

Finance Committee

Chair's Action



Date: 18 March 2022

Item: Actuarial Valuation of the TfL Pension Fund

This paper will be published with the papers for the next meeting of the Finance Committee

1 Summary

- 1.1 This paper provides the Committee with an update on the triennial actuarial valuation of the TfL Pension Fund (the Scheme) as at 31 March 2021 and seeks approval of certain proposed provisions in response to that valuation.
- 1.2 Exempt supplementary information is included as an appendix to this paper.
- 1.3 The use of Chair's action by the Chair of the Finance Committee is considered appropriate as consideration of this matter is required in the very short term, outside the meeting cycle.
- 1.4 The Members of the Committee are asked to consider the proposal and provide Anne McMeel, as Chair, with their views on or before 12 noon on 25 March 2022. The contents of this paper and the exercise of Chair's action will be reported to the next meeting of the Committee.

2 Recommendation

- 2.1 **The Chair of the Committee, in consultation with available Members, is asked to note this paper and the exempt supplementary appendix and give authority for certain commitments to be made to the TfL Pension Fund as described in the exempt supplementary appendix.**

3 Background

- 3.1 The Scheme is a final salary funded occupational pension scheme set up under trust. The Scheme is separate and distinct from TfL and its subsidiaries. TfL is the principal employer of the Scheme and TfL Trustee Company Limited is the Trustee of the Scheme (the Trustee). The Scheme has other participating employers from within the TfL group and they are represented by TfL in the triennial valuation process.
- 3.2 The Scheme is a defined benefit scheme with two sections – a Public Sector Section and a Composite Section. The Public Sector Section holds 99 per cent of the liabilities. This paper relates to the Public Sector Section.

- 3.3 The Scheme has around 85,000 members of which just over 25,000 are active members. The Scheme remains open to new members and the future accrual of benefits.
- 3.4 Under the Scheme Rules, any deficit must be funded over a period no longer than ten years and changes to future service benefits require the agreement of the Trustee of the Scheme as well as a majority of members attending a meeting together with certification by the Scheme Actuary.
- 3.5 Every three years, the Trustee is required to carry out an actuarial valuation of the Scheme. As the last valuation was carried out as at 31 March 2018, the Trustee is currently carrying out its latest valuation, in discussion with TfL, with a calculation date of 31 March 2021.

4 The valuation process

- 4.1 The purpose of the valuation is to assess the value of the Scheme's assets and liabilities and to review and revise (if necessary) the level of contributions paid by TfL. The method and assumptions used in the valuation to calculate the value of the Scheme's liabilities (the Technical Provisions), as well as the required level of contributions, must be agreed between TfL and the Trustee and set out in a number of key compliance documents.
- 4.2 The Trustee and TfL have been progressing the valuation process. The Technical Provisions and Schedule of Contributions have been agreed in principle between the Trustee and TfL following receipt of advice from respective actuarial and legal advisors, subject to approvals.
- 4.3 The whole valuation process must be completed within 15 months of the calculation date of 31 March 2021 so, for the current valuation, this deadline is 30 June 2022. Any revision to the rate of contributions payable is currently expected to have an effective date of 1 April 2022.
- 4.4 Once the valuation process is completed, the documents setting out the Schedule of Contributions and the valuation results must be sent to the Pensions Regulator (the Regulator) who will then review the appropriateness of the agreed funding plan. If the Regulator considers that the plan is not appropriate then it has the power to ask for further documents detailing the process followed by the Trustee and, in extreme circumstances, may require the Trustee to revisit the prudence of the Scheme's Technical Provisions or instruct it as to what contributions should be paid by TfL and the other Scheme employers.

List of appendices to this report:

Appendix 1 – Exempt supplementary information.

List of Background Papers:

None.

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Date Issued: 24 March 2022

Item: Cleaning Services Contract Extension

This paper will be published once the decision has been made.

1 Summary

- 1.1 The purpose of this paper is to seek approval for additional Procurement Authority for the award of a contract extension for the provision of cleaning and associated services across the TfL estate (Cleaning Services).
- 1.2 The exempt appendix contains supplementary information that is exempt from publication by virtue of paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972, in that it contains information relating to the business affairs of TfL and contains legally privileged advice.
- 1.3 This paper seeks authority through Chair's Action as a decision is required before the next scheduled meeting of the Committee on 22 June 2022.
- 1.4 The Members of the Committee are asked to consider the proposal and provide Anne McMeel, as Chair of the Committee, with their views on or before 4pm on Monday 28 March 2022. The contents of this paper and the exercise of Chair's Action will be reported to the next meeting of the Committee.

