



CABINET

15th January, 2020

Subject Heading:

Contract extension for the supply of temporary agency workers

Cabinet Member:

Cllr Damian White, Leader of the Council

SLT Lead:

Ben Plant, Director of HR & OD

Report Author and contact details:

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Policy context:

HR Routes to Recruitment and Resourcing

Financial summary:

Spend approximately £25,000,000

Is this a Key Decision?

(a) Expenditure or saving (including anticipated income) of £500,000 or more

When should this matter be reviewed?

June 2020

Reviewing OSC:

Overview and Scrutiny Board

The subject matter of this report deals with the following Council Objectives

Communities making Havering
Places making Havering
Opportunities making Havering
Connections making Havering

SUMMARY

1. The Adecco contract for the supply of temporary agency resources was agreed by Cabinet in August 2016 for the duration of 3 years + 1. The 3 years expired in December 2019 and approval is being sought to extend for the +1 year allowed within the contract, with the addition of a 9 month break clause.

2. The council's existing contract provides more favourable terms than the recently procured London Collaboration framework. Extending the contract by a year will ensure the council continues to benefit from these terms while providing time to explore and assess options for the next contract award.

RECOMMENDATIONS

Cabinet is asked to:

3. Approve the Adecco contract extension for the supply of temporary agency resources for a period of 1 year with a 9 month break clause.

REPORT DETAIL

4. In line with the people strategy adopted at November Cabinet, the council's senior leadership team is leading a drive to significantly reduce the use of agency workers and build a stable, permanent, productive workforce. However, there will always be circumstances where the use of agency workers continues to be necessary or appropriate – for example, where the council requires access to specific skillsets for a defined period of time, or where there are challenges in recruiting and retaining suitable permanent staff.
5. The London Borough of Havering has a corporate contract for the supply of temporary agency workers which is delivered by Adecco under a master vendor service model via the ESPO Mstar 2 framework. The contract has been in place since December 2016 and is currently meeting all SLAs and KPIs. The contract expired in December 2019, but includes the option of a one year extension.
6. The current contract was awarded by a mini-competition exercise under the ESPO Mstar2 framework. The mini-competition was conducted by "The London Collaboration", a group of London organisations who collectively, through their combined purchasing power, were able to obtain further cost savings from the main framework prices. Running the mini-competition allowed further refinement on the specification whilst retaining the benefits offered under the framework agreement.
7. The Mstar2 framework expired in April 2019 and the new Mstar3 framework commenced on 11 April 2019. A further London Collaboration working party was created and another mini-competition exercise was conducted for two of the Mstar3 Lots: vendor neutral model Lot 1a and managed service model Lot 1b. Suppliers were awarded on 5 September 2019 and Adecco were successful in winning Lot 1b. The vendor neutral winner was Matrix.

8. The new Mstar 3 London Collaboration award has delivered 19% (neutral vendor) and 24% (master vendor) cost savings from the main framework prices. However, even with these savings, the current pricing terms we are receiving under the Mstar 2 Adecco prices are more favourable. The proposed future pricing versus the pricing we are currently receiving has led to the decision to undertake a comprehensive review of alternative future options.
9. In addition to the Lot 1a and Lot 1b, a further Mstar3 mini-competition is currently being conducted for Lot 3. The model for Lot 3 is Talent Pool; a new approach to recruitment allowing advanced technology to source and create authorities' own "Talent Pool". The two key purposes of the Talent Pool are to support finding jobs for local people and create further cost savings by utilising the technology available. The invitation to tender is due to be released later in January 2020.
10. There are a number of options to consider for the next temporary agency worker contract. During the extension period it is the intention to hold stakeholder engagement sessions, supplier presentations, meet with neighbouring authorities which are using other providers, and to create detailed cost modelling. These activities will allow a further paper to be presented to Cabinet in June/July 2020.

