GT GARDINER &THEOBALD

FM PROCUREMENT
Contract Performance Provisions

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APPENDICES

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PURPOSE OF THIS KNOWLEDGE PAPER

Do you recognise any of the following common issues?

- FM supplier performance is poor but the contract is 'toothless'
- The FM supplier passes KPIs but the perception of performance is bad
- The performance mechanism is too complex and nobody understands it
- KPIs in the contract are not usable/used
- KPIs measuring things not stated as requirements in the contract

There are many factors that will ultimately influence the performance of an FM supplier[1].

This knowledge paper aims to review the role the contract can play in incentivising performance and setting out the requirement for measuring, monitoring and ultimately understanding performance. It will consider the range of possible elements available and how to decide between the various approaches in order to avoid the common issues listed above.

CONTRACT ELEMENTS RELATING TO SUPPLIER PERFORMANCE

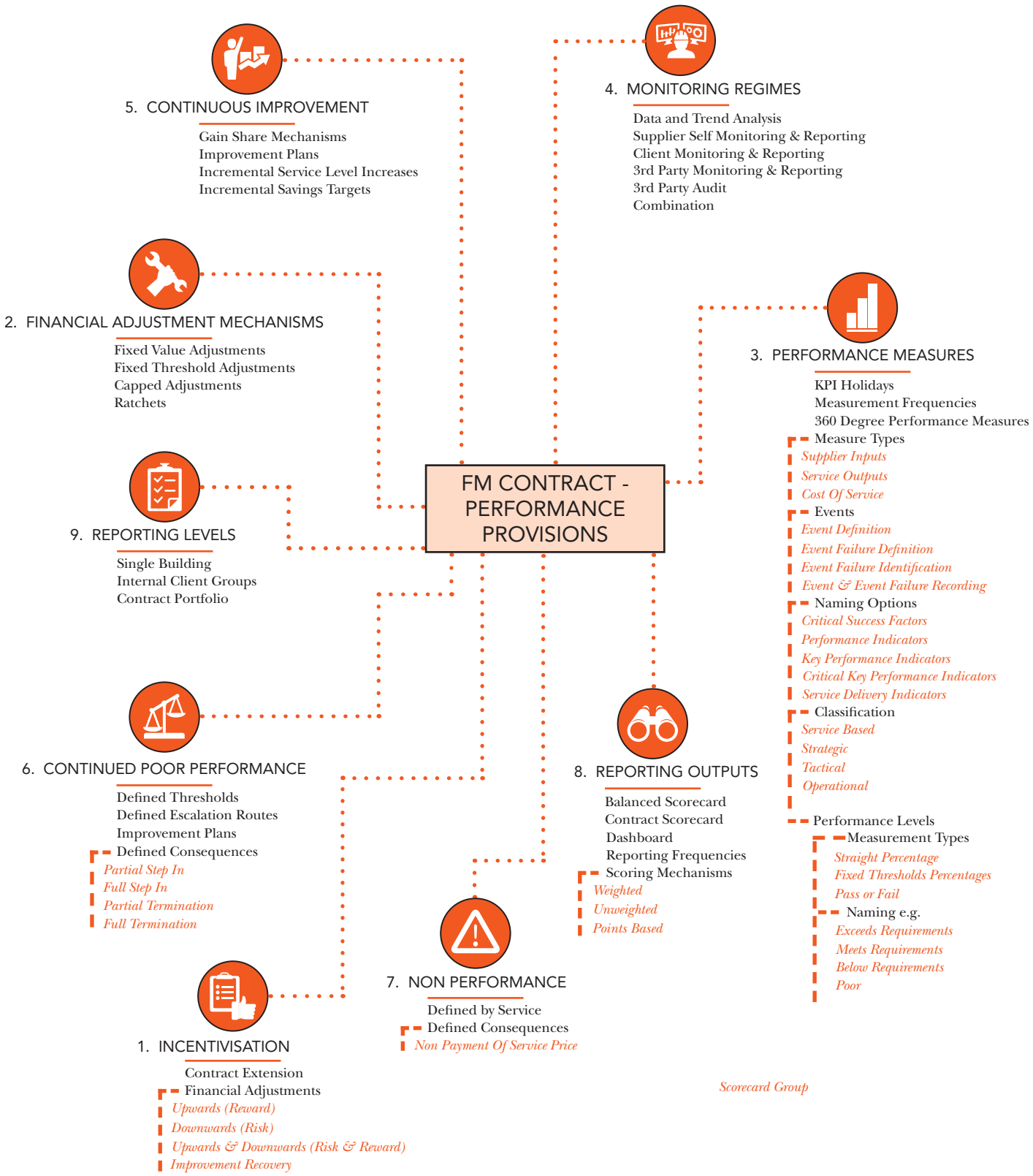
There are a range of elements within an FM contract that relate to supplier performance, with their location within the contract suite (main contract or schedules) dependent on the Form of Contract used (Industry standard or bespoke).

