

# **National Manual of Assets and Facilities Management Volume 9, Chapter 2**

## **A&FM Contracting Strategies Procedure**

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## A&FM Contracting Strategies Procedure

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## A&FM Contracting Strategies Procedure

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## 1.0 PURPOSE

The purpose of this document is to set the standard procedure for developing Contracting Strategy for the Assets and Facilities Management (A&FM). The Contracting Strategy is, by definition, the plan for delivering A&FM in infrastructure and built environment through second party contracts. It is articulated in a document and agreed by all stakeholders at the management level. It is a reference point for making contracting decisions related to Asset Management, Operations and Maintenance (O&M), Risks Management, and Hard and Soft Services. Any deviations from the Contracting Strategy later at the time of contracting decisions shall require approval from the competent authority.

The documented Contracting Strategy shall benefit the Entity in realizing objectives for the management of Assets and Facilities that are safe, reliable, efficient, cost effective and sustainable.

## 2.0 SCOPE

A&FM is a broad term and includes Asset Management, Life Cycle Replacement of Assets, Consultancy Services, and Facilities Management (FM) of hard and soft services. In order to deliver the provision of O&M of A&FM, the Entity may require contracts with second parties. The contracting activities will require robust planning in light of the requirements, constraints, options, opportunities, and risks.

This procedure encourages the Entity to coordinate decisions, activities, information, and data in the form of a documented strategy.

## 3.0 DEFINITIONS

Term	Definition
Best Value (BV)	The most advantageous combination of the whole-life cost, quality, and sustainability available to meet requirements.
Company	A contractor, consultant, engineer, service provider, or supplier who expresses interest in prequalifying for a specific package of Works or services and upon Award becomes the Entity contractor to perform such Works or services.
Entity	Means Government Entity, Authority or Ministry responsible for the Assets and Facilities Management (A&FM).
Etimad	A unified electronic portal for procurement processes administered by the Ministry of Finance.
Facilities Management (FM)	Defined as an organizational function which integrates people, place and process within the built environment (ISO 41011).
Request for Proposal (RFP)	It is a solicitation document issued through a competitive procurement method.
Scope of Works	"The totality of work required" – Association of Project Management (APM).
Works	To operate, improve, rehabilitate, demolish, repair, restore, or maintain buildings and infrastructure.
Abbreviations	
A&FM	Assets and Facilities Management
AMS	Asset Management System
BIFM	British Institute of Facilities Management
BMS	Building Management System
CCTV	Closed Circuit Television
CIPS	Chartered Institute of Procurement and Supply Chain
CM	Corrective Maintenance
FM	Facilities Management
HSE	Health, Safety and Environment
IFMA	International Facility Management Association
ISO	International Organization for Standardization



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KPI	Key Performance Indicators
KSA	Kingdom of Saudi Arabia
LEPC	Lifts, Escalators, Passenger Carriers
NIGP	National Institute of Governmental Purchasing in the USA
NMA&FM	National Manual of Assets and Facilities Management
Expro	Government Expenditure & Projects Efficiency Authority
O&M	Operations and Maintenance
PPM	Planned Preventative Maintenance
RICS	The Royal Institution of Chartered Surveyors in the UK
RM	Reactive Maintenance
SME	Subject Matter Expert
UK	United Kingdom
USA	United States of America

**Table 1**

### 4.0 REFERENCES

- A Best Practice of the Construction Owners Association of Alberta – Develop a Contracting Strategy – March 2018
- Best Practice in Management of Property Maintenance Contracts – 2019 - Procurement Guidance Note PGN 01/14 – Northern Ireland Procurement Policy Document
- Chartered Institute of Procurement and Supply Chain (CIPS) – Contract Management Guide 2019
- ISO 31000 – Risk Management – Guidelines
- ISO/41001 – Facility Management – Management Systems
- ISO/41012 – Facility Management – Guidance on strategic sourcing and the development of agreements
- ISO/41014 – Facility Management – Development of facility management strategy
- Kingdom of Saudi Arabia (KSA) Government Tenders and Procurement Law
- Expro Projects White Book
- National Manual of Assets and Facilities Management – Volume 12: Risk Management
- National Manual of Assets and Facilities Management – Volume 4 Chapter 3: Budget Principles

### 5.0 RESPONSIBILITIES

The development of a Contracting Strategy shall involve discussions and consultations with all functional disciplines assigned to A&FM. The Contracts Specialist shall coordinate the exercise for developing the Contracting Strategy.

