

To: DOR Board
Sponsor: David Walker
Date: 24 July 2013
Subject: ISS Cleaning Contract

Purpose

The purpose of this paper is to provide the justification for East Coast to enter into a new 3 year cleaning contract with ISS.

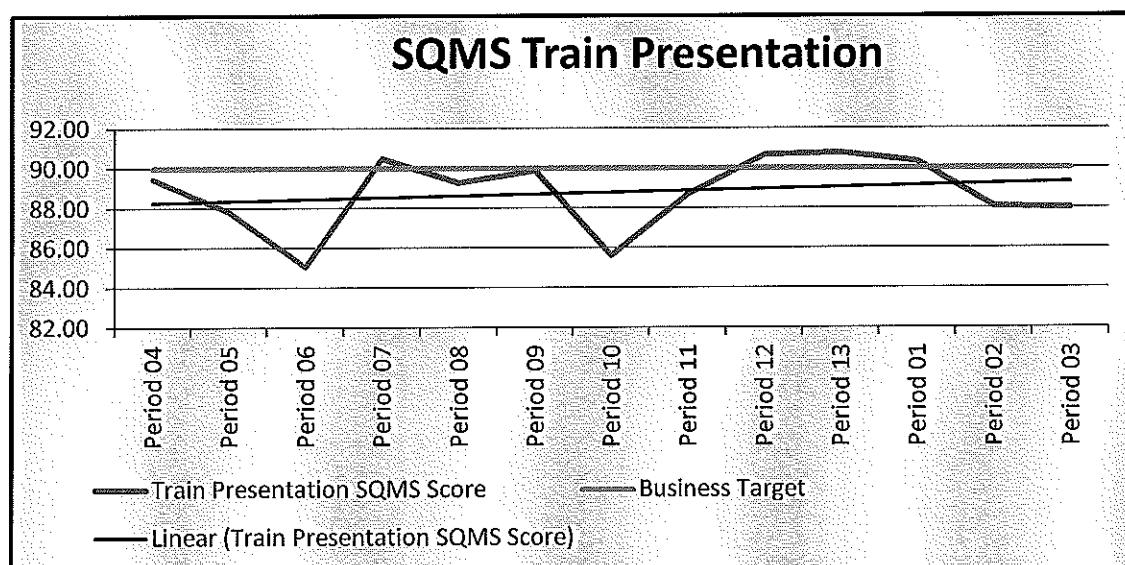
Current Situation

- The term of the original ISS contract has expired and cleaning services are currently provided on a rolling 30 day basis. It is clear from the tender process that far greater value for money can be achieved through the award of a new contract.
- Whilst there are specifications for cleaning (particularly on the fleet side), the historical station specifications are a series of ad hoc local arrangements that have been amended from time to time, the majority of which are not documented. There are no SLAs, KPIs or performance regime to support the entire contract.

Proposed Solution

- A new 3 year contract with the option to extend for a further two, twelve month periods, commencing Sunday 13 October 2013*. (These options will only be exercised if East Coast believes at the end of the initial 3 year term, it represents best value.)
- The contract will have both input and output specifications and a full performance management regime with SLAs and Service Credits for poor performance. The specifications and performance regime are fully aligned to the SQMS regime to achieve the business target of 95% (stations) and 92% (fleet presentation).
- There will be a significant investment in new equipment – up to [REDACTED], plus a [REDACTED] investment in new technologies for workplace management. ISS will invest in a new management structure to support the operation and all staff will go through a re-training programme through the ISS Centre of Excellence.
- The new contract will provide 746 additional cleaning hours per week at stations – this will help deliver a step change in cleanliness at stations. We fail to achieve our cleanliness target (SQMS) at 10/12 of our managed stations, with our largest flagship stations achieving the lowest scores.
- Work currently undertaken by East Coast staff at Newcastle, Edinburgh and Doncaster will transfer to ISS.
- This contract will deliver a step change in cleanliness across our fleet and stations.

