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# **Evaluation of the Alternative Forms of Delivery Initiative**

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## Executive Summary

The AFD was an initiative that was inclusive in its planning, conscientious in its regard for individuals, responsible in its care for assets and scrupulous in its consideration for industry integrity and fairness. It was imperfect as are all major shifts in business operations. The key challenge in transitions of this kind appears to be the difficulty of foreseeing critical and influential issues, estimating their impacts and preparing appropriate measures.

In a few words, the AFD can probably best be characterized as follows:

- a success in the planning and management of the Human Resources dimension of the initiative;
- it achieved cost effectiveness, and a credible model exists to support that achievement, though attempts at precision are impeded by structural information gaps; those gaps also tend to obscure a confident perspective concerning proper financial controls;
- effectiveness measurement and other objective methodologies have been introduced and combined with the organization's own expertise – they promise to emerge as leading-edge tools;
- the integrity of assets within the Department's trust are assured through the satisfactory performance of the Service Provider for facilities maintenance; moreover, the Department is making promising strides towards new methodologies in this vein;
- due diligence and respect for government's standards regarding Official Languages, Health and Safety, the Environment and Sustainable Development have all been upheld to a fully satisfactory standard;
- myths regarding any undue competition with the private sector have been dispelled and all quarters of the industry appear to be relatively stable in the current situation; and finally,
- the Department is realizing the benefits of the chief reason for which all non-core business outsourcing occurs; it is more capable, confident and available to assert its role as a strategic advisor to its clientele.

Regarding the all-important matter of continuing with this initiative:

- unquestionably, the initiative is sufficiently meritorious to be maintained;
- likewise, there can be little doubt that a return to in-house provision of Property Management Services would be illogical, and probably unaffordable;
- in fact, there are compelling mathematics to support additional savings through an expansion of the initiative, not to mention the additional resources that would be available for "core" business;
- however, there are important gaps in need of repair with respect to financial management information at meaningful levels of aggregation; this risks becoming a chronic issue if it goes unattended; moreover,
- the likelihood of a plurality of successful service providers in a re-procurement absolutely necessitates a ready and reliable system for contract management and analytical purposes.

A summary of our conclusions and recommendations related to each of the specific evaluation questions addressed in our study is provided in Chapter 4.

## 1.0 Introduction

This report presents a summative evaluation of Public Works and Government Services Canada's (PWGSC's) Alternative Forms of Delivery (AFD) for Property Management initiative. It is organized in four chapters: Chapter 1 provides the general background, objectives and methodology for the study; Chapter 2 describes the AFD initiative in greater detail; Chapter 3 presents our findings, organized in relation to the Evaluation Framework, and our conclusions and recommendations are summarized in Chapter 4.

### 1.1 Background

The AFD initiative had its genesis amidst the 1994 government-wide Program Review and the concept of *Getting Government Right*. Among other things, these initiatives directed departments to distinguish activities that the government must perform and those that could be done more efficiently and economically by other levels of government or the private sector.<sup>1</sup> Consistent with this concept, and compelled by a sound expectation of cost savings, department, Real Property Services Branch (RPS) undertook a detailed *Core Services Review* in 1996, which ultimately resulted in the contracting out of property management services and certain project delivery services under the Alternative Forms of Delivery initiative.

An Evaluation Framework was developed for the AFD initiative and approved by PWGSC in 1998. This Framework identified the specific evaluation issues, questions and related performance indicators for future evaluation studies. It recommended that RPS review the implementation of the initiative, conduct a formative assessment toward the end of the contract's three-year period, and undertake a summative evaluation at the end of the seven-year period. The *Review of the Implementation of the AFD for Property Management Services*, was completed in June 2000; a formative or interim evaluation, *AFD – Program and Operational Review*, was finalized in 2001; and this report comprises the summative evaluation of the AFD initiative. Due to a number of developments, which are discussed below, the timing for the summative evaluation was accelerated by nearly two years.

### 1.2 Objectives and Scope

Consulting and Audit Canada (CAC) was asked to:

- Assess the overall effectiveness of the AFD program, focusing on performance targets, client/tenant satisfaction and workplace impacts.

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<sup>1</sup> Program Review required departments to assess their various programs in relation to six questions: is the program still in the public interest; is its delivery a legitimate and necessary role for government; should it be realigned with the provinces; should it be delivered in partnership with the private or voluntary sector; could it be designed more efficiently; and is it affordable.



The evaluation was also intended to identify any improvements that could be made to the AFD in these areas.

The AFD initiative includes 13 contracts with a private sector service provider and two Memoranda of Understanding (MOUs) with provinces (British Columbia and Saskatchewan). This evaluation focused on the private sector contracts and associated portfolios.

The specific activities included under the private sector contracts are: property management services (see Annex C for a detailed list of the specific services covered under the contract), delivery services for repair, improvement and refit projects valued at less than \$200,000 and management of retail lettings.

### **1.3 Approach and Methodology**

Prior to beginning our research for the study, we reviewed and updated the Evaluation Framework developed for the AFD initiative in 1998. This original Framework was organized according to three general issues: rationale; program design and delivery; and program effectiveness. A total of ten specific questions were identified for the summative evaluation.

While these ten questions continued to be relevant for our study, a number of more recent developments and management concerns required the addition of some new questions, and the revision and reorganization of others. The indicators and methodologies for responding to some questions were also revised, based on the findings of previous evaluations and studies.

Although these changes are discussed in the relevant sections of the report, four specific revisions are worthy of special note. \* 69(1) of the ATIA \* specific evaluation questions for these two issues were developed, in consultation with the client, and incorporated into the Framework (Q.14 and Q.15, respectively).

The third major area of change in the new Framework relates to the cost savings generated by the AFD. The original evaluation question asked whether the AFD initiative had achieved its projected cost savings of \$20 million annually. However, for a variety of reasons, including changes to the organization of the department and to departmental systems, the data necessary to answer this question conclusively would be extremely costly, if not impossible, to accurately reconstruct.

Nevertheless, as cost savings were a major impetus for the AFD initiative, it was essential that the summative evaluation address this issue. Therefore, we decided to examine the obverse of the situation and revised the question to ask whether the AFD model represents a cost-effective alternative to the in-house provision of property management services. The TBS? Make-or-Buy guidelines were used to address this question, and are discussed in greater detail in section 3.3.

The final general modification to the Evaluation Framework also relates to our methodology and stems from two facts: there have been a substantial number of assessments of the AFD initiative

conducted over the last four years; and the timing for the summative evaluation has been brought forward significantly.

With respect to previous studies, the AFD initiative has already undergone substantial scrutiny, especially given its relatively short life span. The most relevant of these, for our purposes, are:

- *Alternative Forms of Delivery at Real Property Services: A Report by the AFD Transition Task Force*, Public Works and Government Services Canada, April 1999.
- *Alternative Forms of Delivery: Contracting for Property Management Services*, Report of the Auditor General of Canada – Chapter 18, September 1999.
- *Review of the Implementation of the Alternative Forms of Delivery for Property Management Services: Stakeholders' Perspectives*, Consulting and Audit Canada, June 2000.
- *Industry Trends and Practices in Outsourcing Realty Services*, David Patton, February 2001.
- *Alternative Forms of Delivery for Real Property Services: Program and Operational Review*, Corporate Research Group – Dixon Associates Management Consultants, May 2001.

Whereas the original plan would have been to conduct this evaluation in 2004 \* 69(1) of the ATIA \*

Thus, many of the questions reviewed in our evaluation have also been addressed in previous studies; and in the case of the interim evaluation, which was completed just over a year before our research began, many of the earlier observations and recommendations continue to be valid. Consequently, for some questions, the focus of our research has been to update information provided in previous reports, primarily those in the interim evaluation, and to assess what has happened in response to associated recommendations.

The 2002 Revised Evaluation Framework (presented in Annex A) includes 18 specific questions organized under five broad issues: rationale, program design and delivery, cost effectiveness, program effectiveness and alternatives.

Because this was a large project, conducted within a very tight time frame, we organized it into five sub-studies, with specific consultants assigned to each of the five components. The need to share information and findings between these sub-studies was achieved through weekly plenary meetings of the project team. Those consultants who managed each of the sub-studies reviewed all report findings to ensure that any overlapping issues were appropriately addressed.

The sub-studies for this evaluation were organized in relation to the evaluation issues identified in the Framework. They were:

- Cost-effectiveness and controls (Q.6 and Q.15 in the Framework)
- Program design and delivery (Q.2 to Q.5)
- Program effectiveness (Q.7 to Q.12)
- Financial systems (Q.14)
- Concept and overall success (Q.1, Q.13, Q.16 to Q.18).

A specific data collection strategy was developed for each of the sub-studies. Annex A presents a summary list of all interviewees and the documents we reviewed. Given the scope of the study, some interviewees met with two or more of the sub-study teams; in some cases, several follow-on consultations or work sessions occurred; many documents were also reviewed by several of the teams. A list of all interviewees and documents reviewed is provided in Annex B. In total, we interviewed more than 70 people and reviewed more than 60 documents. In addition, work on the cost-effectiveness component of the evaluation required regular liaison with the Strategic Business Advisory Services Directorate, and frequent review and analysis of working level financial data and information.

## 2.0 The AFD Initiative

Public Works and Government Services Canada, through its Real Property Services Branch, is the primary landlord and custodian of a significant proportion of the federal government's real property holdings. As the landlord, the Department traditionally has provided a variety of real property services to its tenant departments, ranging from cleaning and tenant services projects, to advice on space optimization planning in relation to program design and delivery. It is also responsible for the ongoing care, routine maintenance and integrity of the assets.

The decisions by PWGSC that resulted in the outsourcing of the day-to-day delivery of property management services for certain assets stem from a variety of conditions and developments in the mid 1990s. They are discussed under the following headings.

### 2.1 Environment of Change

The 1990s were times of nearly unprecedented fiscal constraint and downsizing within the federal government. The 1994 Program Review introduced and championed the concept of "Getting Government Right," that is, looking at what functions and services the federal government needs to do, determining how they can be done more efficiently, and whether they could or should be done by others, or in partnership with others.

However, there were numerous other forces of change and priority that characterized the era immediately preceding, during and after the strategic decision that resulted in the AFD. Chief, though not exhaustive, among the issues that governed the AFD planning, transitional and operational time frame are the following:

- the 1993 change of government with many reform initiatives which created super-ministries and gave birth to PWGSC among them;
- the formal "Efficiency of the Federation" initiative to encourage all levels of government in Canada to maximize on opportunities of convergence and "single-window" thinking;
- the Successor Initiatives to Program Review I;
- the Early Retirement – Early Departure Incentives (ERI/EDI) programs to secure the downsizing objectives of the Program Review regime;
- the 1995 TB Framework for Alternative Program Delivery;
- the 1995-1996 creation of the Client Service Units (CSUs) in PWGSC RPS which was a key operational reconfiguration;
- the 1997 election which impacted the AFD program of activities, pending renewed public endorsement of the 1993 initiatives; and,
- the other constant movements of personnel to satisfy the many emergent needs of the new super-ministry from within a fixed and diminishing pool of expertise.

Of the issues cited above, none had a more singularly profound impact than the ERI/EDI programs that imposed absolute deadlines of definite consequence. The process of developing and implementing the AFD initiative was linked to, and complicated by, these various considerations.

## **2.2 Outsourcing**

This explanation of outsourcing is purely contextual. The earliest accounts of non-core business outsourcing date back to 1949 when payroll operations were segregated from core business activities. During the 1980s, the information revolution gave rise to an IT outsourcing boom. Outsourcing is now a well-established business movement that is frequently the delivery alternative of choice for public sector organizations. The nature of the commitment is long-term with a history of development and transition.

Currently, the AFD is reaching an important milestone in the longer view of its own outsourcing continuum. When implemented on a substantial scale, outsourcing represents a serious strategic commitment for any organization. The initiation is a special phase because of its many first and unique aspects. The initial transition usually affects the greatest number of in-house personnel, after which, the impacts would be limited only to those affected by an expansion of the scope of work. In that context, HR issues are never quite as critical or intense during procurement phases.

This perspective anticipates the many incorrect assumptions, ongoing adjustments, unforeseen dynamics and other imponderables that are inevitable in outsourcing of this nature and magnitude. Despite the most diligent efforts at planning, the transition phase is always very revealing. A good deal of the virtue of alternative delivery might well abide in the strategic thinking that is necessary to make it work.

Therefore, it might be useful to bear these peculiarities in mind when considering this summative evaluation which has been structured along more conventional program evaluation lines of enquiry.

## **2.3 Development and Description of the AFD Initiative**

The following describes some of the key events and decisions associated with the structure and development of the AFD initiative. It is provided as general background material for subsequent report discussions and findings.

- An AFD Transition Task Force was established to plan, design and oversee the implementation of the initiative. Their goal was to develop the means to improve efficiency and affordability by contracting out day-to-day delivery of certain of its services to the private sector, while continuing to retain full accountability for program management and the quality and client service dimensions of these outsourced activities.
- A Core Services Review, undertaken in 1996, used several “filters” to separate core from non-core activities. These filters reviewed all RPS services and activities in relation to legislative and policy requirements, client views and concerns, and the ability of the private sector to provide the service cost-effectively.

Core tasks included advice to clients, strategic planning, quality assurance, risk and program management, and expertise in all the real property disciplines, including operational services, to ensure that RPS could carry out its role as real property expert and advisor. Non-core work to be performed by the private sector fell primarily into operational areas, such as property management, building operations, maintenance and repair, land surveys and property appraisals. Eventually, decisions were made to exclude certain non-core activities from the contract packages and to limit the contracts to property management and building operations and maintenance.

- Selecting the facilities for inclusion in the AFD underwent a similar assessment process: some facilities were excluded due to government security or heritage considerations; the remaining were subjected to the client relationship and private sector filters. In the end, approximately 300 facilities, representing about three million square metres, were included in the AFD contracts. Services for non-AFD facilities continue to be provided in-house. This resultant situation, in which PWGSC managed a “hybrid” model, is very relevant to many of our evaluation’s findings and conclusions.
- The Department’s approach to the AFD contracts was to use a performance-based contract which emphasized outputs rather than detailed activities and processes.
- The AFD contracts were delineated principally by provincial and territorial boundaries, with some exceptions, where volumes and budgets were too large to be tendered as a single contract package. In all, 18 AFD packages were made available to other levels of government and the private sector. Five of these were initially reserved for provincial and territorial governments that had expressed an interest in performing real property services on behalf of the federal government;<sup>2</sup> 13 packages were offered to the private sector.
- Taking into consideration a variety of factors, it was decided to adopt a contract duration of three years. If, during those three years, the contractor continuously satisfied the key performance requirements outlined in the contract, RPS had the option to extend the contract for an additional four years – partially or all at once. The total contract would not exceed seven years.
- \* 69(1) of the ATIA \*

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<sup>2</sup> In the end, only two provincial/territorial MOUs were signed, with British Columbia and Saskatchewan; property management services in the other three (Prince Edward Island, Yukon and Northwest Territories) continue to be provided by PWGSC.

- A form of ceiling-priced services contract was developed for AFD. Thirteen packages were tendered to the private sector. Brookfield LePage Johnson Controls (BJLC) submitted proposals that significantly exceeded the tender requirements in virtually every category and won all 13 private sector contracts. After finalizing the contract performance requirements, RPS turned formal control of the property management packages over to the contractors in May 1998.

In relation to this study, it is important to note that the AFD model under review is one in which there was a single service provider. While this was never the intention of the original procurement, it likely had a positive impact on the implementation of transition to the AFD model.

## 3.0 Findings

This chapter of the report presents our findings, organized according to the five general issues covered in the evaluation: rationale, program design and delivery, cost effectiveness, program effectiveness and alternatives.

### 3.1 Program Rationale

One of the major questions addressed in an evaluation is the extent to which the program or initiative under study continues to “make sense”; that is, are the objectives and mandate still relevant to government responsibilities and priorities. The AFD Evaluation Framework included one question related to this issue:<sup>3</sup>

Q.1 IS THERE A CONTINUING NEED FOR THE AFD INITIATIVE?

CONCLUSION: Given the on-going interest of the federal government in the use of alternative organizational forms to provide programs and services more efficiently, and the substantial internal stakeholder support for the AFD, there is a strong rationale for continuation of the Initiative.

#### Findings

Cost savings are addressed Section 3.4 of this report. In order to address the other two elements of this question, we looked at two indicators – whether there is a continuing policy and program rationale for the AFD, and whether stakeholders support the continuation of the Initiative.

With respect to the continuing policy and program rationale, it is important to note that the federal government has long used more autonomous agencies and Crown corporations as an alternative to departments, and has often transferred programs and services to other levels of government. However, as part of the fiscal constraints and downsizing discussed in Chapter 2, *alternative service delivery (ASD)* became a federal priority in the mid 1990s.

Under this initiative, the government actively sought alternative organizational forms to deliver programs and services that had traditionally been delivered through departments. During this era, we saw the increasing use of alternative approaches, such as special operating agencies (SOAs), employee takeovers (ETOs), and various contractual and partnership arrangements.

Since then, the government has continued to develop and rely on alternative arrangements to deliver services. Partnerships, which bring together organizations across government, between levels of government, or across sectors, through single-windows, co-locations, or clustering of services are increasingly common. In addition, new service agencies, such as the Canadian Food

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<sup>3</sup> The original Framework had two questions related to *rationale*, but the second, which asked about the scope of work, has been moved to the section on *alternatives*.



Inspection Agency, Canadian Parks Agency and Canada Customs and Revenue Agency have been created.

Factors such as the current emphasis on citizen-centred service and results-based management, the interdependency of policies, programs and regulations between levels of government, and advances in information technology (which both make information more accessible and enable alternative delivery structures), continue to drive the need for new and innovative approaches to the delivery of federal services.

Thus, while ASD is not a federal priority in the same way it was when AFD was implemented, the government continues to be interested in, and receptive to, alternative service delivery models. Further evidence of this can be found in the April 2002 enactment of a new ASD Policy, the continuation of a group, within Treasury Board Secretariat, with responsibility for reviewing and supporting ASD initiatives, and the early successes of that group in developing a “community of support.”<sup>4</sup>

Moreover, outsourcing (described as a private sector practice in section 2.1, AFD Initiative) is similar to the ASD initiative of government. While the experience may be relatively recent for government, “outsourcing” has been long established as a non-core business efficiency practice. In keeping with government’s avowed commitment to adopt and promote best practices, it is unlikely for all practical purposes to contemplate a full-fledged return to the former in-house delivery model.

With respect to stakeholder support for the AFD initiative, our interviews identified strong internal support for the continued use and expansion of the AFD model. Senior management interviewees were unanimous in their belief that it is a good delivery model for non-core functions and that PWGSC should consider using a similar approach for other non-core services. (This is discussed further in section 3.5.2). There was widespread recognition of the fact that the transition to AFD hasn’t been easy or totally smooth, but interviewees feel that it is now fairly well entrenched within RPS and fairly well accepted by clients and tenants.

Industry associations representing property management service providers and building owners appeared quite comfortable with the implementation and roll-out of the initiative. With respect to the actual process, they felt that there was effective pre-consultation and remarked that the fairness aspects of the procurement were widely perceived to be very transparent and of exemplary calibre.

Given that “outsourcing” by any name is patently countercurrent to the very essence of Unions, they were not wildly enthusiastic about the AFD initiative or its possible expansion. However, they were very professionally appreciative of the care with which the transition was implemented, particularly with respect to HR considerations.

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<sup>4</sup> A breakfast session sponsored by this group at the Canadian Centre for Management Development (Best Practices in ASD, October 31, 2002), was very well attended and was followed by a full day ASD learning/networking event on December 3, 2002.

## 3.2 Program Design and Delivery

For the purpose of this evaluation, program design and delivery encompass four general areas: planning, contracting, operations and monitoring. Although the primary focus of a summative or final evaluation is the effectiveness and impacts of the program under study, the original AFD Evaluation Framework recommended that these more operational issues also be addressed in the summative evaluation. It is important to recognize, however, that they have already been reviewed quite extensively in previous and recent studies. Further, RPS has taken substantial actions to address issues and recommendations identified in these reports. Because some of these efforts are currently being implemented, it is not always possible to assess their effectiveness. Consequently, our strategy in this section is to review the relevant findings and recommendations from previous studies and, where appropriate, update them with information on subsequent developments.

### 3.2.1 Planning

The planning of the AFD initiative was a finite phase of operation. The findings presented in this section are a summary of the information and recommendations compiled for the AFD Transition Task Force report, the *Review of the Implementation* and the *Program and Operational Review*. They are included in this report to provide a comprehensive assessment of the total initiative and to re-emphasize some of the “lessons learned” in the earlier studies.

#### Q.2 HOW EFFECTIVE AND EFFICIENT WAS THE PLANNING PROCESS?

**CONCLUSION:** The effectiveness and efficiency of the AFD planning process can be seen in the fact that RPS was able to implement this large, complex initiative within a very rigid time frame. The innovative, inclusive and comprehensive planning process played a major role in this success.

#### Context

The AFD initiative represented a major change in the way that PWGSC operated. The planning and implementation of this initiative took place during a period of substantial change both within the Department specifically and the federal government at large. It also occurred over a very short time frame in order to allow employees to take advantage of the government’s Early Retirement and Early Departure Incentives.

#### Findings

Some of the key elements of the approach adopted by the Department to plan and implement AFD are presented below:

- An AFD Transition Task Force was established to plan, design and oversee the implementation of the initiative. The Task Force was led by a well-respected and knowledgeable senior manager, and the group was composed of dedicated specialists in property management, financial management, contracting, human resources management and communications. The Task Force had direct channels of communication with the ADM, RPS.

- The foundation on which the AFD initiative was built was a thoroughly researched business case that convinced PWGSC senior management and the government's central agencies that AFD was a sound proposition. Making the case required the Transition Task Force to examine RPS's existing operations in minute detail, explore many possible scenarios, and evaluate the viability of alternative methods of delivery.
- Because this initiative was new to the Department, traditional planning practices were impractical. The general initiative implementation plan was developed and supported by a real-time planning approach, involving the development of position papers, as issues were identified. These position papers were presented to senior management for discussion and direction.
- While normal departmental ministerial and central agency approval procedures were always followed, special efforts were sometimes required to fast-track the process. Where RPS Branch approvals were required, a more responsive, "quick turn-around" mechanism was implemented.
- Extensive communications efforts were implemented for all key audiences: employees, senior RPS and PWGSC management, clients, unions, real property companies, industry associations and central agencies.
- RPS senior managers – particularly the ADM – played an active role in briefing stakeholder groups. They not only provided information, but also communicated by their presence the importance that senior management placed on the endeavor. The ADM's personal commitments to the Unions regarding how affected employees would be treated throughout the process and the protection that would be in effect after the transfer helped to sell the process.

### **Lessons Learned**

The *Report by the AFD Transition Task Force* itemizes a variety of "lessons learned" during the planning and implementation of the AFD initiative, as does the *Review of the Implementation*. We provide an overview of their suggestions related to planning below. For more detail, readers should consult the original reports.

- Lay the groundwork: it is essential to have clear objectives and expected results, and a dedicated team that can focus exclusively on the job.
- Seek commitment and support at the highest levels. Active support and leadership of senior management is critical to tackle issues as they emerge and enhance the credibility of the initiative.
- Seek early approval for necessary departures from standard procedures.
- Work closely with Unions.
- An extensive communication strategy directed to all the important stakeholders is essential. Even though RPS made a real effort to improve communications with clients, it was not enough. There is merit to maintaining active and formal communications with clients beyond the contract award.

- Choose an effective leader and decision-making process. A senior communications officer should be an integral part of the implementation team.
- Dedicate and co-locate the project team.
- Draw on expertise from across the organization, including people in regions outside the geographical location of the team headquarters.

### 3.2.2 Contracting Process

This section of the report reviews the original contracting process for the AFD initiative, again with a focus on lessons learned. An assessment of the effectiveness of the performance contract is included in section 3.2.4.

#### Q.3 HOW EFFECTIVE AND EFFICIENT WAS THE CONTRACTING PROCESS?

**CONCLUSION:** Based on substantial and consistent evidence in earlier assessments of the AFD initiative, we conclude that the contracting process was effective and efficient. RPS developed an innovative contract that was implemented in a fair, transparent and timely manner.

#### Context

A three-stage procurement process was followed for the AFD initiative. The first phase consisted of industry consultations and briefings to give notice of the direction RPS was headed in and to seek informal comments and advice. The second phase was identified as a Request for Qualification (RFQ). This phase enabled PWGSC to begin sharing information with the industry before the Department had completed the assembly of all the details needed in a Request for Proposals (RFP). Sharing what was available enabled potential bidders to better prepare themselves for the RFP stage. The Department received 28 responses to the RFQ from potential suppliers. The third phase of the contracting process was the RFP. A total of 62 proposals were received from 14 different service providers; there were at least three bids for every portfolio except Alberta, which sent in two.

The RFPs were reviewed by teams of experts, each focusing on a particular aspect of each proposal. Bids were evaluated on a *best-value* basis, using a point rating scheme which emphasized technical superiority over price, and weighting strongly encouraged bidders to present attractive offers to the Department's employees.

An innovative feature of the procurement was the use of "fairness monitors" to provide independent assurance to the Department's senior management that the process was conducted fairly and in accordance with the rules. The first independent monitor provided advice and guidance to ensure the integrity of the overall AFD process, and the second monitor carried out "fairness" reviews at the solicitation, evaluation and award phases of the contract.

On December 12, 1997, following the completion of the evaluation process, the Minister responsible for PWGSC announced that one contractor (Brookfield LePage Johnson Controls,

BLJC) had been selected as the sole contractor for all the contracts, since it had submitted a superior bid for each of the 13 portfolios. BLJC took over the contracted property management services in May 1998.

### **Findings**

Two previous studies, the *1999 OAG Report and the 2000 Review of Implementation*, have reported on the success of the AFD contracting process. Their conclusions are presented below:

“The contracting process used by PWGSC ... was well managed and consistent with the objectives of the Department. We found that the bidding process was open, transparent and fair. The contracts were well designed and the handover to the contractor went smoothly. A significant feature of the contracting process was the use of “fairness monitors.”

*(1999 OAG Report)*

The *Review of Implementation* echoed this conclusion, based on a number of clear indicators:

“The manner in which the Department explained the AFD initiative to industry and the process followed to obtain fair and competitive bids, was seen as exemplary. Testament for this process includes the absence of any disputes in the awarding of all contracts to one bidder, BLJC.... The Department’s requirements and expectations were clear. The information provided was comprehensive and sufficient to assess whether a prospective contractor should bid and enabled meaningful bids to be made.”

*(Review of the Implementation of AFD, 2000)*

### **Lessons Learned**

The OAG Report cited a “lesson learned” in relation to the contracting process itself:

- Fairness monitors in large and complex transactions of this kind can provide assurance that the process is transparent and fair.

