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Procurement of facility management

RICS professional statement, 1st edition, UK

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Contents

Introduction

This professional statement (PS) and guidance note (GN) discusses facility management procurement routes and processes open to organisations. It provides information and guidance on the various factors that need to be considered throughout a procurement process. This includes activities and key decisions during planning, procurement and post-procurement.

Purpose

- This PS and GN is aimed at any property professionals who are involved in a facility management (FM) procurement process. This includes property managers, directors of estates, heads of FM, consultants, RICS regulated firms acting for a landlord and FM suppliers procuring services from subcontractors.
- The GN aims to:
  - help the professional choose an appropriate procurement route and
  - consider the various factors in delivering an effective procurement process that results in a successful contract with benefits for both the client organisation and the supplier.

Structure

This PS and GN is divided into four parts as follows:

PS 1 – the RICS professional statement outlining the mandatory requirements in the procurement of FM.

GN 1 – provides guidance and information on the various planning activities that should be undertaken and decisions that should be made before going to the market for facilities services.

GN 2 – provides guidance and information on the various activities and key decisions that should be undertaken during a procurement process.

GN 3 – provides guidance and information on activities that should be undertaken post-procurement.

The GN should be read in conjunction with the mandatory requirements outlined in PS 1.

Exclusions

This PS and GN excludes FM strategy and the most appropriate sourcing of FM services, which are addressed by the RICS guidance note, *Strategic FM Framework*, 1st edition.

This PS and GN is aimed at professionals who have already decided to outsource FM services, be they single sourced, bundled or TFM/IFM services, or those who have previously outsourced services and are engaging in a re-procurement process.

For RICS regulated firms procuring FM on behalf of a landlord, care should be taken to comply with the latest edition of the RICS Code of Practice, *Service charges in commercial property*.

Why use procurement?

The aim of a procurement process is to select the bidder best able to deliver the services required by a client over a defined term, at a price that is acceptable to the client, with optimal commercial and legal terms acceptable to both parties. For a procurement process to be successful in the long term, careful planning needs to be undertaken before going to the market, including developing SMART objectives (see section 1.2.3) concerning what the client wishes to achieve and a clear description of the services to be procured.

Key elements of a successful procurement process

- an understanding of what the client requires
- detailed information about the property portfolio and the facility services
- an affordability target of what the client wishes to spend on the services along with defined quality levels and
- a realistic timetable for undertaking the process.

The FM market is looking for clients with clear objectives, well-defined requirements, a well thought-out and structured procurement process and transparent evaluation criteria. Bidding costs are high for suppliers and, in a highly competitive market, clients can maximise interest in their procurement processes by demonstrably following good practice. Stating to suppliers who are considering bidding that you as a buyer will adhere to this guidance note should help to provide transparency in the procurement process, improve public confidence and the integrity of RICS, and could also form part of the marketing of your opportunity to the market and help get you on bidders' pipelines.

Public sector

For professionals working in the public sector, care must be taken to meet the appropriate public-sector procurement directives as defined by government. This guidance does not attempt to replicate the existing public-sector procurement directives. The most appropriate, up-to-date guidance on the directives can be found on www.gov.uk.

No directives apply for professionals working in the private sector. However, organisations may have internal policies and guidelines that should be followed and the public-sector procurement underlying principles of equal treatment, non-discrimination and transparency should form the foundations of any process to maximise competition.

PS 1 Mandatory requirements

1. You **must** have a clearly defined, detailed scope of the services, defining what is and is not included.
2. You **must** state clear objectives for the procurement project.
3. You **must** develop evaluation criteria that reflect your objectives.
4. You **must** have a clear pricing structure stating what services and costs are included and what is excluded.
5. You **must** have clear timescales for the procurement process.
6. You **must** provide a clear payment mechanism.
7. You **must** comply with relevant data protection rules.

GN 1 Planning

This section covers the period between the demand organisation (DO) or buying organisation obtaining internal approval to procure facility services and the commencement of a tender. Adequate preparation is essential and can provide a sound foundation for the subsequent procurement process. The following aspects are covered:

- strategic factors that should be considered as part of procurement planning
- the project planning activities that need to be undertaken
- how to assess market trends, identify potential bidders and evaluate market interest in your procurement and
- what procurement strategy to use to attract market interest and maximise competition.

1.1 Strategic factors

DOs embarking on a procurement process should have a FM strategy in place. RICS has produced a Strategic FM guidance note which should be consulted as part of developing a strategy.

Once an overall FM strategy is in place, the following strategic factors should be considered as part of pre-procurement planning.

1.1.1 Scope of services

In planning a procurement process it is important to have a defined scope of the services that are to be included. Often a high-level scope has already been determined as part of a facility strategy or approval for a re-procurement process. Scope now needs to be confirmed and stated to enable pre-procurement planning.

1.1.2 Baseline

It is important to quantify the baseline of services that are being procured to assist with evaluating bids and value for money assessments. Typically, the baseline creates many issues that can lead to errors in pricing and evaluation. Providing a full and accurate baseline at the outset will help to prevent issues arising. The service requirements, costs of facility services and non-financial factors such as service quality/performance/customer satisfaction, etc. should be determined and mapped to the scope.

In some procurement processes, there is change in the clients' business or property portfolio between establishing a baseline and completing a procurement process. To provide a meaningful comparison, baselines can be adjusted to reflect changes that drive cost or performance, e.g. acquisitions/disposals of buildings or changes in legislation such as the National Living Wage.

1.1.3 Vision

Before embarking on a procurement process it can be helpful to produce a vision document. This vision can be used to inform bidders about what you are hoping to achieve and can also act as a reference point for testing the outcomes you desire. The document could include:

- what you are hoping to achieve
- what you see the services looking like post mobilisation and transition
- the look and feel of services
- the level of integration
- the responsiveness
- the level of customer satisfaction
- partnership working and
- transparency of cost.

1.1.4 Strategy

As you plan a procurement process, it is advisable to ensure you understand what your organisation's wider strategy is. Check the procurement process supports and enables that strategy and does not obstruct it. For example, if you know the organisation intends to pull out of a market or region, the consequences of this may be a reduction in the property portfolio. You should ensure that what you procure is flexible enough to respond to this change and the contract reflects known changes and/or has mechanisms for dealing with change.

1.1.5 Business case

It is likely that a business case was produced and signed off before the procurement process could proceed to the planning stage. It is advisable to revisit that business case to ensure the detailed scope was covered and you are addressing the issues and expected benefits the business case contained. If no business case was produced, you should consider writing one at this stage to underpin the rationale of the procurement process.

1.1.6 Stakeholder communication

Before starting a procurement process it is important to plan your stakeholder communications. Stakeholder support will be essential throughout the process and there are often specific requirements for sign off before awarding a contract. A stakeholder communication plan is recommended.

Identify and list the stakeholders, note their areas of interest/concern and allocate an owner to each stakeholder. A stakeholder communication plan should be updated at different stages of the procurement process, as stakeholders and their issues and concerns might change. Delays can be caused by stakeholders not being informed or available at critical stages of the procurement process.This can be avoided with proper planning.

1.2 Project planning

The following strategic factors should be considered as part of pre-procurement planning.

1.2.1 Team

When planning a procurement process, it is important to recognise the various roles that will be required in the team and identifying individuals to fulfil those roles. The person who will be managing the contract should ideally have a role in the procurement team. Typically, a procurement process will have the following roles, some of which may be filled by the same person, particularly for smaller scale procurement processes:

- **A project sponsor** – a senior leader who represents the project at board level, provides leadership and governance of the project and will often sign off decisions.
- **A project manager** – a senior manager who provides day-to-day management of the project, coordinates the activities of others and leads the team. A project manager may be supported by a project coordinator or administrator depending on the scale and complexity of the project.
- **A procurement lead** – an experienced procurement professional who knows the market for the services being procured, manages the tender process, ensures that the stated procurement process is followed in a fair and transparent manner, and who owns communications with bidders during the process.
- **A technical lead** – a property or FM professional who understands the technical requirements of the services being required and the premises in which the services will be delivered.
- **A financial lead** – a finance person who understands the costs, budgets and affordability of the services being procured.
- **A commercial lead** – a commercial manager who understands the commercial issues relating to the procurement, e.g. indexation, risk pricing, continuous improvement.
- **A legal lead** – a lawyer who advises the project on legal issues and the terms and conditions of the contract. Typically, an in-house legal adviser, an external lawyer or sometimes both are required. In some situations, an experienced qualified procurement professional may be able to undertake much of this role, particularly where standard contracts and terms are being used and the risks involved have been assessed as low. In such cases, legal advice should be sought for any significant deviations from the standard terms or where there is any doubt about terms.
- **A HR lead** – a manager from HR to advise the procurement process on the implications for people, particularly where first-generation *Transfer of Undertakings (Protection of Employment) Regulations* (TUPE) will apply or where the client retains an interest in the terms and conditions of employment in subsequent supplier to supplier TUPE.
- **An IT lead** – a manager who can advise on the systems, interfaces and access to the client systems that bidders will require as part of their solution.
- Any other specialist advisers that may be necessary given the scope – pensions, insurance, HS&E.

The time commitments required from each of these roles can vary throughout the project with some being full time, some part-time and some ad-hoc, depending on the phase of the project.

How the team will work together and communicate with each other should also be considered. It may be appropriate to co-locate most of the team to a ‘project room’ or a defined area; weekly meetings or calls can be established as can dashboard reporting (see section 1.4.8). It is also advisable to establish various protocols including:

- an email distribution list to ensure that no one is missed out of communications
- a central repository for project files
- a file naming convention, standard document templates and styles and
- a holiday and absences tracker.

1.2.2 Data

The availability of accurate, up-to-date and comprehensive data to inform bidders about the DO, the services being provided and the premises in which services are to be delivered is key. You should provide enough data to

- allow bidders to understand your requirements
- enable a solution to be developed
- assess commercial risk and
- ensure that bidders are being evaluated comparably.

Discussing with bidders what data they need can be helpful. Different sets of data are required for different services. Consent from the owner of the data should always be received before data is released.

Often bidders need to undertake site surveys during the procurement process to fully understand the requirements. These should be organised to allow access to all areas in scope and include a mechanism for technical questions.

It is advisable to provide bidders with as much data as you can. Be open with them if it is out of date or inaccurate, agree assumptions if appropriate (and what will happen when assumptions are firmed up) and ask bidders what additional data they require. It is important not to warrant or guarantee any data without legal advice as to do so would create a risk.

