Getting value for money

Software

Training

Customer service

Project financing
June 2010

It is just about time for that summer break. I am sure many of you are looking forward to sunny weather and maybe some travel or BBQs at home, with or without family and friends. Summer days often include some reading, and though work-related magazines like Summit are not always what you might choose for in your quieter moments, I know most of you will take the time to explore the contents of this online edition.

As always we strive to make your time spent with this magazine useful. This issue provides you with a group of articles and opinions that seem to fit the “value-for-money” theme. Finding ways to access the most modern software, finding new tools that make your job simpler, understanding complex procurement contracts and terminology and being introduced to professionals who may help you are ways to become more efficient and cost effective and provide more value.

“Sustainable procurement,” a new column for Summit magazine, talks about corporate social responsibility – not just about the private sector, but also about the role that you as procurement professionals can play. We hope that you will find Larry Berglund’s ideas and comments thought provoking and helpful. Larry is a long time public procurement professional who turns his passion for the environment into practical steps.

We hope you will enjoy this issue.

Please also note that your nominations for the Leadership in Public Procurement Award and the Leadership in Green Procurement Award are due by June 30 to publisher@summitconnects.com or to mcegalbreath@summitconnects.com.

This award program, which has been running for several years in collaboration with the Canadian Public Procurement Council, is a wonderful opportunity to share your expertise with your colleagues. Winners are announced at the annual CPPC Forum, this year to be held in Ottawa. Winners and finalists are featured in a special edition of Summit magazine.

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www.summitconnects.com
Kevin McGuinness, a lawyer for nearly 30 years, epitomizes modern Canadian corporate-commercial law. He first came to public notice as the co-author of the Ontario Construction Lien Act – one of the few such works ever to become a best seller – which has influenced Canadian legislation ever since. Kevin wrote an analysis of that Act as his doctoral dissertation in law. He has also written leading texts on guarantees; Canadian corporate law; the world’s largest published collection of banking and finance precedents; a similarly large collection of precedents on the sale and supply of goods; and, most recently, a legal textbook on the sale and supply of goods. Many of you will know him as the co-author of Municipal Procurement as well as the co-author of “Municipal Matters,” a regular column in Summit.

Summit. How many books have you written?

KM. I don’t really know. I lost count at 30. I have never been quite sure what to count. Does a four volume work count as one book or four?

Summit. Why did you write so many and how did Municipal Procurement come together?

KM. Most of the books are just polished versions of the practice notes that I put together while working on files I found that they were helpful to me, so I published them in the hope that they might be of some assistance to other lawyers and the judiciary. As for Municipal Procurement, Steve and I wrote that when we were getting our feet wet in the public procurement field. Both he and I had worked in purchasing in the private sector. He had the commercial background; I had the legal. What we lacked was a firm footing in the public side.
of things. We could see it was different, but we were not too sure about why and how. The book was the result of our study into these questions. The first edition was a work in progress. The second edition ties everything together.

Summit. From your perspective as a ‘student’ of public procurement and your new role as a partner in PCI, what do you see as the challenges?

KM. The general public are convinced that government procurement is riddled with waste and corruption. This is [pointing to recent article from the Edmonton Journal] the kind of thing that infuriates tax payers: paying $1,948 to buy two plants and more than $18,650 to clean the offices of a minister and a top bureaucrat; $5,266 to install six recessed lighting pots and $1,000 to remove a light switch. The critical question is not so much what to do about these problems after they arise, but how to change the system so that they don’t arise?

Summit. Do you think problem is systemic, or the result of mistake.

KM. Obviously mistakes happen, and so does dishonesty, but government workers are no more prone to mistake or wrongdoing than their private sector counterparts. Often it is the processes that have been put into place to prevent waste that lead to precisely that result. Take the tender system. In theory, tenders encourage competitive bidding. But across North America, 20 percent of government tenders attract only one bid, or no bids at all. This is a systemic problem. It cuts across all levels of government: from the tiniest municipality to the federal government, and it is international in scope. In Municipal Procurement, foreign case studies illustrate these points. You’ll find the same kinds of problems in every Western country.

Summit. And the solution is…?

KM. We have to start looking at the process of procurement. Take a look at the priorities here in this copy of a municipal purchasing by-law. The goal of achieving “best value for the City” is buried among a list of other concerns ranging from transparency and fairness; to ensuring a full and open process conducted in an unbiased way – not influenced by personal preferences, prejudices or interpretations; to such high minded notions as conserving energy, preserving and protecting the ecosphere; satisfying the requirements of the Ontarians with Disabilities Act; and complying with NAFTA. The average buyer is likely to get lost in such a sea of conflicting priorities. There is no guidance as to how to apply them. But this other by-law is even worse, stating “prudent management of municipal funds” as the last priority on its list of goals.

Ending fiscal irresponsibility should unite everyone. It should be shared concern of the public service as well as elected politicians. Failure to achieve results in this area has undermined public confidence in government. It also undermines the ability of government to do the things which the public expects it to do – like provide good quality, prompt health care and affordable post-secondary education. By causing higher taxes, it takes money away from the people who can afford it the least.

Summit. Is there a balancing needed between the philosophy and practice of public procurement?

KM. Everyone agrees that public procurement should be conducted in a manner that is open, transparent and fair. Governments spend public money, so all qualified suppliers are entitled to a fair shot at the contract. Transparency and accountability are also obviously important – they
are critical to genuine democratic government. But these principles are a means to an end. The primary focus has to be on getting a good deal. If you don’t then, the whole process of public administration is undermined.

