

## PART I: DIFFERENT WAYS OF CONTRACTING FACILITIES SERVICES

### 2 Contracting out or Managing Services In-house

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***Abstract.** Contracting out has become inextricably linked with facilities management to the extent that it is often seen as its primary purpose. Facilities management is a discipline that considers, among other things, the options available to an organisation, including contracting out, but there are others. This paper discusses the issues facing an organisation when it considers the question of whether to retain services in-house or to place them in the hands of contractors. It includes discussion on the merits of the case for contracting out and then outlines an approach to its implementation. Many of the procedures that apply to contracting out apply equally to the management of services in-house.*

#### 2.1 Introduction

There are common themes and approaches to facilities management, regardless of the size and location of the real estate, although these may not necessarily result in common solutions. In some cases, real estate services are contracted out – often referred to as outsourced – and in others retained in-house, for good reason in either case. Some organisations operate what might be described as a mixed economy<sup>1</sup>, where certain services, even the same ones, are contracted out as well as being retained in-house. There is no general rule, rather a need to define the thinking, practice and procedures that will lead to best value for the organisation.

*“**Contracting out** is the placing of the facilities management services required by an organisation into the hands of external service providers.”*

Whichever course of action is taken, the primary concern is the basis of the

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<sup>1</sup> Where the organisation chooses to retain some services in-house whilst contracting out others.

decision. It is not the outcome that needs to be looked at closely, but the efficacy of the decision-making that leads to it. Where the organisation's approach has been arrived at through, for example, demonstrating better value (for money) from one approach as opposed to the other, facilities management can be considered to be working effectively.

Organisations must, however, act as informed customers if they are to be sure of deriving satisfaction from their service providers and of achieving best value (for money), whether those services are contracted out or retained in-house. The activities and responsibilities that constitute the informed customer function (ICF) are not only wide-ranging but also essential to effective facilities management, irrespective of how services are purchased. The ICF covers:

- understanding the organisation, its culture and its own customers
- understanding and specifying service performance requirements
- managing the implementation of contracting out
- minimising risk to the organisation's future
- agreeing monitoring standards
- managing service providers and contractors including monitoring their performance
- benchmarking the performance of contracted out services
- surveying internal and external customers for satisfaction with services
- providing relevant management reports to customers
- reviewing service levels/requirements to ensure they still meet customer needs
- developing delivery strategies with the service provider
- agreeing changes to service requirements with the service provider
- maintaining the ability to test the market and re-bid service contracts
- understanding the facilities management market and how it is developing
- developing strategies for the organisation's facilities management
- safeguarding public funds, where applicable
- developing own skills through education, training and personal development.

## **2.2 Contracting Out vs. Retaining Services In-house**

The debate on the benefits or otherwise of contracting out has been running long before people spoke about facilities management in a coherent way. Although it is now generally agreed that contracting out can stimulate innovation and can present cost savings through the harsh realities of competition, it cannot be assumed to be the best approach in all cases. The merits of contracting out each service must be considered until the optimal mix of contracted out and in-house provision is attained. The balance between the two may be tilted strongly in favour of one, but this does not mean it is necessarily to the exclusion of the other. The idea of operating a mixed economy is a common practice in many places: moreover, it is

likely to reflect careful consideration of all the options available for achieving best value and customer satisfaction.

The question that inevitably arises is one of how to reach the decision on whether or not to contract out and the information that is required to ensure that it is the most appropriate decision for the organisation at that time. If one assumes that the organisation concerned has little or no experience of contracting out, because it has always managed its own services in-house, it needs to undertake an objective evaluation of its circumstances.

Contracting out services provision brings with it many new responsibilities and risks for the organisation. Even so, managing services in-house does not escape these factors, since in-house managers may face new challenges in demonstrating that they are providing best value. Many risks come into play and these must be faced and handled in the most effective way if services are to deliver customer satisfaction. Risks that are typically faced by organisations are included as appendix A. One risk about which public authorities are acutely aware is that of fraud or irregularity in the award of contracts. However, as we can see from appendix A, this is one of many potential risks. The danger is that other risks, which could prove damaging to the authority, are overlooked in the search for procedures that rule out any scope for fraud.

