



Property Management Outsourcing Contract

between

Shared Services BC

&

BLJC Workspace Solutions Inc.

**November 2010**

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## **1.0 Executive Summary**

The purpose of this report is to provide to the public and interested stakeholders a summary of the Property Management Outsourcing Contract.

On behalf of the Government of British Columbia, Shared Services BC (SSBC) of the Ministry of Citizens' Services manages a portfolio of buildings and land located throughout British Columbia. On April 1, 2004, SSBC (formerly BC Building Corporation, then Accommodation and Real Estate Services) outsourced the property management of the portfolio, along with asset maintenance, project management services, and environmental /pollution prevention and technical value services by executing a contract (the "Contract") with Brookfield LePage Johnson Controls Workplace Services Inc. (BLJC-WSI).

The rationale for implementing the outsourced service delivery model was to enable SSBC to evolve as a shared service provider by shifting the delivery of non-core government services to the private sector, which would allow the organization the opportunity to focus on providing strategic accommodation planning and real estate advisory services and asset stewardship to government and customers.

BLJC – WSI was selected out of five proponents as the preferred service provider after an extensive competitive process. The procurement strategy was designed to meet British Columbia government's procurement process standards to ensure fairness, instill perception of being fair, and to be formally measured as fair.

The Contract is valued at approximately \$90M/year for building operations and maintenance. Major repair (e.g. roof replacement) and renovation projects designed to increase the life of the buildings and infrastructure or improve the functionality of the space to meet program and customer needs historically has added between \$40M to \$70M annually to the Contract value. The initial term of the Contract was five years, with the option to automatically renew the Contract for two additional renewal terms of up to five years at the Province's discretion, for a Contract term of up to 15 years in total.

The Contract is performance based whereby a percentage of the management fee withheld becomes payable only upon BLJC-WSI achieving or exceeding performance levels targets established at the beginning of each fiscal year.

On September 30, 2009, the Contract was amended and restated to ensure the contract would comply with current provincial legislation (e.g. FOIPPA), regulations and policies and to incorporate future conditions for the next renewal term, if the Province chooses to exercise it.

## **2.0 Project Background, Rationale, Objective**

On behalf of the Government of British Columbia, Shared Services BC manages a portfolio of buildings and land located throughout British Columbia. The properties have diverse uses ranging from office buildings to correctional and health care facilities, as well as some special purpose facilities, such as the Centre for Disease Control.

In 2004, SSBC (formerly BC Building Corporation, then Accommodation and Real Estate Services) outsourced the property management of the portfolio, along with asset maintenance, project management services, and environmental /pollution prevention and technical value services to Brookfield Lepage Johnson Controls Workplace Services Inc (BLJC-WSI).

The rationale for implementing the outsourced service delivery model was to enable SSBC to evolve as a shared service provider by shifting the delivery of non-core government services to the private sector, which would then allow the organization the opportunity to focus on providing strategic accommodation planning and real estate advisory services and asset stewardship to government and customers.

The overall objective of the outsourcing project was to achieve the following:

- Meet government commitments to strengthen relationships with and engage the private sector;
- Maintain or enhance the quality of customer services;
- Increase flexibility to respond to customers and provide the appropriate scope of services;
- Achieve cost savings for the Province over the term of the contract;
- Avoid future costs such as investment in technology , transfer appropriate costs and risks related to infrastructure investment to the private sector;
- Leverage new business opportunities with the broader public sector; and
- Minimize the impact on employees of changing the service delivery model.

Over the first term of the contract from April 1, 2004 to September 30, 2009, SSBC focused on leveraging the strength and capacity of BLJC-WSI to deliver on its goals by aligning with the direction of the Ministry, in offering cost effective, innovative, responsive and integrated products and services.

This service delivery strategy aligns with and supports the strategic direction of the British Columbia Government and continues to be relevant as it proactively responds to current service challenges and opportunities identified in the Ministry of Labour and Citizens' Services 2008/09 – 2010/11 Service Plan.

Before entering into this alternative service delivery arrangement, SSBC engaged an independent management consulting firm to assist in developing a business case and overseeing the procurement process. The business case demonstrated that the use of an external service provider was the best way for government to achieve service quality, innovation and value.

This view was reinforced through market research which looked at industry best practices in the property management services market. The research indicated that the market was well established, highly competitive and would be able to deliver the service quality and cost of service improvements sought by government.