Access to data should be controlled and this is usually done via a 'data room' – a virtual room on a database, often provided as part of a procurement system. However, there is sometimes still a requirement to provide a physical data room, particularly where there are a lot of floor plans or operations and maintence (O&M) manuals that are not available in digital formats.

Emailing information to bidders should be avoided and even when data is being provided in response to questions from bidders, the data should be added to the data room and the response should reference or link to this. This ensures all bidders have access to the same information at the same time and the data room is considered the single source of true information.

Before any documentation is issued to bidders you should have consent from the owner of the data. Issue non-disclosure agreements (NDAs) and have signed copies returned to ensure the bidders are aware that any data provided is confidential. Legal advisers should include wording to this effect in the tender documentation.

1.2.3 Objectives

Knowing what you want to achieve is critical to any successful project. You should have clearly stated objectives that reflect or support the organisation's strategy as discussed in section 1.1.4. Is the objective cost reduction, is it improved service performance or are you trying to solve another problem? The SMART model in Figure 1 can be used to assess objectives.

An example of an objective that is not SMART:

- The objective is to cut costs.

A SMART alternative would be:

- The objective is to reduce the costs of the in-scope facility services by 10% of the 2015/16 financial year baseline before the end of the 2017/18 financial year.

Most projects will have a set of objectives that can be ranked in order of importance. Procurement of facility services projects typically have cost reduction and performance improvement objectives alongside objectives to bring in more innovation, transform service delivery and be more sustainable with lower environmental impact. Another common objective is to have the new service arrangements in place by a certain date and care needs to be taken that the time allowed is realistic. It may be better to amend an objective in recognition of the actual time required for a robust procurement process.

The objectives should be agreed with the project sponsor and stakeholders and should form the framework around which the evaluation criteria are determined. As such they should be shared with bidders so that they know what the buyer is trying to achieve rather than guessing. An exception to this should be savings targets. While it is advisable to inform bidders that an objective is to deliver savings, it typically puts buyers in a stronger commercial position not to disclose what the savings target is. In some cases, this target should be disclosed but only as part of a commercial strategy.

1.3 Market analysis

Before launching a procurement process you should understand the market from which you are seeking to buy services, analyse the current market trends and identify the bidders who could meet your requirements.

Figure 1: Objectives

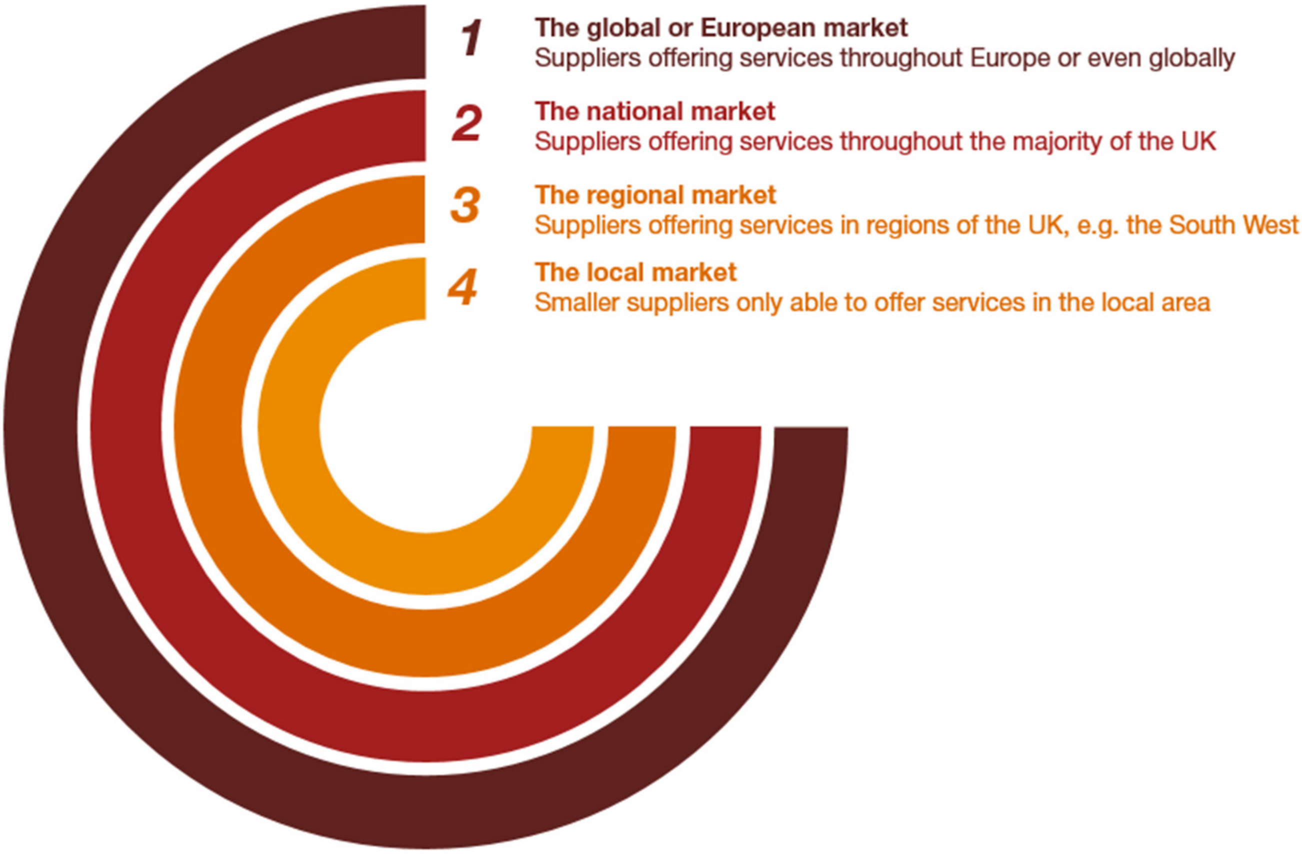

Figure 2: Market trends

1.3.1 Market trends

The first step of any analysis of market trends is to understand what market you are in. If, for example, you are a FTSE100 company seeking to buy services to cover the UK, or even Europe, worth tens of millions of pounds per year, you will be buying facility services from a different market than a local authority wishing to buy a facility service for a small number of buildings in one location. The market can be categorised as illustrated in Figure 2.

Despite this categorisation there are some overlaps. For example, many global or European suppliers will be interested in larger national opportunities. Many national suppliers will also bid for regional contracts in competition against regional suppliers if the value is significant, and regional suppliers may bid against local suppliers within their region. In many cases suppliers will work with specialist subcontractors rather than self-delivering.

Once you have determined which market you are targeting, you should analyse the trends in that market. Sources of information on market trends include the trade press (FM World, i-FM, PFM, etc.), industry conferences (e.g. RICS Annual FM conference, Workplace Futures, Think FM), industry organisations (e.g. BIFM, IFMA and EuroFM, etc.) and published papers on the market (search LinkedIn and the internet). For regional and local markets, networking with other buyers of services and ascertaining how they have found the market is a worthwhile activity to undertake.

Once you have understood the trends in the market you are targeting, analyse how that impacts your procurement process. Are you taking advantage of trends or is what you want contrary to market trends? If your strategy is contrary to current trends you may get more interest and better value from the market if you can adapt your procurement process to take advantage of trends, or you will need to invest more time interacting with potential bidders to ensure that they understand what your strategy is.

Figure 3: Potential suppliers

1.3.2 Potential bidders

An important step in any procurement process is to identify your potential bidders. Which bidders in the market place could meet your requirements? Figure 3 illustrates key questions to ask when selecting bidders.

Once you have identified a list of potential key bidders you can undertake more detailed market research on these companies, including researching their current contracts, recent wins, losses, financial strength, geographical spread, references, etc. In addition to industry resources mentioned in section 1.3.1, company websites, published accounts and annual reports are good sources of information on individual companies.

1.3.3 Soft market testing

If your requirements are unusual, complex or of a significant value, undertaking a programme pre-procurement engagement, including informal bidder meetings and/or more formal soft market testing, may be a worthwhile investment.

The purpose of pre-procurement engagement is twofold:

1 **Marketing your opportunity** – the FM market is very competitive and opportunities often have significant bid costs for bidders. If a bidder is considering bidding for opportunities X, Y and Z they may not have the resources (business development team and/or budget) to bid for all three. Suppliers will ‘qualify’ opportunities by considering which are best suited to their experience and which they are most likely to win.

   If a supplier does not have a relationship with your organisation, does not understand your requirements and if senior individuals have never met with counterparts in your organisation, they are likely to invest in other opportunities where they feel they have a higher chance of winning the competition. Taking time to meet with potential bidders, establish relationships and explain your requirements can get you on a bidder’s pipeline of opportunities and make your opportunity more attractive to the bidder.

2 **Understanding the market's response** – soft market testing is a consultative process: you want to learn from bidders how they view your opportunity, the process, the timeline, how they might deliver it, what level of benefits may be delivered and importantly any issues or concerns that they may have. For example, if significant supplier investment was required to meet your requirements, but you were proposing a short contract term, a bidder would likely explain to you why a longer term would be required for them to recoup their investment. If consistent messages are delivered on your opportunity or the terms you are proposing it may be advisable to address these issues in your planning before proceeding.

1.3.4 Confidentiality

To get the maximum benefit from pre-procurement engagement it is important to prepare and confidentiality is paramount. Typically, you should require bidders to sign NDAs before receiving information and attending meetings. Some bidders may require these to be two-way. What is and what is not confidential should be agreed with the owner of the data and independent legal advice sought where there are any concerns.

1.3.5 Written brief

Bidders may not be familiar with your organisation nor understand how your business operates or the challenges you are facing. Prepare a written brief, which can be further developed as part of the procurement documentation to be issued at a later stage. It can also be helpful to make bidders aware of the issues you wish to discuss by circulating an agenda and/or a list of questions before the meeting to give bidders time to prepare.

Bidders value the opportunity to participate in soft market testing and typically view it as an opportunity to promote their business as well as assessing their likelihood of winning. Pre-procurement engagement can also encourage smaller companies and SMEs to bid as they are typically more selective about which opportunities they bid for due to the high cost of bidding. To have a meaningful two-way discussion rather than a sales meeting, it can be helpful to allow a brief presentation by the bidder about their company at the start of the agenda, before moving on to the discussion.