Role	Description
Entity Management	The Entity management sets the vision for A&FM Contracting Strategy and shall involve the stakeholders in the development and updating of Contracting Strategy. It is accountable for governance.
Contracts Specialist	The Contracts Specialist administers the process of developing the A&FM Contracting Strategy. He coordinates with the government central procurement and makes recommendations for contract selection. He shall be a regular user of the Contracting Strategy document which will be his first point of reference in making decisions on contracting with second parties.
Technical Lead	The Technical Lead is the originator of O&M requirements of A&FM on Entity's property portfolio. He/she provides his technical input on the scope and methodology required to operate and maintain the assets and facilities. His/her expertise is paramount in establishing service level requirements and benchmarks.
Financial Specialist	The Financial Specialist leads in providing input on the financial planning and budgetary requirements



Table 2

## 6.0 PROCESS

### 6.1 Vision, Mission, and Values

The direction of the Contracting Strategy is set on the vision, mission, and value statements of the Entity.

**Vision** - The vision statement describes the future state; aspirations and ultimate goal of the Entity.

**Mission** - The mission statement describes the present time; actions and efforts of the Entity in order to achieve the vision. Examples: safe, reliable, efficient, and environmentally friendly.

**Values** - Values are the guiding principles and moral directions. Examples: Accountability, Integrity, Transparency, and Fairness.

### 6.2 Objectives

The Entity sets objectives that it wants to achieve by contracting. The Entity may choose to set objectives such as increasing reliability of assets, promotion of local companies, giving opportunity to small medium enterprises, moving to performance based contracts, improving HSE, increasing self-delivery, safe and reliable operations, and cost cutting.

### 6.3 Governance Framework

The Entity management develops an A&FM governance framework for directing and controlling working relationships among contractor, consultant, facility management, and Entity.

The governance framework or structure shall determine roles and responsibilities of the Entity and the contractor. It shall also declare policy of engagement such as integrity, transparency, fairness, and working in partnership.

The governance function oversees contracting activities. It shall be the approving authority. It shall receive regular executive reports on performance of contracts and shall issue instructions for improvement. At the time of entering into contracts, the governance structure as recommended in the strategy is included in the agreements with second parties.

The A&FM governance frameworks may vary according to organizational requirements and contract types.

Figure 1 shows an example of governance of A&FM contracts management.



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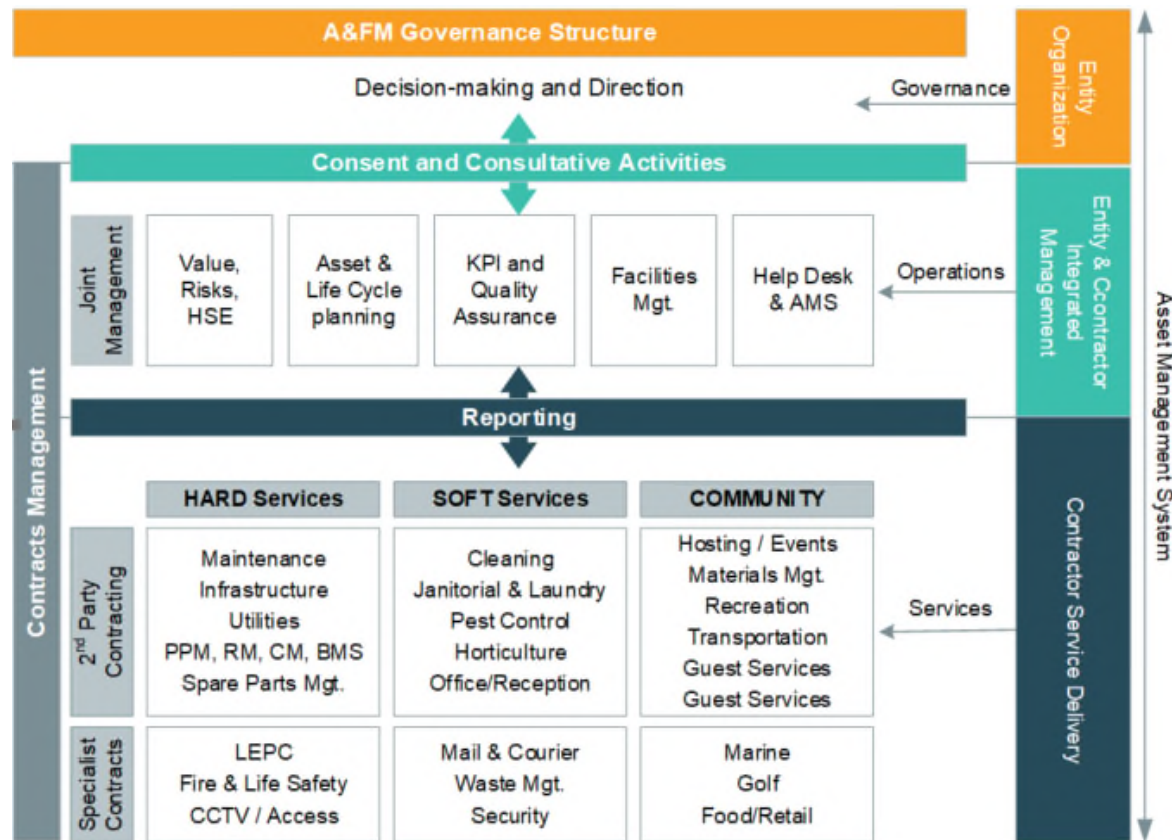


