

Review of Property Services Agreement

Ministry of Labour,
Citizens' Services and
Open Government

CONFIDENTIAL

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Final Report

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Executive Summary

Introduction

The Ministry of Labour, Citizens' Service and Open Government (the "Ministry") is responsible for providing a broad suite of real estate services to public agencies in British Columbia. The Ministry outsourced delivery of property management services (including project management services) to Brookfield LePage Johnson Controls ("BLJC") in April 2004. After one extension in 2009, the current Master Services Agreement ("MSA" or the "Contract") term ends March 2014, with provision for a further extension of up to five years. The Ministry wishes to make an end of term decision by the end of April 2012 to allow time for renegotiation, or re-procurement if necessary.

Deloitte was engaged on February 13, 2012 to conduct an independent evaluation of the MSA terms and service provider performance as well as advice on industry norms and market practices. This report outlines the key findings of our review.

Context

Shared Services BC ("SSBC"), a division of the Ministry, engages BLJC through its BC subsidiary Brookfield LePage Johnson Controls – Workplace Solutions Inc ("WSI") to provide property management services, along with asset maintenance, project management services, and environmental /pollution prevention and technical value services to its public agency customers. Customers include both mandated Ministerial clients and non-mandated broader Government clients.

SSBC, through its real estate arm, Integrated Workplace Solutions ("IWS"), retains accountability for managing relationships with its customers, providing strategic accommodation and real estate advice, establishing technical standards, and delivering project management services on projects greater than \$2M.

WSI provides services in all areas of BC where SSBC IWS has customers. BC is divided into three regions and these regions are further subdivided into building clusters.

Form of Contract

The WSI contract is a cost flow-through contract with a management fee component for administration (the "SP Fee"). WSI is reimbursed for its actual Operations and Maintenance (O&M) costs and project costs, without profit or mark-up.

Subject to legal confirmation, no exclusivity is provided to WSI (i.e., IWS is not bound to procure services through WSI during the term of the contract).

WSI provides IWS with a monthly invoice for costs incurred during that period. IWS then lodges the amount into an account that it holds in trust for WSI who then make withdrawals. IWS invoices its clients to recover the costs. In addition,

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IWS is responsible for the facilities management budgets of all mandated clients. It is also responsible for the majority of the budget of all projects greater than \$50K in value. The clients maintain their own budget for projects less than \$50K and may have budget for some additional services. Non-mandated clients retain responsibility for their entire budget.

Source of Fee Earning

The SP Fee includes following fees:

- Management Fee: part of which adjusts for portfolio size, to cover WSI's overhead and general management costs. This fee also includes an:
 - At Risk Fee – S17
 - and S17
 - Performance Bonus – S17
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- O&M Supervision Fee: S17
- Project Management Fee: fee for project management of projects greater than \$50K S17
- Additional Service Fee: fee for performance of additional services requested based on a predetermined hourly rate; and S17
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Methodology and Findings

Deloitte carried out a series of interviews with key personnel in IWS, Mandated Ministries, Ministry Facilities Management ("FM") units and WSI to gather information to support a structured assessment of service quality based around Total Quality Management principles. Details of the methodology used are contained in the main body of the report. Readily available data was gathered and assessed, with comparisons against market norms based on Deloitte industry knowledge where this was available and effective comparisons could be drawn. The data review was used to support both the service quality review and a Value for Money assessment. A summary of the key findings is presented below.

Service Quality Assessment

There do not appear to be major service quality issues relating to WSI's day-to-day delivery of facility management services to the Mandated Ministries. However, targets appear soft and should service issues arise, the current processes and contract terms would make them difficult to resolve

WSI's service delivery performance against the Key Performance Indicators ("KPIs") does not appear to be contractually defined. S17 The regime used to monitor

WSI score S17 on the overall KPI mechanism with the latest annual report showing a score of

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Value for Money Assessment

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Conclusions

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The overall delivery model, including that of the various IWS departments involved in either the customer or WSI interface,

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Next steps

Under the terms of our engagement we were asked to advise on the pros and cons of SSBC re-negotiating or re-tendering all or part of the services currently provided by WSI. An in-sourcing option was not assessed as it was not raised through the interview process as a practical or viable option under the current environment of government cut backs.

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At this stage we do not feel that there is sufficient information to make an informed decision on the best way forward. Our recommendation is that SSBC undertake the following work to put it in an appropriately informed position:

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Background

Deloitte has been engaged to undertake an independent operational review of SSBC's contract with BLJC-WSI to help inform its contract strategy post the expiry of the current contract in March 31, 2014.

The objectives for the study are to:

- Assess if the services being delivered by WSI meets current end-user requirements;
- Understand the potential sources of any underperformance;
- Assess the options for improvement; and
- Assess the impact this may have on options for the future contract strategy.

Contract Description and Background

Shared Services BC ("SSBC"), a division of the Ministry of Labour, Citizens' Services and Open Government, engages Brookfield LePage Johnson Controls ("BLJC") through its BC subsidiary Brookfield LePage Johnson Controls – Workplace Solutions Inc ("WSI") to provide property management services, along with asset maintenance, project management services, and environmental /pollution prevention and technical value services, through a Master Service Agreement ("MSA" or the "Contract") which is monitored and managed for SSBC through its property arm Integrated Workplace Solutions ("IWS").

