

2006 LAPA CONFERENCE

NOVEMBER, 2006.

**Smarter Risk Management for
Contract Managers: How Partnering
Alliances Deliver Real FM Value**

**Spire Lessons & Observations from Auckland,
Christchurch, Wellington and Manukau City Council
Property Units**



Presented by Paul A. Rogers: Managing Director Spire Consulting
New Zealand. paul.rogers@spireconsulting.co.nz



ABOUT THE PRESENTER

Paul A. Rogers; M.Bldg.Sci, Dip.Env.Mgt, Dip.En.Mgt, M.IPENZ, M.NZPI, M.IoD is the founder and Managing Director of the New Zealand based management consultancy firm **Spire Consulting Ltd**. Paul specialises in strategic asset management, organisational design and supply chain optimisation. Based in Christchurch, NZ, Paul consults to a wide variety of clients globally in the production, infrastructure, utilities and commercial property environments. **Paul also provides facilities management and procurement advice to the property units at Auckland, Manukau, Wellington and Christchurch City Councils.**

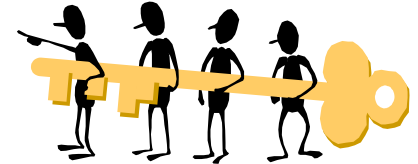
Paul, a registered professional engineer has over 20 years experience in asset management having worked for J.P.Morgan, Lloyds of London, Colliers Jardine and AMP Investments. Prior to forming **Spire Consulting**, Paul was National Manager – Facilities Management at Telecom New Zealand where he was responsible for the contract and performance management of New Zealand's largest facilities management portfolio.



Contact: Email: paul.rogers@spireconsulting.co.nz
Tel: +64 (27) 4400 867. www.spireconsulting.co.nz
www.spireconsulting.co.nz



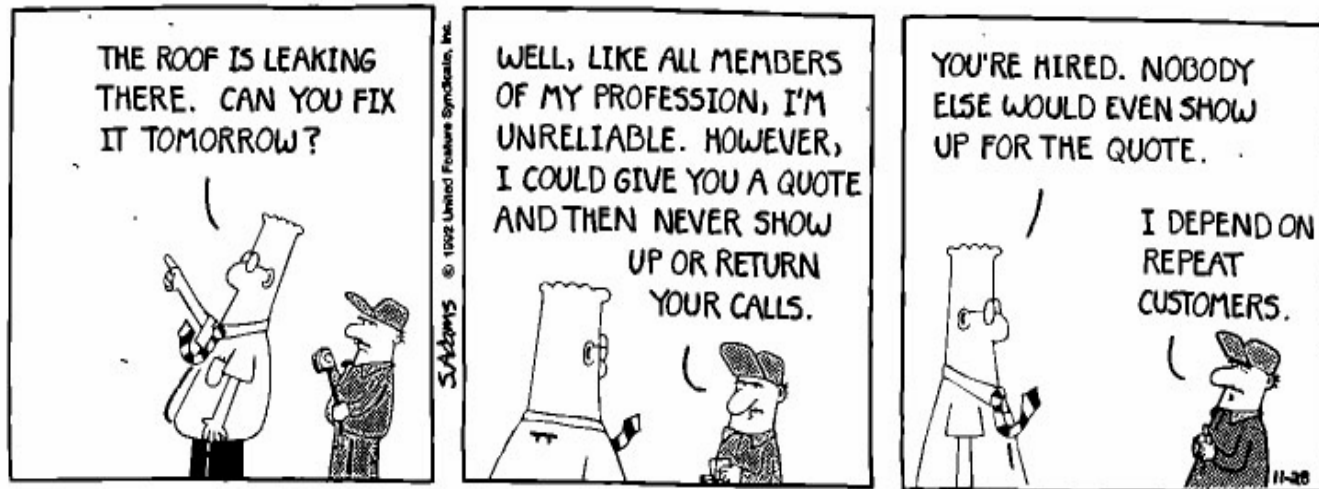
What this session covers -



- Managing Service Delivery Risks
- Outsourcing Options, Drivers & Process
- Performance Based Contracts
- KPI's Reporting and Driving Performance
- Partnering with Suppliers



Using suppliers

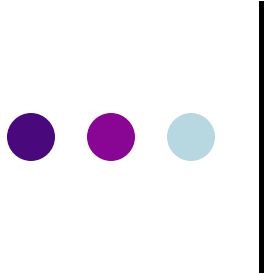




PERCEIVED OUTSOURCING BENEFITS

- ✘ Accelerate re-engineering benefits
- ✘ Access to world class capabilities
- ✘ Cash Infusion
- ✘ Free resources for other purposes
- ✘ Function difficult to manage
- ✘ Improve company focus
- ✘ Make capital funds available
- ✘ Reduce operational costs
- ✘ Reduce risk
- ✘ Resources not available internally





Value Vs Cost: Value Derived from Outsourcing FM

- 1. Value & Savings are gained through the Initial transfer from in-house to outsource (leverages):** If the suppliers process has under-utilised equipment or facilities, relies on computer automation, can increase purchasing power or employ any other source of scale leverage, the parties combine their volumes to create a significantly lower per-unit cost.
- 2. Increase in Competitive Advantage Efficiencies through Allowing the Organisation to Focus on What it does Best:** That is, by giving over control and ownership of the facility management activities to someone else, the organisation is able to focus management resources onto core activities in order to improve efficiencies and concentrate on competition advantages.
- 3. Increase Flexibility:** By eliminating fixed overheads, bureaucracy and physical plant & ownership. For example a Telco outsources its facilities management department and embarks on a sale and leaseback program of its facilities (office buildings, network buildings, and exchanges), etc.

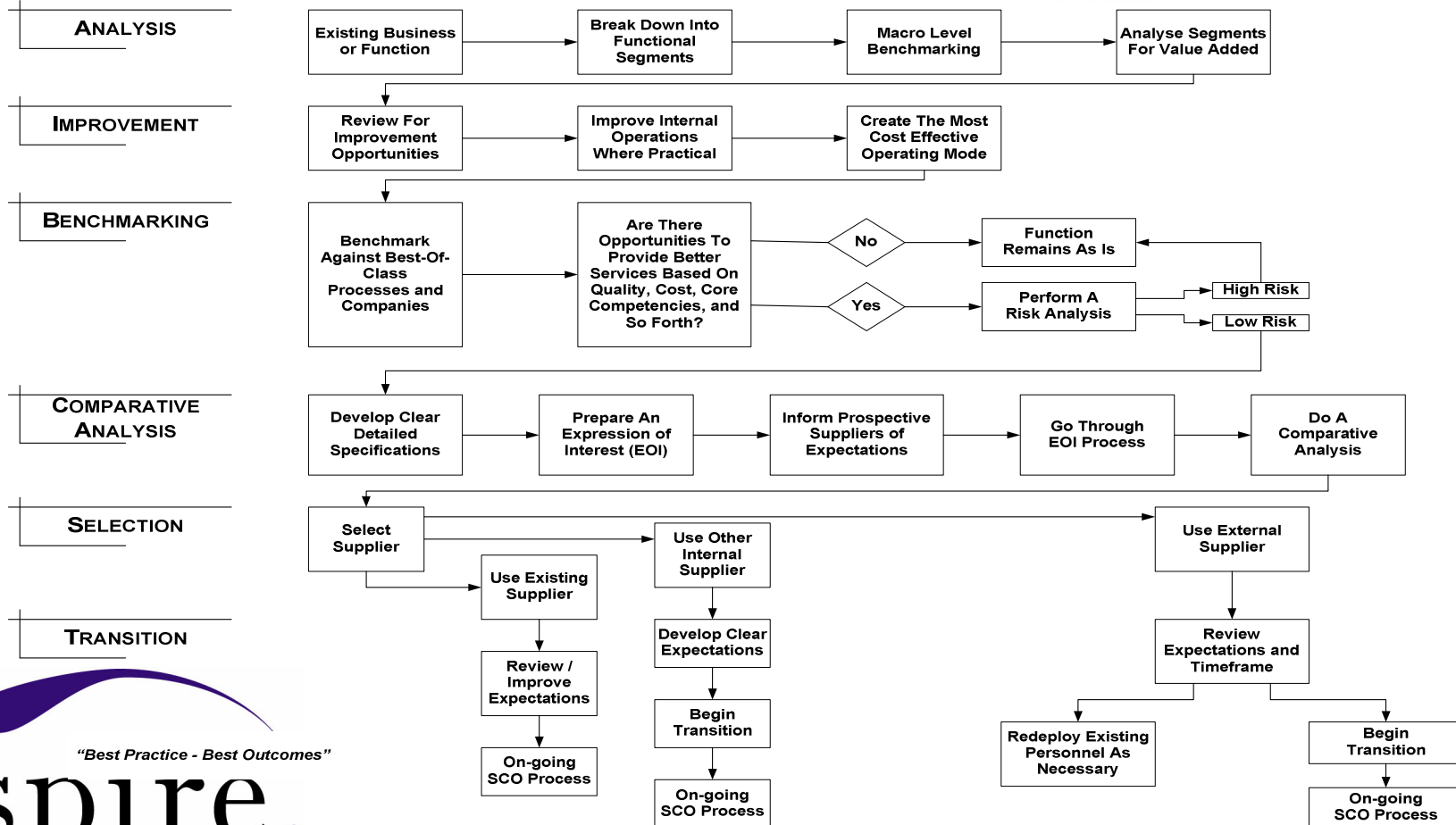


The fundamentals of a successful outsourcing programme

1. **Know** what **economic** value will arise from implementing a FM outsourcing model
2. **Know** what **business processes** will change as a result
3. **Know** what **other factors** are critical to implementation success
4. **Know** how the outsourcing partnership **enables** the business model
5. **Create** a **strong partnership model** between business and the selected provider from the earliest stage (EOI)