We have to start looking at the process in its totality. We have to look at the assumptions on which the process is based. We have to ask why governments spend money in ways so different from the private sector, and what lessons can be properly borrowed from the private sector. We need to look at why so many good suppliers do not bid for government contracts. We need to ask why governments tend to over-pay for everything. For many years, government lawyers have been trained to ‘bullet proof’ their contracts. My guess, is that all they are doing is increasing the government’s cost. Risks are being over-managed by improvident allocation. One of the things that PCI aims to do is to help clients understand why they are spending so much money. Steve and I have international experience. He worked for years in America. I worked in Australia and England. Much is to be gained from looking at other jurisdictions. And, as I mentioned, the same kind of problems seem to occur everywhere.

**Summit.** After six years with the Ontario government you have decided to join in this private consultancy. Will you miss your time in government? Why move to the private sector?

**KM.** Certainly, I will miss it. I leave behind a good many friends as well as colleagues. As for the move, there is, of course, a great deal of risk in starting up your own business but as you enter the last few years of your working career, you begin to ask yourself, what kind of a legacy am I leaving. I do not want to be known only as the fellow who wrote a great pile of unreadable legal agreements, and even more incomprehensible legal books. Most lawyers who spend their careers in the public service got into those careers because they wanted to be of service to the public. I think that PCI can help governments get their costs of procurement down. Not way down, but maybe a percent or two down. Now, across Canada, that amounts to billions a year. Save that kind of money and we can find the money to build better public facilities; provide better public services; and get some of the working poor off the tax roll. I think it is worth taking a bit of a risk to achieve those goals.
BMO started its venture into software as a service (SaaS) 15-20 years ago when it developed its proprietary purchase card management and reporting system – Details onLine. This Web-based system enabled the bank’s public and private corporate customers to utilize an electronic card management and reporting system without implementing and managing software on their own computer systems.

**Five major benefits of SaaS**
Subscribing to a software service instead of purchasing a software licence provides the following tangible benefits:

1. **Save money** by lowering IT costs, taking advantage of economies of scale and paying for the service as you go. Organizations lower IT costs by avoiding the overhead associated with implementing conventional software packages, purchasing servers and associated hardware and ongoing maintenance. There are suggestions that these costs are four to five times the cost of the original licence. Economies of scale are achieved when multiple organizations use the same software. And, for an organization, a pay-as-you-go strategy is easier to incorporate into
the budget than large one-time capital expenses. As well, the organization can change the subscription or opt out for a better deal.

2. **Save time** associated with implementing the SaaS solution as the software is already in existence and running. The only time needed is to ready the organization’s systems for Web access and training the staff. BMO’s experience suggests its solutions can be up and running within three months, while some literature suggests licensed applications can take from 12-18 months to implement.

3. **Focus technology budgets** by freeing up the organization from purchasing and supporting infrastructure, providing redundancy and security and maintaining patch and upgrade processes. Time spent on these activities takes away time the organization’s staff can spend on core business activities.

4. **Gain immediate access to the latest innovations** on an on-going basis as soon as new or improved features are available in the application. There is no need to invest scarce IT resources on expensive upgrades. Typically licensed software upgrades are released every 1-2 years, to take advantage of all of the new features of the upgraded software an upgrade to the organization’s operating system may be required.

5. **Join a community with common interests** in the same application your organization is using. Traditional licensed software is normally an individual purchase. SaaS applications have a wide and varied audience, all with unique situations but utilizing a common solution. The SaaS vendor is constantly aware of how its product is being utilized, which normally results in improvements to the application.

BMO has taken the SaaS concept a step further to include all facets of purchasing and payment – starting with a system for sourcing and selecting a goods or services provider, creating the contract from the sourcing documents and managing it throughout its life; electronically selecting goods and services from catalogues and issuing purchase orders; enabling suppliers to issue electronic invoices that match or are based on the purchase order; and creating payments based on electronic two-, three- or four-way matching of purchase orders and invoices.

Rather than build or buy, and following significant due diligence, BMO chose to partner with the market’s best-in-class spend management solution provider, Ariba. The decision was based on detailed research with North America’s top analysts and, more importantly, clients’ needs. By combining forces, clients can now access a fully integrated source-to-settle process that enables them to quickly improve their process efficiencies and save money.

Most organizations have invested significantly in their own ERP systems, many of which have modules that can perform purchasing and payment functions. Therefore, organizations are able to pick and choose the BMO SaaS component or components that they require. Even after implementing one or more of the BMO solutions, if the organization acquires or activates one of the modules of its own ERP system it can switch, no questions asked.
Following are brief descriptions of four BMO SaaS components:

**eSourcing.** This solution automates and standardizes the process for issuing and grading RFxs – requests for proposal, requests for information, requests for quote. Automation and standardization of the sourcing initiative ensures that all buyers are using the same processes – no need to create a new process each time an RFx is issued – and the organization’s purchasing strategy will be applied consistently by all buyers. Moving away from paper creation for each RFx represents large efficiency gains. Experience suggests that buyers can double the number of RFxs they manage in a year due to faster processing.

Some examples of administrative cost savings include: no distribution and management of paper responses for evaluation; the system measures and scores quantitative results; and subjective answers are removed electronically and sent to scorers whose scores are sent back electronically and matched with the submission. According to an Aberdeen Group survey of Fortune 1000 companies that have deployed eSourcing technology, material costs were reduced 14.3 percent; sourcing cycle times were reduced 50 percent; administrative costs were reduced 60 percent; and time-to-market dropped 15 percent.

**Contract management.** Automation promotes: contract visibility throughout the organization (they can be viewed instantly by those who need to know – managers, senior management, auditors); process standardization (no more maverick contract creation with insufficient controls); reduced or eliminated paper-intensive processes; standardized language; performance management (forces correct workflow to ensure appropriate approval levels); and electronic storage, which makes for easier retrieval (no more paper hunts) and location of relevant clauses. Notices are posted when products or services and payments are due.

