



Contract Management Framework

Purpose of this document

This document is intended to map out an approach to Contract Management activities across BCC and to gain a consensus around the approach to be developed and implemented over the next 18 months.

It draws upon existing good practice and NAO/AC guidance and should be considered in the context of the Category Management approach to procurement that is being implemented.

Definition

Contract Management is part of the procurement and commissioning cycle (see Appendix 1).

There are a number of definitions of contract management. For the purpose of this document the definition used is 'a management process that ensures the contract yields the outcomes and benefits envisaged and that any market advantage secured during the tendering phase of the procurement process are realised and improved further through proactive performance management during the term of the contract'.

This definition does not include those activities that trigger the provision of a service under an existing contract such as may be undertaken by a broker or operational service function. These services are more often characterised as 'fulfilment services'.

Benefits of contract management are;

- To ensure that service expectations are met or exceeded
- To secure further savings of at least (average 3-5% pa) and other non commercial benefits such as sustainability, local economic and health outcomes.
- Monitor and reduce supply chain, supplier or contract risk.

Situation

- The trend toward greater reliance on external market solutions and the development of BCC's role as a commissioning organisation is gathering pace. The dependency on external market solutions is therefore increasing.
- Contracts are of greater commercial complexity which increases typical contract duration, sourcing difficulty and migration costs
- The current approach to contract management is fragmented and inconsistent and those with contract management responsibilities may be ill suited or lack appropriate skills



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- Commercial relationships are not being proactively managed and performance improvement and savings opportunities may be being missed
- BCC's supplier risk profile is not being routinely monitored or linked to adequate continuity provision
- There is inadequate management of the supply base with over 1000¹ relationships of varying complexity, risk profile and sensitivity
- The most important and critical supplier relationships² are not systematically identified, managed or developed.
- The number of FTE's involved in contract management activity or its current cost is not known.

Target

1. To create a consistent approach to Contract Management across BCC that can be applied to all external third party relationships.
2. To significantly upgrade the performance of contract management activity and its contribution to the transformation agenda by;
 - a. Developing a culture of continuous improvement systematically across the supplier base
 - b. Identifying and delivering savings of at least 3-5% per annum and working co-operatively to maximise non commercial benefits such as sustainability or better local economic or health outcomes
 - c. Ensuring that there is a strong link between sourcing strategies and market knowledge and contract management activity across the business
3. To recognise the distinctive commercial skills and capabilities that contract management requires and ensure these are embedded as business as usual and factored into new business activity.
4. To manage BCC's exposure to commercial, contractual and reputational risk through better contract management
5. To build a pragmatic and flexible approach that draws upon NAO/OGC and other best practice.

Proposal

6. Roles and responsibilities.
 - This framework and its deployment within BCC should be owned and managed by Procurement. Specifically the Contract Management lead role.
 - The Commercial Board should have executive oversight and commercial accountability.

¹ Relationships with over £30k spend in 09/10

² Over 50 relationships have a spend of over £1m pa



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- Responsibility for the successful application of this framework to contracts and the delivery of contract management tasks rests with the sponsoring business unit.
- The responsibility for delivering contract management tasks could be transferred to others (for example a shared support function) so long as business unit accountability is retained. This consolidation of skills could bring efficiency gains particularly where there is a high number of relatively low value contracts.
- This approach is consistent with the ultimate accountability for value for money and service delivery vesting with the sponsoring business unit
- A draft roles and responsibilities (RACI) chart is shown in Appendix 2 (details to be completed)

Table 1 - Summary Roles & Responsibilities

Procurement – Contract Management Lead Role	Responsibility for the contract management framework and its implementation across BCC
Commercial Board	Executive oversight and commercial accountability/overall effectiveness within BCC
Business Units	Application of the framework to specific contracts

7. Contracts should be managed consistently and involve a standard range of tasks;
 - The level/scope of these tasks should be commensurate with the value and risk associated with the contract
 - For consistency contracts should be assessed and managed in a standard way. Four contract types are proposed Appendix 3.
 - A draft high level summary of tasks relating to each contract type is also shown in the Appendix.
 - A degree of judgement is required in classifying contracts in this way
8. Contracts should be managed by individuals who have appropriate skills and training;
 - A role family should be developed which recognises the distinctive capabilities required to undertake contract management tasks at varying levels of complexity (see Appendix 4)
 - An outline role profile for a Senior Contract Manager is attached (Appendix 5)
 - Although a basic level of commercial awareness is required for the management of level/low value contracts (those categorised as type



