

APPENDIX 2

Contract management issues

31. The assessment of current contract management practice has considered the following inputs:

- Contract Manager best practice self assessments
- Assurance review of BPSA scores
- A Quality, Cost, Logistics, Development, Management (QCLDM) based review of Supplier Management Policy
- Leadership survey - Procurement
- Contract Manager skills and training needs evaluation

Contract Manager Best Practice Self Assessments

32. Self Assessments were carried out on over 300 of the most important contracts (Gold and Platinum). Contract Managers registered scores from 1 to 5 (5 being highest) against a checklist of activities and expectations. The top level scores are summarised below. These scores have not been moderated to reflect the Assurance team feedback based on their review of a sample of contracts.



33. Example issues raised in scores below level 3 are listed below (level 3 is the minimum expectation for all contracts in nearly all scenarios, although level 2 is acceptable for Bronze contracts in specific areas):

Description	Example issues identified during self assessments
Planning and Governance	<ul style="list-style-type: none"> Inconsistent understanding on contract management expectations e.g. spot contracts Senior management governance activity not systematically tracked
People	<ul style="list-style-type: none"> Changes in personnel and handover of tasks were impacting some areas e.g. contract development
Administration	<ul style="list-style-type: none"> Issues with record keeping generally Management of contracts where providers are out of county see less frequent monitoring visits, using CQC inspections and/or carried out by the host Local Authority
Managing Relationships	<ul style="list-style-type: none"> Clarity of roles and responsibilities of both parties was varied Adherence to problem resolution procedures
Measuring Performance	<ul style="list-style-type: none"> Supplier performance is reactive, based on triggers such as complaints Supplier quality reviews not happening when expected ie where performance issues have been identified Service specifications in place but signed contracts may be delayed or not stored on CMA
Payments and Incentives	<ul style="list-style-type: none"> Generally seen as an area of strength
Risk	<ul style="list-style-type: none"> Risk management activity is informal and not clearly evidenced
Contract Development	<ul style="list-style-type: none"> No regular review of contract to identify opportunities to develop Use of national/model contracts limiting ability to develop contracts
Supplier Development	<ul style="list-style-type: none"> Ad-hoc approach to working with the supplier A desire to develop supplier but lacking a formal plan and/or senior level ownership
Supplier Relationship Management	<ul style="list-style-type: none"> Plans often informal, most often as a result of issues being identified
Market Management	<ul style="list-style-type: none"> Ad-hoc approach to market intelligence and discussions with supplier, but not formal or consistent Market intelligence typically centred on commissioning / options appraisal stage only

Assurance review of Self Assessments

34. An independent review of self assessments was carried out by Assurance on a sample basis. The review assessed the contract management evidence against best practice and compared scores with the contract manager's self assessment. Assurance will be

preparing a management letter to go to Business Units with a summary of findings. Significant discrepancies between assessment scores are being followed up directly with contract managers to resolve.