2 Recommendations

- 2.1 **The Chair of the Committee, in consultation with available Members, is asked to note the paper and the supplementary exempt appendix and grant additional Procurement Authority, in the sum set out in the exempt appendix, for the extension of a contract for the supply of cleaning services across the TfL estate.**

3 Background

- 3.1 We have a contract for the provision of cleaning services across the TfL estate including London Underground stations and depots, Head Office estate, as well as Crossrail, Surface Transport, Commercial Development, London Transport Museum and London Overground locations. The Cleaning Services comprise:
 - (a) planned and reactive cleaning, deep cleaning (periodic) services, high level cleaning and deep cleaning;
 - (b) graffiti removal, trackside cleaning (trackside walls), pest control, vegetation control; and
 - (c) specialist cleaning (COVID cleans, decontamination).

- 3.2 The supplier is ABM UK and the contract was awarded following full competition in 2017 for an initial period of five years to 15 September 2022, with an option for TfL to extend for up to 36 months (the Contract).
- 3.3 We undertook a review of the provision of cleaning services across the estate which considered a number of options including whether the services should be insourced. The conclusion at this time, given the organisations significant financial pressures, is to continue outsourcing our cleaning services under the current contract. We will undertake another review commencing no later than April 2023.
- 3.4 It is proposed to exercise the option to extend the Contract for 36 months to 15 September 2025.
- 3.5 The extension of the Contract includes the adoption of 'lean' practices applied to the process and delivery of cleaning services across the TfL estate to establish an optimum scope. This is achieved through the combination of increased efficiency in the use of resources and the introduction of new materials to reduce frequency of cleaning maintenance. These changes both improve the service delivery and facilitate significant savings on the current Contract over the 36 months.
- 3.5 The total cumulative Procurement Authority sought for the extended Contract is within the values anticipated in the procurement process under which the Contract was let.
- 3.6 It is proposed to exercise the option to extend the Contract as described above to provide service continuity and allow service users to optimise the benefits of resource reduction and cashable savings against budget, through the implementation of 'lean' practices to establish an optimum scope which can then be taken to tender to release further savings through a market competition. This enables TfL to analyse, review and implement the new 'lean' cleaning process and delivery in readiness for future procurements.
- 3.7 The current contract scope includes significant cost reductions on the original base contract forecast over the initial five years derived from traditional cost pressures on practice and process. To make significant and sustainable savings a more radical approach to savings needs to be applied. To rollout the 'lean' process (the implementation and application of precise and efficient practice following detailed study of current process and practices to derive optimum use of resource and materials to derive the required performance or outcome) over the entire pan TfL estate with the benefit of the embedded training resource will take an envisaged 12 to 18 months and it will require regular review and modification to optimise the approach. Therefore, a 36-month extension is recommended to facilitate the associated tender competition that will derive the most cost-effective market solution to the optimised 'lean' scope, once established.
- 3.8 The duration of the proposed extension is 36 months and the Contract allows TfL unilaterally to terminate at three months' notice at any time. A shorter extension would not facilitate optimisation of the 'lean' optimum scope that will be derived from the 'lean' practices applied to the process and delivery of cleaning services across the pan TfL estate. Undertaking a competitive tender with a non-optimised scope is unlikely to provide the commercial advantage we are seeking from the

extension due to the majority of the cost being driven by the London Living Wage, pressures on the cleaning labour market and inevitable 'learning-curve' that would come with mobilising a new supplier.

- 3.9 The rates were negotiated as part of the initial tender and the cost is driven by the labour volume and TfL's application of the London Living Wage, in line with the GLA Group Responsible Procurement Policy. Therefore, the labour rate makes up the vast proportion of the value. Core team costs (management and direct overheads) are covered, enabling us to add in scope at marginal cost.
- 3.10 The Contract includes a suite of key performance indicators (KPIs) to monitor service deliverables including cleaning quality and safety. A review of the current delivery KPIs will be undertaken with the aim of replacing these with quality management system based delivery KPIs at the commencement of the extension and applying the associated contract abatement regime a year later, to provide for a trial period for the implementation of the lean resource profile. The proposed new suite of KPIs fundamentally allow for a more granular review of the service. They pick up recurrent failures and trends and facilitate root cause analysis. The current KPIs were in some instances too high level and did not allow root cause analysis i.e. was poor cleaning trend derived from planned or reactive work. There is no contractual right to impose changes to KPIs on ABM. If changes are not agreed, then existing contractual KPIs will continue to apply.
- 3.11 This request falls within the managed decline scenario and relates to business as usual protection of safety critical assets. These works preserve the day to day safety of our services. Cleaning Services are essential to ensuring we protect both TfL assets and TfL people and customers ensuring safety standards.

