

Building Maintenance Frameworks

Which is right for you?

Pick'n'mix

- Alliance contracting?
- One contractor or many?
- Pre-determined maintenance standards or assessed individually?
- Integrated with other agency functions or separate?
- Lump sum or schedule of rates?
- Variable fees or uniform annual fees?
- Performance based?
- Penalties or no?

The choices today are many. But what may be 'best practice' in one situation may be grossly ineffective elsewhere.

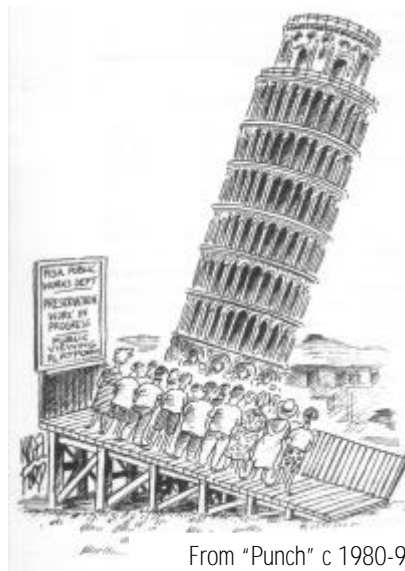
The solution? Pick'n'mix!

The key features of a number of different approaches are illustrated by the

Education, Police and Attorney General's Departments in New South Wales.

There is also information on an interesting 'cross agency regional pilot study'.

Further information is available in the May 2002 report on the NSW Standing Committee on Public Works "[Report on Government Building Maintenance](#)".



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Maintenance Arrangements: what do you want?

You probably want all of the items listed below, but some arrangements will satisfy some of these objectives more than others, as you will see in the case studies.

Improved performance at lower cost

administration costs

A prime consideration for the Alliance Contract developed by the NSW Police Department (p. 324) was to reduce their administrative load – 11,000 individual invoices, cheques, transaction where 93% were for less than \$1,00.

maintenance costs

Another issue of importance to the Police Department was the fact that 80% of the annual budget was spent in May and June – indicating poor planning and placing considerable strain on the contracting system.

maintenance quality

Until 1996 school maintenance was undertaken on a cyclical basis that involved maintenance being undertaken at set intervals irrespective of the condition of buildings and facilities. (p323)

Higher level of client satisfaction – flexibility, responsiveness to need

Under the new maintenance arrangements for schools, school principals are involved in the annual planning of maintenance works with their local maintenance contractor. Previously schools had little input into what was done. (p323) Police went into an alliance contract where the work scope is determined on a case by case basis between client and contractor. (p324)

Predictable and even flow of expenditures

Facility management approaches, where a contractor provides a full range of services to maintain a site, are often priced at fixed annual cost where an agency agrees to pay an annuity to the contractor over several years. The contractor has the discretion to use whatever maintenance management methods are appropriate providing that a minimum standard of facility is maintained. The key to success here is accurate specification of work scope, outcomes and the condition standards required, but both client and contractor can benefit from knowing in advance what resources are committed/ available. (p324)

Greater control over maintenance and its integration with other services

One option increasingly used today is to bundle maintenance with other services (eg catering, security) but where the other elements in the bundle are considered core services, you may wish to keep maintenance 'in-house'. This was the case for the Department of Housing that wished to retain in-house control of its call centre because of integration with other services (see Committee's Report).

Performance Based Maintenance Management Contract: The Schools Facilities Maintenance Contract (SFMC)

Background

The NSW Department of Education and Training (DET) manages approximately 2225 schools. TRV \$13.7 billion and average age 30 years. 1,150 properties are heritage listed. Maintenance budget \$157 million for 2001/2002 (1.15% of TRV).

The current maintenance service contracts replaced cyclical maintenance, which provided a periodic overhaul (on average, five years for external maintenance and ten years for internal maintenance) as opposed to a constant service under the current arrangements.

