

# **Bid Evaluation and Award in Asset Recycling**

## Full Description

### **Financial Considerations**

Assessment of the financial proposition in each bid is a key component of the evaluation.

Depending on the transaction, financial considerations (highest bid or highest net financial benefit) may be the sole evaluation criteria. In this case, bids that qualify based on technical parameters are assessed individually and compared to one another.

In other cases, the financial considerations are only one element of a balanced holistic evaluation process. Non-financial aspects of a proposal are allotted certain weightage based on the specific requirements of the operational and performance aspects of the asset. Weighted scores are computed for all the bids to calculate an overall score comprising of both the financial and technical scores. The submission of a weighted technical and financial score is used to arrive at the ranking of bidders.

Where the successful bidder is to pay the Relevant Authority an upfront concession fee for the right to manage and operate the underlying asset, this amount will be the main subject of the evaluation. However, given the long-term nature of such an arrangement, it is important that the Relevant Authority reviews bidders' proposals to ensure that matters like service quality and financial sustainability can be maintained over the term of the project.

The financial model provided by bidders should be reviewed to assess the financial sustainability of the bidder's proposal. Sensitivity should be conducted to ensure minimum service standards and any future capital investments can be sustainably met over the project term.

The financial evaluation of bids requires a well-structured approach and careful consideration of the risks to the Relevant Authority. Bids can easily be misinterpreted due to risks not adequately identified which can lead to the Relevant Authority being exposed during final negotiations.

The financial evaluation process should focus on each element of the financial template (such as forecasted costs, financing structure etc.) and assess the reasonableness of each major driver. The outcome of this detailed review will enable the procurement team to have an opinion on:

- The efficiency, pricing and deliverability of the financing structure. The Relevant Authority is focused on net financial benefit; however, the providers of equity need a reasonable return to be motivated to deliver services at the standard required. Similarly, financiers need assurance of sufficient cover for any debt service. Failure to achieve this may result in a failure to fully meet service standards, cost cutting or an attempt to walk away from the project.
- The level of reliance being placed on achieving bonuses for above-standard performance or aggressive traffic/demand forecasts. It is risky for project cash flows to be heavily dependent upon upsides, which may not eventuate.
- External funding - the financing structure proposed by bidders must indicate a level of equity contribution by the members of the consortium.

- For external debt providers, the financial evaluation will be centered on the serviceability of the debt to ensure the project generates sufficient revenue to service the debt over the tenor of the debt. This would require an assessment of key ratios such as Debt Service Coverage Ratio, Loan Life Coverage Ratio.
- Taxation assumptions - the project agreement is usually drafted such that taxation risks are allocated to the private sector. However, where the project is implemented under a joint venture agreement between the private sector and the Relevant Authority, the Relevant Authority may bear some of these taxation risks, along with other risks commonly borne by the JV sponsors. The bid evaluation process will focus on the assumptions made about available tax deductions and availability of other tax concessions.

## **Technical Evaluation**

Evaluation of issues concerned with non-financial matters are potentially more difficult to deal with than financial issues. This reflects the more subjective nature of the evaluation of areas such as service delivery and maintenance and operations of the infrastructure.

The key principle that shall be applied in evaluating the non-financial components of bids is to focus on the outputs being sought by the bid process, rather than inputs, and examine the risks to the Relevant Authority over the life of the project, rather than focusing on the short-term.

For example, the infrastructure evaluation should consider the ability of a bidder to improve the operational and financial performance of the infrastructure asset over the life of the contract and innovations and efficiencies that can be implemented to increase service quality or capacity or to provide enhancements to the asset to become a green infrastructure asset.

The bids will be reviewed against criteria such as technical capabilities, service quality innovations, approach to routine and lifecycle maintenance, and environmental considerations.

The weighting accorded to each criterion should be determined prior to the evaluation process. Bids can be analysed, differentiated and ranked against the following:

- A realistic assessment of the bidder's proposed operations and maintenance approach to deliver on the expected standards of quality of service and the operations and maintenance costs assumed to deliver the same.
- Ability of the bidder's management structure to deliver services to users to the standards required by the Relevant Authority.
- The proposed quality assurance program.

## **Climate Resilience, Environmental and Social Evaluation**

Integrating climate resilience generally incurs an additional cost for potential bidders, both in developing their proposals and potentially in the final cost of the project. This could put them at a competitive disadvantage relative to the bidders that choose not to integrate this factor if the benefits of increased

resilience are not fully considered in the procurement process. [OEDC, 2017].

Bidders' proposal for the Asset should be evaluated qualitatively and quantitatively (when possible) in terms of the following aspects:

- Robustness of climate mitigation and adaptation plan and GHG emissions reductions proposed by bidder. The key issue to be assessed is whether a bidder has taken steps to understand their environmental impact and carbon footprint relevant to the delivery of the contract
- Robustness of Emergency Preparedness and Response plan (EPR plan) / Disaster Risk Management plan (DRM plan)
- Commitment to manage the asset responsibly for the environment and in a low carbon, climate resilient manner
- Integration of climate resilience in maintenance strategy proposed by bidder
- Robustness of Social and Local Communities development plan
- Alignment of the technical solution with the total life cycle of the Asset (and not only with de concession period)

Ensure that the process of evaluating tenders accounts for resilience benefits, including by considering net benefits over the life of the asset, rather than the term of the contract [OECD, 2018].