### **2.3 Contracting Out**

The following sections consider some of the attributes of service provision that might be of importance to organisations, highlighting particular issues that require advance consideration. The selection of the approach through which service provision will take place is based on the ability of that approach to satisfy those attributes that the organisation considers most important to its success. The selection process considers several options of which provision of services from within the organisation, known simply as *in-house*, is just one option. The options available for service provision are listed and defined and a means for testing their implications for the satisfaction of various attributes is illustrated. The appropriate use of market testing, which can help the organisation to monitor the cost effectiveness of its prior decision-making, is then discussed.

The decision to contract out should be made on a rational and objective basis. The evaluation model illustrated in the next section can be used to help determine whether or not contracting out a service is the best option. Such models offer the opportunity to evaluate specific options with sensitivity to ensure that the correct decision for an organisation can be made at any time. Circumstances that are subject to change will have been noted and so the most appropriate option will be the one that can accommodate change. There will be advantages and disadvantages in providing services either in-house or by contracting out. The organisation must decide upon the route that provides best value in the long run. This is achieved by taking full account of the implications, especially the true cost of all options.

**Table 2/1.** Options and how to differentiate between them

Aspects rated important	In-house	Separate company	Managing agent	Managing contractor	Total FM	Agency
Customer service	2	2	4	2	2	0
Uniqueness of service	1	2	2	2	2	0
Priority, flexibility, speed of response	4	2	4	4	2	4
Management implications, indirect cost	1	2	2	2	4	0
Direct cost	2	1	0	0	0	0
Control	4	2	3	2	0	2
<b>Totals</b>	<b>14</b>	<b>11</b>	<b>15</b>	<b>12</b>	<b>10</b>	<b>6</b>

#### 2.4 Characteristics of Service

Features that might be considered significant and/or important to organisations include, though are not limited to:

- customer service
- uniqueness of service
- priority, flexibility and speed of response
- management implications and indirect cost
- direct cost
- control.

Characteristics or features can be scored and entered in table 2/1, using personal judgement to ascertain the scores and a weighting if one or more feature is rated as particularly important. Whatever approach is adopted, it needs to be transparent so that there can be no later concerns about bias. Definitions of the options can be found in Table 2/2. The management team can also use questionnaires and checklists to identify high-priority services and their related risks. Assessment could also be made of the probability and consequences of such risks – see later example.

### 2.4.1 Customer service

Organisations will have established the scope and standard of services required. In addition to the many hard measures that are usually associated with this (for example, speed of response), soft measures must also be considered (for example, the level of customer service). These become particularly important when dealing with people who are external to the organisation. Soft measures might include:

- a responsive helpdesk in preference to a logbook in which faults are noted
- call-back to the customer to confirm that the work has been carried out
- adoption of performance measures for courtesy, presentation and tidiness.

*Table 2/2. Definition of the options*

<b>In-house</b>
The retained personnel of the organisation constituted as a team, group or division, which is under the direct control of senior management.
<b>Separate company</b>
The reconstitution of the in-house team into a separate, stand-alone company, with the aim of attracting external customers to expand its business portfolio.
<b>Managing agent</b>
A specialist (individual or corporate entity) appointed to act as client (organisation) representative. This person (or company) will act on behalf of the client in arranging the placing of contracts.
<b>Managing contractor</b>
A company appointed to manage all service providers as if they were part of a single, larger organisation. The contractor is usually paid a performance-related fee for this work.
<b>Total FM</b>
All services and their overall management are provided by a single company, sometimes known as a one-stop shop.
<b>Agency (otherwise known as off-the-shelf)</b>
Personnel are employed from a labour-only or recruitment agency to offer a temporary solution to a manpower need. Agencies can supply anything from unskilled to professionally qualified persons.

### 2.4.2 Uniqueness of service

When contemplating alternative means of service provision, the special demands of any service must be considered. Whilst most tasks will not represent an exception to service providers within the sector, the organisation might, for example, possess specialist plant and equipment unfamiliar to maintenance

operatives. This may restrict the potential choice of the provider of maintenance and supplier of spares. Issues may include:

- number of external suppliers that can potentially offer the service
- cost (premium) of the service
- average delivery/response time
- level of specification needed to place orders.