Figure 1: Example of a Typical Organization Structure

### 6.4 Risk Management

During the process of developing Contracting Strategy, the Entity shall identify, assess, analyze, control, and monitor risks that are relevant to the context of strategy decisions. The risk-sources and consequences are identified, along with the potential events that can trigger those risks. The likelihood, impact and severity of risks is assessed. Before putting controls in place, the Entity analyzes the proximity of risk and prepares a response accordingly. The measures are in place in order to monitor risks.

ISO: 31000:2018 states: "Managing risk assists organizations in setting strategy, achieving objectives and making informed decisions."

Risk is an uncertain event with either a potential favorable impact classed as opportunity or a negative impact known as threat.

The Entity shall build a risk breakdown structure in the form of threats and opportunities.

It shall deliberate lessons learned from the knowledge gained from the experience of asset behavior, user requirements, and contractors' performance.

For more details about risk management, the user may refer to the NMA&FM Volume 12: Risk Management.

### 6.5 A&FM Requirements

The strategy document shall include a high-level summary of O&M scope of works which require contracts with second parties for service delivery. The Technical Lead and Contract Specialist shall arrange workshops to explore the options for combining two or more A&FM requirements for goods and services into a single contract (bundling) or unbundle the services into multiple contracts.

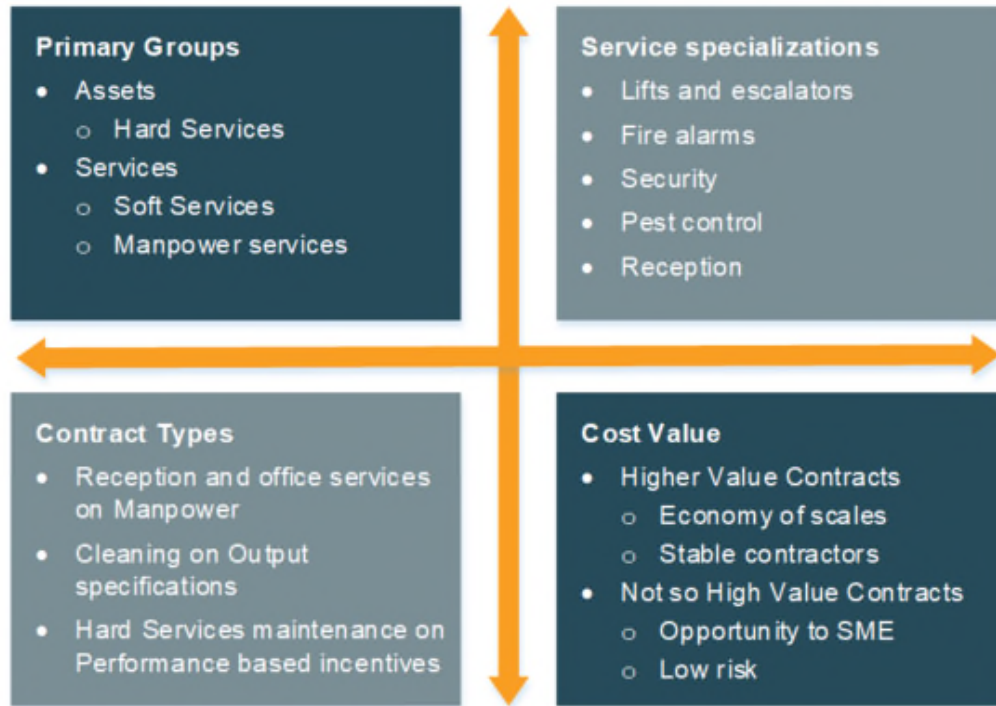




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The Entity shall explore all options of structuring the A&FM services in contracts and recommend the best-fit option in the Contracting Strategy to be used for developing Request for proposal (RFP) and contracts administration.

The Entity may decide on service structures similar to service bundles identified in Figure 2 below. Note that this is not the definitive list but an illustration of different scenarios which may be considered before recommending the best option.



**Figure 2: Considerations for A&FM Contracting Structures**

**Figure 2: Considerations for A&FM Contracting Structures**

After deliberations as stated above, the Entity shall recommend the services structure(s) in the contracting strategy that require contracting with second parties.