OUTSOURCING FM – EVALUATION CRITERIA

SUPPLY CHAIN OPTIMISATION PROCESS

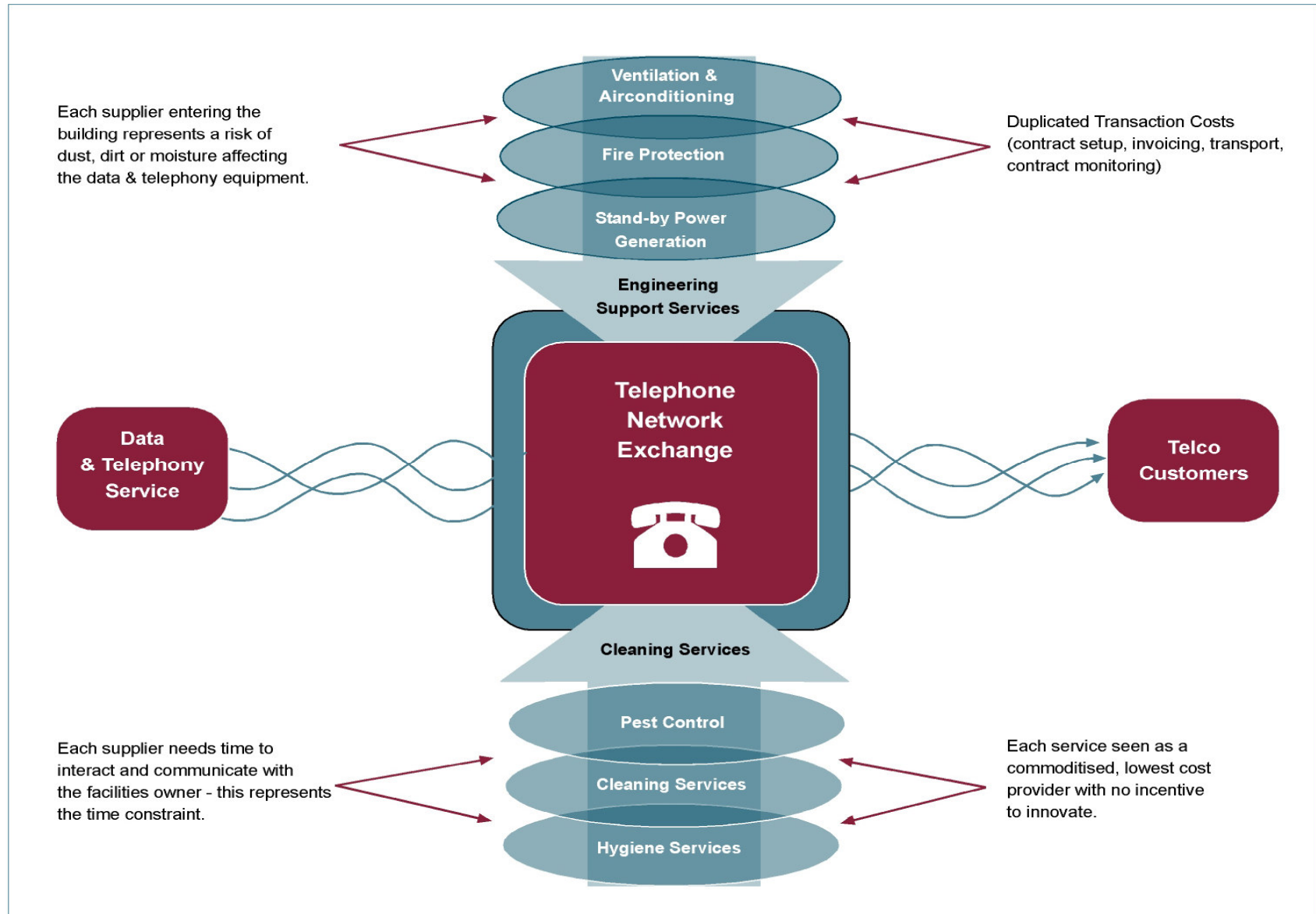




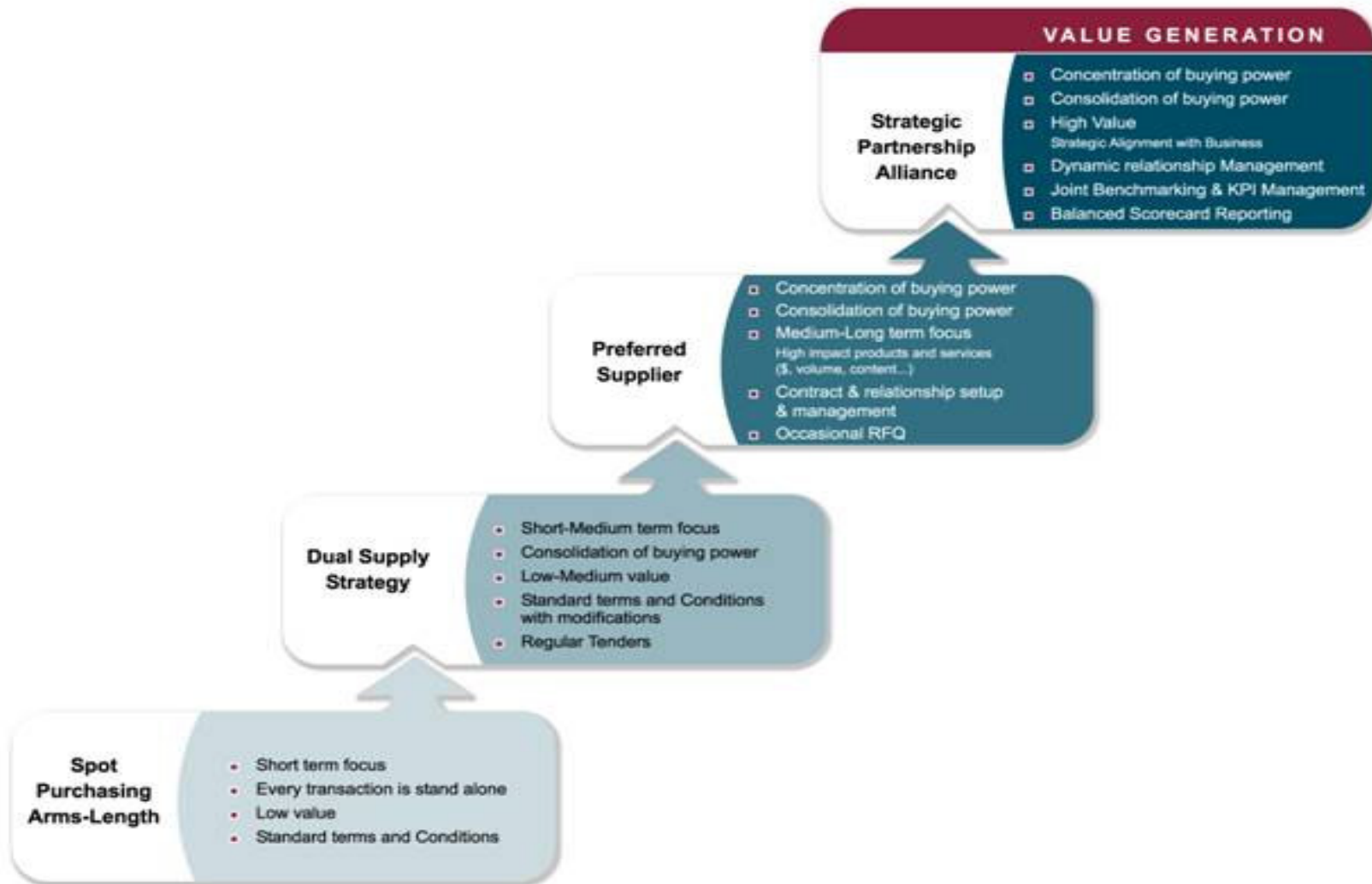
TRANSACTION COST ECONOMICS

- **Transaction costs are the negotiating, monitoring, and enforcement costs that have to be borne to allow an exchange between two parties to take place.**
- **Transaction costs also relate to the ‘non-core’ service costs, i.e. - travel, accommodation, corporate overheads, etc.**
- **The sources of these costs are the transaction difficulties that may be present in the exchange process.**