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If “greening” your procurement is a priority for you …

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Larry Berglund, CPP, MBA – a supply professional for decades – is a champion of “green” procurement.

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This solution addresses all aspects of contracting including: document and process management and reporting; having the contract define the relationship between the buyer and seller; and utilizing industry leading capabilities such as MSWord integration, electronic signature support, complete search and reporting, and identifying unmatched compliance. Although there may be some initial resistance from contract managers due to a perceived loss of independence, once they use the system they do not want to go back to manual systems of creating paper-based contracts.

**eProcurement and catalogues.** To be successfully implemented and accepted by an organization’s staff, the electronic catalogues have to be as easy as, or easier, than picking up the telephone to place an order. The BMO-Ariba partnership enables the electronic transmission of product selection and purchasing documents between the organization and over 186,000 worldwide suppliers. This network has open, multiple standards across 10 languages and 80 currencies. It delivers line level data and images.

Online access is provided to many vendor catalogues with millions of SKUs, all priced for the specific buyer. Employees are able to search and create a market basket with punch out capabilities, along with a workflow approval process. Electronic purchase orders can be delivered to the vendor via the Ariba Supplier Network. Vendors not currently on the Ariba Supplier Network are easily enrolled and only pay for the enrolment when the number or dollar value of invoices surpasses a preset threshold. Electronic catalogue purchasing streamlines the purchasing process reducing processing time and costs. It also helps reduce maverick spend by providing access to suppliers approved by the organization.

**Electronic invoice presentment for payment (EIPP).** This accounts payable solution has four main components: connect and capture invoices (a lot of suppliers do not have electronic invoice production capabilities – the BMO-Ariba partnership does it for them); invoice matching, management and compliance (electronic matching of invoices and purchase orders in accordance with the buyer’s business rules guarantees accuracy and speed to reconciliation); working capital management (the supplier pays less interest due to shorter line of credit borrowing time and the buyer obtains goods cheaper through early payment discounts); and payment management (both parties can anticipate when payment will be made with certainty when they agree on the date to settle the invoice).

Real dollar savings occur when billing errors are reduced as a result of correct invoices being submitted due to matching of invoices with purchase orders before being submitted for payment; discounts being optimized based on when it is mutually beneficial for the buyer and seller to process the payment; and invoices not being lost or misdirected, eliminating overdue payment penalties.

**Conclusion**

Limited capital budgets and IT staff have always influenced decisions on whether to implement installed software or SaaS solutions. Installed software solutions usually result in major implementation projects requiring significant staff resources and capital investment and large front loaded cash payments. During times of limited credit availability, SaaS is even more attractive.

Duncan Campbell is a senior account executive with BMO, Spend & Payment Solutions.
Cutting costs is a concern for all organizations but for municipalities, which must spend resident’s tax dollars responsibly, it is even more so. As well, IT departments are often stretched for time, so sourcing the right technology solutions quickly and at the right price is often a challenge.

The Town of High River, Alberta (a community just south of Calgary) sits in the Municipal District of Foothills. The town and municipal district offices share a building as well as network infrastructure and services including email, Internet access and servers.

By 2008 both were dealing with outdated and antiquated technology, so a technology refresh was required. New hardware was top of mind, as neither the town nor the district had purchased new equipment in approximately four years. According to Kent Blair, the IT manager for the Town of High River and Municipal District of Foothills, the new hardware was imperative as a new application was being launched in 2009 and the upgrade was needed to support the advanced requirements for notebook and desktop computing.

With the municipal building and 14 other remote locations throughout Foothills connected by a wide area network, a total of 225 users needed to be supported. The equipment requirements had already been determined and included 225 personal computers with a mix of notebooks and desktops.
workstations, six servers, two network-attached storage (NAS) devices, a NAS backup server as well as a backup tape library.

The municipalities had a regular supplier for their IT needs but Blair decided to do some comparison shopping, given the amount of products he was going to purchase. He reached out to his contacts and received three proposals for the equipment in which he was interested. Upon receiving the results, Blair found that one supplier stood out from the rest.

Blair determined that CDW Canada – through its relationships with more than 350 technology manufacturers, its volume purchasing and efficient business model – could provide the best technology for the MD of Foothills and High River while passing savings along to residents. In addition, Blair saw the benefit of having a dedicated CDW Canada account manager, who is in turn backed by a team of highly certified technology specialists trained in storage, security, networking and software licensing and more.

“Our CDW Canada account manager has been key to a lot of decisions by helping us with some outside-of-the-box solutions,” Blair said. “CDW Canada was able to offer competitive pricing and was willing to deliver to my door next day, saving time and simplifying the ordering process. By selecting CDW Canada, the Municipal District of Foothills and High River got more gear and value for our money. There was no question this made the most sense for us. It’s been a really good relationship.”

Because of the tremendous support and value Blair receives, CDW Canada has become the technology provider of choice for the municipal district and High River.

Blair has also turned to CDW Canada for other implementations and purchases, including a wireless network project.

Blair needed to connect 11 offsite locations at broadband speeds, but there is no access to fibre in the town. Through an existing relationship that Blair had with a local third-party company, CDW Canada partnered to help create a wireless broadband solution to meet the town’s needs. The other firm offered the broadband component of the project, and CDW Canada coordinated with Cisco for the required hardware.

“With CDW Canada’s recommendations on Cisco infrastructure and networking gear, they came up with a solution that meets our budget and is also feasible, which was a big concern for us,” Blair explained. “We have a turn-key, private network that is going to address all of our internal data needs as well as provide the proper backbone for the complete IP telephony system we plan to rollout.”