### **3.2.3 Operations**

The ultimate indicator of the success of operations under AFD is demonstrated through an assessment of program effectiveness. That is, we can conclude that the Initiative operated well if clients and tenants are satisfied, the integrity of the assets is maintained, and so on. These evaluation questions are addressed in section 3.4. In this section we look at some of the operational issues identified in previous studies and report on any further developments in these areas.

#### Q.4 HOW WELL DID THE INITIATIVE OPERATE?

CONCLUSION: There were significant “growing pains” experienced in implementing the AFD and problems have been identified in relation to some components of the contract. However, we are satisfied that steps are being taken to address these problems in the re-procurement of the AFD contract.

#### Findings

Our findings in relation to operations are organized in three sections: the first looks at the transition period, the second presents findings related to retail lettings, and the third reviews the Management Value Incentive Program (MVIP).

#### Transition Period

All of the studies previously conducted on the AFD initiative have emphasized that the transition period was very difficult. This is attributed to a number of factors:

- The roles, responsibilities, expectations and working relationships of RPS staff (asset managers and asset performance officers), relative to the contractor’s portfolio and property managers were not well-designed at the outset. Related to this, RPS staff who were responsible for managing the AFD contracts were not provided with the level of coaching and guidance required to fully understand all of the implications and ramifications of this new way of doing business.
- Many tools which would normally have been in place to ensure the smooth and orderly introduction of the AFD were developed only after the contractor took over. This included building condition assessments, baselines for performance measurement and annual building management plans. Some tools such as guides detailing the interpretation and measurement of Key Performance Indicators (KPIs) were still not in place in 2001.
- The contractor didn’t receive the hoped-for complement of RPS staff in the turn-over, so was understaffed and had to rely on new and inexperienced staff. This meant that it took quite a while for the contractor to fully appreciate what was required to meet government needs for property management services.
- With the introduction of a private sector contractor, a number of services that RPS may have been providing to clients *pro bono* were now being billed for directly. This may have contributed to some negative perceptions on the part of clients and tenants. In defence of the AFD Task Force, it would have been extremely surprising, in a transition of this magnitude, not to have experienced these types of problems.

#### Lessons Learned

The lessons learned in relation to the transition phase follow directly from the explanations offered above. They are compiled from the *1999 OAG Report, the Review of the Implementation* and the *Program and Operational Review*.

- For both the contractor and PWGSC, make greater allowance for the transition phase including the learning curve and the time needed to work out the details of the arrangement.
- Ensure that RPS staff are thoroughly trained and have a full understanding of the concept, contract, roles and tools at their disposal to carry out their responsibilities.
- While, ideally, all information, training and tools should be in place before the hand-over date, with an initiative of this size and complexity, this may not be possible, and management cannot wait for everything to be in place before going ahead. This needs to be acknowledged up front and contingency plans prepared early in the process to provide a road map for both parties to deal with any uncompleted tasks.
- Ensure that a thorough and sustained communication strategy is in place to help clients/tenants understand the initiative and its implications, with a view to reducing the uncertainty that normally accompanies the introduction of major new concepts.

### **Retail Lettings**

As part of the AFD contract, the contractor is required to prepare and negotiate retail and commercial offers to lease, and lease contracts, and submit them to PWGSC for approval. The contractor prepares an annual third-party retail letting plan (indicating retail tenants, uses, rents and anticipated sales volume) which is included in the commercial letting plan and approved by PWGSC.

Although retail lettings are part of the AFD contract, they constitute a very small component of the prescribed responsibilities. There are essentially only three regions in the country that have any sizable retail component (NCA, Quebec and Pacific), and the total component amounts to approximately 50,000 square meters.<sup>5</sup>

Both the *Review of the Implementation of AFD* and the *Program and Operational Review* identified a number of problems related to retail letting.

The *Operational Review*, which looked at this issue in substantial detail, made a number of specific recommendations:

- The Statement of Work (SOW) in a new AFD be revised to:
  - Add a specific description for retail operations in the property management services section. Retail operations should include retail and commercial operations.
  - Remove retail, including commercial, lettings as a responsibility under the contract.

Since submission of the *Operational Review*, the Contract Working Group, which was set up to prepare for the re-procurement of the AFD contract, has made a recommendation to continue to include responsibility for retail lettings under the AFD contract. However, they have revised the SOW by including a section on Revenue Operations as recommended.

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<sup>5</sup> To put this in perspective, the total federal real property holdings as of May 31, 2001, was 30,590,528 square meters.

It will remain for the next assessment of AFD to determine if these changes have addressed the problems cited in the *Operational Review*.

### **Management Value Incentive Program**

The AFD contract includes a special incentive provision, the Management Value Incentive Program (MVIP), which is designed to encourage cost reduction and innovation. The MVIP offers the contractor a portion of any savings generated from cost-savings proposals implemented. The contractor can submit proposals under the MVIP and, if accepted by PWGSC, the contractor and the Crown share any resulting savings.

While many proposals were submitted in the first couple of years of the Program, few were approved for implementation. Given that preparing and processing MVIP proposals and monitoring savings is very time consuming, this has resulted in substantial frustration for both the service provider and the Department.

Again, both the *Review of the Implementation* and the *Program and Operational Review* identified various explanations for the failure of the MVIP to achieve its intended goals of improving overall management and reducing costs.

The *Program and Operational Review* recommended that PWGSC eliminate the MVIP concept in its present form and consider including innovative savings as part of the excellence fee under future AFD contracts.

The PWGSC report, *Industry Trends and Practices in Outsourcing Realty Services (2000)*, examined the use of these types of special cost savings programs by other organizations. They found that, while such programs are fairly common in outsourcing contracts, they appear to be achieving mixed results. It takes significant effort and resources to assess the value of proposals and measure the savings. In general, the MVIPs are deemed to have low benefit, high management costs and uncertain results in the area of savings.

Given these findings and recommendations, and subsequent discussions of the regional managers, the Contract Working Group developed a *position paper (Position Paper #5, June 2001)* which recommended that PWGSC discontinue the existing MVIP in future AFD contracts and promote innovation and cost savings through the normal performance incentive program and possibly a special award program. This recommendation was accepted by the Steering Committee. There has not, as yet, been any work done on developing a special award program, but this may be addressed as PWGSC continues preparations for the re-procurement.

### **3.2.4 Performance Management**

The original Evaluation Framework included a question related to the monitoring of the AFD contract. Once we began to investigate this issue, we found that it was very difficult to separate the monitoring component from the total performance management regime. Consequently, we revised the question to read:



**Q.5 HOW EFFECTIVE WAS PERFORMANCE MANAGEMENT OF THE AFD INITIATIVE?**

**CONCLUSION:** Despite a variety of early problems and “growing pains,” RPS has been steadily adjusting and refining its approach to managing the AFD contract. The SOW, performance measurement and reporting requirements, and performance monitoring have all been substantially revised and improved as the AFD has matured.

**Context**

As always, a first-time transition like the AFD Initiative will naturally result in overestimations, less-than-effective operational methodologies and outright omissions. However, as these factors concern AFD, the methodology may have been onerous and tedious, but if the process erred, it was largely on the side of intended prudence.

**Findings**

In order to assess this question, it was necessary to look at three interrelated factors: the contract statement of work (SOW); performance measurement and reporting requirements; and the performance monitoring.

*AFD Statement of Work*

Early on, it was decided to use a performance-based approach to contracting, rather than the Department’s more traditional prescriptive method. A performance-based contract sets out performance expectations, but leaves the service provider with the flexibility to determine the best and most efficient way to do the work.

As a result of this approach, PWGSC was able to develop a SOW of only 24 pages in length, which was quite remarkable, given the size and scope of the Initiative. However, as many studies prior to this evaluation have noted, a large number of the contract requirements are of the “how to” variety and are more directly equated with process than with results. Further, the SOW is supported by 260 pages of reporting requirements, standards of services and other contract requirements.

While this is quite understandable, given that this was a new and innovative approach to contracting for PWGSC, the overly prescriptive nature of the SOW has seriously affected the management of these contracts. The *Review of Implementation* identified this problem; the *Operational Review* re-emphasized these concerns and recommended that the contract:

- Define results at the highest possible level of aggregation without compromising PWGSC accountabilities.
- Avoid describing process requirements except in those limited situations where clear result statements and measures of performance cannot be established or agreed to with the successful contractor.

The *Industry Trends and Practices in Outsourcing Realty Services* report noted that SOWs for contracted property management services are generally becoming less detailed, and moving toward higher level and more generic goal-oriented statements, based on the owner's objectives for the portfolio.

Our research indicated that RPS is fully aware of this problem and has taken steps to address it. The Contract Working Group, as part of their preparation for the re-procurement, has begun to revise the SOW to make it more results/output oriented. In a related position paper (*Position Paper #13, Management of Future AFD Contracts*), they set out the guiding principles for this revision: the SOW should contain general performance statements, referencing (rather than listing) standards, codes and regulations; and the service provider will be expected to have "desk procedures" setting out how they will deliver the services. (This latter point is discussed further in relation to performance monitoring.)

#### *Performance Measurement and Monitoring*

An integral component of any performance-based contract is the establishment of a corresponding performance measurement system. Under such a system, key performance indicators (KPIs) are identified and used to measure contractor performance. This requires the setting of a performance baseline, agreed to by the contractor and service provider, for each performance indicator.

While PWGSC and the contractor developed the necessary performance measurement system,<sup>6</sup> it was a far more complex and difficult task than was perhaps anticipated, and the results were far from satisfactory. A variety of problems have been identified, in all of the previous studies, with respect to the AFD KPIs:

- The number of KPIs was excessive (there were 30 performance indicators, with 400-500 separate measures, when all the checklists used to measure performance were considered).
- The performance indicators emphasized behaviour rather than outcomes.
- The KPIs are far more explicit and prescriptive than in other industry systems.
- The weightings assigned to the KPIs were a concern for contractors and PWGSC – it was felt that key areas of performance were not given sufficient weight.
- Most of the baselines for assessing performance were not finalized until well into the first year of operations.
- The KPIs were not seen as accurately reflecting the service provider's performance.
- The assessment of performance (which places 15% of the fee at risk) and depends on inspections performed by RPS staff, had an element of subjectivity.

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<sup>6</sup> The performance measurement model pertains only to the evaluation of performance in relation to the determination of the performance fee and the application of a bonus amount for the AFD. It is important to note that the prime rationale for the indicators is to manage the performance contracts.

Similarly, these studies have noted a variety of problems related to the reporting and monitoring of these KPIs:

- It is a cumbersome, labour-intensive and complex exercise.
- There is substantial duplication of effort between the contractor and service provider.
- Normally the service provider would be responsible for quality control (QC) and quality assurance (QA), while the stay back team would conduct quality monitoring. In the case of the AFD, however, the in-house team has tended to carry out too much of the QA and QC. Contractor oversight has been too low.

As with the SOW, these results are not at all surprising given the magnitude of change that the AFD introduced to Branch operations, the timeline under which they were operating, and the fact that performance measurement systems are, inherently, very difficult to develop and monitor. In their review of industry practices, the *Industry Trends* study reported that other similar organizations are experiencing the same difficulties with their KPI regimes and most seem to be revising/refining them, with an eye to reducing the number, making them outcome focused and tying them to the owner's broad objectives.

In fact, this is exactly what RPS has done through the introduction of a number of management reforms designed to improve and streamline management of the AFD contract. In so doing, it is also intended to improve service and introduce savings for both parties, thereby enhancing the benefits of outsourcing federal real property services.

One component of these reforms is a new KPI regime. While the initial KPI model (Version 1.0) was released in September 1998, RPS recognized many of its limitations, discussed above, and issued a modified version (Version 1.1) in September 2000. This version eliminated some of the measures and changed some weightings. Responding to recommendations of the *Program and Operational Review*, which indicated that more extensive changes were required, RPS released a significantly upgraded version of the framework (Version 2.0) on October 1, 2002. While the contracted services (property management, project delivery and retail letting) and categories of performance indicators (asset integrity, satisfaction and financial) remain the same as in the initial version, the number and distribution of the indicators have changed. This is illustrated in Table 1 below.

**Table 1**  
**KPI Distribution: Versions 1.0 and 2.0**

	Property Management Services <sup>7</sup>		Project Delivery Services		Retail Letting Services	
	V 1.0	V 2.0	V 1.0	V 2.0	V 1.0	V 2.0
<b>Asset Integrity</b>	2	4	2	2	Does not apply	
<b>Satisfaction</b>	6	3	4	3	2	2
<b>Financial</b>	8	2	2	2	4	4
<b>Total</b>	<b>12</b>	<b>9</b>	<b>10</b>	<b>7</b>	<b>6</b>	<b>6</b>

The Property Management Services PIs were reduced by one third. This represents a significant change because 80% of the line items supporting the framework resided within that category.

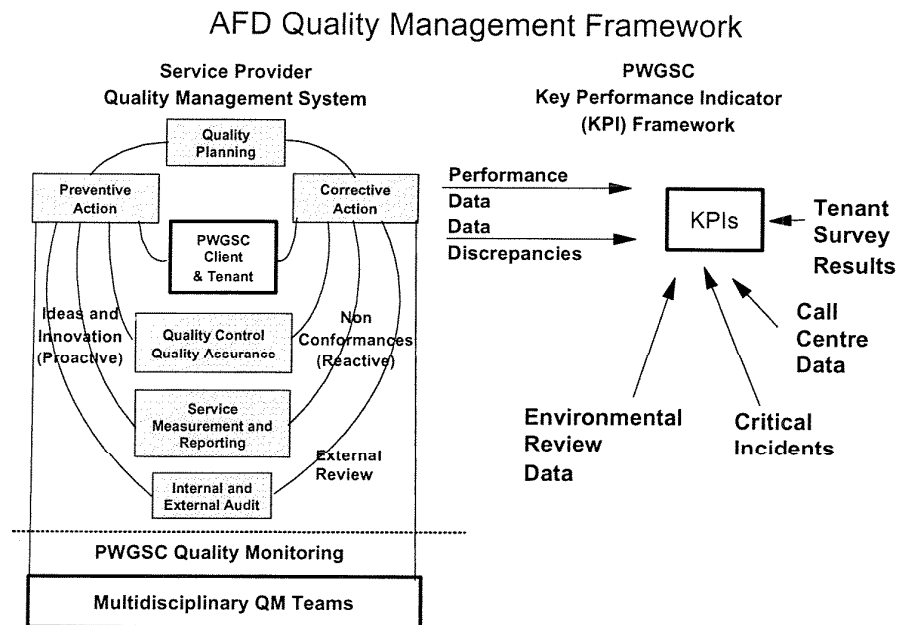
A number of related changes to the performance measurement paradigm are also underway:

- 1) a shift of the quality management function to the service provider;
- 2) adoption of a non-conformance identification, remedy and resolution process; and
- 3) greater reliance on quantitative measures fed from other sources as opposed to the subjective 1/0 binary inputs to line items.

The shift of quality assurance to the service provider combined with a new focus on instances of non-conformance are intended to lessen the administrative burden of the process. The approach is more proactive and eliminates the duplication of effort in gathering performance data. The surety that underpins the approach is the ISO 9002 certification that guarantees quality assurance competence. The process is further being safeguarded by internal and external ad hoc audits which can result in significant fee forfeiture should any irregularities be detected.

The diagram below illustrates the new approach.

<sup>7</sup> The references throughout this report are largely centered on property management services, as these bear most directly on program effectiveness issues.



## Conclusions

The development and maturation process of the Department's experience with the AFD appears similar to the experiences of other "outsourcing" examples. The major challenges in any "first-time" outsourcing initiative are determining non-core business, specifying the activities and results expected, and developing the necessary performance metrics. The initial transition always involves a learning curve with inevitable adjustments to the performance metrics along the way.

It bears mentioning that outsourcing in the private sector involves all of the above challenges. However, the public sector faces additional pressures because it must work within an environment that is far more rigorous and is bounded by public trust, stewardship and transparency issues.

On balance, it appears that the KPI contract management model is evolving steadily. The flexibilities and latitudes are being fitted to suit a growing confidence that is strengthened as the initiative progresses from theory through experience. The latest version of the KPI is very recent, however, and careful monitoring of its progress should prove very useful as the groundwork is shaped for re-procurement.

### 3.3 Cost Effectiveness

- Q6. DOES THE AFD INITIATIVE REPRESENT A COST-EFFECTIVE APPROACH TO DELIVERING PROPERTY MANAGEMENT SERVICES? COULD IT BE MORE COST EFFECTIVE?

CONCLUSION: Our analysis has determined that, conservatively estimated, the AFD has saved approximately \$12 million in 2001-2002 (the subject year of analysis). On the basis of the economies in personnel and operating costs alone, it is reasonable to conclude that the savings obtained in 2001-2002 were achieved in 1999-2000 and 2000-2001. Details on the methodology, assumptions and calculations used to determine the achieved AFD savings are available in Annex E. It has also become clear that the AFD initiative could be more cost effective if PWGSC was to eventually expand the initiative to all or most of the buildings it currently has in its inventory.

Notwithstanding these observations, there is considerable room for improvement in developing AFD-related information systems and methodologies. While the results support an affirmative response to question six, the absence of readily available management reports to enable such assessments is cause for attention.

#### Context

When the AFD initiative was put forward by RPS for consideration, one of the principal objectives was to achieve 10% or \$20 million in cost reductions or savings in ongoing operating, utilities and project costs of facilities.

The estimate of potential savings was not determined as a result of a comparison of the full costs of in-house services versus the estimated costs of contracting-out. It is our understanding that RPS management set the target for savings based on the reported savings achieved by other large property custodians who had outsourced their internal property management services. Real property cost behaviours of PWGSC's large inventory and the comparative information of their vast leaseholds provided the basis for their estimates.

RPS managers contend that the 10% or \$20 million in savings have been achieved because \$20 million was taken out of operating, utilities and project budgets for each portfolio in 1998.

The estimated savings resulting from the implementation of "outsourcing" has become a hard target in the context of the AFD. It has also attracted debate and controversy in some forums, as to the accuracy of "actual savings." To answer this complex subject, it was suggested that an accepted assessment technology be used to obtain meaningful data for comparison.

Therefore, when formulating the terms of reference for this Summative Evaluation, it was agreed that CAC would focus the evaluation to determine if AFD is cost effective as opposed to having achieved the 10% cost savings. In order to determine the cost effectiveness of AFD, CAC has

carried-out a “Make or Buy” comparison based on the “Make or Buy” methodology published by Treasury Board Secretariat (TBS).

Additional reasons for choosing the “Make or Buy” methodology are noted below:

- A pre-contract baseline that includes all costs associated with the AFD initiative was not established in 1998. It is also not possible to make a comparison of operating, utilities and project funding over the years because the costs and amounts available to carry-out these activities are dependent on a number of RPS-wide decisions that are unrelated to the AFD initiative.
- RPS financial information is structured according to the Building Classification of Accounts (BCA) an industry standard that has been configured to RPS needs. The BCA allows for most direct expenditures to be attributed to the client and building level which are primary levels of management information for RPS.
- Some program support and administrative costs are centrally controlled and accounted for as it is administratively less burdensome than to break them down to subordinate costs centres or more finitely. The organization’s matrix is chiefly responsible for this.
- The Service Provider also categorizes expenditures according to the BCA. Some details of expenditures are not required as part of the ongoing financial reporting. For example, when submitting the Investment Analysis Report (IAR) for each project for approval by the Asset Manager working at the CSU, the Service Provider must include a detailed breakdown of project disbursements, including their charge for the salaries of their own employees involved in project delivery. However, the project salary details are never captured and rolled-up and presented separately to RPS on a portfolio or contract level.
- RPS’s separately controlled allotment (SCA) is managed on a full utilization/minimum lapse basis in such a way as to ensure that the lapse is as small as possible. Any RPS funds which become available from elsewhere in the SCA may be reallocated to carry out construction and repair projects that were previously identified in the Building Management Plans (BMPs) and Portfolio Management Plans (PMPs) but for which funding was not available at the start of the fiscal year.
- The “Cost Base” that was used by RPS when AFD was being established was primarily developed to determine the overall contracting value of the initiative and the expected value of bids. The “Cost Base” identified those positions/jobs that were directly affected by AFD and included estimates for the cost of managing the contract based on industry standards, not on any specific study or costing exercise of in-house operations. The 1997 “Cost Base” estimates do not specify the costs of in-house salaries on PDS projects between \$5,000 and \$200,000 and the salaries for tenant service projects (TSP). It also did not include estimates for AFD related program management and support costs, and corporate and administrative overheads.
- The 10% savings were based on the estimated overall value of \$193 million for the services that were being outsourced. This amount included flow-through expenditures such as utilities and service contracts for cleaning and grounds keeping as well as flow-through expenditures

for third-party consultants and construction companies involved in Project Delivery Service (PDS) activities.

- It is not possible to consider program costs for more than three years because RPS's financial framework has gone through two major revisions since 1997. Those revisions have changed both the RPS staff fees structure and their time-reporting methodology.
- The RPS AFD initiative is not a simple in-house versus contracting-out solution. Not all properties in PWGSC's portfolio were included in the AFD initiative. RPS continues to provide property management and project delivery services to about 60% of their inventory including leased inventory holdings thus needing to invest in in-house property management and service delivery capability.

### **Methodology**

The methodology selected:

“Make or Buy” methodology published by the Alternative Service Delivery Team, Management Strategies Division, Expenditure and Management Strategies Sector, Treasury Board Secretariat (TBS).

RPS officials provided all information used to address the cost-effectiveness component of this evaluation. The principal sources were the Deloitte & Touche audited reports of payments made to the Service Provider, the Financial Management System (FMS), the Information Repository and Reporting System (IRRS), and the Project and Business Management System (PBMS) supplemented by a number of key interviews with RPS managers. (The list of interviewees is attached in Annex B.) In some instances it was not possible to obtain financial information on the costs of in-house operations from the Regions in a short time frame. When this occurred, proxies were used, based on information obtained for the NCA.

The TBS “Make or Buy” methodology is comprised of four basic steps:

1. Defining the outputs to be costed.
2. Determining those costs that would be saved by ceasing to provide the service in-house.
3. Computing the cost of purchasing the service from the private sector.
4. Comparing the difference between the net costs of both options.

TBS provides three key principles for “Make or Buy” analysis:

1. **Relevance of the cost**  
Only those costs that differ between the two options should be taken into consideration in the analysis.
2. **Fairness of comparison**  
Costs are included or excluded to ensure that the comparison between in-house delivery and contracting out options is as fair as possible.



3. Same level of service compared

Contracting out and in-house delivery options should provide the same level and quantity of the service under consideration.

Based on these principles, it was decided that only the cost elements that differ between the two options would be taken into consideration. Consequently, the analysis included at Appendix E is not based on the complete costs of in-house versus AFD, but more specifically, on those cost elements that differ or are the most affected by the mode of service delivery.

### Findings

The bottom-line comparison of the net costs as tabulated in the “Make or Buy” analysis is quoted below.

Comparing the difference between the net costs of both options

Total In-House Delivery Costs	\$79,601,877
Total Cost of Contracting-Out	<u>\$67,603,840</u>
<b>Difference</b>	<b>\$11,998,037</b>

### Conclusion

Outsourcing Property Management Services (PMS) and some Project Delivery Service (PDS) and Tenant Service Projects (TSP) is a cost-effective approach to provide services. The “Make or Buy” analysis demonstrates that at least \$12 million was saved annually over the last three years of the contract by undertaking AFD over delivering the same outputs using in-house resources. The most important differences are the cost of labour once employee benefits are taken into consideration as well as administration costs with respect to AFD operations and operating costs with respect to in-house services.

Given the efficiency of outsourcing and the high costs of Program Support for current in-house operations, PWGSC could achieve greater savings if the AFD model was adopted for all or most of the buildings it currently has in its inventory. Additionally, there could be significant savings in program support costs if the project value threshold was raised to \$500k or \$1million, subject to a rigorous analysis of the impacts upon service provider compensation.

The measurement of cost effectiveness certainly would have been better served had the expectations been more clearly elaborated by both the Department and TBS at the time of AFD inception. It might have been better to consider the AFD as a pilot, albeit on a very large scale. This would have suggested a very prescriptive regime of metrics and reporting, focused on the bottom line. This would have alleviated the difficulties in determining cost-effectiveness when costing details are kept in different systems by the Service Provider, National Centre of Expertise and the Regions and are not reported and aggregated on a program-wide basis.

It would be unjust to ignore the likely reason for such intense focus on cost savings for the AFD. After all, the government reduction imperatives of the day placed savings at the top of the agenda. The decision processes leading to “outsourcing” typically develop savings estimates as a criterion to affirm the strategic decision to “outsource” and also for bid analysis purposes. However, it is atypical for it to be the only factor in assessing the worthiness of the outsourcing decision. Outsourcing initiatives usually flow from a complex set of factors which include policy, program and economic considerations.

The numbers that figured in the strategic decision to pursue the AFD were the immediately historical and next-year projections available at that time. To extrapolate targets from that data fails to contemplate the growth of project management business volumes and other factors. This can result in skewed or erroneous conclusions about the effectiveness of the initiative.

Notwithstanding these observations, there is considerable room for improvement in developing AFD-related information systems and methodologies. The CAC evaluation team was required to seek data from several sources and to develop proxies in order to perform this assessment. While the results support an affirmative response to the question heading this section, the absence of readily available management reports to enable such assessments is cause for attention. Moreover, management information issues have been mentioned in other reports and assessments. Section 3.4.7 (Financial Systems) deals further with this matter.

### **3.4 Program Effectiveness**

This section of the report presents our findings related to program effectiveness. As a summative evaluation, we are particularly interested in assessing whether the initiative has achieved its various objectives. To this end, we reviewed various issues, such as tenant and client satisfaction, asset integrity, support for industry development, and responsiveness to government priorities, such as Official Languages and Health and Safety. This section also includes an assessment of the availability of financial information to manage AFD \* 69(1) of the ATIA \* and the success of the Branch in shifting its role to become more of a strategic advisor to clients. We conclude this section with an assessment of the overall success of the AFD initiative.

#### **3.4.1 Asset Integrity**

While RPS sought to improve its efficiency and affordability by contracting out the day-to-day delivery of certain of its services to the private sector, it continued to retain full accountability for program management and the quality and client service dimensions of these outsourced services. Thus, an important question for the evaluation is:

Q.7 TO WHAT EXTENT DID THE AFD ACHIEVE ITS PERFORMANCE TARGETS RELATED TO ASSET INTEGRITY?

**CONCLUSION:** To the extent that the Service Provider operates the facilities maintenance program, all targets have been met and are supported by KPI scores. Asset Integrity is a complex matter and there is much activity within RPS to advance their processes to assess and maintain a leading edge capability. RPS has acquired state-of-the-art software and are prototyping custom software to suit their specific requirements.

**RECOMMENDATION:** As part of its re-procurement strategy, the Department should consider a further strengthening of its relationship with its future Service Provider. It should consider amending the scope of work to include the preparation of an annual building condition report (BCR) to replace the current annual building inspection. The format would consist of a template within the new database being created at the time of this writing.