**2.4.3 Priority, flexibility and speed of response**

The priority of the service to be provided should be made clear, so that critical services can be highlighted and the required level of response taken into account. A risk assessment or more detailed analysis should be undertaken for high-priority services, so that the consequence of failures is made clear and the appropriate level and speed of response can be planned. This can be undertaken as follows:

- identify all sources of risk that might affect service provision
- undertake a preliminary analysis to establish the probable high-priority risks for further investigation
- examine high-priority risks to assess the severity of their impact and probability of occurrence
- analyse all risks to predict the most likely outcome
- investigate alternative courses of action
- choose the course of action deemed necessary to hold, avoid, reduce, transfer or share risks, as appropriate
- allocate responsibility for managing risks – these should be placed with those best able to manage them.

The management team may use questionnaires and checklists to identify high-priority services and their related risks. Assessment can then be made of the probability and impact/consequence of a risk. This could be scored and shown in the form of a matrix, where the relationship between probability and consequence of occurrence can be graded from insignificant risk to catastrophic risk.

*Table 2/3. Matrix of probability and impact with corresponding scores*

<b>Probability</b>	<b>Score</b>	<b>Impact/consequence</b>
Highly likely	5	Catastrophic
Very likely	4	Critical
Even chance	3	Serious
Could happen	2	Marginal
Highly unlikely	1	Insignificant

Risks scoring a total of 5 or more (i.e. combining the score for probability and the score for impact/consequence) would be unacceptable and ways of avoiding, reducing or transferring such risks would need to be found. In this way, risks can be recognised and assessed so that appropriate action can be taken. In the process of doing this, risks impacting on services provision may be ranked to allow the organisation to look objectively at how they can best be managed.

#### *An example*

The occurrence of flooding from an adjacent river into the grounds of a sports and leisure centre during the early spring might be improbable (score 1), but the consequences could be serious (score 3). The full impact of this risk is rated as 4 and is something that the organisation might be prepared to accept (hold). This can be contrasted with the *even chance* event that a major sports event might have to be cancelled (score 3). If this were so, the consequences for the centre, in terms of lost revenue, could be serious (score 3). This gives a total score of 6. In other words, flooding, whilst improbable, constitutes an unacceptable risk if it coincides with a major event. The centre's management should take steps to reduce the chance of flooding at times when major events are scheduled or reschedule the events for times when the chance of flooding is remote, whichever is more appropriate in terms of practicality and cost.

Organisations should also consider the level of flexibility required for each of the services provided. Variable demand for some services, such as security and catering, that can peak at certain times of the year may cause difficulties in maintaining a constant resource level. In such instances, the ability to hire personnel from an agency at short notice can help and is also likely to provide a cost-effective way of delivering those services.

The speed with which a service provider can, under each service approach, respond to orders or requests is a significant factor. For example, the response time of an external provider in the case of an emergency call out may be longer than that of an in-house engineer. In the case of a remote site, the response time for a maintenance contractor may be long and a premium to reduce this time might prove prohibitive. Alternatively, if an emergency were to escalate, a large external provider may be preferred to the in-house alternative, because of ready access, out-of-hours, to necessary equipment and manpower.

#### **2.4.4 Management issues**

The decision to contract out or provide services in-house must take into account both the capability of service providers and the effort required to manage them. An organisation that takes the decision to contract out can delegate the direct supervision of work and operatives to the service provider. The role for the organisation's representative then becomes one of managing the output from the service provider. The representative should act as an informed customer managing performance against specifications and service level agreements (SLA).

Organisations need to consider their approach to this new role carefully.

*“Service specifications quantify the acceptable standard of service required by the customer and will generally form a part of the contract with the service provider.”*

*“Service level agreements (SLA) build on the service specification by amplifying, in practical terms, the obligations of each party.”*

In contemplating a mix of support services such as cleaning, security, building and mechanical and electrical maintenance, it is easy to see the diversity of tasks involved. This may mean that a manager or supervisor who is trying to cope with such a range of services may not be proficient in all. This could prove to be a problem for smaller organisations where, although the tasks are not extensive individually, their diversity is great, requiring the manager or supervisor to be multi-skilled. For larger organisations, specialist management and supervision may be cost effective and efficient, because more of it is required.