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- D), the risk profile is such that the tasks do not need to be undertaken by a commercial specialist.
- The procurement contract management lead should ensure the development of a 'community of practitioners' through the provision of;
 - information, benchmarking and external good practice,
 - the development of appropriate training provision
 - hands on support
 - knowledge sharing through formal and informal networking.
9. Contract management resource needs to be sufficient to undertake the necessary tasks;
- Contract management should be considered during the early stages of any new service or commissioning need. The segmentation approach should be applied to define the necessary tasks and resource provision and appropriate funds should be allocated in the business case.
 - The recipient contract management owner should be involved as early in the commissioning or procurement process as possible and as soon as possible after Business Case Approval (Gate 2) and before Implementation Readiness (Gate 3). See Appendix 6 for Commercial Management process flow
 - NAO/OGC research shows that typical contract management costs are between 1.5-2.5% of a contract's value. Whilst this will vary by contract it is unlikely that contracts of less than £2m would justify dedicated resource.
 - Business units may secure efficiency benefits by consolidating contract management tasks for contract types A/B and C.
 - The Commercial Board will assess the adequacy of contract management arrangements as part of its assessments across the lifecycle of commercial activity (See Appendix 6).
10. Critical relationships, i.e. all type A and B contracts should have executive ownership and a stronger level of governance;
- An SRO (senior relationship officer) should be appointed to provide oversight and governance for those suppliers who have contracts that are of strategic significance or are particularly high risk (types A and B).
 - The responsibility of an SRO and key stakeholders is detailed in Appendix 2
 - A Supplier Commercial Board should be established under the auspices of the Commercial Board to provide commercial oversight to the most critical and high risk contractual relationships (Type A).



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Initial analysis suggests there are between 15 and 20 relationships of this type.

- The procurement Category Manager is responsible for providing the SRO and key stakeholders with the necessary support, management information and guidance for these relationship management activities and for considering these as part of a Category strategy or plan.

Next Steps

- a. Commercial Board to continue to further develop this framework including terms of reference and structure of the Supplier Commercial Boards.
- b. AOP project be established to oversee implementation of the framework and the significant contribution to the ongoing savings flow
- c. Work to baseline existing practices should begin (two tranches of contracts a) with a value >£3m and b) with a value of between £1m-£3m
- d. Pilot this new way of working for the new Dom Care contracts.

Graham Collins

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Appendices

1. Procurement and commissioning cycle
2. Roles and responsibilities (RACI)
3. Contract Management risk based classification
4. Example role family for contract management
5. Outline role description for a senior contract manager (as agreed with AFW for the Domiciliary Care Contract)
6. Commercial management workflow (draft)