### **Context**

Asset Integrity appears uncomplicated at first. However, there is considerably more to the issue than is readily apparent. In the case of the Real Property Services Branch, the Business Management Plan (BMP) and the Asset Management Plan (AMP) contribute to the overall status of the integrity of an asset at any point in time. The former is based on the performance of routine operational activities and has primarily an annual focus. The latter is a system of assessments and reports for investment purposes that results in a multi-year (mainly a five-year) program of repair and rehabilitation projects. Thus, the AMC feeds a schedule of projects fitted to the annual budgets of individual assets.

The AFD utilizes a performance-based contract as its instrument of alternative delivery. Accordingly, it conveys upon the Service Provider specific obligations. Among them are many tasks designed to ensure Asset Integrity. Those obligations are centered primarily on the delivery of the FMP. Part of the FMP process includes an annual inspection of the asset to assess its condition and to identify anomalies that might signal more serious problems requiring remedial work. However, it is important to note that the approval of remedial projects resides with RPS as it is responsible for the proper functioning of the AMC. Therefore, the Service Provider is accountable only for the performance of designated maintenance tasks associated with Asset Integrity. The element of fiduciary responsibility actually stops short of conveying shared risk upon the Service Provider who acts only as a vendor and not as a true partner in this business arrangement.

The above distinctions set the foundation for much of the following discussion regarding Asset Integrity. Also, the foregoing refers to individual assets as opposed to portfolios of assets.

Several sections of the CAC Implementation Review of AFD in June 2000 referred to Asset Integrity. The report described the significance of the Asset Integrity category of KPI indicators

and linked those to the facilities maintenance aspect of the Asset Integrity discipline. It also described the reporting methodology, including the Annual Building Inspection (associated with the KPI regime) together with the full set of reports associated with the Asset Management Cycle. The CAC Implementation Review observed that the AFD initiative was still experiencing growing pains and was continuing to hone roles and responsibilities between the Department and the Service Provider in their relatively new relationship. Key observations included:

- the rigour and detail of the KPI model and potential for fine tuning to remove inadvertent penalties;
- recognition that baseline information would be essential in monitoring Asset Integrity;
- acknowledgement that budgetary levels weighed significantly in Asset Integrity matters; and
- recognition that Asset Integrity was an aspect to be measured over the longer term and that it was too early to draw conclusions at the time of the Implementation Review.

In May 2001, the Corporate Research Group (CRG) conducted an Operational Review of the AFD. That review did not address Asset Integrity per se; however, it did examine it under the more comprehensive heading “Performance Assessment, Management Structure and Processes.” That chapter addressed a number of concerns regarding Performance Measurement in general.

In summary, the CRG review observed that the KPI regime and the suite of associated reports reflected the many facets of PWGSC’s relationship with the Service Provider. The report also discussed the opposing opinions of interviewees who, on the one hand, contended that the KPI model was too ponderous, and on the other, felt that it was adequate to ensure due diligence.

The report included recommendations that bear directly upon Asset Integrity. Some of these are paraphrased as follows:

- reduce the number of elements that constitute the KPIs;
- ensure that the random sampling of the KPI process is statistically valid;
- improve training and user guides for practitioners in the field;
- consider shifting the responsibility for quality monitoring to the Service Provider; and,
- move to data warehousing in relational databases in order to simplify the production of reports and the functioning of the AMC.

The Audit and Review Division of PWGSC also reviewed the Management Control Framework (MCF) for Asset Integrity in June 2001. This review considered the MCF for asset integrity for all real property assets for which PWGSC is custodian, including those for which the day-to-day real property management has been contracted out as part of the AFD initiative.

The review did not distinguish between AFD and non-AFD assets in its findings and conclusions. However, its observations provided insights into the context, culture and environmental setting in which the MCF for Asset Integrity was operating. Some of those findings are paraphrased as follows:

- increased business volumes from custodial client organizations significantly stressed RPS capacity to sustain integrity of its own assets;
- concerns that ERI/EDI attrition drained valuable experience from RPS in the Asset Integrity related disciplines;
- extensive efforts occurred during the past few years to update policies, procedures and electronic tools applicable to Asset Integrity; and
- during the past decade, the emphasis has been on repairs and refurbishments that were essential to maintaining operations rather than following a life-cycle approach.

The report included a statement that cautioned for the need to improve on the application of the framework and to close information gaps. Correspondingly, it acknowledged that RPS management was developing/implementing strategies to address and/or mitigate potential risk to the organization. The report closes with the following remarks:

“The RPS [Branch] and the Regions are proactive with evidence of a strong team approach to the management of asset integrity. Both the overall design of the MCF and the current related initiatives are considered to be effective with respect to ensuring asset integrity for Crown-owned and lease purchase assets for which PWGSC is custodian.

Since RPS is developing and/or implementing solutions in respect of the identified weaknesses associated with the application of the control framework, no recommendations are included in this report.”

*Audit of MCF for Asset Integrity (June 2001)*

## **Findings**

Comments from interviewees generally recognized that Asset Integrity had two primary elements: maintaining the facility (operations) and protecting the investment (ownership).

### **Maintaining the Facility**

In the current contractual arrangement, the Service Provider has responsibility to perform a facilities maintenance program and (until October 1, 2002) RPS had the responsibility to administer a very detailed KPI framework, including responsibility for Quality Monitoring.

Section 3.2.4 outlines the evolution of the KPI framework from the inception of AFD in May 1998. Of the KPI model components, Asset Integrity figures prominently as one of the three primary categories of the model. Prior to the most recent release of the KPI model, some 400 data elements fed the six Asset Integrity indicators. Many of the line items were binary-based inputs having values of 1 or 0 that were aggregated to arrive at basic scores. It also utilized random sampling within a portfolio to determine scorecard results. Depending upon one's perspective, this model could be construed as either excessively ponderous or diligently thorough.

However, from either perspective, the model was very sensitive to the measurement of some line items. This was particularly the case when the weight of a single pass/fail response in a given algorithm could contribute to a fail score for an entire KPI component.

Although some algorithms were adjusted when a KPI v 1.1 was released, they did not redress this issue significantly. The Asset Integrity scores over the course of the AFD's existence maintained a national average pass after the first year. However, the checklist approach used to gather many of the inputs on a pass/fail basis per data element was proving to be less than effective as a contract management tool.

The changes in the most recent version, dubbed KPI v 2.0, respond directly to recommendations flowing from earlier reviews, consultations and feedback from both practitioners and stakeholders alike.

As described in the previous section of this report, the latest KPI v 2.0 has refocused the KPI structure by reducing the number of elemental inputs and distributing their weighting more equitably. The emphasis on quantifiable data feeds the KPI scorecard and the changes to the weighting appear to bring a greater measure of objectivity to the approach in general.

The other major element of the KPI v 2.0 reform is the shift of Quality Management from RPS to the Service Provider. In the revised model, the Service Provider takes responsibility to perform those elements of the input that require direct input on a more streamlined basis. The surety that underpins the approach is the ISO 9002. The previous section explains further.

Respondents on all sides of this issue appeared optimistic toward the approach, and in several instances remarked on the "non-conformance management" as a welcome innovation. This new feature extends a measure of trust which is based on competence and is expected to be a much more efficient approach to ensuring quality.

### **Protecting the Investment**

Responsibility for this aspect of Asset Integrity resides entirely with RPS. The only area of joint involvement occurs through the participation of the Service Provider's Portfolio Manager at the time of the Annual Building Inspection. The commissioning of Building Condition Reports, the development of Asset Management Plans and Building Management Plans all reside within the control of RPS. As such, the issue of (physical) asset condition resides largely with RPS as the owner and comptroller of repair and rehabilitation budgets.

Practitioners in various divisions within RPS readily acknowledged that the AMC was not up-to-date, especially outside of the NCA. This was a situation that existed prior to AFD and may well have been exacerbated by the preceding decade of reductions and restraint. Interviews with others in the property management industry regarding their approach to Asset Integrity in the investment context provided an interesting contrast. In one case, the owner's perspective was to allocate effort according to corresponding risk – 15% of the portfolio received 50% of available resources because downtime was the most serious menace in those instances. The remaining 85% of the portfolio was more predictable and received less life-cycle management attention.

In another instance, all but the flagship assets were treated on what was described as “a run until failure” basis. Facilities management was diligently observed in that case, however, assets were regarded as disposable as soon as they required substantial reinvestment.

The strategic focus of other organizations appears to vary according to the corresponding priorities of their core business. RPS occupies a unique niche within the industry. It fits into a class of owner/investors with public trust responsibilities. They balance varied responsibilities as guardians of public assets, managers of best industry practices and stewards in upholding legislated standards to an exemplary degree.

Interviews and documentation within RPS disclosed considerable follow-up of earlier recommendations regarding a catch-up on the AMC reporting framework. In that regard, two initiatives are currently underway. An off-the-shelf computer tool has been acquired with a powerful relational database capability. It is currently being adapted and outfitted to incorporate measures and tools suited to RPS needs. In tandem, a gap analysis of data is being performed starting with the NCA in order to capture missing elements and warehouse them to enable reporting using a common template. The relational database is due to be populated with missing elements by close of FY 2003-2004 at the very latest.

Moreover, indices will be available to gauge the relativity of Asset Integrity on both individual asset and portfolio bases. It will also provide related information regarding major components. Diagnostic and prognostic reporting capabilities are also contemplated as part of the system.

There are current initiatives underway that promise to close reporting gaps and bring the data warehouse up to date for the NCA by the close of FY 2002-03, and for the entire national inventory by close of Calendar Year 2003. Once assembled, the national relational database should provide very useful information for asset lifecycle management purposes.

Asset Integrity software has been available for more than five years. One user/respondent speculated that the subject was not more widely accessible because Asset Integrity information is exclusive by its very nature. Operating costs and other industry-related statistics are available to industry association subscribers in anonymous homogenized data format. However, Asset Integrity information is so sensitive that it would be restricted to internal use or privileged communications with clients. Incidentally, RPS has made provisions for a secure Web-based access site which it plans to make available to their clients on a restricted access basis.

### **Conclusions**

Baselines were a challenge to determine and assemble for all realms of the contract. The five-year Building Condition Report cycle and some of the information gaps cited in the June 2001 Audit report probably contributed to the unavailability of Asset Integrity information. This might also explain why measurements strictly to compare Asset Integrity for the “pre” and “post” AFD periods is not readily available. Moreover, it would not have been a one-time assessment and not obvious at the time of AFD implementation.

Earlier reviews commented on the KPI model peculiarities. Also, the Internal Audit on a Management Control Framework for Asset Integrity identified weaknesses in the application of the AMC. RPS has already addressed the KPI issue with significant reforms and it has determinedly pursued the catch-up of asset report information.

The results of these two thrusts should significantly improve the management of Asset Integrity. In answer to the original question, insofar as the expectations would be reflected in the KPI framework – the national average indicate a pass mark for Asset Integrity in all but the first year of the contracts comprising the AFD. Therefore, the targets for AFD performance by the service provider have been met. Additionally, the metrics to gauge performance in this area have developed appreciably since their implementation.

However, if the question is extended to embrace an expectation that Asset Integrity is any better or worse post-AFD implementation, the answer is inconclusive. There has never been a means of assessing Asset Integrity at the portfolio level within RPS. In fact, the capacity for this form of measurement is new to the industry. Techniques and tools have only been available for the last five years or so. RPS has adopted the technology and is adapting it to their specific needs.

(Annex D presents an Asset Integrity demonstration using Sir Charles Tupper Building.)

Previous reviews concluded that there was no reason to believe that Asset Integrity is any worse than before AFD. At the very least, very significant measurement capabilities will be implemented soon and it is reasonable to claim that the AFD initiative has contributed positively to that and other similar innovations.

### **Recommendation**

As part of its re-procurement strategy, the Department should consider a further strengthening of its relationship with its future Service Provider. It should amend the scope of work to include the preparation of an annual building condition report (BCR) to replace the current annual building inspection. The format would consist of a template within the new database being created at the time of this writing.

A warranty feature of that BCR preparation would be to convey upon the service provider the responsibility to be accurate and comprehensive in planning recommended remedial work. During the FY of the planning period, should a failure occur that can be attributed to a project planning oversight, the service provider ought to be required to bear the costs of replacement or repair to enable operations through to the next FY.



### 3.4.2 Tenant Satisfaction

In reviewing whether clients are satisfied with the AFD initiative, it is useful to distinguish between tenants, those people who occupy the buildings, and clients, the departments to which these tenants belong. The next evaluation question reviews tenant satisfaction and the following section assesses client satisfaction under the AFD regime.

Q.8 TO WHAT EXTENT DID THE AFD ACHIEVE ITS PERFORMANCE TARGETS RELATED TO TENANT SATISFACTION?

CONCLUSION: KPI performance lagged somewhat below target for the first 18 months of implementation, thereafter, however it rose dramatically. RPS has since institutionalized tenant satisfaction measurement by developing survey techniques and metrics geared specifically to their clientele and operations. They have expanded this capacity to embrace all non-AFD assets as well. National Service Call Centre data also plays a role in strategic decision-making. Altogether, despite a slow beginning, RPS developments in this area have been above target expectations.

#### Context

Evaluating tenant satisfaction relies upon information pertaining to the perception of the tenants (as actual occupants of the accommodations). With that in mind, our discussion of this issue will be based largely on the results of the tenant satisfaction surveys coupled with the findings of previous reviews. The “National Service Call Centre” is another important tool in the realm of client satisfaction. This 1-800-number service will be discussed later in this section.

The initiation of the Tenant Satisfaction Surveys did not occur until November 1999. The lag in implementing the surveys was cited in the September 1999 Report of the Auditor General of Canada in the context of incomplete performance indicators as contributing to the problems of contract management.

Despite slow beginnings, the RPS track record progressed steadily once the initiative had been launched. To date, there have been four Tenant Satisfaction Surveys: two by Insite Real Estate Information Systems and two by Statistics Canada. The most recent has just been launched.<sup>8</sup>

In 1999, Insite Real Estate Information Systems was commissioned to conduct the first Tenant Satisfaction Survey on behalf of RPS for all AFD properties. Insite used their own proprietary survey, adapted to include questions relating to the efficiency and effectiveness of the PWGSC National Service Call Centre. Surveys were dropped off systematically by the cleaning staff on tenant desks in all AFD buildings. The benchmarks used for comparison were the results reported in an independent Canadian study of building occupants. The survey results were statistically significant at the national level, with a total of 8,586 respondents (or an 18% response rate).

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<sup>8</sup> Surveys by Insite Real Estate Information Systems in November 1999 and March 2001; and Statistics Canada in June 2002 and one just launched in December 2002.

By September 2000, RPS management had recognized a greater potential use for the survey results, namely, not only to gauge tenant satisfaction within the AFD context but also, more generally, to provide useful guidance to management for future directions. A decision was made to expand the scope of the survey to include non-AFD PWGSC buildings as well. However, since a survey with an expanded scope would have required a significant lead time to develop, RPS opted to contract with Insite for a second survey limited to AFD buildings. This second survey for FY 2000-2001 was completed in March 2001. A total of 9,632 tenants (or 23%) responded, again yielding statistically significant results at the national level.

In partnership with Statistics Canada, RPS conducted a third, expanded survey between December 2001 and June 2002. At the time of this writing, another Tenant Satisfaction Survey is being undertaken by Statistics Canada, making it the fourth survey that RPS will be conducting since the 1998 launch of the AFD. The Statistics Canada surveys differ and improve upon the previous two surveys in the following ways:

- they expand the scope from AFD buildings to all buildings under the responsibility of PWGSC;
- instead of using an adapted off-the-shelf package developed for the private sector, the Statistics Canada survey was redesigned to more accurately reflect and measure the concerns of public sector tenants (e.g., hygiene, health and safety issues, food services); and
- instead of adopting a mail-in approach resulting in an 18% to 23% response rate, the Statistics Canada survey used the telephone interview approach and yielded a response rate of 90% (or 30,500 respondents) in the third survey. For AFD-managed buildings, the response rate was even higher, at 93% (or 9,672 tenants).

Client Satisfaction is reflected in the KPI Framework and its history is described in detail in a previous section of this report. It is the principal device used to compensate the service provider in the performance-based contract.

Tenant satisfaction has always been tracked under the Framework but its significance has grown over time, especially in the latest revision. In addition, instead of relying heavily on qualitative evaluations and the subjective evaluation of RPS personnel, the latest revisions place more emphasis on quantitative measurements such as the results of the Tenant Satisfaction Surveys and the National Service Call Centre statistics. In the latest revisions:

- PWGSC set out guidelines to measure ten key services (e.g., snow removal, air, office or common area cleaning). It then translated the measurement of these key services into survey questions and incorporated them into the third tenant survey. The survey results have now grown in prominence and formally figure in the assessment of Building Operations and Maintenance, Building Cleaning and Tenant Satisfaction on building services. Prior to this, the survey results were counted as one general KPI and the evaluation of Building Maintenance and Building Cleaning was based on subjective inputs from RPS.
- The Call Centre statistics are now used to measure two separate KPIs – “service call response” and “service call satisfaction.” Before the 2002 revision, the statistics were used to evaluate one overall measure for Service Calls, which incorporated multiple elements

including the Service Provider's level of effort to deal with the Centre, responsiveness and caller satisfaction.

### Findings

Tenant satisfaction was something of a foregone conclusion prior to AFD. This is not to say that it was unimportant; it simply was not woven into the fabric of common service policy of that era. RPS was then guided primarily by its mandate: to serve its client needs; its regard to assure value for money; its guardianship of public trust; and its stewardship requirement to adhere to an exemplary standard of legislated requirements.

In that regard, it is not possible to compare "pre" and "post" AFD performance metrics; however, as described below, there are useful comparisons available nevertheless. In fact, it is worth pointing out the positive influence AFD has had in examining practices not previously contrasted in these ways.

To relate this to the KPI Model, there are three key indicators corresponding to three separate questions in the surveys that provide such information. The survey results corresponding to these questions are summarized in the following table and provide a corroborating perspective.

**Table 2**  
**Key Indicators of Overall Tenant Satisfaction**

	First Survey Nov. 99 – by Insite		Second Survey Mar. 01 – by Insite		Third Survey Jun. 02 – by Statistics Canada	
	AFD	Industry Benchmark	AFD	Industry Benchmark	AFD	AFD + non-AFD
Very or somewhat satisfied	65%	83%	66%	83%	92%	90%
Net improvement in the performance of property management relative to 12 mths. ago	-2%	+12%	+4%	+9%	see Note <sup>9</sup>	see Note
Extremely/very likely to recommend staying in building	54%	62%	57%	63%	not asked in survey	not asked in survey

<sup>9</sup> The results of the third survey by Statistics Canada cannot be compared with the results of the first two surveys by Insite. The Statistics Canada survey has been redefined with a different format and different ordering of questions. Some of the questions have been changed, added or omitted. The delivery format was different as well: phone interviews versus self-administered surveys. Also, instead of asking all tenants if they had experienced a net improvement in the performance of property management over the last 12 months, the Statistics Canada survey concentrated on asking the tenants (who were also real property service providers or knowledgeable clients) if they were satisfied with the property management team's ability to support business need. Overall, 87.6% of the knowledgeable clients agreed that they were very or somewhat satisfied. This number increased to 89.5% for knowledgeable clients in AFD-managed buildings.

The survey results can be paraphrased as follows:

- Overall tenant satisfaction in AFD-managed buildings had improved between 1999 and 2001. All three key indicators showed improvement between the two periods.
- Between 1999 and 2001, PWGSC AFD-managed buildings had been performing below the industry benchmark across all three key indicators.
- The level of tenant satisfaction in AFD-managed buildings outperformed not only the overall PWGSC average but also ranked the highest among all types of PWGSC-managed buildings.

### The National Service Call Centre

The Call Centre is a very important instrument in the management of tenant expectations. That importance may not have been obvious in the early stages of transition; however, it was revealed as stakeholders' comments regarding the performance of the Call Centre were eventually made known. This finding was reflected in both the Implementation and Operational Reviews. The Implementation Review found the following:

“Concerns were raised regarding the consistency of callbacks from the PWGSC Call Centre, bilingual capacity of the service and the technical understanding by those manning the services.... Time waiting was also perceived as being too long – up to ten minutes. Questions were raised on the merit of the routing calls from a site to the PWGSC call centre to BLJC call centre then finally back to the site’s property manager.”

*Review of the Implementation of the AFD for Property Management Services  
(June 2000)*

A definite change in tenant perception is evident, as reported in the results of the first two surveys. This information is summarized below:

**Table 3**  
**Awareness, Usage and Satisfaction of the National Service Call Centre**

	First Survey Nov. 1999 by Insite	Second Survey March 2001 by Insite
Aware Call Centre existed	33%	44%
Aware and have used the Call Centre	57%	55%
Used the Centre and were very/somewhat satisfied	88%	89%
Used the Centre and have received a follow-up call	67%	79%

The two survey results indicated that:

- Among the tenants in the AFD-managed buildings who have used the Centre, almost 90% of them were very or somewhat satisfied. Seventy-nine percent of the same tenants reported receiving a follow-up call from the Centre in the second survey, up from 67% in the first survey.
- It would seem that RPS has still not leveraged the use of the Centre fully. Though relatively more tenants were aware of the Centre in 2001 versus 1999, still, in 2001, only 44% of the tenants knew that it existed. Among those tenants who were aware of the Centre, only slightly more than half of them have used it.

Call Centre activity has increased steadily over the past few years and currently receives 140,000 calls annually. The following table provides data on the distribution of calls by type and percentage and provides insight into the tenants' perspectives regarding property management issues.

**Table 4**  
**Distribution of Calls for FY 1999-2000**

Based on a total volume of 120,000 Calls	
Nature of Calls	Volume by Percentage
Cleaning	25%
Heating/Ventilating and Air Conditioning	28%
Electrical	10%
Plumbing	12%
Structural	8%
Fire and Life-Safety	3%
Other	14%

The National Service Call Centre has proven to be a valuable instrument in managing tenant concerns but, more importantly, it has provided a means of analyzing issues and contributing input to the strategic direction of RPS as a whole.

### **Conclusions**

AFD has certainly awakened interest in tenant satisfaction in a way that was previously unknown within RPS. The National Service Call Centre has played a key role in that regard from the day that the contracts took effect (May 28, 1998). Since the inception of AFD, the national surveys have emerged and the KPI framework has evolved in tandem to incorporate this dimension into the quality assurance aspect of the AFD relationship.

- Though the Department had a slow start in utilizing a formal measurement tool to track tenant satisfaction, RPS has been making a sustained effort since the first survey was launched. RPS now has a tenant survey tailored to its own needs and maintains a time-series database that enables the Department to trace tenant satisfaction with a high degree of confidence over all portfolios comprising the AFD. Since the expansion of the scope of the survey, the database also provides valuable comparison data between the performance of AFD and non-AFD-managed buildings.
- The foregoing data appears to have been very useful in expanding the appreciation of a new order of “property management.”
- The AFD tenant survey was instrumental in encouraging the use of surveys in other non-AFD-managed buildings. These survey results provide management with a reliable basis on which to shape strategic decisions.

Results of the surveys indicate that overall tenant satisfaction has been improving over time.

### 3.4.3 Client Relations

Q.9 HOW EFFECTIVELY DID PWGSC MANAGE CLIENT RELATIONS WITH RESPECT TO AFD? WHAT IMPROVEMENTS CAN BE MADE?

CONCLUSION: Client relations management has developed on a “learn as you go” basis and relied on interviews and anecdotal feedback for the first two years of the AFD. Conclusions were difficult to distill into recommended courses of action and useful lessons learned. The language of previous reviews was punctuated with cautionary notes about anecdotal comments and opposing perceptions. The initiation of the client satisfaction survey brought objectivity and focus to the assessment. Quantitative data has pointed the way to client sensitivities, suggested remedial priorities and set a baseline for future analyses.

#### Context

The CAC Implementation Review (May 2000) remarked on a number of transition issues detected during interviews with client facilities managers. At that time, the tenant surveys had not yet been implemented and, in the absence of such a mechanism, it appears that tenant issues were often escalated to the facilities manager/asset manager level. These initial indications were all anecdotally based and frequently contrasted opinions of service at that time with recollections of previous service experience. Inherent in such information are the usual biases, including basic resistance to change. However, there were certain themes around which opinions of the day appeared to combine:

- clarity of roles and responsibilities;
- communications; and
- responsiveness.

As explained in the preceding section on tenant satisfaction, Client Facilities Managers indicated that they would have appreciated greater involvement in the run-up to implementation. Some respondents felt that they were rather isolated with the responsibility to bridge any transition gaps. Views on ease or difficulty of AFD transition appears to have varied according to the capabilities and preparedness of both the new Service Provider and RPS “Stay-back” teams.

The anecdotal references consider almost every conceivable aspect of client relations. However, if a single thematic focus would be chosen to represent the lessons learned to that time it might be entitled “Manage expectations.” This would apply to all possible stakeholders involved with the AFD initiative. It seems that it is impossible to over-prepare to ensure smooth transition, possibly because there are so many myths and perceptions about such a transition.

In May 2001, CRG addressed client relations while preparing the AFD Operational Review. That Review assessed the AFD largely from the perspective of transition to outsourcing, and on client satisfaction, it relied heavily upon interviewees’ anecdotal references. Anecdotal references always bear the caution of limitations depending upon the scope of the respondent sample. Comments focussed on issues dealing with pre-AFD preparations and management of the transition.

Opinions ranged widely and appeared to match the respondents’ individual degree of confidence in the relationship between themselves RPS and the Service Provider. Interviewees also indicated a heightened awareness of value-for-money concerns. The Report indicated that project management of tenant services was an area of particular interest. Clients’ comments suggested that they expected a role of “representation and protection” to be played by RPS in this area.

The reviewers generally encouraged the promotion of the AFD initiative to the client to assist with the success of the initiative. In a related comment, the Report also raised a concern about continuity and the requirement to maintain a critical mass of expertise to safeguard the knowledge of specific government standards and requirements. This was raised in the context of potential outsourcing re-procurements resulting in multiple service providers.

For lessons learned on client relations, the Operational Review noted that in future and on an ongoing basis:

- transition can be improved with a longer transition period;
- there should be a more sustained client relations strategy; and
- standard tools and more extensive training/coaching strategies should be developed for the stay-back team.

### **Findings**

RPS and client respondents alike still voice varied opinions on current levels of satisfaction. Individual relationships between RPS Client Service Unit staff and client facilities managers appear to weigh significantly. Tenant services projects were matters of current interest and the

modest number of client facilities managers interviewed expressed similar views. All appeared very pleased with the responsiveness and efficiency of the Service Provider. However, there was an underlying perception that these improvements were provided at a premium.

In the fall of 1999, RPS engaged the services of Circum Network Inc. to assist in initiating a pilot aimed at measuring client satisfaction. The initiative was encouraged by RPS' earlier beneficial experience with tenant surveys.

The survey methodology posed some challenges in determining appropriate candidates. Unlike the more generalized character of tenant survey questions, the material involved in this instance was intended for "informed" respondents. The pilot was carefully constructed to test assumptions and ensure the most useful feedback. The survey included interviews with RPS staff which provided the opportunity to contrast RPS perceptions with those of the client. The approach chosen rated four "pillars": responsiveness, ease of doing business, quality of service and value for money.