Generally speaking, the majority of the elements discussed here tend to feature in a specific contract schedule (Performance) usually consisting of a written schedule and a performance model or mechanism (usually) in Microsoft Excel. Some elements, for example termination due to poor performance, may sit in the main contract, with links to the outputs from the performance schedule used to define poor performance.

Figure 1 on the following page provides an illustration of these elements along with the typical options available.

[1]Please refer to our knowledge paper 'FM Contract Performance – Nature or Nurture'

Figure 1 - FM Contract Performance Provisions



DEFINING THE SUPPLIER PERFORMANCE PROVISIONS

Ultimately the contract elements relating to supplier performance should be tailored to the unique context of the client organisation, the nature of the contract and services being procured and the type of relationship sought. However below are some guiding principles for each of the key elements depicted in Figure 1.

1 - INCENTIVISATION

Financial Adjustments - There is little in the way of robust evidence to enable a definitive recommendation in regard to the use (or not) and type of financial adjustments linked to performance. Certainly the market trend is to include them, although their nature tends to vary between public and private sector contracts. Where they are used, care should be taken that they are not set up to drive undesirable behaviours (see performance model calibration below).

Contract Extension - Linking possible contract extension(s) to performance over the contract term should be seen as good practice and should always be considered for inclusion, and alignment with OJEU Notice extensions in public sector contracts.

2 - FINANCIAL ADJUSTMENT MECHANISMS

Where financial adjustment mechanisms are included in the performance model, there are a number of methods for applying them as depicted in Figure 1. Each of these has their merits and should be considered and decided upon in the context and design of the overall performance model and calibrated to ensure appropriate risk profiles (see performance model calibration below).

3 - PERFORMANCE MEASURES (KPIS)

Perhaps the most critical element of the performance model, and unfortunately often the most poorly executed. Whatever the terminology used from the options presented in Figure 1, it is critical that performance measures are fully worked up as truly SMART measures, aligned to the service specification, prior to release of ITT/RFP. This takes time and consideration to get right but makes implementing the performance model that much easier.

For example are performance measures required to measure supplier inputs or quality of service outputs? Should measures be included that are required as management information, eg meeting room utilisation, but are not in the direct control of the supplier and therefore do not relate to supplier performance? A detailed guide to SMART FM Performance Measures with a worked example is provided in Appendix A.

4 - MONITORING REGIMES

The monitoring regime refers to who is responsible for monitoring performance, collecting data and reporting. As can be seen in Figure 1 there are a number of ways to approach this. The selection is likely to be influenced by client stakeholder attitudes to contract monitoring and levels of trust of supply chain partners. In most circumstances a combination of the options presented ensures a robust evaluation of performance.

5 - CONTINUOUS IMPROVEMENT

Gain Share Mechanisms - How cost savings are identified and delivered and the degree to which they are passed through or shared with the client will depend on how this is handled by the contract, if at all. It is not uncommon for suppliers to state that where they are delivering for a fixed price to an output specification, the price risk is theirs and therefore any efficiency savings are also theirs.

If there is a client expectation to benefit from efficiency savings during the term of the contract, this should be written into the contract with appropriate consideration of how this will work across the contract as a whole considering specification type, risk allocation, pricing strategies, service delivery plans etc. It may not always be appropriate!

