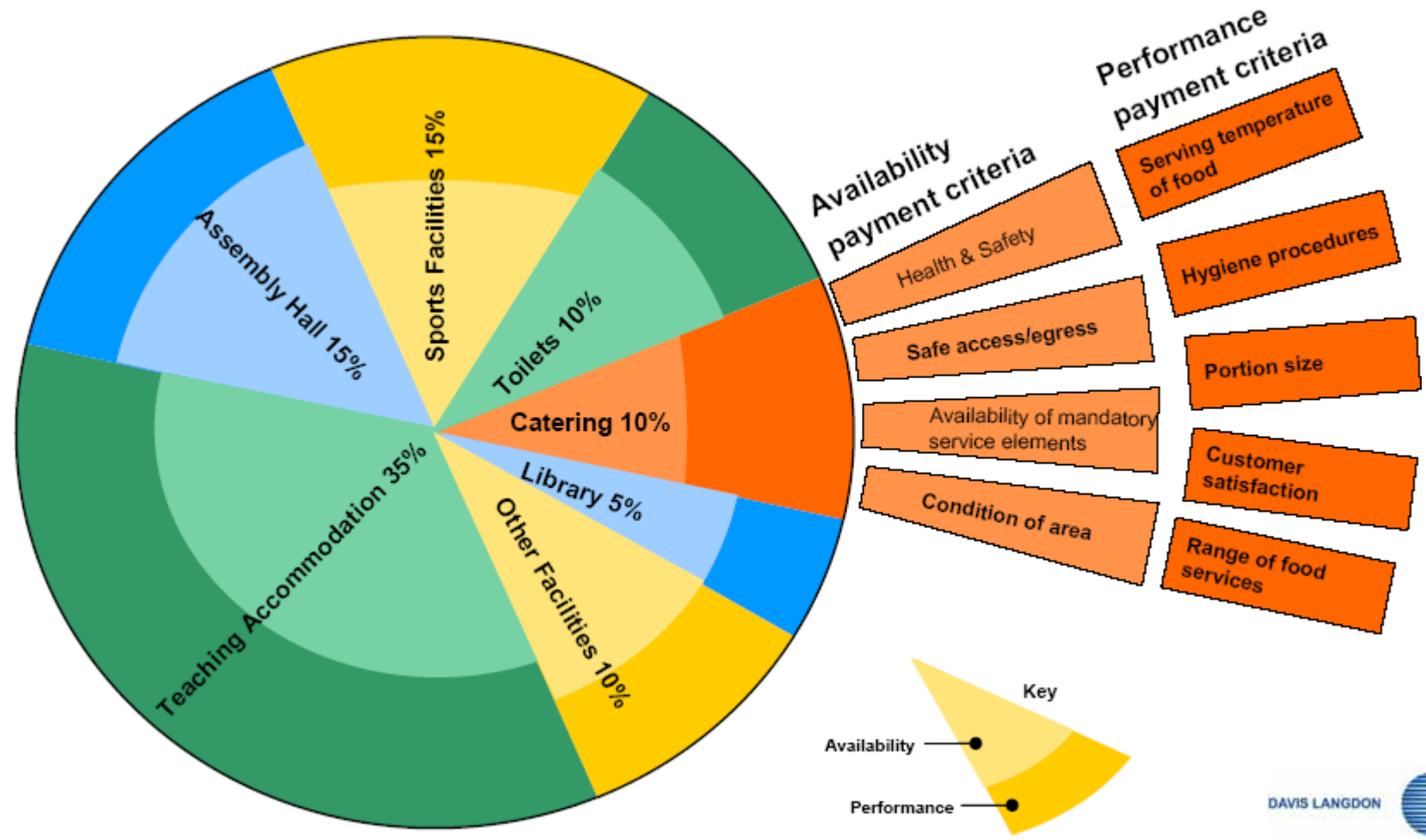
- Claim that P3 RFPs takes longer unfounded
 - ◆ UK National Audit Office review of PFI RFPs
 - Of 9 delayed Pre-PFI 6 late by <2 months
70% late
 - Delivered on time non PFI 76% for PFI (28 of 37)
30%
 - Delivered to budget non PFI 79% for PFI
27% for non-PFI
 - VfM to taxpayer 81% for PFI projects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

