

<b>11 December 2014</b>		<b>ITEM: 7</b>
<b>Corporate Overview and Scrutiny Committee</b>		
<b>Serco Strategic Partnership Update Report</b>		
<b>Wards and communities affected:</b>	<b>Key Decision:</b> Non Key	
<b>Report of:</b> Councillor Victoria Holloway, Portfolio Holder for Central Services and Transformation		
<b>Accountable Head of Service:</b> Kathryn Adedeji – Head of Housing and Commercial Services		
<b>Accountable Director:</b> Barbara Brownlee – Director of Housing		
<b>This report is public</b>		

### **Executive Summary**

In order that the Council can continue to assure itself the outsourced partnership model of delivering key services through Serco Limited (Serco) still represents good value for money, a strategic contract review is underway wherein assessment of key components will provide a measured position as to the partnership's commercial position expressed in terms of:

- a) Value to the Council;
- b) Quality of services provided; and
- c) Risk with reference to service and delivery failure.

To provide assurance, a programme of work, led by Commercial Services, with collaboration from Serco is underway comprised of three streams:

- Delivering business as usual (BAU) - progressing key infrastructure projects, validating and base-lining costs, performance data, key drivers, outcomes and critical success factors as currently expressed in the partnership documentation;
- Development and sign-off of Serco savings proposals and commercial propositions; and
- Partnership refresh – reviewing and updating specifications covering those services delivered through the partnership.

## **1. Recommendation(s)**

### **1.1 Endorse the approach outlined in this report agreeing to receive a further report in Spring 2015 detailing proposals in respect of:**

**An updated SSP contract that takes into account all agreed changes and provides for the effective use of all commercial tools available.**

**Cost Savings - A proposed SSP savings target and delivery plan.**

**Reshaped SSP – Amended services and revised output specifications.**

## **2. Introduction and Background**

2.1 The Council is in its third year of its strategic partnership with Serco PSL, following their acquisition of Vertex Public Sector Limited (Vertex PSL) in May 2012. The contract runs to 2020

2.2 Due diligence at the time of transfer confirmed the Council's continued commitment to the delivery of services within the scope of the partnership, and through an outsourced model with the provider so recommended at the time.

2.3 May 2014 represented a two-year anniversary of the SSP with Serco. This milestone provided a timely juncture for officers to undertake a strategic contract review of the partnership; the review is welcomed by Serco

2.4 In addition to customer facing transactional services, the partnership also provides end to end services across almost all of the Council's back office functions. A full list of areas covered under the partnership is set out below:

- i. Business Administration
- ii. Customer Services
- iii. Human Resources
- iv. Facilities Management
- v. ICT
- vi. National Non Domestic Rates
- vii. Payroll
- viii. Procurement
- ix. Revenues & Benefits

2.5 The governance and contract management structure comprising a Partnership Management Board (PMB) and Partnership Operations Board (POB) remains the mechanism used to manage the partnership. The Council monitors and oversees transactional and day-to-day operational delivery of services through strategic client representatives. These are Council officers with subject matter expertise in each of the service areas listed above that have responsibility for reviewing performance and liaising with Serco operational counterparts to ensure the Council's requirements are shaped and

delivered as per that agreed. In addition, the Council has introduced a Commercial Services Team to ensure appropriate contractual governance in relation to the SSP and the appropriate escalation and resolution of any operational and/or contract issues, including changes in scope and costs of the SSP.

### **3. Issues, Options and Analysis of Options**

- 3.1 Initial discussions between Council officers and Serco have taken place through the governance structure provided for by PMB, POB and Directors Board (DB). These discussions, along with an initial assessment of service delivery and financial information, have highlighted a number of areas where the Council wishes to concentrate with Serco. Our key issues and areas of concentration are detailed further below.
- 3.2 Serco Holdings Ltd, the parent company of Serco delivers transactional services across varying sectors. One of the benefits of entering into partnership with a company owned by a FTSE 250 rated company with an annual turnover of 5bn is the leverage the Council should be able to obtain from the potential for economies of scale, LEAN processes and technical expertise in functional areas through the wider Serco Group. At present, the Council continues to work with Serco to ensure can be delivered.
- 3.3 As part of testing the benefits and value the Council continues to derive from the SSP, it is currently reviewing the commercial mechanisms available within the SSP to ensure the Council can demonstrate that it is obtaining value for money. We are currently undertaking a detailed review of the supporting management information relating to the reported performance under the SSP and undertaking a detailed review of the open-book cost information provided by Serco.
- 3.4 At the current time, the detailed management information provided does not in all instances allow for appropriate validation of the reported performance levels of services delivered through the SSP. As a result and as part of the new enhanced governance arrangements, the council is currently in the process of working closely with Serco to audit the management information used to determine their reported performance within the bounds of the contract .
- 3.5 In addition, a substantial volume of change controls, a number of which involve additional charging, have been agreed between the parties since Serco acquired the contract with no resulting amendments to the formal contract documentation having been administered. As a result the contract documentation is out of date and difficult to navigate, and requires consolidation and agreement of the change controls into a single contract document. This exercise will make contractual reviews easier for all parties and support the Council in assuring that the charges under the SSP are accurate. The Council is currently in the process of working with Serco to establish this updated baseline to provide both clarity on current retained