SSBC retains accountability for managing its relationship with customers, providing strategic accommodation and real estate advice, establishing technical standards, and delivering project management services on projects greater than \$2M.

WSI provides services in all areas of BC where SSBC has customers. BC is divided into three regions and these regions are further subdivided into building clusters. Customers include both mandated Ministerial clients and non-mandated, broader Government clients.

Contract Negotiations

WSI has been SSBC's facilities provider since April 1, 2004. Its current contract expires March 31, 2014. The rationale for implementing the outsourced service delivery model in 2004 was to enable SSBC to evolve as a shared service provider by shifting the delivery of non-core government services to the private sector, which would allow the organization to focus on providing strategic accommodation planning and real estate advisory services and asset stewardship to Government and customer.

On September 30, 2009, the Contract was amended and restated to achieve compliance with current provincial legislation, regulations and policies (e.g. FOIPPA) and to incorporate future conditions for the next renewal term, if the Province chooses to exercise it. SSBC amended the Contract with BLJC-WSI to address the restructuring of the organization from a crown corporation (formerly known as BC Buildings Corporation) to a division within a ministry structure (renamed Shared Services BC).

The contract renegotiation intended to use the lessons learned from the first contract term to suggest changes to the renegotiated contract. Both parties employed open talks to identify the key areas of focus for the negotiations.

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Basis of Payment

The Contract is a cost flow-through contract with a management fee component for administration (the "SP Fee") and project management fee payable on project over \$50K. WSI is reimbursed for its actual O&M, project cost and other costs incurred.

WSI provides SSBC with a monthly invoice for costs incurred during that period. SSBC then lodges the amount into an account that it holds in trust for WSI who then make withdrawals. S13, S17

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IWS is responsible for the facilities management budgets of all mandated clients. It is also responsible for the budget of all projects greater than \$50K in value. The clients maintain their own budget for projects less than \$50K and may have budget for some additional services. Non-mandated clients retain responsibility for their entire budget.

Source of Fee Earning

The SP Fee includes following fees:

- Management Fee: S17 part of which adjusts for portfolio size, to cover WSI's overhead and general management costs. This fee also includes an:
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 - Performance Bonus – S17
- Project Management Fee: fee for project management of projects greater than \$50K S17
- O&M Supervision Fee: S17
- Additional Service Fee: fee for performance of additional services requested based on a predetermined hourly rate; and

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Contract Costs

In 2010/2011 the total fees payable to WSI under the contract were \$160M.

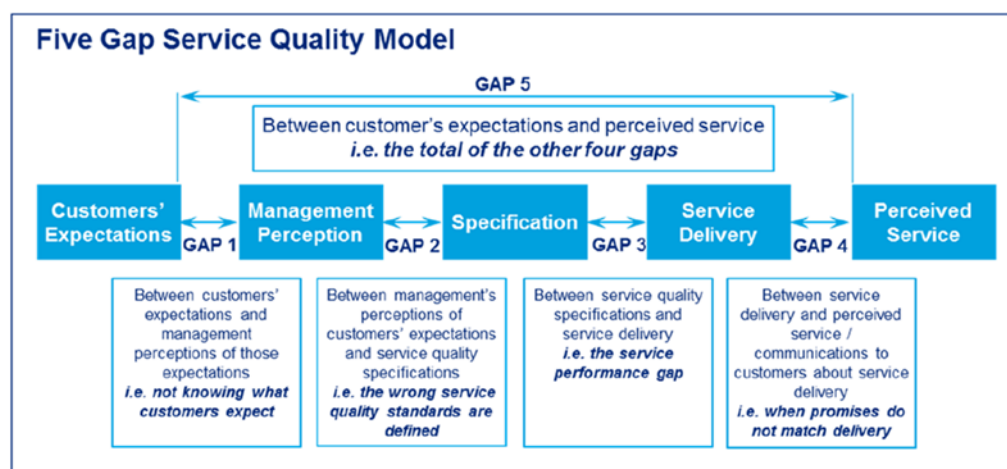
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Our Methodology

Service Quality Assessment

To achieve the objectives of the study, Deloitte adopts a methodology from Total Quality Management principals called the Five Gap Model (the “Model”) of Service Quality. The Model identifies the gaps between the customer’s expectations and the perceived service. These are identified through a process of data gathering and structured interviews. The Model has been used to determine the extent to which WSI is meeting customer’s service expectations.

Figure 2 - Model of Quality Service



This report reviews Gaps 1, 2 and 3 with a focus on how contract specifications are created, delivered and subsequently monitored. An assessment of the adequacy and/or deficiencies of these efforts are catalogued simultaneously in the report. Also captured in this report is Gap 4, the perception of the delivered versus requested services, principally addresses the concerns as related to communications. The combination of each of these stages develops the overall service requirements which is captured within Gap 5.

