

11 February 2024

Key Decision No

Report No.OS2503

SERCO CONTRACT EXTENSION – ESTABLISHMENT OF A WORKING GROUP

SUMMARY AND RECOMMENDATIONS:

This report outlines options available to the Council as the primary period of the Serco contract comes to an end. Given the consistent performance of the contractor and the risks associated with alternative options, the report recommends the Council enters into negotiations with Serco to explore an extension to the existing agreement.

Recommendation(s) requiring decision.

Cabinet is recommended to:

1. Approve the approach outlined in this report and for the Council to enter into formal contract extension negotiations with Serco
2. Establish a working group to oversee the extension process

1. INTRODUCTION

- 1.1. The contract with Serco for the provision of waste collections, street cleaning and grounds maintenance commenced on 31st July 2017, for a period of ten years. It is due to expire on 30th July 2027. The contract allows for an extension period of up to a further ten years.
- 1.2. The purpose of this report is to outline the service delivery options available to the Council for the period after 30th July 2027. The report makes recommendations that the Council enters negotiations with Serco for the optional extension period and recommends establishing a working group to guide the principles and priorities for the extension negotiations.

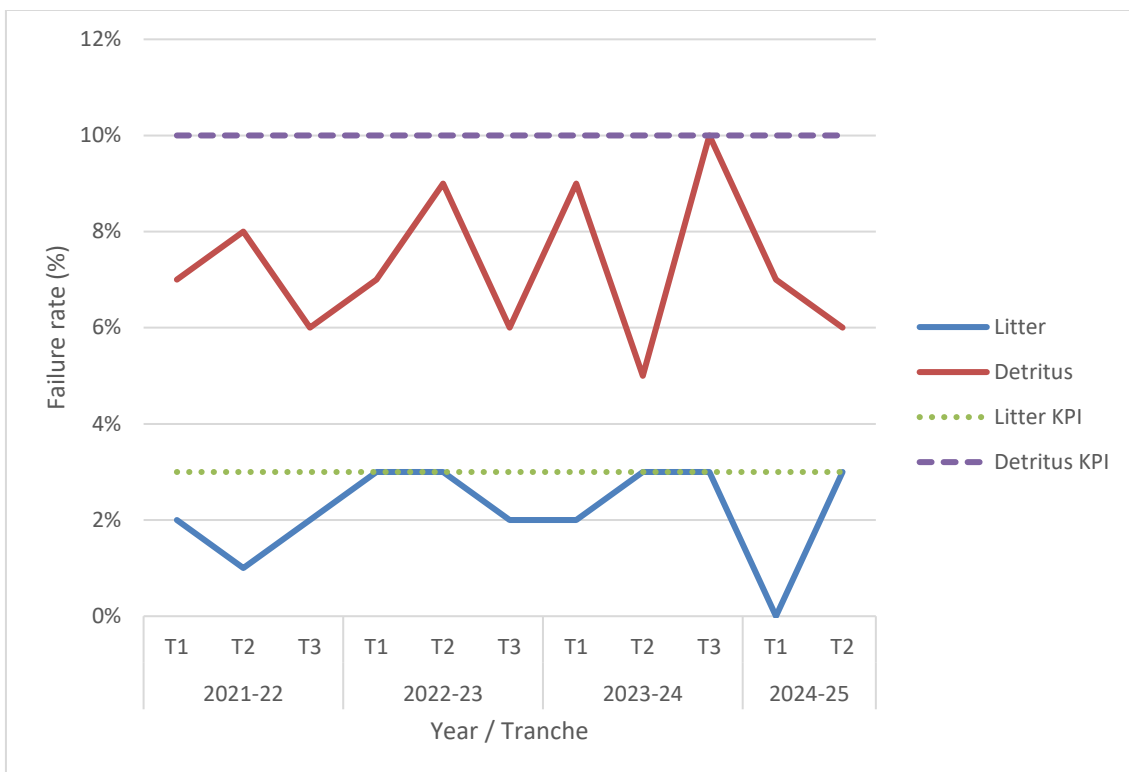
2. BACKGROUND

- 2.1. The procurement process for this environmental services contract started in 2015 and took 18 months to complete. It was a 3-stage competitive dialogue process which enabled the Council to explore ideas/solutions on a confidential