Even where the contract is structured in a way that provides a contractual requirement and mechanism for the transfer of efficiency savings or a share of savings to the client, there remains the question of how the contractor is incentivised to identify and enact change to deliver them. For many FM suppliers, increasing turnover is a critical measure of success, both at the corporate and account/ contract management level. It is therefore not a natural instinct or behaviour for suppliers to identify and deliver efficiency savings if they have to be passed to the client, even where this increases profitability through a gain share mechanism. This is something that should be tested with prospective suppliers during the procurement process.

Incremental Savings Targets – Cost efficiency targets can be included in the contract in one of two ways. They can either be 'soft' targets, which the supplier is required to make all reasonable efforts to achieve or 'hard' targets which the supplier is contractually bound to deliver. Both require careful consideration as changes to scope (buildings, services, and service levels) can make these targets difficult to track.

'Soft' targets are less likely to be delivered but 'Hard' targets have the potential for price reductions to be baked in to suppliers' original bid prices, rather than them taking risk on being able to deliver efficiencies to pay for them. A competitive tender should minimise the latter. However if targets are too aggressive the supplier sales team might sign up to it, but the delivery team can only deliver the reduced prices by reducing resources, impacting quality of service.

Incremental Performance Level Increases – The inclusion of incremental service level increases within the contract performance model works on the assumption that performance levels in year 1 of the contract, are likely to be lower (due to the disruption of mobilisation and transition from incumbent supplier or in-house teams) than later in the contract term.

> *"This approach demonstrates an understanding by the client of the realities of the disruption caused by changing supplier, but sets clear expectations about how the supplier should improve service as they become more familiar with the clients requirements and have the opportunity to embed new management and working practices. The key here is setting appropriate initial performance levels and incremental increases. "*

6 - CONTINUED POOR PERFORMANCE

It should be considered good practice to include most of the provisions indicated in Figure 1 in all FM contracts. The exceptions are the defined consequences, where the use of some of these options will very much depend on the nature and complexity of the contract.

7 – NON-PERFORMANCE

Non-performance is a difficult provision to include in a way that is robust and executable in reality. Firstly a definition of non-performance is required for each service and possibly sub-service element. It is simply not practical for all services. If the provisions are to allow the client to avoid payment for non-performance of services, then consideration of the pricing strategies adopted and the design of the contract pricing model is required.

8 - REPORTING OUTPUTS

How the results of the performance measures are collated and reported is very much down to individual preference, and specific organisational requirements, eg business unit level reporting.

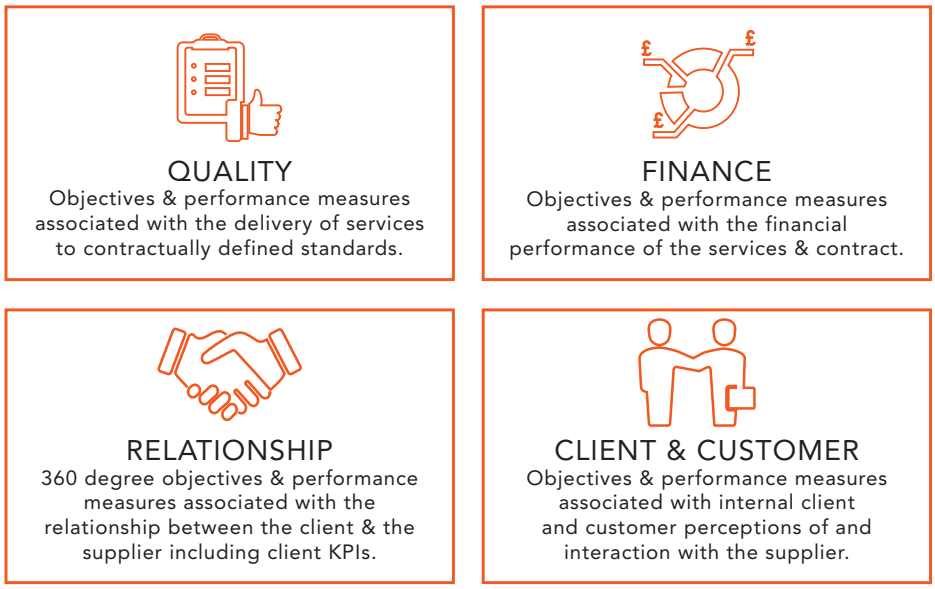
All of the options presented in Figure 1 are viable options, and the decision may be taken to align to models used in other service contracts or internal organisational performance monitoring.