1.3.6 Transparency

It is important to be open and transparent with the market and not give one bidder an advantage over other bidders who did not participate in the soft market testing. This is particularly the case in the public sector and you should consult with your procurement and legal departments before embarking on a soft market testing exercise, which should be carefully managed under the procurement directives. Care should also be taken regarding the *Bribery Act* 2010, for example, concerning accepting lavish hospitality.

During pre-procurement engagement, soft market testing and the procurement process, you may form opinions on company cultures and how the bidder representatives relate to you and your team. While this can be an indicator of how the company will work with you should they be successful, you should also be careful not to allow individuals to cloud your judgment. Many business development people are skilled communicators who engage very well with buyers, but once the bid is won they step back and tend not to be involved in the ongoing contract. In addition, you should stick to your set evaluation criteria and only consider cultural fit, etc. if that is one of your objective evaluation criteria. In public-sector procurement this is very difficult to do within the procurement directives and is best avoided.

Upon completion of soft market testing you should reflect on what you have learnt and assess if any of your plans would benefit from being amended (taking care not to favour one bidder). You should also thank participants for their time and remember to maintain the confidentiality of information bidders have disclosed to you.

1.4 Procurement strategy

You should develop a procurement strategy to direct the procurement process and force you to think about and make some key decisions.

1.4.1 Route to market

Routes to market will be different for the public and private sectors. If you are a public-sector buyer you must follow the public-sector procurement directives as defined by government. This may involve publishing an OJEU (*Official Journal of the European Union*) or other government tendering publication in your territory. You may be able, or even be mandated, to use an existing framework contract, e.g. the CCS Facilities Management Services (Contract ID:RM1056).

Most private-sector buyers invite a small number of bidders to tender having made a pre-selection from the market. If you are doing this, you should apply similar principles to those used in selecting participants for soft market testing (see 1.1.3). You may wish to refine a list of potential bidders further by using the results of soft market testing: asking bidders to deliver presentations, undertaking more detailed research on bidders or conducting a qualification exercise.

Some private-sector organisations advertise opportunities in the FM press or national press. This is unusual but can be beneficial if you are unsure which companies to invite or want to be sure that the entire market is aware of the opportunity.

1.4.2 Project plan

You should develop a realistic project plan setting out the key activities and milestones with timescales, dependencies and dates. Your starting point should be the date you need services to commence (e.g. the termination date of an existing contract or the handover date of a new building), working backwards from this date to ensure you allow enough time. Close attention should be paid to setting out all the key activities, allowing realistic time scales and identifying interdependencies.

In addition to considering how long it will take your organisation to undertake activities, also consider the time that bidders will need. For example, allow enough time for bidders to develop solutions and to get internal approval of bids. It can be helpful to build in contingency time as activities often take longer than envisaged. If undertaking a public-sector procurement process be sure to reflect the mandatory timescales included in the applicable regulations, e.g. the mandatory standstill period.

Procurement of FM services can take anything from a few months to over a year depending on the scale, level of complexity and the process. It is important to be realistic as better long-term results can be achieved by following a robust process as opposed to a quick process.

When a project plan is completed it should be shared with bidders so they can plan resources and their own activities. If there are sensitive activities or milestones included, e.g. dates of board meetings, remove them and release an edited version to bidders.

As the procurement process progresses, the project plan should be updated regularly as milestones are achieved; milestones may move due to activities taking longer than envisaged.

1.4.3 Risks

There are inherent risks to any procurement processes and there are likely to be risks specific to your procurement process. You should identify risks before commencing the procurement process and capture them in a risk register. The risk register should include all risks that you have identified. See Figure 4 for what you should include as a minimum for each risk.

More complex risk registers can be developed that include fields such as early warning signs, level of risk after mitigation actions, etc.

A key consideration with a risk register is to keep it live. Risk registers should be updated regularly. Some risks will go away at different stages of a procurement process and new risks will emerge, or the likelihood or level of impact will change. It is important to remember that not all risks can be mitigated or managed away; typically, you should accept some level of risk and invest in managing it. When a risk happens, it ceases to be a risk and becomes an issue and should then be managed as such.

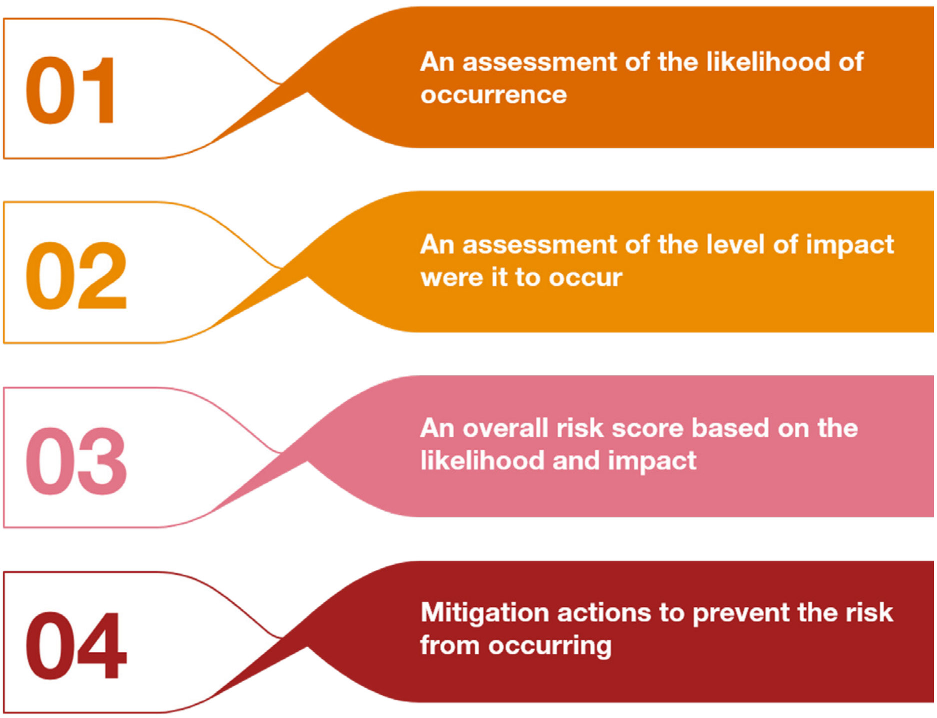

Figure 4: Risks

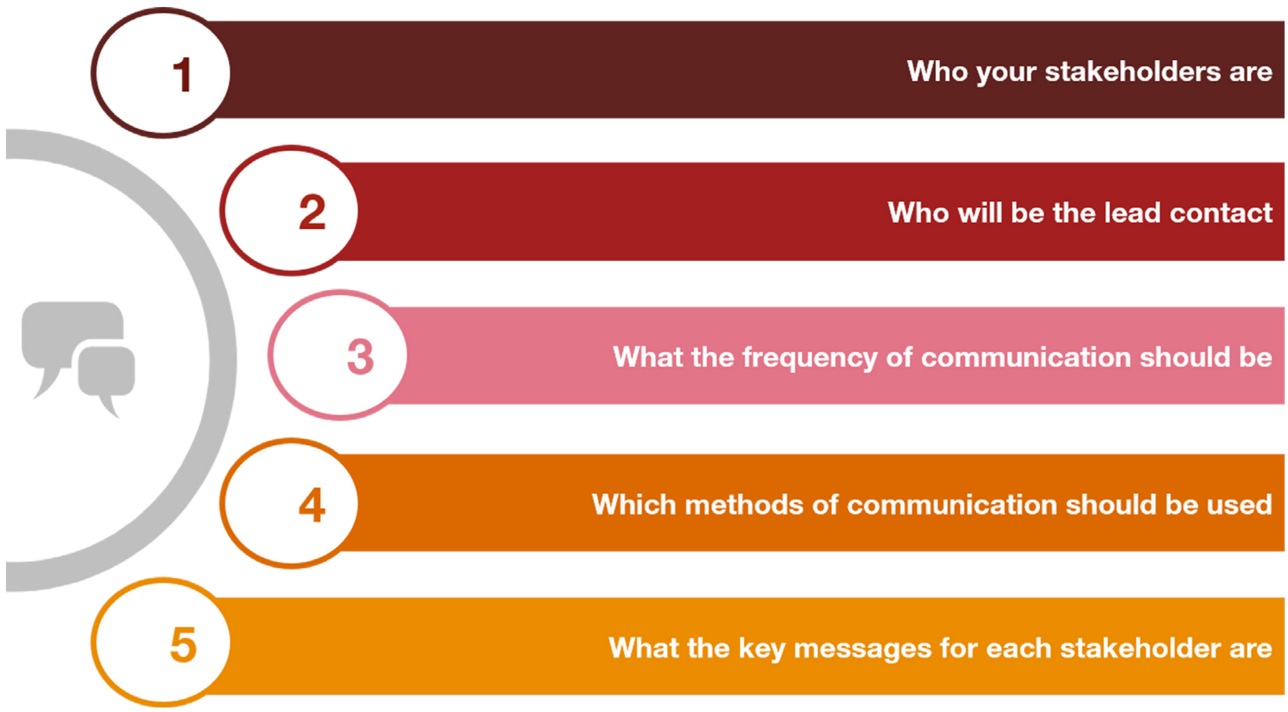

Figure 5: Communication plans

1.4.4 Communications plans

It is of critical importance to manage your stakeholders during a procurement process and a communications plan is key to this. It should set out and cover the considerations outlined in Figure 5.

As with risk registers, a communications plan will change during the procurement process and should be updated regularly as stakeholders change and the issues and messages change.

1.4.5 Submission requirements

To evaluate bids a submission is made by a number of bidders. What this submission should look like, how it is structured and what it should include is a key part of the planning process. You should develop clear submission requirements that link to your evaluation criteria; if there is something you wish to evaluate, for example staff training, there needs to be a submission for you to evaluate, e.g. a staff training plan.

Submissions received often form a schedule to the contract, which can be a good way of incorporating commitments from bidders into a legal agreement and making them binding. While designing submission requirements, the format of response should be taken into consideration, for example requesting narrative answers with clear commitments set out. Where submissions received do not form part of the contract, another method must be used to capture commitments and make them binding, otherwise submissions can be seen as 'sales documents', with no legal standing.

Submissions can contain narrative, whereby bidders produce a written response to a specific question. It is a good idea to have an appropriate word or page limit; a spreadsheet where bidders include financial information, or a mark-up of the client's document, e.g. a copy of the contract showing in 'tracked changes' the terms that the bidder is seeking to remove, modify or add.

Questions asked should be clear and unambiguous. In some cases, questions will be 'closed' and have yes/no answers, e.g. 'have you had any contracts terminated for poor performance during the last three years?'