Fleet Cleaning



The above graph details the SQMS train presentation results over the past 13 Periods. Whilst cleanliness is generally improving, it still falls short of the target set by the business (92%). The new ISS contract will address this shortfall by:

- Transfer of remaining turnaround cleaning at Edinburgh and Newcastle to ISS (currently delivered in house)
- Fit for purpose performance regime
- Robust Contractor Management Structure
- Integrated cleaning work streams
- Three additional cleaning activities:
 - Weekly Steam Clean of all train toilets
 - Weekly Hygienic clean of buffet areas
 - External Hand bash and polishing regime – HST fleet

Station Cleaning

As part of this process, cleaning activity has been reviewed across the stations estate. The following table details the SQMS results by station against the business target of 95%:

Station	Average P4 - P3	SQMS Target	Gap
Retford	98.0	95.0	3.0
Grantham	95.4	95.0	0.4
Dunbar	94.4	95.0	-0.6
Newark	94.1	95.0	-0.9
Berwick	89.6	95.0	-5.4
Wakefield	89.3	95.0	-5.7
Durham	87.9	95.0	-7.1
Darlington	86.3	95.0	-8.7
Doncaster	86.1	95.0	-8.9
Peterborough	84.2	95.0	-10.8
York	82.9	95.0	-12.1
Newcastle	72.9	95.0	-22.1

- Currently, only Retford and Grantham are achieving the Business Plan SQMS Station Environment target (95%). Our worst performing stations are our

largest flagship stations – Newcastle, York and Peterborough. A full break down of results can be found in the appendices.

- The new cleaning contract will deliver the step change in cleanliness at stations that is required to achieve the Business target of 95%. This will be achieved through investment in equipment [REDACTED] increased input (746 additional operative hours per week), a new management structure, and deployment of the latest technology for real time tracking of staff and resources. Currently, only 8 tasks are completed, with 6 further tasks partially completed. Under the new contract, 41 separate tasks will be completed.

Performance Regime

- We have agreed two key performance regimes with ISS (much to their reluctance):

Hours Bank – for every hour of cleaning not provided by ISS, an hour is credited to a labour bank that can be drawn down by the Company as required, such as for special events. (Cleaning companies usually make their money by achieving the quality targets with the minimal number of staff). This will ensure East Coast receives the number of cleaning hours that have been paid for. If the Hours Bank is in credit at the end of the year, East Coast can elect to 'cash in' the balance or carry it forward to the following contract year.

Performance Bank – service credits are paid for any station / fleet activity where the SQMS target has not been achieved. For every [REDACTED] below SQMS target, a payment is made into the performance bank. If ISS over achieve in a subsequent period, they can earn bonus payments. Bonus Payments are capped at the amount ISS pays in service credits.

- We have agreed these regimes on the basis of the cleaning hours that ISS believe are required to achieve the agreed standards. Any reduction in hours at this stage may undermine the overall performance regimes.

HR Engagement

- Up to 15 East Coast employees are directly affected by the award of a new cleaning contract, with Edinburgh turnaround cleaning, Newcastle turnaround and night time cleaning, and Doncaster station cleaning being outsourced. (Please see the table below for details).
- Formal consultation with Stations Trade Union Representatives will need to take place as soon as possible.
- East Coast employees affected will be entitled to transfer to the new cleaning provider under TUPE arrangements to do the same work, in the same location, on their existing salary and terms and conditions.
- Employees who do not wish to transfer may apply for suitable available roles within the business. However, they will not be given preference of application over other candidates.
- Where suitable roles are not available or where individuals simply wish to leave East Coast, to facilitate a smooth transition, we recommend making available a financial compensation package for individuals where this will avoid the need for ongoing and additional payments to the provider, reflecting the salary differential. In addition, consideration could be given to extending East Coast travel facilities for a nominated period.
- This approach will ensure that consultation is meaningful. However this does not mitigate fully the risk of Industrial action or withdrawal of co-operation by the RMT.

Station	Roles	Number of staff affected	Comments	Residual Risk
Edinburgh	Turnaround cleaners	2.34 FTE (3 people)	Only 2.34 FTE (3 people) of the team of 12.97 (15) are permanent East Coast employees, the rest are on temporary contracts that expire before transfer.	Low
Newcastle	Turnaround cleaners	4.6 FTE (5 people)	2 individuals have almost 40 years service. Opportunities for gate line roles may exist.	Low
Newcastle	Night shift cleaners / despatchers	2 FTE	There are currently 4 night shift cleaners / despatchers. A risk assessment is required to demonstrate that only 2 staff are required to despatch a train at night (currently 3 staff are required).	Low
Doncaster	Station cleaners	4.86 FTE (5 people)	No alternative roles at Doncaster likely.	Low
Totals		15 People		

