

11 March 2015		ITEM: 30 01104393
Cabinet		
Serco Strategic Partnership - Update Report		
Wards and communities affected:	Key Decision: Key	
Report of: Councillor Victoria Holloway, Portfolio Holder for Central Services and Transformation		
Accountable Head of Service: Kathryn Adedeji – Head of Housing and Commercial Services		
Accountable Director: Barbara Brownlee – Director of Housing		
This report is public		

Executive Summary

Councillors unanimously agreed the following recommendation at the meeting of Cabinet on 11 February 2015:

Cabinet instructs officers to bring back a report to March 2015 Cabinet which explores all possible options regarding the future of the Serco contract, up to and including termination.

Work has commenced to investigate the potential to improve this contract and all options, ranging from minor alterations to complete termination, are being explored. The underlying principles being used to drive forward these discussions for the council are that the contract continues to provide:

- Value to the Council;
- Quality service provision; and
- Low risk – in relation to service and delivery failure

The Council will need to appropriately plan this work to meet our MTFs targets the outcome may well require a change to 2015/16 budget envelop. Equally, given the nature and pace of these discussions, a decision may be required during the pre-election period. Because of these two factors, delegated authority is sought in this report for the Chief Executive in consultation with the Leader of the Council the Portfolio holder for Central Services and Transformation, and opposition Group Leaders to finalise agreements as needed.

1. Recommendation(s)

1.1 Cabinet is recommended to delegate authority to the Chief Executive, in consultation with the Leader of the Council, the Portfolio holder for Central Services and Transformation, and opposition Group Leaders to,

1.1.1 Enter into and pursue without prejudice discussions with Serco Limited with a view to arriving at a mutually agreeable solution which will achieve the Council's economic and strategic objectives, including the options to partially or completely terminate the Strategic Services Partnership Agreement.

1.2 If, following discussions with Serco Limited, it is concluded that either partial or complete termination of the SSPA is the best option and in the best financial /economic and strategic interests of the Council, to:

1.2.1 Enter into negotiations with, and, in the event such negotiations are concluded and need to be implemented before the next Cabinet meeting, to finalise terms and facilitate that the Council enter into any and such agreement(s) with Serco Limited, its subcontractors and/or agents and do anything and take such actions as are deemed necessary, appropriate and affordable, to vary or terminate (whether partially or fully) the current contractual arrangements with Serco Limited under the SSPA.

1.3 To recommend to Council any necessary changes to the revenue and capital budget framework to deliver the necessary outcome from negotiations.

2. Introduction and Background

2.1 As members are aware, the Council has been under severe and continued pressure to reduce spending across all services to meet the reduced budgetary provision. The Council's priority has been to maintain critical, frontline services for residents and make the cuts in back office, support and non-critical services, or deliver services differently, to achieve cost savings.

2.2 The Council is in its third year of its strategic partnership with Serco Ltd, following their acquisition of Vertex Public Services Limited (Vertex PSL) in June 2012. The contract runs to 31 March 2020.

2.3 The Strategic Services Partnership Agreement was signed in 2004, for the delivery of a broad range of support and business process services including human resources, payroll, information technology, business administration, revenues and benefits and customer services. Since then, the local government environment has changed significantly and so too has the approach to outsourcing strategic functions and the term and nature of partnering agreements.

- 2.4 The Council's requirements and priorities have changed over this period and the way in which the Council works and the number of staff supported has changed dramatically. As with any large, complex contract, any variation is difficult, takes time to deliver and involves additional costs that can erode any potential benefit.
- 2.5 The Gross Annual Service Cost ("GASC") is indexed annually in relation to RPIx and national pay award inflators. Taking into consideration change controls the 2014/15 GASC is c.£18.09m, with an additional £2.87m identified in the 2014/15 Serco open book as one off costs for the Council. This contract represents 16.87% of the Council's total revenue expenditure in 2014/15.
- 2.6 The partnership contract with Serco Ltd is Thurrock's largest service delivery contract by monetary value and is the most critical contract insofar as the breadth of the Council's back and front office services delivered through the SSP. The SSP, therefore, remains a focus to achieve cost efficiencies and value for money assurance.

3. Issues, Options and Analysis of Options

- 3.1 The current contract does not assume annual savings and so, while current KPI's have been met, the level of savings achieved to date has not met the Council's current needs.
- 3.2 The current contract governs any change in service provision and requires the Council to maintain any potential loss of profit to Serco and pay a margin for any reductions in service as well as associated overhead and profit on any additional services transferred in. This erodes the financial benefit of any partial change and places additional reliance and pressure upon the Council to seek more far-reaching changes.
- 3.3 In line with the recommendation by Cabinet in February officers have undertaken a strategic review of the options available including, but not limited to, the termination of the contract. The three key options assessed were:
- Option 1 = Retain SSPA as it is
 Option 2 = SSPA partial termination
 Option 3 = SSPA termination
- 3.4 Each option was assessed against the key strategies driving Council priorities as listed below and a ranking assigned.
- Achieve significant savings for the Council
 - Provides demonstrable and on-going value for money
 - Ensure good, measureable services to residents and Council staff

- Actively seek and achieve continuous improvement
- Deliver service flexibility to meet current and future requirements of the Council and Government policy
- Deliver services in line with the Council's Transformation Agenda
- Minimise Council's clienting and management requirements
- Minimise disruption to operational service delivery