Through our process, and as a result of varied availability of information and differences in process, we have opted to create two assessments. As a result the Operations and Maintenance (“O&M”) work has been considered separately from project work as the processes around these services are sufficiently different.

In contrast to the above Model, which recognizes one “customer”, in this report we recognize two distinct customer groups: the end user, building occupants (referred to interchangeably as the “Clients” or “Customers”) and the Facilities Contract Management Branch (“FCMB”) within the Ministry. The customer groups may have a different experience of working with WSI and expectations from the Contract.

In addition to the interviews; financial and management information on the Contract has been provided by IWS. Together with details of the payment regime in the Contract this information has been used to determine the extent to which WSI is likely to be providing Value for Money.

The Contract is constructed as a cost pass-through arrangement with a management team provided by WSI for a \$17 management fee. This report considers the type of contract supervision regime and methodologies required to manage this form of contract, along with the processes that should be in place and then compares these to actual practices.

Value for Money Assessment

No financial assessment of actual costs and costs metrics has been undertaken. In our experience of undertaking reviews of this type of contract, this would be unlikely to deliver meaningful information unless a highly detailed study were undertaken that was able to reflect such influences as property type and usage, geographic location, age of the buildings and service levels and scope.

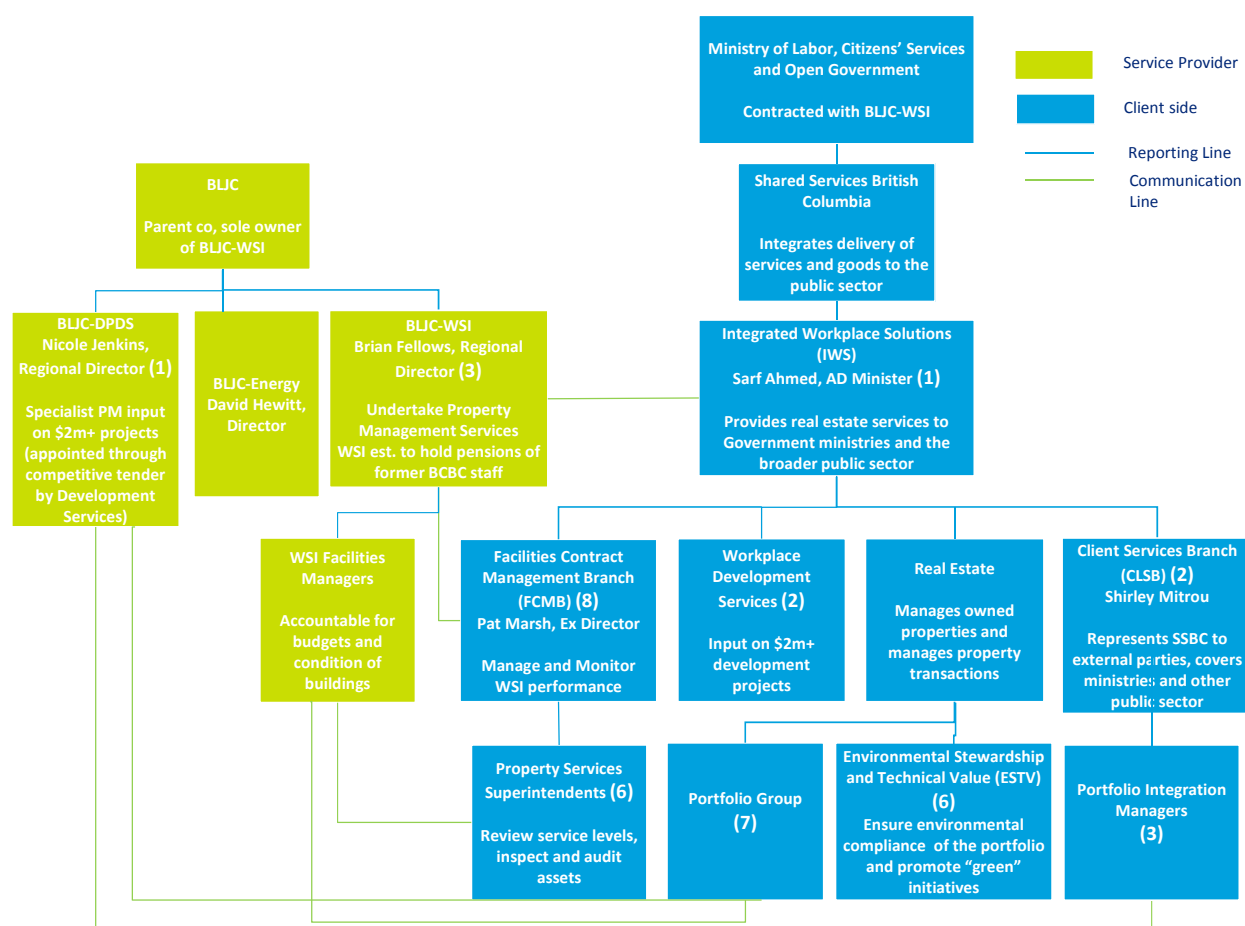
Our Value for Money assessment is therefore based on examining the extent and robustness of management processes reports given the cost flow through basis of the Contract.