Commercials

ISS Contract Financials Summary	
ISS Costs - Current Contract (assumes continues Full year 2013/14)	
ISS NMW & (all staff) Backdated pay award (01/10/12 to 31/03/12)	
ISS NMW + & nest 1/4/13-31/3/13	
Fleet Invoiced Costs	
Stations Invoiced Costs	
Total Current Contract Cost	
EC Staff Costs (Ncl t/a, night, Don cleaners, EDB t/a)	
Shunters (x2 not in budget)	
Total Current Contract Cost	
ISS Costs - New Contract (assumes Full year 2013/14)	
ISS NMW & (all staff) Backdated pay award (01/10/12 to 31/03/12)	A
ISS Final Bid Price (excludes all pay rises)	B
ISS NMW & Pay Award (all staff) (01/04/13 - 31/03/14)	C
ISS April 2013 Pay Award London Staff, non-London Staff (01/04/13 - 31/03/14)	D
ISS Year 1 New contract (including NMW, +, & nest pension) (B+C+D)	
TOTAL New Contract Cost (A+B+C+D)	
Additional cost of new Contract to East Coast 2013/14	

The new contract price is reflected in the Q1 forecast. The new contract with all of its benefits: investment in equipment and technology, plus 746 additional hours per week (worth pa) - will require an investment by East Coast in Year 1.

The following table details the incremental cost of the pay strategy agreed with ISS and assumes the contract started on 01 April 2013. The first column is based on paying the National Minimum Wage for the duration of the contract. The second column is based on the agreed road map to achieving the London Living Wage. We believe that we have spread this over the longest period possible and that the paying the National Minimum Wage in London is no longer an option.

New ISS Contract		2% pay award as per NMW	LLW (10%), 2% UK staff	Incremental cost of pay strategy
Year 1	Apr-13			
Year 2	Apr-14			
Year 3	Apr-15			
Total				

Recommendation

The Board is asked to approve the new 3 year contact with ISS.

A letter of intent will be required ahead of finalisation of the contract to enable ISS to commence the 12 week mobilisation phase.

Appendices:

Tender Timeline

Date	Progress
September 2011	OJEU issued. Cleaning split into 33 separate lots.
October 2011	Decision made to maintain same level of in-house cleaning at East Coast depots (the lots were included in the tender document to obtain market prices for all East Coast cleaning activity).
December 2011	20 expressions of interest received. Tender Documents sent to all 20 interested parties.
January 2012	8 Tenders received Evaluation of tenders, top 4 companies identified (Cleshar, Future Initial & ISS)
March 2012	Top 4 companies invited in for presentations.
March 2012	PLAN – go to final two (ISS & Initial) and invite Best and Final Offers (BAFO). Final requirements for stations being discussed internally.
May 2012	Decision taken to continue process for train cleaning elements of the contract only. Options to maximise efficiencies within stations being considered. 4 further lots included in-train cleaning. All companies who tended for the train cleaning invited to re-submit their offers based on these changes. 6 revised bids for train cleaning received. Initial and ISS invited to further meetings.
July 2012	Heavy clean trial undertaken by Initial at Bounds Green depot confirming staffing levels in their bid proved to light. Revised bid received from Initial based on "correct" numbers of staff required. Then, process delayed – didn't want to mobilise new cleaning contract during the lead up to the Olympics. Process on hold until September 2012.
September 2012	Initial and ISS invited to further meetings. Contract will now be for all lots (stations and train cleaning). Initial informed of our concerns that staffing numbers seem light for station activities. Revised bid received for all lots. Initial asked for a meeting to discuss their revised bid, giving assurances that their staffing levels are now sufficient to carry out all tasks required.
October 2012	ISS invited for further meeting and gave assurances over the deliverability of their bid and how the step change in cleaning can be achieved and sustained from day 1.

Date	Progress
November 2013	ISS appointed 'Preferred Bidder'.
January 2013	Alcatel Letters issued to unsuccessful bidders. No issues raised.
January - February 2013	Commercial negotiations with ISS. [REDACTED] savings achieved v BAFO.
March 2013	Meeting held with ISS to agree 'go live' : Fleet – 28 April; Stations (including turnaround cleaning at Edinburgh & Newcastle) – 23 June. LOI drafted but not approved for issue. Mobilisation plans staff. RMT strike action continues.
April 2013	Meetings held with ISS to develop SLA / KPI regime with service credits for not achieving SLAs. ISS challenged to find a further £250k saving.
May 2013	Conditions of contract sent to Eversheds for review. Meeting held with ISS to finalise specifications
June 2013	Conference calls held with Eversheds to further develop contract. Revised paper and LOI sent to DOR for approval.
July 2013	Revised paper sent to DOR & East Coast Boards for approval. ISS inform EC that due to the delay, 15 September is no longer achievable. (13 October is achievable if LOI issued 19 July).

SQMS Results by Station

