

The Procurement of Valuation/Appraisal Assessment for Government Through Partnering

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SUMMARY

Western world governments and private business have developed sophisticated risk management strategies, which enable valuation/appraisal assessment services to be procured via transparent, quality assured and cost effective methods.

The development of a basis for risk assessment that utilises a matrix that grades risk level across various property types is the cornerstone for the successful procurement of highly specialist services. For valuation services, it has enabled the deregulation of the public service in Victoria, Australia. Now valuations are prepared by the private sector but certified by professional property valuers who are direct Government employees.

The experience of Valuer-General Victoria provides a case study of a sophisticated risk management framework that has been developed and which embodies the concept of “professionals managing professionals”. This has resulted in that organisation being recognised as a leader in this management approach within the valuation profession.

This paper will cover the legislative framework, the independent role of Valuer-General Victoria and the method adopted for obtaining valuations for Government property transactions. As I will demonstrate today, it provides a transparent process that minimises risk and promotes very high levels of accuracy.

This paper will examine the procedure, operation, benefits and disadvantages of the procurement of valuation services as it pertains to a Government organisation. However, the principles can be applied to any organisation considering a partnership approach in respect to the outsourcing of key tasks/services.

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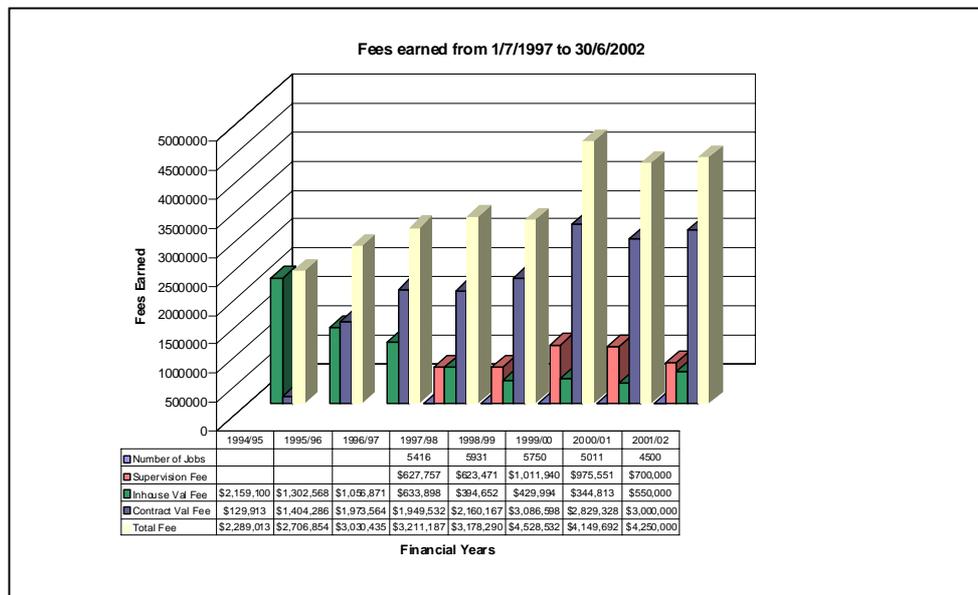
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1. CASE STUDY - VALUER-GENERAL VICTORIA, AUSTRALIA

I have been fortunate enough to have had the opportunity to lead a team in developing partnerships with specialist private sector companies for the procurement of valuation services. This commenced on September 1st 1995 when we established the inaugural panel of valuers. It has evolved and refined since this time to a level of operational maturity that provides a highly effective approach for all stakeholders involved in the process. In 2001 the Valuer-General Victoria (VGV) established its fourth generation panel for a term of 3 years with 3 one-year options. Background information on the panel is available on the VGV website www.land.vic.gov.au

Fundamentally, the panel requires professional valuers within the VGV to manage all aspects of the process and the day-to-day management of the partnership. This assures consistency, effectiveness, adherence to professional standards and derived outcomes.