Appendix 1

The procurement and commissioning cycle

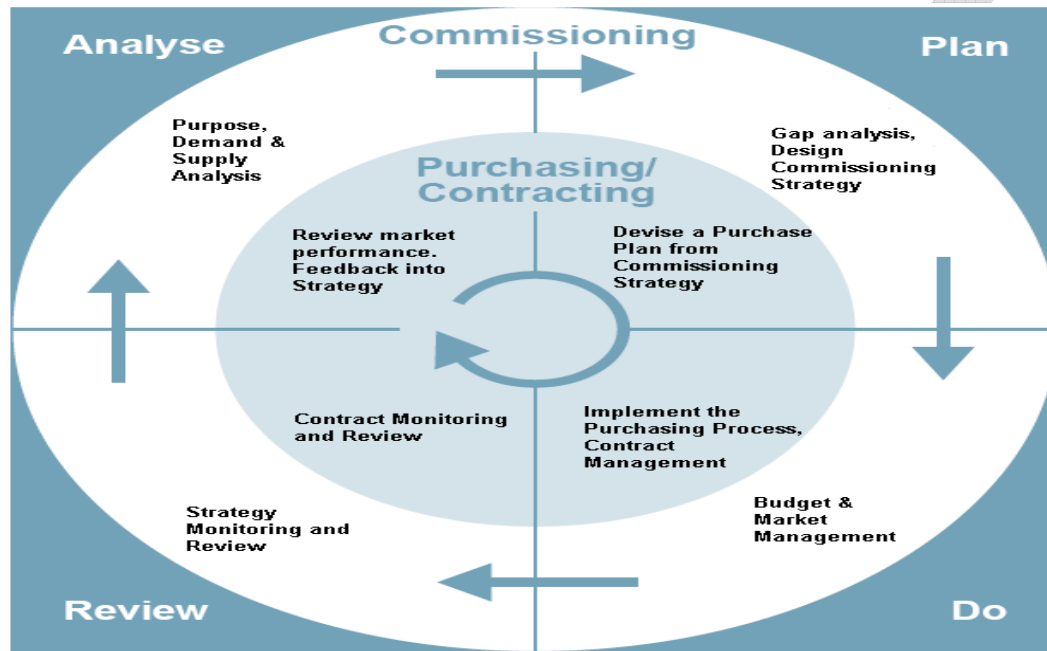


Figure 1 – Institute for Public Care Commissioning Framework



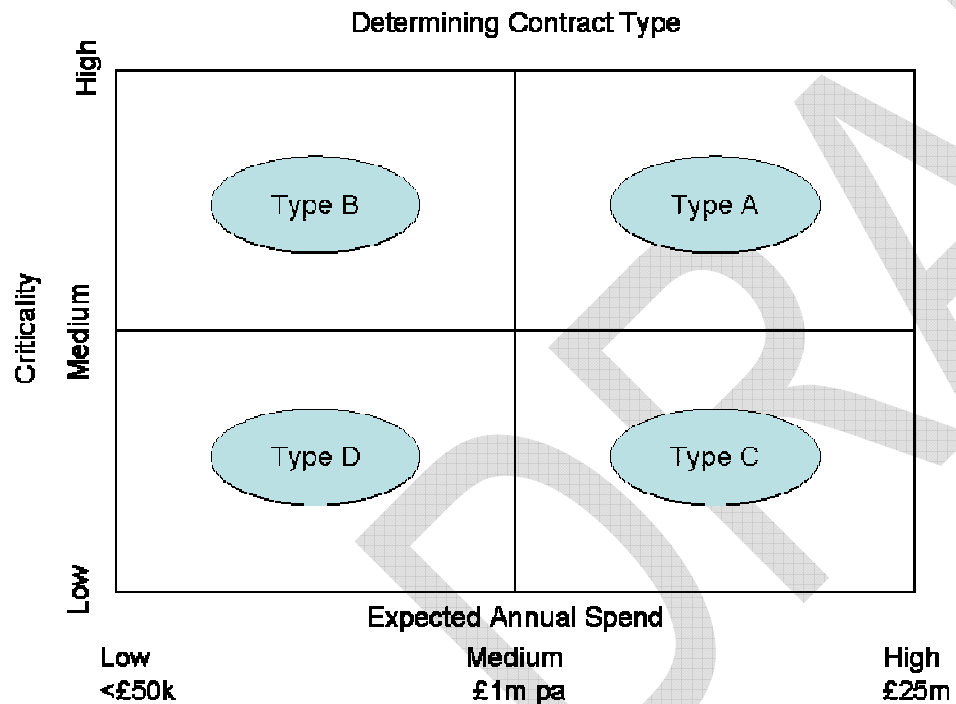
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Appendix 3

Contract Management risk based classification and determination of tasks

The contract type can be determined by an assessment of:

- The expected annual contract spend³
- The criticality of the product or service supplied (assessed using the table below as a guide)



³ Note that actual thresholds can be adjusted but should be consistent across the organisation.



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Appendix 3 continued

Deciding criticality

Impact	Criticality of service or product interruption or loss
High	<ul style="list-style-type: none">• commercial impact could exceed >£100k• impact has public/customer or market visibility or critical effect• loss of business or regulatory control• significant negative reputational or political impact• could result in a loss of critical functions/systems for more than 2 days• high level of dependency
Medium	<ul style="list-style-type: none">• commercial cost impact <£100k (more than negligible)• impact has limited public/customer or market visibility and no critical effect• some loss of internal control and no loss of regulatory control• limited negative reputational or political impact• potential; loss of critical functions/systems but restored within 2 days• moderate level of dependency
Low	<ul style="list-style-type: none">• negligible commercial impact (< £10,000)• impact has no external visibility and no critical effect• limited loss of internal control and no loss of regulatory control• no negative reputational or political impact• steady state restored quickly• little or no dependency