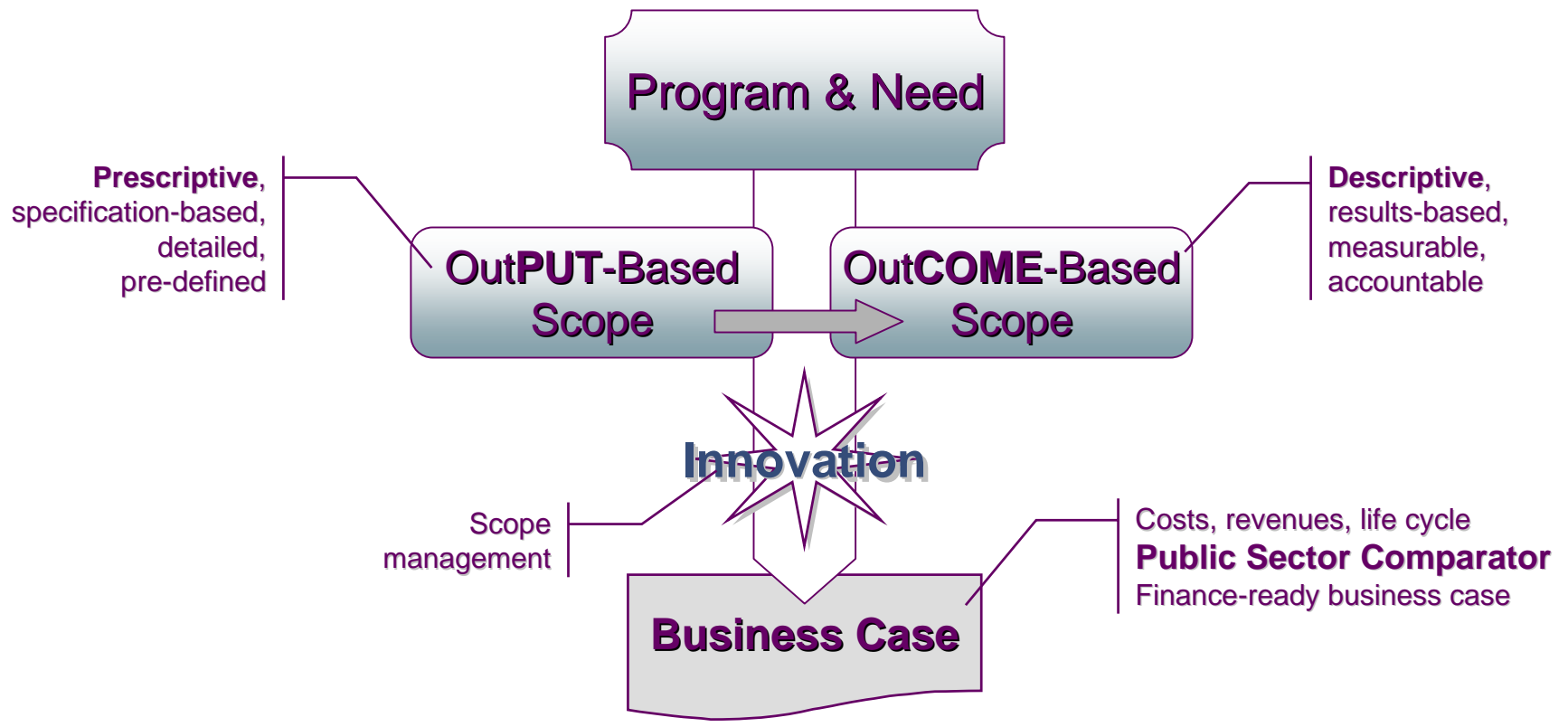
Pricing & Valuation: Getting the RFP Focus Right