List of appendices to this report:

An appendix that contains supplementary information that is exempt from publication.

List of Background Papers:

13 March 2017 Finance Committee paper - One Facilities Management Services Procurement: Approval of Award of Contracts
Review of the Provision of Cleaning Services that is exempt from publication.

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Date Issued: 27 April 2022

Item: iBus Contract Extension

This paper will be published once the decision has been made.

1 Summary

- 1.1 The purpose of this paper is to seek Procurement Authority for the extension of the iBus contract with Trapeze ITS Switzerland GmbH (Trapeze) until 2 May 2025, with additional annual options to extend for a further two years until 2 May 2027. This will ensure a continuation of the current iBus services until these have been transferred to iBus2, a successor system which is currently being procured.
- 1.2 The appendix to this paper contains supplementary information that is exempt from publication by virtue of paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972, in that it contains information relating to the business affairs of TfL and is legally privileged.
- 1.3 The use of Chair's Action is considered appropriate as a decision is required before the date of the next Finance Committee meeting in June 2022.
- 1.4 The members of the Committee are asked to consider the proposal and provide Anne McMeel, as Chair of the Committee, with their views on or before 12noon on Friday 29 April 2022.

2 Recommendation

- 2.1 **The Chair of the Committee, in consultation with available Members, is asked to note the paper and the confidential appendix, and approve Procurement Authority for the sum set out in the confidential appendix, for the proposed extension of the contract for the supply and maintenance of the iBus system.**

3 Background

- 3.1 iBus is the automatic vehicle location system for the London bus network and London Trams. It consists of a back-office system, on-vehicle equipment and a performance management system. The iBus system:
 - a) supports 9,500 buses, running on approximately 700 bus routes across Greater London, providing the ability to track buses in real time and to contact bus drivers using voice radio;
 - b) provides real time customer information, including the delivery of next stop and destination information on-bus, and live bus arrival predictions via the

- Countdown system and unified API feeds to TfL's website, SMS, over 2,700 current on-street signs, digital screens and to third parties to support over 60 smartphone apps;
- c) provides TfL and bus operating companies with vehicle location information, including supporting bus priority at selected junctions and low bridge alarms for drivers, with service control functionality;
 - d) facilitates emergency response services (supporting the security of our staff and our customers) via TfL's Network Management Control Centre; and
 - e) is the data collection and calculation engine behind the mileage and reliability performance payments made by TfL to its bus operating companies (approximately £2bn annually).
- 3.2 The iBus contract with Trapeze has been in existence since 2005. It was extended in 2015 for up to a further seven years until May 2022.
- 3.3 In 2015, it was proposed that TfL would begin procurement of the replacement system (iBus2) within a few years, so that no further extensions would be required. However, the majority of the original assets continued to perform well and decisions to start the procurement of iBus2 were deferred until 2020.
- 3.4 The deferral of the commencement of iBus2 procurement, combined with the length of any transition and rollout of the iBus2 services requires TfL to extend the current iBus services until these services can be cut across to iBus2.
- 3.5 It was originally expected that this contract extension would have been proposed by quarter 3 2021/22. However, there were three delays that prevented this plan being achieved:
- a) asset condition: The assessment of the asset condition highlighted several issues that required a partial technology refresh in 2021, the funding for which required lengthy negotiation, equipment sourcing and implementation;
 - b) a major incident in February 2021 required a further architectural review and changes to the resilience of the system that required further technical changes, preventing further progress; and
 - c) settling the terms of the proposed new contract has been a lengthy process, with resource challenges, compounded by the need for robust ethical walls within Trapeze, given they are also tendering under the iBus2 procurement process.
- 3.6 The extension of the current iBus contract will enable TfL to continue to monitor, manage and report on bus and London Tram services across London, including calculating appropriate performance payments to bus operators.
- 3.7 Significant risks to operational services would ensue from failure to extend the current iBus contract, as TfL would be unable to report on operator performance and pay bus operators for the bus services they provide across London. iBus is a safety-critical system, enabling vehicle tracking and radio communication (emergency Code Red calls) between bus drivers and TfL's Network Management Control Centre.

4 Financial Implications

- 4.1 The proposed increase in Procurement Authority for the Trapeze contract is set out in the confidential appendix.
- 4.2 There are other TfL systems which rely on the data from iBus, for example Countdown, which provides customers with real-time bus arrival information for every bus stop through the TfL website, TfLGo, via our Open Data service to third party smartphone apps, via SMS text messages and on over 2,700 signs at bus shelters. These systems would not work without an iBus data feed, but TfL would be obligated to continue making contractual payments to the suppliers.