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Appendix 3 continued

Draft high level summary of tasks for each contract type

Contract Management Tasks	Contract Type			
	D	C	B	A
M=Mandatory D=Desirable E=Exception				
Basic Contract Management Tasks				
Contract administration	M	M	M	M
Contract variation				
Contract compliance				
Dispute/issue resolution				
Performance Management				
Performance measurement	D	M	M	M
Supplier performance review	D	D	M	M
Improvement initiatives	-	M	D	M
Stakeholder feedback	-	D	M	M
Benchmarking	-	M	-	M
Risk Management				
Supplier risk monitoring	E	D	M	M



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Business continuity plan	E	E	M	M
Relationship Management⁴				
Dedicated relationship SRO	-	-	D	M
Relationship strategy & action plan	-	-	-	D
Joint development initiatives	-	-	-	D

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⁴ will be informed and guided by the relevant category manager and category plan



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Appendix 4

Example role family for contract management (illustration from OGC). BCC role family to be developed.

Job Family: <i>Contract Management</i>						
Basic Pay <i>TBC</i>	Spend/influence level			Level Code	Skills and Experience	Responsibilities
	Level 1	Level 2	Level 3			
				F	<ul style="list-style-type: none"> Experienced professional with expert knowledge of the procurement cycle and contract management. Able to think and act strategically. Will hold professional procurement qualifications and ongoing CPD. Excellent leadership and management skills. 	<ul style="list-style-type: none"> Maintains model contracts and defines preferred buying channels. Manages demand and spend, ensuring compliance when using preferred suppliers, structured contracts and preferred buying channels. Ensures that suppliers understand the sustainable development aspects of contracts.
				E	<ul style="list-style-type: none"> Experienced professional with expert knowledge of the procurement cycle. Experience of managing high value contracts. Good leadership and management skills. Will hold professional procurement qualifications and ongoing CPD. 	<ul style="list-style-type: none"> Responsible for the negotiation and setting up of high value contracts with major suppliers. May adopt a category management approach. Engages in supplier management relationships to develop improvements in service and added value enabling the achievement of business goals. Ensures compliance when using preferred suppliers. Ensures that suppliers understand the sustainable development aspects of contracts. Prepares and reviews contracts and tender documents for legal correctness. Leads complex variation negotiations. Responsible for the realisation of benefits and challenges under performance. Provides expert advice and guidance.
				D	<ul style="list-style-type: none"> Experienced professional with excellent knowledge of the procurement cycle. Experienced Contract Manager. Will hold professional procurement qualifications and ongoing CPD. 	<ul style="list-style-type: none"> Responsible for the development of contracts with suppliers ensuring compliance to legal frameworks and sustainability targets when using preferred suppliers. May adopt a category management approach. Analyses performance data and delivery against key performance indicators (KPIs). Manages variations and non-delivery of targets. Develops relationships with stakeholders and suppliers to improve performance and improvement of contract delivery. Provides practical advice and guidance.
				C	<ul style="list-style-type: none"> Good understanding of the procurement cycle with a particular emphasis on contract management. Will hold or be working towards professional procurement qualifications and ongoing CPD. 	<ul style="list-style-type: none"> Responsible for setting up and maintaining contacts with suppliers for basic goods and services that deliver stated outcomes. Ensures that the contract complies with relevant legal and regulatory requirements. Evaluates the performance of suppliers against the specification and makes recommendations for remedial actions as directed. Plans for variations and works to achieve VFM through variations as directed. Manages a variety of supplier relationships. Provides routine advice and guidance.
				B	<ul style="list-style-type: none"> Good awareness of the procurement cycle. Experienced administrator with excellent customer service skills. Will be working towards professional procurement qualifications and ongoing CPD. 	<ul style="list-style-type: none"> Provides administrative support and co-ordination to ensure the smooth running of contracts. Raises purchase orders and invoices. Collects and collates data to support the production of management information. Undertakes general office duties relating to contract management.
				A		
F	Head of Procurement may also be known as			<i>Senior Contract Manager, Contract Lead, Contract Specialist</i>		
E	Senior Manager may also be known as			<i>Contract Manager, Strategic purchasing Manager</i>		
D	Manager may also be known as			<i>Contracts Manager</i>		
C	Team Leader may also be known as			<i>Contracts Officer, Assistant Contract Manager</i>		
B	Team member may also be known as			<i>Contract Assistant</i>		
A	Administrator may also be known as					



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Appendix 5 (attached separately)

Outline role description for a senior contract manager (as agreed with AFW for the Domiciliary Care Contract)

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Appendix 6

Illustrative Commercial Process Flow

