

Date: 13 March 2017

**Item: One Facilities Management Services Procurement:
Approval of Award of Contracts**

This paper is to be considered in Public

1 Summary

Decision required	The Finance Committee is requested to approve the award of six contracts for the provision of facilities management services across TfL (the One FM Contracts).
Previous Consideration	None.
Sponsoring Director	Ian Nunn, Chief Finance Officer Tel 020 3054 8941 Email ianNunn@tfl.gov.uk
Information classification	Public. Exempt supplemental information is included in a paper on Part 2 of the agenda.

- 1.1 On 15 December 2016, the Board delegated authority to the Committee to approve the award of the One FM Contracts with the successful bidders upon completion of the One FM procurement process for the provision of facilities management services across the following TfL areas:
- (a) Underground – Stations, depots and offices; Crossrail interface stations, Tunnelling Underground Construction Academy (TUCA).
 - (b) Surface – Bus stations, Victoria Coach Station, Dial a Ride, Trams, River service piers;
 - (c) TfL Corporate – Offices & Premises;
 - (d) London Transport Museum
- 1.2 The purpose of this paper is to request the Committee to approve the award of six One FM Contracts which are the result of the One FM procurement process, which is nearing completion.
- 1.3 Subject to the approval of the Committee, the award of the One FM Contracts will be in March/April 2017, with service commencement on 25 June 2017.
- 1.4 There is sufficient funding within current budgets to cover the One FM Contracts.

- 1.5 A paper is included on Part 2 of the agenda, which contains exempt supplementary 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 this meeting.

2 Recommendation

- 2.1 **The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda and to approve the award of the six One FM Contracts as described in this paper, each for a period of five years, with the preferred bidders identified in the paper on Part 2 of the agenda, the maximum sums for the initial five years of which are set out in the paper on Part 2 of the agenda. The Contracts have an option to extend by up to a further three years; further authority will be requested prior to the extension option being exercised.**

3 Background, Benefits and Opportunity

Background

- 3.1 Facilities management services across TfL have been business unit centric, procured and managed independently against differing standards and commercial models, on different terms and conditions and subject to varying degrees of performance management and modelling. In some instances the same supplier has provided services under separate contracts to different business units.
- 3.2 In 2013, a report by PricewaterhouseCoopers (PwC) identified significant benefits could be achieved from a more coordinated and consolidated approach to FM services procurement and contract management. PwC identified potential cost efficiency savings of between £4m – £10m enabled by the following ‘levers’:
- (a) Volume discounts from larger more efficiently managed contracts;
 - (b) Smarter and more consistent, output based service specifications and performance measurement;
 - (c) More flexible, collaborative and transparent target cost contract management.
- 3.3 An FM category management plan was developed which incorporated the recommendations from the PwC report as well as feedback gathered from the supply chain and internal stakeholders through significant market and internal engagement.

- 3.4 The One FM tender aligned to the structures and service provisions of the FM industry and supply chain with the aim of maximising the opportunities described in 3.1.2 above. Work packages have been bundled as follows¹:
- (a) Bundle 2 – Fire detection and suppression systems;
 - (b) Bundle 3 – Mechanical, Electrical and Fabric Maintenance
 - o Bundle 3.1 Mechanical & Electrical – Rail & Underground
 - o Bundle 3.2 Premises & Fabric – Rail & Underground
 - o Bundle 3.3 M&E and Fabric – TfL Corporate buildings; Surface Transport
 - (c) Bundle 4 – Manned Security and Static guarding;
 - (d) Bundle 5 – General services including cleaning and associated activity.
- 3.5 The technical and service specifications in the tender documentation were developed by subject matter experts drawn from in-scope business areas.
- 3.6 The contracted term is five years for each contract with an option to extend for up to three years subject to performance, business need and commercial considerations.
- 3.7 The procurement of the new FM services contracts has been undertaken in accordance with:
- (a) GLA Group Equality & Inclusion and London Living Wage priorities; and
 - (b) TfL responsible procurement, environment and sustainability and health, safety and environmental best practice.
- 3.8 Procurement Process
- (a) A Periodic Indicative Notice was issued in April 2015 to alert the market to the opportunity, followed by a notice in the Official Journal of the European Union.
 - (b) A total of 207 expressions of interest from 188 companies across the six Bundles were received and Pre-Qualification Questionnaires (PQQs) issued.
 - (c) 103 PQQs from 52 companies were returned and evaluated by relevant stakeholders, subject matter experts and commercial teams. Following consultation with senior stakeholders, 48 Invitations to Tender were issued to 20 companies.

¹ Bundle 1 is Communications Assets which are no longer part of the One FM tender process and accordingly are not covered in this paper. A separate procurement strategy is currently being produced for Bundle 1.

- (d) Tenders were evaluated, (see 3.9) over several rounds and a single preferred bidder selected per Bundle.
- (e) During the preferred bidder stage, bids will be further analysed and negotiated. At this stage multiple Bundle discounts will be negotiated with bidders that have been selected as preferred bidders for more than one Bundle.
- (f) A single contract per Bundle will be awarded following a 10 day standstill period.