In arriving at our findings 12 stakeholder interviews have been undertaken and approximately 170 documents reviewed. Our findings have also been tested with FCMB.

Figure 3 demonstrates our understanding of the delivery model through which WSI's services are managed. It also shows the number of stakeholders in each area that have been engaged as indicated in brackets.

Supplementary to this report, we have provided IWS with documentation of our interviews and resources which includes a comprehensive list of those engaged in the process together with a list of documents received and read as part of this process and details of who was on the FCMB team with whom the findings were tested.

Figure 3 - BLJC-WSI / IWS Relationship – Number of Stakeholders Engaged under this Assignment



O&M Service Quality Assessment

Description of O&M Services

WSI provide O&M Services which include janitorial services, grounds maintenance, mechanical and electrical, repair and maintenance, energy management and landlord liaison and management. WSI also provides an Operation Centre which receives calls and requests from clients for services.

O&M costs, both pass-through costs and supervisory costs, make up the majority of contract costs and were

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The Contract states that service standards must at a minimum meet all regulatory standards and service level standards and policies.

The level of service provided by WSI is measured annually by IWS through the following means:

- Tenant Satisfaction Survey (TSAT) – a survey designed to solicit feedback from a sample of tenants on a range of property management issues. The attributes measured are building appearance, cleanliness, safety, systems, environment, and building management;
- Operations Centre Caller Satisfaction Survey – a survey to evaluate overall caller satisfaction relative to the total lifecycle of service call management administered monthly to a minimum of S17 of previous periods Completed Service Requests;
- Service Recovery / Issues Management – the Operations Centre tracks customer service complaints and the results of poor Customer Satisfaction Survey (CSAT) scores. At the end of the year, the Operations Centre is expected to survey S17 of the total service complaints and poor CSATs;
- Property Services Building Services Inspections - SSBC Property Services Superintendents (“PSS”) perform property services inspections to evaluate the condition of the site, building exterior, roof, interior finishes, cleaning services and building systems / regulatory items. The inspection monitors the property conditions to ensure that they meet health and safety standards and also the standard requirement to meet SSBC’s role as steward of the property. The inspections are carried out on a monthly basis;
- Building Cleaning - each month the condition of the building cleaning is to be inspected jointly by BLJC-WSI and SSBC using the cleaning inspection FM 6-1 form. In the event that the PSS cannot attend, the WSI FM will carry out the inspection;
- Service Request Response Time - measures the length of time between a client service request and that request being completed; and
- SSBC Assessment of Service Provider – a subjective measure used to document SSBC’s overall satisfaction with BLJC-WSI’s service delivery performance during the fiscal year in terms of enhancing efficiency, effectiveness and partnership between SSBC and BLJC-WSI to meet the objectives of the MSA and support continuous improvement of services delivered.

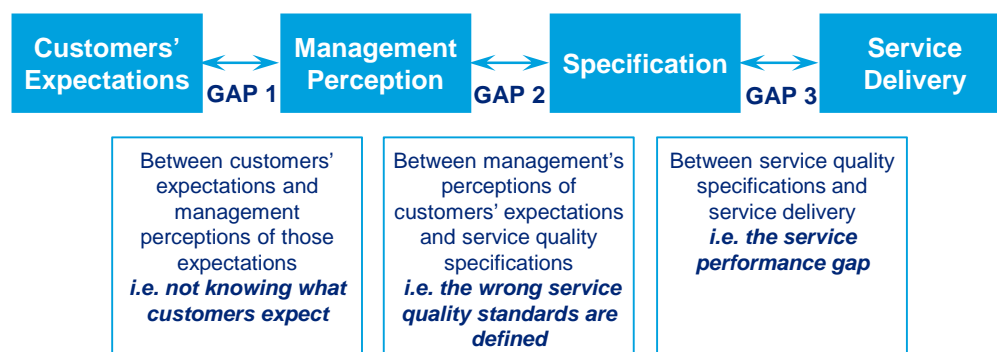
5 Gap Model of Service Quality Assessment Findings

The 5 Gap Model is used to assess the O&M Service Quality. The findings of this assessment are explained below, including evidence to support the findings and a description of how these deviate from expected industry standards. Project delivery service quality is examined in a following section.

Gaps 1, 2 and 3 – the gap between customer expectations and actual service delivery

The first three gaps refer to the process of creating and then delivering service requirements. Gap 1 looks at the understanding of end user requirement, Gap 2 at how these are captured in the contract and Gap 3 at how they are delivered. Our findings in this area cover all three gaps, with some issues that refer to a specific gap and others that refer to all three combined.

Figure 4 - Gaps 1, 2 and 3 of the 5 Gap Model



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Customers commented that they do not have details of all service specifications and work schedules in use

There does not appear to be an active discussion regarding services standards between the customer and WSI which creates the specifications. Customers commented that it was difficult to get the level of detail that they required. This suggests that end users and Ministry FM units are not formally consulted as part of the process of establishing service requirements.

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S13, S17 Methods /standards of reporting to end users vary, but typically end users will have signed off on standards and budgets during an annual round.

