

<b>PROCUREMENT SERVICES</b>
<b>COUNCILLOR DAVID SEATON, CABINET MEMBER FOR RESOURCES</b>
<b>September 2016</b>
<b>Deadline date: September 2016</b>

Cabinet portfolio holder: Responsible Director:	Councillor David Seaton, Cabinet Member for Resources John Harrison, Corporate Director: Resources
Is this a Key Decision?	YES If yes has it been included on the Forward Plan : YES Unique Key decision Reference from Forward Plan : KEY/27JUN16/01
Is this decision eligible for call-in?	YES
Does this Public report have any annex that contains exempt information?	No
Is this a project and if so has it been registered on Verto?	No

### RECOMMENDATIONS

The Cabinet Member is recommended to:

1. Authorise entering into a Notice of Change with Serco Limited to vary the Council's Peterborough Serco Strategic Partnership Contract, to amend the approach for the delivery of procurement services to the Council by removing the current gain share arrangements for procurement savings and amending the existing specification for operational procurement services.

## **1. SUMMARY OF MAIN ISSUES**

- 1.1 This report seeks the Cabinet Member's approval of the recommendations to update the arrangements for the delivery of procurement services through the Peterborough Serco Strategic Partnership Contract to seek to ensure that the Contract offers the best approach for the Council in relation to procurement services and represents best value for money.

## **2. PURPOSE OF THIS REPORT**

- 2.1 This report is for the Cabinet Member for Resources to consider exercising delegated authority under paragraph 3.4.8 of Part 3 of the constitution in accordance with the terms of their portfolio at paragraph (p).

### 3. **TIMESCALE**

Is this a Major Policy Item/Statutory Plan?	<b>NO</b>
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### 4. **DETAILS OF DECISION REQUIRED**

- 4.1 The decision maker is asked to authorise entering into a Notice of Change with Serco Limited in respect of the Council's Peterborough Serco Strategic Partnership Contract dated 25 November 2011 between the Council and Serco Limited (the "PSSP Contract"), to amend the approach for the delivery of procurement services to the Council by removing the current gain share arrangements for procurement savings and amending the existing specification for operational procurement services.

### 5. **CONSULTATION**

- 5.1 As part of the decision, consultation was undertaken with the Council's Corporate Management Team and the procurement working group.

### 6. **ANTICIPATED OUTCOMES**

- 6.1 To enter into a Notice of Change with Serco Limited to vary the PSSP Contract to ensure that arrangements for delivery of procurement services to the Council offers the best approach for the Council's requirements.

### 7. **REASONS FOR RECOMMENDATIONS & ANY RELEVANT BACKGROUND INFORMATION**

- 7.1 The PSSP Contract was awarded to Serco Limited following an Official Journal of the European Union (OJEU) procurement process, for the provision of a range of services. One of the services provided under the PSSP Contract is procurement services.
- 7.2 As part of the existing PSSP Contract, in addition to an operational procurement service, Serco Limited also guarantee delivery of certain procurement savings which are then to be split between the Council and Serco Limited. In summary, under the current PSSP Contract, Serco Limited are to have control of approximately £51million of 'addressable spend' per annum (the Council's allocated annual expenditure in relation to goods, services and works purchased by the Council from third party suppliers), Serco Limited are to determine the approach to procuring those goods, services and works, and guarantee certain savings. These procurement savings are then split between the Council and Serco on a gain share basis.
- 7.3 The level of 'addressable spend' is to be reviewed annually, and any changes agreed. If the 'addressable spend' has dropped, then the procurement savings guaranteed by Serco Limited also reduce.
- 7.4 A full review of 'addressable spend' was undertaken over the summer of 2015, and it is clear that it has reduced by around £15million per annum, due to a number of factors (for example, new proposals around foster care delivery arrangements, and different approaches to commissioning of some works etc.). As this reduces the procurement savings guaranteed by Serco Limited under the PSSP Contract moving forward, the reduction in 'addressable spend' places a pressure on the Council's budget, which was based on the Council receiving a higher level of guaranteed procurement savings. The pressure from the reduced procurement savings, as a result of the drop in 'addressable spend', was approved by Council as part of the 2016/17 Medium Term Financial Strategy (MTFS) and came into effect 1 April 2016.