TYPICAL FM SUPPLY CHAIN ISSUES



SUPPLIER RELATIONSHIP EVOLUTION





Successful Outsourcing isn't duplicating poor processes externally

Good to Great....Mediocre to Magnificent

- Transactional Approach
- No improvement targets set or measured for service or cost improvement
- No penalty or reward for under or over performance against service levels
- No incentive to reduce total system costs
- Input-driven process that delivers lease and facilities management transactions per a set of specifications
- Reactive tactical management and processing
- Continuous Improvement Approach
- Commitment to year-on-year, measured service level improvements
- Management fee linked to service performance KPIs, and extended to all subcontracts
- Remuneration linked to total system cost improvements
- Outcome-oriented process focused on meeting objectives and not limited by specifications
- Proactive strategic input from outsourcer

OUTSOURCING MODELS



TRADITIONAL

Goals and objectives not clearly defined and communicated - Organisations not totally engaged

Suspicion and mistrust; each party wary of the motives of the other

Each party geared to what is best only for them

Communication structured and guarded

Single-project contracting

Objectivity limited due to fear of reprisal

Mistakes lead to retribution

Limited organisation access; structured procedures; self preservation takes priority over optimisation

Involvement limited to project personnel

Finger pointing and buck passing



PARTNERING

Clear mutual vision, re-enforced by strongly supported leadership tone with well-defined objectives & process, well understood expectations & measures

Mutual trust forms basis for strong working relationships

Shared goals and objectives ensure common direction

Open communication avoids mis-direction and bolsters effective working relationships

Long-term commitment provides opportunity for continuous improvement

Objective critiques geared to candid performance assessment

Create atmosphere where service provider willing to come up with ideas and suggested changes

Organisational access and sharing of resources

Total company involvement at all levels

Work as a team to solve problems



PBC MODELS

‘A performance based contract is an agreement recording promises that two or more parties make to each other . What distinguishes a performance based contract from any other contract is its emphasis on the *purpose of the work to be performed*- rather than *the manner by which work is to be performed*’

‘The Impetus for drafting contracts that focus on outputs rather than inputs, is the desire to improve the quality of performance, and to ensure that payment is made only for services that meet contract standards’

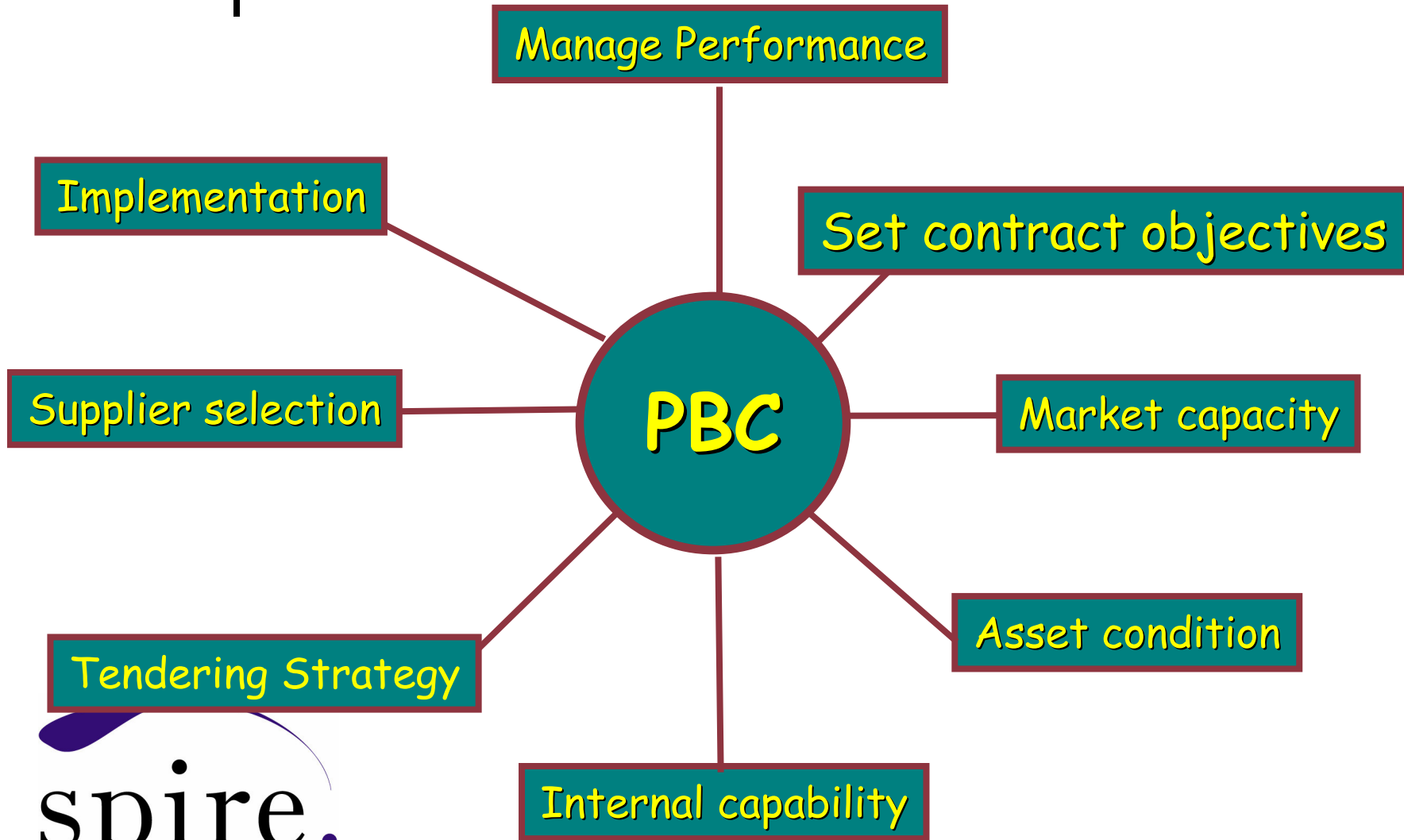


PBC's

- **PBC's have evolved as a procurement tool that allow risks to be shared between parties in a way that is consistent with the service supplier's primary role of ensuring the delivery of certain outcomes (rather than just services).**
- **Outcome levels (typically “minimum performance levels”) based on Levels of Service, are scoped and determined, often by mutual party agreement with an emphasis on a shared benefit return to both parties.**
- **The minimum performance levels are determined by technical (outcome) related dimensions (ie, quality, quantity, availability, legislative, maintainability, capacity, comfort and safety) and fundamental (process) related dimensions (ie, appearance of facilities, personnel requirements and responsiveness).**