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WSI audit janitorial services but the audits do not refer directly to the specification used by the delivery workforce

For example, WSI audits for janitorial services check building elements for outcome standards but these are not directly aligned to the field specifications. We would expect to see an audit process established that refers directly to the specifications to verify that the required outcome standards are being delivered.

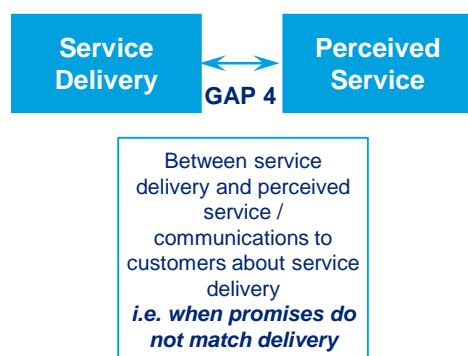
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S13, S17 An example is included in Appendix A to this report.

Gap 4 – the gap between actual service delivery and customer perceived service delivery

Figure 5 - Gap 4 of the 5 Gap Model



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S13, S17 While IWS has access to “Real suite”, a WSI program to capture all data gathered by the system, and the program contains a substantial amount of data, access to useful reports of information is not obvious or widely understood by all users.

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End user customers are not involved in setting service standards, nor are they consistently informed as to the service standards that are being delivered or expected to be delivered

Annual maintenance regimes are not communicated to Customers and they do not have an opportunity to provide input. Customers do not feel they are kept adequately informed.

Devolving budget control from Mandated Ministries to SSBC has resulted in a loss of mandate and control for these clients. The impact of change in accountability does not appear to have been communicated within the Customer organizations

Customers reported feeling disempowered over the removal of O&M budgets. They retained responsibility to their own departments for service standards but no power to achieve this.

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There is no formal process for communicating the standards of services actually delivered to Clients

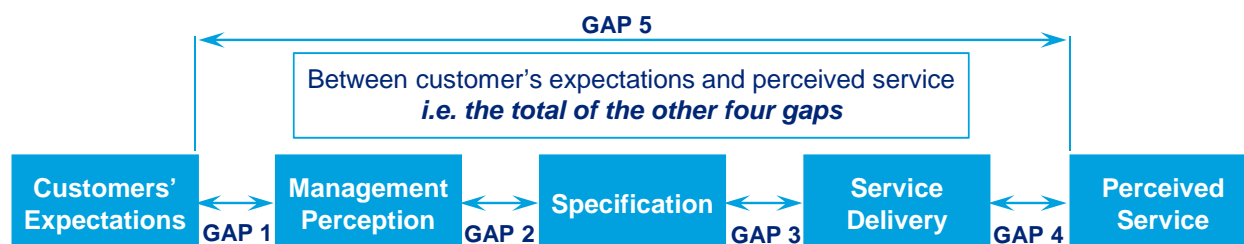
IWS do not specifically ensure that their clients understand the services that are being delivered by the Contract. Information and reports are not readily available to facilitate and inform discussions between IWS and its clients. More recently, IWS made some service changes to reduce costs, for example with regards to the cleaning schedule, and used a formal communications process for engaging with

clients. WSI were also involved with this process. However, we understand this to have been the first time such a formal process was used.

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Gap 5 – the gap between customer expectations and perceived service

Figure 6 - Gap 5 of the 5 Gap Model



Notwithstanding to above service comments, overall there appear to be relatively few quality issues in the delivery of the O&M services.

Client end users/building occupants have remained generally happy with the service standards delivered over the course of the Contract

TSAT scores have been constant over the term of the Contract and have risen recently. Complaints about service delivery standards are low.

IWS are content with the service standards delivered

KPIs are agreed between IWS and WSI with the most recent monthly KPI reports showing an overall score of S17. All Property Services Superintendents expressed a general level of satisfaction with the service levels as delivered. It should however be noted that the KPI targets are set S13, S17

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The market norm is for the services payment that is achievable by the contractor is based against a scale of achievement against KPIs. The full service payment is available once the target (say a score of 95%) is achieved. Below this level of performance, deductions are made.

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While Mandated Ministries are dissatisfied with some aspects of service provision, this does not seem significant overall. Dissatisfaction may be based on ineffective communication strategies and the lack of influence arising from the transfer of budgets to IWS

Clients did not express significant dissatisfaction with O&M services. Some dissatisfaction with janitorial services was specifically expressed but it was noted by the Clients that they were not well informed on service standards contained in the Contract. These Mandated Ministries have recently lost budget control and are therefore are unable to react to end user requirements. IWS has noted the need to implement a communication plan to introduce new initiatives such as the skip a day cleaning. Increased clarification or roles, expectations and responsibilities will create a greater level of understanding both internally and for its clients.

Overview of Findings

There do not appear to be major service quality issues relating to WSI's day-to-day delivery of facility management services to the Mandated Ministries.

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The Mandated Ministry end-user's service satisfaction appears to have remained fairly constant over the eight years of the contract. There do not appear to be any major geographic, customers or service line specific quality issues.