Performance Based Contract—Key Features

- regional contract framework, 23 regions covered the state's 2225 schools. 20 Contracts let in 1998 to private sector for an initial 6-year period with an option to extend based on performance to 10 years. Remaining 3 managed by Department of Works and Services to serve as a reference benchmark.
- Contractors were required to upgrade the schools to a prescribed level and then maintain that level over the contract period.
- Contractors received even annual payments so they financed the up front costs of the upgrade. The idea is that they will recover these costs and make some small profit over the life of the contract. (See Issues, p327)
- Contract scope covered planned maintenance (condition based maintenance); essential urgent repairs; demountable installation and disconnection; annual condition assessments and miscellaneous works.
- The maintenance contractors provide a one stop shop maintenance service for each school and a 24 hours seven days a week emergency repair service.
- Contract identified key performance criteria against which the contractor is assessed every 6 months, including school client satisfaction. Poor performance against any of the criteria is considered unsatisfactory and continued poor performance is a substantial breach of contract.

Results to date

The new maintenance contract system has saved up to \$6 million per annum in administrative costs compared to the costs of administering 500-600 contracts per annum under cyclical maintenance to only 23 contracts over a 6-year period. Each year every school receives routine maintenance, based on the annual condition assessment, to ensure that the facilities are kept up to DET's minimum performance standard. School principals are involved in the annual planning of maintenance works with their local maintenance contractor. The contracting arrangements have a better than 98% satisfaction rating with clients.

Alliance Contracting:

NSW Police

Background

NSW Police has approximately 80 Region and Local Area Commands and approximately 1300 properties. TRV approx \$500m. Maintenance \$14m annually. To date the maintenance of property assets has been shared between Property Services Branch and Local Area commands, using in-house resources.

Alliance Arrangements—Key Features

- Single state wide contract for all NSW Police Properties (excluding leased premises and 400 police housing properties);
- 24-hour urgent maintenance call centre to be included;
- 5-year term plus 2 options for extension for 3 years;
- Management is through an Alliance Board with 2 representatives from the contractor and 2 representatives of the Service;
- Performance based structure with successful proponent earning a fee (in respect of profit and corporate overheads) based on performance against an agreed set of key performance indicators
- Remuneration structure for Transfield Services to whom the contract has been recently awarded
 - reimbursable costs (direct costs, contractor-supplied materials, sub-contracts and equipment) but excludes all overhead costs
 - project overhead costs (site/contract specific) have been submitted and negotiated with contractor
 - fee (covering profit and corporate overheads)The entire fee component is put at risk against the contractors performance
- Flexibility has been built in – as the contract moves forward the KPIs can be re-weighted to reflect the achievement of goals and changing priorities
- Fee modifier – if achievement level measured against the KPIs exceeds minimum for a given period, it may yield a fee modifier of, say 1.15; alternatively if it falls below, the fee modifier may be only 0.8.

Results to date

Contract has only just started and it is too soon to tell. The alliance contract represents a change from a decentralised to a centralised system. The Committee observed that maintenance organisation had shifted from local commander responsibility to a more centralised management, freeing up officers to deal with core service delivery. This is an apparent contrast to School Education where the situation has evolved in reverse, from a centralised approach with little input from school principals to a decentralised approach with more school principal participation. This was not seen as inconsistency, rather a move from extreme positions to a more balanced approach.

In-House Maintenance Management:

NSW Attorney General's Department

Background

Compared to Education and Police, the NSW Attorney General's Department's (AGD) asset portfolio is not large – a portfolio of 167 court complexes located throughout the state. 80% of the State's Court Houses have heritage value. Maintenance and minor improvement budget is approx \$13.6m annually.