### **3.0 Competitive Selection Process**

Through an extensive competitive process, BLJC – WSI was selected out of five proponents as the preferred service provider. The procurement strategy included the issuing of a request for expression of interest (RFEOI), followed by a request for qualifications (RFQ), request for comment (RFC) and finally a request for proposal (RFP) to qualified proponents. An independent fairness advisor was also hired to oversee the procurement process and review the award decision. The procurement strategy was designed to ensure fairness, instill perception of being fair and to be formally measured as fair. All proponents expressed satisfaction with the process.

The purpose of the RFEOI was to advise the market of Government's intent to seek a service provider to deliver and manage property management services, as well as to identify interested parties. The RFQ enabled SSBC to confirm the capacity, experience, expertise and commitment of the identified parties to proceed to the next state in the procurement process.

The five proponents were then issued a RFC, designed to create an opportunity for the exchange of information between SSBC and the Qualified Parties with a view to improving the mutual understanding of the requirements for the formal RFP, the quality of the RFP and proposals submitted.

SSBC's evaluation committee followed the prescribed evaluation process described in the RFP document and objectively and consistently applied the RFP criteria to each proposal. Proponents were evaluated on service quality, flexibility, costs savings, cost avoidance, new business, and transfer/transition of employees.

The fairness advisor provided assurance that SSBC satisfied and exceeded the general standard for government procurement across Canada and complied with all specific Canadian laws relating to competitive contracting.

### **4.0 The Final Agreement**

BLJC- WSI was created as a subsidiary of its parent company, Brookfield LePage Johnson Controls (BLJC) to provide property management services to publicly funded companies in British Columbia.

The Master Service Agreement (MSA) is performance based whereby a percentage of the management fee withheld is payable only upon BLJC-WSI achieving or exceeding performance levels targets established at the beginning of each fiscal year. Linked to the MSA are three sub-agreements related to the transfer of employees and assets to BLJC-WSI, and future business growth.

BLJC - WSI is responsible for providing all direct day-to-day building operations and maintenance services which include: cleaning, security, grounds, mechanical/electrical, emergency response/repair, fabric maintenance, asset management, pollution prevention, equipment repair and maintenance, utilities and energy management. BLJC-WSI also provides project management services, and project construction services (generally for projects under \$2M). It provides these services, either directly or indirectly through subcontractors to +/- 300 communities across B.C.

BLJC-WSI's head office provides human resources, accounting, central purchasing and policy support. BLJC in Markham, ON provides Information Technology support and the Western Canadian Operations Centre in Kamloops, B.C. provides call centre services.

The contract is valued at approximately \$90M/year for building operations and maintenance. Major repair (e.g. roof replacement) and renovation projects designed to increase the life of the buildings and infrastructure or improve the functionality of the space to meet program and customer needs historically has added between \$40M to \$70M annually to the contract value. The initial term of the Contract was five years, with the option to automatically renew the Contract for two additional renewal terms of up to five years at the Province's discretion, for a Contract term of up to 15 years in total.

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

Both parties entered into the contractual arrangement with the intent of building and forming a strong sustainable partnership and business alliance over the term of the contract.

**Key Terms of the Contract**

<p><b>Parties to the MSA</b></p>	<p>BLJC Workplace Solutions Inc (WSI) – a wholly owned subsidiary (BC Company) of Brookfield LePage Johnson Controls, which in turn is owned by Brookfield Properties (part of the Brascan Group) and Johnson Controls.</p> <p>Her Majesty the Queen in Right of the Province of British Columbia as represented by the Ministry of Citizens’ Services, Shared Services BC.</p>
<p><b>Term</b></p>	<p>The initial term of the Contract was five years, with the option to automatically renew the Contract for two additional renewal terms of up to five years at the Province’s discretion, for a Contract term of up to 15 years in total.</p> <p>The MSA was signed on December 17, 2003 with service provision handover commencing on April 1, 2004. The initial term of the MSA was in effect from April 1, 2004 to March 31, 2009. A six month extension of the initial term of the MSA was agreed to by both parties to complete contract renewal negotiations.</p> <p>On September 30, 2009, the Amended and Restated Master Service Agreement replaced the MSA. The Amended and Restated MSA is in the term of the agreement known as the “First Renewal Term” until March 31, 2014. At the discretion of the Province, the Amended and Restated MSA can be renewed for one additional term of up to five years for a total contract term of 15 years.</p>
<p><b>Governance Structure</b></p>	<p>A Joint Executive Committee comprising up to five representatives each from SSBC and WSI is responsible for overseeing the overall business, strategic and contractual relationship between the two organizations. This committee has regularly scheduled meetings and responsibilities include:</p> <ul style="list-style-type: none"> <li>• Overall management of the MSA and related agreements;</li> <li>• Developing and reviewing progress against joint strategic business initiatives;</li> <li>• Identifying key objectives, emerging issues, service improvement opportunities and new market and client opportunities, and</li> <li>• Resolving major disputes and contract (MSA) terms and conditions interpretation.</li> </ul> <p>A Joint Operations Management Committee comprising up to nine representatives each from SSBC and WSI is responsible the ongoing day to day business relationship and all working details of the contract and related services. Responsibilities include:</p> <ul style="list-style-type: none"> <li>• Ongoing managing of the MSA and proactively identifying and resolving day to day issues between SSBC, Customers and WSI;</li> <li>• Setting the scoring for the Key Performance Indicators of the Performance Management Framework;</li> </ul>