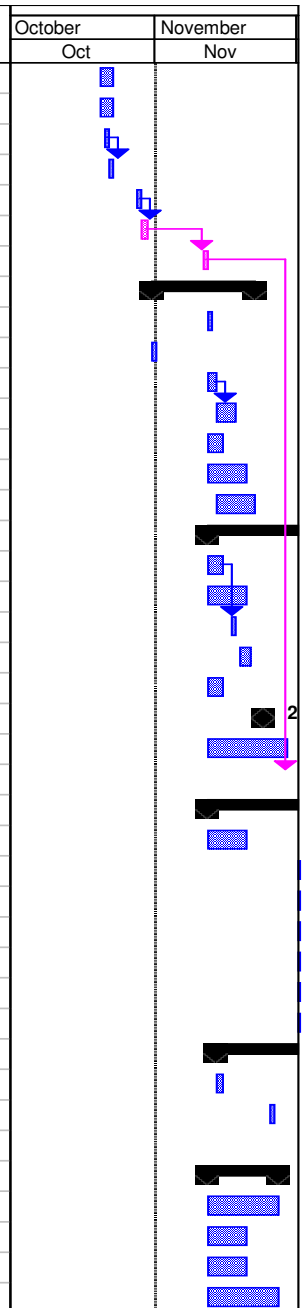


Performance Contract Cycle



TRANSITION PLANS

ID	Task Name	Duration	Start	Finish	October	November
					Oct	Nov
29	Transition Planning	3 days?	Mon 20/10/03	Wed 22/10/03		
30	Finalise Contract Specifications	3 days?	Mon 20/10/03	Wed 22/10/03		
31	Review KPI Measures	1 day?	Tue 21/10/03	Tue 21/10/03		
32	Set up SS Contract Auditor Agreement	1 day?	Wed 22/10/03	Wed 22/10/03		
33	Site Visit	1 day?	Tue 28/10/03	Tue 28/10/03		
34	Report to CBC secretary	1 day?	Wed 29/10/03	Wed 29/10/03		
35	CBC meeting	1 day	Tue 11/11/03	Tue 11/11/03		
36	Stage 5: Supplier Transition	16 days?	Fri 31/10/03	Fri 21/11/03		
37	Notify nominated supplier	1 day?	Wed 12/11/03	Wed 12/11/03		
38	Notify existing suppliers	1 day?	Fri 31/10/03	Fri 31/10/03		
39	Agree Transition Plan with Supplier	2 days?	Wed 12/11/03	Thu 13/11/03		
40	Information and debriefing Meeting for Existing Suppliers	2 days?	Fri 14/11/03	Mon 17/11/03		
41	Obtain all access cards and keys	3 days?	Wed 12/11/03	Fri 14/11/03		
42	Resolve any contractual issues	6 days?	Wed 12/11/03	Wed 19/11/03		
43	Obtain any spare/asset parts MCC property	6 days?	Fri 14/11/03	Fri 21/11/03		
44	Stage 6: New Contract	14 days?	Wed 12/11/03	Mon 1/12/03		
45	Finalise negotiations with Supplier	3 days?	Wed 12/11/03	Fri 14/11/03		
46	Agree KPI's and Reward	6 days?	Wed 12/11/03	Wed 19/11/03		
47	Set Monthly and Quarterly Meetings and Agendas	1 day?	Mon 17/11/03	Mon 17/11/03		
48	Amend Contract	2 days?	Wed 19/11/03	Thu 20/11/03		
49	Obtain Confirmation of Insurance and Bond	3 days?	Wed 12/11/03	Fri 14/11/03		
50	Sign Contract	1 day?	Mon 24/11/03	Mon 24/11/03		
51	BMC Transfer of Knowledge across to Supplier	13 days?	Wed 12/11/03	Fri 28/11/03		
52	Contract Commencement	1 day?	Mon 1/12/03	Mon 1/12/03		
53	Stage 7: Communications	31 days?	Wed 12/11/03	Wed 24/12/03		
54	Planning for Community Board Presentations	6 days?	Wed 12/11/03	Wed 19/11/03		
55	Book presentations on agenda	18 days?	Mon 1/12/03	Wed 24/12/03		
56	Discuss Presentations with MCC Comms Dept	18 days?	Mon 1/12/03	Wed 24/12/03		
57	Community Bd Meeting - Mangere and Pakuranga	18 days?	Mon 1/12/03	Wed 24/12/03		
58	Community Bd Meeting - Clevedon, Howick and Papatoetoe	18 days?	Mon 1/12/03	Wed 24/12/03		
59	Community Bd Meeting - Manurewa and Otara	18 days?	Mon 1/12/03	Wed 24/12/03		
60	Facility Users Presentations	18 days?	Mon 1/12/03	Wed 24/12/03		
61	Stage 8: Partnering	64 days?	Fri 14/11/03	Wed 11/02/04		
62	Initial Introduction of Teams	1 day?	Fri 14/11/03	Fri 14/11/03		
63	Hold Partnering Planning Meeting	1 day?	Tue 25/11/03	Tue 25/11/03		
64	Attend Workshop	1 day?	Wed 11/02/04	Wed 11/02/04		
65	Stage 9: Systems	11 days?	Wed 12/11/03	Wed 26/11/03		
66	Review Financial/Cost Centre Structure/Data structure	11 days?	Wed 12/11/03	Wed 26/11/03		
67	Integrate Suppliers Systems with Call Centre and CONFIRM	6 days?	Wed 12/11/03	Wed 19/11/03		
68	Set up KPI measuring system	6 days?	Wed 12/11/03	Wed 19/11/03		
69	Set Benchmarks for contract current status vs future	11 days?	Wed 12/11/03	Wed 26/11/03		