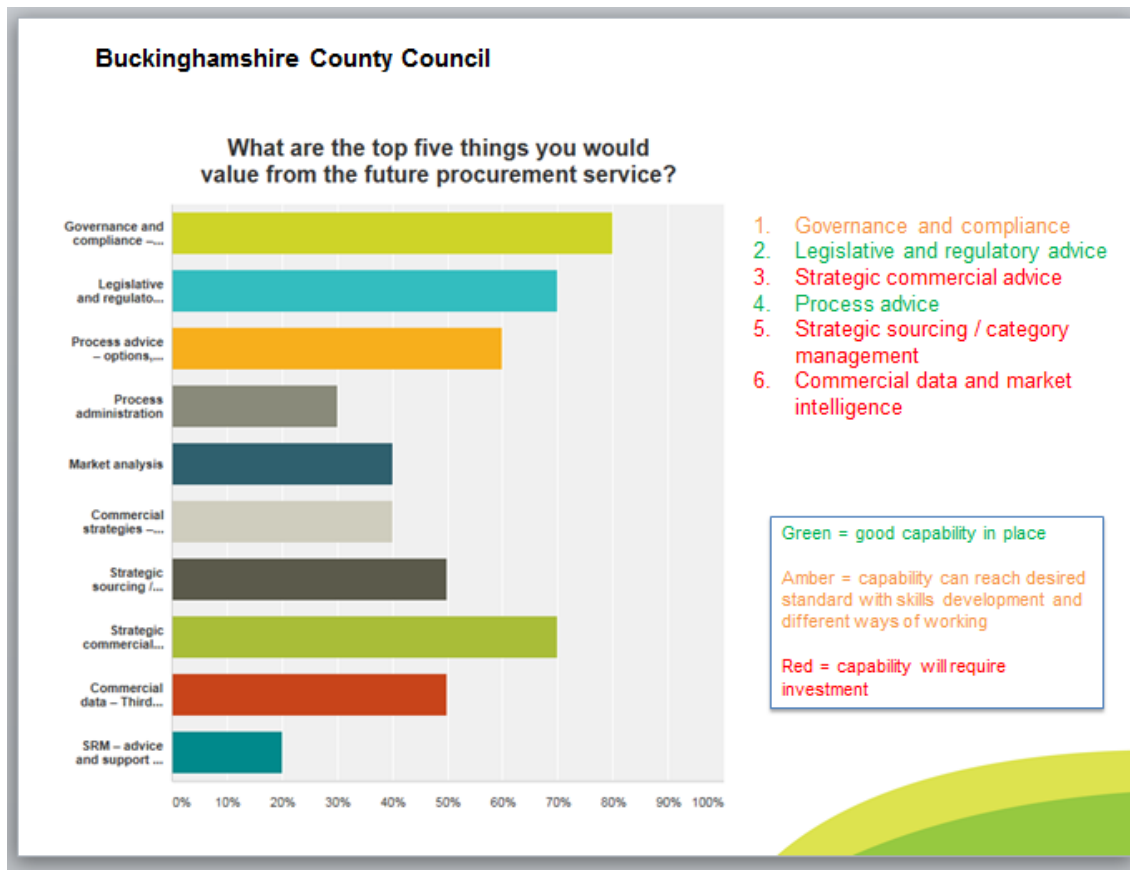
35. The self-assessment process has identified the following key issues to address:
- Inconsistent understanding of expectations of contract management activities and record keeping
 - Structure and visibility of contract governance and decision making, in particular senior/executive-level boards
 - Change management and handover processes between staff
 - Reactive approaches to gathering stakeholder feedback, with contract managers having only partial visibility of feedback
 - Maturity and formal evidence of supply risk management approaches
 - Managing value for money during life of contract
 - Use of supply market intelligence to develop suppliers and the market generally

Quality, Cost, Logistics, Development and Management (QCLDM) review

36. The scope and objectives of the policy are largely driven by the desire to establish and maintain common practice and standards in the management (information and processes) element of this role. While the management element is clearly critical, good practice design considers a balance of quality, cost, logistics, development and management elements. Reviewing and categorising current policy processes and responsibilities, compared to NAO good practice, has identified the following gaps:
- Embedded knowledge management, capturing lessons learned and experience internally and externally
 - Contract management profession in place, with career paths for contract managers
Supplier development
 - Monitoring of supply market intelligence and other developments
 - Value for money testing and benchmarking during the life of the contract
 - Supplier development of key suppliers to drive continuous improvement

Leadership survey – Procurement

37. A survey has been conducted across the Council's leadership team (Service Director's across all services) to ask what they need from the procurement service of the future. The results are included below:



Contract Manager Skills and Training Needs Evaluation

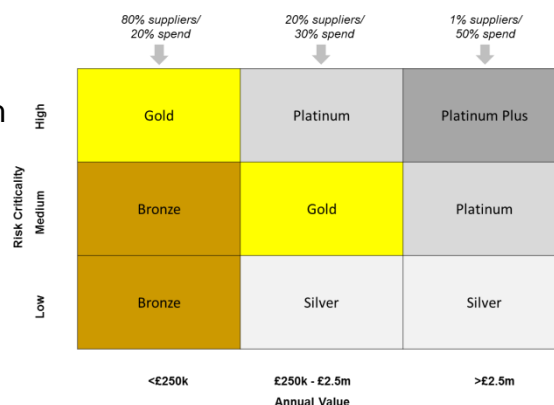
38. There is parallel, current activity to deliver a new contract manager training programme and conduct an independent review of contract management best practice self assessments. Both of these activities will provide valuable information in creating a more comprehensive policy. The key issues highlighted during the contract manager training review were:

- Structuring the contract management process to optimise contract performance
- Understanding the legal contract and practical implications for contract managers
- The role of risk management in managing supplier contracts
- Applying supply chain management to deliver contract objectives
- Applying performance management and continuous improvement principles
- Effective supplier and stakeholder relationship management
- Interpersonal skills used in managing supplier relationships effectively

Supporting information

Supplier Management Policy

The Supplier Management Policy sets out the requirements for all Business Units in their management of contracts and interactions with suppliers, and is aligned with National Audit Office good practice guidance on contract management. The policy is owned by the Cabinet Member for Resources. The policy sets out the supplier segmentation approach, based on the risk and value of each contract, and the expectations and responsibilities of contract managers.