The expertise available within the organisation for the management of these services if retained in-house must be adequately assessed. Services such as cleaning and portering do not require high levels of expertise, but statutory equipment testing and maintenance of major appliances do. For a manager whose remit includes the management of such services on a part-time basis, the initial learning and the continuing professional development, to keep abreast of legislation and industry best practice, represent a significant investment in time and effort. Consequently, in-house service provision may not be the most cost-effective choice (see next two sections on cost related considerations).

#### **2.4.5 Indirect cost**

In choosing the approach to service provision, total cost is frequently misreported. In evaluating the comparative cost between in-house or contracted out services, organisations should identify all costs, both direct and indirect. A common mistake is for the direct costs only to be reported. Indirect costs include those incurred in the internal management of external contracts and the ongoing training and development of in-house personnel. Furthermore, the full administration of the services such as permit-to-work procedures, competent and approved person regimes, together with the technology to operate them, all attract a cost that must be recorded.

Organisations also need to consider the costs of financial administration. For instance, a small number of labour and material contracts means that invoices can be processed more cost-effectively than in situations where invoices are many and frequent. Clearly, the method of procurement has an implication for the accounting function.



#### **2.4.6 Direct cost**

Direct cost is fairly easy to ascertain. In the case of a contracted service the contract sum is a figure that is readily available. For in-house provision, the direct cost calculation would cover salaries, including social on-costs. As noted above, these more obvious costs should not be looked at in isolation from the associated indirect cost.

#### **2.4.7 Control**

Linked closely to management issues is control. For many organisations considering contracting out, the greatest concern is that of a perceived loss of control. The level of control that can be achieved is closely correlated with the method of procurement and the contractual relationship established between the organisation and the service provider. Through a more traditional contract the level of control is limited. For more control, a partnering arrangement may be appropriate.

Whatever arrangement is put in place, ICT (information and communications technology) has a part to play in the delivery of reliable management information. It is through available and accessible information that many of the control issues can be solved. In so doing, value can also be added if management information is delivered as a consequence of service provision and is, therefore, available without cost or, at least, for a nominal sum.

#### **2.4.8 Market testing – the options**

Choice is not limited strictly to in-house provision or contracting out. An earlier section identified six options that an organisation might consider, against which the different attributes of service of importance to the organisation can be scored. The particular example given is a hypothetical one. Moreover, it should be used only at the early stages, when determining an approach to the overall provision of services. However, many of the attributes listed can, at a later stage, be used in the assessment of bids.

Organisations should always consider their own evaluation criteria to determine the importance or weight that might be given to an option in terms of its potential to add value to the core business. Although numerical scores were used in the example, signs (minus - and plus +) could be used to arrive at assessments. Whichever approach is adopted, the basis for each score must be made explicit so that there can be no misunderstanding as to the relative weighting of attributes. The exact interpretation of options will differ from one organisation to another, but the adoption of such an approach should enable objective comparison to be made and for it to be transparent to all stakeholders.

*“Market testing is where in-house service providers are required periodically to compete for contracts alongside external contractors,*

*with the aim of ensuring competitiveness in the provision of service quality and its attendant cost.”*

Going to the market should be an honest attempt to establish the desirability or non-desirability of contracting out. This does not, however, imply frequent bidding exercises. It is preferable for clear-cut choices to be made between internal restructuring and contracting out, wherever possible, particularly within the public sector. This avoids the counterproductive effects that the anxiety caused by market testing, or the demoralisation caused by an unsuccessful bid, may have on an in-house team and its subsequent dealings with its new, external employer.

Appropriate use of the market would include regular comparisons of current prices and rates for services using published data, participation in a benchmarking club or indicative quotations from potential service providers. An awareness of the state of the market for services means that at any time a judgement can be made as to whether or not a preferred option is the most appropriate.