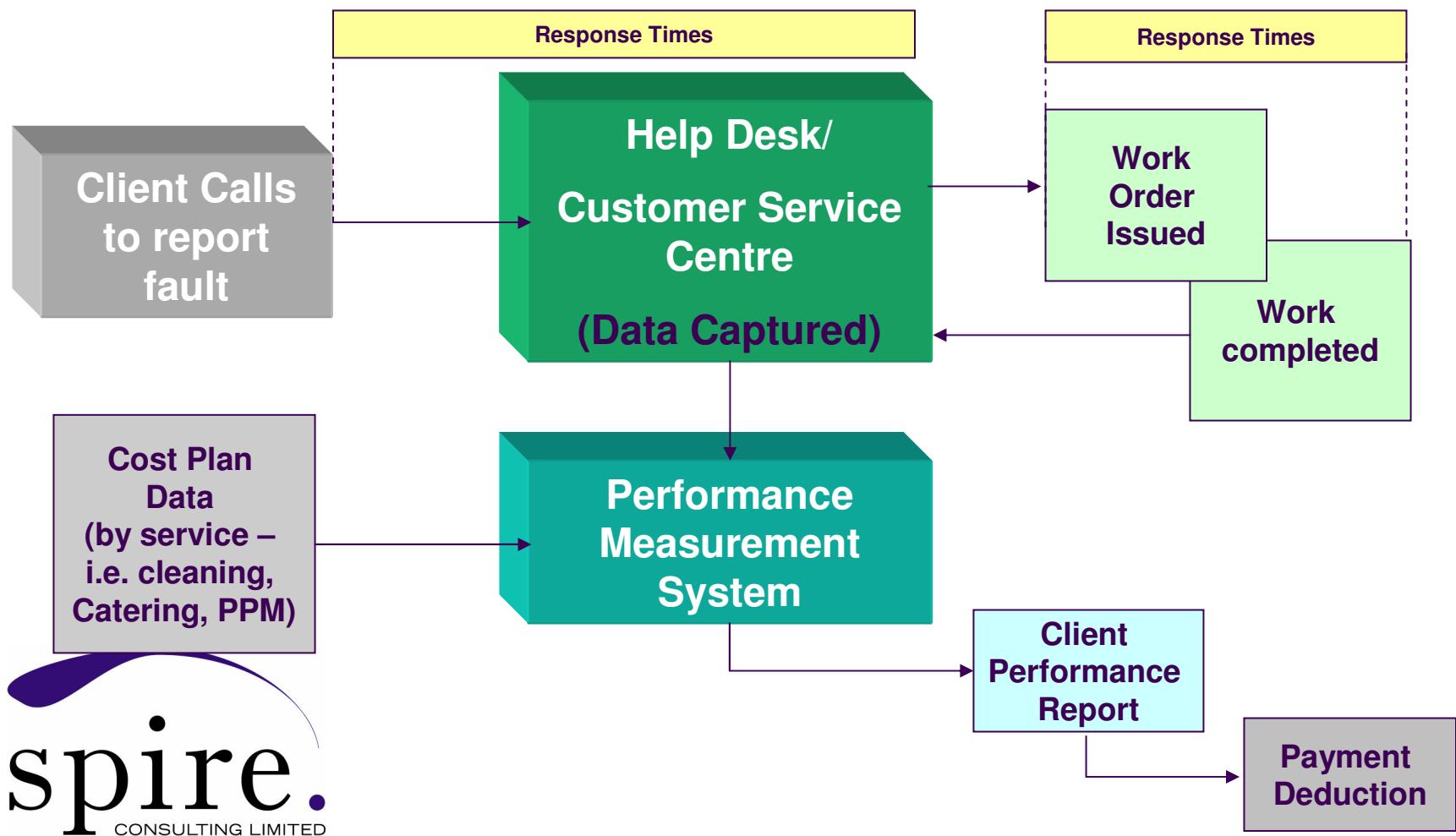




PERFORMANCE MEASURES

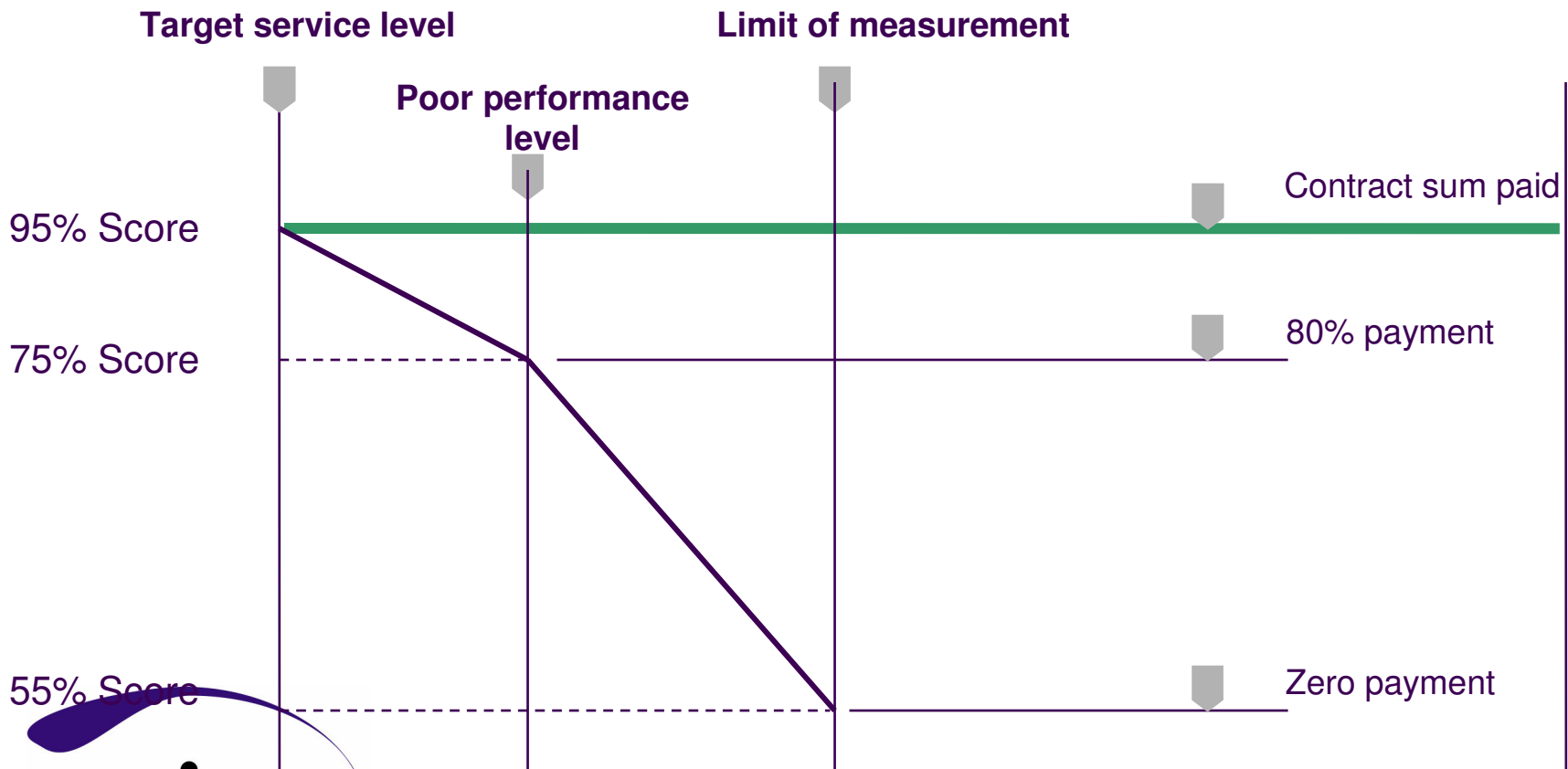
TASK REQUIRED	TASK DESCRIPTION	WORKLOAD INDICATORS	RELEVANT POLICIES & STANDARDS	TASK CONSIDERED WITHIN SCOPE OF FEE	PERFORMANCE MEASURES	MINIMUM PERFORMANCE STANDARDS	REWARD/ DEDUCTION VALUE
<u>LIFT & ESCALATOR SERVICES</u>	<i>Preventative, programmed, corrective maintenance and repairs on all nominated sites (refer "Plant & Equipment Asset Register") including all labour, materials, plant, equipment, temporary works, reinstatement, and transport required</i>	Refer "Plant & Equipment Asset Register". Lifts & Escalators <i>Comprehensive Pricing Coverage</i>	New Zealand Building Act 1991, New Zealand Building Code 1992, Health & Safety in Employment Act 1992 and all other statutory Acts, Regulations or bylaws related to the provision of lift & escalator repairs & maintenance services. Manufacturers Maintenance and Servicing Recommendations.	Provider to manage any sub-contractor activity to the equivalent (or better) standards. Ensure all routine inspections and servicing requirements are completed to extend the life of the assets and ensure they continue to operate safely & efficiently	1. Completion time of planned and unplanned maintenance in response to "Relevant Polices and Standards" column and subsequent forwarding of all related documentation monthly or as directed	98% of completion times and documentation achieved	\$500
					2. All breakdown requests responded to within 1 hour onsite, once onsite immediately notify users of all shutdowns.	100% compliance	\$2,000
					3. Emergency breakdown call-outs (i.e. person stuck in lift) respond immediately.	100% compliance	\$2,000
					4. Percentage of non-compliance with legislation	100% compliance with all legislation	\$500
<u>CUSTOMER SERVICE LIFT & ESCALATOR AVAILABILITY</u>	<i>Proactively manage lifts & escalators to minimise disruption to users.</i>	Refer "Plant & Equipment Asset Register". Lifts & Escalators <i>Comprehensive Pricing Coverage</i>	New Zealand Building Act 1991, New Zealand Building Code 1992, Health & Safety in Employment Act 1992 and all other statutory Acts, Regulations or bylaws related to the provision of lift & escalator repairs & maintenance services. Manufacturers Maintenance and Servicing Recommendations.	Ensure all work is carried out to minimise disruption to users and ensure assets are maintained to minimise noise & vibration problems	1. Provide an effective 24hr customer call out service.	100% compliance	\$3,000
					2. Provide a minimum 24 hr notification to ACC & users of all planned shutdowns.	100% compliance	\$2,000
					3. Fault rate <0.5 faults per lift/escalator per month	90% compliance	\$500
					4. <4% all repairs per year require a return visit due to faulty workmanship	100% compliance	\$500

SLA Measurement Process (Example)