The chart below illustrates the general activities which form the scope of general valuation services. In addition, asset valuations are also undertaken which generated significant additional fee income for the private sector in 2002. Special projects are also managed utilising the panel approach.



2. PART 1 - METHODS OF ESTABLISHING PROCUREMENT PANEL

2.1 Policy

As with any outsourcing endeavour, the objective is to improve service delivery and reduce costs. You therefore need to be prepared to examine the opportunities to be gained from the procurement of key operational tasks to ensure that overall improvement is achieved. Fundamentally, you will need to maintain strategic control during and after the process. The careful assessment of the skills and resources of the potential panel members (in terms of the company and its individuals) is imperative to ensure that you transfer operational tasks to the right people.

It is necessary to define the “core function” of your business and then determine what parts are most suitable for procurement within that core function. This assumes of course, that all sundry (non-core) activities have already been procured.

The cornerstone for the quality management of a Professional Panel of Contractors is transparency. This will require business procedures, detailed documentation and a clear set of User Procedures to define the environment under which the partnership is to operate. Mutual professional respect is also an important feature for a relationship of this nature to be successful.

In order to obtain quality and comprehensive costs from the market you must retain the ability to nominate the actual individual within each firm who is to undertake the tasks. This is of particular importance for a major project that requires specific expertise or is of a highly complex or sensitive nature.

Within the Office of the Valuer-General, a high level of operational maturity in terms of this partnering model has now been achieved. We have progressed to our fourth generation Panel, and are at the point where low level, relatively straightforward valuation tasks can be commissioned from the Panel directly by the client agency.

It is the product of developing an appropriately tiered system for the various levels of valuation tasks with specific policies and detailed guidelines. (see www.land.vic.gov.au website).

2.2 Establishment

The establishment of a service partnership is a major organisational step change. Credibility is one of the key success factors for a successful partnership. Therefore those involved in the establishment of a Panel must be able to demonstrate that they know and understand the industry from which that they intend to procure services.

2.2.1 Advertising

It is prudent to advertise appropriately. This would include, say, a major newspaper and a relevant professional journal within the profession of the proposed work that is intended to be procured. Further, editorial or an article in the journal covering the intention, scope and background can also be of great assistance to ensure that potential panel members fully understand the objectives at the outset.

2.2.2 Comprehensive Quality Assurance

A comprehensive quotation document must be prepared which clearly identifies the type of work to be undertaken and asks the right questions of potential panel members. This forms the basis upon which tenders will bid to become a member of the Panel.

2.2.3 Key items to be included in the tender document

It is important to detail the type of the work envisaged to be undertaken. In property valuation work for instance, this would cover the following:

- Prepare Capital Valuations/Appraisals.
- Prepare Rental Valuations/Appraisals.
- Attend courts and tribunals to defend Valuations/Appraisals.
- Advice regarding legislation and Valuations/Appraisals policy.

2.2.4 Submissions Summary Documents

In order to efficiently assess the quality of a tender and compare like with like, it is important to that each tenderer completes a “proforma”. This proforma should include a combination of mandatory and optional material.

- Fee structures (may have a variety of fees for different types of work).
- Regions in which tenderers are prepared to undertake tasks (important in a regional operation).
- Specific categories of service – some of which will be entirely optional depending on the tenderer’s area of expertise.

2.3 **Goals & Aims of the Panel**

A quality “Request for Tender” document will set out the goals and aims in order to give tenderers a high degree of understanding of the scope of work and performance level required.

2.3.1 Size of Panel

The size of the Panel should also be indicated to the tenderers. If it is the intention of the Panel spanning, say, a three-year period, it would also be prudent for you to reserve the right to add Panel members during the term. This is of particular importance for a project which requires special skills. For example, a highly specialised and complex project may arise.

Rather than formally increase the Panel specifically for this task to be undertaken, the structure of the Panel arrangement should allow speciality firms to be engaged on an “as required” basis.