Some of the requisite information, however, may already be contained within market audits carried out during the preparation of the organisation's real estate (or space) strategy. It is the performance of the service provider that should be reviewed on an annual basis, rather than the decision to contract out or retain services in-house. Once that decision has been taken it should not be subject to continual review. Organisations should try to avoid letting contracts on less than an annual basis. This can add to cost, as well as limiting the performance of the service provider. Annual reviews should, however, be incorporated into contracts running over two or more years.

#### **2.4.9 Further considerations**

When an organisation decides to contract out services, it is then faced with a further decision as to how the contracting out will be organised and structured. How will the contracts be let? Will there be separate or bundled contracts, a total facilities management package or a management contract? If the last option is exercised, the organisation will need to consider whether this should be undertaken for a fee or on the basis of service performance.

#### **2.5 Practice and Procedures**

Once the decision to contract out has been taken, a process of procurement begins through which the right services are purchased and implemented. In many respects, it follows a pattern similar to that for procuring small to medium scale building work, though there are some important differences, not least a greater emphasis on level of service and human resources.

Procurement of services and supplies is a key element in successful facilities management almost irrespective of the context or client type. The issues raised in this section apply almost equally to in-house provision. Whilst there are obvious

differences between contracted out service provision and in-house provision, there are many similarities if best value and customer satisfaction are to result.

The objective of the contracting out process, as defined below, is to ensure that the following critical success factors are achieved:

- the scope of the services and interfaces with related services are defined
- the service level required by stakeholders from the contracted team is clearly defined
- the contracted team has the capabilities and skills to deliver the service
- internal departments are recognised as customers and treated as such
- contracted service provision is provided through a team approach, with each member working towards a common goal
- service provision is continually reviewed and improved.

The main activities in the procurement of services can be grouped into three main stages:

- **strategy** – covering the definition of services, current arrangements, the position of stakeholders and legislation affecting employment and procurement
- **bid documents** – covering service specifications, service level agreements and conditions of contract
- **bidding process** – covering the briefing of bidders and bid assessment, contract award, pre-contract meeting, mobilisation and review.

The timescales will vary according to the scope and scale of services being contracted out. However, many of the critical periods, for instance dealing with legislative aspects, contractual matters, briefing of bidders, bid period and mobilisation, will remain more or less the same for a wide range of contract types and values. The timescale might reduce for activities such as the definition of services, current arrangements, identifying stakeholders, bid assessment and contract award, where the service to be contracted out is of minor economic importance and uncomplicated. As with any exercise of this kind, it is easy to underestimate the time taken to move from the decision to contract out to the implementation of the service.

### **2.5.1 Service specifications**

A service specification quantifies the acceptable standard of service required by the customer and will generally form a part of the contract with the service provider. Its production is a prerequisite for drafting a service level agreement (SLA) – see below. Specifications set out standards covering organisation policy, department requirements, statutory requirements, health and safety standards and manufacturers' recommendations. The specification may also outline the procedures needed to achieve required technical standards.

### **2.5.2 Service level agreement**

The service level agreement (SLA) builds on the service specification by amplifying, in practical terms, the obligations of each party. Technical and quality standards will usually be defined in relation to industry standards or manufacturers' recommendations, whereas performance will be related to the specific requirements of stakeholders, that is, frequency of activity and response times to call outs etc.

This agreement need only include, at the bidding stage, a framework setting out the overall performance parameters with detailed procedural issues to be evolved and refined during the life of the contract. Whilst the scope must be made clear, detailed day-to-day operating procedures can only be refined as the knowledge and experience of each service contractor or partner is built up over time. SLAs must be kept up-to-date.

### **2.5.3 Conditions of contract**

Wherever possible, it is recommended that industry standard contracts be used to formalise legal relationships between the client organisation and contractors (service providers). Standard forms of contract may be obtained from a number of sources. Any amendments required to these forms of contract should be clearly stated in the bid documents. Normally, it should not be necessary to amend standard conditions, as to do so might lead to unforeseen events and consequences. If organisations wish to amend standard forms, they should seek legal advice.

The purpose of forms of contracts is to provide the formal, legally binding framework within which service specifications and SLAs can operate. As such, they should not attempt to restate the contents of specifications and SLAs, although contract documentation should be consistent with specifications.