Performance Monitoring – Typical Payment Deduction Scale



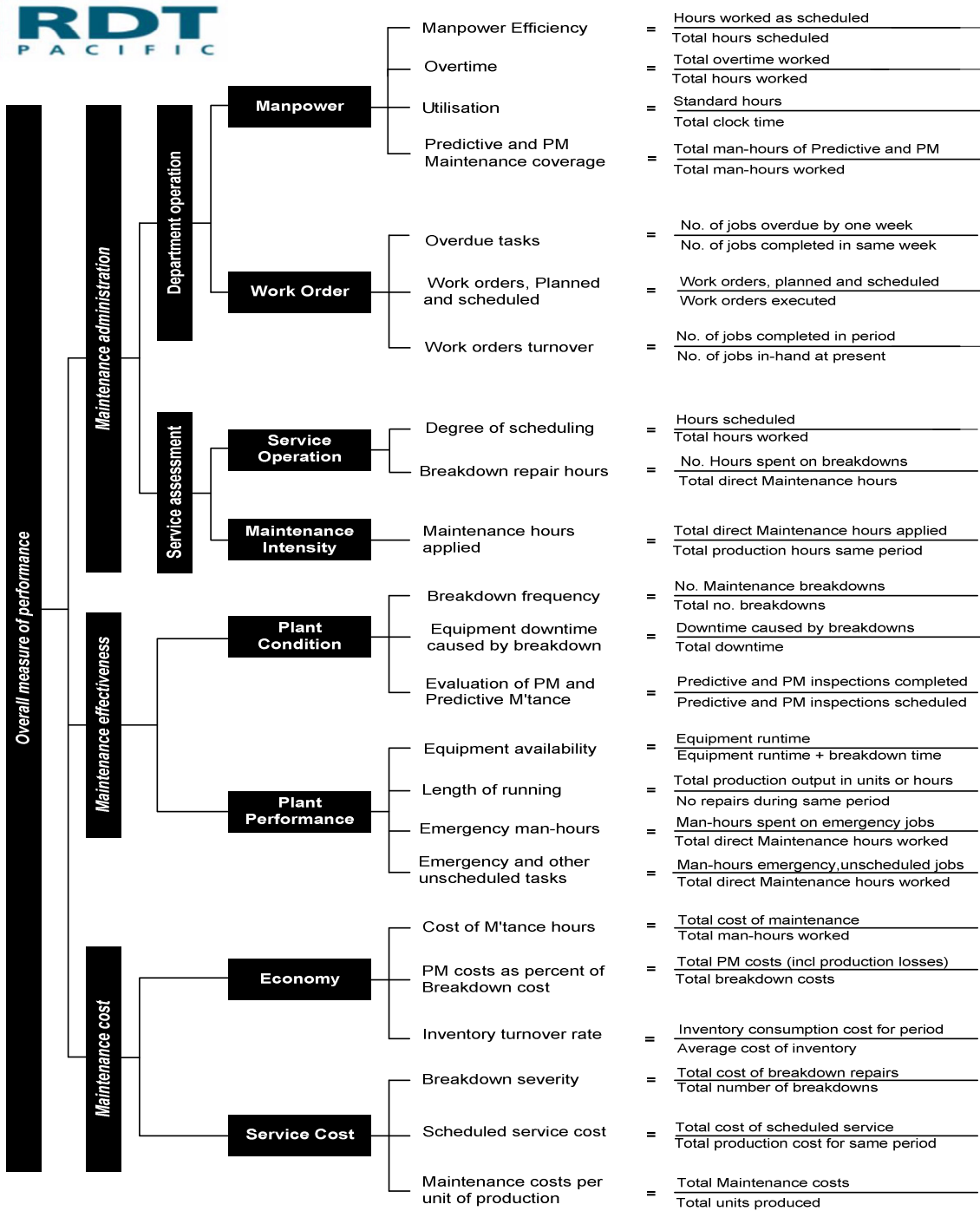


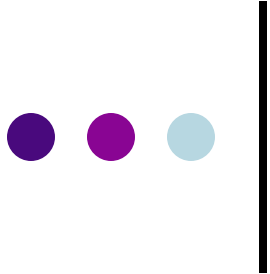
Measurement of Quality – Best Practice

- Performance Measurement Score benchmarks
- Number of Unavailability incidents (i.e. power supply failures to computer suites etc.)
- Customer Satisfaction Surveys
- Trend analysis - Help Desk Work Orders
- Self reporting scores
- Joint Audit programme (internal/external)
- Continuous Improvement Process
- Number of complaints & compliments



Managing Performance: ALIGNING KPI's





Defining KPI's / Key Performance Drivers/SLA's

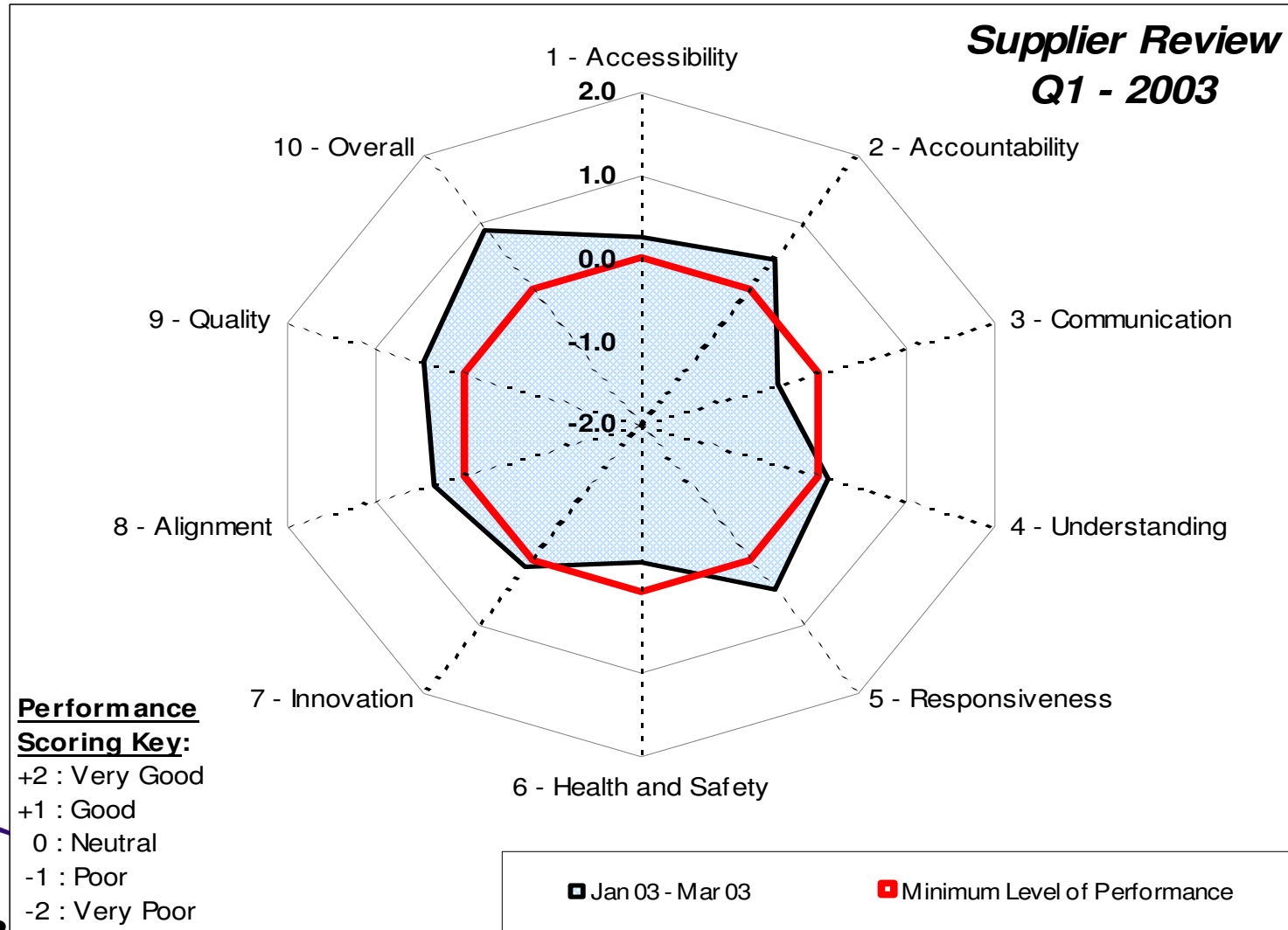
- **Criticality of business operations** – Critical Zones i.e computer suite, office, production line,Zone A, B, C etc
- **Response Times** – Responding to a call (e.g. release of trapped person in a lift – 30 minutes, Air Conditioning failure -1 Hour.....)
- **Rectification Period** – time to rectify a fault - e.g light in an office 4 hours or in a store room say 2 days.
- **Availability Criteria**– meeting Required Accommodation Standards – e.g heating, lighting, cooling parameters etc (i.e. 20 -24°C & RH 30% – 70%) etc
- **Repeat Failures Ratchet Mechanism** - plant/equipment feeding critical zones.
- **Service Requirements and Performance Standards** – defines the output requirement



CONTRACT CONTROL GROUP MGT.

CCG FREQUENCY	PURPOSE AND OUTCOMES
Weekly/Fortnightly :	<ul style="list-style-type: none"> ▪ Communicate day to day activity and confirm/reassure 'business as usual' operations. ▪ Review of previous week completion of levels of service ▪ Closure of issues ▪ Brief overview of forward work plans and any unscheduled activity ▪ Weekly 'highlights', 'low-lights' and 'red lights' ("dash-board" balanced score card indicators work well here).
Monthly:	<ul style="list-style-type: none"> ▪ Review of monthly contract performance (usually best presented via a formal monthly report) including service call numbers, type and frequency, etc. ▪ Overview of financial contract progress (actual spends against budgets) ▪ Review of PBC Key Performance Indicators and consequence of metric scores for risk and reward monies ▪ Review of any audit results ▪ Confirmation of legislative compliance
Quarterly:	<ul style="list-style-type: none"> ▪ Review of formal quarterly Customer Satisfaction Survey (CSS) ▪ Growth and development review to discuss any value improvement opportunities and initiatives that could be implemented in the next quarter. ▪ Quarterly financial review – wash up and review on past quarters financial performance, suppliers resource allocations and profitability. ▪ Formal scope and specification assessment. Identification of scope and specification changes that will impact either operationally and/or fiscally on the contract. ▪ Strategic changes. Organisational or market changes that are likely to impact on the contract and the contract managers the next quarter.

CUSTOMER SATISFACTION SURVEYS.





ENCOURAGING SUPPLIERS.