2.3.2 Fees

The fees quoted in a tender document should cover known and envisaged tasks and provide flexibility for negotiations during the term of the Panel. It is important to understand that fees should be *competitive* rather than *low*. A modern Panel arrangement should be quality oriented as distinct from lowest fee driven.

When a Panel term is for a period of two years or longer, the ability to adjust fees on an annual basis is desirable in order to ensure that fees remain at market levels. Other points regarding fees to consider include:

- Annual fee adjustments should be agreed up front.
- Fee adjustment mechanism is crucial and should be clear in the tendering document.
- Failure to reach agreement of fees will result in termination of contract. A Government organisation with a panel containing say 60 firms, does not want to be involved in costly and time consuming determination processes.

2.3.3 Time lines

It has been my experience that timeliness of reporting requires close attention and assisting a Panel member in establishing quality time line procedures is important. The ability to impose discretionary financial penalties is also recommended.

Timeliness is probably the largest ongoing problem with projects of time frames between 48 hours and 10 days. The reasons given by contractors can be quite creative ranging from “the computer blew up”, “the post box burnt down”, or “another more urgent task arrived from another part of your organisation”.

2.3.4 Pilot

In my experience I consider the ideal term for the inaugural panel (which I term the “Pilot Panel”) to be one year. This provides all participants with the necessary time to understand the benefits and the pitfalls and also identify areas for streamlining and further improvement. Following the inaugural term, a longer term of between two to five years could then be considered with a further 3 options, each of 1 year length of tenure. This enables all parties to develop the necessary cultural shift and mindset of a *partnering relationship*.

2.3.5 Costs

Recovering costs for the establishment of a Panel is expensive, time consuming and requires a high level of management skills. Therefore, when establishing a Panel you should seek to recover some of these costs from the firms that are tendering in order to reduce non-genuine

enquiries. This could be by way of a non-refundable fee for the tender specification and another for the lodgement of tender.

2.3.6 Level Playing Field

The concept of a “level playing field” between large regional (or even national) operators and small operators located in small, provincial townships can be difficult concept to grasp. You should ensure that all tenders are inclusive of travel time and related costs as this enables the Panel to ensure quality personnel with local expertise are assigned to the task. One area where this can create difficulties is with travel time and related costs. If, for instance, a city based Panel member is to undertake a country based project, tenderers must therefore be asked to include in their tender all time and related costs to ensure that the playing field is indeed, truly level.

The tender document should provide a background of your organisation and include an overview of your corporate goals and objectives to enable tenderers to fully understand your organisational environment, business objectives and future direction.

The functions of your organisation should be explained in detail including, your key organisational functions and responsibilities. Structures, philosophies, standards and general idiosyncrasies will vary between government organisations and multi-nationals.

The responsibilities of the successful tenderers should be fully explained to enable correct understanding of the expectations from the outset. In particular, specific issues relating to complex and sensitive issues should be stated.

Each service task should be identified and described in detail. The provision of examples on computer disks is highly desirable, to minimise confusion and potential disputes in the future.

2.4 Quality of tenders organisation and staff

A tender submission should provide the following material as a minimum:

- Outline of organisation structure and size long with its business plan and business viability. This should include details of ongoing professional indemnity and public risk insurance.
- Capacity to undertake general and/or specific tasks.
- Details of the experience and expertise of relevant individuals within the firm.
- Proposed internal structure to deliver the tasks.

2.5 Conflict of interest and confidentiality of data

The tenderer should:

- Demonstrate how its current business interests would not conflict with the proposed scope of work.
- Be required to warrant the confidentiality of all information obtained whilst undertaking the work.

- Be required to declare any commercial interest, of its business or individuals within the business prior to accepting instructions.

2.6 Lodging of registrations of interest

Tenders should be delivered by a closing date and to a single address.

