

Maintenance Contract Renewal

the challenge Since 2006, Yarra Valley Water (YVW) had a contract with Lend Lease for the provision of maintenance services based on activity pricing and pain/gain sharing principles. With the contract set to expire in mid-2015, YVW wished to redesign the contract to align with contemporary contract models and reengage the market through a tendering process to determine competitive activity rates.

YVW engaged a consulting team consisting of Marchment Hill (experts in water services contracting and activity based pricing) and PCI (experts in contract model design across multiple industry sectors) with the following goals:

- Drive innovation through maintenance services;
- Develop a market leading, contemporary and commercially-focused maintenance contract model that is easy to manage;
- Deliver value for money to YVW’s customers without compromising service levels;
- Recruit and select a maintenance contractor who is a good strategic fit; and
- Transition to a renewed contract by November 2015.

what Marchment Hill did

With these goals in mind, the consulting team set about addressing the client’s challenges and delivering value utilising the following approach:



Future Contract Design

In developing a future contract that best suited YVW’s needs, an understanding of the current strengths and weaknesses of the existing contract was required. This was conducted through interviews with key stakeholders and detailed analysis of the commercial model and historical costs of the current contract (including maintenance activities and overheads). This analysis was complemented by a best practice study of the outsourcing arrangements for several leading Australian water and energy utilities.

Our consulting team concluded the current contract lacked transparency, required significant effort to manage, and had

insufficient commercial incentive or competition to drive continual performance and innovation.

These insights allowed a contract model design based on splitting of the contract into Mechanical & Electrical, Civil North and Civil South services, a more robust commercial framework and an approach to pricing of activities that promoted transparency and alleviated high levels of management intervention.

Market Engagement

A large number of maintenance service providers responded to an Expression Of Interest (EOI) by detailing their financial strength, industry experience and approach to OH&S and quality management. The most capable Mechanical & Electrical and Civil maintenance service providers were progressed to the Request For Proposal (RFP) stage.

Proponents provided details on how they would satisfy YVW's corporate objectives (safety, value for money, customer service and innovation) and deliver these services, and their proposed delivery teams. Each proponent's bid was then assessed against a series of non-financial and financial criteria. Technical workshops involving interviews, role play and assessment of cultural alignment were used as input to the non-financial assessment.

In order to inform the financial assessment, those proponents deemed to be a good strategic and cultural fit for YVW were then asked to submit prices for a range of Mechanical & Electrical and Civil maintenance activities, including the associated management overhead, profit and mobilisation costs.

Market Selection & Transition Plan

The consulting team conducted detailed validation and comparative analysis of all proponent pricing including the individual maintenance activities, management overhead, profit, mobilization, and bid cost reduction factors for each of their different contract offers (e.g. single contract, multiple contract). This was complemented by sensitivity analysis that investigated the impact on total contract cost through variations in activity rates and volumes over the period of the contract.

To aid YVW board and executives to make a decision, MHC produced a business case detailing a recommended option and next best alternatives. The clear best financial option was to award all three contracts to a single contractor in Thiess, due mainly to the robustness of their activity pricing, and their proposed cost glide path and savings for the period of the contract. On approval of the business case, the consulting team assisted YVW in the negotiation of final contract elements with Thiess.

the benefit

The consulting team managed a complex contract renewal process within a tight timeframe that realised the following notable benefits for YVW:

- Strong incentives for providing innovation and continuous improvement;
- Improved transparency and streamlined contract management, particularly in relation to maintenance activity costs;
- Significant reductions in cost in Year 1 (accounting for mobilisation costs) and in subsequent years; and
- Improved internal processes in relation to customer service, fleet and depot management.