basis and ensure good alignment to the Council’s strategic aims. It served as a mechanism to optimise bids, therefore the bids received at stage 3 of the process were significantly better than those received at stage 1. Emphasis was made on of the importance of high-quality submissions and therefore, those bidders who could not demonstrate high quality services were eliminated early in the process. The contractor’s approach to work, added value ideas and performance mechanism were all debated at length. At the first stage of the process, the council were working with 15 bidders and by the end of the third stage, Serco were successful with a bid that demonstrated a high level of quality with a competitive price. This saved the Council around £750k per year, based on the previous contract with Veolia.

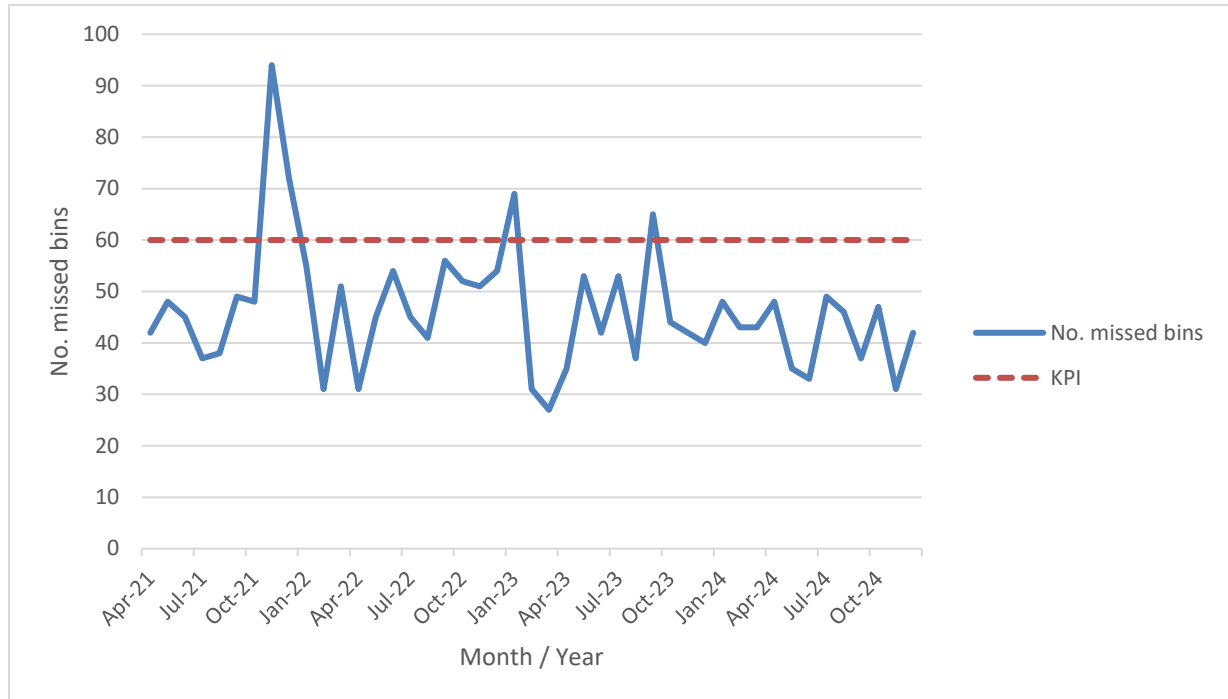
2.2. The core services included in the contract are grounds maintenance, street cleansing and rubbish and recycling collections. Service performance has been very good across each of these services and a summary of performance against some the core Key Performance Indicators (KPIs) is outlined in the following tables.