2.7 Key dates of the process

For a ‘transparent’ tendering process to keep the tenderers fully informed and to put internal pressure on your own organisation to ‘perform’, it is considered prudent to detail in the tender documents key dates or milestone. The following indicates some suggested time lines for tendering process:

- | | |
|--|---------|
| - Seeking expressions | 6 weeks |
| - Completion of evaluation | 3 weeks |
| - Formal notification of being selected to Panel | 1 week |
| - Return date for executed agreement document | 1 week |
| - Completion of documentation signed by Valuer-General | 1 week |

2.8 Confidentiality

You need to provide certainty and comfort to tenderers that all information will be treated confidentially.

2.9 Further information

When we undertook our first and second generation panels, I found that that by appointing a single contact person to act as Chairperson of the Selection Committee and to be available to deal with general questions from prospective tenderers to be a major benefit. It ensured the uniformity of information as well as an internal ‘driver’ for the process.

When we had reached the high level of expertise with our third generation panel, we provided a briefing session for potential tenderers. This briefing session, where we invited written questions prior to it being held, were publicly answered at the briefing. The purpose of managing the question/answer process in this format was to ensure that all parties received the same advice. This is one of the generational improvements that will come into place, to bring documentation to the forefront of industry standards.

2.10 Selection process

A ‘transparent’ evaluation process must be designed in order to maintain probity, integrity and credibility within your industry.

The key selection criteria should also be detailed in the tender document. The weighting of the criteria, however, should not be detailed to ensure that each tenderer presents its full

credentials. A tenderer must comply with all criteria before a detailed analysis of its tender is undertaken. Key selection criteria of a tender document could include:

- Business viability, including insurance coverage.
- Professional affiliations and quality accreditations – reputation within industry.
- Fee quotation – competitive fees, but importantly the ability for the Selection Committee to negotiate minor adjustments where, for instance, a multiple fee quotation basis is used (provided of course that the overall integrity of the tender is not compromised).
- Geographical regions of expertise.
- Specialty services available. In the context of establishing the Panel, a wide range of projects may be required and tenderers will need to be able to provide specialists.
- Capacity to undertake the scope of work. Solid evidence that tenderers can provide quality service and timely delivery. It has been my experience that the tenderers approach to the actual tendering process is often a good indicator of their future performance.
- Ability to be part of ‘pilot technologies schemes’. As information ‘super highways’ develop, you may seek from a panel a willingness to participate in such development. It is therefore desirable to determine the level of technology already in use by tenderers.
- Tenderers capacity to undertake the envisaged and possible work flows. As a general rule, panels tend to comprise many large firms because they can usually demonstrate ability, capacity and have supporting management structures. The smaller operator cannot usually demonstrate such a capacity.
- Experienced and skilled resources. Previous experience in dealing with your organisation or similar organisations can be an advantage.

Benchmarking criteria should also be detailed in the tender document. When it becomes necessary to make value judgements during the course of the Panel you can assess the tenderer on agreed criteria.

2.11 Panel selection

Benchmarking tenders is a crucial component in the establishment of a Panel. It achieves maximum efficiency at the highest possible professional standard. Both the tendering firm and the individual practitioner/staff of that firm should be assessed. Your allocation of tasks to the firm and an individual is a cornerstone of managing the Panel.

For probity, which is especially important to government organisations, it is desirable to have an independent person at the opening of tenders. All submissions should be stamped and signed for authenticity across a selection of pages of the tender submission.

MANDATORY	TENDERERS				
	A	B	C	D	E
Business viability	Yes	No	Yes		
Professional insurance	Yes	No	No		
CRITERIA FOR ASSESSMENT					
Fee	13				
Specialty areas	14				
Technology	18				
Capacity	16				
Structure	12				
TOTAL	73				

The Tender Assessment Committee should establish an assessment weighting in line with the key selection criteria. Each tender should be given a point score for each criterion out of say 10, with a total score of 200. The Committee should meet on at least three occasions in order to assess quality of submissions.

A matrix, as detailed below, provides an unweighted indication of the fundamentals for selection.