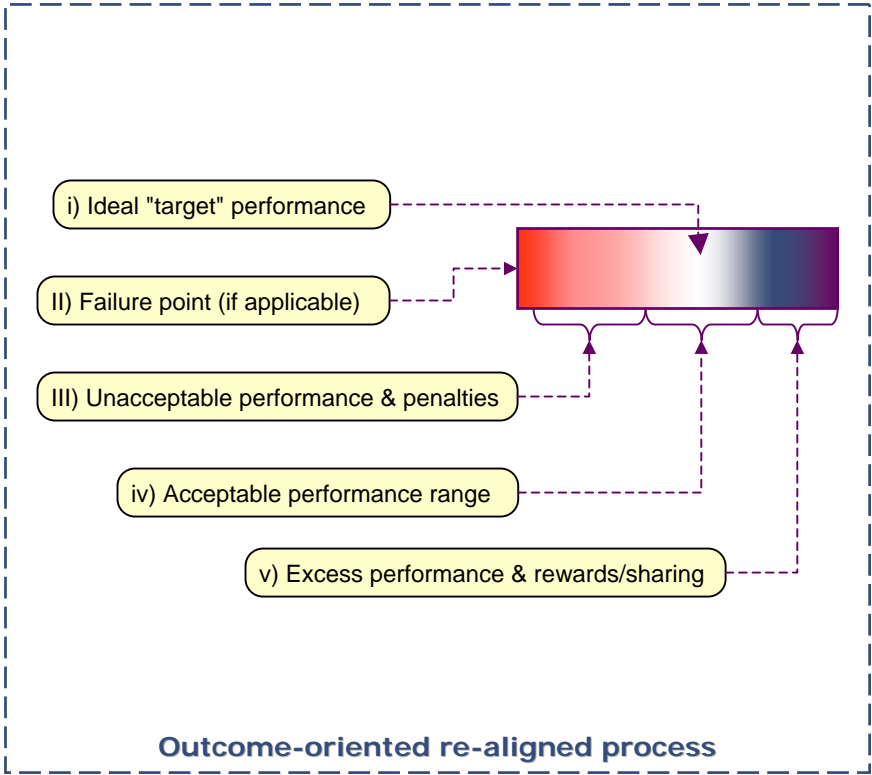
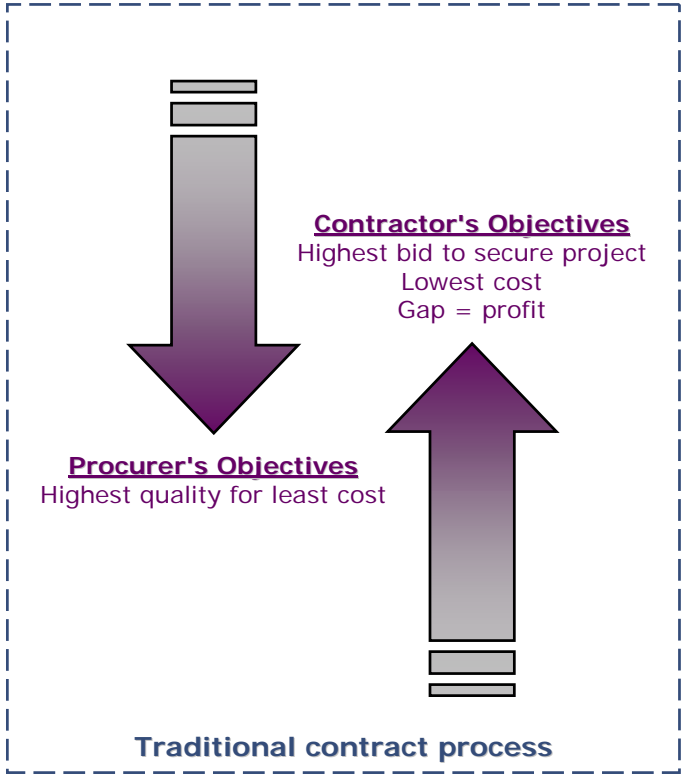
Pricing & Valuation: RFP Method