obligations, and associated service statistics, key volume drivers and other core elements. This in turn should provide the clarity on charging to date and also any further charges.

- 3.6 A good illustrative example is the ICT service. As noted in paragraph 2.4 the SSP currently has within it ICT provision. Serco have recently presented options for the Council's ICT solution that suggests that substantial investment of several millions is required. However, the current business case is silent on the implications this additional funding would have on respective obligations and or changes to contract terms etc. This is not a position from which the Council is yet able to make an informed decision. Serco are now working on an alternate proposal that is based on Industry and public sector best practice to best support and accelerate the directorate delivery of savings, and provide flexibility in operational delivery.

### SSP Savings

- 3.7 The Council has set a savings target of £2m to be delivered over the next three years. Relative to the annual value of the partnership at circa £19m, the Council's overall savings target equates to approximately 11% of the annual expenditure with Serco PSL. Progress in achieving savings through the SSP has been disappointing to date. Serco, on 21<sup>st</sup> October, tabled some additional cost savings proposals which currently require thorough review
- 3.8 However the partnership has recently re-committed to working with the Council in support of maximising the savings possible and identified a number of opportunities where cost savings can be realised through a reduction in service scope, a transfer of services back to the Council and through alternative arrangements to the indexation and payment of the annual service charge. Serco has discussed with the council the development of a new ICT solution to enable broader cost savings within the Council. A joint paper will be submitted to the November Directors Board
- 3.9 To date Serco has made a £600k saving, with a further 100k agreed and is currently developing proposals for contributing further to the Council's wider savings target as identified above. The SSP savings offer has been factored into the Council's overall target and will need to be achieved. In the event the SSP does not deliver the £2m savings target, the Council will need to look for the savings deficit or shortfall from other hard hit areas of the Council.
- 3.10 After a disappointing start, the Council now has further proposals that offer additional savings of circa £1.2m over the next three years. The Council need to undertake further analysis and negotiation with Serco to ensure these do represent the best value to the Council. These savings combined with the savings already identified and delivered above, will take the partnership a substantial way to achieving the target set by the Council. However more work needs to be done in partnership with Serco to ensure the full target is agreed in time for the budget setting report. This updated position is a welcomed improvement on previously reported positions to Cabinet.

Action plan – time line

3.11 The expected timeline for key activities is:

- a. Assurance on charging and performance – December 2014;
- b. SSP savings proposal – November 2014 ; and
- c. Reshaping to maximise efficiency and Serco competence March 2015.

#### **4. Reasons for Recommendation**

4.1 The partnership contract with Serco PSL 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.

4.2 Serco Holdings, the parent company of Serco PSL, has faced commercial challenges in their public sector delivery arm. At the most recent PMB meeting in September, Serco confirmed enhanced levels of audit and scrutiny and significant changes to the senior management team had taken place to address issues arising. Serco is happy to provide a formal letter, from its Executive Board, to expand on these corporate changes. The strategic contract review of the partnership is necessary in respect of the two-year milestone passed in May 2014.

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

5.1 N/A

#### **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, the contract with Serco represents a significant amount of third party spend. With all third party spend, the Council is working with all of its suppliers to recognise savings towards the Council's projected budget deficits.

As set out in the report, there is no contractual requirement to deliver savings. However, due to the nature of the partnership arrangements, the Council has

assumed in its budget projections a reduction of £2m per annum to the contract within the three year life of the MTFs.

The savings identified of £0.7m, and additional proposals in discussion will initially be required to meet the shortfall in previously targeted savings circa £0.3m with the balance being allocated to the target of £0.7m in 2015/16 and future years as appropriate

## 7.2 Legal

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

The SSPA, previously entered into with Vertex Data Services Limited, was novated (transferred) to Serco Limited in 2012 after Serco Holdings (Serco's parent company) acquired all of Vertex's public sector business.

The SSPA makes provision for regular monitoring and review of the contract and the contractor's performance and there are mechanisms built into the SSPA to address any performance issues. The Council's internal Legal Services, 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 not 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:**

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