These "pillars" were rated as to satisfaction (1 – very dissatisfied to 5 – very satisfied) and importance (1 – no importance to 5 – extreme importance).

In summer 2001 a full-scale Client Relations Survey was undertaken. More than 750 questionnaires were mailed to target respondents. The response rate was 33% and the survey findings explain that, while a higher rate of response might have been anticipated, the emphasis on "knowledgeable" clients may have caused some to feel ill-qualified to respond. During the Summative Evaluation, it was also pointed out that the summer time frame likely contributed to the diminished returns.

The results of the 2001 survey can be paraphrased as follows:

- no one area of significant value to the clients generated an extremely poor level of satisfaction – indicates that RPS generally respects its clients' values;
- areas of least satisfaction clustered around "ease of doing business" and "value-for-money" pillars, however, these were also assigned the lowest importance ratings – indicating that these ought *not* be priorities for RPS;
- most important to clients is responsiveness – RPS is best at "ease of access," however, timeliness is an issue;
- "quality of service" or "delivering upon promises made" leave room for improvement and should become priorities; and
- there are gaps between RPS staff perceptions and those of the clients:
  - overestimating the level of client's satisfaction; and
  - underestimating the importance that clients attach to various service features (i.e., ability to benefit from savings realized).



## Conclusions

Client relations had been difficult to assess as demonstrated by both the CAC Implementation and CRG Operational Reviews. Also, this subject area tended to be a lightning rod for transactional issues of every category and degree of consequence. That resulted in rather vague and inclusive impressions about client relations. The *Operational Review* did encourage RPS to engage in more promotional activity “to sell the AFD” to its clients.

The initiative to develop metrics for client satisfaction was an inspired decision. It introduced a measure of objectivity and enabled focus. There are already indications pointing the way to client sensitivities. The 2001 baseline will provide a useful benchmark for subsequent surveys.

Customized action plans have been and are in the process of being developed for all regions and most major clients to address client specific concerns. RPS strategic plan 2002/2003 included specific initiatives such as timeliness, building capacity and integrated service delivery. The Department’s current organizational change is in fact – a new service delivery model – one based on providing integrated, seamless service to PWGSC clients.

Additionally, Strategic Management advises that the Client Relations survey is will be repeated on a two-year cycle. Therefore, the next survey is scheduled for summer 2003.

Finally, this is probably the most vivid example of best-practice transfer and innovation that was directly inspired as a result of the AFD. The whole concept of assessing client satisfaction and providing the metric tools to enable it owe their existence to the dynamics resulting from the AFD.

### 3.4.4 Government Priorities

An outsourced government service, such as the AFD, is required to continue to meet a variety of government policies and priorities in the provision of that service; and the Department must perform due diligence to ensure that is the case. In this section we review the AFD initiative in relation to Official Languages, Health and Safety, and Environment and Sustainable Development.

Q.10 WERE APPROPRIATE PROVISIONS MADE FOR RESPECTING CANADA'S OFFICIAL LANGUAGES? WHAT IMPROVEMENTS, IF ANY, COULD BE MADE?

CONCLUSION: Appropriate provisions were made for respecting Canada’s official languages, however, there is room for improvement with respect to performance measurement. Statistics provide acceptable levels of conformance and officials have pointed out the timely and satisfactory responsiveness of the Service Provider.

RECOMMENDATION: The future re-procurement should address official languages more systematically by incorporating monitoring measures in the contract SOW and KPI framework.

### Context

The subject of Official Languages was not featured in either the CAC Implementation or CRG Operational Reviews. The foundation for this contractual requirement is contained within the contracts themselves as opposed to the other needs of the AFD agreement which are contained in the scope of work. The clause in the SOW particular to Official Languages reads as follows:

17. Every federal institution has the duty to ensure that, where services are provided or made available by another person or organization on its behalf, any member of the public in Canada or elsewhere can communicate with and obtain those services from that person or organization in either official language in any case where those services, if provided by the institution, would be required under this Part to be provided in either official language.

The Official Languages requirement, though somewhat obscure from a “Review” perspective, was incorporated into the main body of the contracts. Official Languages treatment is frequently dealt with in this manner for contractual purposes.

### Findings

Interviews with departmental and Central Agency officials confirmed the adequacy of Official Languages protection such as is provided by the above-mentioned clause. Perhaps it bears mentioning that the *Official Languages Act* covers public servants (under Section IV – Language of Work) and covers members of the general public under another section (Section V – Communications with and services to the public).

The clause quoted in the AFD contracts refers to the general public. However, public servants become members of the general public for these purposes during all times when they are interacting with the property management authorities as individuals rather than employees (off-duty status might be another way to express this). That distinction becomes more important in large multi-tenant complexes that tend to have more commercial amenities and other public spaces.

During discussions, the Treasury Board Secretariat policy specialists observed that while the Official Languages provisions for AFD might be adequate, perhaps they ought to be included in the contract scope of work. This means that it would be incorporated in the KPI framework and, consequently in the performance scorecard.

### Quantified Results

The Office of the Commissioner of Official Languages has the Authority to investigate complaints regarding non-compliance with the *Official Languages Act*. The Commission has been particularly watchful in situations of Alternate Services Delivery to ensure that federal standards are maintained. Their records show a total of six complaints related to PWGSC-AFD from 1998 through September 2002 as follows:

1998	3 complaints	Calgary
1999	0 complaints	-
2000	0 complaints	-
2001	2 complaints	National Capital Area
2002	1 complaint	National Capital Area

All six complaints were investigated and found to be with grounds. All complaints involved passive communications in English only (4 – signage instances, 1 – e-mail notice and 1 – voice communication system announcement). In all cases, the Service Provider was informed and took remedial action to the satisfaction of the Commission.

In response to questions regarding magnitude and statistical significance, the Commission stated that these cases were not a cause for particular concern about PWGSC-AFD. However, they were careful to point out that complaint-based statistics must be interpreted cautiously. They did remark that it was significant that all cases were regarded seriously by the Service Provider and were expeditiously resolved. Bearing in mind the cautions regarding interpretation, the average annual number of official languages complaints involving RPS in the “Service to the Public” category is 7.

### Conclusions

AFD Official Languages provisions are considered adequate, however, there is room for improvement. The statistics obtained from the Office of the Commissioner of Official Languages do not provide cause for serious concerns. To the credit of the Service Provider, the few instances have been dealt with in a timely and satisfactory manner.

### Recommendation

The future re-procurement can address Official Languages more systemically. RPS should improve Official Languages monitoring by incorporating measures into the KPI framework. Perhaps a line item or so can be included under the legislated requirements to provide a metric standard and the recognition of this requirement as a performance criterion. The current provision of a contractual clause regarding Official Languages should be preserved.

Q.11 DOES THE AFD INITIATIVE RESPECT GOVERNMENT PRIORITIES RE HEALTH AND SAFETY, AND ENVIRONMENT AND SUSTAINABLE DEVELOPMENT? ARE THERE IMPROVEMENTS THAT COULD BE MADE?

CONCLUSION: Government priorities for Health and Safety, and Environment and Sustainable Development appear to be duly respected under the AFD program. Health and Safety has already been examined with a view toward upcoming re-procurement and improved training and awareness. Presumably, Environment and Sustainable Development will be the subject of similar consideration.

**Context**

Both Health and Safety and Environment Issues (H&S/EI) received no mention in the CAC Implementation Review and scant mention in the Operational Review. In the Operational Review it was suggested that both Health and Safety and Environmental Issues receive higher profile in the Key Performance Indicator framework.

**Findings**

Respondents indicated that H&S/EI have been safeguarded from the outset by adherence to the legislative requirements. There has been a learning curve for the Service Provider and operational adjustments to meet the RPS standards. H&S/EI are high priorities within RPS. The profile of organized labour within the Public Service, including the professional cadre, sets a high standard within the industry. Similarly with Environmental Issues, the government's stewardship role elevates this category of performance to an exemplary degree.

Responding to both issues, RPS interviewees stated that performance was well within acceptable ranges and that neither of these performance criteria were at risk of compromise. Annual Environment reporting should be monitored despite the fact that a Sustainable Development Strategy Report is produced on a three-year cycle.

In 1999, RPS also issued an AFD Management Handbook – Standard Operating Procedures for Occupational Health and Safety.

**KPI Results**

KPI results for fiscal years 1999-2000 and 2000-2001 for the National Capital Area<sup>1</sup> are displayed in the table on the next page.

**Table 5**  
**KPI Scores – NCA – 1999/2000 and 2000/2001**

NCA KPI Scores	NCA KPI Scores				
For BLJC Managed Portfolios in the NCA	For BLJC Managed Portfolios in the NCA				
Fiscal Year 1999-2000	Fiscal Year 2000-2001				
APM5-C Health and Safety Requirements	APM5-C Health and Safety Requirements				
		Number of bldgs visited	Total # of Inspections	Score <sup>1</sup>	Total # of Inspections
Portfolio 6 (NCA – 1)	Portfolio 6 (NCA – 1)	10	28	27.00	27
Portfolio 7 (NCA – 2)	Portfolio 7 (NCA – 2)	7	79	72.00	70
Portfolio 8 (NCA – 3)	Portfolio 8 (NCA – 3)	17	41	40.00	38
SPM – 2 Sustainable Development Commitments	SPM – 2 Sustainable Development Commitments	Number of bldgs visited <sup>2</sup>	Actual Score <sup>3</sup>	Final Score <sup>4</sup>	Actual Score <sup>3</sup>
Portfolio 6 (NCA – 1)	Portfolio 6 (NCA – 1)	5	45.06	100	43.71
Portfolio 7 (NCA – 2)	Portfolio 7 (NCA – 2)	3	11.98	100	8.96
Portfolio 8 (NCA – 3)	Portfolio 8 (NCA – 3)	6	13.92	100	46.06
					Final Score <sup>4</sup>
					125
					125
					125

<sup>1</sup> Each inspection results in a pass or fail mark; the "Score" is the number of passed inspections.

<sup>2</sup> Sampling ensures each portfolio building is visited once over a three-year period (PWGSC Environmental Services' standard review frequency).

<sup>3</sup> The Actual Score is the average percent variance between the previous and the present environmental review; a positive number indicates progress.

<sup>4</sup> Due to KPI calculation changes, the maximum points available for Sustainable Development Commitments was 100 in 1999-2000 and 125 in 2000-2001.

The scores in both years for all H&S/EI KPIs are well within the pass range as reported above. Also, pass marks were reported for all other portfolios across the country.

In the first instance, Health and Safety KPI (APM5-C) is interpreted by measuring the total score/total inspections where either a score of 1 or 0 is awarded per inspection.

In the second case, the sustainable development commitments KPI (SPM-2) awards full marks for positive variances when measuring scores year-over-year. (Note 4 explains the change in maximum points between the two years illustrated above.)

Environmental Issues under the AFD must also conform to PWGSC DM Directive 74 which is the Department's own standard for Environmental Stewardship. Moreover, AFD KPI methodology is designed to feed PWGSC Sustainable Development Strategy 2000 (updated on a three-year cycle). The next report is due in December 2003 and is tabled in Parliament.

The changes recently implemented with KPI Version 2.0 will improve the measurement in both of the areas under H&S/EI. The new KPI "conformance-monitoring" approach should benefit the management of these two areas of performance.

An AFD Draft Position Paper (in contemplation of an AFD re-procurement) recommends the strengthening of RPS staff training in Health and Safety.

### **Conclusions**

Government Priorities for Health and Safety, and Environment and Sustainable Development appear to be duly respected under the AFD program. Health and Safety has already been examined with a view toward upcoming re-procurement and improved training and awareness. Presumably, Environment and Sustainable Development will be the subject of similar consideration.

### **3.4.5 Industry Development**

One of the implicit goals of a federal initiative such as the AFD is to contribute to the development of Canadian industry. The extent to which AFD has done so is discussed below.

Q.12 HAS THE AFD INITIATIVE CONTRIBUTED TO INDUSTRY DEVELOPMENT? WHAT IMPROVEMENTS, IF ANY, COULD BE MADE?

CONCLUSION: Industry development has been reasonably well served through AFD to the extent that AFD, given its "public good" objectives and overarching governmental imperatives, can achieve that. Most certainly, it has contributed to industry development through its capacity to engender awareness, fairness and public trust requirements in the broader dialogue with stakeholders. Moreover, it has succeeded in performing to an exemplary degree in some areas and to a responsible degree in all areas. Future endeavours related to procurement should strive to maintain that high standard.

**Findings**

The stakeholders who comprise “the Industry” for these purposes are prospective service providers, Labour Unions, Trade sub-Contractors and Industry Associations. The interests represented by those stakeholders are vast and the scope of this summative evaluation has limitations; therefore, only salient points will be addressed from each of these perspectives. The collective body of those points will constitute findings related to this question.

**The Industry**

One of the key Industry Associations with worldwide affiliations is the Building Owners and Managers Association (BOMA). BOMA Canada commented on the basic question forming this category and answered with a firm but qualified “yes.” To paraphrase their position, insofar as property management outsourcing was well-established and growing exponentially during the 1990s, PWGSC was leading that movement in the Canadian Public Sector. It certainly contributed to the strength of that pillar of the industry.

Responding to questions on comparative statistics on outsourcing, BOMA declared that they keep no statistics of that kind for Canada and enquiries of their international office confirmed that data was not available on a North American scale either. BOMA believed that the information might be so fundamentally proprietary that it is not to be shared.

CRG’s Operational Review of AFD summed up the AFD succinctly and addressed an additional long-standing notion.

Through the AFD, the Department has made an important contribution to the development and strengthening of industry in real property services. To a large extent, it has eliminated the perception that government is in competition with the private sector for those services that the private sector is able to provide.

Another perspective that emerged under different guises and themes was also concisely captioned in the CRG Operational Review:

“Characterized by a very detailed set of prescriptive and process-related requirements developed by the Department, the statement of work was in fact viewed by some contributors to be a possible disincentive to achieving the stated objective. As noted in the industry trends report: “it limits both parties and results in pricing against a set list of services, instead of encouraging the service provider to look fundamentally at the overall program of services and how to do it better.”

**Prospective Service Providers**

No attempts were made to obtain input from these stakeholders directly, however, this information can be obtained through other means. Previous reviews of the AFD declared the virtues of RPS’ efforts to ensure transparency and fairness in the original procurement process. It is noted here because all observers at the time of the procurement remarked upon it.

### **Labour Unions**

Leadership of the Public Service union most affected by AFD was quick to validate the exemplary fashion in which the AFD treated their 400-plus former members. Respect for employees was paramount in the process of transition, and organized labour appreciated this despite the reluctant acceptance of the decision to pursue alternative delivery in the first place. According to the labour officials interviewed, communications with both the leadership and the members was credited as key to the success of managing the transition.

The current concerns that the Labour Union asserted are centred on the “after-care” of their membership. Experience with outsourcing has taught labour unions to assure follow-up of their members even post-transition. While it might appear somewhat counterintuitive to outsourcing, labour has succeeded in brokering follow-up information exchange in other instances for analysis and policy formulation.

While generally very satisfied with the AFD transition, the Labour Union would have appreciated the opportunity to collaborate on the continued sharing of information on the career fortunes of former members.

### **Trade Sub-Contractors**

Trade contractor associations that were contacted at both the national and local levels alike agreed that there was early post-AFD angst that was more pronounced in the NCA. The Service Provider recognized the problems that were associated mostly with change of industry practices and a “more opaque” sub-contracting process as compared with the PWGSC practices.

The Service Provider initiated a sub-contractor registry which appears to have addressed much of the problem.

### **Conclusions**

Industry development has been reasonably well served through AFD to the extent that AFD given its “public good” objectives and overarching governmental imperatives can do so. Most certainly, it has contributed to industry development by all reasonable accounts. Moreover, it has succeeded in performing to an exemplary degree in some areas and to a responsible degree in all areas. Future endeavours related to procurement ought to strive to maintain that high standard.

#### **3.4.6 Strategic Issues**

The AFD initiative was part of an entire re-positioning of the RPS Branch, from a provider of day-to-day property manager services, to becoming “the strategic advisor to government for real property services.” This evaluation question assesses its success in this area.



Q.13 HAS THE AFD INITIATIVE ALLOWED RPS STAFF TO DEVOTE MORE TIME AND EFFORT TO STRATEGIC (VS OPERATIONAL) ISSUES? COULD THIS BE IMPROVED?

CONCLUSION: The CAC team explored this question during all interviews with departmental senior management as well as with BLJC. Although most interviewees agreed that RPS has become more strategic in focus, it is not always obvious how the AFD initiative impacts on that reality in comparison with other factors. However, there is substantial evidence of how the AFD, itself a major strategic undertaking, and other reported achievements have been accomplished during the life of the AFD. Clearly, there is more to be done and Branch planning documents confirm commitments in that direction.

### Context

As mentioned in the first section of this report, a number of changes occurred, within a relatively short time frame, which affected the strategic direction of RPS:<sup>10</sup>

- Program Review (Phases I and II from 1994 to 1996) forced the focus on core business, including the streamlining of operations and workforce reduction;
- in June 1995, the Real Property Services Branch was created by consolidating several branches into one. In the fall of 1995, the National Capital Area merged with Headquarters;
- Client Service Units supported by Centres of Expertise were introduced in 1995/1996 as a means of improving responsiveness to clients and establishing long-term business relationships;
- core and non-core activities were reviewed again as a precursor to the decision to proceed with the AFD initiative; and
- ERI/EDI were in force during the transition to AFD.

It should be noted that the decision to proceed with a hybrid of AFD and non-AFD assets was also a factor of some consequence.

### Findings

While it may not be possible to establish a strict causal relationship between AFD and other changes in Branch activities, it is possible to say that AFD has supported the shift towards providing more strategic services in at least three important ways:

- it freed up resources that could be reinvested in other, more strategic activities;

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<sup>10</sup> The Program and Operational Review in May 2001 pointed to a number of factors which affected the strategic direction of RPS: the response to the 1994 Program Review was a strategic decision by RPS to outsource day-to-day real property services as a means of removing any real or perceived competition with the private sector; the 1995 Business Plan began to focus RPS on the role of real property advisor and away from delivery of operational and transactional services and also set the stage for core service review; the 1996 Core Services Review considered several factors (mandate, program management, strategy, risk management, QA) to identify non-core services for AFD.

- it allowed managers to redirect energy and attention away from day-to-day operational details (for example, tendering or reacting to maintenance crises) and related Human Resource responsibilities (such as staffing) for a large workforce; and
- it contributed to the cultural change underlying this shift by focusing the attention of employees from doing and towards managing.

The AFD was itself a major strategic thrust which either spawned or encouraged a number of “operationally” strategic endeavours, all of which support a shift from “performing activities” to “managing results.” Most notably among these are:

- developing and maintaining the apparatus required to manage 13 AFD performance contracts;
- adapting and expanding tenant survey methodologies emanating from the AFD contractual commitments;
- developing client satisfaction metrics applicable to all property management services clientele, both AFD and non-AFD; and
- building a custom-designed database and the metric tools required for operational analysis, asset investment planning.

The direction within RPS over recent years to provide more strategic services can be seen in some of its planning documents. In the 1996 RPS Business Plan, the Strategic Direction was stated as “repositioning RPS to be recognized as the real property expert and advisor for clients and government; and with respect to the private sector.” The same Business Plan further elaborated on five outcomes for RPS to target:

- Being recognized as adding value to client and government objectives by:
  - partnering with clients in program delivery
  - redefining federal work spaces
  - rationalizing federal RP inventory
  - offering a single window for PWGSC services and
  - contributing to broader government objectives;
- Timeliness and affordability;
- Moving within a heartbeat of the client:
  - being recognized as the real property advisor for clients and government
  - moving up the “staircase” with clients towards a more strategic focus;
- Repositioning RPS within the private sector:
  - being recognized as supporting Canadian industry at home and abroad
  - achieving the right balance between what government should do and what the private sector should do;
- Revitalizing the RPS business and workforce:
  - ensuring there is a motivated workforce with the right skills and
  - providing an innovative leading edge real property services approach.

The Planning, Reporting and Accountability Structure in September 1997 re-emphasized the RPS objectives to:

- provide appropriate accommodations and related value-added services, including strategic advice to federal tenants, clients ... and to optimize federal investment in the assets; and
- provide real property related common services to clients at market-based rates.

By May 2001, the Program and Operational Review<sup>11</sup> noted “the Department is now in a better position to focus its energy on its core mandate of being the strategic advisor to government for real property services.” It also noted that “much work still remains to be done in this regard.” The RPS Statement of Direction (2001-2004) reinforces and expands on the strategic direction set in 1995 to:

- be strategic RP experts and advisors to clients and government,
- provide a more strategic/coordinated approach to clients,
- partner in the delivery of services to clients,
- expand the policy role, and
- focus on the retention and development of staff.

RPS has refocused its efforts in these directions with varying degrees of success.<sup>12</sup> Insofar as the first two points are concerned, there have been a number of initiatives that are aimed at improving the strategic approach and advisory role for RPS. For example:

- Directors in some Client Service Units have been invited to be part of the client/management table. This allows them to be included in strategic planning for client needs, get an early warning of trends in the client area that will have an impact on accommodation requirements, and provide expert advice as required;
- RPS is also providing an enriched front-end planning process for accommodation that lets clients become very involved in their own accommodation planning process; and
- client satisfaction surveys allow RPS to learn about problem areas quickly and propose a coordinated response to clients on behalf of PWGSC.

In terms of partnering in the delivery of services to clients, RPS is working with the service provider to improve tenant satisfaction, communication and service delivery. The Western Region also noted that there is more planning done in conjunction with community/professional organizations. The recent Auditor General’s report pointed out that information on market conditions and potential supply and demand – which the Branch needs to support its investment decisions – is developed at the community, regional and national levels.<sup>13</sup> Within PWGSC, RPS is developing integrated accommodation/technology approaches with GTIS and is also working

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<sup>11</sup> Corporate Research Group. Alternative Forms of Delivery (AFD) for Real Property Services, Program and Operational Review, Final Report. May 2001.

<sup>12</sup> Information drawn from senior management interviews and from the Asset and Facilities Management Services Strategic Plan 2001 – 2004 and Activities Workplan 2001 – 2002 (December 2001).

<sup>13</sup> Office of the Auditor General of Canada. Chapter 8 Public Works and Government Service Canada – Acquisition of Office Space, Report of the Auditor General of Canada to the House of Commons. December 2002, p. 6.

with Supply Operations Services Branch to streamline contracting processes, demonstrating a more strategic, coordinated approach to clients on the part of the Department.<sup>14</sup>

In an expanded policy role, there has been a concerted effort to develop a real property advisory capacity and, despite some problems noted in the most recent Auditor General's report, this area of expertise will continue to be more important than ever. RPS is providing input to public policy on the ownership and investment management of federal real property assets.<sup>15</sup> They are also designing a controlled experiment to test new technology for the "workplace of the future" (which supports the government priority of workplace well-being) and co-championing sustainable development in government operations with Natural Resources Canada and Environment Canada.<sup>16</sup>

However, perhaps the most direct impact of the AFD initiative on the shift in RPS towards becoming more strategic can be seen in Human Resources. The shift in demographics in RPS mirrors the move away from an operational to a more strategic focus. As the following chart shows,<sup>17</sup> from March 1998 through March 2002, the Operational Services category<sup>18</sup> has decreased from close to 30% of the total RPS population to 15.3%. The Technical Services category<sup>19</sup> has stayed very stable while the Scientific and Professional category<sup>20</sup> has risen somewhat from 15.7% to 19.6%. The most dramatic increase has been in the Administrative and Foreign Service category<sup>21</sup> from 22.4% to 29.5%.

The initial sharp decrease in the Operational Services category came from the departure of staff linked to the AFD initiative. However, RPS has followed this up with staffing in the Scientific and Professional and Administrative and Foreign Service categories in an effort to build its workforce in areas most likely to help its strategic focus; for example, staff who will concentrate on broader issues such as life-cycle costs and project management rather than pre-AFD concerns with maintenance management.

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<sup>14</sup> Information drawn from senior management interviews and from the Asset and Facilities Management Services Strategic Plan 2001 – 2004 and Activities Workplan 2001 – 2002 (December 2001).

<sup>15</sup> Asset and Facilities Management Services Strategic Plan 2001 – 2004 and Activities Workplan 2001 – 2002 (December 2001).

<sup>16</sup> Op. cit.

<sup>17</sup> Information drawn from RPS Bilan Social documents over several years produced by the Human Resources Branch in PWGSC.

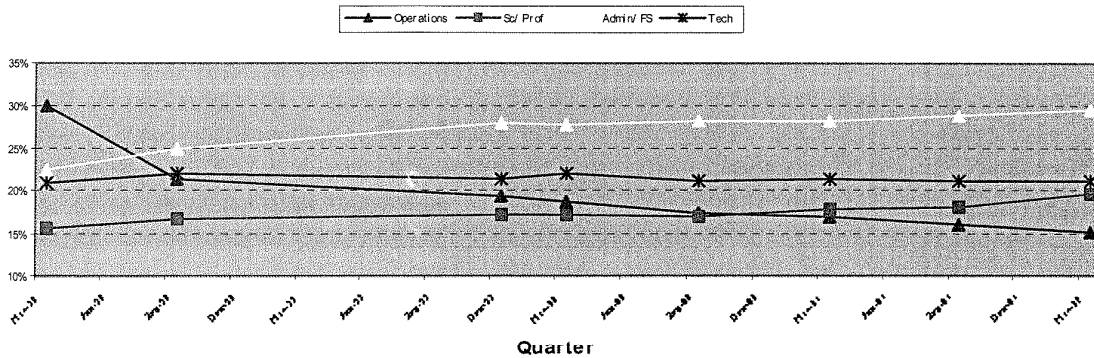
<sup>18</sup> This category includes HP (Heat, Power and Stationary Plant operators); GS (General Services); and GL (General Labour and Trades).

<sup>19</sup> This category includes EG (Engineering and Scientific Support); GT (General Technical); EL (Electrical); and DD (Drafting).

<sup>20</sup> This category includes AR (Architects); ENG (Engineers); ES (Economists).

<sup>21</sup> This category includes AS (Administrative Services) and MM (Management Trainee).

Percentage of Total RPS Population by Occupational Category  
March 1998 - March 2002, by quarter



Part of the strategy to retool the workforce has been to recruit required skills from outside the Public Service for specific business lines. This strategy has seen the percentage of inflow to the Branch from the outside increase from 6.2% in 1998/1999 to 38.5% in 2001/2002.<sup>22</sup> The increased use of the Management Trainee Program, students and part-time workers has drawn in young recruits who will be the skilled workforce of the future. Also, recognizing the importance of retaining a knowledgeable skilled base, there has been an increased focus on learning plans and training for staff already in place.<sup>23</sup>

### Conclusions

While a causal link between the AFD initiative and the ability of RPS staff to devote more time and effort to strategic issues may not be obvious, the decision to contract out a large portion of the maintenance function is part of and supports this strategic shift.