In most cases, however, the question will be 'open' and should be designed to elicit information from the bidder to enable you to assess their suitability to meet your requirements. Such questions are typically expressed as:

- What is your approach to…?
- How will you…?
- Provide a methodology for…
- What is your strategy for…?
- Please provide your…

In some cases, it can be helpful to provide guidance on what you wish to be included in an answer, e.g. 'your answer must include reference to…'.

You may also consider asking bidders to provide evidence of achievements on other contracts to back up statements they have made in their answer. For example, if a bidder claims they will introduce innovative cleaning techniques that will save 10%, this could be illustrated by actual examples where this has been achieved previously.

If you ask clear questions related to your requirements that allow bidders to state their approach and solution, you will make evaluation more straightforward and will minimise the need to go back to bidders with clarification questions.

You should also ask bidders to accept terms and conditions, or to indicate terms and conditions they wish to discuss. This can avoid situations where terms that buyers thought were agreed come up for discussion post contract award.

For financial questions where prices need to be included, be clear about what you want. You may want to see prices for a range of services over each year of the proposed contract. You may want to see prices for individual buildings. In addition, you may require visibility of profit, overheads, indexation and mark ups and a schedule of rates. Think about the financial information you need and use this to develop pricing templates for bidders to complete. Having a standard set of pricing templates will make the task of evaluating prices easier. Completed templates can be used to compare bid prices to your baseline costs. You should also ask bidders narrative questions about their approach to pricing to help you understand how they have priced the requirements.

1.4.6 Evaluation methodology

An important part of any procurement strategy is the evaluation criteria and methodology. You should be clear about what you are going to evaluate, how you are going to evaluate it and its relative importance. This should be transparent, shared with bidders and remain unchanged throughout the procurement process.

A typical evaluation methodology will involve scoring submission requirements and converting these scores into percentage points so that a bid can score somewhere between 0% and 100%. With 100 percentage points available, these are spread out among the important factors by which you are evaluating the bids, e.g. the price, quality of technical solution, etc. The more important a factor the higher the number of points (or higher weighting) it should receive. So, for example, if you are buying purely on price, 100% of the weighting would be allocated to price or, if sustainability was important to you, it might be allocated 20% of the weighting. In FM it is rare for evaluation methodologies to be based only on price (Lowest Price) as the service is not a commodity and differential quality can have a big impact on price. However, there are instances where service quality being equal to price becomes the determining factor. A combination of price and quality is often referred to as most economically advantageous tender (MEAT). In effect, it is a balance of price against quality (e.g. 30% of weighting price, 70% quality).

It is good practice to have a clear scoring matrix for narrative submissions. Typically, this is 0-5 or 0-10, where the lowest number represents a description like ‘the answer is unacceptable and not capable of meeting requirements’ and the highest number represents a description like ‘the answer meets all the requirements to a very high standard and would deliver a high level of benefits’. The numbers between represent different graduations, e.g. meets some of the requirements, meets most of the requirements, etc.

The method of evaluating price is more complex. One common method is where prices are typically ranked against each other and a proportion of the percentage points available awarded depending on the difference in price. This means that if the two lowest prices are close to each other, the points awarded are also close. In the private sector, price evaluation can be more subjective and in all cases price and quality should be considered together to make an objective assessment of value for money, e.g. in some cases the quality benefit delivered by a higher cost is worth the additional expense.

For example, if Bidder A had a price of £100,000 and Bidder B a price of £80,000, Bidder A would be awarded full points, for example 50 points, and Bidder B would be awarded 40 points ($80 \div 100 \times 50$).

1.4.7 Project governance

Good governance of a procurement process is advisable. Governance takes a more strategic high-level view than project management. Governance can help the project to stay on track to deliver the strategy, be used to approve or make decisions, allocate resources, be the recipient of and review project reports and communicate with senior stakeholders. A typical governance structure for an FM procurement project is a project steering board, which may meet weekly or once every two weeks.

A steering board would typically include senior project sponsors with at least one at board level.

1.4.8 Project reporting

Regular project reporting is important to record and track progress and to highlight issues. A typical reporting structure will involve weekly dashboard reports and more in-depth monthly reports. Typical contents of a weekly dashboard report are:

- last week’s activities/achievements
- next week’s planned activities
- new or changed significant risks and issues and
- progress status of milestones due within the next month (red/amber/green).

A more detailed monthly report is often submitted to the project steering group with the following contents:

- activities/achievements since the last steering group meeting
- next month’s planned activities
- updated risks and issues log
- progress status of all key milestones (red/amber/green) and
- overall project status and progress.

A weekly dashboard report can form the agenda for a weekly project team meeting and the monthly report can serve the same purpose for a monthly steering committee meeting.

1.4.9 Ethics

RICS is a member of the International Ethics Standards coalition and members should follow these standards.

Further, RICS *Rules of Conduct* and the RICS *Conflicts of Interest* professional statement (March 2017) set out the mandatory requirements of RICS members. In line with these documents, DOs must act ethically throughout a procurement process.

GN 2 Procurement

This section covers the actual procurement process and covers:

- the technical activities that need to be undertaken
- the legal and commercial decisions that should be made
- the actual procurement process you will follow and
- mobilisation and transition processes.

2.1 Technical activities

The following activities should be completed to enable bidders to accurately price for the services you are procuring.

2.1.1 Detailed scope

You should state in detail the scope of services. it can be helpful to think of services in a hierarchy to understand the relationships and interdependencies of them.

Traditionally services have been thought of as ‘hard’ or ‘soft’ FM. The industry is now moving away from this artificial categorisation to either a specialist service or an integrated approach. ‘Hard’ and ‘Soft’ FM therefore will not be used in this document and should be avoided in procurement.

The first level in the hierarchy can be referred to as the service line. Examples of service lines are shown in Table 1. There is no standard list of service lines, they will vary by organisation.

Service line
Repairs and maintenance
Minor works
Grounds maintenance
Cleaning
Catering
Security
Mail room
Pest control
Helpdesk
Health and safety
Project management
Building management

Table 1: First level of hierarchy

The next level in the service hierarchy can be referred to as the service element. Examples of service elements are shown in Table 2. There is no standard list of service elements, they will vary by organisation.

Service line	Service element
Repairs and maintenance	Long term maintenance
Repairs and maintenance	Planned preventative maintenance
Repairs and maintenance	Reactive repairs
Cleaning	Routine cleaning
Cleaning	Periodic cleaning
Cleaning	Reactive cleaning
Catering	Staff restaurant
Catering	Hospitality
Catering	Vending
Health and safety	Permit to work

Table 2: Second level of hierarchy

The detailed description of each service element is provided in the service specifications. The key element of scope is the buildings, sites, or land (sometimes referred to as the ‘Premises’) that are covered by each service line or service element. Depending on the size and complexity of the property portfolio for which services are being provided this can be straightforward or more complex.

Typically, not all buildings require every service, for example a building/asset without a staff restaurant may not require any catering or may just require vending. To provide a clear picture of the scope you should therefore map the services in scope to the buildings/assets that require them. This can be done simply via a list or for more complex situations by a matrix showing service elements for each building/asset. An example of this is shown in Table 3.

Service line	Service element	Building A	Building B	Building C
Repairs and maintenance	Long term maintenance			
Repairs and maintenance	Planned preventative maintenance			
Repairs and maintenance	Reactive repairs			
Cleaning	Routine cleaning			
Cleaning	Periodic cleaning			
Cleaning	Reactive cleaning			
Catering	Staff restaurant			
Catering	Hospitality			
Catering	Vending			
Health and safety	Permit to work			

Table 3: Matrix showing service elements for each building/asset

Service line	Service element	Building A	Building B	Building C
Repairs and maintenance	Long term maintenance	£0.00	£0.00	£0.00
Repairs and maintenance	Planned preventative maintenance	£0.00	£0.00	£0.00
Repairs and maintenance	Reactive repairs	£0.00	£0.00	

Table 4: Alternative matrix

An alternative is to create a requirement to include a cost for each service element that is in scope, greying out service elements that are not in scope as shown in Table 4.

2.1.2 Service specifications

The service specifications are a key set of documents that you will need to produce. If you already have service specifications that work you may be able to reuse them or may need to refresh them. If you do not have fit for purpose service specifications, producing them and getting them agreed by stakeholders can take some time; as such it is advisable to plan their production at an early stage. As the service specifications drive many of the other documents required you should produce them as early as possible in the project. Service specifications can be one of three types: input specification, output specification and outcome specifications. An input specification is where an input is specified, e.g.:

- The Service Provider shall provide two static manned guards at the main entrance during normal opening hours to check the staff ID passes.

An example of the same requirement specified as an output could be stated as:

- The Service Provider shall ensure that no persons without valid staff ID passes can enter the facility beyond the main entrance during normal working hours.

An example of the same requirement specified as an outcome specification could be stated as:

- The Service Provider shall ensure that the facility is kept safe and secure.

In some cases, an input specification may be required; in the first example, the DO is certain it needs two visible guards at the main entrance. The drawback with an input approach is that it does not allow bidders to use innovation, so the scope to deliver savings or make innovations is limited. In this example, the only way to reduce costs is to pay the staff less, reduce overheads or to accept lower margins, with the consequential loss of service quality that may arise from less motivated staff and a bidder who is receiving a lower reward.

If the requirement is specified as an output, bidders can propose solutions to meet the required output using different inputs. In this example, bidders may propose just one manned guard, or a technological solution such as a barrier, with a card access reader. The possibility of alternative inputs to meet the required outputs increases the scope for cost reduction and innovations.

If the requirement is specified as an outcome, bidders have a greater level of freedom as to how to meet the requirement but also take on a higher level of risk. In FM, outputs can be difficult to define and measure and as such are seldom used.

In some cases, a hybrid approach is required, where the specification is largely output-based but includes some key inputs and outcome measures, e.g.:

- The Service Provider shall ensure that no persons without valid staff ID passes can enter the facility beyond the main entrance during normal working hours and that all staff are greeted by a manned guard as they enter the building.