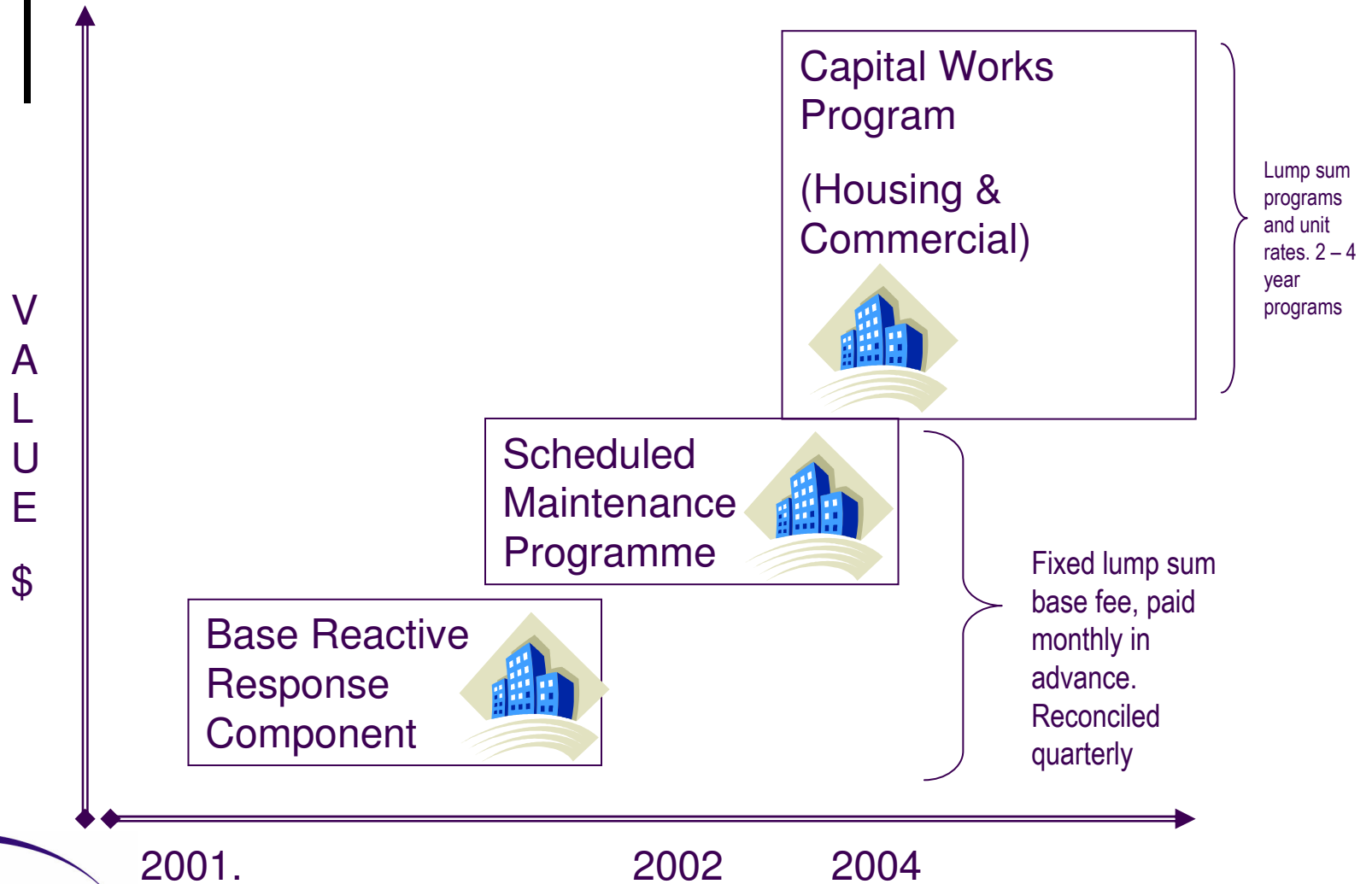
Supply Chain Optimisation:	<ul style="list-style-type: none">▪ Aggregated volumes and scope that make it attractive for the supplier to invest in meeting the organisations needs.▪ Focused contract 'account' management.
Focus on Performance:	<ul style="list-style-type: none">▪ Develop clear standards or performance through Performance Based Contracts. Need to ensure that the quality/cost/risk trade-off is defined in line with the organisations objectives.▪ Regularly monitor through key performance indicators.▪ Provide objective feedback.
Develop Strategic Alliances through Partnering:	<ul style="list-style-type: none">▪ Joint problem solving▪ Work on the relationship as well as the contractual aspects.▪ Co-dependency and collaboration.



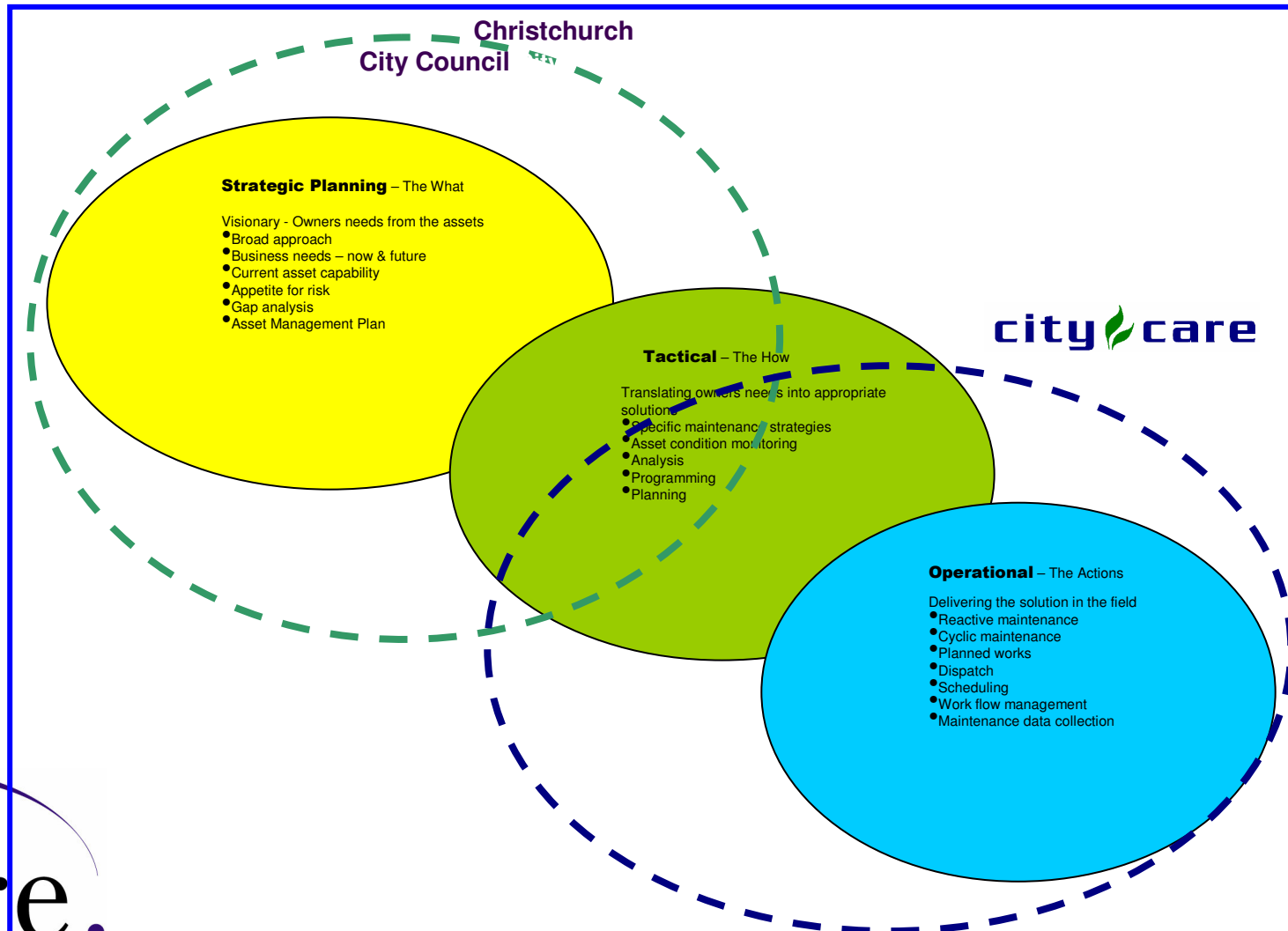
City Council Facilities Procurement Models