The scorecard approach using quadrants to classify performance measures into four groups does allow for a strategic presentation of performance, for senior management. The traditional balanced scorecard classification of Learning & Growth, Internal Business Processes, Financial and Customer whilst a useful starting point, is often better tweaked to give four classifications that align more directly to organisation objectives.

An example is the contract scorecard depicted in Figure 2 which is essentially a re-imagining of the original balanced scorecard described above. Here the four quadrants of the scorecard are amended to provide a better overview of client – contractor relationship and service performance.

This is illustrated in Figure 2 opposite, and is perhaps a more useful model where a highly collaborative relationship is sought

Figure 2 - Example Contract Scorecard



9 - REPORTING LEVELS

Some Performance Measures will apply at individual building level, others only at the contract level. Careful consideration of how each measure will work in relation to the reporting outputs, financial adjustments etc. is required. A final guiding principle is to keep it as simple and clear as possible, whilst appropriately addressing whatever complexities may exist in the contract scope.

PERFORMANCE MODEL CALIBRATION

Calibration of the performance model involves running a range of scenarios through the model using estimated data to test the outcomes of KPI measurement types, performance thresholds and any financial adjustments for both individual performance measures and in totality.

A model that is uncalibrated has the potential to present inappropriate performance results, which in itself is an unhelpful start to a contract, but is particularly troublesome where the performance provisions include financial adjustments based on that performance.

Unintended consequences of an uncalibrated performance model may lead to unnecessary price risk from bidders and/or lead to relationship difficulties in the operational phase of the contract. Even with a calibrated model, it should be considered good practice to review and revise the calibration of the performance model from an informed position once a baseline of actual contract data has been established.

BENEFITS OF WELL DESIGNED PERFORMANCE PROVISIONS

The primary purpose of provisions related to supplier performance is to enable the client and supplier to understand and analyse the key aspects of performance as defined by the client and to ensure that the contracted services are delivered in accordance with the specified standards.

Well designed FM contract performance provisions which are enforced and delivered by the supplier should provide the following benefits:

- Objective clarity and common understanding of supplier performance results
- Provide information to help managers make better quality decisions and to understand how the service is changing through time
- Identification of trends and critical factors to continuously improve the service
- Suppliers appropriately incentivised to deliver to specified standards
- Demonstration of compliance with either internal requirements (e.g. SLAs, policies or procedures) or external requirements (e.g. statutory responsibilities)
- Understanding if and how supplier performance is affecting the strategic objectives of the client organisation

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APPENDIX A
SMART KPI GUIDANCE

APPENDIX A – SMART KPI GUIDANCE

Developing truly SMART FM performance measures for inclusion in the contract takes time and consideration. Below is a template table which illustrates a systematic approach to crafting performance measures. In this instance we have used the terminology Key Performance Indicators and have selected a performance measure which is measuring supplier inputs rather than service outputs.

PERFORMANCE MEASURE ELEMENT	GUIDANCE	INDICATIVE EXAMPLE
KPI Reference	This simply provides a code for the measure of ease of reference	001
KPI Name	The name should be a short name/ desciption of the measure, again for ease of reference.	Planned Activities - Pest Control
KPI Classification	The KPI classification is used to group KPI results in order to provide an overall picture by classification, for example in a balanced or contract scorecard based performance model. Deciding the classifications used (if any) forms part of the design process for the overall performance model.	Delivery
KPI Measure	This is where the detail of what the measure is actually measuring should be provided by way of a more detailed description.	The Supplier shall ensure that pest control Planned Activities are undertaken in accordance with the annual schedule within the Supplier's Service Delivery Plan.
KPI Purpose	It is important that measures are prepared which support overall organisation objectives as this gives them purpose and meaning. By clearly setting out the purpose of each measure, there should be no ambiguity about why it is included in the model. It also ensures that client and contractor have a common understanding of why this particular element of the service is being measured. Defining the purpose also enables a check against other measures to ensure the same thing is not measured twice but in different ways.	To minimise disruption to the organisation by ensuring that the Properties are adequately protected from infestation by pests.