Standard contract manager responsibilities are summarised below:

Process Step	High Level Contract Management Task	CMA Activity (as required)
Draft contract	<ul style="list-style-type: none"> Select contract type, considering contract risk positions and controls Define payment and performance mechanisms 	
Negotiate and finalise contract	<ul style="list-style-type: none"> Finalise contract pricing and performance metrics Finalise contract governance Create contract management plan Confirm Contract Manager and Service Manager 	<ul style="list-style-type: none"> Enter supplier information, contacts, address and relevant documents Enter contract information, contacts, category, finance, contract plan, resources, meetings and insurance Enter key contract 'trigger point' dates as Tasks Load master contract documentation and all relevant supporting documentation Load key approval documentation – tender report, approval to award
Establish contract management	<ul style="list-style-type: none"> Gain approval to move contract into BAU Establish and agree contract governance and roles and responsibilities with supplier Ensure users are aware of contract, pricing, terms of use and key features 	
Manage contract performance	<ul style="list-style-type: none"> Monitor compliance with contract terms and conditions Manage operational service delivery Manage and report supplier performance Manage financial performance and budgets Monitor and mitigate risks Develop and own Business Continuity Plan Resolve problems and disputes, and escalate where necessary Deliver continuous improvement Manage supplier relationship Undertake best practice assessment 	<ul style="list-style-type: none"> Load performance reports and supplier meeting documentation Load complaints and compliments information and documentation Load best practice assessment (annually)
Manage contract change	<ul style="list-style-type: none"> Manage contract administration Identify changes in demand, service profiles or BCC strategies which impact contract Deal with change control and variations (minor and major changes) 	<ul style="list-style-type: none"> Load contract variation documentation Update contract record with details of variation
Renew/exit contract	<ul style="list-style-type: none"> Plan for re-commissioning, contract renewal and other key milestones in the contract Extend/renew or terminate contract, as appropriate 	<ul style="list-style-type: none"> Load contract extension/ termination documentation Update contract record with details of extension/ termination Load key governance/approval documentation (e.g. decision to extend)

The Supplier Management Policy was last systematically reviewed in late 2015. A fresh review, including the parallel and linked activity on contract manager training and Best Practice Self Assessment Audit findings, provides the opportunity to broaden the policy to more fully address all aspects of contract management.

Definition of good practice contract management

The Council has adopted the NAO good practice model for contract management which was first developed in 2008 and most recently revised earlier this year. The model breaks down contract management into 11 top level maturity statements.

Description	NAO Good Practice Statement
Planning and governance - Preparing for contract management and providing oversight.	There should be senior executive support and oversight of contract management, and a plan for the management of each individual contract, to ensure a focus across the organisation on delivering value for money from service contracts.
People - Ensuring the right people are in place to carry out the contract management activities.	Effective contract management requires sufficient people with the right experience and skills, who have access to appropriate training and ideally are part of a contract manager community within their organisation to support the sharing of good practice.
Administration - Managing the physical contract and the timetable for making key decisions.	Processes for managing the physical contract documentation and to identify when key decision/ trigger points (for example, notice periods) should be in place to underpin all other contract management activities.
Managing relationships - Developing strong internal and external relationships that facilitate delivery.	Strong internal and external relationships are essential if service contracts are to be managed effectively. A constructive relationship with the supplier, built on trust and mutual respect, can, for example, help to overcome problems through joint working.
Managing performance - Ensuring the service is provided in line with the contract.	Having performance measures (service level agreements/key performance indicators) that are aligned to the business requirements of the organisation, and which are updated regularly, is essential for managing supplier performance. It is also important to provide regular feedback to suppliers on their performance and for organisations to ask suppliers for regular feedback on their performance as customers.
Payment and incentives - Ensuring payments are made to the supplier in line with the contract and that appropriate incentive mechanisms are in place and well managed.	Good contract management should include financial incentives to encourage suppliers to improve performance beyond the terms of the contract, if this provides real benefits to the customer organisation. Incentives can also be designed to stimulate supplier innovation which can result in improved service levels or cost reductions.
Risk - Understanding and managing contractual and supplier risk, including risks relating to personal data.	Many service contracts are critical to the delivery of the organisation's business objectives, carry significant risk if the supplier fails, and involve the handling of personal or security information. It is important that contract and supplier risks are clearly identified and managed.
Contract development - Effective handling of changes to the contract.	It is important that changes to the contract can be made easily to allow the contract to evolve to meet changing business requirements. The value for money of major changes to the contract and of ongoing existing services should be assessed regularly.
Supplier development - Improving supplier performance and capability.	For higher value and more critical contracts it is important to have a structured plan to improve the efficiency and effectiveness of the supplier's performance.
Supplier relationship management - Having a programme for managing and developing relationships with suppliers.	A customer organisation's interfaces with its supplier base should be well managed. Organisations should categorise suppliers according to their importance to the organisation and there should be a clear programme for developing relationships with the most critical suppliers. Each relationship with a critical supplier should be 'owned' by a senior executive.