However, staff in the Mandated Ministries are increasingly less satisfied with the day-to-day O&M service quality. This may be due to the change in their role and increased need for communication and transparency around this. They are no-longer the budget holder but are seen as the primary interface by end-users.

The views of the Non-Mandated Ministries on service quality are not known. Although they account for approximately 20% of annual O&M spend by WSI, they do not form part of the TSAT process and IWS has not included them in the stakeholder group for this engagement.

WSI score S13, S17 overall on the existing KPI mechanism. The latest annual report shows an overall score of S13, S17 across all requirements. S13, S17

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Project Delivery Service Quality Assessment

Description of Services

BLJC-WSI provides project management and delivery services as part of the Contract. Projects are categorized by value as follows:

- less than \$50K;
- greater than \$50K but less than \$2M; and
- greater than \$2M.

Projects also include the Major Asset Maintenance (“MAM”) and the Mandatory Operating Equipment (“MOE”) programs.

WSI is typically involved in the following project activities:

- Scoping and budgeting the project;
- Providing technical input, typically through engaging specialist consultants; and
- Delivering the projects, through using a sub-contractor to carry out the work while WSI supervise.

WSI interact directly with the Customers and with several parties within IWS when delivering a Project. A high level representation of the project delivery process, as understood by the FCMB, is provided in Appendix C.

Project costs are charged by WSI to IWS on a flow through basis. On projects less than \$50K, WSI's project management labour/costs are recovered in the O&M Supervision Fee. S17

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Mandated Ministries retain control for project budgets under \$50K and SSBC retain control for projects greater than \$50K and less than \$2M, for the most part.

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For projects less than \$50K, the client provides approval of the RFS and for projects greater than \$50K, the PIMs within SSBC provide the approval. We understand that rarely is this approval withheld.

The level of services provided are measured annually through the following means:

- Project Completion Survey – administered by WSI immediately following Substantial Completion for all projects greater than \$10K to determine Client satisfaction for the process; and
- Project Timeliness – WSI calculates project lateness for all projects greater than \$10K as the difference between the Actual Substantial Completion date and the Estimated Substantial Completion date, which can be updated during the process with a Supplementary RFS.

These are good standard of measurement. However, other organizations will typically inspect more projects “on the ground”, with supervisor (or equivalents) more aware of project status and completion.

Service Quality Assessment

While the 5 Gap Model of Service Quality could be applied to the projects component of the Contract, it is not effective in this situation as the issues with project delivery are more fundamental; the service

delivery process is not sufficiently well structured to be able to be analyzed effectively with the 5 Gap Model. We understand that a review of the project delivery process has been carried out over a longer period as a separate assignment by a different consultant. We have not been able to review this report.

While it has not been possible to examine the process to the same depth as this separate assignment, a high level review has been carried out and the findings are presented below.

The end to end project process is complex and the parties do not understand their roles at each stage of the process sufficiently

Schedule 5 of the Contract, which provides a description of the services under the Contract, is not clear regarding the roles and responsibilities of each party. Each group interviewed described a variation on the process as they perceive it. Groups within IWS, specifically the Client Services branch, feel that they often do more than they understand Schedule 5 requires as they are unclear on their role. Clients do not have access to Schedule 5 and therefore do not know what they can expect of WSI. However, the FCMB and WSI do not share the concern that the Schedule is unclear, rather that other parties are unable to interpret it correctly.

When WSI carry out their tasks they often charge for the use of consultants. WSI does not always provide a critical assessment of the consultants work

Several parties to the project process, the customer, IWS and WSI, employ design consultants and note that they do this as the other parties do not have sufficient technical skill to fulfil their role resulting in some duplicate activity.

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WSI are not responsible for increases in project costs

While fixed price quotes are an option of the contract, FCMB do not recommend this option as a higher WSI fee is associated with this and a contingency is included in the price. As a result, project costs are pass through and WSI do not assume responsibility for cost increases on projects arising from delays and/or errors along the supply chain. WSI will sometimes work with suppliers so that they assume responsibility but often they will pass on any costs arising directly to IWS. S13, S17

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The industry norm is for the contract to provide fixed prices to the client and then deliver the agreed upon scope to that price. Processes are usually put in place for pre-agreeing price changes arising from client driven changes,

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WSI does not provide sufficient support for overall asset management

The Real Estate group do not believe that WSI provides sufficient support for the overall portfolio of assets. While WSI are not expected to assume the same responsibilities as owners, Real Estate would expect that they take a 'bigger picture' view of the assets. WSI do not believe that this role is part of the Contract. It is not clear if the issue is that the Contract is silent or if there is a misunderstanding of the terms.

Thus projects in a building are not necessarily aligned to a common objective and are considered in isolation. A similar issue occurs with regards to portfolio-wide projects in that there is no interface on the WSI side that can liaise with IWS across the entire portfolio. Projects are not coordinated sufficiently to give best value for the client. Property values may be compromised as a result.

Overview of Findings

Customers and management are vocal about service quality relating to the project delivery process. Specifically, there appear to be issues regarding roles, responsibilities and technical skills for delivering project work under \$2M.

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The roles and responsibilities for delivering projects under \$2M are not adequately defined in the contract, understood in practice or communicated between the parties (i.e. between the Client, IWS or WSI).