PERFORMANCE MEASURE ELEMENT	GUIDANCE	INDICATIVE EXAMPLE
KPI Event	Measures by their very nature are based upon assessing whether or not an event occurs. A definition of the event is required in order to explain what constitutes a single event in relation to the measure. This provides us with the first step in making the measure 'Measurable'. The KPI Event definition may also be the means by which the KPI is 'Time bound'.	Each Planned Activity within the annual schedule falling due within the reporting month, or carried over from earlier months where it remains uncompleted.
KPI Event Failure	The second part to making the KPI 'Measurable' is to define what constitutes a failure of the KPI Event. The 'and closed in the CAFM system' in the example opposite is highlighted as it is important at this stage to ensure the KPI is 'Specific' about what is required in order to pass the KPI Event.	A KPI Event Failure will occur for each instance where: 1. The Planned Activity is not completed and closed in the CAFM system by the date scheduled for the Planned Activity. 2. The Planned Activity remains "uncompleted" or remains open in the CAFM system from the previous reporting month. 3. The Supplier did not carry out the Planned Activity in accordance with the Specification.
KPI Event Failure Identification	The means by which KPI Event Failures are identified and recorded. The identification element should be drafted by the client for inclusion in the contract.	1. The Supplier's own self-monitoring or audit as part of the Quality Management Plan. 2. The Supplier's own investigation following a complaint. 3. Client audit or investigation as part of the client's contract management procedures or following a complaint.

PERFORMANCE MEASURE ELEMENT	GUIDANCE	INDICATIVE EXAMPLE
KPI Event & KPI Event Failure Recording	The means by which the supplier will record the data necessary to calculate the KPI performance, ie the number of KPI Events and KPI Event Failures in the reporting period. The methodology for recording should form part of the RFP/ITT with the supplier required to respond with their methodology.	For completion by bidders
KPI Score Type	Performance models generally use 1 or more of the following 3 types of KPI Scoring. Consideration should be given as to which KPI Score Type is most appropriate to each individual measure: 1. Percentage – Best used for KPIs where there is known to be a consistently significant high volume of KPI Events in the reporting period, ideally over 20. This prevents having a KPI where there may only be 2 KPI Events in one reporting period followed by 100 KPI Events in the next, making it difficult to set 'Realistic' Performance Thresholds. 2. Fixed Threshold – Best used for PIs where it is anticipated that there will be a low level volume of PI Events in the reporting period or where greater control is required as to the number of acceptable KPI Event Failures. 3. Pass or Fail – Best used for PIs where the measure is by nature binary, or where no PI Event failures are acceptable.	Percentage

PERFORMANCE MEASURE ELEMENT	GUIDANCE	INDICATIVE EXAMPLE	
Performance Levels	Whilst the design of the performance model may vary dependent on who is designing it, in this example the performance model envisages four performance levels. The thresholds for KPI Performance falling within each Performance Level should be set in accordance with the KPI Score Type selected. 1. Percentage - Set % scores in each threshold to two decimal places 2. Fixed Thresholds - Set a whole number for each threshold 3. Pass or Fail - Set all thresholds to 100%		
Level 1 - Exceeds Requirements		=> 95%	
Level 2 - Meets Requirements		Lower Score	Upper Score
		92.5%	94.99%
Level 3 - Below Requirements		Lower Score	Upper Score
		90%	92.49%
Level 4 - floor		<= 89.99%	
Measurement & Reporting Frequency	Lastly it is important to be clear about the frequency at which the KPI should be measured and reported. Most are likely to be monthly; however in some cases quarterly, six monthly or even annual measures are relevant.	Monthly	

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