An important consideration, in terms of contract conditions, is that they should allow for changes to be made as experience of operating a contract grows. SLAs will be reviewed and updated periodically; an inflexible contract, unable to accommodate changes, would represent an unworkable arrangement. Contracts should be seen, therefore, not as straitjackets, but as frameworks within which to operate and develop best practice. As a minimum, contracts should contain clauses that allow for changes to be made to the provision of services, so long as they are not so significant as to alter the overall scope and content of the contract. These clauses should also cover the mechanism for adjusting the contract sum in the event of changes being required by the client.

### **2.5.4 Briefing bidders**

Depending on the complexity of the services being bid, it is sometimes useful to organise a briefing for bidders during the bidding period. This can be either formal or informal as long as the latter is conducted on a consistent basis for all bidders. The object of this briefing would be to:

- show bidding companies the facilities
- explain the principles of the contract
- clarify the requirements of the bid submission
- answer any questions that may arise.

In the course of these briefings, it is important that bidders are advised that lowest price will not be the sole factor in choosing between bids: quality of service will be taken into account. Care must also be exercised in conducting such briefings in order to avoid collusion between parties or allegations that one party is being treated more favourably than others. Measures to combat fraud and irregularity in the award and management of contracts should be built-in to procedures as a matter of course.

#### **2.5.5 Bidding period**

Where the value of services open to bidding exceeds the EC public procurement thresholds, the bidding period must comply with the duration set out in the regulations. In any event, it is good practice to allow sufficient time for bidders to give the documentation full consideration and enable them to submit a considered proposal. This should never be less than two weeks from receipt of documents.

#### **2.5.6 Bid assessment**

Sufficient time should be allowed for the assessment of bids. Assessment criteria should be agreed in advance in relation to technical, quality of service and resource requirements and may also be incorporated in the bid documents. These should then be applied to each bid submission in order to shortlist companies for interview, perhaps requiring them to make a formal presentation. Additionally, inspection of a company's premises and order books could provide valuable insights into its ability to meet the demands of the new contract, particularly whether or not it is physically able to perform the service for the bid price. Client organisations should check the credit-worthiness of short-listed companies and request performance references from existing clients. Likewise, service providers should check the standing of their clients.

The concept of least whole-life cost should be used to evaluate bids commercially. Least whole-life cost takes into account the cost of the services over the duration of the contract, that is, including annual price fluctuations, life-cycle cost factors, payback on capital investment and so on. In other words, it is a matter of determining the total cost of each bid, enabling comparison on a like-for-like basis.

#### **2.5.7 Weighing cost and quality**

Lowest price is not the sole factor in deciding which bid to accept, although bids are mostly accepted on the basis of price. Quality should play an equal part in

any evaluation if best value is to mean anything. For some contracts it may be difficult to determine the quality of service: rarely can quality or performance be considered in absolute terms. It is possible to take account of quality by judging it against benchmarks established in service specifications or other objective measures.

There are other ways in which cost and quality may be judged. For instance, in the case of professional services, one approach would be to operate a two-envelope bid system. Short-listed consultants are sent model agreements and asked to submit a lump-sum bid, along with their time charges for extra work. The first bid describes the quality of service to be provided; the second gives the price. Two separate panels look at the bids.

A quality panel is convened to rank the bids, A, B and C, according to the quality that they believe each bidder represents. The panel applies a percentage adjustment (or weighting) to the services offered by each: it is necessary that all panellists agree. Once the quality panel has finished its deliberations, the price panel opens the envelopes containing the price bids. The decision is then taken to award the contract to the consultant offering the highest quality at the lowest price, based on a simple calculation.

#### **2.5.8 Contract award, pre-contract meetings, mobilisation and review**

Following the selection of the best bid and award of the contract, a pre-contract meeting should be called to address the following:

- service provider's programme for start and provision of the service
- insurance details
- contract administration, that is, payments and meetings.

The contractor should be given a sufficient mobilisation period to marshal all resources so that a seamless continuation of service provision is ensured. Where the service(s) affected are to be contracted out for the first time, it would be useful to have the service provider visit the organisation to explain to users of the service what is expected of them. During this period, it will be necessary to plan for the regular review of the service provider's performance.