REASONS AND OPTIONS

Reasons for the decision:

11. The current financial terms with Adecco are more favourable than alternative options and the option to extend will allow Havering to benefit from these terms for one further year.
12. It will also allow the opportunity for Adecco to deliver various commercial benefits which will be negotiated/agreed as part of the extension. These include but are not limited to tenure discounts and prompt payment discounts. The discounts will apply to the influencable spend which is 4.18% of the overall £25 million per annum expenditure (see table under Financial Implications). The remaining 95.82% is a combined spend of salary and statutory costs including employers NI, apprenticeship levy and workplace pension, which are determined by external market rates.
13. There are a number of options to consider for the next temporary agency worker contract. During the extension period it is the intention to hold stakeholder engagement sessions, supplier presentations, meet with neighbouring authorities which are using other providers, and to create detailed cost modelling.

14. Future models to be considered will be vendor neutral, master vendor, joint venture (Kent Commercial Services) and Talent Pool/In-House delivery. All these options will be reviewed and presented to Cabinet in June/July 2020.
15. Key consideration for the future model will not only be the efficiency of the contract management and service delivery element but also the ability of the chosen provider to support us in influencing our overall expenditure.

Other options considered:

16. **Direct Award to Adecco on Mstar 3 Lot 1b** – the financial modelling for this option is showing as more expensive than the current contract, even when the RPI index is taken into account over the contract life.
17. **Direct Award to Matrix Mstar 3 Lot 1a (Vendor Neutral Model)** – the Mstar 3 vendor neutral model is a cheaper option than master vendor but still remains more expensive than our current model.

IMPLICATIONS AND RISKS

Financial implications and risks:

18. The table below shows the management fee spend for FY18/19. This excludes the salary costs to the workers (pay and statutory costs) and is purely the margin and agency fees to the supplier and their supply chain. The management fee is the influenceable spend.
19. In the Mstar 2 column, the total management fee spend for FY18/19 was £1,044,737. The usage for the FY18/19 has been mapped against the Mstar 3 management fees and show a significant increase if we were to make a direct award to either Adecco or Matrix under the new framework.
20. We explored the possibility of an Employers National Insurance (ENI) reduction. Typically agencies charge clients ENI on the whole wage cost, not taking into account the ENI thresholds and therefore charging more than the statutory requirement. To avoid over-charging, the ENI percentages are set at framework level. The ENI charges are more economical on Mstar 3 than Mstar 2 but whilst cheaper it does not reduce the overall costs and Mstar 2 still remains more favourable.

Management Fees Mstar 2 v Mstar 3			
Authority	Mstar 2 Management Fees Current Contract FY18/19	Mstar 3 Management Fees London Collaboration FY18/19	
	Adecco	Adecco	Matrix
Havering	£1,044,737 (4.18% of the overall £25 million spend)	£1,301,678 (25% Increase from Mstar2)	£1,078,185 (3% Increase from Mstar2)

21. The figures above have been derived using 2018/19 agency usage and are indicative of management fees at similar levels of agency usage. This extension would be based on the current Mstar2 contract. There is no separate budget for the management fee as the cost is incorporated within the overall agency charge whilst the corresponding budgets are generally held within service salary budgets. With the likely increase in the management fee, services should put plans in place to reduce overall reliance on agency workers within the council.

Legal implications and risks:

22. This report seeks approval to extend the Adecco Contract for a one year period.

23. The Council has the power under Section 1 of the Localism Act 2011 to agree the recommendation in this report.

24. The option to extend the term was contemplated at the time the contract was awarded and the contract enables the parties to extend the initial 3 year term to December 2020.

25. Therefore, the proposed extension is in compliance with the limitations imposed by the Public Contracts Regulations 2015 and Regulation 72(1)(a) in particular.

26. However, the contract does not include a termination for convenience clause and therefore, the break clause referred to in the recommendation will need to be agreed with Adecco. This does not constitute a substantial modification under Regulation 72(8).

27. In accordance with Contract Standing Order 19.8, the reasons and authority to extend the period of a contract must be recorded in writing and loaded onto the Council's preferred e-tendering suite.

28. Officers have confirmed that the provider has performed the service to a satisfactory level under the current contract.

Human Resources implications and risks:

No HR implications or risks

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

The equalities legislation is incorporated into the existing Adecco contract.

BACKGROUND PAPERS

Not applicable