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Generally, Customers and IWS appear to be more content with WSI's service performance on projects greater than \$2M. The only area of concern noted relates to the apparent poor co-ordination and communication between BLJC-Development Project Services ("DPS") and the WSI Facilities Management team.

Assessment of WSI's Management Skills and Capacity

Description of Management Structure

The ability of WSI to increase the size of this management team is capped by the fee structure. The management fee is approximately \$17 of total contract costs. Management and overhead in the industry can be up to 6% in many contracts so \$13, \$17 in comparison. However, it excludes supervisory costs, and if these are included, the costs represent approximately \$17 (excluding costs for the Operations Centre) which is closer to market norms. The market norm for large contacts is a "margin" (i.e. indirect (non-contract based) overhead and profit) of around 10% applied to actual costs. This is typically when the costs are fixed so that the supplier is bearing risk of cost overruns etc. In this case, all costs are passed through to the client so WSI is bearing less risk than the market norm.

Service Quality Assessment

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Value for Money Assessment

Description of Fee Structure

As mentioned, the Contract is a cost flow-through contract with a management fee component for administration and overhead costs (the “SP Fee”) and project management fee payable on projects over \$50K. WSI is reimbursed for its actual O&M and project costs incurred.

WSI provides SSBC with a monthly invoice for costs incurred during that period. SSBC then lodges the amount into an account that it holds in trust for WSI who then make withdrawals. IWS invoices its clients

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The SP Fee includes the following fees:

- Management Fee: an annual S17 fee, part of which adjusts for portfolio size, to cover WSI's overhead and general management costs. This fee also includes an:

- At Risk Fee – up to S17

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- Performance Bonus – S17

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- Project Management Fee: fee for project management of projects greater than \$50K S17

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- O&M Supervision Fee: S17

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- Additional Service Fee: fee for performance of additional services requested based on a predetermined hourly rate; and

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In 2010/2011 the total fees plus costs payable to WSI under the contract were \$160M.

A number of KPIs are in place to measure costs:

- Cost Containment, Operations - measures the overall increase in operations cost from the previous fiscal year;
- Budget Control, O&M Budget Forecast - measures the adherence to approved forecast of costs and the accuracy of forecasts to ensure costs stay within budget;
- Budget Control, Project Estimating - measures the adherence to approved or forecasted individual project budgets; and
- Budget Control, MAM Forecast - measures the adherence to approved forecast of costs and the accuracy of forecasts to ensure costs stay within budget.

See Appendix E for sample schedule of KPIs.

Value for Money Assessment

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IWS is not heavily involved when WSI do carry out significant market tests of subcontractor spend. As mentioned, for example,

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There are KPIs in place with the aim of providing control over costs.

The Cost Containment KPI measures current year actual against previous year actual; however, the Budget Control forecast allows WSI to reforecast its O&M Budget costs in Q2 of the fiscal year and compares these costs to the actual year end. We have not been able to provide a similar comparison on project costs nor have we observed metrics which would induce efforts to minimize costs beyond cost containment measures.

While most O&M costs have remained relatively stable over the period of the contract, maintenance and repair costs have doubled.

This increase in maintenance costs is attributable to budgets being released for maintenance costs by SSBC. In the initial years of the Contract, costs fell while there was an emphasis on cost reduction. While in more recent years there has been a focus on cost containment, allowing for inflationary impacts to costs.

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For some sub-contracts there is a limited supply base so that it is not always possible to ensure a fully competitive tender process

The need to be registered on ComplyWorks and the limited number of suppliers in some more remote regions have been identified as reasons why it is sometimes challenging to get three competitive quotes for all works. While there is likely some truth in this, Complyworks is a useful tool to ensure that suppliers are compliant with legislative requirements, a requirement that cannot be overlooked regardless of the contract in place. Registration costs are not onerous, even to smaller suppliers, and are based on previous levels of work with WSI which should provide some comfort to the supplier. It should be managed to ensure that it contains sufficient suppliers to drive competition but should not provide a constraint on establishing a fully effective and competitive supply base. The breadth of the sub-contracted supplier base and work volumes tendered and awarded should be monitored by IWS given that this is a cost flow through contract.

Additionally, IWS also needs to regularly check the project tender process and the prices received for project works. WSI run the projects process including obtaining competitive quotes from suppliers. IWS do not currently audit this process and thus verify the effectiveness of the tender process. WSI are required only to show that they at a minimum attempted to solicit three quotes; they do not actually need to receive all quotes. Industry practice is to receive three quotes, although this may not always be possible in certain geographic areas.