## **Service Delivery Evaluation**

Service delivery is at the heart of the evaluation. The key questions to be answered are whether the infrastructure asset will be operated satisfactorily, remain available reliably throughout the duration of the project term and whether it will deliver services to the required specifications. The scope of service delivery will vary considerably between different assets.

Consequently, there will be a need to have, in the evaluation team (the tender committee), both experience in the particular area of service delivery and also a readiness to accept new approaches.

A **variety of techniques of evaluation** could be employed across the range of projects.

Primarily the **need is to evaluate three (3) non-financial aspects of the bids** – (a) the service that is offered; (b) the capability of an operator to deliver that service, and (c) the reliability of delivery over time. These are outlined below:

- Offer - The consideration here is whether what is offered in the bid includes the full range of operational outputs required by the Relevant Authority at the required service performance level.

- Bids concerning service delivery may offer higher levels of service delivery than those specified in the RfP or may offer enhancements. In these cases, higher levels of service delivery or enhancements can be used as a basis to distinguish between bids and its evaluation should be balanced with the financial benefit to the Relevant Authority (e.g., amount of upfront payment).
- Capability - Commonly, services will be delivered by the private sector party who is a member of a consortium formed or a contractor (who is assigned tasks of the scope of work) to carry out the project. Evaluation will focus on the experience, skills, and relevant track-record of this private sector party.
- Reliability - There is also a need to assess the level of confidence in the ability of the private sector operator to maintain the required performance standards over the term of the project. This again would be assessed based on the relevant private sector party's experience and relevant track record, including, if required based on certificates from previous clients of similar projects.
- The business plan for operations and maintenance will demonstrate capacity to manage risks allocated to the private sector. Consequently, there will be evidence of scope to accommodate reasonable variations in economic conditions, labour market, competitive environment and other areas of risk. The tender committee will look for a sound record over a number of years, together with a sound plan into the future.

## **Evaluation Reports**

After the evaluation process is concluded, the tender committee will present the findings in an evaluation report.

The report should follow the agreed evaluation methodology and criteria outlined in the RfP. The evaluation report should provide a ranking of the bidders and recommend the preferred bidder.

If several sub-tender committee teams are involved (e.g. technical, financial etc.), the report will provide a joint view from these evaluation teams. The report will discuss rankings within each area of evaluation, the weighted average ranking and the basis of the team's agreement on the preferred bidder.

The evaluation report will focus on determining the following:

- The financial proposal of each bid; consideration of the net financial benefit to the Relevant Authority for each bid and the key drivers of differences between the bids. Any risks associated with the financing structure should be detailed, including any tax assumptions and any concerns over securing debt and equity contributions.
- The service delivery propositions of each bid, the extent to which they meet the Relevant Authority's requirements and the assessment of any enhanced service outputs or innovation proposed by the bidder. Any potential risks associated with a bidder's service delivery approach over time should be assessed.
- The capability of the bidder to deliver the services over the period of the contract.

- The flexibility of each proposal to accommodate future requirements for expansion, higher volume/usage or changes in operating protocols due to policy/demographic changes (if required and specified in the RfP).
- Any other potential risks to the Relevant Authority in entering into a contract with each party.

## Rank Bidders

Based on the evaluation reports, the bidders should be ranked, and a single preferred bidder should be identified. The ranking should be made in accordance with the evaluation criteria described in the RfP document and should be prepared in a format that promotes transparency in the bidding process. Moreover, if any aspects of the bid submission were technically non-compliant with the RfP, the ranking documentation should note the non-compliance and whether the non-compliance was being waived as immaterial.

Contents of the ranking documentation should ordinarily include the numerical point scores and any qualitative comments for each evaluation category. Raw numerical point scores should be presented before any weighting or adjustment in accordance with the evaluation procedure, and any weighting should be made in the manner agreed as part of the evaluation methodology. Criteria and/or methodology should not be altered at this stage, as doing so can suggest bias in favour of one bidder.

The ranking and score of the bidders should be publicly announced. The background documentation and evaluation reports should be kept confidential in the first instance but should be retained in the event that the tender results are challenged and/or the process is subject to third party evaluation or investigation.

## Select Preferred Bidder

Following the evaluation report, the **finalization of the selection** of the preferred bidder will commence.

If a single bidder cannot be identified after evaluation, the Relevant Authority should consider shortlisting the top two ranking bidders and undertaking a structured negotiation/optimisation process, where a greater level of interaction is required, to address the outstanding issues.

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*The Guidelines have not been prepared with any specific transaction in mind and are meant to serve only as general guidance. It is therefore critical that the Guidelines be reviewed and adapted for specific transactions To find more, visit the Guidelines to Implementing Asset Recycling Transactions [Section Overview](#) and [Content Outline](#), or [Download the Full Report](#).*