Note that this recommendation in the Contracting Strategy will have a direct financial impact on the budgets which is discussed in the next point.

A proposed A&FM Services Structure is illustrated in Figure 3.



**Figure 3: Illustration of A&FM Service Structure**



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**Figure 3: Illustration of A&FM Service Structure**

When recommending Contracting Strategy, the Entity management shall also consider the constraints, for example, limitation of budget, asset condition, capability and availability of contractors, and exceptional security requirements that can limit or restrict achieving its objectives.

There shall be a requirement to gather up-to-date understanding of availability of capability, supervision, technology, and labor in the Contractor market. This exercise shall provide answers to the following questions:

- Availability and degree of competition
- Nature and quality of A&FM companies
- Contractor's key specialization

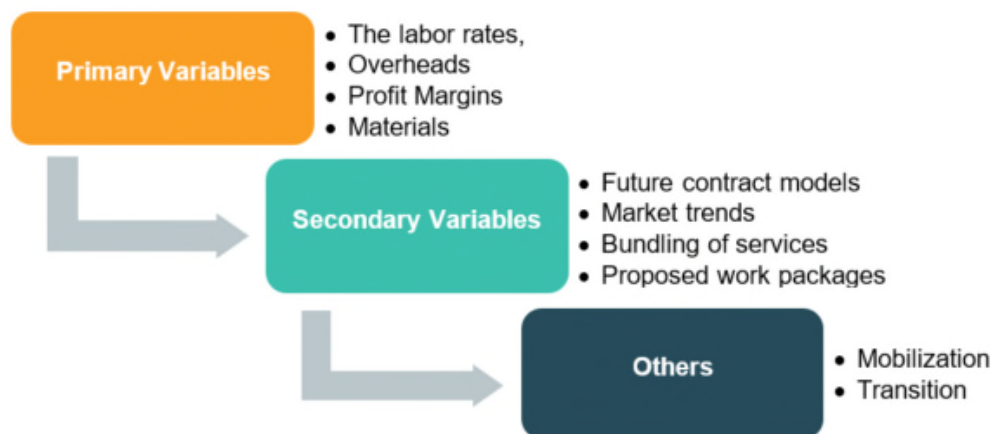
The Contracting Strategy shall also recommend service benchmarks which are used in developing service levels requirements to be included in RFP. The benchmarks are also used in setting up the success criteria for performance measurement within the contracts.

### 6.6 Budgeting

Budgeting refers to the process of estimating the required capital and operating budgets for A&FM delivery. The Contracting Strategy has direct impact on budgets. For estimation and budgets approval, please refer to the NMA&FM Volume 4, Chapter 3: Budget Principles.

The Financial Specialist shall prepare estimations and budget requirements for implementing various options that the Entity management deliberates during the development phase of the Contracting Strategy. They shall also include budget availability requirements in order to implement the recommended contracting strategy. The approved budget requirements for second party contracts will be the benchmark for future contracting.

The Contracting Strategy recommendations have direct implications on budgets for example:



**Figure 4: Budget Implications**

### 6.7 Contracting

After the Entity has deliberated on the steps given above, the Contract Specialist shall present to the Entity management a set of options of contract types, contract duration, and selection of competition which can be used for contracting with second parties.