Key Features of AGD's Maintenance Management Approach

- In-house capital works unit with responsibility for maintenance and upgrading (also procurement of office equipment, property leasing, vehicle fleet and asset management policy)
- A dual approach has been adopted
 - cyclical maintenance for standard courts, mostly country, and with moderate or low utilisation – on a five yearly basis
 - facilities approach for larger court complexes (about 20 of the 167)
- In 1998 the Department entered into a Service Level Agreement with the Department of Public Works and Services (DPWS) which identified DPWS as the preferred supplier of property services. The five property areas are defined as:
 - Project procurement (tendering and supervision of pre-design projects)
 - Pre-design (feasibility studies and technical analysis)
 - Design and Documentation (investigation, design and documentation of simple minor works)
 - Major capital works (total project delivery of capital works over \$0.5 million)
 - Maintenance and minor capital works (total project delivery of works under \$0.5 million)
- In 200 AGD replaced 200 local service contracts with 3 state wide contracts. The department argued that the benefit of awarding the three contracts at an annual cost of \$2.5 million was achieved at no additional cost to the previous system, and removed general repair co-ordination from AGD staff and placed it with the contractor..

Results to date

The amount of contract administration has been substantially reduced. The property of AGD is a mixture of smaller isolated, low use buildings and large multi purpose metropolitan centres. The mix of contract arrangements is designed to match this diverse portfolio - an example of 'pick'n'mix' in action!

Cross Agency Maintenance:

Regional Development Focus

Potential for extension to regional groupings of local government?

Multiple Agencies, One Contract Pilot Study

In the previous examples, the maintenance arrangements have covered an entire agency, however in December 2000, the NSW Government approved a Regional Procurement Program. The aim of the program is to realise savings to Government, enhance regional service delivery and create economic and regional community benefits including more investment and employment.

One aspect of this program is the Regional Maintenance Pilot in the Riverina (or the *cross agency pilot*). This program utilises the contract prototype developed in the School Facilities maintenance Contract by DPWS and the Department of Education (see p*) The SFMC contractor for the Riverina, CJC Maintenance Services, is the pilot contractor.

The purpose of the pilot is to test the carrying out of maintenance for all Government buildings on location rather than on an agency basis. The key task is the specification and co-ordination of a maintenance contract consisting of multiple agencies within a regional location.

The pilot is covering around 130 sites with maintenance works up to \$1 million from 6 participating agencies:

- Department of Education and Training (TAFE colleges)
- Attorney General's Department
- Department of Community Services
- Department of Health (Greater Murray Area Health Service)
- Roads and Traffic Authority
- National Parks and Wildlife Service

The contract will cover the planned maintenance works and minor and major replacement of participating agencies, an urgent repair service, miscellaneous works and some specified items of works.

Benefits are seen to be:

- Reducing the resources required to tender maintenance services on an annual basis;
- Delivering administrative savings which will be obtained through the use of a single contract structure, a single payment system and a single point of administration;
- Improving service outcomes, including guaranteed service performance, consistent service regardless of location, improved quality of service and enhanced volume of service due to the more effective use of funds;
- Benefits are also expected to flow to regional areas in terms of employment and local sourcing

Statewide or Regional Maintenance Contracts?

The PWSC report appeared to favour state-wide contracts because they felt that the economies of scale offered greater savings. However, experience from the UK points to the wisdom of moving into private sector partnerships in a small way when knowledge is limited.

UK experience – move slowly when information is low

In the case of the school contracts (p.323) the contractors had very little information on which to base their contract bids – just a ‘snapshot-in-time’ condition assessment. Almost no information on past maintenance trends was available and, in any case, it would have been of little use as the standard to which the contractors were now required to maintain was higher than had been achieved in the past.

The winners’ curse

Under these circumstances it would be surprising if all contractors were able to accurately judge the costs of bringing schools up to the new desired standard and keeping them there. If they failed to judge this accurately then they could have been up for expensive up front upgrading costs that they were unable later to recoup. It is understood that at least one contractor found himself in this position.

Suppose that this bidder had been the won to win the state-wide contract? Under the theory of the winners’ curse, it is extremely likely – *in conditions where information is thin on the ground* – that the one who bids the lowest, will bid too low to do the job!

Maintaining market competition

Another point worth considering is maintaining market competition. With one company dominating the market for six years, what chance is there for strong competition for contracts next time around?

Regional cross agency contracts

These would appear to offer the benefits of greater economies of scale, with the maintenance of market competition. There is the added advantage of regional economic benefits. The cross agency pilot is therefore worth watching.

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