

# RFP Perspective

## Challenges & Benefits

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12<sup>th</sup> May, 2005



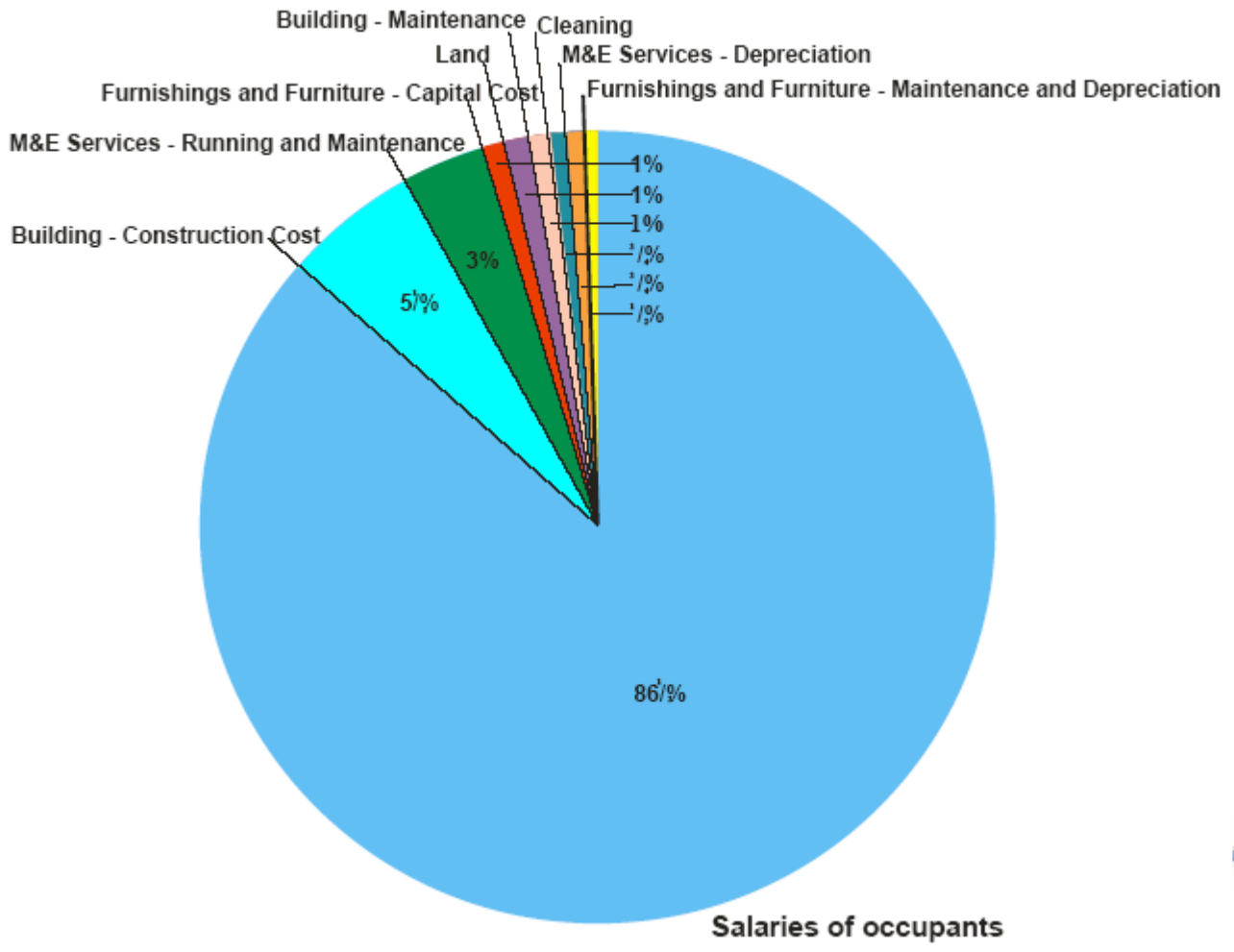
# RFP Criteria

- 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

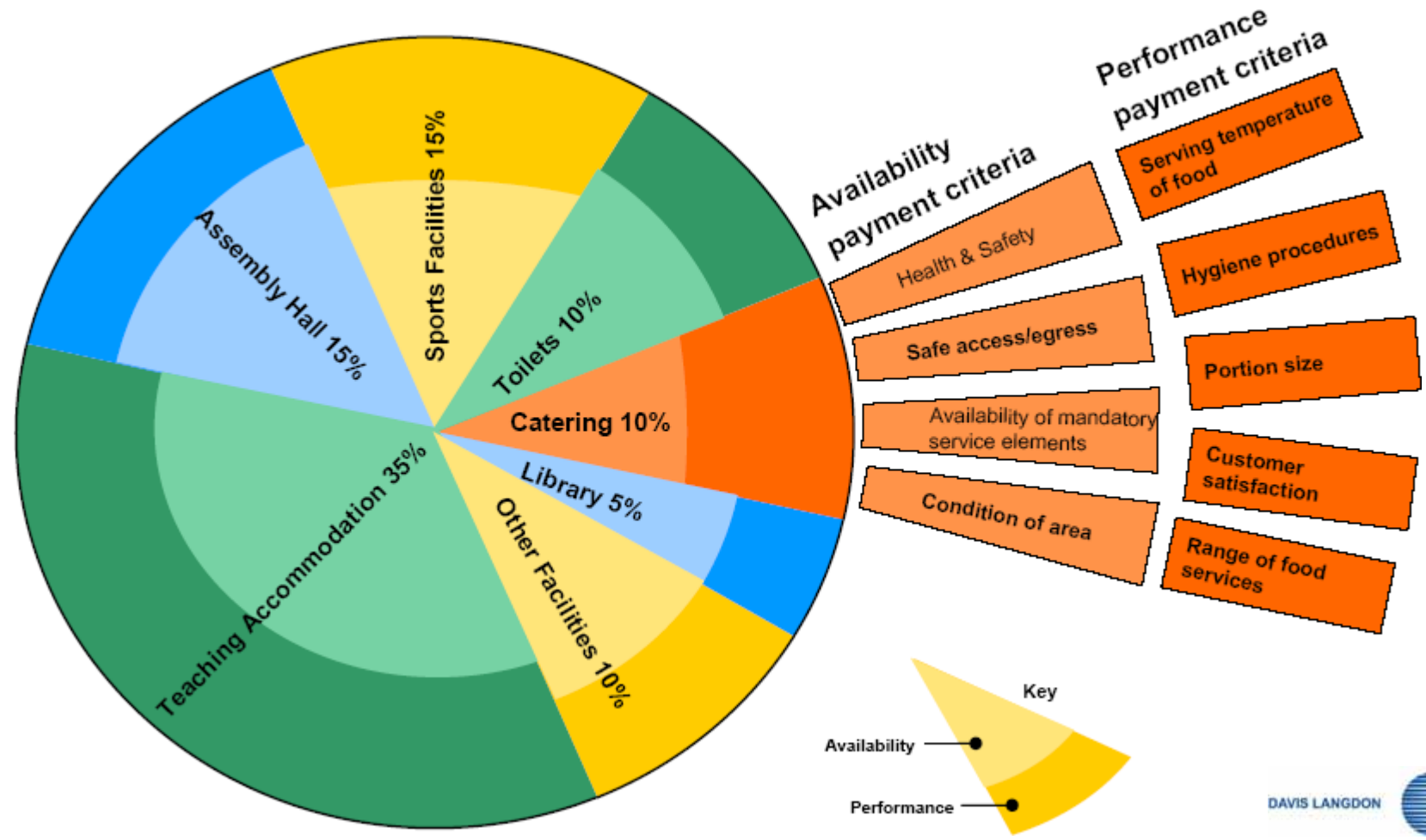
# Performance: Measuring P3-Style UK RFPs

