

Regulatory and Other Committee

Open Report on behalf of Richard Wills, Monitoring Officer

Report to:	Audit Committee
Date:	21 November 2016
Subject:	KPMG's Review of Agresso Implementation and Management of the Serco Contract

Summary:

This is a report of the Review into the Serco Contract that was commissioned by the Audit Committee in June this year as a result of a resolution of the Council in May. The full report from KPMG is appended and members of the Audit Committee will have an opportunity to ask questions about the report at the meeting.

In brief KPMG's review concludes that the procurement philosophy was valid and the methodology and processes for the tendering and contract letting were sound. Serco accepted the contract on the understanding that there was only a 12 months mobilisation period. However, insufficient resources were deployed during this period. This increased the risks of service failure at the start of the operational period. The most obvious failing was in the implementation of the Agresso Enterprise Resource Planning system, which resulted in disruption to payroll and invoice payments.

KPMG has also identified how the Council might have acted differently in order to minimise the risks of service failure.

Serco have always accepted responsibility for these failures of service. The Contract allowed the Council to impose service credits and this has occurred. Serco's performance has improved in the last 6 months, although there is outstanding transformation work that has been delayed as a result of the problems. KPMG's findings and recommendations are thus intended to be lessons learnt from the experiences of the last 18 months. These will primarily be of use to the Council in letting similar contracts and major procurements for other services, but may also assist in managing the remaining period of the contract.

The Audit Committee is invited to accept the report and make comments. It is envisaged that the Chief Executive and other officers will consider KPMG's review and act on their recommendations. It is also expected that officers will discuss the report's findings with Serco and report progress in the normal way.

Recommendation(s):

1. The Audit Committee receives KPMG's Report of the Review of Agresso ERP System Implementation and Management of the Serco Contract
2. The Audit Committee is invited to comment on the Report's findings and recommendations.
3. The Audit Committee directs the Chief Executive:
 - a) to act on the findings and recommendations, especially in relation to future major procurements; and
 - b) to monitor and report on the progress of the actions taken.

Background

1. The resolution by the Council in May was prompted by dissatisfaction with the way in which some services within the contract with Serco were performing, most notably the implementation of the Agresso Enterprise Resource Planning (ERP) system. Although by then improvements had been observed, the Council required the Audit Committee to commission an independent evaluation of the contract procurement and implementation process. The main objective was to assess what lessons could be learnt.
2. There was a delay in starting because KPMG had to get clearance from the body that assures audit appointments in local government.
3. The work has now been completed and KPMG has submitted its report to the Council for consideration. This is attached as Appendix A.
4. A member of the review team will be at the meeting to give a brief presentation and answer any questions about KPMG's findings. KPMG have worked with officers of the County Council and managers in Serco and Unit 4 in undertaking the evaluation.
5. The Council, Serco and Unit 4 have been given the opportunity to comment on the points made in KPMG's Report and have endeavoured to respond to most of the key points within it. However, for the avoidance of doubt, neither the Council, Serco nor Unit 4 should be taken as either agreeing or accepting any statement included in the Report that they have not expressly taken issue with.
6. KPMG have directed their effort into establishing how things went wrong, rather than which services went wrong. The report therefore focusses on specific services that have caused the most problems.
7. In summary:
 - a) KPMG found that the Options Appraisal and Procurement process was broadly sound.

- b) KPMG found that there was a high level of confidence that the Procurement Processes were both compliant with legislation and also well-designed to obtain value for money for the Council.
- c) The liability for choosing, implementing and running the Enterprise Resource Planning (ERP) solution was entirely with the bidders.
- d) The Council was clear about its intentions for a transformation period from 1 April 2014 to 31 March 2015 and Serco contracted to achieve that. KPMG consider that 12 months was a somewhat short period of time and 18-24 months would have been more normal.
- e) As far as the contract is concerned, Serco were responsible for the implementation of Agresso supported by Unit 4.
- f) KPMG found that the County Council had Programme and Project Governance in place through:
 - The Future Delivery of Support Services (FDSS) Programme - initiated to oversee the future delivery of those services previously carried out by Mouchel which included the Serco contract; and
 - the Corporate Support Services (CSS) Programme - for the procurement and then implementation of what became the Serco contract.
- g) In KPMG's view, complex procurements of this sort need:
 - to consider how to manage the reputational risk to the Council of any failings by their contractor;
 - independent programme assurance; and
 - contingency arrangements that are tested and in place as part of the implementation plan.
- h) KPMG has not been able to establish conclusively why the data migration was not completely successful. KPMG considers that the controls to ensure data was migrated completely, accurately with integrity was not carried out effectively by all parties, in terms of sign off at each stage.
- i) The final decision whether to go live with the system and payroll was taken by the Chief Information and Commissioning Officer. This was based on the evidence and assurances provided by Service Leads, Serco and Unit4; and a statement from Serco that they were ready for service take on using Agresso. Serco had no better option available.
- j) There is a significant amount of evidence that Serco were not ready to perform the services from 1st April 2015, not least because of the lack of experienced payroll staff transferring from Mouchel.

8. KPMG has set out 15 recommendations. These are aimed at the Council rather than Serco, since that is the way the terms of reference were framed. Serco has commissioned its own study.

Conclusion

9. The Audit Committee now has an independent assessment of the procurement and award of contract to Serco. It also has an insight into what has occurred in the mobilisation period and immediate start of the service contract.
10. Broadly, the findings are in line with reports from the Chief Information and Commissioning Officer over the last 18 months. The exercise has clarified several things that had not previously been properly established.
11. Most of the recommendations are intended to assist the Council with the management of future outsourcing contracts for Corporate Services more effectively. A few may have more immediate relevance in ensuring the Serco contract is placed on a sustainable and stable footing.
12. KPMG's report was not intended to identify which services had gone wrong, since Serco's service delivery problems have already been well documented and reported. Furthermore, Serco have publicly apologised for service failings on a number of occasions. The review by KPMG was intended to establish why failures of service occurred and how they might have been avoided.
13. These procurements are complex and require good understanding of risk transfer and resource demands by all parties. The "intelligent client" role has been important and would need to be properly resourced in any similar procurement. However well technical risk is transferred, the Council will always carry the risk to its own reputation.
14. The Audit Committee may wish to express its comments to officers and possibly add further actions to those implied by KPMG's recommendations.
15. The onus of responsibility for service failings lies with Serco. KPMG have identified some areas where the County Council could have acted differently, which may have led to better outcomes. The Chief Executive and other relevant officers will now consider the findings and recommendations. They will provide monitoring and progress reports to the Audit Committee in the normal way.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	KPMG's Review of Agresso ERP System Implementation and the Management of the Serco Contract

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Richard Wills, who can be contacted on 01522 553001 or richard.wills@lincolnshire.gov.uk.

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