

Date: 27 November 2012

Item 7: Tube Lines Cleaning and Security Services Contract

This paper will be considered in public

1 Summary

- 1.1 This paper outlines proposals to award a new contract to provide station and train cleaning services and security services in respect of the Jubilee, Northern and Piccadilly lines.
- 1.2 At its meeting on 7 November 2012, the Tube Lines (Holdings) Board considered a similar paper and supported the recommendations.
- 1.3 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from any public meeting.

2 Recommendations

2.1 The Committee is asked to recommend to the Board that it:

- (a) note the paper;
- (b) approve the award of a contract of five years nine months duration, for the supply of cleaning services to the Jubilee, Northern, Piccadilly line stations and trains (together with other office accommodation remote from the stations) and security services to operational areas (including depots and sidings with a facility to provide security services at project sites) as described in this paper, to the supplier stated in the corresponding paper on Part 2 of the agenda;
- (c) delegates to the TfL Officers and the Subsidiaries (as described in paragraph 2.2 below) the authority to finalise the terms of the contract referred to in paragraph 2.1(b) above;
- (d) authorises the agreement and execution (whether by deed or otherwise on behalf of TfL or any Subsidiary (as appropriate)) any documentation to be entered into in connection with the completion and implementation of the contract referred to in paragraph 2.1(b) above (including, without limitation, all agreements, deeds,

guarantees, indemnities, announcements, notices, contracts, certificates, letters or other documents); and

(e) authorises TfL Officers and Subsidiaries to do all such other things as they consider necessary or desirable to facilitate the execution and implementation of the contract referred to in paragraph 2.1(b) above.

2.2 The following Officers and Subsidiaries shall have delegated authority:

(a) TfL Officers: the Commissioner, Managing Director Finance, Chief Executive, Tube Lines, General Counsel and the Chief Finance Officer.

(b) Subsidiaries: Subsidiaries of TfL including Transport Trading Limited and any other subsidiary (whether existing presently or to be forms) of Transport Trading Limited and any of the directors of the relevant company shall be authorised to act for and on behalf of that company.

3 Background

3.1 Currently, the tendered scope of services is predominately provided via:

(a) a contract with ISS Facility Services Limited for cleaning services, and

(b) a contract with Carlisle Security Limited for security services.

3.2 There are also a number of other smaller contracts providing cleaning services at various office and depot locations.

3.3 The consolidation of the supply of these services should simplify arrangements and drive value through economies of scale. The expiry dates of the existing arrangements are aligned to 31 March 2013, which facilitates this consolidation.

3.4 Consideration was also given to aggregating the expenditure on these services with that of the rest of Rail and Underground in order to realise further value.

3.5 Station and train cleaning services and security services for the rest of the underground network are provided to London Underground under a five year contract with Rentokil Initial Facilities (UK) Limited, which commenced in February 2010. EU procurement regulations do not permit Tube Lines' cleaning services expenditure to be added to this existing contract as this would represent a material change. Therefore, as a minimum, a separate procurement for cleaning services is required.

3.6 For security services, feedback from the supply chain was that savings would be maximised by their combined supply with cleaning at each Tube Lines site, rather than separating them from cleaning services and aggregating with security services from elsewhere within TfL. This was because economies of scale are largely generated from the administration and supervision of cleaning and security staff, which is facilitated by consolidating service

provision by site. Given this, and the relatively low value of the proposed security services, a combined tender approach was adopted.

- 3.7 The proposed contract runs to December 2018, rather than being aligned with the expiry of the cleaning and security services contract for the rest of the underground network in 2015, for the following key reasons:
- (a) in order to secure the best prices possible, the contract duration needs to be sufficient to incentivise bidders to invest in efficiency programmes and to give them adequate time to deliver these savings. It was felt that two years would not be enough;
 - (b) the contract can be terminated without penalty with 12 months' notice and, therefore, is not a barrier to further aggregation of expenditure on expiry of the contract with Rentokil in 2015, if that was deemed appropriate; and
 - (c) if the further aggregation of expenditure is not deemed appropriate (for example, if incremental savings are outweighed by issues around the capability or appetite of the market to deliver a significantly larger contract), flexibility is retained to stagger the re-letting of these contracts and hence avoid the risk of overloading the market by letting them at the same time.
- 3.8 In compliance with the EU procurement regulations, competitive tenders have been sought to replace the existing contracts on expiry and the following companies have submitted bids:
- (a) Carlisle Cleaning & Support Services Ltd (Carlisle);
 - (b) ISS Facility Services Ltd (ISS);
 - (c) MITIE Transport Services Ltd (MITIE); and
 - (d) Rentokil Initial Facilities Services (UK) Ltd (Initial).
- 3.9 Prices for cleaning and security services were submitted by each bidder on both an individual and consolidated basis.
- 3.10 The intention is to complete a contract with the recommended bidder in the week commencing 14 January 2013, allowing a 10 week period of mobilisation before service delivery commences on 1 April 2013.

4 Basis of Tender

4.1 The key features of the tendered contract terms are summarised below:

Key Terms and Conditions	Tube Lines' standard conditions for maintenance services amended to incorporate target pricing, actual cost payment and gain share mechanisms.
Duration of Contract	Five years, nine months (1 April 2013 to 31 December 2018)
Type of Contract	<ul style="list-style-type: none"> ▪ Target cost with gain share ▪ Savings shared between the Contractor and Tube Lines ▪ 100 per cent of cost overruns attributable to the Contractor ▪ Where costs are projected to exceed the target cost monies may be deducted from interim payments ▪ Performance adjustment mechanism reflecting ambience, availability and KPI performance. ▪ Target costs subject to annual indexation based on RPI ▪ Payment on the basis of actual cost plus fee (overhead and profit)
Key Deliverables	<ul style="list-style-type: none"> ▪ Station and train ambience scores as measured by Mystery Shopper Survey ▪ Availability of station premises and trains ▪ KPI performance measures
Key Remedies	<ul style="list-style-type: none"> ▪ 52 week no fault termination right ▪ Right to terminate (subject to seven days' notice) in the event of three consecutive months of poor performance ▪ Right to reduce payment in the event that the forecast total contract cost exceeds target
Risk Mitigations	<ul style="list-style-type: none"> ▪ Parent company guarantee to be provided

4.2 The contract has been tendered on the basis of an input, rather than an output specification. Tube Lines has a good understanding of the resource levels required to deliver the required service performance levels, based on robust data from the existing contracts. Therefore, it was felt appropriate for the bidders to compete on the basis of unit costs, overhead and profit and hence avoid the potential for tactical bidding in respect of the quantum of resources required.

4.3 However, it is recognised that additional value may be realised from the delivery of efficiencies which reduce input costs, while maintaining the quality of output. Therefore, the contract contains a cost improvement mechanism which facilitates the delivery of efficiencies and which, ultimately, could enable a move to an output specification if deemed appropriate. Tight control

is retained over the quality of the service as improvement initiatives cannot be implemented by the contractor without the prior agreement of Tube Lines.

5 Tender Evaluation Criteria

- 5.1 60 per cent of the overall tender evaluation score was based on commercial criteria (price and cost reduction proposals) and 40 per cent on technical criteria (technical capability, quality management, health and safety, cost and value management, supply chain management, risk management and business culture).

List of appendices to this paper

A paper on Part 2 of the agenda contains exempt supplemental information

List of Background Papers:

None.

Contact Officer: Stuart Munro, TLL Director of Finance, Commercial and Services
Number: 020 7088 4955
Email: Stuart.Munro@tubelines.com