Note: There may be a subsection on fees if there are a number of different types of work with different fees, thus the above would be a summary. Summary matrix may give points provided that the quotations are within a certain price range. For example:

2.11.1 Subsection matrix

FEES		TENDERS	A's point score	B	C	D
		A				
Capital – houses	max \$250	\$150	4.0			
Capital – flats	max \$150	\$150	0			
Capital – vacant land	max \$150	\$200	-2.0			
Capital – industrial	max 60% scale	50%	2.0			
Capital – commercial	max 60% scale	50%	2.0			
Rentals – house	max \$150	\$100	2.0			
Rentals – flats	max \$125	\$100	1.0			
Rentals – industrial	max 60% scale	50%	2.0			
Rentals – commercial	max 60% scale	50%	2.0			
Hourly rate	max \$250	\$200	2.0			
TOTAL			13			

2.11.2 Weighted matrix

MANDATORY	WEIGHTING	TENDERERS					
			A	B	C	D	E
Business viability		Yes		No	Yes		
Professional insurance		Yes		No	No		
CRITERIA FOR ASSESSMENT							
Fee	50%	13	32.5				
Specialty areas	15%	14	10.5				
Technology	15%	18	13.5				
Capacity	10%	16	8				
Structure	10%	12	6				
TOTAL		70.5					

2.12 Notification

Both successful and unsuccessful tenders should be formally notified. The successful tenders will then enter into formal legal agreements for service. The tender submission document should also form part of the final contract.

3. PART 2 - OPERATION OF THE PANEL

The first two months of a new panel is critical. You are still responsible for the delivery of services to your clients and the introduction of a panel as part of your service delivery process is a major cultural and operational change. You must ensure that your credibility, authority and reputation are preserved with all stakeholders in the process.

It is imperative that representatives of the panel attend a briefing session in the early stages of its establishment and operation.

3.1 Computer database

Where the panel comprises a substantial number of firms and practitioners, it is important that a central database is established which should be kept confidential. Because quotations and fees are commercially confidential, only the managers of the panel/contractors, and a limited number other staff should have access to this information. Some key fields for the database may include:

- Name of firm
- Contact person
- Details of practitioners used from firm
- Address
- Phone, fax, mobile numbers
- Fee structure
- Region areas of operation

- Types of tasks which would be performed

3.2 Communications & Authorisations

In order to maintain and authoritative control over the panel, managers responsible for allocating work to panel members should have substantial discretionary ability to determine allocation of work, fees paid (based upon quotation) and time frames etc.

This will also promote prompt decisions. In my experience both panel members and your clients appreciate this approach.

It is advisable that prior to the allocation of a task, expectations should be discussed and agreed between your firm and the selected panel member, then followed by written confirmation. This will help to ensure no conflict of interest, availability of the Panel member and a clear understanding of the task.

From a regulatory and monitoring viewpoint, standardisation of written communications is highly recommended. This may be electronically transferred. This approach adds consistency and professionalism. It is my experience that constant verbal communication of instruction to a multiple number of professionals undertaking different tasks is open to confusion and eventually breaks down. Disagreements, misinterpretations and potential errors are more likely.

A substantial computer database detailing key information about of panel members and practitioners is a crucial component.

Your managers who allocate the work to the Panel require new management skills in addition of their professional skills. They must have the confidence and the authority to make decisions without reference to a higher authority.

Monitoring the performance of panel members is crucial in a client focused, service organisation. Key issues of fees, number of tasks, turn around time, quality of reports, who allocated the task to the firm, etc. are all elements which regularly need to be analysed and included as on ongoing assessment/management of the panel. It has been my experience that the chairperson of the selection committee should coordinate these procedures.

3.3 Line of Communication

In order to maintain professionalism and control, it is vital that your clients do not directly communicate with the appointed panel member and practitioner. The contractual arrangements are between you and the panel member and not with your client and the panel member. This may need to be emphasised.