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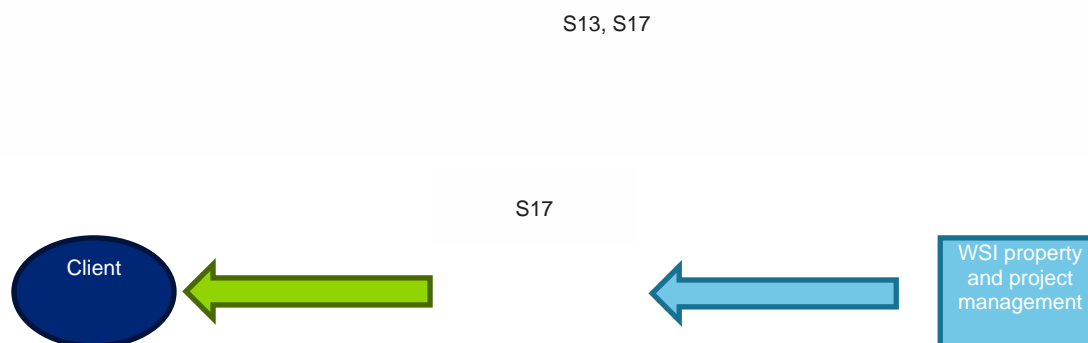
Controls on project costs

S13, S17

WSI project costs are S13, S17 Client organizations feel that this allowable cost overrun encourages cost increases. This claim has not been investigated further. While it is typical to allow a variance in project costs, S13, S17

IWS charge customers a

S13, S17



Overview of Findings

S13, S17

High Level Assessment of Contract Options

Understanding the window of opportunity for IWS

Under the terms of the Contract IWS has to serve notice on WSI of its intention to extent the contract for a further S13, S17 by no later than October 2013. S13, S17

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Outlining the contracting options potentially available to IWS

The following five options are available to IWS for consideration:

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Recommendations and Next Steps

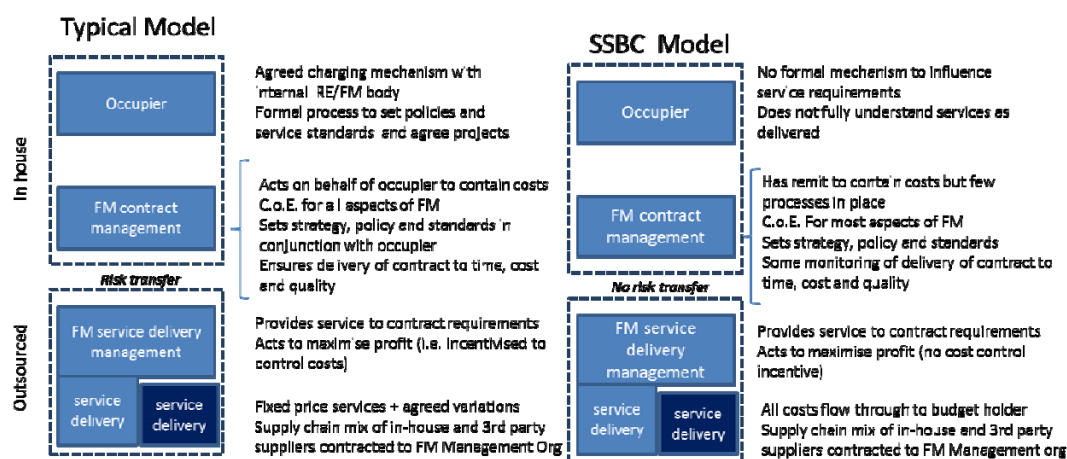
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Next steps

In the immediate future, SSBC needs:

Ensure IWS' role and value proposition in respect of outsourced property management services are well understood by staff and customers

IWS needs to better define its role and value proposition. This fundamentally impacts the nature of its relationship with its customers and its supplier. At present its position is unclear both with the Mandated Ministries and with Broader Public Sector clients. With Mandated Ministries it has not properly established the processes around service standards and costs. With BPS, it is not clear if it is acting as a service provider or an informed client.



Until staff and customers have a clear understanding of IWS's value proposition and role in respect of this outsourced service it cannot ensure effectiveness of the end-to-end delivery processes for the in-scope services. In mapping out these processes it has to work across and engage all stakeholders both internally within IWS, and externally amongst its customers and service providers. FCMB cannot address the current issues working in isolation.

Once IWS' role is clearly understood there may well be activities that it stops doing completely and activities it does differently.

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Understanding the regulatory environment

The extent to which existing Contract terms can be reshaped or changed under government sector procurement rules without the need for the entire Contract to be retendered needs to be clearly understood. This sets the parameters for the re-negotiation strategy. Based upon the RFP issued by British Columbia Building Corporation in 2003, it would appear cost pass through was the only form of contract management contemplated.

Should SSBC re-negotiate the Contract with WSI it will need to demonstrate best Value for Money is being achieved in the absence of a competitive market process. This should be determined up front.

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Understanding and engaging the market

The concerns of SSBC should be shared with WSI and the issues regarding the Contract and relationship with WSI. If WSI does not recognize these issues it will not be open to re-negotiating the terms of the Contract. Any negotiations will be slow, time consuming and deliver little value. Any disagreement has to be addressed rapidly.

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Indeed, consideration should be given to testing the markets appetite for delivering these services. This can be done through soft market testing, including interviews on an anonymous basis, or procurement of some services. The former will determine the market's appetite and provide an understanding of both the market competitiveness and market dynamic.

Only once these key factors have been investigated, will SSBC be able to enter a period of focused re-negotiations with WSI or proceed to market.

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