2.2.1 The KPI for street cleansing is 3% (failure) for litter and 10% (failure) for detritus. The Council has monitored the street cleansing standards since the start of the contract using a third party until 24/25, when this task was taken back in-house. 300 surveys of different transects are carried out three times a year, in accordance with the methodology detailed in the Keep Britain Tidy NI195 Guidance Manual. The surveys grade each transect for litter and detritus (Graph 1).



Graph 1: Litter and detritus scores each tranche since the start of the contract

2.2.2 The KPI for rubbish and recycling collections is 60 missed bins per month (excluding food waste). This has been achieved for the vast majority of months as shown in Graph 2. The increase in missed collections in November 2021 was due to the change in rubbish collection frequency, from weekly to fortnightly.



Graph 2: Number of missed bins each month from Apr 2021 to Dec 24

2.3. The contract currently costs the Council approximately £4.7m per year.

3. DETAILS OF THE PROPOSAL

General

- 3.1. As the Council approaches the end of the initial term, it must consider the options available for service delivery in the future. The primary options available are procurement on the open market, bringing the services back in-house or seeking an extension to the existing contract with Serco. These options are briefly explored below.
- 3.2. The current contract with Serco has provided stable and reliable services across the borough since 2017. It is therefore both appropriate and prudent to explore the appetite and terms of a potential extension in preference to immediately undertaking a full procurement process. Cabinet are recommended to approve this approach and for the Council to enter into formal negotiations with Serco.
- 3.3. The contract allows for an extension period and the mechanism for agreeing it. This is outlined in the Legal implications section of this report. Whilst the

contract can be varied at any time, the extension negotiations provide an opportunity to renegotiate or reset the finer details of services provided or added/social value commitments. There is also an opportunity for financial renegotiation to ensure that the contract is attractive and proportionate for both parties.

- 3.4. To guide and oversee the procurement process for the existing contract, a Cabinet working group was established. This group played an invaluable role establishing and agreeing the principles of service delivery and providing oversight and assurance of the procurement process itself. Given the above and the scale and importance of the services provided through the contract, Cabinet is recommended to establish a similar working group to oversee the extension negotiations. Terms of Reference will be agreed at the first meeting of the group, but at a high level, the key tasks are listed below.
- Membership: A politically balanced cross-party group of councillors, including Pride in Place/Neighbourhood Services Portfolio Holder (Chairman)
 - Key responsibilities: Discuss any amendments to the service specification or contract conditions, propose social and added value priorities for the contract, oversight of the extension process and feedback to Cabinet as part of any final decision
 - Frequency of meetings: Anticipated 2 or 3 meetings over the spring

Alternative Options

- 3.5. As set out above, whilst it is appropriate for the Council to explore an extension with Serco, should these negotiations fail, the Council has two primary alternatives.

Full procurement process

- 3.6. The Council could go back out to the market to procure a new contract. This is a resource intensive option, would take around a year to complete and would incur costs estimated at £100,000, excluding Officer time. Whilst a full procurement exercise can yield good results, it also carries significant risk. Key risks include potential lack of appetite in the market, contractual risks, higher than anticipated costs (market changes), unreliable service quality and significant mobilisation costs.

In-house process

- 3.7. Alternatively, services could be brought back in-house. This would be a higher cost option for the Council and would require significant investment in time and resources. The Council has not delivered the services included in the contract since the 1990's and is no longer set up to do so. Delivering an in-house service would require significant investment in IT capacity, HR, Fleet, Legal and Compliance. Additionally, staff currently employed through the contract would

become direct employees of the Council with significantly higher employment costs associated. An in-house service however, can allow for more direct control and oversight.