Direct communications between the appointed member and your client may also create difficulties with fee payments.

4. PART 3 - PROFESSIONALS MANAGING PROFESSIONAL PANEL

My experience with this particular case study has been that the internal and external professionals developed a high degree of spirit of cooperation and a mutual respect for each other. This has been a cornerstone of the outsourcing unit at the Office of the Valuer-General.

One of the key functions is that the in-house monitoring team must undertake a certain volume of work in order to maintain high professional skills and knowledge of the market.

There is a distinct difference between outsourcing an entire process and outsourcing an individual task. In my experience outsourcing an individual task requires professionals of that same industry to manage the process. This is particularly so when your firm is authorising the methodology and the calculations applied to that task.

5. PART 4 - BENEFITS & DISADVANTAGES OF PARTNERSHIP PROCUREMENT

5.1 Benefits

In my experience the major benefits of establishing a panel of professional firms are:

- Wide range of skills and experience can be called upon
- Routine and relatively low skilled tasks can be outsourced when internal resources are limited
- Cost savings in the order of 20%
- Catalyst for internal structure and change.

5.2 Disadvantages

- Risk of your staff losing their skills
- Reduced market knowledge
- Difficulties of internal knowledge maintenance

These disadvantages can be substantially overcome by ensuring that in-house professionals continue to undertake a proportion of tasks, thus maintaining a skilled knowledge base and the integrity, credibility and reputation of the organisation.

5.3 Future Direction

Effective and efficient service provision at a competitive cost with results driven outcomes, and maintenance of professional standards will continue to be the goal for the future.

Partnering can, if managed effectively, improve productivity internally and benefit both you and your clients.

The question of authorising quality, accuracy and methodology adopted of an individual task prepared by an external selected practitioner, versus the simple authorisation of that firm as a

quality provider, is a vexed question. If you take a partnership to the degree where you authorise the firm and not the individual task, then the authoritative control and quality of the task would become in my opinion questionable and likely to be unreliable.

There is an expectation that this next, and I believe dangerous, step would improve efficiency and cost control. I doubt that as a manager of consultants, I would feel conformable with this approach.

I believe the future will have improvements in efficiency substantially from efficient communications via Internet transmission of data. The paperless and seamless management of professionals is within sight.

Currently on trial in my organisation is the assessment of properties value 400km away by a firm who are 2km from the subject site. The trial is showing the process can take only 6 hours by use of Internet data transfer.

6. PART 5 - CONCLUSION

It is a professional of the same industry who is best suited to manage a professional consultant. However, you as a professional manager will require additional skills beyond those of your profession if you are to provide your client with improved quality, accuracy and value for money.

The managing of a professional panel is complex and challenging to any industry. It is therefore better for an industry to manage itself.

Successful Partnering the procurement of valuation/appraisals services relies on a solid contractual set of obligations for both parties. This foundation will need to be solid and practical to enable effective operations.

7. DISCLAIMER

I would like to draw to your attention that the views presented in this paper are my own; and should not be construed as representing those of State Government of Victoria, Australia.

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BIOGRAPHICAL NOTES

Simon Adcock has had a wide range of valuation experience in undertaking valuation tasks on major commercial valuation sites, major office buildings, residential development sites and specialist properties with some projects and values in excess of AU\$1 billion. In recent years, as Manager, Client Valuations, Valuer-General Victoria, Land Victoria, Mr. Adcock has lead the team for the development of procurement of valuations from the private sector and the related management of these valuations to enable government to achieve their desired goals.

Mr. Adcock has spoken at a number of international conferences since 1996 on topics covering such issues as “Professionals Managing Professionals”, “The Assessment of Compensation for Property Acquisitions and the Development of a Global Lease”. Is a member of the Australian Property Institute and a member of the Victorian division of the Institution of Surveyors Australia Inc. Has promoted the benefits of FIG to the Victorian Government which, via Land Victoria, strongly supports.

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