	<ul style="list-style-type: none"> <li>• Assessing performance service levels and identifying improvements in service delivery; and,</li> <li>• Overall clarification and improvements in business processes and interfaces between SSBC, Customer and WSI.</li> </ul>
<p><b>Scope of Services</b></p>	<p>BLJC - WSI provides operation &amp; maintenance (O&amp;M) supervisory services, direct day-to-day building operations and maintenance services (e.g. cleaning, security, grounds, mechanical/electrical, emergency response/repair, fabric maintenance, asset management, pollution prevention, equipment repair and maintenance, utilities and energy management), project management services, project construction services (projects under \$2 million), and management services for general management and oversight related to the provision of the Services.</p> <p>Within the scope of the contract and specifically to fulfill obligations pertaining to environmental matters, in general and SSBC stewardship and business priorities specifically, WSI has an environmental management plan in place and ISO 14001 registered. SSBC may also request that WSI provide “new Out of Scope Services”. The new Out of Scope Services must be agreed to jointly in writing by both SSBC and WSI and form an amendment to the MSA.</p> <p>In addition to the services described in the Amended and Restated MSA, there are functions or tasks that form part of typical property management and/or project management service within the industry and are customarily required for proper performance or provision of the service and may not be specifically listed or identified in detail. Those functions or tasks are inherent or implied, and the contract calls for WSI to perform those tasks on the Province’s behalf.</p>
<p><b>Service Levels</b></p>	<p>Service levels were based on the existing service levels performed by SSBC at handover. BLJ-WSI cannot unilaterally change service levels. Services and standards cannot go below those required to meet mandatory codes and regulations and must be kept to a level that will not deteriorate the asset below that at tenant occupancy.</p> <p>Customer driven service level changes must follow the formal processes set out between SSBC and WSI for service level changes, documented and approved, prior to BLJC-WSI implementation.</p> <p>BLJC-WSI is required, when applicable, to make recommendations on a semi-annual basis regarding improvements to the services based on significant changes and trends in the property and facilities management business and available new technologies and services. The recommendations will be supported by a business case analysis including a cost and benefit evaluation.</p> <p>For significant changes in the MSA, (not changes to operational service levels) SSBC or</p>



	<p>BLJC - WSI may, from time to time, issue a request for a Change Order to any of the types of services under the agreement for consideration by the Joint Executive Committee.</p>
<b>Operations Centre</b>	<p>BLJC implemented a single point of contact telephone number for the delivery of services 24 hours a day, seven days a week, 365 days a year. The Operation Centre responds to all operation and maintenance type customer requests, engages contractors for routine tasks, and follows up to ensure work is completed. Complex operational tasks, requests that require approvals for additional funding and projects are referred to BLJC-WSI Facility Managers.</p>
<b>Geographic Coverage</b>	<p>BLJC- WSI's head office is in Victoria with regional offices in Victoria, Vancouver and Kamloops. BLJC's Western Operations Centre (Call Centre) is located in Kamloops with 100 per cent redundant back-up in Markham, Ontario. BLJC- WSI provides property management services in all communities where SSBC has customers in British Columbia. BLJC- WSI has a decentralized structure divided into 3 regions and further sub-divided to building clusters. Local staff provides day-to-day operations and project management.</p> <p>BLJC -WSI Corporate Head Office provides human resources, accounting, central purchasing and policy support. BLJC in Markham provides Information Technology support and the Western Canadian Operations Centre provides call centre services.</p>
<b>Key Performance Indicators</b>	<p>The Key Performance Indicators (KPIs) are reviewed and re-calibrated annually to focus behaviour on SSBC key deliverables. There are three main categories: Service Delivery (including overall customer satisfaction, O&amp;M Service Delivery, Project Delivery, Operations Centre, Process Improvement); Financial Management (including cost containment and budget control); and Business Performance (including asset integrity, environmental stewardship and SSBC satisfaction). These KPIs are part of the Performance Management Framework that is in place to track and report on service performance.</p>
<b>Audit Rights</b>	<p>On an annual basis, BLJC-WSI will conduct a point-in-time Section 5970 of the CICA Handbook examination (the "5970 Report") in respect of the services provided to the Province, with content and timing of the 5970 Report to be mutually agreed upon.</p> <p>At any time SSBC may appoint an internal or external auditor or professional advisor to review any aspect of the MSA to verify that services have been delivered in accordance with the contract.</p>
<b>Dispute Resolution</b>	<p>The MSA sets out an escalation process for dispute resolution. If SSBC and WSI are unable to resolve the dispute using this process, the agreement provides for</p>