Service specifications can take many forms, however, the following principles should be followed:

- Be clear on what you mean. Include definitions of defined terms and acronyms. It is good practice to capitalise all defined terms.
- State what the objectives of the service are, e.g. the objectives of a security specification may read, 'to keep the premises secure and employees and visitors safe'.
- State each requirement in a clearly delineated section, be it a numbered paragraph or a row in a table. Avoid amalgamating requirements, this can cause issues with pricing and with scope change. For example, 'The Service Provider shall undertake all routine cleaning and ad-hoc window cleaning.' In this case ad-hoc window cleaning should be a separate requirement as it is likely to be priced differently and could be easily removed from scope if required.
- State exactly what is required in clear language, if it is an output specification do not state how to do it.
- State the service levels required separately as these can then be used in the performance mechanism. For example, 'All emergency repairs shall be responded to within one hour' is a service level for responding to emergency repairs.
- Use precise language to avoid ambiguity. Check for words such as 'relevant', 'regular', 'appropriate', etc. For example, 'regular' should be replaced with daily/weekly/monthly, etc.
- Be clear about any exclusions. For example, 'Cleaning of computers and IT equipment is excluded'.
- State any specific requirement for personnel delivering the service. For example, 'The person managing health and safety should be qualified to NEBOSH diploma level and be a chartered member of IOSH'.
- There are likely to be many drafts of specifications as they are developed. Use track changes as the documents get updated and amended and keep track of version control to avoid missing changes.

2.1.3 Condition survey and asset registers

For repairs and maintenance services, condition surveys and asset registers are key. A condition survey is particularly important if the bidder is taking financial risk on repairs, e.g. with an inclusive repairs element. An asset register is important to ensure all assets that need to be maintained are known for pricing purposes.

In an ideal world, DO organisations will have up to date condition surveys and asset registers that bidders can rely on. In practice this is rarely the case and a strategy to fill any gaps in condition and asset data should be developed and implemented. Options include:

- The DO undertakes or commissions condition surveys and asset verification surveys prior to launching or during the procurement process. If not completed before final pricing, a mechanism to adjust the price should be agreed. This is RICS' preferred option as it removes the most uncertainty and the DO owns the survey data.
- The winning bidder undertakes or commissions condition surveys and asset verification surveys during the mobilisation period and price adjustment is made once completed.
- Bidders price on available information and undertake due diligence during the mobilisation period and agree price adjustments accordingly.

2.2 Legal and commercial activities

The following legal and commercial issues should be considered as part of your preparation.

2.2.1 Pricing

When bidders submit a proposal to you they will need to provide you with a price. You need to consider how you want services to be priced. Each service element should have a pricing type allocated. Typical pricing types are:

- fixed price
- variable price
- guaranteed maximum price
- cost plus and
- pass through.

It is important to understand how each of these pricing types works, in which scenarios they are best used, who holds price risk and who has incentives to reduce costs. Consider the risks and benefits of each pricing type and how they might enable or hinder savings. Pricing type should enable benefits, not be an obstacle to innovation and efficiency.

Pricing type	Characteristics	Pros	Cons
Fixed price	A fixed price for a fixed volume of service at a set standard. Volume can vary to a set amount within a cap and collar arrangement. Can be subject to indexation and continuous improvement.	Easy to manage budget expectations and forecast contractual cost. Supplier's risk should the service fee increase.	Agreed at inception of service and fixed, inability to benefit from reducing costs to improve supplier's margin.
Variable price	A price whereby the input costs are known but the volume is subject to a high variation. Input costs typically agreed in a Schedule of Rates, which could be for activities or for hourly rates.	Rates agreed at a set cost against scope, price breaks can benefit in volume reduction discounts once thresholds of spend are reached.	Difficult to manage budget expectations, price breaks not met can increase cost.
Guaranteed maximum price	A variable price but with an upper threshold above which the variable price is capped.	Fixed ceiling price based on actual cost, cost underruns can be returned to the buyer or shared with the supplier as an incentive.	Risk is shared between buyer and supplier, however, little incentive for supplier to keep costs under the max price unless incentives included.
Cost plus	The actual cost of the services plus an agreed mark up for profit and overhead. Risk sits with the buyer and suppliers may have a disincentive to reduce costs.	Clear visibility of cost with agreed margin.	Risk of inflated cost of service to improve supplier margin.
Pass through	Costs are passed through with no margin or overhead attached.	All costs passed through with no budget requirements.	

Table 5: Pricing type summaries

Table 5 provides a summary to assist with determining which pricing type offers best value for you. In any one contract several different types of pricing may be used depending on the services being priced, available data and the objectives of the buyer. It can also be beneficial to change the pricing type during the term of the contract. For example, repairs can be charged as a variable price using a schedule of rates for the first year of a contract to establish a baseline cost, which can then be used to determine a fixed price for repairs in subsequent years.

It is common for contracts that include reactive repairs to have a comprehensive or semi-comprehensive element, where the supplier takes risk on the cost of repairs up to an agreed threshold with agreed exclusions.

Comprehensive elements can be beneficial as they allow most repairs to be actioned without DO approval, remove administrative burdens and incentivise good behaviour from suppliers.

Where there is poor asset data, the price for a comprehensive element can be poor value as suppliers include a high level of risk into the price.

In addition to defining exclusions, another key consideration is what level the comprehensive repairs threshold should be set at. Typically, this can be anywhere between £500 and £2,000. What limit to set depends on understanding the appropriate level of risk to pass to the supplier and can be heavily dependent on the age and condition of the assets. A good way of assessing this is to model what would have been included from a past year's repairs data at different levels of threshold and/or ask bidders to bid and justify their preferred threshold. It is important when defining comprehensive repair limits that the DO is clear about the definition and grouping of assets and systems to ensure that the limits may be applied correctly.

The costs of TUPE can be a major consideration in pricing and full and accurate TUPE data should be provided to bidders. Where such data is not known, a mechanism to true-up costs once TUPE costs are known should be agreed. This is a major area of commercial risk to a bidder and if handled poorly will result in excessive risk pricing or lack of interest from the market. Pension costs can be a particularly difficult area and specialist advice should be sought. TUPE and similar legislation is a complex part of any procurement and specialist advice should also be sought here.

2.2.2 Limits of liability

The limit of liability is the level of damages that one party will be obligated to provide to the other party under terms and conditions stipulated in the contract.

What limits of liability you require is a key commercial decision in any contract – too high and the market may not be able to accept it; too low and you run the risk that you may not be able to recover sufficient costs if your supplier is liable for damages. Limits of liability can be stated at different levels for different risks/events, e.g. one limit for breaching confidentiality and a different limit for loss of earnings. Specialist advice should be sought to determine what levels of liability you require.

Extra caution should be taken with unlimited liability. Other than liabilities that must by law be unlimited, it can either be very difficult for bidders to accept unlimited liability or they will include higher prices to reflect the risk and/or reward for accepting a higher level of risk. Many bidders will choose not to bid if there are unlimited liability requirements. In practice there is no ability to meet unlimited liabilities as any supplier will be constrained by its balance sheet.It is better to discuss and agree sensible limits of liability that provide buyers with the cover they need but do not cause excessive risk pricing.

Many contracts also seek to achieve further guarantees in the form of parent company guarantees or performance bonds. You should be clear about any such requirements at the start of a procurement process and ensure that terms are reasonable and not going to unduly impact the price or the appetite of bidders.

2.2.3 Insurance requirements

The level of insurance required is another key commercial decision. As a buyer you want to be sure that your supplier can meet any financial obligations that may result if something goes wrong. Specifying minimal levels of insurance cover required can help to provide this assurance. In addition, your own insurers may require that your suppliers have a certain level of cover to minimise their own exposure. Specialist advice should be sought before deciding what levels of insurance cover are required, for example a lease may include specific lease obligations.

2.2.4 Indexation

Most contracts longer than two or three years will typically have indexation applied to the price. Two key decisions to be made are what index to use and how and why to apply it. Indexes that can be used include the Retail Prices Index (RPI), the All Items Excl Mortgage Interest (RPIX), the Consumer Price Index (CPI) and various specialist indexes. CPI is the government's preferred index and is widely used. Various inflation projections are published.

Some contracts agree to apply a specified index, others will build in a set amount regardless of what actual inflation turns out to be and some have a capped figure.

In any contract the year one price would usually not attract indexation, which may kick in from year two onwards. Sometimes suppliers are asked to price in inflation and it can only be applied after a set number of years or if the specified index breaches a pre-agreed threshold. You need to identify which index is most applicable to the cost of your services and how and when to apply it. How much inflation risk you are willing to take versus the value for money you would get from having your supplier take inflation risk is a key consideration. The more inflation risk you want a bidder to take the higher risk premium they are going to build into their costs. Many older contracts do not have provision for negative inflation (or deflation). In a low inflationary environment this is a real possibility and the contract should cover this eventuality by, for example, stating that only inflation of greater than 0% will be applied.

Indexation is not always the best method of dealing with actual cost variations over time. In some instances, it may be better to have an annual review and negotiation based on real changes to the underlying cost base.

2.2.5 Continuous improvement

Continuous improvement can refer to improvements in the quality of services over time or can refer to future cost reductions that can be built into a price. As a supplier makes ongoing changes, the services should get more efficient and effective over time. Continuous improvement can be used as a mechanism to return some or all of this benefit to the DO in terms of an agreed reduction in price. This could be expressed as a percentage point reduction in price year by year but is often expressed as a reduction in indexation when it is used to partially offset the effect of inflation. It can also be expressed as a guaranteed reduction in actual price each year.

For example, the supplier may increase the price by the agreed index minus 1% each year. It is common for continuous improvement to be a higher figure in the early years of a contract when it would be reasonably expected that a supplier will be driving out efficiencies. In the later years of a contract, continuous improvement often tapers off and may end as there should be a floor below which further efficiencies are harder to achieve or may cease to be possible.

In this example the minus 1% is the continuous improvement. As inflation has reached historic lows in recent years, many contracts did not have provision for what would happen if inflation was less than continuous improvement. It is advisable for contracts to address this scenario by clearly stating either that continuous improvement applies even if indexation falls below the level of continuous improvement or goes negative, or that continuous improvement only applies when indexation is applied to the price.

2.2.6 Gainshare mechanisms and other incentives

Including incentives for suppliers to bring innovation and reduce costs can deliver real value to DOs. Gainshare mechanisms are often seen as a good way to do this. Suppliers will do all they can to reduce costs but this will be to maintain and grow their own margin. Gainshare mechanisms take it a step further and usually involve more innovative ideas, a change to the specification and often require some investment. Typically, it will involve some initiative that cannot be implemented without the DO's agreement. A typical gainshare mechanism enables your supplier to bring ideas forward that will create a gain, usually expressed as cost savings. This often results in a direct reduction in the supplier's revenue, so allowing the supplier to keep a proportion of this lost revenue and/or applicable margin for a period provides an incentive to bring ideas forward.