- 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

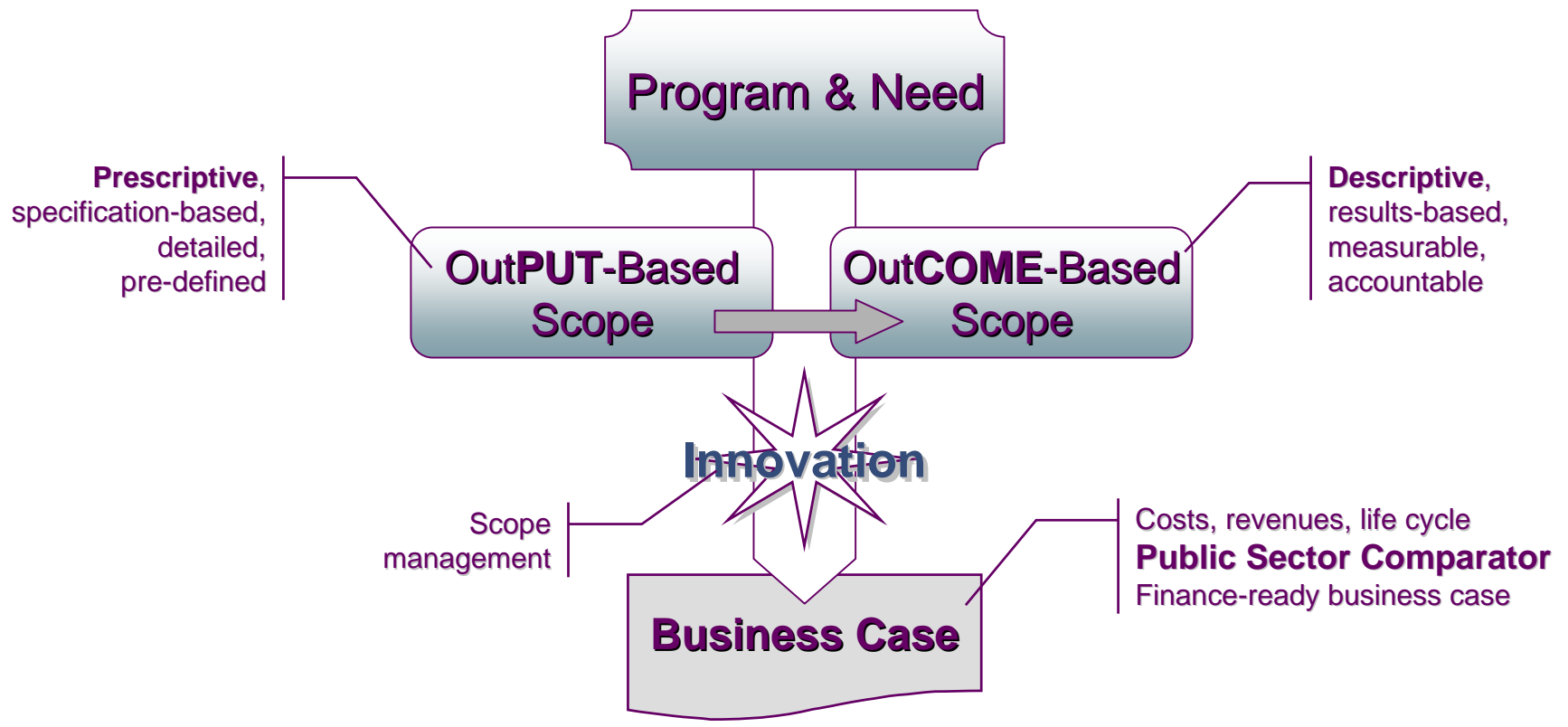
# Pricing & Valuation: Getting the RFP Focus Right