	mediation by a third party.
<b>Contract Security</b>	Provisions are included in the MSA as security for the performance and satisfaction of the liabilities and obligations of the Service Provider in the event of Service Provider failure or default.
<b>Financial Structure and Fees</b>	<p>The WSI contract is a cost flow-through contract with a management fee component for administration. SSBC reimburses WSI for its actual costs, without profit or mark-up. In consideration of the performance of services, SSBC will pay WSI the following fees:</p> <p><b>Management Fee, including an at-risk fee</b> An annual fee to cover expenses related to infrastructure/overhead and general management and oversight including reporting services, performance management, monitoring and management of customer satisfaction, etc. A percentage of the management fee is withheld as an “at risk fee” payable contingent upon the results of WSI’s annual performance evaluation. Also, as an incentive, SSBC may pay an annual performance bonus. Award of the bonus is determined based on specific criteria established by SSBC.</p> <p><b>O&amp;M Supervision Fee</b> An annual fee (with a cap that is recalculated, as necessary, on an annual basis to reflect adjustments in portfolio size and &lt;\$50K project volume) for overall property management and operation of the portfolio. Fee covers labour costs to manage O&amp;M services and projects &lt;\$50K, and fixed annual costs for the Operation Centre.</p> <p><b>Project Management Fee</b> Fees for project management services for projects having a budgeted cost =&gt;\$50K but less than \$2 million are priced costs plus or fixed price.</p> <p><b>Additional Service Fee</b> For the performance of any additional services requested and approved by SSBC generally will be at an hourly rate or negotiated separately.</p>

## 5.0 Privacy & Security

BLJC WSI has in place, and will maintain, policies and procedures specific to both privacy and security. The contract with BLJC-WSI protects privacy and security by ensuring that BLJC-WSI complies with the requirements of the Freedom of Information and Protection of Privacy Act including: ensuring that all personal and operational data remains in Canada; requiring that BLJC-WSI notifies the Province immediately in any situation where it receives an order to disclose personal information, whether that request is made by an organization inside or outside of Canada; requiring that BLJC-WSI notifies the

Province immediately in any situation where there has been an unauthorized disclosure of personal information; subcontractor is subject to all the contractual provisions for privacy protection of Province data; and conducting Privacy Impact Assessments with any material changes involving personal information for the life of the contract. There is no authorized access to personal information; however, business contact information is available to authorized personnel to manage after hour facilities emergencies.

## 6.0 Risk Allocation

Risk Category and Description	Mitigation (Contractual Provisions)
<b><i>Material Risks Transferred to the Private Sector</i></b>	
Service Levels are not achieved	<ul style="list-style-type: none"> <li>• Financial penalties</li> <li>• Termination for Cause (for Consistent Failure)</li> </ul>
Privacy or security breach	<ul style="list-style-type: none"> <li>• Commitment to government standards</li> </ul>
Fraud or negligence	<ul style="list-style-type: none"> <li>• Financial remedies</li> <li>• Termination for Cause</li> </ul>
Labour & Subcontractors	<ul style="list-style-type: none"> <li>• BLJC-WSI is accountable for the performance of staff and subcontractors</li> <li>• Key Positions subject to Province approval</li> <li>• Supplier Contracts subject to Province approval</li> </ul>
Compliance with applicable and specific laws related to facilities	<ul style="list-style-type: none"> <li>• SSBC and BLJC-WSI reciprocal indemnification and limited liability on direct and indirect losses/ damages.</li> <li>• Financial remedies</li> <li>• Termination for Cause (for Consistent Failure)</li> </ul>

## 7.0 Benefits

Contracting with BLJC –WSI, has enhanced maturity of property management and project management services by stabilizing service levels, streamlining and standardizing business processes, and increasing the ability to measure direct service outcomes for ministries in a consistent and repeatable method.