URBAN TLA	PROCUREMENT MODEL
<p>Auckland City Council</p> <p>Built Assets Portfolio (Commercial, Civic Bldgs, Leisure, Toilets, and Libraries)</p>	<p>Single FMM Service Provision with Wiltek Maintenance Ltd.</p> <ul style="list-style-type: none"> ▪ Includes; all building, engineering/building services maintenance (electrical, HVAC, plumbing, painting, glazier, locksmith, carpentry, emergency generators, emergency lighting, gib stopping), gutter cleans, graffiti removal. (Fire Services Maintenance separate). ▪ Contract Model – <ol style="list-style-type: none"> 1. Reactive Ready Response Maintenance: 2. Scheduled Maintenance (SMP) 3. Project Works (discretionary) 4. Management Fee inclusive.
<p>Manukau City Council</p> <p>Built Assets Portfolio (Commercial, Housing, Leisure, Pools, Civic Bldgs, and Libraries, City Toilets, Community Bldgs)</p>	<p>Single FMM Service Provision with United Group.</p> <ul style="list-style-type: none"> ▪ Includes; all building, engineering/building services maintenance (electrical, plumbing, HVAC, Fire Services, glazer, locksmiths, painting, carpentry, emergency generators, floor coverings, emergency lighting, gib stopping), gutter cleans, pest control, rural water testing, graffiti removal, grounds for housing portfolio. ▪ Contract Model – <ol style="list-style-type: none"> 1. Reactive Ready Response Maintenance: 2. Scheduled / Planned Maintenance (SMP) 3. Project Works (discretionary) 4. Management Fee
<p>Wellington City Council</p> <p>Single Supplier - Split into two contracts:</p> <ol style="list-style-type: none"> 1. Housing 2. Commercial, , Leisure, Pools, Civic Bldgs, and Libraries, City Toilets, Community Bldgs 	<p>Two Contracts FMM Service Provision with Transfield Services Ltd. Under Review/re-tender.</p> <ul style="list-style-type: none"> ▪ Includes; all building, engineering/building services maintenance (electrical, HVAC, plumbing, glazer, locksmiths, painting, carpentry, emergency generators, floor coverings, emergency lighting, gib stopping), gutter cleans, grounds (for housing). ▪ Housing Contract Model – <ol style="list-style-type: none"> 1. Reactive Ready Response Maintenance: 2. Scheduled / Planned Maintenance (SMP) 3. Project Works (discretionary) 4. Management Fee ▪ Commercial Contract Model – <ol style="list-style-type: none"> 1. Reactive Ready Response Maintenance: 2. Scheduled / Planned Maintenance (SMP) 3. Project Works (discretionary) 4. Management Fee


CCC Partnering Maturity

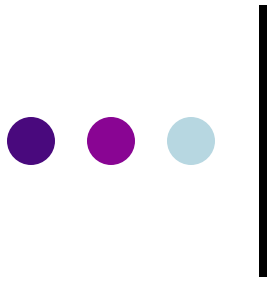


CCC – Mature FMM Procurement Model

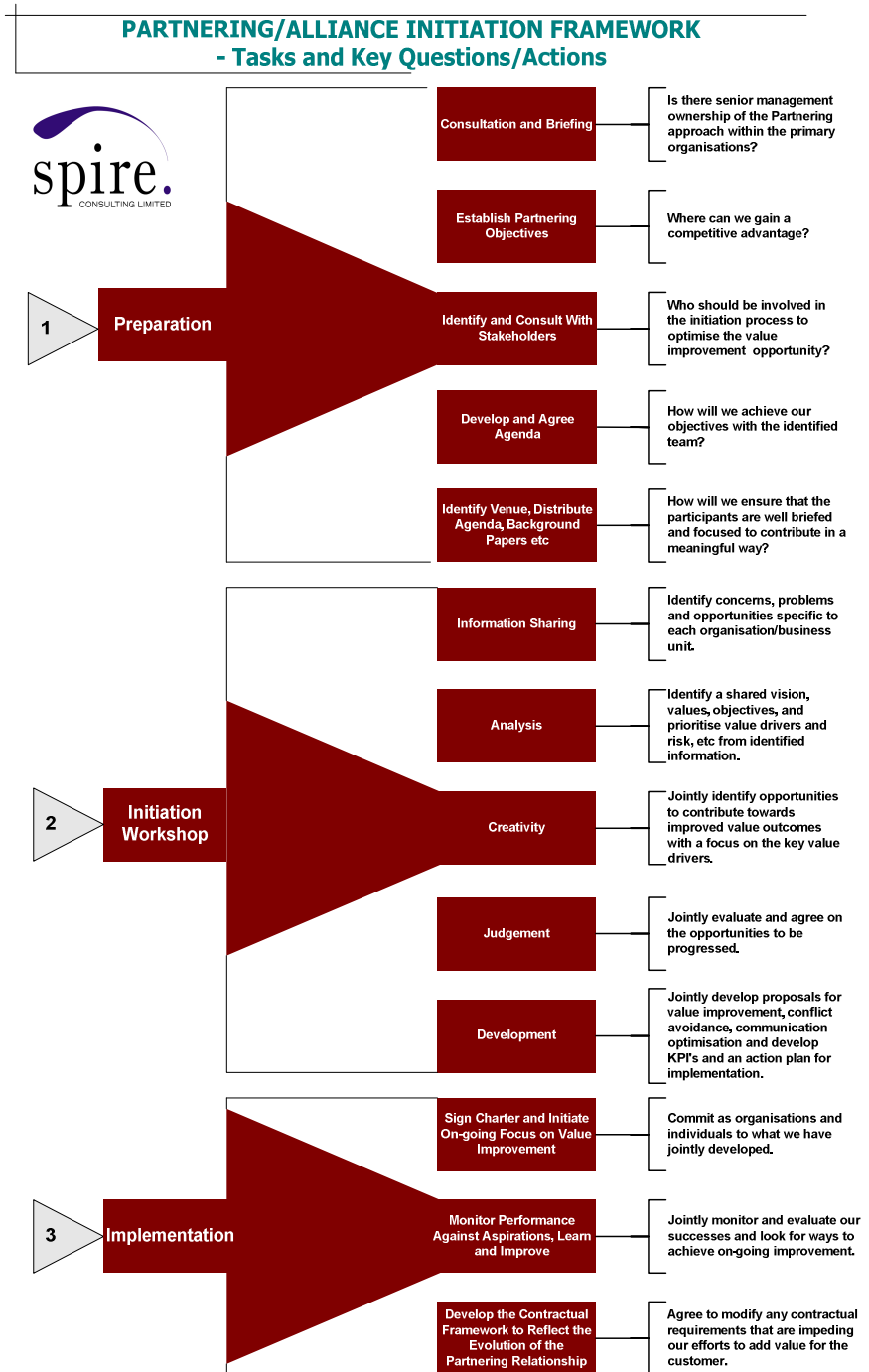


CCC Partnering Maturity

		Council Primary Function	City Care Primary Function
Strategic <i>The What</i>	Strategic asset management planning, including the preparation and development of Asset Management Plans		
	Understanding the organisations demand / needs requirements		
	Liaison and relationship management with business stakeholders		
	Asset capability assessment		
	Maintenance planning and deployment, including budget development and management	Shared Roles – Joint Action	
	Performance monitoring	Shared Roles – Joint Action	
	Property asset condition monitoring	Shared Roles – Joint Action	
	Project planning and management	Shared Roles – Joint Action	
	Exit strategy development and implementation		
Tactical <i>The How</i>	Working smarter to deliver better / more efficient & effective maintenance & renewal solutions / outcomes		
	Translating the asset managers / owners needs into appropriate maintenance solutions and budgets		
	Optimising the delivery of 5 -10 year maintenance and renewal strategies / programmes (from a building industry perspective)		
	A 'ground up' approach to maintenance (analysing expenditure / data to recommend alternative maintenance / renewal strategies)		
	Explore and investigate the best solutions, methodologies, materials etc to meet our customer's needs, in the most cost effective way.		
	Provide financial reporting / forecasting / budgeting		

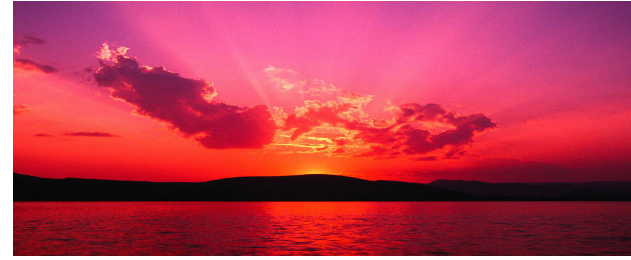


Spire Partnering Model Set Up





SYNOPSIS



- 1. - ANALYSE THE SUPPLY CHAIN**
- 2. - DETERMINE OPPORTUNITY TO OPTIMISE T.C.E & IMPROVE FACILITY PERFORMANCE**
- 3. - DETERMINE PROCUREMENT AND CONTRACT MODEL – FOLLOW A STRONG METHODOLOGY**
- 4. - EVALUATE BEST ‘VALUE’ SUPPLIER**
- 5. - APPOINT. MONITOR, COMMUNICATE & MEASURE**