The frequency of revisions will depend on the duration and complexity of the contract. Typically, three-monthly reviews would be reasonable, though monthly reviews during the early stages might be more appropriate in order to deal with teething problems.

## **2.6 Summary**

The following factors should be considered in the case for contracting out:

- Organisations should identify the key characteristics of the services they require so that a balanced view of needs is established as the basis for evaluating available options as part of the decision to retain in-house or to contract out.

- Organisations should define their own evaluation criteria with respect to these attributes of service so that the importance or weight given to options is truly reflective of the organisation's real estate (or space) and facilities management strategies and policies.
- Attention should be paid to direct and indirect costs of both in-house and contracted service provision so that a complete financial picture is gained, with comparison made on a like-for-like basis to enable a decision to be taken on best value grounds.
- Support services should represent the best value, on the basis of affordability, in the implementation of the objectives of the organisation's strategic plan, irrespective of the cost of those services.
- Evaluation criteria for the sourcing decision must embrace *hard* and *soft* measures and compare all costs with the required quality.
- Roles and skills must be defined from the services to be provided, with specialist skills highlighted.
- Since the factors affecting the choice of in-house or contracted facilities management may change, the route by which services are procured should be reviewed at appropriate intervals and in an appropriate manner.

In terms of the procedure for contracting out, the following should be noted:

- There is a logical sequence to the contracting out of services. This covers strategy, bid documentation, bidding and contract award. A realistic timescale must be allowed if the overall process is to be successful.
- Contracting out involves many activities and these have to be managed. A detailed plan should be prepared to help manage the process and to keep all interested parties informed.
- Defining the scope of services is crucial to successful contracting out. This provides the basis for inviting bids and administering the contract. A poorly defined scope will lead, almost inevitably, to problems in the management of the service.
- All stakeholders must be involved in the process of contracting out if their needs, as well as those identified in the facilities management strategy, are to be fully addressed and communicated. Success depends on commitment to the process from all who could possibly contribute.
- Contracting out presents scope for dishonesty that leads directly to fraudulent acts. Careful scrutiny of procedures and levels of responsibility for personnel will minimise the opportunities for fraud.

## **Appendix A**

The following are examples of risks typically faced by an organisation. Some apply equally to retained services and contracted out services provision; in other cases, the emphasis differs.

- 1 inadequately resourced or inexperienced customer
- 2 inadequate planning of implementation – no prior analysis of need or allocation of related responsibilities
- 3 misapplication of employment regulations, especially where personnel are to be re-employed by a contractor
- 4 poor relationship between contractors and the contract manager (especially if the latter was once involved with preparing an in-house bid)
- 5 conflicts of interest when dealing with in-house bids, arising from inadequate split between personnel involved in purchasing and those responsible for the provision of services
- 6 unclear or imprecise roles, responsibilities and targets for effective team working
- 7 Possible loss of control over the facilities management function and ownership of, and access to, documents and knowledge
- 8 lack of standard forms of facilities management contracts or inadequate conditions of contract
- 9 inappropriate allocation of risk and rewards between the customer organisation and service providers
- 10 inadequate definition of the scope and content of services
- 11 lack of consideration of all stakeholders involved in the facilities management process
- 12 specifications that are over-prescriptive and/or concentrate on procedures instead of outputs
- 13 poorly controlled changes to user requirements
- 14 excessive monitoring of contractor performance
- 15 absence of, or poor system for, providing incentives for performance
- 16 inflexible contracts unable to accommodate change in user requirements during the contract and work outside specification
- 17 failure to take account of relevant health and safety legislation at the correct time, leading to excessive cost later
- 18 redundancy in the supply chain where cost is added without necessarily adding value
- 19 poor bundling/grouping of activities to be outsourced
- 20 absence of shared ownership of outcomes
- 21 poor cash flow position for customer organisation and service providers
- 22 financial failure of chosen service provider during contract period
- 23 absence of benchmarks of cost and quality against which to measure performance and subsequent improvement
- 24 lack of education and training in facilities management
- 25 fraud or irregularities in the award and management of contracts.