

**APPENDIX A
to Audit Committee Report 6 September 2016**

**TERMS OF REFERENCE FOR A REVIEW OF THE SERCO CONTRACT
(June 2016)**

Preamble

It is proposed that this Review considers:

1. The tendering process and contract specification.
2. The management of the Contract.
3. Serco's performance in the delivery of the services under the contract and the implementation of Agresso.

The overall purpose of the Review is to learn from the experience of letting and operating the contract with Serco so that we have the best possible arrangements in place to procure and manage contracts in future.

The context

(as discussed at the Council Meeting on 20 May 2016)

The council continues to be concerned and disappointed by the delivery of some services by Serco and the impact this is having on:

- the citizens of Lincolnshire,
- our Local Authority schools,
- organisations we trade with and which supply us with vital services
- our staff
- the operations of the County Council.

It is acknowledged that Serco has made progress in improving service delivery and the Council looks forward to this service delivery reaching the contracted standards. While this Council has the contractual right to terminate the contract with Serco, we recognise that it is currently in the Council's best interest to work with Serco while they continue to put the problems right. Serco's continued commitment to rectification, in spite of their financial losses, is valued by this Council.

At its full meeting on 20 May 2016, the Council resolved:

- *to ask the Chief Executive to ensure that the promised review of the procurement and award of the Serco contract and the implementation of Agresso is undertaken at once using the Council's external auditors KPMG; the terms of reference for the review to be agreed by the Audit Committee at its next meeting in June;*
- *that the review is reported to the Audit Committee at its September meeting;*
- *to ask the Chief Executive to keep under review progress to improve performance and the options available to the County within the terms of the contract, and to consult as he considers necessary with the Recovery Group.*

Key lines of enquiry for the independent post-implementation review.

1. Tendering, decision making and contract documents.

To assess governance, project management and leadership in relation to:

- 1.1 any way in which the nature of the contract, its terms and evaluation framework and decision making affected the potential quality of delivery:
 - i. whether the operational and commercial risks associated with this embracing contract were allocated within and managed appropriately through the contract;
 - ii. whether the risks of outsourcing would have been better managed by alternative packaging this embracing contract into smaller contracts;
 - iii. whether there were any constraints or specific requirements or a lack of clarity in the contract that contributed to the poor delivery of services by Serco and particularly in relation to Agresso.
- 1.2 how the evaluation framework affected the choice of contractor:
 - i. the process and criteria for selecting a long list and short list of bidders;
 - ii. whether the LCC evaluation of risks could have identified any potential factors in Serco's bid that might have led them to question:
 - a. The veracity of their bid; and
 - b. Serco's competence to deliver against the contract;
 - iii. whether factors arising from transferring a service between external suppliers were adequately assessed and addressed.

2. Management of the Contract:

To consider:

- i. whether it would have been possible to identify indications of potential failure before the services commencement date of the contract;
- ii. whether the governance, project management and leadership of the contract since commencement has contributed to or been appropriate to manage the risks of and prevent or mitigate the effects of poor performance;
- iii. whether increased contract management resources would improve contract management.

3. Delivery of services under the Contract and the implementation of Agresso

To:

- i. review Serco's operational performance of the services;
- ii. review Serco's implementation of Agresso;
- iii. review the Council's support to the implementation of Agresso.

OUTPUTS

A report should be delivered to the Chief Executive in time for a report to be prepared for the Council on 16 September 2016.¹

The report should contain:

- A review of the contract, evaluation framework, letting of the contract and delivery of services and implementation of Agresso;
- Recommendations derived from the learning points.

¹ The original wording of the terms of reference was "A report should be delivered to the Chief Executive by the <date> in time for a report to be prepared for the Audit Committee on <date>." This had to be amended because of the delayed start of the project.

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