Could more be done in this regard? Almost certainly. Strategic shift must be viewed as a continuum and RPS is still in the early stages. It has also taken the Branch a while to learn how to manage the initiative so that it can refocus efforts more strategically. For example, RPS still has a large maintenance management program to handle the portion of its workload that was not contracted out. Recent management initiatives are intended to improve the reinvestment of resources into more strategic areas; for example, property managers will do other things such as investment analysis reports and asset management functions.

It has been an enormous cultural shift to learn how to “manage” rather than “do,” and RPS employees continue to meet that challenge.

<sup>22</sup> Expressed as a percentage of total inflow to the Branch in the RPS Demographic Profile, July 2002.

<sup>23</sup> RPS Demographic Profile, July 2002.

### 3.4.7 Financial Systems

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Q14 DO THE CURRENT PWGC FINANCIAL SYSTEMS PROVIDE THE DATA NECESSARY TO IDENTIFY ALL THE COSTS ASSOCIATED WITH CARRYING OUT THE AFD PROGRAM? IF NOT, ARE THERE PLANS IN PLACE TO MODIFY/ ENHANCE/ DEVELOP THE NECESSARY SYSTEMS?

CONCLUSION: Based on discussions with staff and a document review, the CAC team believes that the data required to identify all of the costs associated with the AFD program and Real Property Programs are available. However, the data together with supporting details are currently dispersed among various National Capital Area, Regional and Service Provider sources.

RECOMMENDATIONS: CAC recommends that all data currently dispersed among various systems and participants in the AFD process be marshaled so as to provide readily available program-wide management information.

Vital to the establishment of the above-described capability is the stewardship required to develop the data-sharing methodology and data repository necessary to harvest the requisite intelligence in the first place. A champion of this cause should be identified to see to those results as soon and as pragmatically as possible.

#### Context

The policy foundation for keeping financial data and its organization into useful management information is rooted in the most fundamental financial policy documentation, beginning with the *Financial Administration Act*.

The current government agenda, expressed through *Results for Canadians: A Management Framework for the Government of Canada*, requires government departments to improve financial management and to integrate financial and non-financial performance information.

Financial management is a key element for the efficient and effective operations of federal government programs and projects. The level and rigor of financial management should be based on the financial significance and risk posed by these programs and projects. The AFD project is a financially significant program that presents major risks to the Department.

The Comptroller General of Canada defines comptrollership as “The essential, integrated business processes that must be in place in any organization to:

- Manage financial risks;
- Understand the financial implications of decisions before they are taken;
- Properly track and account for the financial transactions and operating results of all financial decisions; and

- Protect against fraud, financial negligence, violation of financial rules and principles, and losses of assets.”

Modern Comptrollership is a management reform focused on the sound management of resources and effective decision-making. It involves not only financial officers, but also all departmental managers, and goes beyond financial accountability. Of the many elements of Modern Comptrollership, four are key:

- Integrated performance information (financial and non-financial, historical and prospective);
- A sound approach to risk management;
- Appropriate control systems;
- A shared set of ethical practices and values, beyond legal compliance.

Modern Comptrollership was adopted as one of the six priorities of the government’s modern management agenda.

### **Findings**

The data needed to carry out strategic and tactical analysis is available, however, it is not stored centrally but is available in different systems either with the Service Provider, in the Regions or in the National Capital Area. The data that is eventually consolidated at the Branch level is usually at too high a level and lacks the supporting details to make meaningful analysis.

The detailed transaction data that resides with the Service Provider is available to PWGSC as part of the contract, however, it has not been requested by RPS as part of the ongoing transfer and reporting of financial information by the Service Provider.

While the required data exists, additional work will be required to define the categories and level of detail that should be captured and aggregated at the program-wide level to be able to track the true cost of the AFD Initiative from a comprehensive and integrated financial management perspective.

In order to verify the existence and availability of the essential information, a high-level review of the potential sources was conducted. Annex F provides a graphical overview of the various systems used by RPS to track financial and non-financial information.

### **Direct Costs**

Some costing data for the AFD Initiative currently resides in various financial systems within PWGSC, specifically.

Information Repository and Reporting System (IRRS), the application that was developed specifically to gather AFD service-provider data, contains financial data that has been rolled up according to the following cost qualifiers:

- Cleaning

- Maintenance/Minor Repairs
- Utilities
- Roads/Grounds/Security
- Service Provider Fees
- Administration
- Projects \$5K-\$200K.

BLJC provides a monthly feed of financial costing data according to these seven qualifiers. This information is extracted from their own financial application, Oracle Financials, a robust financial application that is currently one of the approved financial applications within the federal government. As part of the AFD contract, there is an annual audit of the AFD initiative, performed by Deloitte & Touche, to ensure compliance with terms and conditions of the contract from a financial perspective.

PBMS, the project and business management application system, captures the same data in more detail as that in IRRS for PWGSC “in-house” operations. High-level AFD cost data that has been rolled up by broad categories and portfolio is fed to this system. This information is loaded into PBMS from an automated interface from IRRS. Within PBMS there is the capability of running AFD-specific reports with respect to the *Building Management Plans* (which also includes project-costing information).

Financial Management Systems 28/Common Departmental Financial System (FMS 28/CDFS) also contains high-level accounts receivable and accounts payable data with respect to this initiative.

Information Management Reporting System (IMRS), the branch-wide management data warehouse information reporting tool, also contains high-level AFD cost data that is loaded through an automated interface with IRRS.

IMRS provides pre-defined reports that can be rolled up at various levels. While the reports cannot be run specifically for AFD, the data warehouse does differentiate between AFD and non-AFD so that the capability exists to run reports of high-level cost categories related to AFD. In addition to the pre-defined reports, IMRS provides the capability to generate customized reports.

### **Program Support Costs**

This category includes costs for RPS management and administrative support such as professional development, training, policy and technical expertise that can be attributed to the AFD initiative and direct contract management, such as the AFD Services Group within Real Property Services.

At the present time, there is data at the RPS level to determine the costs of Program Support for the Branch, however, there has been no effort to attribute these costs to more finite levels with the Branch such as the directorates or sub-groups or management initiatives like AFD.



Knowledge and capability exists within the Cost Management and Financial Management areas of PWGSC in order to develop an appropriate cost model that would provide a vehicle to identify all RPS management and administration costs related to the AFD initiative.

### **Corporate and Administrative (C & A) Overhead**

This category includes PWGSC corporate overhead for services such as Human Resources, Finance, Information Technology, Communications and Security that could be attributed to the outputs and services provided through the AFD initiative.

The Corporate Allocation Model (CAM) is a costing data model that allocates the corporate and Administrative overhead costs down to the RPS level. RPS gets charged its share of the CAM for the Department. As with Program Support, the CAM is not broken down to smaller levels in such a way as to provide an estimate of the AFD share of C & A overheads.

As with the Program Support, the Cost Management and Financial Management areas of PWGSC have the knowledge and capability to enhance the existing costing data model to provide the cost allocation down to the AFD initiative level.

Direct program cost data is currently available within PWGSC's various financial systems. However, there is an inconsistent categorization of the level of detail of financial information that is being captured for AFD and non-AFD buildings. The level of detail should be standardized wherever possible to allow for comparisons and analysis to be carried out without having to massage the information on an ad hoc basis.

Currently, there is no one place or system that stores all the data elements required to report on the true cost of the AFD initiative in a timely manner and on a user-friendly basis.

The IMRS team has been prototyping a new Cognos Tool (Metrics Manager). The purpose of this tool is to provide strategic reporting that will inform management about the financial performance of a branch/initiative using a control panel type of interface. This tool may provide information on the overall success of a branch/program or initiative using the concept of performance metrics to identify areas requiring attention as results near or exceed set performance thresholds. For such a tool to be truly useful, a better level of detailed data will have to be gathered in the IMRS and a set of performance metrics defined.

### **Conclusion**

Based on discussions with staff and a document review, the CAC team believes that the data required to identify all of the costs associated with the AFD program and Real Property Programs are available. However, the data together with supporting details are currently dispersed among various National Capital Area, Regional and Service Provider sources.

In order to generate strategic and tactical financial information, additional work will be required to properly define detailed financial management information requirements. Once defined and approved, additional work will be required to develop the necessary processes to gather and store the data into a central repository. Information should be available on an aggregated basis, with supporting data, at clearly defined levels (e.g., buildings, portfolio, program) and converted to unit costs where possible to facilitate and expedite analytical tasks, calculations and comparisons.

The data should provide information on in-house and outsourced:

- Personnel costs from across Canada including categories for PMS, PDS, TSP and management and/or contract management support;
- Operating and maintenance with subsets for qualifiers 1 through 5 and projects \$5K to \$25K and \$25K to \$200K;
- Capital with subsets for projects \$25K to \$200K; and
- Program support overhead.

### **Recommendations**

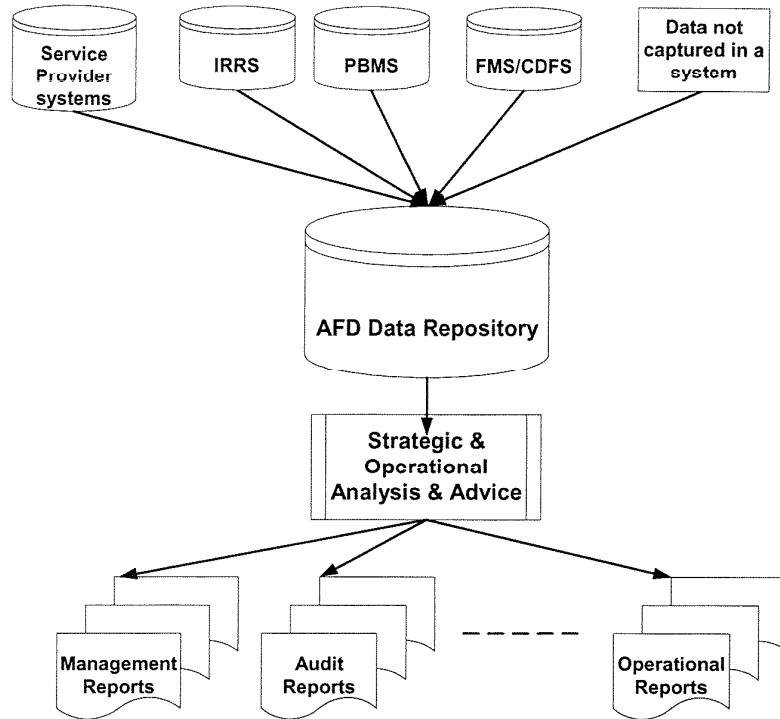
CAC recommends that all data currently dispersed among various systems and participants in the AFD process be captured and stored in a national repository so as to provide readily available management information. This would enable both operational and strategic intelligence to be brought to the management table routinely, in the form of analyses and advice based on pre-defined formats.

Vital to the establishment of the above-described capability is the stewardship required to develop the data-sharing methodology and data repository necessary to harvest the requisite intelligence in the first place. A champion of this cause should be identified to see to those results as soon and as pragmatically as possible.

Second, a national AFD Trustee should be appointed to routinely deliver strategic analysis and advice to management. Once a reliable reporting regime of properly stratified information and automated sensitivity analyses is in place, a secretariat of a few persons should be able to sustain that capability. Those resources should be drawn from within existing establishments.

Finally, the current departmental reorganization which is most “convergence-based” and the eve of AFD re-procurement both combine to provide an opportune moment to implement these reforms. Moreover, the future potential plurality of AFD service providers will necessitate a more sophisticated capacity for performance analysis.

### **Proposed AFD Information Flow**



**3.4.8 Controls for Repair and Construction Project Spending**

Q.15 ARE THERE SUFFICIENT CONTROLS IN PLACE TO ENSURE THAT CAPITAL EXPENDITURES REFLECT ACTUAL FACILITY REQUIREMENTS? ARE THERE IMPROVEMENTS THAT COULD BE MADE?

CONCLUSION: Our findings support the opinion that sufficient controls exist to prevent the Service Provider from escalating project spending unchecked. Property and Facility Managers (PFM) in non-AFD facilities and Property Managers (PM) in AFD facilities, identify the building maintenance and repair needs each year in the Building Management Plan (BMP) and/or Annual Building Plan (ABP) process. Typically, demand exceeds available resources, however, regularly scheduled “banking days” provide a mechanism to a reallocate funds throughout the year. The final decisions on any additional project spending are ultimately made by CSU Directors.

RECOMMENDATIONS: CAC recommends that any future contract clearly stipulates what service provider costs are included in the management fee and what service provider costs such as internal salaries and administration can be included in the pass-through disbursements of the contract.

The Service Provider should be made to report on a greater level of detail in their financial reports to the Department in order to provide RPS with an ability to analyze the true costs of service delivery and compare and analyze trends over time. This level of detail could also

provide the Department with the means to verify that the Service Providers don't double-bill for property management and project delivery services in AFD buildings.

### **Context**

Treasury Board Secretariat officials have indicated that there are concerns that there may be insufficient controls to ensure that the current AFD Service Provider is incurring capital expenditures to diligently reflect facility requirements. They noted that the current management fee structure is perceived to be a disincentive since the Service Provider's fee increases along with increased capital spending. They directed RPS to ensure that the Final AFD Evaluation includes simple and precise measures to control capital flow-through costs.

### **Methodology**

The CAC evaluation team reviewed the building management plan, budgetary allocation and cash management practices under AFD to determine if the current control instruments were adequate and to assess just how much discretion the Service Provider has in influencing and determining the amount of maintenance and repair project spending. Our focus is project spending, regardless of funding source (O&M or Capital). In practice, there is little distinction in processes between O&M projects valued between \$5,000 and \$200,000 and Capital projects valued between \$5,000 and \$200,000. Therefore, the concern should apply to both categories of projects.

### **Findings**

There is no evidence that the Service Provider can disproportionately influence or cause more projects to be carried out than necessary. The Service Provider must prepare an Annual Building Plan (ABP) that is submitted to the RPS Asset Manager and approved by the CSU Director. The Annual Building Plan must be prepared based on the same format and using the same guidelines as the Building Management Plans (BMP) prepared by in-house staff for in-house managed buildings.

As indicated in other sections of this report, RPS uses a hybrid approach in the management of both AFD and in-house projects. The processes applicable in both cases are described below.

### **BMP Process**

For both AFD and in-house processes, the National Building Management Plan (BMP) Call Letter identifies national objectives and priorities to be considered and guidelines for the development of yearly BMPs for Public Works and Government Services Canada (PWGSC) Crown-owned, leased and lease-purchased facilities with the Real Property Program.

BMPs are comprehensive plans for managing building operations, repairs and improvements. They identify real estate investment priorities and options for the consideration of the building custodian, which reflect the Asset Management Plan (AMP) and provide valuable input to AMP development. BMPs cover a six-year period, which include past and current years, the immediate

planning year, and three additional planning years. However, they are revised each year after the National Call Letter has been released.

### **In-house BMP Process**

Asset and Facilities Management Services (AFMS), with support from Architectural and Engineering Services (AES) and Office Accommodation Real Estate Services (OARES), is responsible for the yearly development of the National Call Letter. The Call Letter identifies the national objectives to be considered and guidelines for the development of the BMP. The Call Letter is forwarded to all Property and Facilities Managers (PFM) within the Client Service Units (CSU) across the country.

With support from the Client Accommodation Service Advisor (CASA) and AES Project Managers, the PFM is responsible for preparing the BMP, which includes an operations and utilities work plan (O&U), the project plan, a management analysis section, an environmental report card section, and an AMP summary section.

*As the custodian, PWGSC has final approval over the BMP and is responsible for funding allocation. Once the BMP has been approved, it is returned to the CSU for implementation.*

### **AFD BMP Process**

As with the in-house process, AFMS with support from AES and OARES, releases the National Call Letter to the Asset Manager (AM) in each portfolio. The AM is then responsible for sending the Call Letter to the Service Provider.

The Service Provider must prepare an Annual Building Plan (ABP) and a Portfolio Management Plan (PMP) in accordance with the terms of the contract. The ABP identifies expected O&M activities, planned projects, and a management analysis is prepared for each building. The PMP is designed to rationalize individual ABPs given project priorities and the projected budget reference levels for the portfolio.

The AM reviews the ABP and the PMP, and completes the BMP with input from the CASAs and AES Project Managers. As the custodian and owner-investor, final approval and funding allocation is the responsibility of PWGSC.

The PFM fulfills a support role in the performance of the Asset Manager's function and monitors Service Provider performance. In addition, the PFM coordinates the inputs of various Centre of Expertise (COE) specialists involved in the Key Performance Indicator (KPI) performance management process.

For projects identified within the PMP that are under \$25K, the Service Provider proceeds with implementation after submitting a Project Justification Report. Bulk repairs under \$5K do not require any project justification. Projects under \$5K are part of O&M. For all proposed projects in the ABP estimated to cost over \$25K, the Service Provider prepares an Investment Analysis Report (IAR) on behalf of the Project Leader before implementation. The IAR is a

business case that discusses the issues, options, project costs and funding alternatives (when substitution projects are involved) and provides the AM with a recommended course of action.

### **Tenant Service Project (TSP) process**

TSPs are initiated by the Client and can range in value. In AFD facilities TSPs that are funneled through the CSU can value of to \$200K. When the client department decide to go directly to the service provider without involving the CSU for TSPs, they are only limited by the client department's spending authorities. There are no upward limits to TSP values in non-AFD buildings other than the clients' willingness and ability to pay for services.

### **Tenant Service Process in non-AFD facilities**

The CSU assesses the need identified by the Client and manages all aspects of the project including any sub-contracting required. Once services are delivered, the CSU recovers costs from the client.

### **AFD Tenant Service Process**

When the client department chooses to use the CSU, they contact the CSU. The CSU contacts the Service Provider. The CSU conducts quality assurance for a fee. Once the work has been completed, the Service Provider sends the invoice to the CSU via the AFD contract. PWGSC seeks reimbursement from the client.

This approach to TSP has a direct impact on the overall AFD contracting authority as the TSP is added to the amount of services provided to the government through the AFD contract.

If the Tenant has requests a service directly to the Service Provider, then the Service Provider invoices the tenant directly and this does not form part of the contract between PWGSC and the Service Provider.

### **Conclusion**

It is our understanding that the premise of this question is that TBS have expressed the concern that because the Management Fee for project work is a percentage of overall project disbursements it may be that the Service Provider is driving up project spending to increase Service Provider revenues.

Building maintenance and repair needs are identified every year in the BMP and/or ABP process. The instructions for preparing these documents are fairly clear and priorities on different types of repairs or maintenance projects are identified. Every year, PFMs and PMs identify and prioritize all projects regardless of how many are funded in the final instance. The decision on which of the projects are approved rests with the CSU Director supported by Asset Managers, AES Project Managers and CASAs.

It is our opinion that sufficient controls exist to prevent the Service Provider from escalating project spending unchecked.

### **Recommendation**

In reviewing financial data related to Project Delivery Services (PDS) and Tenant Service Projects (TSP) as part of the Cost Effectiveness and Financial Systems sections of this evaluation, CAC recommends that any future contract clearly stipulates what service provider costs are included in the management fee and what service provider costs such as internal salaries and administration can be included in the pass-through costs of the contract.

Currently, the Service Provider identifies internal salary charges for project work in the details of Investment Analysis Reports (IAR) for projects valued at between \$25K and \$200K. At no other place or time does the Service Provider communicate the costs of internal salaries for PDS or TSP. These internal salary costs are never aggregated in such a way as to identify the true cost of the Service Provider's services. Having the Service Provider report on these details in its financial reports to the Department would provide RPS with an ability to analyze costs and compare trends, and to provide additional verification that the Department is not being double-billed for certain project management services resources in AFD buildings

### **3.4.9 Overall Success**

In order to make an overall assessment of the success of the AFD initiative, the Evaluation Framework included the following question. Our response to this question is based on a compilation of all the research undertaken for this study.

Q.16 HOW SUCCESSFUL, OVERALL, WAS THE INITIATIVE?

CONCLUSION: By all accounts AFD has been a successful initiative. It is a work-in-progress which claims success in already having achieved many of its varied objectives and having established an effective new way of doing business for RPS. The transformation has been broad and the changes continue to resonate. Particular attention is required immediately to ensure that program-wide information is easily accessible for the continued monitoring and strategic management of the initiative. This improvement is vital in preparation for re-procurement.

### **Context**

The AFD had many objectives to fulfill which have been distilled from overarching Government Policy and the Department's own Business Planning Objectives. Also, the AFD was part of a broader change in the way that PWGSC was doing business; and equally importantly, part of an even broader change in the way the federal government was doing business.

The *Program and Operational Review*, which recognized the confluence of "drivers" behind this initiative, assessed the AFD in relation to government policy objectives, PWGSC/ RPS

objectives and the stated objectives of the initiative itself. In all cases, the Review found that the AFD has been relatively successful:

- it has contributed to streamlining government operations, focusing on core business activities and eliminating direct competition with the private sector (policy thrusts under *Getting Government Right*);
- it has contributed to repositioning the Branch with the private sector and revitalizing the business workforce (1996 Business Plan); and
- it maximized continuing employment (AFD objectives).

However, neither the Operational Review nor any of the other previous studies of AFD have concluded on whether the initiative achieved its important objective of saving money. Our evaluation addressed this question, as well as assessing overall program effectiveness.

### **Findings**

The AFD initiative is more cost-effective than providing property management services in-house. Our research indicated that the AFD model costs approximately \$12 million less (based on 2001-2002 data) than it would have cost to provide the same services using PWGSC resources. Given these findings, it stands to reason that expansion of the AFD would generate additional savings.

Not only has the AFD initiative saved money, but it has done so while:

- maintaining the integrity of PWGSC assets;
- maintaining and even increasing tenant satisfaction; and
- respecting government priorities related to official languages, health and safety, and the environment and sustainable development.

Further, the AFD, by its very existence, has helped to move the Department from the provider to the manager of day-to-day services. In so doing, it has contributed to an increasing focus, within RPS, on strategic matters. It is spawning the development of tools to more reliably assess the needs of clients and responsiveness to those needs. It is helping to position the Department as a more assertive strategic advisor to its clients.

Not only did the AFD initiative eliminate the perception of competition with the private sector, it has also contributed to the development of that sector. It provided for very healthy competitive opportunity among a number of potential service providers through a process that was exemplary in its transparency and fairness. Moreover, it nurtured a relationship with an emerging company through the mutual stresses and strains attending a new undertaking of these proportions.

The Service Provider has since extended its services to other large organizations. The AFD procurement originally quadrupled the Service Provider's management portfolio, and it has more than doubled its portfolio since then. The Service Provider has increased its management



portfolio with the addition of high tech, banking, Crown corporations and retail clients to hold an estimated 35% market share.

### **Conclusion**

While RPS encountered numerous hurdles related to the transition and contract management of this initiative, it has taken steps to overcome them and continues to improve these conditions.

The AFD initiative has also served as a catalyst for developing and implementing measurement tools that support increasing understanding and rigour in the management of both AFD and non-AFD assets and services. This is a very important, if unintended, positive impact of the initiative. If foresight were perfect, these outcomes alone might well justify the decision to embark on a change of this vigour and scope.

However, the compiling, analysis and use of management information continues to be underserved, despite these many manifestations of the success of the initiative. Our research found that, although the data necessary to assess and manage the AFD does exist, it is dispersed in different systems, documentation, formats and levels of detail, and maintained by different groups, with different objectives and data needs, within the Department. Consequently, this data is never compiled and used for the program-wide management of the initiative. We recommend that PWGSC immediately undertake to address this problem.

Related to this, we also recommend that additional data be required from the Service Provider to ensure the Department can effectively manage the project delivery services component of the AFD initiative.

## 3.5 Alternatives

Originally, this section of the report included only one question related to alternatives, and that was whether there are cost-effective alternatives to the outsourcing of Federal property management services (Q.18 below). The second question about the potential expansion of the initiative was moved from section 3.1 on rationale, as it seemed more appropriate to this section.

### 3.5.1 Nature and Scope of Work

Q.17 SHOULD THE NUMBER, NATURE OR SCOPE OF WORK TO BE CONTRACTED OUT UNDER AFD BE CHANGED?

CONCLUSION: Given the strong internal support and the potential cost-savings that could be generated, PWGSC should give serious consideration to expanding the AFD in relation to all three components:

- Those buildings not currently included in the initiative, particularly the protected non-core facilities, should be re-assessed and, wherever possible, included in the next procurement.
- The project delivery threshold, following further analysis, should be increased, providing more detailed information related to project delivery costs is regularly provided by the contractor (see section 3.4.8).
- Use of the AFD outsourcing model for other non-core PWGSC services should be investigated further.

#### Findings

We examined this question in relation to whether the current AFD initiative could be expanded (number of facilities, type of facilities, project threshold) and whether the concept (outsourcing to the private sector) could be used for other PWGSC activities and services (real property services).

#### Number and Type of Facilities

The *Operational Review* examined whether additional buildings or other types of facilities could be outsourced following the AFD model and made the following observations and recommendations:

- There are a number of general office buildings in the Regions, but even more in the NCA, that were excluded from the original AFD portfolios, in part for reasons of volume and complexity, but also because of tenant preferences.<sup>24</sup> The *Review* recommended that PWGSC, in consultation with building tenants, look at including these buildings in the new procurement.

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<sup>24</sup> The *Program and Operational Review* identified eight specific candidates in the regions, and indicated that the number in the NCA is at least equal to the creation of an additional AFD portfolio.

- AFD excluded buildings in which other government departments were the designated custodians, many of which are special purpose facilities, such as labs. While some of these, such as warehousing facilities, could likely be included in the AFD without difficulty, others, such as research laboratories, represent a much higher level of risk. They require a very strong relationship between the service provider and user; continuity is critically important; risk of failure is considerably higher than in office buildings and the consequences of failure can be severe. As a result, capabilities of prospective private sector service providers must be significantly higher and more specialized than with general-purpose facilities. The Review found that, while such capabilities exist, the supply is more limited than for office facilities.

Consequently, they recommended that PWGSC explore the possibility of including special purpose facilities in an AFD concept, but refrain from moving in this direction until greater experience has been gained with the current AFD and the added value of proceeding with this approach can be clearly demonstrated. The Department should seek to identify opportunities to introduce pilot projects as a testing ground for further development.

- The original criteria for excluding buildings of “special importance” across the country remain valid today.

Our research and interviews generally confirmed these recommendations. Senior managers across the country are very supportive of the inclusion of additional buildings and types of buildings in the AFD initiative; there were some who thought that even those of “special importance” should be outsourced. Interviewees also echoed our findings in relation to the current hybrid model for property management services, describing it as expensive, difficult to manage and inefficient.

We would emphasize, as did the *Operational Review*, that the inclusion of additional buildings must be done in consultation with the affected clients, and that all of the “lessons learned” in relation to this type of transition, such as the need for on-going communication, preparation of tools and provision of training, be considered.

### **Project Threshold**

The AFD contract includes delivery services for repair and fit-up projects valued at less than \$200,000. The question of whether this is an appropriate threshold has been an on-going subject of discussion within RPS and was addressed specifically in the *Operational Review*.