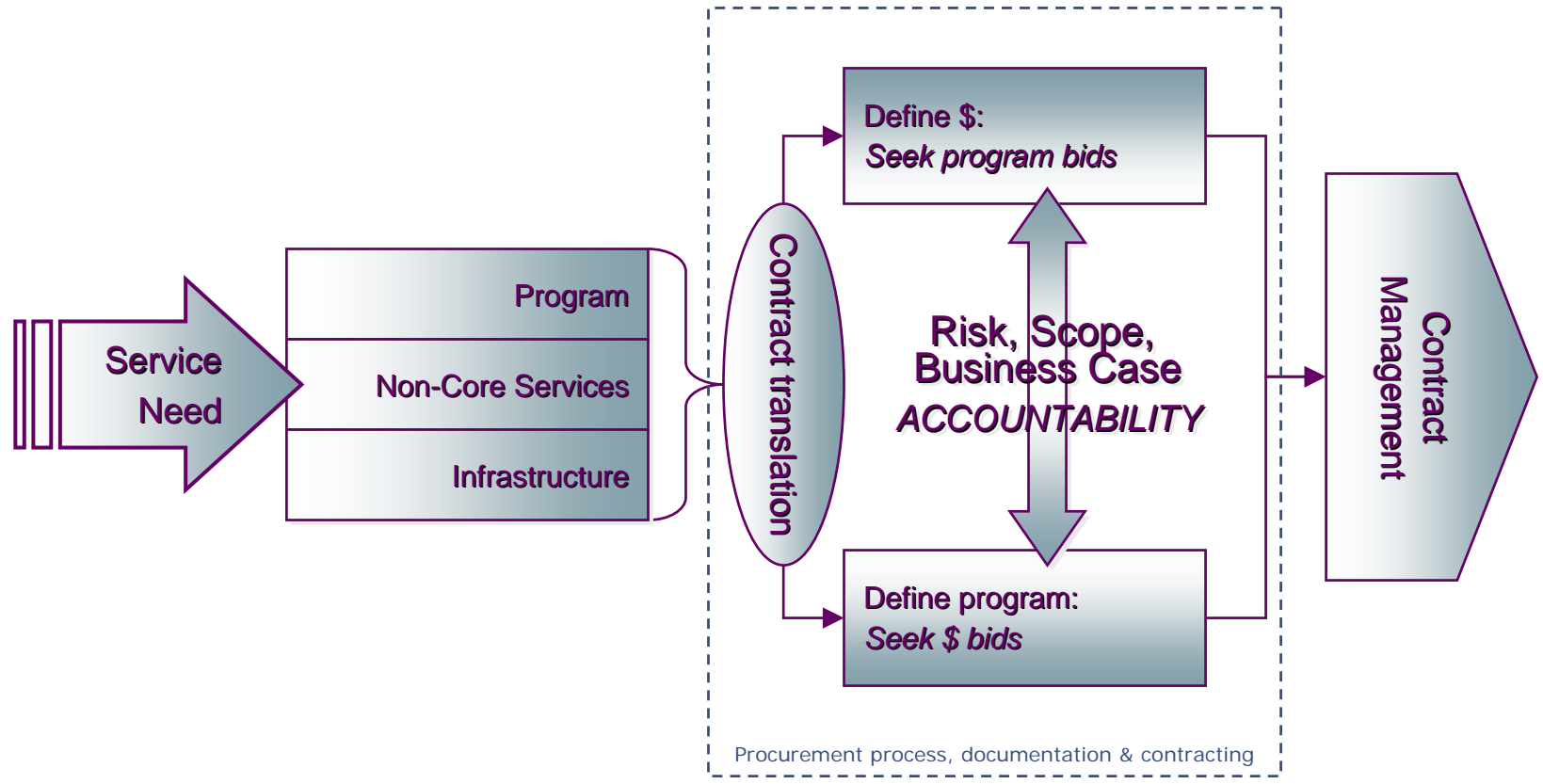
Pricing & Certainty: The Outcome-Based Scope



Pricing, Certainty & Market: Aligning Objectives & Performance



Pricing: Performance Contracting

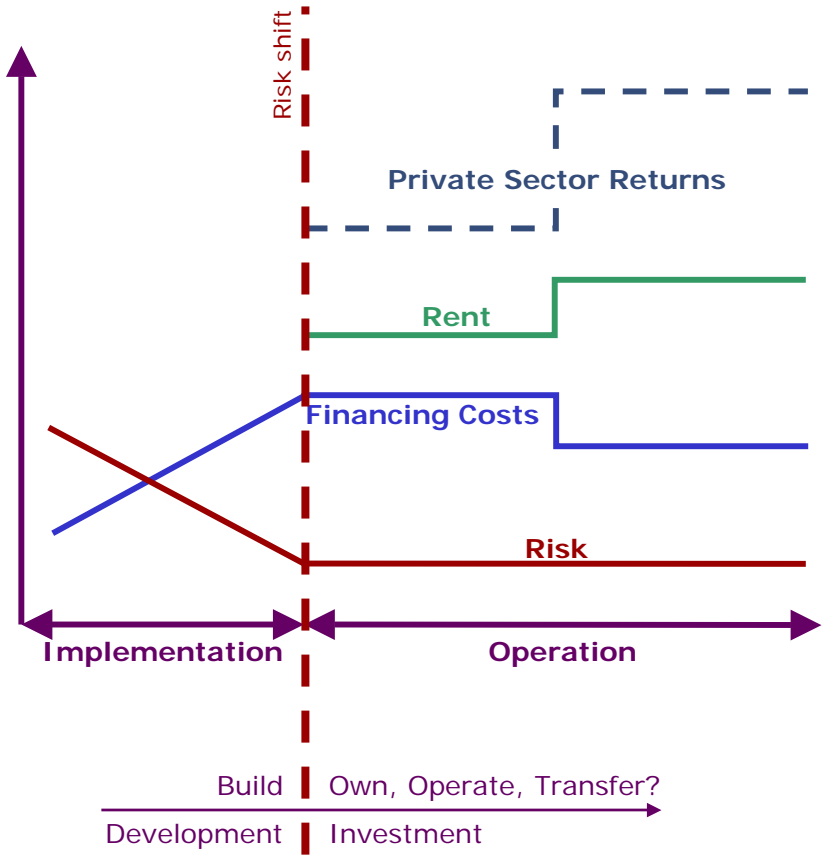


Valuation & the Business Case: Whole Life Cycle Costing

- 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"

Market, Valuation & Pricing: The Changing Role of Off-Book

- 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



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