3.9 Tender Evaluation

- (a) In accordance with the evaluation strategy, tenders were evaluated by subject matter experts, stakeholders and commercial over several rounds of clarification and negotiation. Where several evaluators were evaluating the same question a consensus score was agreed. After each round there was the option to further shortlist the bidders.
- (b) Bidders were scored against Capability (45 per cent), Commercial (45 per cent) and health safety quality and environmental (10 per cent).
- (c) Initial evaluation – Tenders were evaluated and scored following tender return and clarifications identified.
- (d) Round 1 – Bidders were asked to reply on the clarifications arising from the initial tender evaluation. The responses were evaluated and re-scored.
- (e) Round 2 – Bidders were asked to further clarify where their bid was weak particularly around technical, resource and health, safety and environment.
- (f) Round 3 – This was only undertaken for Bundles 3.1 and 5 where following Round 2 there were still outstanding issues in regard to the bidders' technical responses.
- (g) Best and Final Offer (BAFO) – For all Bundles (except Bundle 5 Cleaning) this largely focused on the commercial aspects of the bid particularly around pricing and overhead with some minor resource amendments. The nature of Bundle 5 Cleaning requires the BAFO to cover a wider range of issues including more major amendments to resource and priced options.

Benefits

3.10 The benefits that will be realised by the One FM procurement include:

- (a) significant cost savings from a pan TfL FM supply chain reorganisation;
- (b) a reduction in the number of suppliers will result in a more effective contract management structure, enabling contract specific contract management teams within TfL;
- (c) across all Bundles and business units there will be common terms and conditions, definitions, and commercial models, making interpretation of

contracts for both TfL and the supply chain easier. This will include the use of output based specifications allowing greater flexibility and shared service arrangements;

- (d) the opportunity to deliver unified business as usual focus on ongoing improvements to FM service delivery;
- (e) all Bundles are output based. These outputs are measured through a performance regime and balanced scorecard approach measuring suppliers performance across TfL's four Pillars (Customers, People, Delivery & Value). Specific key performance indicators (KPIs) are included of which those identified as central to the delivery of the service are linked to payment abatements. Escalation to senior management is part of this process and ongoing failure to meet KPIs may result in termination of the contract;
- (f) the payment mechanism for Bundles 2, 3.1, 3.2 and 3.3 is cost reimbursable, subject to TfL and the supplier sharing cost savings and cost overruns, by reference to a pre-agreed annual target cost. This approach is considered more appropriate for these 'technical services' bundles as it allows TfL to better manage costs, understand supplier costs and ensure the agreed resource is being employed. Costs can accurately be calculated and controlled when adding additional areas or sites. Known additions include TUCA, the former Crossrail Tunnelling Academy (2017), the central London Crossrail Stations to be managed by London Underground (2018) and the Northern Line Extension (2021). Prices have not been requested from bidders for these additional sites as without accurate asset information bidders would most likely have included significant contingency within their prices. The target cost approach allows for a 50/50 gain share mechanism to incentivise the supplier to achieve cost savings by implementing innovations and efficiencies throughout the term of the contract. Where the annual contract value exceeds the annual target cost, TfL and the supplier share cost overruns equally. TfL's liability in this regard is capped at 2.5 per cent of the annual target cost;
- (g) a fixed cost approach has been employed for the payment mechanism for Bundles 4 and 5. This is the most appropriate for these 'soft services' Bundles where circa 85 per cent of the cost is labour. To ensure the supplier is providing the agreed labour levels a mechanism has been put in place so TfL only pays for the actual labour provided;
- (h) all contracts have annual indexation in line with changes to the Consumer Prices Index (CPI) and requirements on the London Living Wage (LLW) are included;
- (i) a contract innovation and efficiency process is included in all contracts and requires the supplier to propose a 1 per cent reduction in costs year on year. The savings from these efficiencies will be shared equally between TfL and the supplier;

- (j) where deemed necessary a parent company guarantee or an on demand performance bond are being provided by the successful bidder. Details of these are included in the paper on part 2 of the agenda;
- (k) there is allowance in the contracts for additional works to be undertaken against an agreed schedule of rates provided as part of the tender. This will give TfL the flexibility to procure replacement of assets beyond economic repairs at pre agreed rates reducing the requirement to mini tender many of these works which is time consuming, inefficient and expensive especially for the lower value works. To further achieve best value a volume rebate mechanism has been included in the contracts. This is a stepped percentage rebate which increases with the value of works. There is no contractual obligation on TfL to use these contracts for additional works and where appropriate other frameworks will be used;
- (l) The One FM Contractors are required to adhere to (and to ensure their sub-contractors adhere to) the Responsible Procurement Policy and pay all staff at least the London Living Wage. Across the contacts it is estimated that the London Living Wage will apply to circa 2,500 – 3,000 staff. Details of the Responsible Procurement are included in Appendix 1 of this paper.
- (m) the One FM cleaning and security contracts require 80 per cent of staff to be directly employed. We are currently in discussions with shortlisted bidders to explore whether this requirement can be increased to cover 95 per cent of the workforce; and
- (n) at the TfL board meeting on 15 December 2016, Dr Alice Maynard CBE commented that the over-cautious implementation of health and safety policies can disadvantage disabled people rather than support them. The One FM Contract specifications for each of the Bundles oblige both the supplier and its supply chain to support disabled persons through compliance with relevant legislation and TfL policy. During mobilisation and continuing for the term of the One FM Contracts, a working group will be set up for TfL to work collaboratively with the suppliers to review and challenge existing practices and interpretation of relevant health and safety and equality and inclusion policies to ensure that wherever possible such policies support and do not disadvantage disabled people.