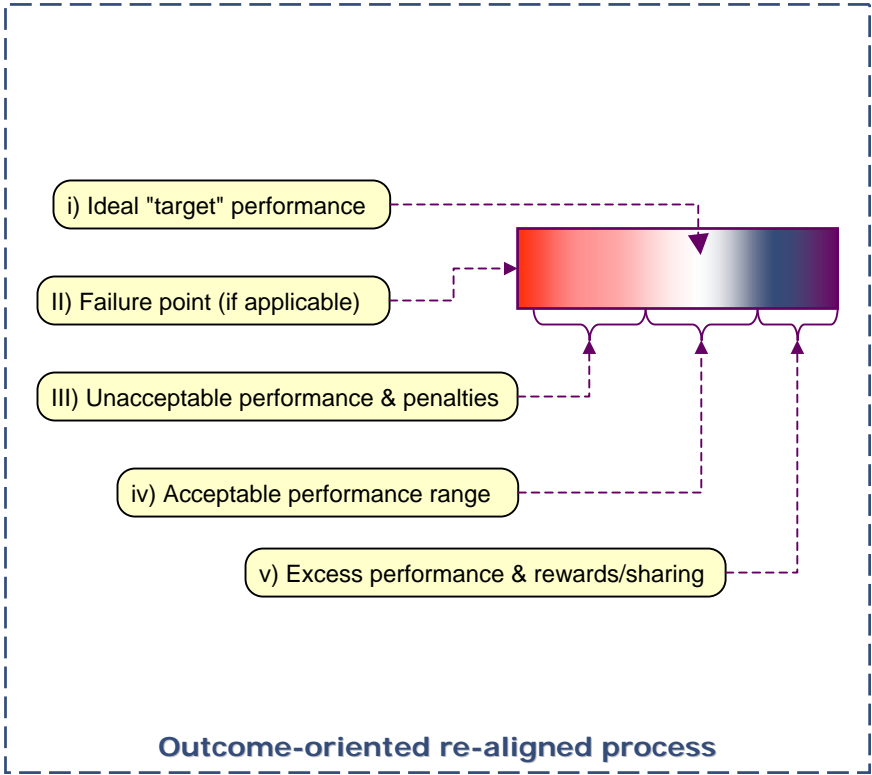
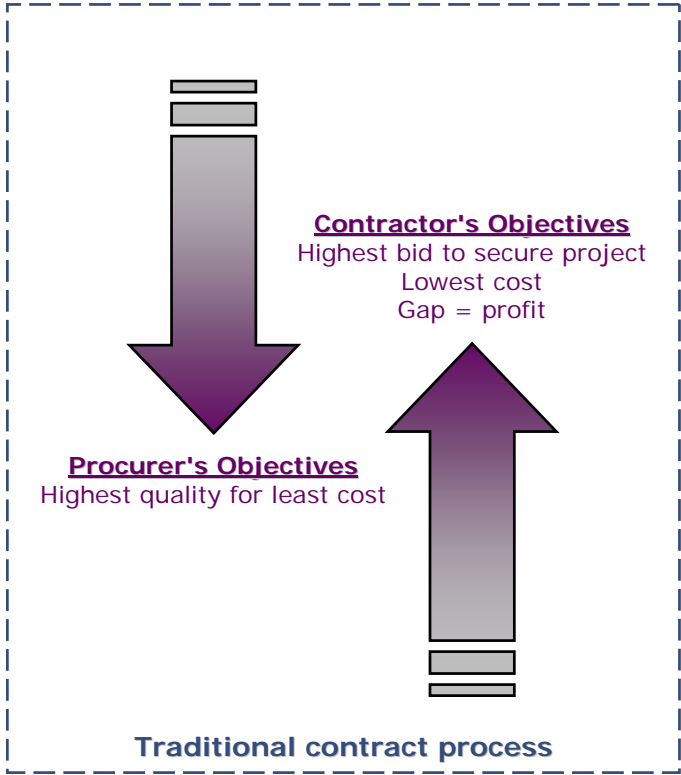
# Pricing & Valuation: RFP Method



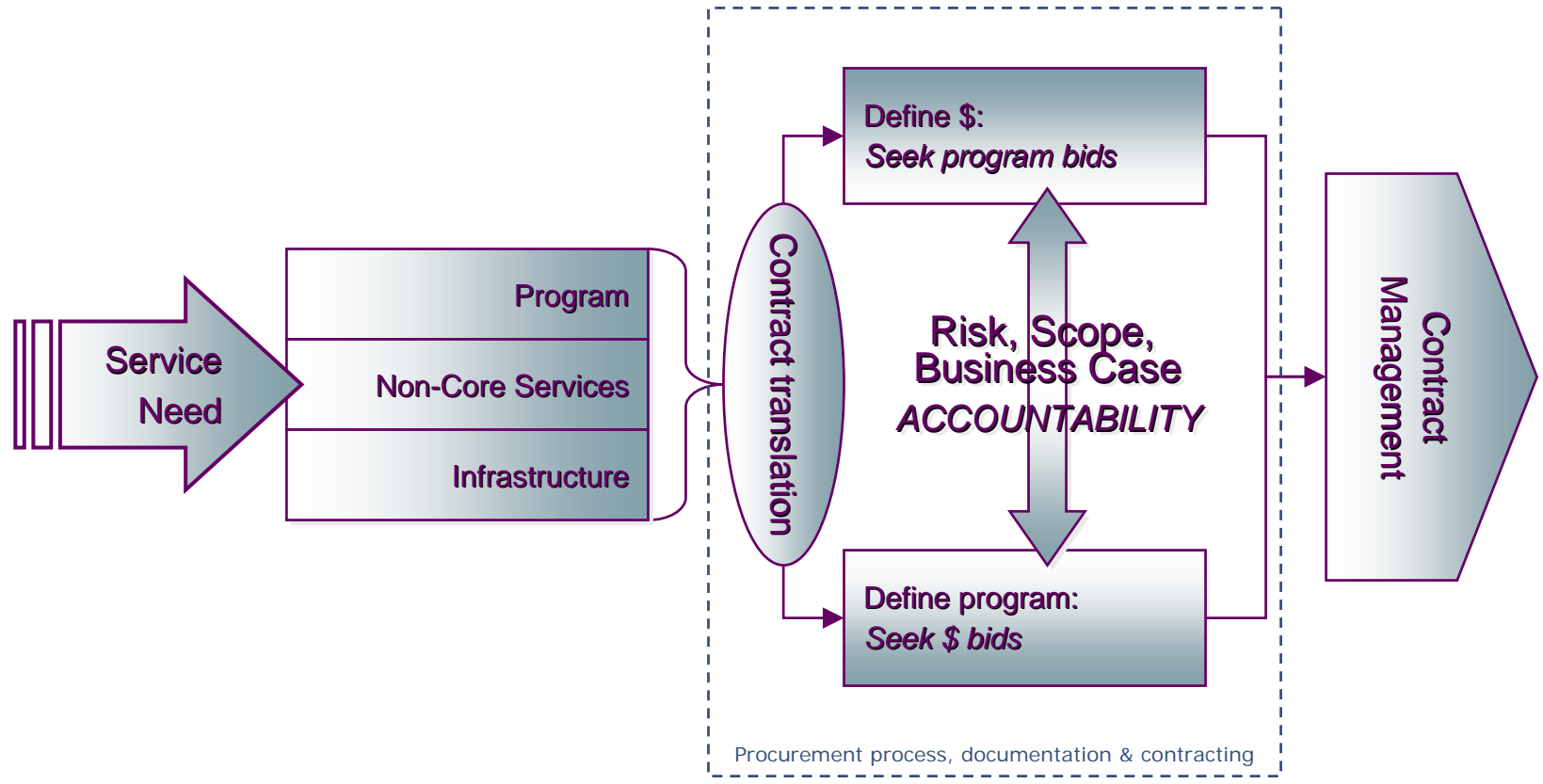
# Pricing & Certainty: The Outcome-Based Scope