The Contract Specialist shall examine the contracting options in the light of the proceedings of Contracting Strategy development exercise. Performance based contracting shall be considered as a preferred option



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wherever possible. The Contract Specialist will prepare options with detailed justifications to be reviewed by the Entity management. The preferred option will be selected and included as a part of the contracting strategy.



### 6.7.1 Contract Type

Contract Specialist shall propose the contract type or multiple contract types to be used for contracting with the second parties.

The following model is produced only for the guidance of Contract Specialist:



**Figure 5: Commercial Model**

The Contract Specialist may use one of the following two commercial models for contracts:

#### 6.7.1.1 Cost Based

With a Cost based contract, the Entity pays the amount that it costs (for example, labor, materials, plant, and subcontractor costs). The contractor charges pre-agreed fee in addition to the costs of time and materials.

The contractor's fee can have multiple variants including a fixed fee, percentage, award fee, or any combination thereof charged on top of specific input costs incurred by the Contractor for carrying out the Services.

Cost based contracts can be used for supply of spare parts and equipment. The Entity bears higher overhead costs of accounting, ordering and surveillance.

#### 6.7.1.2 Price Based

In a Price based contract, the Entity pays the contractor on the rates agreed with the contractor. Price based contracts have further two types.

##### **6.7.1.2.1 Unit Price**

The payment of the services and materials shall be based on the actual quantity of units utilized. The rates of units shall be all-inclusive.

Unit price contract will be used for scope of works where the Entity can identify the requirements based on units, e.g. manpower contracts and consumables.

The Entity shall need to account for quantity measurement and appropriate resources in order to run the payment certifications for unit price contracts.

##### **6.7.1.2.2 Lump Sum**

The Entity shall adopt lump sum or fixed price contracts in cases where there is a much deeper understanding of A&FM and the associated costs and thus ultimately have greater cost predictability. Lump sum contracts will be sourced through competitive procurement.

The Lump sum contract can be built on service output specifications including performance measurement function for calculating incentives and penalties which are built in the payment mechanism.



### 6.7.2 Contract Duration

The Contracts Specialist shall make a recommendation on duration of contracts. They shall document the reasons and justifications for his recommendations and get an agreement with procurement management before including it in the Contracting Strategy document for final approval from the Entity management.

### 6.7.3 Selection of Competition

The Contract Specialist shall select the procurement competition type in agreement with procurement management. The Entities shall announce requirements through the Etimad platform.

## 6.8 Approval and Issuance for Use

The development of Contracting Strategy involves numerous exercises including workshops, meetings, and reports by various stakeholders and specialists of A&FM. The Contract Specialist shall be part of all exercises and issue the final decisions taken by the Entity after each exercise.

As the final step of development of Contracting Strategy. The Contract Specialist will compile the decisions made by the Entity into a Contracting Strategy document and submit for approval. After the approval of the Entity management the Contracting Strategy document will be available for use on all future contracting decision making.

## 6.9 Example of Recommendations for Contracting Strategy

There is no hard and fast rule for a Contracting Strategy document template. It shall be a concise document including the Entity's management deliberation exercises and decisions on the headings used above in this procedure. As a minimum, the Contracting Strategy document shall have the recommendations made by the Entity management. A template is also included in attachment 1, for tracking Contract Strategy development.

### An example of recommendations is included in the sample below:

- Example: The Entity's overall objectives for A&FM are to preserve assets through planned maintenance which shall be monitored on Asset Management System
- Example: The Entity wishes to reduce its expenditure on managing the A&FM service in the next five years. Performance based contracting is proposed in order to reduce contract management costs
- Example: The A&FM contracts shall be bundled together in two separate contracts based on primary asset groups
- Example: The saving targets are set to 10% reduction in contracts value from the previous year. The Entity approves cost avoidance measure and service level reduction in order to achieve savings target. However, the asset life shall not be compromised by reducing planned maintenance
- Example: The contracts shall exclude provision of critical spare parts which shall be directly purchased
- Example: All the contracting activities shall start one year prior to the expiry of existing contracts or requirement of a new contract

## 7.0 ATTACHMENTS

1. Attachment 1: EOM-KD0-TP-000009 - Contracting Strategy Tracking Sheet Template



**Attachment 1 – EOM-KD0-TP-000009 – Contracting Strategy Tracking Sheet Template**

**Figure 6: Contracting Strategy Tracking Sheet**

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