- 7.5 Consequently, a review of the procurement savings gain share arrangements and operational procurement service provision has been carried out, and it is considered that the current procurement savings gain share arrangements no longer offer the best approach for the Council. This is because the reduced level of spend means that the existing arrangements no longer offer best value for money.
- 7.6 It is therefore proposed to vary the PSSP Contract by way of a Notice of Change (under the Change Control Procedure within the PSSP Contract) to remove the procurement savings gain share approach and additionally refresh the operational procurement service specification to ensure that the service focuses on key procurement priorities. It is proposed that the Notice of Change will become effective on approval of this CMDN.
- 7.7 The removal of the procurement savings gain share provisions from the PSSP Contract will mean that Serco Limited are no longer obliged to deliver guaranteed procurement savings, however, any savings in expenditure in relation to the goods, services and works purchased from third party suppliers which the Council *does* achieve would be retained wholly by the Council, under the proposed new arrangements (rather than shared with Serco Limited).
- 7.8 In addition, as part of the current procurement savings gain share arrangements under the PSSP Contract, a fixed annual fee is paid by the Council in relation to procurement savings (which is in addition to the share of the procurement savings which Serco Limited receive). The proposed variation to the PSSP Contract will result in that annual fee no longer being payable by the Council.
- 7.9 The amendments to the operational procurement specification will ensure that the service meets the Council's continuing requirements. As Cabinet approved its Procurement Strategy at its meeting of 7 December 2015, the refresh of the operational procurement specification will also enable the service to focus on delivery of that strategy.

## **8. ALTERNATIVE OPTIONS CONSIDERED**

8.1 The following alternative options were considered and rejected.

### **8.1.1 Option 1: Do Nothing**

This would mean that the PSSP Contract would not be varied and the Council would have procurement service arrangements that were inflexible and which did not best serve delivery of Cabinet's Procurement Strategy, and would not represent the best approach for the Council.

## **9. IMPLICATIONS**

### **9.1 Financial**

- 9.1.1 As noted in paragraph 7.8 of this report, the Council currently pays a fixed annual fee (currently in the sum of £110,000 per annum) for the management of procurement savings and the procurement savings guarantee. This will no longer be payable once the proposed variation is completed. Also, under current arrangements, Serco Limited are entitled to claim a share of procurement savings made. This will no longer be the case once the proposed variation is completed, and the Council will keep 100% of any procurement savings achieved
- 9.1.2 The Council had previously banked the level of expected savings within the MTFs. These will need to be stripped out moving forward, but can be replaced by the 100% retained procurement savings. This will be undertaken as the MTFs is rolled forward. The remaining residual savings that has been banked average around £300,000 per year.

9.1.3 The Council currently pays a fee for operational procurement services provided by Serco Limited under the PSSP Contract across the Council. The new amended operational procurement specification has been designed to deliver a set amount of resources within this fee. This fee will remain unchanged, but if, in any given year, the level of procurement activity which the Council requires is especially high and requires extra resources to deliver this, then this can be provided at additional cost. This approach is the same as many other areas of external contracts. Any additional funding which becomes necessary in respect of the extra procurement resource needed, would be sought through the budget process (alongside demonstration of the extra benefits and savings the procurement activity will deliver). For 2016/17 the additional resource days cost to support procurement activity underway is £103,000 with up to a further £60,000 set aside for social care covered from reserves.

### **9.3 Legal & Procurement**

9.3.1 The PSSP Contract was awarded to Serco Limited under the Public Contracts Regulations 2006, following an OJEU procurement process. The proposed variations to the PSSP Contract to be made by entering into the Notice of Change is subject to Regulation 72 of the Public Contracts Regulations 2015, which sets out what modifications to an OJEU procured contract are permitted.

9.3.2 Advice from Legal Services has been obtained in relation to the proposed variations, in accordance with the Council's Contract Rules, in respect of Regulation 72 of the Public Contracts Regulations 2015.

## **10. DECLARATIONS / CONFLICTS OF INTEREST & DISPENSATIONS GRANTED**

10.1 None.

## **11. BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985) and The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

11.1 None.