Example

DO has an old inefficient gas boiler. FM Co proposes to replace it with a new energy efficient boiler that will deliver energy savings as well as being cheaper to maintain. FM Co proposes to provide the necessary investment to fund the replacement. DO agrees to give 50% of the energy savings for a five-year period to FM Co and FM Co can keep 100% of the maintenance savings. DO has the benefit of a better, more reliable boiler for the rest of its lifecycle and 50% of energy savings. FM Co has the benefit of revenue from the project to install the boiler, 50% of the energy savings for five years and the maintenance savings. Both sides have a broadly equitable level of net benefit when you remember that FM Co has to make the investment and DO does not have to invest up front.

Generally, gainshare mechanisms work best when the gain is evenly shared; if too low a percentage of the gain is offered to the supplier, they have less incentive to bring ideas forward or to make investment. If suppliers demand too high a percentage of gains, the DO has less incentive to accept whatever changes are required.

In all gainshare mechanisms close attention should be paid to calculating and agreeing the baseline cost against which any gain will be measured. Energy savings are a common area for gainshare initiatives and, due to the variability of energy supply costs, baselines are generally better expressed as energy consumption (kilowatt hours, etc.) rather than as cost.

Beware of agreeing gainshare proposals where the supplier makes no investment and adds little value. For example, simply stopping to do something (e.g. cleaning desks everyday) should be a contract change not a gainshare. You do not want to get into the situation where you are paying a supplier not to do something when you could simply have changed the specification and got 100% of the benefit.

2.2.7 Performance mechanism

A robust performance mechanism should be developed as it will form an important tool for effective contract management. Performance mechanisms need to be discussed with bidders to ensure that measures are workable and that targets are realistic. It is important that it is not used to penalise suppliers nor to recoup cost; rather it is an incentive to maintain the standard of service that is required and a method of assessing if objectives are being achieved.

A performance mechanism can be constructed of three components:

1. A service level (SL) that should be achieved, e.g. a call to the helpdesk should be answered within 30 seconds.
2. A key performance indicator (KPI) – a target that the SL should achieve, e.g. 90% of calls to the helpdesk will meet the SL (calls answered within 30 seconds).
3. A consequence of failure. Typically, a deduction from the price if the KPI is not met. However, you can have performance mechanisms with no deductions provided there are other strong contract management provisions.

To be applied, a KPI needs to have a frequency (typically monthly, quarterly or annually) and a method of measurement and reporting, e.g. monthly reports from the CAFM system recording the total number of calls received and the percentage that were answered within the SL.

A performance mechanism would typically consist of a table or spreadsheet containing a number of SLs and KPIs. See Table 6.

The sum at risk is typically equal to the supplier’s overhead, risk and profit. It is set at this level as it is an amount that will penalise suppliers for poor performance without damaging operational performance and causing additional issues.

It is important that SLs be set only when something is important and matters to your business. If answering calls to the helpdesk quickly is not important to your business, there does not need to be an SL attached to it. SLs should also be realistic and achievable with given resources. A requirement to answer calls within 30 seconds may be a realistic SL given the number of staff employed and the systems and technology used. If this was ten seconds, your supplier may have to employ additional staff to meet the level. If this is important to you, that is a valid cost, however, if it is not that important you have added unnecessary additional cost. Avoid generalisations such as ‘to be clean at all times’; such standards are impossible without permanent 24/7 cleaning. A better SL might read ‘following completion of a cleaning activity, to be free of dirt, smears and marks’.

Out of hours reactive maintenance response is another example – if you set one that has a very short time frame, your supplier will have to employ someone to be on site out of hours. If, however, you require an out of hours response within two hours, a supplier could simply rota staff to be on call, incurring little additional cost. If a 30 minute out of hours response is important to your business, it is valid to set that SL and accept the additional costs incurred.

SL	KPI	Frequency	Measurement and reporting	Deduction (% of sum at risk)
Calls to the helpdesk to be answered within 30 seconds	90%	Monthly	Monthly report from the CAFM system (number of calls answered within the SL /number of calls received per month *100)	10%

Table 6: Performance mechanism

In formulating SLs you need to consider if it is within your supplier's power to achieve them and express the standard in a way that is achievable and measurable. For example, if 'employ an agreed number of apprentices' is on your contract, it is within the supplier's power. However, if it is to 'reduce youth unemployment in your district', it is not. SLs should try to measure the output, not the input. In some cases, SLs concerning inputs may be required and they are often easier to measure, but, for example, it is better to measure that your building is secure rather than how many patrols manned guards have undertaken. Output measures are typically quite difficult to measure, and although they can be beneficial, are often outside of the performance mechanism.

KPIs can be applied to SLs, however it is important that this is only done for a small number of SLs that are of critical importance. KPI targets need to be realistic and achievable. You need to consider the volume of activity within each and what the KPI target means. If, for example:

- the SL states 'all planned maintenance tasks to be completed within the scheduled month'
- there are 5,000 maintenance tasks to be completed in one month
- your target is 90% and
- you are happy to accept that 500 maintenance tasks will not be completed each month,
- what is the impact on your business if 500 tasks are not completed on time?

If the KPI was 99%, you are happy to accept 50 tasks not completed per month but in general, 100% targets are to be avoided, especially for high volume activities as there will always be a degree of failure with scale and suppliers may seek to include risk pricing to try and cover the risk of failing the KPI. However, care should be taken with legal and statutory requirements – you cannot accept anything less than being statutory compliant and legal. In these cases, 100% KPI targets are valid.

Frequency of measurement is an important consideration. The less frequent the activity the longer the period of measurement should be. If an activity only happens once or twice a year, a monthly measurement is not valid. On the other hand, if it is a high-volume activity that occurs frequently, measuring it quarterly or annually may smooth out failures in a specific month resulting in data that does not support the DO's view of the service received, nor does it allow for problems to be identified and fixed month by month.

Method of measurement and calculation of the KPI is a critical consideration. When it comes to making deductions from a supplier that erodes their margin, you should be very clear on how something is measured and how you calculate the performance to avoid dispute. There is no right answer; you need to agree an appropriate method of measurement with suppliers, depending on the SLA. Avoid subjective measures, for example, 'it is clean' is subjective; what do we mean by clean? Better to say 'over 80% of the surface will be free of visible dirt, marks and smears'. It is hard to avoid subjectivity completely but make the measure as objective as possible.

Self-reporting of performance by suppliers is common but it can be beneficial to back this up with joint audit inspections and ad-hoc DO inspections. When formulating a performance calculation, it is recommended to turn the target and performance achieved into a percentage. The example below shows the calculation for tasks completed against a target of the tasks that were planned.

Actual against agreed plan = (Actual completed tasks/Planned task×100)

In this example, if 500 tasks were planned and 480 tasks were completed, the SLA achieved would be 96%.

Some performance mechanisms are overly complex and create an excessive amount of work and distraction. If including deductions that ramp up with greater levels of failure, win-back mechanisms, excusing clauses, etc. care should be taken to keep the mechanism simple and straightforward. Rather than focusing on individual SLs it can be beneficial to take a balanced scorecard approach whereby all SLAs are considered in the round rather than focusing on individual KPIs.

Avoid allowing performance mechanisms to become unnecessarily complex. As a principle, performance mechanisms should be transparent; only target SLs that are important, make a difference and have sufficient consequences to deter poor performance and ensure rapid rectification.

When a KPI is failed, a deduction can be made. In practice this usually involves the supplier issuing a credit note to be used against the next invoice. The consequences of failing KPIs needs to be meaningful. Typically, profit is at risk against performance – if, for example, you have a contract worth £10m pa, the supplier's profit for a year may be £1m. That sounds like a big financial risk if you fail your KPIs, but it's £83,000 in any one month. If you have 20 equally weighted KPIs that means that failing one KPI in any one month will result in a deduction of £4,000. You should have enough KPIs to cover what is important in your contract, but not so many as to dilute their impact. You can easily get into the situation where it is cheaper for the supplier to fail the KPI month in, month out, than it is to fix the problem.

SLs and KPIs are typically the main component of any performance mechanism, however if they fail to rectify persistent performance issues, there should be a clause that triggers further remedies such as step in, reduction of scope and termination due to poor performance.

2.2.8 Value testing and benchmarking

During a contract, DOs often want a degree of assurance that they are still obtaining value for money. This is particularly the case during contracts with a term over five years. Value testing and benchmarking are methods of checking that the DO is still getting value for money compared to market conditions and the common standards of service at the time of testing. In addition to cost benchmarking, other factors such as use of space, environmental impact, quality, customer satisfaction and productivity levels can also be benchmarked.

Value testing and benchmarking are often used as interchangeable terms. However, value testing should include some assessment of non-financial benefits whereas benchmarking is typically purely a cost assessment.

During a procurement process you need to decide if you should include a value testing or benchmarking exercise in the contract. If the length of contract is less than five years, the cost and benefit of doing so may not be worthwhile. If your contract has the potential to be extended, a value testing or benchmarking exercise may inform the decision-making process.

Key questions to consider include:

- Is a value testing or benchmarking exercise worthwhile?
- Should it just consider cost or should the assessment consider other aspects of value such as risk transfer, payment terms, quality of services, etc.?
- When should the test be undertaken?
- Which services should be tested? It is often not possible or worthwhile to test all services, the focus should be on the critical and/or the high-value services.
- How many comparators will be used?
- Who agrees which comparators to use? Suppliers will sometimes offer to benchmark against their other clients only, this should not be accepted as the comparators may be selected to provide a favourable outcome to the supplier.
- How will the results be presented?
- Who will undertake the testing?

Another key consideration is what you will do with the results of any testing. You should state this clearly at the outset. Potential actions include a price reduction on costs to within the benchmark or market testing. Outside of any contractual consideration benchmarking can also be used to aid decision making regarding contract extensions, renewals or the addition of new scope.

2.2.9 Change control

It is important to recognise that requirements often change. Your organisation could occupy new buildings, dispose of buildings and change other FM service requirements in response to changes in customer demand. The longer the contract term the more likely requirements are to change. You should include a change control mechanism in your contracts and as part of this agree with bidders how changes will be priced. This will avoid disputes about price when change control is being applied. Typically, a price will include a level of tolerance for smaller changes to avoid a lengthy process each time a small change is required. This could be a cap and collar on the cost of change over a set period whereby the parties absorb changes to the agreed levels, or the cost of changes are applied once per year as part of an annual price review.