# Pricing, Certainty & Market: Aligning Objectives & Performance



# Pricing: Performance Contracting



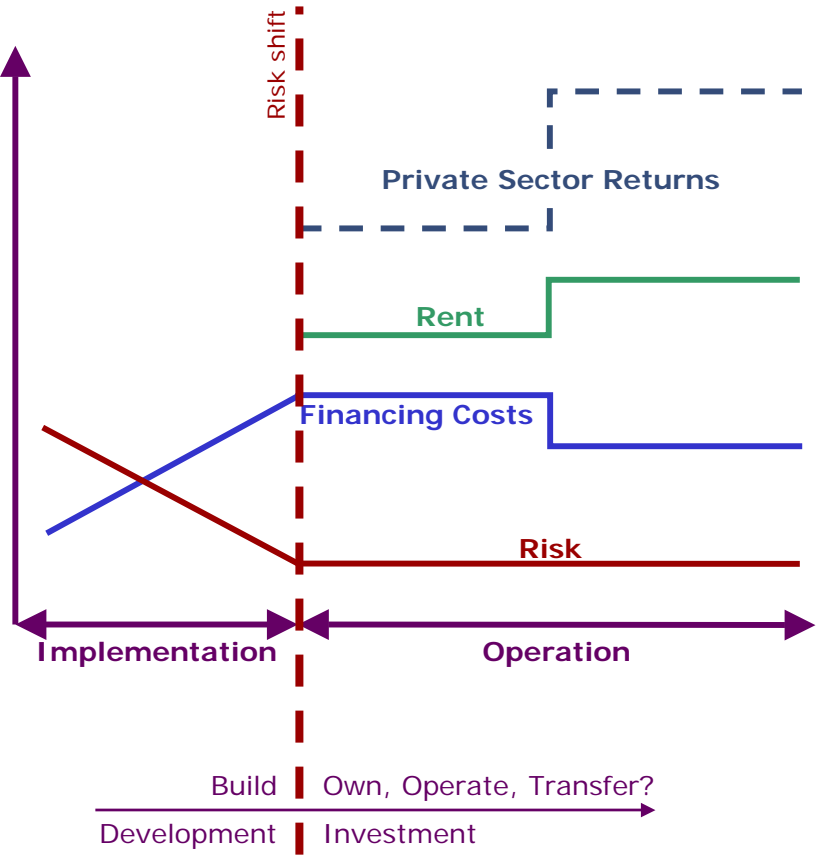


# Valuation & the Business Case: Whole Life Cycle Costing

- 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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