Blair cites the level of customer service he has received as the most impressive and compelling benefit to working with CDW Canada, saying, “…my CDW Canada account manager has gone the extra mile, working with the vendors on my behalf to secure the best solutions and pricing – regardless of my purchasing volume. I needed to invest a substantial sum of taxpayer funds to upgrade our current infrastructure, and CDW Canada was willing and able to work with vendors to get the right equipment to meet our current and future needs – and meet budget targets while doing so.”
by Keith M. O’Leary

With an ever-increasing need to develop and efficiently manage Canadian government infrastructure projects, public-private partnerships (P3s) have emerged as one of the main delivery mechanisms for public infrastructure projects, especially in the health care and education sectors. The definition of P3s embraced by The Canadian Council for Public-Private Partnerships is: “A cooperative venture between the public and private sectors, built on the expertise of each partner that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards.”

The Canadian government’s objective to mitigate risk and optimize spending has sped partnership development and driven adoption two-fold for P3s. Ultimately the growth in P3-managed projects will spur innovation, drive efficiencies and maximize return on investment.

Because public-private projects utilize many different models – among them design-build, design-build-finance-operate and build-own-operate – the complexity in managing such projects and the related capital investments can be a challenge for any organization. Adding to the challenge is the capital planning, management, maintenance and spend-tracking accountability the private entity has to the public entity. For P3s, the magnitude of the capital and scale of the projects requires business management transparency between entities. To this end, re-examining current capital management processes and exploring new solutions and tools should be an imperative for P3 organizations.

Successful capital spend management requires visibility and control at every level of a project,
from budget creation and approval through
requisition approval and procurement. Focusing
on improved project management, automated
capital planning and approval, and real-time
spend tracking are key requirements. All too
often, capital planning and capital spend
management are managed and tracked using
spreadsheets or custom, home-grown
applications. Each approach can manage
portions of the required capital process, but
neither truly provides a complete and scalable
solution.

P3s require a capital management solution that
provides tight control, automation, and detailed
project tracking; that will scale to the level of the
most complex of infrastructure projects; and that
tracks project data in real-time, providing the
visibility needed for P3s to successfully manage
capital and mitigate risk. Capital management
systems are designed to deliver several key
benefits.

Centralization and automation eliminates
manual data aggregation and the time-
consuming processes that hamper the capital
monitoring and spending processes. Financial
managers gain insight into exactly what is
happening at any given point of time. They can
ensure that actual expenditures are aligned to the
plan and take appropriate actions, or make
adjustments for unexpected requests as
necessary. Through workflow-based alerts and
prompting, P3 projects gain the ability to
streamline requisition processes and the
reconciliation of expenditures. Financial
managers can also tighten the enforcement of
business rules and fiscal policies. Moreover,
they can identify opportunities to reduce capital
purchase costs. With improved controls, they
can ensure that funds are budgeted and allocated
appropriately, eliminating the risks that can arise
when information sources are dispersed
throughout various systems and spreadsheets
across the public-private agencies.
Real-time access to information allows better decisions regarding budgets and spending and helps engage all parties to a decision. A capital management system helps drive clarity and collaboration into the decision process. Financial managers can prioritize their investments successfully. With greater visibility, it’s easier for decision-makers to ensure that their budget allocations are fully aligned with the objectives of the business.

Ultimately, tighter controls and enhanced decision support drive optimized capital spending and risk mitigation. P3s reduce costs and realize a higher return on capital investments when the budgeting and spending process is approached with insight, rigor and discipline.

This is especially the case with regard to construction projects. Construction projects represent some of the largest, most complex and long-term public capital investments. Some examples recently completed in health care include the Partnership BC Fort St. John Hospital Project, the Kelowna and Vernon Hospitals Project and the Royal Jubilee Hospital Patient Care Centre Project. Additionally, Infrastructure Ontario recently completed the Hamilton Health Sciences - Hamilton General Hospital, the Quinte Health Care and the Trillium Health Centre. An even greater number of health care projects are being planned or are currently under construction and being managed by P3 organizations across the nation, each requiring years to plan, manage and complete.

With so many of the public infrastructure projects focused on new construction and renovation, P3s require end-to-end accountability for capital investments related to
construction. They need the ability to centralize (with centralization comes standardization, and the ability to aggregate information within and across projects) all data related to construction projects, allocating capital by project, while being able to roll-up capital investments across all projects and manage and track budget against actual spend. With centralization, data can be viewed and reported on as needed from any number of view-points including: executive-level review, financial activity, materials management, project scheduling and more. This is a daunting task and one that is often unattainable when using spreadsheets.

What is needed is a solution that is designed and built specifically for large governmental-scale capital project management. VFA.spendManager from VFA, Inc. delivers such a solution, one that has been in use for over a decade at numerous health care and corporate organizations and is currently being implemented at the United States Department of Defense Armed Forces Institute of Pathology (AFIP), the entity that provides pathology consultation, education and research services to the military.

Multi-year forecasting and budgeting of strategic projects.
A lack of standardization in budget-related data makes it difficult for government agencies to aggregate and track information across multiple agencies and funding sources. VFA.spendManager will provide real-time data visibility and on-demand spending reconciliation of more than US$50 million across 15 funding sources. Providing enhanced control of capital spending, VFA.spendManager is helping three AFIP groups to improve efficiencies and increase the visibility of the expenditures across the organization; ensure that capital is being optimized; and accurately account for how capital is managed and spent. Able to interface with the agency’s existing software and inventory systems, VFA.spendManager generates detailed reports across multiple funding sources for improved business intelligence reporting and analysis.

With capital planning and spend analysis and control, P3s can reap the benefits of increased visibility and confidence in capital plans. They also gain better insight, tracking and management of the capital spent at the procurement stage, enabling them to proactively manage issues rather than merely react to them. Additionally, with intensifying regulatory pressures and ever-changing technology requirements, many P3s are rethinking their capital planning strategies and are seeking proven technology solutions.