It is important to remember that not all cost reductions are linear and price reductions may be less than expected. For example, the cost of maintenance for a specific building will include management and overheads that will still have to be borne. In addition, if a building is closed but the staff are moved into another building, costs in that building may increase due to a higher occupation density, e.g. more people may mean more cleaning is required. Such factors need to be considered in agreeing a change control process that should be detailed as part of the contract.

2.2.10 Forms of contract

You have two main choices when selecting which form of contract to use: a bespoke contract drafted to meet your specific requirements or an off-the-shelf contract that you can amend to meet your requirements.

Bespoke contracts can be tailored to meet your exact requirements but can be expensive to produce and are usually drafted by in-house or third party legal advisers. Off-the-shelf contracts such as the NEC3 or the JCT are relatively inexpensive to purchase, although very few are available specifically for the procurement of FM services. Such contracts typically have core clauses, a range of optional clauses that you select and a method of making variations to any terms.

Choice of contract depends on the size and complexity of your requirements. Off-the-shelf contracts can be fine for smaller, less complex contracts but bespoke contracts are better suited to larger, more complex contracts.

Even if using off-the-shelf contracts, legal advice should still be taken especially if you are making variations to terms.

It should be noted that the contracts themselves will contain a number of schedules where most of the information will sit, e.g. a pricing schedule.

2.2.11 Contract length

Contract length or term of contract is a key decision. Too short and you may not get best value from the market, too long and you may end up in an agreement that over time no longer meets your requirements. Where there is more than one supplier you may also consider contract lengths that make your contracts co-terminus, or if you need it, a contract to terminate at a known time of change, e.g. a move to a new building.

Essentially, FM contracts are expensive for DOs to tender and expensive for suppliers to bid and win. If supplier investment is required, the minimum contract length is typically five to seven years to allow enough time for a supplier to make a return on their investment. Having to go through this process increases costs too frequently. FM contracts typically run for a minimum of three years for single services and a minimum of five years for integrated FM. Contracts often include extension clauses and are stated as 3+2 or 5+2 or 8+2, etc. Most DOs are wary of long contracts as it restricts flexibility and there is a fear of being tied in beyond a time when major change may be required. However, many benefits can be delivered by longer term contracts through being more attractive to the market during a competition and from higher levels of supplier investment.

In the public sector it is important to get the contract length right at the time of publishing your requirements as the term you state, along with any potential extensions, may restrict your ability to change the term at a later stage of the procurement process.

In the private sector there is more flexibility and contract length is often negotiated as a commercial lever either during the procurement process or during the contract when additional benefits are being sought.

You should assess FM's strategic importance to your business and decide if you want a transactional relationship with suppliers or a strategic partnership. If the latter, a longer contract term is appropriate and is likely to deliver better value.

2.2.12 Dispute resolution

Many contracts do not run smoothly and disputes are not uncommon. It is important to recognise this and agree a process for dispute resolution before any disputes occur. Dispute resolution processes typically state escalation routes and may name an independent body to act as an arbiter.

In the event of a dispute, RICS' Dispute Resolution Service (DRS) could assist. The DRS is the world's oldest and largest provider of alternative dispute resolution (ADR) services in the land, property and construction industries. Further information can be found on the DRS website.

2.2.13 Exit and termination provisions

Exit provisions cover what happens at the end of the contract term and termination provisions cover what happens if the DO ends the contract early for reasons of non-performance or for convenience, in which case termination fees are often payable.

You should get legal advice on exit and termination provisions, which typically include matters such as transfer of data, assets and TUPE, as well as work in progress, helpdesk data, maintenance records, stock, final payments and handing over to a new supplier. Putting clear obligations on your supplier will assist with enabling an efficient re-procurement process at the end of the contract or in the event of termination.

2.3 Procurement process

The following steps will be taken once you go to market and undertake a procurement process.

2.3.1 Supplier selection

A difficult decision to make is the number of bidders to invite to the process. In public-sector procurement a Standard Selection Questionnaire (SQ) (previously known as a Pre-Qualification Questionnaire) must be used in most instances, whereby applicants (bidders) provide information about their company and their previous experience. Once evaluated, a smaller number of applicants are then invited to tender (becoming bidders) via whichever public-sector procurement route is being used. It is beyond the scope of this document to discuss public-sector procurement processes, suffice to say that a restricted route is typically used for smaller, less complex procurement processes where the solution is known, and competitive dialogue or competitive negotiated routes where the solution requires development with the market.

If using a public-sector framework, the associated rules of that framework should be adhered to. You may be able to select a sole supplier of the framework or you may be required to undertake a competition with a minimum number of participants, often known as a mini competition.

In the private sector, subject to your company's financial rules and procedures, you can invite as many or as few bidders as you like. Good practice is to follow a robust transparent process like the public sector SQ processes by inviting a number of bidders to submit responses to requests for information (RFIs).

However, caution should be taken to ensure that you have enough bidders to drive competition but not so many that you have an unmanageably high workload evaluating bids that the bidders feel they have little chance of winning.

2.3.2 Procurement process

Essentially, the procurement process will take you from a position where a number of bidders are bidding to win your business to a situation where you have selected one bidder with the best solution to meet your requirements.

If you are a public-sector buyer you must follow the appropriate directives, which will vary depending on the services you are buying, the financial value and the degree to which the solution requires development. In the private sector, subject to your organisation's financial rules, you can design your own process. Regardless of sector you should assess your requirements and the market capability, and design a procurement process that is appropriate for the scale and complexity of your needs. In doing so the following points should be considered:

- Invite an appropriate number of bidders to tender. The more bidders you invite, the lower each bidder's chances of winning. Invite too many and none may give you the level of attention and resources required. Invite too few and you may not get enough competitive tension or the best value solution available. There is no right answer; it depends on your requirements, but typically five to ten bidders are invited to participate, sometimes three for smaller single source procurement processes in the private sector.
- Issue tender documentation in the form of a request for proposal (RFP) or an invitation to tender (ITT) including background information, objectives, service specifications, tender return forms and templates, evaluation criteria, timetable and key DO contacts.
- Build in stages to down select bidders (public-sector directives permitting). As a procurement process progresses, filter out the bidders who have the lowest understanding of your requirements and/or whose solutions are unaffordable or unlikely to work. Typically, you can go from ten to five, from five to three, from three to two, or you can jump stages, e.g. five to two. However, it is advisable to inform bidders when you will down select and to how many at the outset. No bidder wants to remain in a process that they have little chance of winning; bidding costs are high and resources are better deployed on other opportunities. Down selection also reduces the workload on your procurement team.
- Set realistic timescales. You need to allow enough time for bidders to develop their solutions and get the approvals they need before making commitments to you. It is not reasonable to expect turnarounds in short timeframes. Also allow enough time for your team to respond to RFIs and for evaluation.

A typical procurement process could take anywhere from 3-18 months depending on the scale, level of complexity and the procurement process used.

It is important to understand that bidders have significant costs and competing priorities so you should be respectful of the time and resources that bidders will deploy and be courteous and professional. Try as far as possible to stick to dates, provide papers or meeting requests with enough notice and be mindful of travelling time, etc. Simple courtesies will go a long way to establishing a professional productive relationship with bidders. For example, if the first train from London arrives at 9am, schedule meetings for a 9.30am start when possible.

2.3.3 Dialogue and negotiation

Depending on the process you are following there may be multiple rounds of dialogue or negotiation with bidders. The difference between the two is important as the public sector competitive dialogue route permits dialogue but not negotiation. The public-sector procurement directives should be consulted to ensure that your dialogue does not become negotiation.

If you are holding dialogue or negotiation meetings, set an agenda and allow bidders time to prepare. While you may wish to limit the number of bidder attendees, allow them to bring the right people for the topic under discussion. Be careful not to disclose other bidders' commercial positions or intellectual property. For example, do not say 'Bidder A is offering us a lower cost solution'. Instead you may say 'your solution is not affordable, what can you do to reduce the cost?'.

2.3.4 Information

During the procurement process, bidders are likely to request data and information from you. The most efficient way of managing this is to set up a system for clarification questions.

- Design a template for bidders to complete.
- Provide a single point for receipt of questions.
- Share answers to all questions with all bidders unless the bidder has requested you keep the question confidential as it would disclose something unique about their solution and you have accepted this.
- Develop a log to keep track of questions that have been received and those that have been answered; this is critical as DOs can easily be overwhelmed by a lot of questions, often from different bidders asking the same question.

2.3.5 Site visits

During a procurement process it is common practice to visit one or more sites where bidders are delivering similar services. Before doing this think about what you hope to achieve from such visits. Suppliers are unlikely to take you to visit sites where services are not working well or where their DO is unhappy. If there is an element of their solution you want to see in operation be clear about this. If you want to speak to their DO without the supplier being present, request this.

It is not recommended to evaluate or score site visits, they are too subjective for that. Instead use them for information, a way of aiding your understanding of the supplier's solution. If you don't have clear objectives for site visits it is better not to undertake them, as they use up a lot of time and effort and could provide false comfort.

2.3.6 Final presentations

Before DOs evaluate final solutions or proposals it is common to invite bidders to a final presentation or pitch. Final presentations should not be used to get additional information to that which is included in written proposals. They should not be evaluated, but rather used as information to confirm the written solutions that will be evaluated; to see the solution presented in the round and as an opportunity to clarify elements of the solution.

2.3.7 Evaluation

Evaluation of bids is a critical activity in any procurement process. You should have clear evaluation criteria that reflect the objectives of the project and these should be shared with bidders to inform their proposals.

Evaluation methodology was discussed in section 1.4.6. A typical evaluation process starts with selecting appropriate individuals to evaluate different sections of the submission and circulating the submissions to these individuals. Good practice is to have a small number of people independently evaluating each section and producing notes and a score, before coming together to discuss the submissions and moderate a score. There are two methods for moderating a score. The group can discuss the strengths, weaknesses and risks of the submissions and agree a score by consensus or an average score can be calculated from the evaluator's individual scores. The danger with average scoring is that all bidders can end up with average scores, as higher and lower scores cancel each other out, especially when there is a larger number of evaluators.

Clarification questions should be sought when evaluators are not sure about the information they are evaluating. This is about confirming information already provided, not an opportunity for the bidder to add or change information. In the public sector allowing new or changed information could leave the DO open to challenge. In the private sector, you could allow additional or changed information to be submitted but you are in effect entering into a negotiation, so you should take care that you are treating all bidders fairly and ethically.