This study found that many, although not all, survey respondents would like to see the threshold level raised above \$200,000, to between \$500,000 and \$1 million. They also concluded that there are solid operational reasons for proceeding in this direction, particularly in the NCA, where the magnitude and cost of projects quickly exceed the permissible level within the AFD. At the same time, their research identified a number of concerns and issues related to implementing such an increase, and their recommendations reflected these. The *Program and Operational Review* advised that:

- The project delivery threshold be increased to between \$500,000 and \$1 million, providing these limits do not contravene trade obligations.

- Asset managers be given the discretion to operationalize the higher threshold in their respective regions, within pre-determined corporate parameters and based on the type of project, local needs, economies and contractor capabilities.
- In future new procurements, the successful bidder be required to show evidence that it has proven experience, an acceptable project delivery system, high standards for the staffing of key and dedicated project management positions and a quality assurance program to support project delivery. These requirements should be clearly stated, rigorously applied and given an appropriate point rating in any new RFP.

Again, our research and interviews support the conclusion that the project threshold should be increased, but that such an increase should be implemented with care. Also, further analysis and planning is required to determine what would be an appropriate new threshold. This analysis should include a more precise delineation between minor fit-up and repair, and larger capital projects; an assessment of the contractor's capacity to deliver large projects; and the potential impact of increasing the AFD threshold on the broader industry.

Some client interviewees who still prefer the stronger control orientation of the pre-AFD regime might well resist such a change. If substantive changes are made to the thresholds, a thoughtful communications plan is strongly encouraged.

### **Outsourcing of Other Real Property Services**

The question of whether the AFD model – outsourcing to a private sector contractor – should be expanded to other, non-core real property services was also considered in the *Operational Review*. The study concluded that the Branch was open to considering such an expansion for other operational, technical and transactional activities, keeping in mind that there is a “critical mass” of in-house resources needed to retain its core competency, expertise and “intelligent buyer” role. Their recommendations reflected the fact that substantial additional analysis is required before such an expansion could occur:

- The Department should analyze the opportunities and implications of adding further real property services under the AFD model, with due attention to preserving RPS's core responsibilities as strategic advisory, service broker, quality guarantor and point of recourse for its clients.
- In anticipation of expanding the scope of services, the Department undertake a comprehensive examination to determine the scope of additional functions that could be outsourced under the AFD model, with consideration to the critical mass of expertise required in-house, private sector capabilities, cost benefit, risk and client willingness to proceed in this direction.
- Proceed with caution in outsourcing additional real property services under the AFD model while at the same time looking for opportunities, perhaps on a pilot basis, to gain experience with a broader scope of work.

Our evaluation findings concur completely with those of the *Operational Review*. The overall success of the AFD initiative, together with the support of senior managers across the country,

suggest that this model could be effectively applied to other transactional real property services. Interviewees suggested a number of potential outsourcing candidates including facilities management, leasing services and construction activities. The need for a thorough analysis prior to any decision was also emphasized.

### **Conclusions**

There is substantial evidence and support for the expansion of the AFD initiative, particularly with respect to the number and type of facilities to be included in this model of service delivery. Any such expansion should, of course, be undertaken in consultation with the affected clients, and with the benefit of the many “lessons learned” through the implementation and operation of the existing AFD.

Similarly, there is substantial support for an increase in the current project delivery threshold. However, additional analysis is required to determine the appropriate amount of a new threshold. Also, our recommendation (in section 3.4.8) that the contractor provide more detailed information related to project delivery costs, will be even more important if the threshold is raised.

With respect to extending the AFD outsourcing model to other, non-core PWGSC services, our research and that of previous studies strongly supports such a move, recognizing that any such initiative would have to be supported by a rigorous “make or buy” assessment.

### **3.5.2 Alternatives to Outsourcing Federal Property Management Services**

Q.18 ARE THERE COST-EFFECTIVE ALTERNATIVES TO AFD FOR PROVIDING FEDERAL PROPERTY MANAGEMENT SERVICES?

CONCLUSION: Given the current success and ongoing improvements being made to the AFD outsourcing model, there is no immediate or compelling rationale for exploring alternative approaches.

It was never our intention to examine this question in substantial detail, as the scope and timeline for the evaluation would not support such an approach. However, we talked to senior managers involved in the Initiative to solicit their views on alternatives.

Not surprisingly, we found that there is general acceptance of the fact that there is “no going back.” While some managers identified partnerships with provinces and/or municipalities as a possibility, others indicated that most provinces are not able or interested, or that such an alliance is contrary to the goals of supporting Canadian industry. A couple of interviewees suggested that leasing, rather than owning buildings may be more efficient, it would represent a very radical shift in the role of the Department.

To conclude, our findings related to the success of the Initiative and support for the expansion of the current model, suggest that it is not particularly useful, at least at this time, to look for major alternatives to outsourcing to the private sector.

## 4.0 Conclusions and Recommendations

### Program Rationale

Q.1 IS THERE A CONTINUING NEED FOR THE AFD INITIATIVE?

CONCLUSION: Given the on-going interest of the federal government in the use of alternative organizational forms to provide programs and services, and the substantial internal stakeholder support for the AFD, there is a strong rationale for continuation of the Initiative.

### Program Design and Delivery

Q.2 HOW EFFECTIVE AND EFFICIENT WAS THE PLANNING PROCESS?

CONCLUSION: The effectiveness and efficiency of the AFD planning process can be seen in the fact that RPS was able to implement this large, complex initiative within a very rigid time frame. The innovative, inclusive and comprehensive planning process played a major role in this success.

Q.3 HOW EFFECTIVE AND EFFICIENT WAS THE CONTRACTING PROCESS?

CONCLUSION: Based on substantial and consistent evidence in earlier assessments of the AFD initiative, we conclude that the contracting process was effective and efficient. RPS developed an innovative contract that was implemented in a fair, transparent and timely manner.

Q.4 HOW WELL DID THE INITIATIVE OPERATE?

CONCLUSION: There were significant “growing pains” experienced in implementing the AFD and problems have been identified in relation to some components of the contract. However, we are satisfied that steps are being taken to address these problems in the re-procurement of the AFD contract.

Q.5 HOW EFFECTIVE WAS PERFORMANCE MANAGEMENT OF THE AFD INITIATIVE?

CONCLUSION: Despite a variety of early problems and “growing pains,” RPS has been steadily adjusting and refining its approach to managing the AFD contract. The SOW, the performance measurement and reporting requirements and performance monitoring have all been substantially revised and improved as the AFD has matured.

## Cost Effectiveness

- Q6. DOES THE AFD INITIATIVE REPRESENT A COST-EFFECTIVE APPROACH TO DELIVERING PROPERTY MANAGEMENT SERVICES? COULD IT BE MORE COST EFFECTIVE?

CONCLUSION: Our analysis has determined that, conservatively estimated, the AFD has saved approximately \$12 million in 2001-2002 (the subject year of analysis). On the basis of the economies in personnel and operating costs alone, it is reasonable to conclude that the savings obtained in 2001-2002 were achieved in 1999-2000 and 2000-2001. Details on the methodology, assumptions and calculations used to determine the achieved AFD savings are available in Annex E. It has also become clear that the benefits of the AFD initiative could be maximized if PWGSC was to eventually expand the initiative to all or most of the buildings it currently has in its inventory.

Notwithstanding these observations, there is considerable room for improvement in developing AFD-related information systems and methodologies. While the results support an affirmative response to question six, the absence of readily available management reports to enable such assessments is cause for attention.

- Q.7 TO WHAT EXTENT DID THE AFD ACHIEVE ITS PERFORMANCE TARGETS RELATED TO ASSET INTEGRITY?

CONCLUSION: To the extent that the Service Provider operates the facilities maintenance program, all targets have been met and are supported by KPI scores. Asset Integrity is a complex matter and there is much activity within RPS to advance their processes to assess and maintain a leading edge capability. RPS has acquired state of the art software and are prototyping custom software to suit their specific requirements.

RECOMMENDATION: As part of its re-procurement strategy, the Department should consider a further strengthening of its relationship with its future Service Providers. It should consider amending the scope of work to include the preparation of an annual building condition report (BCR) to replace the current annual building inspection. The format would consist of a template within the new database being created at the time of this writing.



- Q.8 TO WHAT EXTENT DID THE AFD ACHIEVE ITS PERFORMANCE TARGETS RELATED TO TENANT SATISFACTION?

CONCLUSION: KPI performance lagged somewhat below target for the first 18 months of implementation, thereafter, however it rose dramatically. RPS has since institutionalized tenant satisfaction measurement by developing survey techniques and metrics geared specifically to their clientele and operations. They have expanded this capacity to embrace all non-AFD assets as well. National Service Call Centre data also plays a role in strategic decision-making. Altogether, despite a slow beginning, RPS developments in this area have been above target expectations.

- Q.9 HOW EFFECTIVELY DID PWGSC MANAGE CLIENT RELATIONS WITH RESPECT TO AFD? WHAT IMPROVEMENTS CAN BE MADE?

CONCLUSION: Client relations management has developed on a “learn as you go” basis and relied on interviews and anecdotal feedback for the first two years of the AFD. Conclusions were difficult to distill into recommended courses of action and useful lessons learned. The language of previous reviews was punctuated with cautionary notes about anecdotal comments and opposing perceptions. The initiation of the client satisfaction survey brought objectivity and focus to the assessment. Quantitative data has pointed the way to client sensitivities, suggested remedial priorities and set a baseline for future analyses.

- Q.10 WERE APPROPRIATE PROVISIONS MADE FOR RESPECTING CANADA'S OFFICIAL LANGUAGES? WHAT IMPROVEMENTS, IF ANY, COULD BE MADE?

CONCLUSION: Appropriate provisions were made for respecting Canada's official languages, however, there is room for improvement with respect to performance measurement. Statistics provide acceptable levels of conformance and officials have pointed out the timely and satisfactory responsiveness of the Service Provider.

RECOMMENDATION: The future re-procurement should address official languages more systematically by incorporating monitoring measures in the contract SOW and KPI framework.

- Q.11 DOES THE AFD INITIATIVE RESPECT GOVERNMENT PRIORITIES RE HEALTH AND SAFETY, AND ENVIRONMENT AND SUSTAINABLE DEVELOPMENT? ARE THERE IMPROVEMENTS THAT COULD BE MADE?

CONCLUSION: Government Priorities for Health and Safety, and Environment and Sustainable Development appear to be duly respected under the AFD program. Health and Safety has already been examined with a view toward upcoming re-procurement and improved training and awareness. Presumably, Environment and Sustainable Development will be the subject of similar consideration.

- Q.12 HAS THE AFD INITIATIVE CONTRIBUTED TO INDUSTRY DEVELOPMENT? WHAT IMPROVEMENTS, IF ANY, COULD BE MADE?

CONCLUSION: Yes, industry development has been reasonably well served through AFD to the extent that AFD, given its “public good” objectives and overarching governmental imperatives, can achieve that. Most certainly, it has contributed to industry development through its capacity to engender awareness, fairness and public trust requirements in the broader dialogue with stakeholders. Moreover, it has succeeded in performing to an exemplary degree in some areas and to a responsible degree in all areas. Future endeavours related to procurement should strive to maintain that high standard.

- Q.13 HAS THE AFD INITIATIVE ALLOWED RPS STAFF TO DEVOTE MORE TIME AND EFFORT TO STRATEGIC (VS OPERATIONAL) ISSUES? COULD THIS BE IMPROVED?

CONCLUSION: The CAC team explored this question during all interviews with departmental senior management as well as with BLJC. Although most interviewees agreed that RPS has become more strategic in focus, it is not always obvious how the AFD initiative impacts on that reality in comparison with other factors. However, there is substantial evidence of how the AFD, itself a major strategic undertaking, and other reported achievements have been accomplished during the life of the AFD. Clearly, there is more to be done and Branch planning documents confirm commitments in that direction.

- Q14 DO THE CURRENT PWGC FINANCIAL SYSTEMS PROVIDE THE DATA NECESSARY TO IDENTIFY ALL THE COSTS ASSOCIATED WITH CARRYING OUT THE AFD PROGRAM? IF NOT, ARE THERE PLANS IN PLACE TO MODIFY/ ENHANCE/ DEVELOP THE NECESSARY SYSTEMS?

CONCLUSION: Based on discussions with staff and a document review, the CAC team believes that the data required to identify all of the costs associated with the AFD program and Real Property Programs are available. However, the data together with supporting details are currently dispersed among various National Capital Area, Regional and Service Provider sources.

RECOMMENDATIONS: CAC recommends that all data currently dispersed among various systems and participants in the AFD process be marshalled so as to provide readily available program-wide management information.

Vital to the establishment of the above-described capability is the stewardship required to develop the data-sharing methodology and data repository necessary to harvest the requisite intelligence in the first place. A champion of this cause should be identified to see to those results as soon and as pragmatically as possible.

- Q.15 ARE THERE SUFFICIENT CONTROLS IN PLACE TO ENSURE THAT CAPITAL EXPENDITURES REFLECT ACTUAL FACILITY REQUIREMENTS? ARE THERE IMPROVEMENTS THAT COULD BE MADE?

CONCLUSION: Our findings support the opinion that sufficient controls exist to prevent the Service Provider from escalating project spending unchecked. Property and Facility Managers (PFM) in non-AFD facilities and Property Managers (PM) in AFD facilities, identify the building maintenance and repair needs each year in the Building Management Plan (BMP) and/or Annual Building Plan (ABP) process. Typically, demand exceeds available resources, however, regularly scheduled “banking days” provide a mechanism to reallocate funds throughout the year. The final decisions on any additional project spending are ultimately made by CSU Directors.

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CONCLUSION: Given the strong internal support and the potential cost-savings that could be generated, PWGSC should give serious consideration to expanding the AFD in relation to all three components:

- Those buildings not currently included in the initiative, particularly the protected non-core facilities, should be re-assessed and, wherever possible, included in the next procurement.
- The project delivery threshold, following further analysis, should be increased, providing more detailed information related to project delivery costs is regularly provided by the contractor (see section 3.4.8).
- Use of the AFD outsourcing model for other non-core PWGSC services should be investigated further.

Q.18 ARE THERE COST-EFFECTIVE ALTERNATIVES TO AFD FOR PROVIDING FEDERAL PROPERTY MANAGEMENT SERVICES?

CONCLUSION: Given the current success and ongoing improvements being made to the AFD outsourcing model, there is no immediate or compelling rationale for exploring alternative approaches.

**Annex A**  
**AFD Summative Evaluation**  
**Revised Evaluation Framework (2002)**

Evaluation Question	Performance Indicators	Existing Studies and Reviews	Additional Data Collection
<b>RATIONALE</b>			
<p>1. Is there a continuing need for the AFD initiative?</p>	<ul style="list-style-type: none"> <li>There is a continuing policy and program rationale for the AFD.</li> <li>Stakeholders(fed/prov/private sector) support continuation of AFD.</li> </ul>		<ul style="list-style-type: none"> <li>Review ASD policy</li> <li>Interviews with TBS</li> <li>Interviews with RPS, SOS, contractor, industry assoc.s</li> <li>Interviews with PWGSC senior &amp; corporate mgrs</li> </ul>
<b>PROGRAM DESIGN AND DELIVERY</b>			
<p>2. How effective and efficient was the planning process?</p>	<ul style="list-style-type: none"> <li>PWGSC provided timely input to the contractor.</li> <li>Changes were handled in a timely and effective manner by both PWGSC and the contractor.</li> <li>Contractor easily accommodated changes in reference levels.</li> </ul>	<ul style="list-style-type: none"> <li>AFD Transition Rpt</li> <li>Implementation Study</li> </ul>	<ul style="list-style-type: none"> <li>We will review these reports and extract the relevant information. Some follow-up may be required, but it will be minimal.</li> </ul>
<p>3. How effective and efficient was the contracting process?</p>	<ul style="list-style-type: none"> <li>Contracts were finalized in a timely manner.</li> <li>Contracts were recast easily.</li> </ul>	<ul style="list-style-type: none"> <li>AFD Transition Rpt</li> <li>1999 OAG Report</li> <li>Implementation Study</li> <li>Position papers</li> </ul>	
<p>4. How well did the initiative operate?</p>	<ul style="list-style-type: none"> <li>Relationships functioned well.</li> <li>Roles and responsibilities were clearly communicated and understood.</li> <li>Contracts were managed well.</li> <li>Any disputes were resolved in a timely and effective manner.</li> </ul>	<ul style="list-style-type: none"> <li>1999 OAG Study</li> <li>Implementation Study</li> <li>Industry Trends and Practices</li> <li>Prog and Oper'l Review</li> <li>Position papers</li> </ul>	
<p>5. How effective was the performance management system?</p>	<ul style="list-style-type: none"> <li>Contracts were monitored on a regular and sufficiently comprehensive basis.</li> <li>PWGSC was provided with accurate and relevant monitoring information.</li> <li>Advice from PWGSC was used to improve performance and/or service delivery.</li> <li>A sound QA process was established.</li> </ul>	<ul style="list-style-type: none"> <li>1999 OAG Study</li> <li>Implementation Study</li> <li>Industry Trends and Practices</li> <li>Prog and Oper'l Review</li> <li>Position papers</li> </ul>	

Evaluation Question	Performance Indicators	Existing Studies and Reviews	Additional Data Collection
<b>COST EFFECTIVENESS</b>			
<p>6. Does the AFD initiative represent a cost-effective approach to delivering property management services (including project delivery)? Could it be more cost effective?</p>	<ul style="list-style-type: none"> <li>Cost of AFD is comparable to cost of providing property mgmt services and project delivery through other methods (private sector, prov'l contracts, in-house).</li> <li>Timeliness of AFD is comparable to that of alternative delivery methods.</li> <li>Admin burden is comparable to alternatives.</li> </ul>		<ul style="list-style-type: none"> <li>Make or Buy study comparing cost and efficiency of contracted and in-house methods of delivering property mgmt services</li> </ul>
<b>PROGRAM EFFECTIVENESS</b>			
<p>7. To what extent did the AFD achieve its performance targets related to asset integrity?</p>	<ul style="list-style-type: none"> <li>Asset integrity is maintained or enhanced.</li> <li>Clients/tenants are satisfied.</li> </ul>	<ul style="list-style-type: none"> <li>Prog and Oper'l Review</li> </ul>	<ul style="list-style-type: none"> <li>Review survey results</li> <li>Review Building Condition Reports, Asset Report Cards, Asset Mgmt Plan</li> <li>Review Performance Mgmt Framework and relevant KPIs</li> <li>Review Call Centre data</li> <li>Interviews with RPS, SOS, contractor, CSUDs</li> </ul>
<p>8. To what extent did the AFD achieve its performance targets related to tenant satisfaction?</p>	<ul style="list-style-type: none"> <li>Tenants are satisfied.</li> </ul>	<ul style="list-style-type: none"> <li>Prog and Oper'l Review</li> </ul>	<ul style="list-style-type: none"> <li>Review survey results</li> <li>Review Call Centre data</li> <li>Review Performance Mgmt Framework and relevant KPIs</li> <li>Interviews with RPS, SOS, contractor, CSUDs</li> </ul>
<p>9. How effectively did PWGSC manage client relations with respect to AFD? What improvements can be made?</p>	<ul style="list-style-type: none"> <li>Clients are satisfied.</li> <li>Stakeholders are satisfied with process and outcomes.</li> </ul>	<ul style="list-style-type: none"> <li>Implementation Study</li> <li>Prog and Oper'l Review</li> </ul>	<ul style="list-style-type: none"> <li>Review survey results</li> <li>Review Call Centre data</li> <li>Interviews with RPS, SOS, contractor, CSUDs</li> </ul>

Evaluation Question	Performance Indicators	Existing Studies and Reviews	Additional Data Collection
<p>10. Were appropriate provisions made for respecting Canada's official languages? What improvements, if any, could be made?</p>	<ul style="list-style-type: none"> <li>Government requirements re Official Languages are addressed in the AFD SOW.</li> <li>Contractor has met the stated requirements. (eg. provides service in both languages, ensures adequate redress mechanisms)</li> <li>Clients/tenants are satisfied with language provisions.</li> <li>Any incidents related to official languages are handled quickly and effectively.</li> </ul>		<ul style="list-style-type: none"> <li>Review SOW</li> <li>Review survey results</li> <li>Interviews with contractor, sample of tenants, RPS, SOS, CSUDs, dept'l official languages group</li> <li>Review of related products (eg. redress mechanism)</li> <li>Review of Call Centre data re complaints</li> </ul>
<p>11. Did the AFD initiative respect Government priorities re health and safety, and environment and sustainable development? Are there improvements that could be made?</p>	<ul style="list-style-type: none"> <li>Government priorities in these areas are addressed in the AFD SOW and contracts.</li> <li>Contractor has met the stated requirements. (e.g., Facilities have environmental protection plans, health and safety plans.)</li> <li>Clients/tenants are satisfied with workplace conditions.</li> <li>Any incidents related to the environment or safety of facilities are handled quickly and effectively.</li> </ul>		<ul style="list-style-type: none"> <li>Review SOW</li> <li>Review survey results</li> <li>Interviews with contractor, PWGSC staff</li> <li>Review of related products (eg. environmental plans, health &amp; safety plans)</li> <li>Review of Call Centre data re complaints</li> <li>Review of Building Condition Reports</li> </ul>
<p>12. Has the AFD initiative contributed to industry development? What improvements, if any, could be made?</p>	<ul style="list-style-type: none"> <li>Industry is larger and/or more diverse (# workers, #, size and type of companies).</li> <li>Stakeholders feel industry is robust and competitive.</li> </ul>	<ul style="list-style-type: none"> <li>Industry Trends and Practices</li> <li>Prog and Oper'l Review</li> </ul>	<ul style="list-style-type: none"> <li>Review of industry stats</li> <li>Interviews with contractor, industry assoc.s, alternative service providers, RPS, SOS</li> </ul>
<p>13. Has the AFD initiative allowed RPS staff to devote more time and effort to strategic (vs operational) issues? Could this be improved?</p>	<ul style="list-style-type: none"> <li>RPS staff have minimal involvement in operational issues for AFD facilities.</li> <li>Nature of work within RPS has been more strategic since introduction of AFD.</li> </ul>		<ul style="list-style-type: none"> <li>Interviews with RPS, PWGSC senior managers</li> <li>Review of documentation re RPS responsibilities and activities, before and since the introduction of AFD (Business Plans, Annual Reports, RPPs, Strategic Plns, org charts, DPRs, etc.</li> </ul>



Evaluation Question	Performance Indicators	Existing Studies and Reviews	Additional Data Collection
<p>14. Do the current PWGSC fin'l systems provide the data necessary to identify all the costs associated with carrying out the AFD program? If not, are there plans in place to modify/enhance/develop the necessary systems?</p>	<ul style="list-style-type: none"> <li>• PWGSC fin'l systems can provide the necessary cost data re AFD.</li> <li>• The systems currently provide, or could be modified to provide the required cost reports.</li> <li>• If not, plans are in place to change or enhance the system.</li> </ul>		<ul style="list-style-type: none"> <li>• Review of financial systems</li> <li>• Interviews with TBS, PWGSC Finance, RPS, SOS</li> <li>• Make or Buy study</li> </ul>
<p>15. Are there sufficient controls in place to ensure that capital expenditures reflect actual facility requirements? Are there improvements that could be made?</p>	<ul style="list-style-type: none"> <li>• Process for identifying and delivering special projects is thorough, objective and inclusive.</li> </ul>		<ul style="list-style-type: none"> <li>• Benchmarking study will include a review of the process for identifying and approving capital expenditures.</li> <li>• Interviews with RPS, SOS</li> </ul>
<p>16. How successful, overall, was the initiative?</p>	<ul style="list-style-type: none"> <li>• Objectives (from gov't policy, PWGSC Business Plan and AFD) have been met.</li> <li>• Stakeholders feel initiative is worthwhile.</li> <li>• AFD is cost effective.</li> </ul>	<ul style="list-style-type: none"> <li>• 1999 OAG Study</li> <li>• Implementation Study</li> <li>• Industry Trends and Practices</li> <li>• Prog and Oper'l Review</li> <li>• Position papers</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews with RPS, SOS, PWGSC senior mgrs, contractor, industry assoc.s</li> <li>• Benchmarking study</li> </ul>
<b>ALTERNATIVES</b>			
<p>17. Should the quantity, nature and scope of work to be contracted out under AFD be changed?</p>	<ul style="list-style-type: none"> <li>• Criteria used to determine core/non-core services could be expanded.</li> <li>• Criteria used to determine facilities and client depts could be expanded.</li> <li>• Stakeholders are supportive of change.</li> </ul>	<ul style="list-style-type: none"> <li>• Prog and Oper'l Review</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews with RPS, PWGSC snr managers</li> </ul>
<p>18. Are there cost-effective alternatives to AFD for providing Federal property management services?</p>	<ul style="list-style-type: none"> <li>• Alternative methods of delivering property management services represent more effective and/or efficient means of providing the service.</li> <li>• Alternatives are viable.</li> </ul>	<ul style="list-style-type: none"> <li>• Make or Buy study</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews with RPS, PWGSC snr managers</li> </ul>

**Annex B**  
**List of Interviewees and Documents Reviewed**

## Interviewees

### Public Works and Government Services – Headquarters

Roxanne Anderson	Senior Consultant, HR Planning
Carol Beal	ADM RPS
Ian Bennett	Director National Capital Operations
John Biard	Senior Maintenance Mgr, AFD
Jane Billings	ADM SOSB
André Bouchard	Senior Systems Analyst, PBMS National Rollout (Reporting)
François Brazeau	DG AFMS
Roberto Brun del Re	Director, Financial Management Directorate
George Butts	Director, Real Property Contracting Directorate
Mark Campbell	Director, National Client Service Unit
Brian Carroll	Contract Manager, AFD Project Directorate
Alfred Chalhoub	Financial Advisor, Real Property NCO
Janet Clark	Manager, Environmental Affairs
Ann Condon	Director, HR- Real Property Services
Denis Cuillerier	Director, Official Languages Directorate
Jim Davison	Exec. Director, National Client Service Sector
Bruce Duncan	Dir. Corporate Environment, Health and Safety
Rosalee Edwards	Director, Strategic Business Advisory Services
Jules Fugère	Director, Business Information Solutions, RPS
Hélène Gauthier	A/Asset Manager, AFD 7
Michael Hawkes	DG Strategic Management
Laura Jackson	DG Policy Framework & Resource Mgt. Sector
Roger Laprise	Senior Financial Management Advisor, Real Property NCO
Bruce Lorimer	DG Architectural & Engineering Services
Nicole Martin	Manager, IRRS National Project
Brian MacDonell	Manager, PBMS National Rollout
Paul McCarthy	Program Manager, AFMD
Angela McCarthy-Lafond	Facility Manager, AFMD
Tim McGrath	DG Office Accom. /Real Estate Services
Lorraine Morin	Senior Financial Officer, Real Property NCO
Mike Nurse	Associate DM
Wayne Pownall	Manager, Quality Assurance AFD
Debbie Racicot	Analyst, Strategic Business Advisory Services, RPS
Guyline Rheault	Analyst, Strategic Business Advisory Services, RPS
Ursula Ruppert	DG Business Information Task Force
Marlene Thicke	Manager, IMRS National Project, RPS
Stephen Twiss	Manager, Strategic Initiatives
Hank van der Linde	Special Advisor to ADM RPS
Joanne Volmer	Manager, NCA Resource Management, AFMS
Man-Lai Wong	Director, Cost Based Management Directorate

**Public Works and Government Services – Other**

Jean Boissonneault	Manager, AFM, Quebec Region
Normand Couture	RDG – Quebec
Gerry Davy	RDG – Ontario
Bonnie MacKenzie	RDG – Pacific
Brendan McDonald	RDG – Atlantic
Heather Peden	RDG – Western
Shirley Jen	Director, Client Service Unit 10
Richard Marleau	Director, Client Service Unit
Robert Rassam	Manager PFM, Client Service Unit 10

**Other Government**

Claude Béland	Principal Analyst, PWGSC Portfolio, Treasury Board of Canada Secretariat
Kelly Collins	Director, Research, Strategic Planning and Policy Dev't, Official Languages Branch, TBS
Marc Côté	Facilities Mgt Supervisor, OAG
Howard Dudley	Director, Facilities Mgt., Industry Canada
Bea Hertz	Director, Facilities Mgt., Justice Canada
Robert Tremblay	Manager, Administration, Industry Canada

**Other**

Deb Cross	Executive VP BOMA
Bernard Forestell	Consultant
David Glass	President BLJC
Jacques Haché	Operations BLJC
Mark Marquis	VP of e-business and system integration for BLJC
Barry McGladry	Project Coordinator BLJC
David Patton	Consultant [Former President BOMA ]
Art Silverman	BLJC
	PIPS
Mark	PSAC
	Canadian Construction Association
	Ottawa Construction Association

## Documents Reviewed

### General

1. Report of the Auditor General of Canada, Chapter 18 – PWGSC, Alternative Forms of Delivery: Contracting for Property Management Services. September 1999.
2. Consulting and Audit Canada. Review of the Implementation of the Alternative Forms of Delivery for Property Management Services, Stakeholders' Perspectives. September 2000.
3. Treasury Board Secretariat. Government Response to: The Thirteenth Report of the Standing Committee on Public Accounts "Involving Others in Governing: Accountability at Risk".
4. Treasury Board Secretariat. Framework for Alternative Program Delivery, 1995.
5. Treasury Board Secretariat. Getting Government Right: Governing for Canadians, February 20, 1997.
5. Treasury Board Secretariat, Make or Buy Guidelines, 1999.
6. \* 69(1) of the ATIA \*
7. Letter from Alfred Tsang (Director, PWGSC Portfolio and Services Division TBS) to Carol Beal (ADM Real Property Services) regarding observations on the Terms of Reference proposed for the evaluation of the AFD for property management services. May 2002.
8. Terms of Reference – AFD Final Evaluation Study, Sept. 2002.
9. Summary Notes from Meeting between PWGSC & TBS re: Scope of AFD Program Review, Aug 2002.
10. Summary Notes from Meeting between PWGSC & TBS re: approach to upcoming RPS submissions in fall.

