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Management/Operation and Maintenance Contracts: Water Meter

Structuring Management, Operation and Maintenance Services

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Management contracts and Operation and Maintenance (O&M) contracts are contracts governing a type of public-private partnership (PPP) agreement. This section explains key features of this type of arrangement, provides sample contracts, bidding documents and checklists.

What Are Management and "Operation and Maintenance" Contracts?

The term "management contract" has been applied to cover a range of contracts from technical assistance contracts through to full-blown operation and maintenance agreements and so it is difficult to generalize about them. The main common features are that the awarding authority engages the contractor to manage a range of activities for a relatively short time period (2 to 5 years). Management contracts tend to be task specific and input rather than output focused. Operation and maintenance agreements may have more outputs or performance requirements.

The simplest management contracts involve the private operator being paid a fixed fee by the awarding authority for performing specific tasks - the remuneration does not depend on collection of tariffs and the private operator does not typically take on the risk of asset condition. Where the management contracts become more performance-based, they may involve the operator taking on more risk, even risk of asset condition and replacement of more minor components and equipment.

Also check:

- Checklist for Management Contracts or Operation and Maintenance Agreements

Key Features of Management/O&M Contracts

- Contractor to manage a range of activities;
- Generally short term, usually for two to five years;
- Traditionally been favored as transitional arrangements for introducing the private sector into managing infrastructure but longer term operation and maintenance agreements are becoming more common in the water and energy sectors where more extensive participation by the private sector through a lease, affermage or concession arrangement in these "essential services" is deemed to be too politically sensitive or impractical;
- Commonly found in the water sector and, to a more limited extent, energy sector;
- Limited potential for improvements in efficiency and performance although more sophisticated management contracts (which are often called operation and maintenance contracts) may introduce some incentives for efficiency or improved bill collection, by defining performance targets and basing a portion of the remuneration on their fulfillment (and cover longer time periods);
- Operator is usually paid a fixed fee to cover its staff and expenses. There may also be a performance based fee and liquidated damages for failure to achieve performance parameters;

- Operator may be required to collect bills on behalf of the utility and may accept some collection risk in terms of performance standards but is unlikely to collect bills on its own behalf;
- Can be useful where condition of assets is uncertain where the private sector would be unwilling to accept more extensive risk;
- Some may also include obligations on the private operator to operate and maintain the assets, sometimes extending to bearing the cost of routine replacement of small, low value parts of equipment. Such features require more monitoring to ensure that the outputs are being achieved and usually involve higher establishment costs;
- Operating agreements are also usual in relation to BOT/ concession arrangements, with the concessionaire sub-contracting the operations phase of the concession to an operator;
- Usually no transfer of employees to the contractor - the contractor will merely add a layer of management over the existing utility structure. This often causes problems if the staff of the utility still look to the awarding authority, their employer, for instructions. Enforcement of discipline by the private operator may also be difficult.

For an analysis of whether a management contract is the most appropriate solution in a given situation, go to Benefits and Risks of PPPs.

The World Bank has developed a Standard Form Management Contract together with Bidding Document and Technical Note recommended for use on water and energy projects the Bank is funding. Also included is a Technical Note discussing management contracts and their preparation. Go to the General Conditions in the Bidding Documents for the contract itself.

For a viewpoint of a management contract working in practice in the water sector in Venezuela, please check Management Contracts and Water Utilities: The Case of Monagas State in Venezuela.

Example Management/O&M Contracts by Sector

Water and Sanitation

Please see the Water & Sanitation PPP section for multiple examples of water management / O&M contracts, as well as other types of PPP agreements in that sector.

Power

The World Bank has developed a Standard Form Management Contract together with Bidding Document and Technical Note recommended for use on water and energy projects. Go to the General Conditions in the Bidding Documents for the contract itself.

The following have been developed for a World Bank funded project looking at the introduction of private sector operator in the electricity sector through a management contract:

Checklist of the legal due diligence issues that should be addressed by local lawyers in preparing an electricity management contract: Due Diligence Checklist.

The guidance in Operation and Maintenance Strategies for Hydropower: Handbook for Practitioners and Decision Makers is structured though a step-by-step approach to operation and maintenance (O&M) strategy development and implementation. The Handbook for practitioners and decision makers seeks to raise awareness among utility managers, decision makers, and other stakeholders of the importance and benefits of developing robust operation and maintenance (O&M) strategies for existing and greenfield hydropower plants.

Rail and Trams

There are a number of existing arrangements in place which resemble operating or franchise agreements for trams and rail. For examples, look at:

- Australia, Victoria for links to the agreements and summaries of the arrangements for Melbourne's suburban train and tram networks.
- UK Rail Regulator for links to UK's rail licensing regime, summaries of legislation, legislation and agreements.

Roads

The Road Geohazard Risk Management Handbook outlines an approach to proactively manage the risks of geohazards on roads, road users, and the people living near and affected by road.

Part V in the Handbook, Operations and Maintenance, focuses on the operations and maintenance aspects of geohazard management whether the maintenance of previously engineered solutions or the nonengineered solutions available to mitigate the impacts of geohazard risks

The World Bank Sample Bidding Document for Management and Maintenance of Roads - Request for Bids (RFB) - Works - Roads (Output and Performance -Based Road Contracts - OPBRC) has been prepared for the use in contracts financed by the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The SPD derives from the Master bidding document for Procurement of Works.

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- **Standardized Agreements, Bidding Documents and Guidance Manuals**

Additional Resources

- Power and Renewable Energy PPPs
- Railway PPPs
- APMG PPP Certification Program Guide

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