List of appendices to this report:

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List of Background Papers:

None

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Date Issued: 13 May 2022

**Item: Mechanical and Electrical Maintenance Services
Contract Extension**

This paper will be published once the decision has been made.

1 Summary

- 1.1 The purpose of this paper is to seek approval for additional Procurement Authority for the award of a contract extension for the provision of mechanical and electrical maintenance services across the TfL estate.
- 1.2 The appendix to this paper contains supplementary information that is exempt from publication 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.
- 1.3 This paper seeks authority through Chair's Action as a decision is required before the next scheduled meeting of the Committee in June 2022.
- 1.4 The Members of the Committee are asked to consider the proposal and provide Anne McMeel, as Chair of the Committee, with their views on or before 5.00pm on Tuesday 17 May 2022. The contents of this paper and the exercise of Chair's Action will be reported to the next meeting of the Committee.

2 Recommendations

- 2.1 **The Chair of the Committee, in consultation with available Members, is asked to note the paper and the exempt appendix and grant additional Procurement Authority, in the sum set out in the exempt appendix, for the extension of a contract for the supply of mechanical and electrical maintenance services across the TfL estate.**

3 Background

- 3.1 We have a contract for the provision of mechanical and electrical services across the TfL estate including London Underground (LU) stations, depots and substations and the Tunnelling and Underground Construction Academy including the LU Crossrail locations. The mechanical and electrical maintenance services comprise:
 - a) planned and reactive maintenance of mechanical systems (e.g. heating and air conditioning) and assets (e.g. tunnel ventilation, smoke pressurisations fans etc.);

- b) planned and reactive maintenance of electrical systems (e.g. lighting systems, low voltage electrics etc.) and assets (e.g. uninterrupted power supplies); and
 - c) remedial works and asset replacement arising from maintenance services.
- 3.2 The supplier is Engie Services Limited and the contract was awarded following full competition in 2017 for an initial period of five years to 24 June 2022, with an option for TfL to extend for up to 36 months (the Contract).
- 3.3 It is proposed to exercise the option to extend the Contract for 15 months only to 24 September 2023.
- 3.4 The recommended extension represents the shortest that will facilitate delivery of the current procurement programme, including a re-tender of the mechanical and electrical maintenance services for a new contract commencement on 25 September 2023.
- 3.5 This extension will facilitate significant value enhancement to the mechanical and electrical services scope to be procured in the form of asset data gathering, reactive and planned maintenance, process efficiency improvement and rationalising of the maintenance schedule to reduce cost of current and future contracts.
- 3.5 The proposed approach represents the best value for money for TfL in the current market despite including a modest baseline increase to the target cost to take account of market salary increases, additional core team resources to facilitate recruitment and retention of critical competency staff, better cost control and forecasting in delivery of the services and increase reactive labour resource to facilitate the increase in reactive fault levels.
- 3.6 LU's Asset Performance and Capital Delivery Directorate will undertake a review of internal direct labour resources and electrical resources with the intention of reducing the contract scope and associated cost within the first six months of the proposed extension.
- 3.7 A number of significant areas have been identified for improvement that TfL can be productively undertaking during the re-procurement programme. TfL has identified six areas where practical efforts will be focused with Engie to drive improvement during the period of the extension:
- a) Relationship Building – focused contract management;
 - b) Reactive Maintenance - improved process;
 - c) Remedial Works - improved process;
 - d) Make / Buy – optimum blend;
 - e) Cost Management – better data to inform asset management; and
 - f) Compliance – improved process for higher compliance levels.
- 3.8 The duration of the proposed extension is 15 months and the Contract allows TfL unilaterally to terminate at three months' notice at any time. A shorter extension would not facilitate the mobilisation of a new contract incorporating the efficiency and process benefits of the new contract scope and asset data or the six areas for improvement referred to above.

- 3.9 The Contract includes a suite of key performance indicators to monitor service deliverables including planned maintenance to programme, reactive maintenance to service level agreement and the compliance of delivered works to the required technical quality and specification.
- 3.10 The total cumulative Procurement Authority sought for the extended Contract is within the values anticipated in the procurement process under which the Contract was let.
- 3.11 This request falls within the managed decline scenario and relates to business as usual protection of safety critical assets. These works preserve the day to day safety of our services. Mechanical and electrical maintenance services are essential in ensuring we protect both TfL assets and TfL people and customers ensuring safety standards.

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List of Background Papers:

13 March 2017 Finance Committee paper - One Facilities Management Services Procurement: Approval of Award of Contracts

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