4 Financial Implications

4.1 Bundles 2, 3.1, 3.2, 3.3 and 4:

- (a) Expected costs of FM services are within current TfL forecasts and therefore the new contract Bundle costs are expected to be within existing financial authorities.
- (b) Following the BAFO stage the Bundles have progressed to preferred bidder stage. Costs will not increase from those submitted at BAFO stage but they are not expected to decrease significantly either. Details of estimated five year costs and the procurement authority requested are

detailed in table 1 below.

Line number	Bundle	2	3.1	3.2	3.3	4
01	Tendered Service	£22,777,357	£51,114,532	£65,337,351	£20,204,012	£77,743,212
02	Additional Works forecast	£6,167,308	£17,234,615	£16,550,000	£7,300,000	£2,492,000
03	Additional Areas forecast	£2,390,000	£7,755,945	£4,945,000	£1,450,000	£4,541,700
04	CPI/LLW forecast	£1,264,000	£3,048,905	£3,347,370	£1,079,391	£3,235,943
05	Total by Bundle	£32,598,664	£79,153,997	£90,179,720	£30,033,403	£87,870,594
06	TOTAL	£319,836,379				

table 1

4.2 The sum of tendered costs for the services is £271m as detailed by bundle in line 01 of the above table. Based on 2016/17 figures for existing contracts this equates to a like for like saving of £33.6m, (12.4 per cent) over the five year duration of the contracts. These costs exclude CPI and LLW increases, the estimated forecast values are shown in line 4 of the above table.

4.3 For Bundles 2 and 3.1, the Jubilee, Northern and Piccadilly line services will continue to be supplied by the current contractor until February 2018 when the current contracts terminate. Costs contained in this paper reflect this.

Bundle 5 Cleaning

4.4 At the time of submission of this paper we are currently awaiting BAFO responses. Prices returned by bidders to date have been above the current costs of procuring these services and it is expected that final BAFO returns will still be in the range of 5-10 per cent above such current costs.

4.5 In order to minimise bid costs submitted at BAFO, the bidders will be asked to price various options which will be further explored with the preferred bidder. It is expected that these will result in a final bid price not significantly in excess of current costs.

4.6 Procurement Authority will be sought for £376m (current costs + 5 per cent) calculations as shown in table 2 below:

Bundle 5	Current Cost
Tendered Service	£316,629,030
Additional Works forecast	£5,355,000
Additional Areas forecast	£21,899,610
CPI/LLW forecast	£13,309,018
Total by Bundle	£357,192,658
Budget +5 per cent	£375,522,910

table 2

4.7 The potential additional 5 per cent cost for Bundle 5 adds a cost pressure of £18.3m.

- 4.8 All costs are for the five year initial term of the contract. Authority is being requested for the initial five year term only. Authority for any contract extensions will be requested at a later date. A full breakdown of costs and savings against current costs for each business area is included in the paper on part 2 of the agenda.
- 4.9 A full breakdown of costs and savings against current costs for each Business Area is included in the paper on Part 2 of the agenda.

List of appendices to this paper:

Appendix 1: Responsible Procurement

Exempt supplementary information is included in a paper on Part 2 of the agenda.

List of Background Papers:

Minute extract of TfL Board meeting 15 December 2017 approving delegated authority to Finance Committee

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Appendix 1: Responsible Procurement

1. Suppliers are required to adhere to (and to ensure their sub-contractors adhere to) the Responsible Procurement Policy, including in respect of:
 - 1.1 an obligation to reduce any infringements of equality and inclusion (including discrimination on the grounds of race, disability or gender) or instances of bullying and harassment. This applies equally to agency staff;
 - 1.2 an obligation to comply with the Ethical Trading Initiative Base Code to promote ethical employment practices, employee rights and working conditions;
 - 1.3 an obligation to produce a detailed plan for staff training and development including apprentice schemes, adult apprentices, graduate placement and work experience;
 - 1.4 an obligation to promote and use small and diverse businesses;
 - 1.5 an obligation to promote ethical procurement of goods and services;
 - 1.6 an obligation to engage with local community in respect of any impact they might have such as road closures and noise.
2. Supplier must ensure that all employees, whether direct or agency, are paid at least the London Living Wage.