Keith M. O’Leary is the product director for the VFA.spendManager application. VFA, Inc. is a leading provider of end-to-end solutions for capital planning and project management with offices throughout the United States, Canada and the United Kingdom.
Public sector agencies typically espouse the guiding principles of fair, open and transparent process in their purchasing of goods and services, however, it gets complicated in their pursuit of value for money and safeguarding the public interest. These principles and objectives are not only appropriate they are required by local and provincial government policy and standards, and by interprovincial and national agreements.

This is also easier said than done when it comes to the procurement of construction services, and it is challenging for the most seasoned of purchasing professionals with expertise in construction. The challenges are multiple and include: balancing the guiding principles against the objective of value for money proposition; and protecting the public interest, particularly for public agencies that do not engage in construction on a routine basis and lack expertise in this area of purchasing and contract management.

In their pursuit to safeguard the public interest, public owners seek legal advice and means of transferring risk to the extent it becomes unfair and disproportionate, and it compromise the value for money proposition.

The construction industry manages risk and onerous conditions in one of two ways: they don’t bid or the industry adds large contingencies to their bids that are proportionate with the risks. Risk always affects the degree of competition and costs.

One’s immediate reaction is: what are the costs, what is the trade-off, and is it acceptable?

The Residential and Civil Construction Alliance of Ontario (RCCAO) was cognizant of the fact a
lot of money was being spent on infrastructure stimulus and, as an industry, had an interest in seeing that the investment would go as far as possible. The RCCAO commissioned Stephen Bauld, president of Consulting International Inc., and one of Canada’s leading experts in public procurement [now also publisher of Summit magazine], to undertake a study entitled, “Towards a Fair and Balanced Approach: A Commentary on Government Procurement of Construction in the Greater Toronto Hamilton Area (GTHA),” published in September 2009.

The study states that the GTHA spends approximately $2.6 billion annually on construction through federal, provincial and local government agencies, and estimates that taxpayers are paying 5 to 20 percent more than they should because of their procurement practices. All the GTHA governments alone may be paying $500 million more than is necessary on construction projects.

There is a lot of reference in the study on the transferring of risk and its ramifications. Bauld reports government purchasing policies and contract documents are at the root of the problem. “Governments are under great pressure to manage their own risk more effectively. An obvious method of ‘managing risk’ is to shift it to someone else. The problem with such an approach is that some methods of managing or avoiding risk are inefficient. Inefficiency result when the risk management mechanism employed incurs a higher cost than the discounted cost of assuming the risk.”

The study concludes realistic and better structured construction contract procurement practices could save Ontario governments and agencies $1 billion province-wide. One can only imagine what this level of investment could do for health care, education and local government in Ontario, as well as the much needed economic stimulus.

While this study relates to Ontario, it parallels the BC experience from the industry’s perspective. The BC Construction Association and four regional associations continue to engage public owners in the unfair distribution of risk, its impact on the industry and its costs; however, for the most part industry has not been heard.

The reality is that there are risks in construction and there are ways to manage them in accordance with recognized industry standard documents produced by the Canadian Construction Documents Committee (CCDC) and the Public Construction Council of BC.

Greg Baynton is the president of the Vancouver Island Construction Association, www.vicabc.ca. You can find the study discussed here at www.rccao.com.
Comestibles and ethical, professional and corporate responsibility

No industry, sector, or profession is without its share of ethical dilemmas, professional misconduct or corporate misdeeds. Given that food is an essential component of life, it is imperative that the food industry be as responsible as possible in these areas. It is unfortunate that many players in the food sector have been less than stellar in their performance.

For supply management professionals a variety of issues (some described below) in the food sector pose a strategic sourcing challenge. A handful of food suppliers can trigger a health problem and the event will ripple across the entire market. It can take several months to conduct a thorough investigation due to the complexity of the supply chain and the use of common ingredients. Food industry practices have led to the increased use of chemicals to support production. Whether the health risk occurrences are truly preventable is doubtful.

In recent years, there have been multiple product recalls due to bacterial infections of one kind or another in meats and vegetables. In 2008, the deadly bacteria found in Maple Leaf Foods products was eventually traced to processing equipment. Again in August 2009, Maple Leaf Foods issued a precautionary product recall on a few select meat items. Criminal charges have been laid against East Asian food purveyors that knowingly used melamine in their milk products, killing many children. Based on this information, the Canadian Food Inspection Agency (CFIA) expanded a recall on some food products suspected of containing melamine.

In March 2010, CFIA recalled the flavour enhancement product, hydrolyzed vegetable...
protein (HVP). HVP is made by boiling cereals in hydrochloric acid and then neutralizing the mix with sodium hydroxide to break it down into amino acids. HVP is supplied through an oligopolistic source of supply characterized by relatively few dominant sellers. CFIA continues its investigation with Canadian clients (e.g., Chemroy out of Ontario) of Basic Food Flavors, Inc. (BFF) out of Las Vegas, Nevada.

BFF assert leading quality management practices, yet something has gone awry, resulting in another tainted food problem. The US Food and Drug Administration (FDA) responded to a complaint of salmonella found in a February shipment from BFF. The FDA identified the source of the bacteria as the processing equipment at BFF. All HVP products manufactured from September 2009 are now under review. The implication is that millions of kilograms of potentially poisonous food additives have been distributed across the ready-to-eat snack-food industry, including chips and dips. The saving grace in this situation is that health risks are expected to be very low.

