Defence Secretary Philip Hammond has announced, subject to a ten-day standstill period, the award of a Defence Business Services Management Contract to Serco. This is part of a long-term programme to radically transform the way corporate services are provided to the Department and save the MoD £71 million.

Defence Business Services (DBS) stood up on 4 July 2011 and provides a range of corporate services, including human resources, finance, information and vetting, from a single structure to all areas of the Department. Serco will work with DBS to transform the organisation into an efficient shared services centre which builds on private sector best practice.

Over its four-year duration, the value of the contract is around £36m; there is an option for the Department to extend this for a further year. The contract is based on a zero management fee with all Serco's earning being performance related. Serco will be strongly incentivised to drive down costs and deliver efficiencies and we expect savings in the order of around £71m to be achievable over the life of the contract.

Defence Secretary Philip Hammond said: "This marks a defining moment in our efforts to radically change the way we do business in the Ministry of Defence, by awarding a contract to Serco to lead, manage and transform the Defence Business Services (DBS) organisation.

"This is an exciting and challenging time for the Department; the new Serco management team have firsthand experience of making similar changes in the wider public and private sector, improving performance through innovation.

"We are committed to working in partnership with Serco to make this transformation a success and to deliver efficiencies and savings which will allow more resources to be made available to the front line".

The standstill period, also known as Alcatel, is a mandatory standstill period of 10 days between contract award and contract conclusion, to enable transparency in the award process and allow any potential challenges to be addressed before contract signature.

A competition was carried out using the competitive dialogue process involving KPMG with CSC, IBM with Deloitte, and Serco with Accenture, to seek a potential commercial management partner for the DBS. As part of this process a number of issues have been considered including value for money, deliverability of efficiencies and how best to enable transformational change. Following an intense period of dialogue, the competition closed in December 2011 with final bids due in just before Christmas.

The MoD says a number of options have been explored and it has been decided that the best long term solution is to bring in a commercial management team from Serco to lead and transform DBS. This is a significant step in our Transforming Defence programme that aims to radically transform the way corporate services are provided to the Department.

DBS itself will continue to be a part of the MOD, and personnel working in DBS will be employed in the same way as all other MOD staff, with the same terms and conditions.