2.3.8 Contract award

At the end of evaluation, you are able to award a contract to the successful bidder. Before signing the contract, you should agree all outstanding issues, including having all terms and conditions in place. If there is to be a period of due diligence, be clear when it will start, when it will end and how any discrepancies will be dealt with.

In the public sector you must follow the procurement directives, including only fine-tuning the bidder's solution (no significant price change) and allowing for the mandatory ten-day standstill period before contract signature to allow unsuccessful bidders the opportunity to challenge.

In FM contracts it is common for assets to be discovered that were not included in the price or for assets to be discovered to be in a worse condition than was priced for. Typically, the bidder takes the risk for a proportion of cost change resulting from due diligence and can only seek to increase the price when a value or volume threshold has been crossed. Have a clear mechanism for this and agree how any increase in price will be costed. Legal advice should be sought before signing a contract.

The actual signing process should form part of the project planning. The contract will need to be engrossed. Your senior managers and senior managers from your bidder's organisation may need to be in the same place at the same time, along with both sets of procurement and legal advisers. It is not necessary to have a signing ceremony or even to be in the same location for signing, however doing so can be a good way to cement a new relationship.

2.3.9 Feedback to unsuccessful bidders

Provision of feedback to unsuccessful bidders is something to be treated with caution. You need to balance the desire to be helpful with the risk that you may create or add to the risk of challenge, or cause damage to your relationship.

The safest option is to provide a level of written feedback that addresses the key points in the bidder's proposal or price, stressing both the strengths and the weaknesses. In the public sector you should follow the procurement directives regarding the level of information that should be disclosed. It is sometimes advisable to seek legal advice before providing feedback, particularly if you feel that some of the points may be contentious.

Extra care needs to be taken if you hold face-to-face feedback meetings or conference calls. There is a risk that you may say or disclose a piece of information that could open you to risk. To minimise risk, it is advisable to only provide objective facts and stick to a pre-prepared agenda.

It may seem harsh not to provide wider and more subjective feedback as bidders have typically invested a lot of time working with you. The best approach is to inform bidders at the start of the procurement process how you will provide feedback and the level of feedback that will be provided.

2.3.10 Communications

Once the procurement process has commenced you should control communications with bidders. It is advisable that all written communications go through one channel only and should be filed. For any verbal conversations, for example phone calls, it is advisable to have a note taken and filed, to record when the call occurred, who was on the call and what was discussed. Web based systems are available to manage communications during a procurement process.

You must comply with relevant data protection rules. You should have processes to guard against potential risks, such as sending written communications to the wrong bidder.

2.4 Mobilisation and transition

The period between contract award or in some cases contract signature and contract commencement is known as the mobilisation period. It is typically three to four months in length. The period after contract commencement, when the supplier makes changes to implement its delivery model, is known as the transition period.

Poor mobilisation is often cited as a factor when outsourced services contracts fail. You should assure yourself that bidders have robust mobilisation plans.

2.4.1 Mobilisation planning

Planning for mobilisation should commence during the bid stage. Mobilisation methods, mobilisation team structures, project plans, dependencies on the DO and risk assessments should form part of the submission requirements. You may select the bidder who best meets your requirements but if they cannot mobilise the contract successfully they will never get the opportunity to meet your requirements.

There are costs associated with mobilisation and transition and how to treat these costs is a key commercial consideration. Mobilisation costs typically include the costs of additional resources to undertake staff meetings, implementation of IT systems, the purchase of equipment and uniforms, etc. Methods of dealing with mobilisation costs include:

- the buyer pays mobilisation costs upon contract commencement following a successful mobilisation
- the buyer pays mobilisation costs incrementally upon completion of specified milestones during the mobilisation period
- mobilisation costs are amortised over a set period, which may be the length of the contract and
- mobilisation costs are included in the contract price.

Amortising mobilisation costs or including them in the contract price will avoid having to pay mobilisation costs up front, which can be beneficial if the DO has short-term budgetary pressures. However, these methods will usually attract interest or a funding charge so the overall costs may be higher.

Buyers will decide which method is best for them and agree with their successful bidder which method will provide the best value for money. For example, if a bidder has to fund high costs for a long mobilisation, better value may be achieved by incremental payments upon the achievement of milestones.

In the case of a re-procurement, an incumbent may have low or no mobilisation costs, which places them at a cost advantage over other bidders. It may be appropriate in such cases to not score mobilisation costs or to give them a low weighting in evaluation so as not to give an advantage to one bidder. On the other hand, as a DO you will have to pay mobilisation costs if you change supplier so you should still consider the cost of doing so as part of your assessment.

Transition costs can be treated the same as mobilisation costs or are more commonly included within the contract price.

Buyers should have visibility of mobilisation costs. Mobilisation costs cannot to be set at £0.00 or even a negative figure unless there is a clear rationale as to why there are no costs. The aim is to prevent hidden costs that do not allow evaluation or scrutiny and to highlight any attempts by bidders to buy the contract.

Suppliers will sometimes seek to commence mobilisation activities once they know the contract has been awarded to them but before contract signature. While this may be helpful in completing mobilisation on time, it does erode buying power from the DO during any final negotiations before contract signature and should only occur at the supplier's risk, e.g. if you do not go on to sign a contract the supplier has no right to charge you for mobilisation costs.

2.4.2 Mobilisation activities

Mobilisation broadly falls into three categories:

1. **People** – The transfer of staff to the new employer, either from previous suppliers or from the DO itself, is the most important part of mobilisation. Suppliers should have detailed plans for this, including staff briefings, consultation meetings, one-to-one meetings, trade union meetings and plans for ensuring staff get paid. Training plans, uniforms, HR support, etc. should also be included in mobilisation plans.
2. **Equipment** – The purchase and installation of new equipment such as cleaning equipment, vehicles, engineering tools and IT equipment is an important activity with potential to cause delays if not well planned. Vehicles in particular may have a long lead time.
3. **Systems** – Operating systems and IT systems such as CAFM systems will need to be installed, configured and tested prior to going live. Increasingly, mobile technologies will also be deployed and will need to be tested. Access to DO systems and IT architecture is also something that requires careful planning and should be considered at an early stage.

2.4.3 Mobilisation reporting

During the mobilisation period most of the workload is on the supplier. However, as the DO you will also have activities that you need to update the supplier on and you should closely monitor mobilisation progress.

There are a variety of ways in which you can do this, including short daily conference calls, weekly meetings, weekly dashboard reports and more formal gateway reviews at key milestones. With your supplier you should agree the best meeting and reporting framework that may change during the mobilisation period. For example, it may not be necessary to hold daily calls early in the mobilisation period but it could be beneficial to do so towards the end of mobilisation.

2.4.4 Go live

The end of the mobilisation period triggers the go-live date or service commencement. On this day at a specified time the supplier becomes responsible for services and staff transfer to the DO. The choice of day and time should be carefully thought through to avoid service disruption. Think of the practical considerations, handover of keys, access passes, occupation of office space, distribution of new uniforms, etc. It may be better to go live over a weekend or during a quiet period so that any last-minute problems can be resolved before service delivery is impacted.

2.4.5 Transition

The transition or stabilisation period is the time following mobilisation when suppliers make changes to the delivery model and achieve steady state delivery. Transition can be slow or rapid; if the former you may not see changes as rapidly as you expected but a slower change can be less disruptive. Understand from your supplier when they are going to make changes, how great the level of change will be and how they are going to manage it.

2.4.6 Transformation

Longer term changes to service delivery, perhaps over the first year of a contract, is often referred to as a transformation phase. Before transformation, the supplier will have successfully mobilised the contract and transitioned into the new delivery model. Transformation results from the supplier learning more about the DO's requirements, analysing data that they have recorded and developing new ideas for effectiveness and efficiency gains that they could not have identified prior to being responsible for the services. It is during a transformation phase when gainshare mechanisms can come into play to share benefits arising from transformation between the supplier and the DO. Transformation will typically not continue for more than a year. Smaller changes and improvements after this should be considered as continuous improvement.

GN 3 Post procurement

Once a procurement process has been completed there is still much work to be done to ensure the successful operation of a contract.

It is important to remember that although the activities have been outsourced to the supplier, the DO still has responsibility to ensure that requirements are met.

3.1 Contract management

Following a procurement process, you should have robust contract management procedures. Contracts that are not managed properly are at risk of failing even when an effective procurement process was undertaken.

3.1.1 Management structure

A contract management structure should be designed to match the contract. It should include an experienced senior manager with overall responsibility and enough staff required to deliver the contract management functions. For example, if you plan to undertake quality audits, who is going to undertake this activity?

The role of the contract management function includes:

- management of the performance of the contract (information, data, reporting)
- financial management of the contract, including budgeting and payments
- management of contract compliance
- management of supplier relationships
- management of change and culture
- delivery of DO's overall objectives, value, capturing outcomes and
- responsibility for keeping the DO's buildings safe, compliant and fit for purpose.

3.2 Re-procurement

Towards the end of a contract term DOs will have to decide what to do next. Options should be considered well before the end of a contract term to allow time for a re-procurement process or other change to the model if that is the decision reached.

Options typically include:

- a contract extension (public sector procurement directives permitting)
- a re-procurement of the same contract
- a re-procurement of a changed/updated contract or
- bringing services back in-house.

To make an informed decision, DOs should go back to the planning and strategic stage as outlined in GN 1.

Good practice in effective contract management

- a single point of contact
- a structure that fits with partner's structure
- regular dashboard reporting to provide an overview of activities
- view only real time access to partner's systems
- data analysis to identify problem areas
- regular face-to-face meetings to foster good communications
- joint inspections/walk rounds to encourage joint working
- use of technology (GPS, photos, PDAs, remote monitoring, etc.)
- focus on a customer service ethos
- strong sense of purpose/strategic directions
- shared objects (contract management and supplier)
- continual professional development of contract management staff
- continual learning on both sides; review and improve processes and systems
- procedures for checking that service costs are commensurate with performance being delivered; evidence of redressing of any issues arising
- separation of specifying and delivering discretionary works
- changes are checked to test if there are reasonable grounds for making a formal change, e.g. performance or VFM will be improved; changes are commensurate with customer requirements and
- alternative options are considered, which may not lead to cost increases (e.g. existing labour redeployed or reprioritised to accommodate change in requirements).

The IFMA-RICS Collaboration represents a very significant chapter in the history of facility management (FM), providing an unprecedented level of industry support to meet the growing demands of the 25 million FM practitioners around the world. The two organizations are aligning standards and professional development for the industry, uniting the global FM community to increase consistency and unification of strategy across the life cycle of the built environment.

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