In a related issue, the practice of injecting poultry with saltwater to increase their weight during processing has come under challenge by US consumer advocates and the California Poultry Federation. The consumer pays for this practice in two ways – an increase in sodium intake and ~15 percent more for the cost. Health Canada, which follows US guidelines, has stated that most Canadians already consume more sodium than necessary. Additional revenues to the food industry related to the injection practice are estimated at US$2 billion. Currently the law allows that the labels can state the chickens are “100% all natural.” A typical product label states “Enhanced with up to 15% chicken broth.” This is a very misleading food industry practice at best and deceitful at worst – however, it is still legal.

Then there is the recent situation where four food ingredient buyers have pleaded guilty to taking bribes. This story has exposed a series of corruption practices in the food industry. The companies involved are Kraft Foods, Frito-Lay, Safeway, and B&G Foods – all US-based. Canwest News reporter Sarah Schmidt reported on March 6, 2010 that the annualized food additive business is projected to be US$34 billion.

This case originated with a Kraft Food ingredient buyer who had been accepting bribes to get a supplier’s products into the Kraft supply chain. More reprehensible than the unethical behaviour of influence
pedaling was the fact that the conspiracy allowed millions of pounds of tainted tomato products to be sold on the market. Again, this raises concerns about the quality control of food ingredients. Many companies rely on the testing of the ingredients by their suppliers and do not duplicate those tests prior to production. Tests are conducted on the finished products.

Investigators found that several people connected to one of the largest tomato processors, SK Foods, also admitted to being complicit in the scheme. Prosecutors say that SK Foods falsified documents to mask quality problems in tomato paste and puree products. Now more than 55 companies are involved creating the perception of this being a systemic problem and not circumstantial. Investigators are now reviewing allegations of collusion and price fixing. SK Foods filed for bankruptcy in 2009.

Business ethics is an important component of sustainability in a global market place.

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Business ethics is an important component of sustainability in a global market place. Although the food-related stories above highlight specific issues found in the United States and Canada, the ethical conduct of corporations and individuals also includes safe workplaces, a clean environment, and meeting community expectations regardless of locale. Corporate social responsibility is a growing concern with customers and consumers on a global basis. Supply professionals can advance the sustainability agenda by acknowledging that improvements can be made in all industries and sectors, and by raising ethical and performance standards.

Transparency International issues a Corruption Barometer each year. Canada and the United States are not the best on the list. We typically are well below perennial leaders such as Denmark, Finland and New Zealand. Many emerging countries are still susceptible to unethical practices, which is where many North American companies have been outsourcing. We can increase our vigilance of others; however, we should start by demonstrating responsible leadership at home.

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In recent years, governments around the world have experimented with a variety of different approaches towards purchasing capital assets. Terms such as P3 (public-private partnership), PFI (private finance initiative), AFP (alternative finance and procurement) and numerous others are bandied around as if they had a clearly settled meaning. Each is used to deal with a range of different types of roles that private sector entities may be asked to play within the context of a specific project. Ah, but what role? Here, there is no ready answer.

In truth, none of these terms enjoys a generally accepted definition. Sometimes, the terms are used interchangeably, while other times they describe widely different types of procurement arrangement, but most often they are used indiscriminately. All of these various approaches entail some effort to secure long-term private sector involvement in the provision of government capital facilities.

Much of the discussion relating to the various types of initiatives is highly politicized. Proponents of such approaches make broad claims as to their potential to achieve value-for-money in public procurement. Opponents argue that they constrain government policy freedom, and that they are anti-labour devices intended to strip public sector workers of their rights, and to drive down the wage rates of low and medium-skilled workers in particular. While advocates claim that these arrangements result in huge savings, opponents counter that they drive up the cost of procuring capital assets. In this article we hope to move away from such polemical positions and to present relatively neutral background information relating to the strengths and weaknesses of the various approaches, so as to allow you to engage in a more informed level of discussion regarding benefits and costs of these approaches.

We begin by making two basic points. First, governments have always relied on the private sector, to at least some extent, in the design and construction of public capital infrastructure. Second, whatever approach may be adopted for the procurement of the capital assets required to deliver government services and programs — whether it be full government ownership and
production, or whether the delivery mechanism will be transferred entirely to the private sector – there will necessarily be some people who gain and others who lose as a result of the change that is made. In many cases, the actual outcome cannot be predicted in advance.

The traditional model of construction employed by government has been design-bid-build. Under this approach, the government commissions a design for a proposed public facility. This work may be carried out internally, or it may be contracted out to a private sector design company, such as an architectural firm. Once the design is approved, the government then puts the construction contract up for tender, with bids being sought from private sector construction firms. The winner builds the facility.

However, many government capital facilities have long had private sector involvement over the long term. Many court facilities, for instance, operate out of rented property, as do government offices. Even in the medical sector, government health clinics and other similar organizations have often shared accommodation with private sector operations. Hospitals, in contrast, are almost always purpose built facilities, as they have unique design requirements.

In a genuine public-private partnership, both the government and the private sector enjoy both upside and downside risk of roughly equal magnitude. For instance, a municipality may wish to build an office complex as part of a downtown renewal scheme. The municipality enters into an agreement with a private sector developer to meet a portion of the design and other soft costs of the complex, and to rent a portion of the space for a fixed term. The developer undertakes to arrange the overall financing, and builds a facility considerably larger than what the municipality requires. Both parties hope to rent the surplus space at market rents to other tenants. The prospective revenues are to be shared in some way, so that both the private sector partner and the government partner enjoy a chance of profit, whereas the government assumes part of the risk if the facility is not rented out. The private partner also bears a share of that risk. Even the party providing the financing may be brought to share in the risk and profit.