Consultation

- 3.8. Whilst no formal consultation is required for this extension, it is proposed that a Cabinet Working Group is set up to advise Officers and provide guidance on the key priorities of the extension.
- 3.9. The Serco contract was subject to audit in autumn 2023. The audit covered the following areas:
- Monitoring of the performance of the supplier is in line with the contract
 - Invoices for routine works are accurate and can be supported
 - Invoices for non-routine works are accurate
 - Non-routine works can be justified and subject to a suitable authorisation process
 - Inflationary increases have been applied correctly
 - Changes to the contract are enacted within the mechanisms noted in the contract
 - The guaranteed minimum income figure is being correctly applied
- 3.10. The audit received a substantial assurance level, which provides a level of confidence in the services provided and the management of them.
- 3.11. The Council's Overview and Scrutiny Committee hosted Serco at the 1st August 2024 meeting. Members received a presentation outlining contract performance from both the Council and Serco perspective. The session promoted lively debate and significant interest from members of the Committee. Whilst some specific areas of focus were requested, the overriding view of the Committee was that services are delivered to a high standard and no further actions were recommended to Cabinet.

4. IMPLICATIONS (of proposed course of action)

Risks

- 4.1. There are risks associated with any of the service delivery options available to the Council. These are discussed throughout this report but are categorised below.
- Financial
 - Service delivery
 - Reputational
 - Legal

Whilst it is not possible to eliminate these risks entirely, exploring an extension to the existing agreement with Serco minimises them. The Council retains the fallback position of a market procurement exercise should extension negotiations fail.

Legal Implications

- 4.2. Clause 3 of the Council's contract with Serco outlines the process to agree an extension to the contract. An extract is below:

The Council may extend this agreement beyond the Initial Term by a further period of up to 10 years. If the Council wishes to extend this Agreement, it shall give the Contractor at least 18 months' written notice of such intention before the expiry of the Initial Term.

If the Council gives such notice then unless the Contractor notifies the Council within 3 months of the date of such notice in writing that it is unable or unwilling to provide the Services beyond the Initial Term, the Term shall be extended by the period set out in the notice. The Contractor shall continue to provide the Services in accordance with this Agreement during the extended term.

- 4.3. External legal advisors under a framework agreement will support the Council on the proposed contract extension and ensure that any extension is compliant with procurement law, (the Public Contracts Regulations 2015 and future legislation) and any associated regulations and guidance.

Financial Implications

- 4.4. The current annual budget for the contract is approximately £4,750,000 broken down by the four service areas.

Waste and Recycling	£2,625,000
Street Cleansing	£1,210,000
Grounds Maintenance	£830,000
Public Conveniences	£85,000

- 4.5. Extension negotiations will require a small amount of specialist legal resource which is forecast to cost around £10,000. This cost is proposed to be covered by current approved budgets.
- 4.6. It is thought that by the Council by going through the negotiation process with Serco, rather than testing the market through a full procurement process will deliver value for money. The current service delivered by Serco meets the requirements of the Council and is well managed to continue to deliver. The alternative option of a full procurement will be costly and resource intensive.

Resource Implications

- 4.4 Any renewal of service including extension of contract is a significant undertaking and will require Officer time to deliver alongside other day to day activities and priorities.

Equalities Impact Implications

- 4.5 There are no impacts in respect of Equalities for this report. However, as part of the contract negotiations, we will carry out an Equalities Impact Assessment on the services provided.

Other

- 4.6 There are no other implications associated with this report.

5 CONCLUSIONS

- 5.1 The contract with Serco for the provision of waste collections, street cleaning and grounds maintenance, which commenced on 31st July 2017, is due to expire on 30th July 2027. The contract allows for an extension period of up to a further ten years and therefore, this report makes recommendations that the Council enters into negotiations with Serco for the optional extension period. It also recommends establishing a working group to guide the principles and priorities for the extension negotiations.
- 5.2 The overriding view of the Council's Overview and Scrutiny Committee at the meeting on 1st August 2024, was that services are delivered to a high standard and no further actions were recommended to Cabinet.
- 5.3 The current contract with Serco has provided stable and reliable services across the borough since its inception and it is therefore both appropriate and prudent to explore a potential extension in preference to immediately undertaking a full procurement process.

LIST OF APPENDICES/ANNEXES:

None

BACKGROUND DOCUMENTS:

None

CONTACT DETAILS:

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