BLJC – WSI designs many of its service components to enable continuity in the event of a service interruption. For example, BLJC’s Western Operations Centre (Call Centre) is located in Kamloops, B.C. with 100 per cent redundant back-up in Markham, ON.

BLJC- WSI has aggressively pursued targeted cost savings and containment objectives, as well as focused on balancing customer expectations and cost effective project management services. Both parties have demonstrated the ability to work in unison and share leadership during critical service issues or business challenges and have worked together in many areas to expand and enhance overall service delivery and service levels, as well as create a more efficient and streamline service delivery model.

Cumulative costs savings of 10 per cent were achieved in the first three years of the Contract for the Province. These savings are consistent with the forecasted financial benefits anticipated in the original business case. This result is after taking into account service level changes, changes to small project volumes, portfolio changes, etc. This objective was achieved through a variety of means including continuous focus on cost management and procurement initiatives to achieve economies of scope and scale, as well as increased self performance of operation services by WSI technical staff. In addition the benefits and features of the overall service delivery model has had a positive impact on cost savings performance.

## **8.0 Contract Renewal 2009/10 – 2013/14**

On September 30, 2009, SSBC and BLJC-WSI signed an Amended and Restated Master Services Agreement thereby extending the relationship through to March 31, 2014. SSBC amended the Contract with BLJC-WSI to update the Contract to address the restructuring of the organization from a crown corporation (BC Building Corporation) to a division within a ministry structure (Shared Services BC). In addition, SSBC ensured that the terms and conditions of the contract complied with current provincial acts (e.g. FOIPPA), regulations and policies, and incorporated future conditions for the next renewal term.

SSBC's decision to renew the contract with BLJC-WSI was based on input from stakeholders, favourable service performance data, research on market comparisons and best practices, and alignment with the Ministry of Citizens' Services strategic direction respecting its preferred service delivery model (i.e., leveraging existing strategic partnerships) and was within the scope of the Request for Proposal and Contract deal.

In signing the agreement both parties committed to leveraging the lessons learned during the initial term of the agreement and to working collaboratively towards greater operation stabilization, service enhancements and business growth for the benefit of ministry and broader public sector customers.

## **9.0 Transition, Transformation, Ongoing Contract Management**

Effective management of the relationship between SSBC and BLJC-WSI is key to realizing the full value of the contract. The contract provides a governance framework for effective management of service delivery and defines the business processes to respond to issues and opportunities as they arise. It also establishes formal mechanisms for addressing service changes in the contract.

The Joint Executive Committee (JEC) comprised of representatives from SSBC and BLJC-WSI is responsible for overseeing the overall business, strategic and contractual relationship between the two organizations, while the day to day business relationship and all working details of the contract are managed by the Joint Operating Committee, which includes senior management members from both organizations. The committees meet on a regular basis throughout the year.

Branches and departments within SSBC directly interfacing with BLJC-WSI have responsibility for oversight and monitoring support during the delivery of services and the integration of services with retained accountabilities. SSBC retained accountability for managing the relationship with SSBC customers, providing strategic accommodation and real estate advice, establishing technical standards, and delivering project management services on projects greater than \$2 million dollars.

The Facilities Contract Management Branch within SSBC is accountable for monitoring and managing the overall performance of BLJC-WSI and ensuring alignment between applicable stewardship mandate and business priorities. Its focus is on relationship management, and the interpretation, administration and management of the contract to ensure all parties receive the benefits of the terms and conditions of the contract.

Staff work directly with BLJC -WSI and other SSBC branches/departments to define or clarify roles/responsibilities, to integrate and streamline business processes/procedures, to ensure accurate and timely data transfers and critical activities reporting to support management, financial and performance reporting needs, and to capitalizes on opportunities for service improvement and business growth.

The contract is monitored by observation of the on-going key indicators and by random project file audits, building inspections, discussions with tenants and customers, bench marking, and independent surveys. At any time SSBC may appoint an internal or external auditor or professional advisor to review any aspect of the contract to verify that services have been delivered in accordance with the agreement.