Arrangements of this kind are relatively rare – and with good reason. Very often the types of project that governments wish to see constructed offer little upside profit potential. For instance,
cities with decaying central business districts are not attractive places in which to locate a business office or retail operation. Call them crazy, but many members of the general public do not like to shop and work in an environment where they are likely to confront the more troubled elements of society such as panhandlers, drug pushers and users, etc. Nor do they like the limited parking that also comes with high charges or long rides into town fighting traffic congestion. Unless these types of underlying problems are addressed, the construction of a modern office facility is unlikely to prove a successful venture. This is especially true where business locating in the downtown core is subject to higher levels of business or property taxation than business in surrounding communities.

PFIs and AFPs involve less ambitious schemes. They are often tied to the procurement of assets that governments and their agencies will use in actual service delivery.

The term “private finance initiative” originated in the UK 1992 autumn budget statement, in which the prospect of such transactions was advanced as a means of achieving closer partnerships between the public and private sector. In its 2005 budget speech, the UK government explained that the term had come to mean that “…the public sector defines what is required to meet public needs and ensures delivery of the outputs through the contract. …Consequently the private sector can be harnessed to deliver investment in better quality public services whilst frontline services are retained within the public sector.”

Complicating matters is the fact that the abbreviation PFI is also used in relation to the OECD’s Policy Framework for Investment, which is a comprehensive and systematic approach for improving investment conditions. Developed by a task force including representatives of 60 different governments, as well as business, labour and international organizations, it cover the following broad policy areas: General Investment conditions; Investment promotion and facilitation; trade; competition; tax; corporate governance; responsible business conduct; human resource development; infrastructure and financial sector development; and public governance. In dealing with these matters, it addressed some 82 questions to governments, which are intended to help them design and implement policy reform to create (according to the OECD) “a truly attractive, robust and competitive environment for domestic and foreign investment.”

The goal of the OECD PFI is to promote a healthy environment for all investors, including multinational enterprises. It must be noted that although the OECD’s PFI can have relevance in relation to government capital procurement, it covers a much wider range of matters. Nevertheless, the broad issues considered by the OECD often stray into discussions on the narrow question of the merits and demerits of capital infrastructure procurement using a PFI approach.

The term “alternative financing and procurement” appears to have originated in Ontario. The term is employed to describe (in the words of Infrastructure Ontario) “an innovative way for the government to deliver on its commitment to maintaining and expanding public infrastructure.” The process involves using “private financing to strategically rebuild vital infrastructure, on time and on budget, while ensuring appropriate public control and ownership.” Ontario AFP projects are guided by the five principles set out in the government’s
Building a Better Tomorrow framework. These are:

- public interest is paramount;
- value for money must be demonstrable;
- appropriate public control and ownership must be preserved;
- accountability must be maintained; and
- all processes must be fair, transparent and efficient.

AFP does not necessarily affect public ownership of core public assets such as hospitals, schools or water and wastewater infrastructure. These public sector assets usually continue to be publicly owned. Nevertheless, contractual arrangements limit the latitude of the public sector to vary the overall operation of the facilities concerned. Such arrangements can also limit future government policy freedom.

Both AFP and PFI have come to describe not a single approach to capital asset procurement, but rather a cluster of approaches. This recognizes the fact that no single approach can successfully address all infrastructure needs, therefore it is necessary to consider a broader range of infrastructure financing and procurement models in relation to the specific project that is to be carried out. However, all of these approaches share the foundation that a greater degree of long term private sector involvement in government infrastructure procurement process affords advantages that more traditional methods of procurement lack.

Conceptually, the delivery of a capital facility may be broken down into five elements: design, construction (or build), finance, maintenance and operation. In the traditional design-bid-build approach, the government specifies what is to be built, often even dictating the materials and other components to be incorporated into the finished facility. Under the AFP approach, the approach is more output focused. The government specifies a functional requirement that is to be satisfied.

The most basic of the AFP procurements methods is the design-build contract. It is the only one of the methods that is also widely employed in the private sector. In design-build (DB) construction, a single entity provides both the design and construction on what is essentially a turn-key basis. The owner drafts...
the specification that the finished facility is to satisfy, and the contractor builds to that specification. The DB approach allows the government the highest level of flexibility, however, it offers the lowest prospect of risk transfer among the various AFP approaches.

In other forms of AFP projects, the government asks the contractor to arrange the up-front financing for the facility. The government then pays that amount back through annual charges. The taxpayer still pays the bill, but this approach allows a considerable degree of risk transfer – at least on paper.

One of the most popular methods is known as design-build-finance-maintain (DBFM). Under this approach, as well as undertaking to build the facility, the contractor will assemble a consortium which produces the design and undertakes to maintain the building for a lengthy period following its construction (generally 30 years). Maintenance is usually limited to “hard” maintenance, with the government remaining in control of the overall operation of the facility. The contractor also arranges the financing, which will have an equity and a debt component. In recent years, there has been mounting pressure to reduce the equity investment, as a means of keeping down the cost. Although, in the normal case the government will enter into a direct agreement with the lender under which it agrees to limit its rights to terminate the contract in the event of default, the investment made by the equity party (and its active oversight of the overall process) affords the government some degree of insulation against the risks associated with capital procurement. The government pays for construction, financing and maintenance costs on an amortized basis over the life of the contract.

Design-build-finance-operate (DBFO) projects are similar, but involve a higher degree of private sector participation. Such contracts have often been employed in relation to highways. In practice, it is difficult to differentiate DBFO contracts from privatization of the relevant asset. Payment in relation to a DBFO contract may be effected through a variety of mechanisms, such as tolls (i.e., user pay), shadow-tolls (government pays based upon measured volume of usage); payments based upon performance measures, such as availability, congestion management and safety; or some combination of the foregoing.

In addition to the foregoing methods, AFP projects may also take the form of build-finance; design-build-finance, and build-finance-maintain. Each of these methods will be selected by reference to the unique circumstances of the transaction.