3.5 This strategic assessment of the options considered both the qualitative and financial impacts of each of the options. The detailed sums associated with the financial impacts of the appraisal are currently commercially confidential and remain subject to negotiation. The financial analysis based on concluded negotiation will be an integral part of the final decision. Table A below shows the results of the non-financial assessment

Table A: Summary – Strategic Option Appraisal

	Option 1: Retain SSPA	Option 2 Partial termination of SSPA	Option 3: Full SSPA termination
Non-financial benefit score	14	22	31
Ranking	3rd	2nd	1st

- 3.6 The options appraisal currently shows that the SSPA in its current form does not deliver the financial and strategic requirements of the Council. Given the forecast financial parameters of the Council, the age of this contract and the changing environment in which both the Council and Serco operate Option 3 is the most positive from a qualitative perspective. However the financial analysis will be key to the final decision.
- 3.7 Should any option resulting in a transfer of some or all of the services back to the Council be approved, there will be a need to put in place a transition programme to ensure that services are returned to the Council in a structured, efficient and timely way. This will be likely to need additional external expertise to assist the Council realising the maximum benefits from this option.
- 3.8 Both parties have expressed willingness to work together to seek to amend the SSPA to facilitate a mutually agreeable solution in compliance with legal requirements including public procurement regulations. Until agreement is reached such discussions will be without prejudice and subject to contract. If the parties are unable to agree to these preliminary amendments we will need to comply with the formal procedures and processes set out in the SSPA for change or termination including the length of notice.

4. Reasons for Recommendation

- 4.1 The Strategic Partnership contract with Serco is a commercial arrangement and the Council needs to be able to act swiftly to ensure the best option is taken forward.
- 4.2 The Council needs to undertake further exploratory work, including discussions with Serco on the affordability and deliverability of each option before a final decision can be determined as the best, most affordable and deliverable option for the SSP. A final decision may be required between Cabinet meetings.

5. Consultation (including Overview and Scrutiny, if applicable)

- 5.1 The Options Appraisal has been considered and agreed by the Directors' Board.

6. Impact on corporate policies, priorities, performance and community impact

- 6.1 None

7. Implications

7.1 Financial

Implications verified by: **Sean Clark**
Head of Corporate Finance

As set out in the report, this contract accounts for a significant element of the Council's net budget. The MTFs currently assumes a reduction of £0.7m in 2015/16 and a further £1.3m over the following two years. As these savings are largely outside of the Council's control and require agreement with Serco, they have been highlighted as high risk.

Any changes to the contractual relationship with Serco will give rise to further costs ranging from loss of profit through to purchasing assets, thus impacting on both the revenue and capital budgets. Any changes are more than likely going to require Council approval.

7.2 Legal

Implications verified by: **Eldred Taylor-Camara**
Legal Group Manager (Strategic Partnerships & Procurement)

The Strategic Services Partnership Agreement (SSPA) makes provision for the contract with Serco to be terminated or varied.

The SSPA can be terminated in a variety of ways. Relevant for present purposes are termination for default by the Partner or unilateral voluntary termination by the Council on exercise of the Break Option.

The SSPA can be terminated by the Council where Serco commits an Irremediable Partner Default (as defined) or a Remedial Partner Default which the Partner fails to remedy. In either case the Council can terminate the SSPA by serving a Default Notice on Serco and following the procedures provided for in the SSPA.

The Council also has the right to exercise the Break Option and terminate the SSPA early without fault on the part of Serco. This is done by giving Serco not less than twelve months' prior written notice. Where the Council exercises the Break Option it will need to pay Serco the Voluntary Termination Payment comprising a variety of costs including a payment representing Serco's reasonable loss of profit (if any) accelerated to March 2020 - the date when the SSPA would have terminated if it were not extended; the costs of the provision of the Services already incurred or committed to by Serco; the costs of terminating any sub-contracts entered into by Serco; and all statutory and contractual redundancy payments due to any of Serco's employees.

The SSPA also makes provision for the contract with Serco to be varied. The contract can be varied by agreement between the parties using the Change Control Procedure built into the SSPA. Whilst the Change Control Procedure is intended to deal primarily with changes to the Services being delivered by Serco under the SSPA, it can also be used to bring about changes in the SSPA itself.

Without prejudice discussions are taking place between the Council and Serco. If successful, the parties may agree to make amendments to the SSPA to facilitate a mutually agreeable solution without having recourse to the strict processes provided for in the SSPA. Such agreement will provide for the SSPA to be amended so that for example, the notice periods, dispute resolution processes and indeed the full value of the Voluntary Termination Payment are amended in way such as to reflect the solution arrived at during the discussions. Failure to agree to these preliminary amendments will necessitate compliance with the procedures and processes set out in the SSPA, including the length of notice.

As will be expected from the content of this report, there are legal implications with all considered options for the SSPA and these will need to be carefully considered in any decisions regarding the SSP with Serco.

The Council's internal Legal Services, supported by external legal advisers, are assisting officers to review the SSPA and issues arising as appropriate for a contract of this size and importance.

7.3 Diversity and Equality

Implications verified by: **Rebecca Price**
Community Development Officer

There are no direct diversity implications arising from this report

7.4 Other implications (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

None

8. Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- None

9. Appendices to the report

- None

Report Author:

Barbara Brownlee

Director of Housing and Commercial services