### PWGSC/RPS Documentation – General

1. Public Works and Government Services Canada. Presentation to the Office of the Auditor General. April 2002.
2. \* 69(1) of the ATIA \*
3. \* 69(1) of the ATIA \*
4. Public Works and Government Services Canada. Evaluation Framework. September 1998.
5. Shared Vision and Values for the PWGSC/ BLJC Alliance. May 2002.
6. Real Property Services. List of Documents for the OAG Relating to AFD. August 2002.
7. Real Property Services. Business Plan. June 1996.
8. Real Property Services. Business Management Model. September 1996.
9. Real Property Services. Accountability Framework for the Management of AFD Contracts. August 2001.
10. Resource Management Presentation to CSUDs & Business Managers – May 2002

**PWGSC/RPS Documentation – Financial/ Systems**

1. Scope and Structure of Information for Overall AFD costs
2. RPS National Systems (Graphical representation) Sept. 2002
3. AFD Contract Cost Profile
4. 2001-2002 Real Property Services Program Budget Allocation. April 2001.
5. RPS Financial Framework – Principles, Processes and Best Practices. December 2000.
6. AFD Handbook – Standard Operating Procedure Information and Reporting. June 2000.
7. FMS Functionalities Addressed by Project. May 2002.
8. Cost Reconciliation Statements – (1998-1999), (1999-2000), (2000-2001), and (2001-2002).

**Human Resources Branch, Real Property Services Documentation**

1. Bilan Social, September 30, 2002.
2. Bilan Social, March 31, 2002.
3. Bilan Social, September 30, 2001.
4. Bilan Social, March 31, 2001.
5. Bilan Social, September 30, 2000.
6. Bilan Social, March 31, 2000.
7. Bilan Social, December 31, 1999.
8. Real Property Services Demographic Profile, July 2002.

**IRRS Documentation**

1. PWGSC/AFD IRRS Information Reporting Requirements, May 2002
2. IRRS Data Flow Jan 2002
3. IRRS Procedures for the management of monthly data received from AFD contractors, Feb 2002
4. IRRS User report list, December 2002
5. IRRS Data Integrity
6. IRRS Online Tutorial, November 2002
7. IRRS Impromptu Database Catalog Version 1.9
8. BLJC Interface file to IRRS (raw data)
9. Data Model for BLJC Interface file to IRRS (raw data)
10. Reconciliation FMS/IRRS Actuals – FY 1998/1999 – 29 May 2002
11. Reconciliation FMS/IRRS Actuals – FY 1999/2000 – 13 May 2002
12. Reconciliation FMS/IRRS Actuals – FY 2000/2001 – 22 August 2002

**PBMS Documentation**

1. PBMS Data Model
2. PBMS Report Module, Oct 1999
3. PBMS Project Module, Sept 2002

**Position Papers in Preparation for re-procurement**

- #03 – Contract Term and Options for Renewal
- #05 – Management Value Incentive Program
- #07 – AFD Reporting Approach
- #09 – Dividing Line between Pass Through and Management Fee Costs
- #10-1 – Revision to the AFD Project Delivery Ceiling (addendum # 1)
- #11 – Scope of Services to be included in Future AFD Contracts
- #12 – Additional Buildings in Future AFD Contracts
- #13 – Management of Future AFD Contracts
- #16 – Revenue Operations
- #20 – Meeting Health and Safety Accountabilities in AFD Buildings
- #29 – Project Thresholds under \$200,000

**Annex C**  
**Areas Covered Under Property**  
**Management Services – Demonstration**



### **Areas Covered Under Property Management Services**

- Annual Building Inspections
- Annual Building Plans (ABP)
- Portfolio Management Plans (PMP)
- Building cleaning
- Building operations
- Building maintenance
- Materiel management
- Environmental protection and conservation
- Health and safety requirements
- Emergency preparedness
- Grounds upkeep and landscaping services
- Physical security services
- Property management administration
- Information management
- Reporting and monitoring
- Other building services

**Annex D**  
**Asset Integrity – Sir Charles Tupper Building**

## Annex D

Asset Integrity – A brief demonstration of current and planned RPS capabilities

### Background

- In March 2002 RPS acquired a software licence for “Re-engineering the Capital Asset Priority Plan” (RECAPP®). Physical Planning Technologies Inc. (PPTI), the developers of RECAPP, refers to its capability as “current and future asset deterioration modeling”. It accurately predicts how the future condition of assets affects funding. It accomplishes this through an industry-standard condition measurement, known as the Facility Condition Index (FCI). RECAPP will also identify the implications of deferral of projects on associated systems. This is commonly referred as “collateral damage”.

*That index can be used to measure Asset Integrity and, more usefully in this context, the rate of asset degradation over time from both historical and prognostic perspectives.*

PPTI also claims a strong and growing clientele among governments, government agencies and private sector corporations. Among RECAPP users they list “a significant cross-section of institutional and corporate sectors including school boards, universities, colleges, municipalities, health care, industrial, financial, communications and real estate property management firms.”

- The generic methodology has been in use for some time to manage assets on University Campuses and by municipal agencies according to a cursory search of the subject literature. PPTI was incorporated in Ontario in 1996. Its only apparent competitor is Verband Forshender Arzneimitellersteller known in North America simply as VFA in Boston.

### Experience at Canada Post

One of PPTI’s first Canadian clients was Canada Post Corporation. The Official interviewed from Canada Post attested to the utility of the FCI and other reports available through RECAPP’s Oracle-based relational database. Canada Post utilizes the system extensively for their most prominent 150 or so assets that represent 50% of their capital budgets. The remaining 3000 assets are small and uniform facilities of standard construction in about 6 size categories. These small facilities represent very limited risk and are highly predictable in their life-cycle capital cost behaviours. One of Canada Post’s chief risk criteria is processing facility downtime which can equate to per diem losses in excess of \$100,000 in some facilities.

Canada Post’s Real Estate Division has the advantage over other “property management organizations” in that they serve only one client and can exercise whatever self-control is necessary. Moreover, their operations are quite predictable and their accommodation planning is also stable. Nevertheless, they have incorporated RECAPP outputs into their strategic

management processes. Their indices have become standard references supporting all capital funding submissions to their senior management and, as such, have been adopted into the corporate vernacular.

- Also, Canada Post outsources its Property Management and Project Delivery Services for all assets in their custody. Canada Post's service providers all of the data management/input into RECAPP.
- BLJC is one of Canada Post's Service Providers and feeds RECAPP directly. They are also responsible for producing an annual budget to identify maintenance, repair and capital events. BLJC, as part of its preventative maintenance activities, must provide Remaining Life Assessments on the various components of the building. Dollar threshold for events input into RECAPP is \$1,000.

### RPS Capabilities

Currently RPS is populating its database on an accelerated basis with completion for the NCA targeted by March 31/03. The target for completion of the national database is conservatively estimated as end of calendar 2003. Some modelling tools and techniques are supporting the accelerated program.

Development of indices to measure building components is currently underway and will be integrated along with custom reports tailored to RPS requirements. Secure Internet web-based access for Client Facilities' Managers will also feature as part of the system's capability. Selected asset information will be available for their use and also will provide a single portal for sharing and consultation with clients on matters concerning strategic accommodation planning.

The following pages offer a glimpse of the system's capability using live data for an NCA asset that was the former location of PWC before amalgamation and when RPS was known by that acronym. The first few pages are selected extracts of the 100 page condition assessment of the Sir Charles Tupper Building.

***Please note:** the data is live, however, the methodology used to develop the inputs is being updated and a new data set will be available when the NCA phase of the accelerated data capture is completed. Nevertheless, the demonstration does provide insight into RECAPP's broad capabilities.*

The FCI for the subject building is provided and explained on page 4 of this annex.

**PWGSC/TPSGC**  
**Condition Assessment (No Pictures)**  
**SIR CHARLES TUPPER BLDG Ottawa 520069**



Construction Year	1960
Area	36,145.50

## Executive Summary

Property is composed of two sections: building with five narrow wings joined at right angles in a 'herringbone' configuration and parking lot, one on either side of Heron Road. Facility is generally well suited to continued federal office use, but some elements of main mechanical & electrical systems require work to extend useful life. Total planned investment in repairs & capital expenses over the 25-year plan period is \$33,942,450. Recommended Strategy: Continue to repair the building as required until new tenants are secured, at which time a comprehensive retrofit of each new tenant's space can be initiated.

### Positive Building Attributes:

ROI - ROI's over initial 5-year plan period are significantly positive in all but YR 4 during which major renovations are scheduled.

BOMA Indicators - Cleaning, energy and grounds costs at the subject building are substantially lower than BOMA benchmarks for private sector buildings.

Client Satisfaction - Occupants express satisfaction with convenient location in terms of place of residence and public transit availability. No negatives are noted in the AMP.

Environmental Compliance - Environmental Report Card completed March 1995. BCR identified asbestos & PCB materials in building lighting; asbestos removal program recently completed.

The Sir Charles Tupper building is located at 2720 Riverside Drive in the Confederation Heights federal government employment node, in the south-central area of the City of Ottawa. The asset was constructed in 1958 and originally conceived for use as a Hospital for the Department of Veteran Affairs. It was never used for this purpose, rather it has always been utilized as an office building. It is currently occupied by Health Canada, and Public Works and Government Services Canada.

The site area is spread over two locations: a parking area located on the north side of Riverside Drive comprising 3.23 hectares (715 surface parking stalls), and the office building and associated lands located on the south side of Riverside Drive comprising 6.33 hectares (31,297.5 m2 rentable building area). Both uses comply with prevailing zoning by-laws. The office building is "herringbone-shaped" comprising 5 wings (A through E) and is "Recognized" by FHBRO. The office building site is significantly under-utilized, in terms of the allowable development capacity of the site (by more than 20,000 m2 rentable).

The building finishes are dated and inconsistent, with exception of some newly renovated Health Canada and some PWGSC space. In addition, building systems are reaching the end of their economic life and many require replacement within the next five years to meet the accommodation requirements of the federal government. The building is not fully compliant with the National Building Code, the National Fire Code of Canada, and accessibility requirements.

The building requires considerable capital improvements to ensure it meets the federal government's standards of accommodation.

A review and study of the options available to the government to ensure the proper strategy is followed was undertaken. The options studied are:

Option 1 - Asset Retention with BCR Recommended Repairs including a Retrofit in 5 Years: This option involves completion of repairs and capital upgrades as per the Building Condition Report and is premised on a major renovation taking place in approximately five years.

Option 2 - Asset Retention with Demolition and Rebuild: This option involves demolition of the existing structure and construction of a new building on the same site. (sub-options are included to assess varying building sizes/development densities).

Option 3 - Asset Disposal and Lease Elsewhere: This option involves disposal of the office asset and excess lands, and leasing equivalent space in the marketplace, from a third party landlord.

**Asset Condition**

General: Overall, the building is considered to be in Fair condition. The major problems are a poor thermal building envelope, poor windows, ongoing drainage pipe failures, inefficient lighting fixtures and electrical wiring at the end of its useful life.

Architectural: - Exterior walls are generally good, but windows require replacement in very near future. Re-roofing

will be required within the next five years. Wide quality variance in interior finishes.

Mechanical: - Mechanical systems in reasonably good condition, however, changes in occupancy standards and user

expectations will require major upgrading. Some of the equipment has reached the end of its normal life.

Electrical: - Systems in good condition, except wiring at the end of its useful life. All electrical systems will require upgrading with the addition of new tenant fit-ups.

Structural: - Good condition (as per AMR)

Elevators: - Single freight elevator and six passenger elevators; disabled lift at main entrance. All are operating efficiently.

**PWGSC/TPSGC**  
**Facility Condition Indices**

Printed On: 20021208

Name	F.C.I.	Gross Area	Construction Year	Total Cost of Events	Asset Replacement Value
Sir Charles Tupper - presentation data	2.55%	36,146	1960	\$2,179,000	\$85,348,513

Facilities Condition Index (FCI) Defined

- FCI in practical terms has been a numerical rating system that translates what is seen when doing a condition assessment into a rational measure of the amount of deferred maintenance and provides a means of gauging the condition of the facility. The FCI is a metric that is used by numerous institutions as part of their capital planning process.
- The FCI can be defined in terms of the following equation:

$$\frac{\text{Deferred Maintenance (\$)}}{\text{Reproduction Cost New (\$)}}$$

### Deferred Maintenance Defined

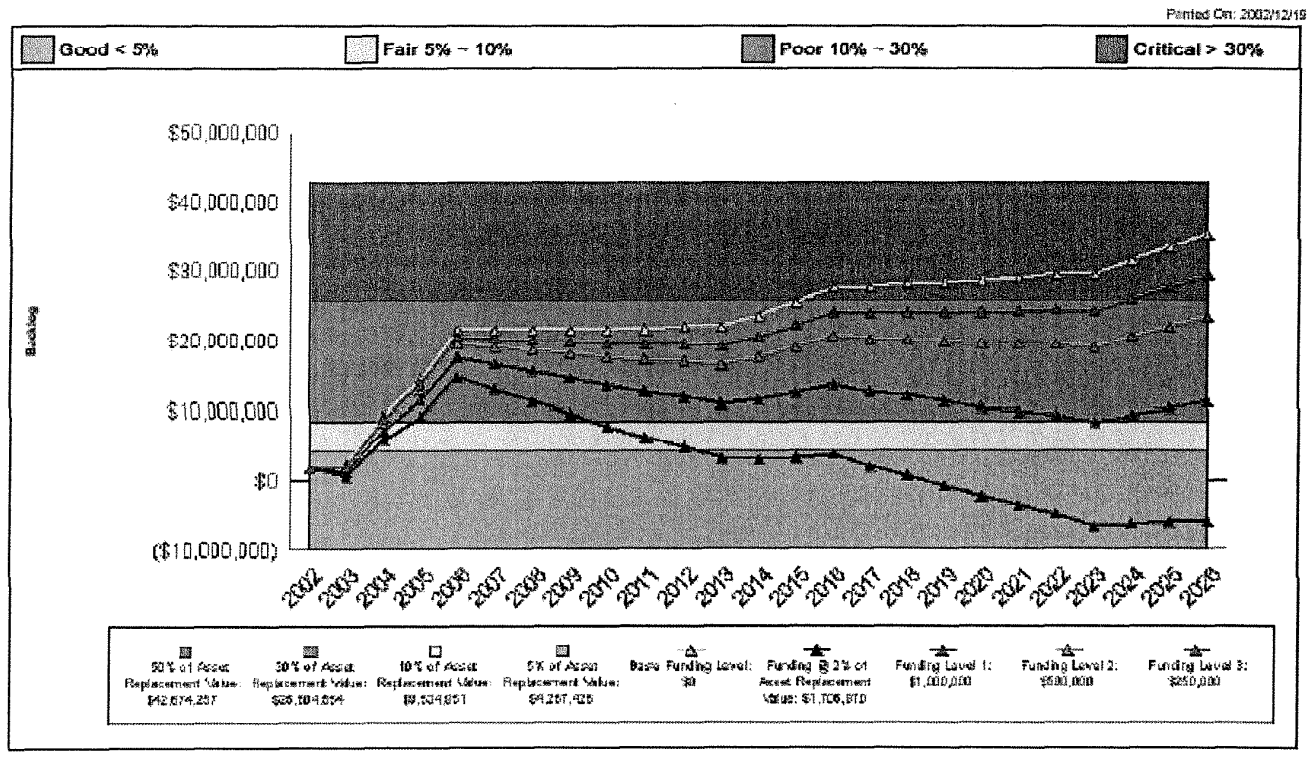
The total dollar amount of existing major maintenance repairs and component renewal identified by a comprehensive condition audit of buildings, grounds, fixed equipment, and infrastructure needs. It does not include projected maintenance and replacements or other types of work, such as program improvements or new construction; these items are viewed, as separate capital needs.

### **FCI for the Sir Charles Tupper Building (*Note; Data under review*)**

- The 2.55 % FCI is calculated by dividing the total event costs by the Asset Replacement Value (RCN). This would indicate that the asset is in good condition. It also tells triggers a concern because based on a knowledge of the asset, the FCI has to be greater than 2.55%. In this case, the capital events are too few and of insufficient value.
- There is a difference between Replacement and Reproduction Cost. Given the age of the RPS portfolio, replacement cost does not accurately reflect the cost of construction because it assumes that the components or systems within the asset are up to current standards. Reproduction Cost New is the actual building costs including elimination of the inherent obsolescence of a building built 30 + years ago.



**PWGSC/TPSGC**  
**Backlog Funding Model**



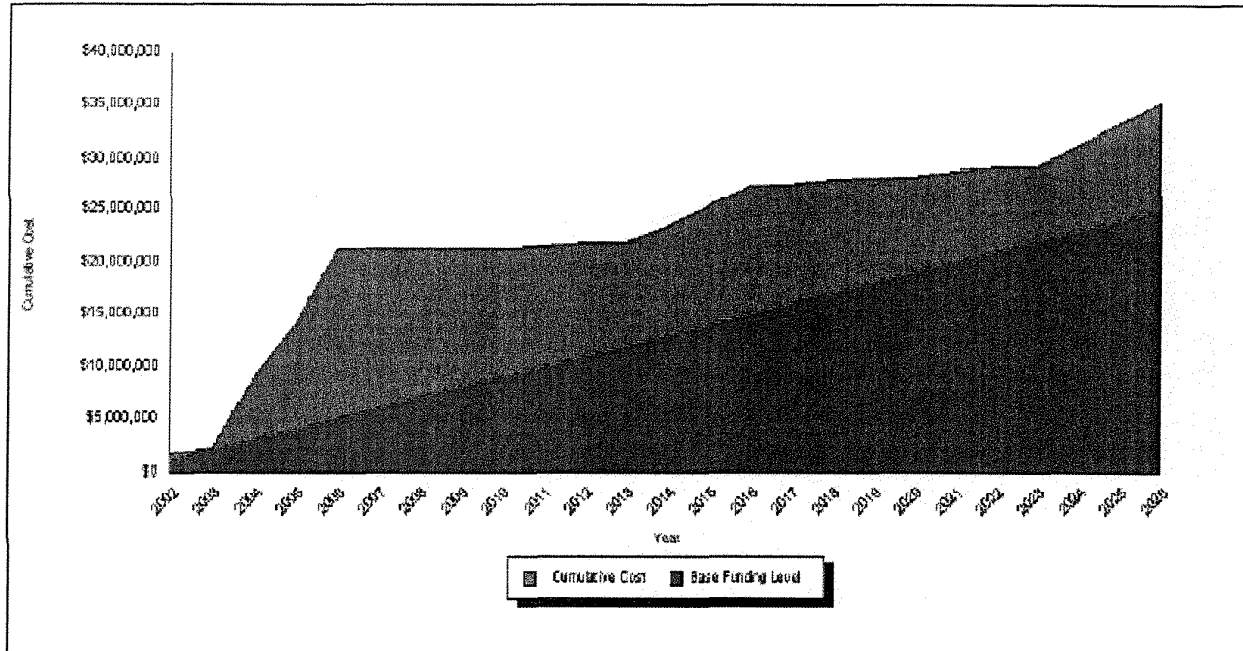
Backlog Funding Model / SIR CHARLES TUPPER BLDG. C02865 520069

Backlog Funding (Note: data under review)

- This graph demonstrates how various capital replacement-funding scenarios affect FCI. More particularly it dramatically demonstrates the impact s of deferral.
- The four solid ranges of the graph show mounting annual costs and represent good, fair, poor and critical FCI values.
- The five curves demonstrate annual replacement investments of 2% of RCN (\$1.7M, in this case) and nominally \$1M, \$500K, 250K and \$0.
- In this example, a 2% annual investment causes the FCI to stabilize in the “good” range after 11 years; in all other scenarios, they remain in the “poor” range or escalate to the “critical”.

**PWGSC/TPSGC**  
**Cumulative Event Costs vs. Cumulative Base Funding**

Printed On: 2002/12/19



Cumulative Event Costs / Cumulative Base Funding / BIR CHARLES TUPPER BLDG Ottawa 520069

Cumulative Event Costs vs Cumulative Base Funding

- The Cumulative Funding graph shows the gap in funding based on the events identified in the building condition audit. Red is the actual funding requirement and blue is the actual funding available for the asset. The upper portion is the funding gap.

## **Annex E**

### **Cost Effectiveness Methodology**

## Methodology

RPS officials have provided all information obtained to address the cost-effectiveness component of this evaluation. The principal sources have been the Deloitte & Touche audited reports of payments made to the Service Provider, the Financial Management System (FMS), the Information Repository and Reporting System (IRRS), the Project and Business Management System (PBMS) supplemented by a number of key interviews with RPS managers. The list of interviewees is attached in Annex B. In some instances it was not possible to obtain financial information from the regions in a short timeframe. When this occurred, proxies for proportion or shares were based on information from the NCA.

The TBS “Make or Buy” methodology is comprised of four basic steps:

1. Defining the outputs to be costed.
2. Determining those costs that would be saved by ceasing to provide the service in-house.
3. Computing the cost of purchasing the service from the private sector.
4. Comparing the difference between the net costs of both options.

TBS provides three key principles for “Make or Buy” analysis:

- 1. Relevance of the cost**  
Only those costs that differ between the two options should be taken into consideration in the analysis.
- 2. Fairness of comparison**  
Costs are included or excluded to ensure that the comparison between in-house delivery and contracting out options is as fair as possible.
- 3. Same level of service compared**  
Contracting out and in-house delivery options should provide the same level and quantity of the service under consideration.

## Assumptions

- Based on the principles listed above, the following were made in running this analysis:
- It was decided that all pass through costs that are the same in either scenario would not be considered. Hence utilities, service contracts, materials used to run the buildings and project expenditures other than internal salary charges would not be included in the analysis.
- In order to be fair to either scenarios certain costs elements such as the occupancy costs for the in-house staff in RPS internal operations would not be considered because the Service Provider often occupies the space that was vacated when AFD was introduced.

- The assumption with respect to the same level of service is that the Service Provider meets the quality requirements set in the contract which is the level of service provided by in-house operations prior to AFD.

The following costs elements and the source have either been included or excluded from the analysis:

Type of Costs (BCA qualifier)	In	Out	Source
Payroll Cleaning in-house (1A)	X		Deloitte & Touche for AFD scenario
Service Contracts Cleaning (1B)		X	
Supplies/Materials Cleaning (1C)		X	
Trash Removal (1D)		X	
Payroll O&M and Minor Repair (2A)	X		Deloitte & Touche for AFD scenario
Vertical Horizontal Transportation service contracts (2B)		X	
Heating, ventilation and air conditioning service contracts (2C)		X	
Electrical service contracts (2D)		X	
Structural /Roof service contracts (2E)		X	
Plumbing service contracts (2F)		X	
Fire and Life Safety (2G)		X	
Other Building Maintenance Supplies (2H)		X	
Preventive Maintenance in-house salaries (2I)	X		Deloitte & Touche for AFD scenario
Minor Repairs under \$5,000 (2J)		X	
Potable Water testing (2K)		X	
All Utilities (3A through 3G)		X	
Payroll in-house Roads/Grounds (4A)	X		Deloitte & Touche for AFD scenario
Roads/Grounds service contract (4B)		X	
Roads/Grounds – Other Expenses (4C)		X	
Security payroll in-house (4D)	X		Deloitte & Touche for AFD scenario
Security service contracts (4E)		X	
Security Other Expenses (4F)		X	
Minor Repairs under \$5,000 roads, grounds, security (4G)		X	
Payroll Facility Managers and other administrative staff (5A)	X		Deloitte & Touche for AFD scenario

Type of Costs (BCA qualifier)	In	Out	Source
Management Fees Property Management	X		Deloitte & Touche for AFD scenario
Professional Fees (5C)	X		Deloitte & Touche for AFD scenario
Other Administrative Expenses (5D)	X		Deloitte & Touche for AFD scenario
Service Provider Project Delivery Services (PDS) and Tenant Service Project (TSP) salaries	X		Proxy arrived at by analyzing 55 Investment Analysis Reports (IAR) from individual projects submitted by CSU Asset Managers
Management Fees for PDS and TSP	X		Deloitte & Touche for AFD scenario
AFD Directorate salaries and operating costs	X		FMS 2001-2002
Cost of supporting and managing IRRS (salaries & operating)	X		FMS 2001-2002
Costs of Managing Contract – time reported by RPS and SOS staff against AFD buildings	X		PBMS 2001-2002
In-House RPS Salaries PMS	X		Table of affected positions prepared by CAC
In-House RPS salaries PDS & TSP	X		Table of affected positions prepared by CAC and interview results
Employer paid Benefits	X		Treasury Board Secretariat
Training for in-house staff	X		Proxy based on interview results
Operating and Maintenance Costs for in-house operations	X		Proxy based on an average from 2001-2002 financial information available for other in-house RPS services
Corporate & Administrative Overheads	X		Interviews and proxies and past documents and reports
Program Support Overhead	X		Interviews and proxies

Because it is very difficult to obtain year-to-year financial information and because some costs are sensitive to inflation the financial data used would be for the year 2001-2002 if available.