The numerous forms of AFP transaction make clear that the AFP approach is a highly sophisticated, and therefore complex, one. Involvement in this kind of transaction requires the support of expert advisors. Such advice is essential due to the complexity and long term nature of these transactions, which give rise to numerous unique risks. That said, if the correct method of organization is selected, and the process is carefully managed, the AFP approach can lead to some significant savings.
New West Trade Partnership Trade Agreement

July 1, 2010 marks the first day that the New West Partnership Trade Agreement (NWPTA) will be in effect. The agreement was signed on April 30, 2010 by the governments of Saskatchewan, Alberta and British Columbia and builds on the successful Trade, Investment and Labour Mobility Agreement (TILMA) between the provinces of BC and Alberta. NWPTA replicates the terms of TILMA, extending them to include Saskatchewan, creating Canada’s largest interprovincial free trade zone – almost nine million people with a combined GDP of more than $555 billion. The agreement covers all public sector entities. The dollar levels at which the NWPTA applies is as follows:

<table>
<thead>
<tr>
<th>Public Entities</th>
<th>Goods</th>
<th>Services</th>
<th>Construction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Departments, ministries, agencies, boards, councils, committees, commission and similar agencies of a Party.</td>
<td>$10,000</td>
<td>$75,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Crown corporations, government-owned commercial enterprises and other entities that are owned or controlled by a Party through ownership interest. (Does not apply to Saskatchewan until July 1, 2012.)</td>
<td>$25,000</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Regional, local, district or other forms of municipal government, school boards, publicly-funded academic, health and social services entities, as well as any corporation or entity owned or controlled by one or more of the preceding entities. (Does not apply to Saskatchewan until July 1, 2012.)</td>
<td>$75,000</td>
<td>$75,000</td>
<td>$200,000</td>
</tr>
</tbody>
</table>

Source: Government of Alberta

Key elements of the NWPTA include equal opportunities for suppliers in all three provinces to the provincial government procurement opportunities of the partners; streamlined provincial regulations and standards related to all aspects of trade, investment and labour mobility, including the recognition of credentials for certified workers; a workable dispute resolution process with potential penalties of up to $5 million; and an agreement to work together more transparently and cooperatively while respecting the various jurisdictions of each province. The transition period for Saskatchewan to bring its measures into full compliance ends in July 1, 2013.
Six programs newly accredited through the CSCSC’s National Accreditation Program

According to a news release on April 1, 2010, on March 26, the Canadian Supply Chain Sector Council accredited six educational programs through its National Accreditation Program (the NAP), bringing to 14 the number of educational offerings accredited through the NAP since the program was established in August 2009. The newly accredited programs are:

<table>
<thead>
<tr>
<th>Institution</th>
<th>Program Description</th>
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<tbody>
<tr>
<td>Champlain College – St. Lambert</td>
<td>Specialist in Transportation and Logistics Program</td>
</tr>
<tr>
<td>Collège Communautaire du Nouveau Brunswick – Dieppe</td>
<td>Business Administration, Logistics and Transportation Program</td>
</tr>
<tr>
<td>Georgian College of Applied Arts and Technology</td>
<td>Business Logistics Program</td>
</tr>
<tr>
<td>HBI College</td>
<td>Supply Chain and Inventory Management Diploma Program</td>
</tr>
<tr>
<td>Wilfrid Laurier University</td>
<td>BBA Supply Chain Management Concentration Program</td>
</tr>
<tr>
<td></td>
<td>MBA Supply Chain Management Concentration Program</td>
</tr>
</tbody>
</table>

The NAP recognizes educational offerings in supply chain-related topics that meet the Council’s standards for accreditation, created with the assistance of CSA Standards and with significant input from supply chain stakeholders. The standards are based on national and international best practices and principles, and include requirements for course/program needs assessment, design, development, delivery, and student evaluation. To be accredited, a course or program must meet all of the standards.

Post-secondary institutions, associations and private training schools are eligible to submit their programs and courses for review. More information about the NAP standards, fees and review process is available at: [www.supplychaincanada.org/en/NAP](http://www.supplychaincanada.org/en/NAP). The Canadian Supply Chain Sector Council is an all-stakeholder, not-for-profit organization responsible for the human resources strategy for the supply chain sector in Canada. The CSCSC is funded by the Government of Canada’s Sector Council Program.

CN’s supply chain wins award

According to a news update from the Prince Rupert Port Authority, CN’s ongoing efforts to deliver cutting-edge supply chain solutions for its customers have been recognized by Wal-Mart Canada with the retail giant’s prestigious Innovator of the Year honour. The award commends CN’s drive and ability to support customers’ needs by leveraging its rail franchise.
and combining non-rail transportation solutions. CN is delivering “truck like” service via rail, allowing both CN and Wal-Mart to continue to benefit from both cost savings and positive environmental impact.

“At CN we value our customers’ business and share their sense of urgency to continually improve the service we offer,” says Paul Waite, vice president of CN Intermodal. “Our approach allows us to act quickly, turning challenges into ideas and then executing innovative solutions.”

Prince Rupert Port Authority President & CEO Don Krusel says the Wal-Mart award for innovation to CN is well deserved.

“CN has continually demonstrated its high level of innovation and commitment to customer service as our partner, with Maher Terminals, in creating and growing the fastest and most reliable trade corridor for shippers through the west coast. The award reinforces the competitiveness of the northwest trade corridor through Prince Rupert in providing our customers, including Wal-Mart Canada, with a significant advantage over alternative gateways.”

CN’s mainline to Prince Rupert is the only railroad with the network reach to all three coasts that also connects to the major North American hubs. CN offers superior, uncongested rail connections to Central Canada and the U.S. Midwest, including consistently moving cargo from Fairview Terminal to Chicago in about 100 hours.