Although the costs associated with Tenant Service Projects are recovered by client departments, they have been included in the analysis in order to determine if AFD is cost-effective for the government as a whole as opposed to RPS and PWGSC at the detriment of client departments.

## **Step 1 – Defining the Outputs**

The TBS guidelines state that defining the output is an important step as the output represents the target for all costs and generally influences the costing process. Specifications should be as clear as possible.

The CAC team reviewed a number of existing documents supplemented by a select number of interviews in order to gain a good understanding of what Property Management Services (PMS), Project Delivery Services (PDS) and Tenant Service Projects (TSP) were included in the AFD initiative. The list of documents that were reviewed is included in Annex A of the report..

CAC developed process maps that identified stakeholders and workflow in both in-house and AFD services in order to help the team gain a good understanding of just what services were included in AFD, how work processes differ in each scenario and what interdependencies existed between the different stakeholders. The process maps are attached in exhibit 1.

Although there have been some changes in the number of buildings included or removed from the AFD portfolios over the last four and one half years it has been determined that these changes have not had had a material effect on the overall results of this analysis once financial and non-financial information has been rolled-up at a national level. A table demonstrating the changes by rentable square meter is included in exhibit 2.

One area where there has been significant differences with estimates prepared in 1997 is the Project Business Volume. The Project Business Volume for PDS and TSP projects was estimated at \$21,459,800 and \$9,737,900 respectively when preparing the “Cost Base” in 1997. The amounts reported in the Deloitte & Touche Audited Reports for AFD PDS and TSP in 2001-2002 were \$75,451,536 and \$18,504,535 respectively. A summary of the Deloitte & Touche audited results highlighting the differences in Property Management Services, Project Delivery Services and Tenant Service Project Spending over the four years of AFD is included in exhibit 3.

The original “Cost Base” and “Estimated Bid” tables also referred to as scenario 12 are attached in exhibit 8.

## **Step 2 – Determining those costs that would be saved by ceasing to provide the service in-house**

### **2.1 Personnel Costs**

#### *2.1.1 Salaries*

The first step is to develop an estimate of salaries that would be paid to employees directly involved in providing the AFD services. The guidelines indicate that salaries for direct supervisory personnel should be prorated to the extent that their time is spent supervising individuals who provide the services.

In order to determine the level of effort required to deliver the same outputs as the Service Provider, the CAC team reviewed the Request for Qualification documents prepared in 1997 that listed the estimated effort required. The list of positions and classifications was derived by including all PWGSC personnel who were primarily attached to the buildings identified for AFD. CAC created a spreadsheet of the positions by portfolio and assigned the latest salaries based on current collective agreements. The list of positions is attached in exhibit 5 for Property Management Services; the positions for Project Delivery Services (PDS) and Tenant Service Projects (TSP) are the shaded portions of this exhibit .

#### Property Management Services (PMS)

There are 499 positions required to provide PMS for AFD buildings across Canada. The estimated salary cost based on current collective agreements is \$20,552,259.

#### Project Delivery Services (PDS) and Tenant Service Projects (TSP)

Based on estimated work effort and those PDS and TSP positions primarily servicing the AFD buildings in 1997, 201 positions were required for a combined salary of \$11,473,633.

The level of effort was based on an estimated Project Business Volume of \$21,456,800 for PDS type projects valued at between \$5,000 and \$200,000 in 1997 for the 1998-1999 fiscal year. In 2001-2002, Project Business Volumes for PDS projects of between \$5,000 and \$200,000 executed by the Service Provider were valued at \$75,451,536 according to the Deloitte & Touche Audited Reports.

PDS and TSP project spending has also increased at about the same rate in in-house PWGSC managed buildings. According to those RPS managers responsible for resourcing in-house PMS, PDS and TSP services, the increase in project spending has caused them to have to increase the level of project management/coordination resources by about 33%.

A 33% increase in the PDS/TSP effort would change the estimate for PDS/TSP salaries to \$15,259,932. Based on the average salary for PDS/TSP staff the estimated number of FTEs is  $(\$15,259,932 / \$57,083)$  267 FTEs.

Total Salaries for in-house services = \$35,812,191

#### Benefits

The TBS guidelines indicate that standard benefits are calculated as a mark-up of the direct salary costs. According to the "Costs of Monetary and Time Benefits for PSSRA 1-1 for Active Employees for Fiscal year 2000/2001" prepared by Compensation, Planning Division, Human Resources Branch, Treasury Board Secretariat The total Monetary Benefits excluding Retroactive Payments (Pay Equity) and overtime equals 27.99%. The table provided by TBS is attached in exhibit 4.



Costs of Employer paid Benefits = \$10,023,832  
 Salaries from section 1.1.1 – \$35,812,191 X 27.99% = \$10,023,832

### 2.1.2 Training

Training budgets for in-house training and professional development programs are centrally managed within the branch. Based on discussions with RPS managers it was agreed that an estimate of \$2,000 per FTE would be an appropriate assumption for training costs. This amount includes any departmental training that is charge to the Branch such as Conflict Resolution Workshops, software training and trade or profession specific training.

$\$2,000 \times (499 \text{ PMS FTEs} + 267 \text{ PDS/TSP FTEs}) = \$1,532,000$

Total Personnel Costs:	\$35,812,191 salaries
	+ \$10,023,832 benefits
	+ \$ 1,532,000 training
	<b>\$47,368,023</b>

## 2.2 Operating and Maintenance Costs (Materiel and Supplies, Maintenance and repairs, Travel, Communication)

Some O&M costs are centrally managed in RPS in order to reduce the administrative burden. Other O&M costs are identified as part of the Building Management Plans (BMP) process and are attributed to individual buildings and clients. In order not to double count these expenditures when calculating the Program Support costs. CAC propose the use of proxies based on the average costs of O&M per FTE. These amounts will not be considered twice because current Program Support spending is based on the AFD scenario and these estimates of O&M costs are over and above current spending. Based on a spreadsheet provided by RPS business management unit (exhibit 7) AES, AFMS and the Executive Director's cost centre spent \$16,757,000 in the NCA for the fiscal year ending March 31, 2002. CAC has taken that amount divided by the number of FTEs in each of the above noted divisions (1075 FTEs) to determine how much per FTE should be included to estimate the in-house O&M costs for AFD outputs.

$\$16,757,000 \text{ Operating} / 1075 \text{ FTEs} = \$15,590 \text{ per FTE}$

### Estimated Operating and Maintenance Costs:

$\$15,590 \times (499 \text{ PMS FTEs} + 267 \text{ PDS/TSP FTEs}) = \$11,941,940$

## 2.3 Occupancy Costs (Rent, Utilities)

Rent is the cost to the government for leased space or the current market price comparable space or premises owned by the government. Because in many instances the Service Provider is currently occupying the space vacated by RPS staff affected by AFD, no costs for occupancy are included in this comparison or "Make or Buy" analysis.

## 2.4 Overhead Costs

According to the “Make or Buy” guidelines, these costs include the portion of corporate and administrative (C&A) overhead within each department and the program support overhead within the unit responsible for delivering the service that can be expected to be saved once a function is performed in the private sector.

### 2.4.1 Corporate and Administrative Overheads

These costs are incurred outside program (operational) branches in support of operating programs and activities. They may include the costs of such functions as Executive Management, Communications, Administration, Personnel, Finance and Informatics. Only those portions of the costs that are sensitive to the competitive tendering decision should be included in the analysis.

In order to assess what impact a decision not to reprocure would have on current (C & A) services, CAC met with the Directors of departmental units responsible to provide Human Resources, Finance, Supply, and Informatics services to RPS. Each Director was asked to estimate what the impact of rehiring 766 FTEs would have on their services.

CAC also reviewed documentation prepared when AFD was introduced. Two documents were of particular interest. In one document that estimated the savings in corporate overhead that would result from AFD it was determined that 181 positions across Canada would be affected. It is our understanding that following negotiations with the affected services it was agreed to identify 101 positions as being affected. At that time the Corporate Allocation Charge (CAM) for RPS was reduced by \$4.9 million or about \$49,000 per FTE. There were no provisions made for benefits, operating and occupancy costs for these positions. Although the CAM charge was reduced the actual positions were not necessarily eliminated because PWGSC was at that time gearing up for the Financial Information Strategy (FIS) and Y2K initiatives.

Based on interview results and taking into consideration the original studies that determined the impact on C&A services, CAC determined that about 121 additional persons would be required to provide C&A support to RPS if AFD was not reprocured. The breakdown of additional resources is as follows:

Human resources	20 FTEs
Information Technology	32 FTEs
SOS-Supply	20 FTEs
Admin&Security	20 FTEs
Finance	<u>29 FTEs<sup>1</sup></u>
Total	121 FTEs

<sup>1</sup> The estimate of 29 FTEs for Finance Services is much lower than the 74 positions identified when AFD was introduced. Since 1997, much of the processing of payments in the NCA has been moved from the corporate finance group to RPS. Corporate Finance continues to provide complete processing and payment services in the Regions.

The additional costs in salaries benefits, training, occupancy, operation and maintenance, of these additional 121 FTEs is determined at \$12,364,264

121 FTEs X \$60,000 (average salary for HR, IT, Finance professionals) = \$7,260,000

\$7,260,000 X 27.99% benefits = \$2,032,074

121 FTEs X \$2,000 training = \$242,000

\$7,260,000 X 13% occupancy costs (rent, utilities) = \$943,800

121 FTEs X \$15,590 (operating, maintenance, computers, capital) = \$1,886,390

**Total Corporate and Administrative Overhead = \$12,364,264**

#### *2.4.2 Program Support Overhead*

The Federal Accommodation and Holdings Service Line in the National Capital Area is composed of 1,627 FTEs (exhibit 7). Of those FTEs, 104 provide Program Coordination principally in OARES and the ADM's office. 639 FTEs provide Service Coordination and Service Management and Administration, and 884 provide Service Delivery. Should AFD be discontinued CAC estimates that 330 FTEs would be added to Service Delivery staff in the NCA and the remaining 436 FTEs would be redistributed in the Regions.

To our knowledge there have never been any documents or reports that have dealt with the impact of AFD on the Program Support function in the branch. In fact CAC was not able to obtain any historical financial information as the Branch structure and financial framework have changed over the last 4 1/2 years. Our understanding is that there has been significant change in the Service Coordination and Service Management and Administration function of the Branch and trying to determine how AFD may have freed up resources and capacity when it was implemented would be next to impossible.

CAC met with senior RPS officials to understand how a decision not to reprocure the AFD initiative would impact the Program Support function in the Branch. When asked what impact 766 additional FTEs would have on Service Coordination and Service Management and Administration (Program Support) some officials stated that there would be little impact if the current resources dedicated to managing the contracts were made available to the Branch to provide Program Support

Some RPS managers indicated that there would be a need for more resources than the 75 FTEs currently managing the AFD contracts especially with respect to management and supervisory support and technical and program management support such as Asset Managers and specialized fields like environmental impact assessors. Another area requiring additional resources in the National Capital Area was the business management function where there are currently 11 FTEs processing all transactions related to the 3 AFD portfolios/contracts in the NCA. It was indicated that in the absence of the AFD contracts the number of persons needed to treat the operating and project transactions and other business information related to the buildings would be significantly higher.

Areas identified as requiring more resources were supervisory support, management coordination of assignments and resources, the coordination and delivery of training programs, and the treatment of financial and non-financial information for all activities no longer covered by the existing AFD contracts. It is estimated that the 13 contracts albeit more complex to process than regular contractual arrangements have nonetheless eliminated about 70,000 transactions of all sorts every year. Other areas requiring additional resources included providing support related to the tendering, evaluation of bids, processing of payments and conducting quality assurance checks of third party contractor activities, all things currently provided by the AFD Service Provider.

Those RPS officials who though more resources would be required estimated that about 90 to 100 FTEs (including the 75 FTEs currently charging time to AFD activities) would be required to provide Program Support across Canada.

Current departmental information management systems (PBMS) indicate that 75 FTEs have been charged to activities related at managing or supporting AFD outputs. Based on the interview results and that 639 FTEs currently provide support to 884 service delivery FTEs in the NCA, CAC feels that 90 FTEs is a conservative estimate of the number of FTEs that would be required to provide additional Program Support not just in the NCA but across Canada. The estimated costs of this additional Program Support is \$7,927,650.

90 FTEs X \$50,000 average salary = \$4,500,000  
 \$4,200,000 X 27.99% benefits = \$1,259,550  
 90 FTEs X \$2,000 training = \$180,000  
 \$5,400,000 X 13% occupancy (rent, utilities) = \$585,000  
 90 FTEs X \$15,590 operating, maintenance, computers, capital = \$1,403,100

**Total Program Support Costs = \$7,927,650**

Extracted from exhibit 7

Personnel and Operating Costs for Service Coordination and Service Management & Adm:

AES	\$6.1 million + \$5.3 million
AFMS	\$7.1 million + \$10.7 million
Exec. Dir (CSU & Bus. Mgt.)	\$8.9 million + \$0.7 million
Info. Mgt.	<u>\$3.9 million + \$30.7 million</u>
<b>Total</b>	<b>\$73.4 million</b>

## 2.5 Total In-House Delivery Costs

Total Personnel Costs:	\$47,368,023
Operating and Maintenance Costs:	\$11,941,940
Total Corporate and Administrative Overhead:	\$12,364,264
Total Program Support Costs:	<u>\$ 7,927,650</u>
 Total In-House Delivery Costs	 \$79,601,877

### Step 3 – Determining the Cost of Purchasing the Service

The principle sources of financial data used to determine the cost of purchasing the service were the Deloitte & Touche Audited Reports, which provided the amounts of monies given to the Service Provider. The other sources that supplemented this section are the IRRS statements that provided a breakdown of disbursements by RPS qualifiers 1 through 5 as defined in the National Call Letter for Building Management Plans, and the PBMS, which provided information on RPS staff that charged their time to managing the contract.

### 3.1 Contract Administration

These costs are incurred by the government to ensure that both parties properly execute the contract. There are five groups of RPS and departmental staff that are the principal contributors to the cost of managing the contract. They are the four persons who currently work in the AFD Directorate and provide policy and technical advice to asset managers in the CSUs. The persons working in the informatics directorate who manage the Information Repository and Reporting System (IRRS) the 70FTEs across Canada that have charged their time to AFD outputs. Included in these 70 FTEs are the \$636,000 for SOS services as well as the 11 FTEs from the business management function who process payments and financial data related to AFD. It is important to note that these 70 FTEs are not 70 individuals for say this amount of personnel and operating costs is made up of a compilation of hundreds of people's time charged to different AFD activities. These costs are presented in exhibit 6, RPS Labour and Operating Costs.

#### 3.1.1 Personnel (Salaries, Benefits, Training)

Based on information obtained from PBMS and FMS the following costs for salaries have been identified:

##### Salaries

AFD Directorate	\$ 268,004 (2AS7s, 1AS5, 1AS1)
IRRS	\$ 209,439
RPS Staff (Portfolio level)	\$3,455,805 (70 FTEs)
Business Manager	<u>\$ 54,141 (1AS4)<sup>2</sup></u>
Total Salaries	\$3,987,389

<sup>2</sup> Currently three Business Managers are assigned to the NCA AFD portfolios but they are not 100% dedicated to AFD. One AS-4 was completely dedicated to all three portfolios when AFD was implemented.

Benefits

As indicated in section 2.1.2, the TBS guidelines indicate that standard benefits are calculated as a mark-up of the direct salary costs. According to the "Costs of Monetary and Time Benefits for PSSRA 1-1 for Active Employees for Fiscal year 2000/2001" prepared by Compensation, Planning Division, Human Resources Branch, Treasury Board Secretariat The total Monetary Benefits excluding Retroactive Payments (Pay Equity) and overtime equals 27.99%. The table provided by TBS is attached exhibit 4.

Salaries \$3,987,389 X 27.99% = \$1,116,070

Training

75 FTEs X \$2,000 = \$150,000

Total Personnel Costs to Manage the Contract = \$5,253,459

Occupancy Costs (Rent, Utilities)

PWGSC sets the cost of occupancy as percentage mark-up on salary costs

\$3,987,389 X 13% = \$518,361

*3.1.2 Operating and Maintenance Costs*

Based on FMS information, O&M data is available for both the AFD Directorate and the IRRS unit:

AFD Directorate	\$2,100,294
IRRS	\$1,384,667
RPS staff (70 FTEs)	\$1,091,300*
Business manager	<u>\$ 15,590</u>
Total	\$4,591,851

\*70 FTEs X \$15,590 – the same proxy as in section 2.2

**Total Cost of Managing the Contract:**

<b>Personnel Costs</b>	<b>\$ 5,253,459</b>
<b>Occupancy</b>	<b>\$ 518,361</b>
<b>O&amp;M Costs</b>	<b><u>\$ 4,591,851</u></b>
<b>Total</b>	<b>\$10,363,671</b>

### 3.2 Contract Performance Costs

The AFD contract stipulates that the cost of operational staff, up to and including the Property Manager and technical support, directly employed in the building are not included in the management fee (i.e. these costs are identified as in-house salaries for PMS activities (BCA qualifiers 1 through 5). The intent was that the management fee would include all “indirect” costs, such as management salaries above the property manager level, HR, insurance, IT, and management infrastructure costs, as well as overhead and profit.

#### 3.2.1 Salaries

The Deloitte & Touche Audited Reports 2001-2002 indicate that \$28,215,456 has been paid out to the Service Provider for PMS (BCA qualifiers 1 through 5).

The Service Provider also charged in-house salaries on PDS and TSP outputs. This information is not captured and rolled-up at any level. The Service Provider provides details of project salaries in individual project Investment Activity Reports (IAR), however this information is not captured beyond that point. An analysis carried-out by the AFD Directorate of 55 random IARs provided by Property and Facility Managers (PFMs) in the NCA in 2001 indicates that the Service Provider charges on average 6% of the total project costs excluding management fees for salaries. This 6% compares to about 16% in the RPS in-house services. Although the sample of IARs is very small, CAC estimates that the Service Provider received about \$5,637,364 in project salaries for PDS and TSP. (\$75,451,536 PDS disbursements + \$18,504,535 TSP Deloitte & Touche for AFD

List of positions and classifications for in-house estimates X 6%)

Property Management Services	\$28,215,456
Project Delivery and Tenant Service Projects	<u>\$ 5,637,364</u>
Total contract salaries	\$33,852,820

#### 3.2.2 Management Fees

The Deloitte & Touche Audited Reports indicate that the Service Provider has received the following amounts in 2001-2002 for management fees:

Property Management Fees	\$ 8,808,880
Project Delivery Services Fees	\$ 3,772,604
Tenant Service Projects Fees	<u>\$ 925,230</u>
Total Management Fees	\$13,506,714

#### 3.2.3 Administration

The Deloitte & Touche Audited Reports do not provide details of disbursements for PMS activities other than Salaries, Fees and Disbursements. According to IRRS reports for fiscal year

2001-2002, \$8,808,880 was given to the Service Provider to cover other administrative expenses related to the operation/maintenance of the buildings (i.e. pagers, radios, and travel)

Total Administration Costs	\$8,808,880
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#### 3.2.4 Incentive Program

The AFD contract stipulates that an incentive be paid to the Service Provider based on performance and the ability to manage within the amounts identified in the Annual Building Plans and Portfolio Management Plans. The Deloitte & Touche Audited Reports indicate that \$628,602 was paid to the Service Provider in 2001-2002.

#### Provincial Sales Tax

An amount of \$443,153 was paid to the Service Provider for Provincial Sales Taxes. Not all provincial jurisdictions interpret AFD arrangements with the Federal Government. The AFD Directorate is conducting some liaison with provincial governments who do not recognize the Service Provider as an agent of the Federal Government. In the interim the Service Provider does get charged some provincial sales tax that they pass through.

#### Total Contract Performance Costs

<b>Service Provider in-house salaries:</b>	<b>\$33,852,820</b>
<b>Management Fees:</b>	<b>\$13,506,714</b>
<b>Administration Costs:</b>	<b>\$ 8,808,880</b>
<b>Incentive Program:</b>	<b>\$ 628,602</b>
<b>Provincial Sales Tax:</b>	<b><u>\$ 443,153</u></b>
<b>Total Contract Performance Costs:</b>	<b>\$57,240,169</b>

#### 3.3 Total Costs of Contracting-Out

Cost of Managing the Contract	\$10,363,671
Contract Costs	\$57,240,169
<b>Total Cost of Contracting-Out</b>	<b>\$67,603,840</b>

#### Step 4 – Comparing the difference between the net costs of both options

<b>Total In-House Delivery Costs</b>	<b>\$79,601,877</b>
<b>Total Cost of Contracting-Out</b>	<b><u>\$67,603,840</u></b>
<b>Difference</b>	<b>\$11,998,037</b>



Conclusion

Outsourcing PMS and some PDS and TSP is a cost effective approach to provide services. The “Make or Buy” analysis demonstrates that at least \$12 million was saved in 2001-2002 by undertaking AFD over delivering the same outputs using in-house resources.

When comparing costs it is possible to compare the costs of management fees and the Cost of managing the contract with the Corporate and Administrative overhead and Program Support Costs which are somewhat similar activities. The results of so a comparison indicate that there are little differences between these activities:

## Management and overhead type of costs

Management Fees:	\$13,506,714
Cost of Managing the Contract:	<u>\$10,363,671</u>
Total	\$23,860,385

Corporate and Adm. Overheads:	\$12,364,264
Program Support	<u>\$ 7,927,650</u>
Total	\$20,291,914

Difference in Management and overhead costs: \$3,605,471 more in the AFD model

The same type of comparison can be made when looking at Personnel and Administration Costs:

Service Provider Salaries:	\$33,852,820
Administration Costs:	<u>\$ 8,808,880</u>
Total	\$42,661,700

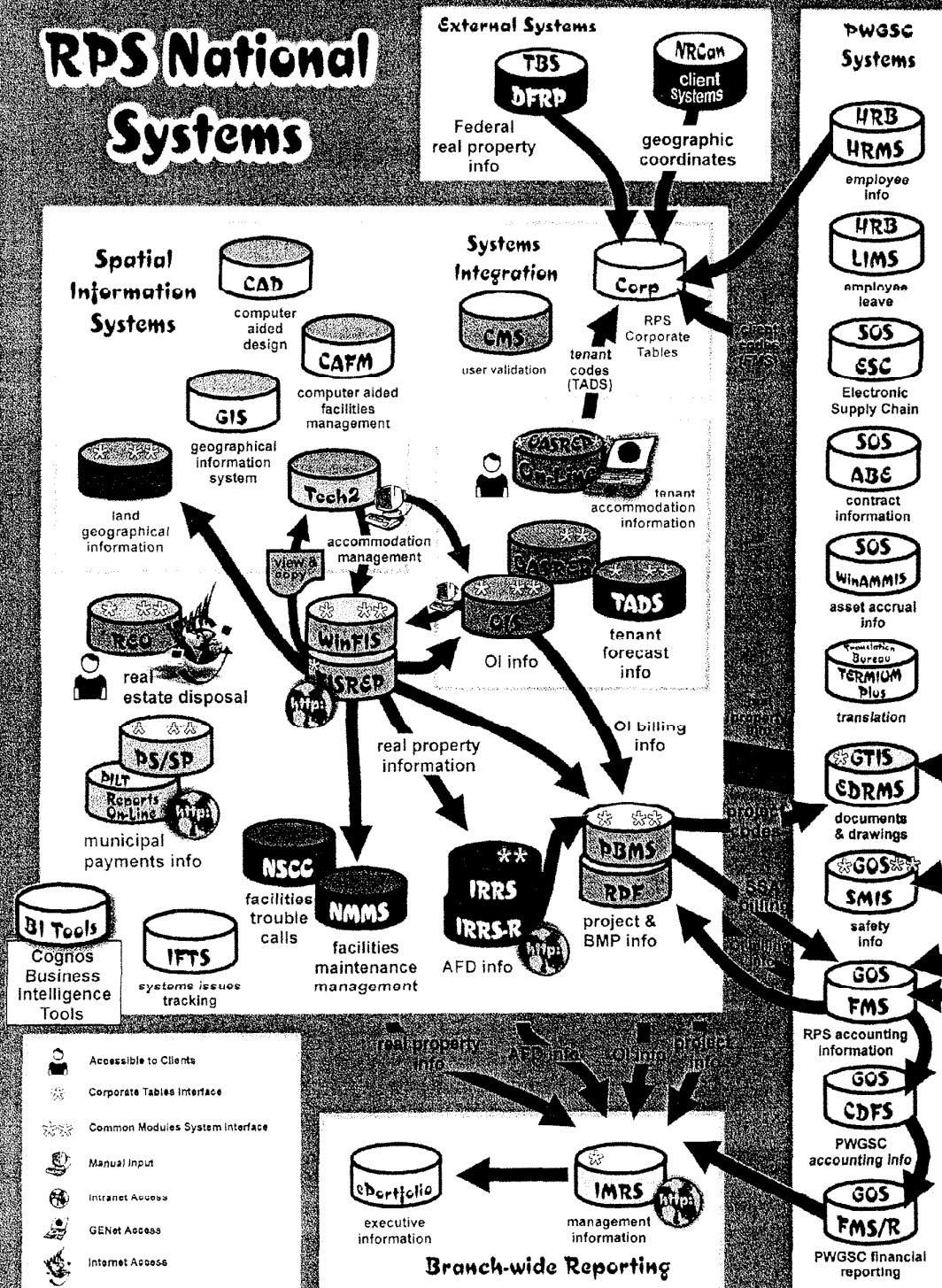
RPS estimated Personnel Costs:	\$47,368,023
Operating:	<u>\$11,941,940</u>
Total	\$59,309,963

Differences in Personnel and Admin costs: \$16,648,263 more in the in-house model

## **Annex F**

### **RPS National Systems**

# RPS National Systems



1 November 2002