Description	NAO Good Practice Statement
<p>Market management - Managing the wider market issues that impact on the contract, but lie beyond the supplier.</p>	<p>Organisations should consider a wider set of issues outside the immediate contract, including ongoing market intelligence; timely consideration of options at the expiry of the contract and development of any re-competition strategy; and whether 'market making' activities are required.</p>

Best Practice Self-Assessment Framework

#	Area	Description	NAO Good Practice Statement	Examples of Evidence	Self-Assessment Maturity Expectations
Structure and resources					
1	Planning and governance	Preparing for contract management and providing oversight.	There should be senior executive support and oversight of contract management, and a plan for the management of each individual contract, to ensure a focus across the organisation on delivering value for money from service contracts.	Contract RACI, Contract management plan, contract governance meeting records and reports	Bronze: 3 - Standardised Silver: 3 - Standardised Gold: 3 - Standardised Platinum: 4 - Monitored Platinum Plus: 5 - Optimised
2	People	Ensuring the right people are in place to carry out the contract management activities.	Effective contract management requires sufficient people with the right experience and skills, who have access to appropriate training and ideally are part of a contract manager community within their organisation to support the sharing of good practice.	Job descriptions, Best Practice Self Assessments, standard personal objectives, knowledge sharing materials	Bronze: 3 - Standardised Silver: 3 - Standardised Gold: 3 - Standardised Platinum: 4 - Monitored Platinum Plus: 5 - Optimised
3	Administration	Managing the physical contract and the timetable for making key decisions.	Processes for managing the physical contract documentation and to identify when key decision/ trigger points (for example, notice periods) should be in place to underpin all other contract management activities.	CMA record including data and documentation, transition plans, exit plans	Bronze: 3 - Standardised Silver: 4 - Monitored Gold: 4 - Monitored Platinum: 4 - Monitored Platinum Plus: 5 - Optimised
Delivery					
4	Managing relationships	Developing strong internal and external relationships that facilitate delivery.	Strong internal and external relationships are essential if service contracts are to be managed effectively. A constructive relationship with the supplier, built on trust and mutual respect, can, for example, help to overcome problems through joint working.	Stakeholder maps, communication materials, service review meeting records, customer surveys,	Bronze: 2 - Informal Silver: 3 - Standardised Gold: 3 - Standardised Platinum: 4 - Monitored Platinum Plus: 5 - Optimised
5	Managing performance	Ensuring the service is provided in line with the contract.	Having performance measures (service level agreements/key performance indicators) that are aligned to the business requirements of the organisation, and which are updated regularly, is essential for managing supplier performance. It is also important to provide regular feedback to suppliers on their performance and for organisations to ask suppliers for regular feedback on their performance as customers.	Specifications, contract performance frameworks, performance reports, complaints reports	Bronze: 3 - Standardised Silver: 4 - Monitored Gold: 3 - Standardised Platinum: 4 - Monitored Platinum Plus: 5 - Optimised

#	Area	Description	NAO Good Practice Statement	Examples of Evidence	Self-Assessment Maturity Expectations
6	Payment and incentives	Ensuring payments are made to the supplier in line with the contract and that appropriate incentive mechanisms are in place and well managed.	Good contract management should include financial incentives to encourage suppliers to improve performance beyond the terms of the contract, if this provides real benefits to the customer organisation. Incentives can also be designed to stimulate supplier innovation which can result in improved service levels or cost reductions.	Payment records, payment mechanism descriptions, invoice verification reports, financial audit reports.	Bronze: 3 - Standardised Silver: 4 - Monitored Gold: 3 - Standardised Platinum: 4 - Monitored Platinum Plus: 5 - Optimised
7	Risk	Understanding and managing contractual and supplier risk, including risks relating to personal data.	Many service contracts are critical to the delivery of the organisation's business objectives, carry significant risk if the supplier fails, and involve the handling of personal or security information. It is important that contract and supplier risks are clearly identified and managed.	Risk register, business continuity plan, contract obligation tracker	Bronze: 2 - Informal Silver: 3 - Standardised Gold: 4 - Monitored Platinum: 4 - Monitored Platinum Plus: 5 - Optimised
Development					
8	Contract development	Effective handling of changes to the contract.	It is important that changes to the contract can be made easily to allow the contract to evolve to meet changing business requirements. The value for money of major changes to the contract and of ongoing existing services should be assessed regularly.	Change mechanism definitions, change variations, dispute records, value for money procedures	Bronze: 3 - Standardised Silver: 3 - Standardised Gold: 4 - Monitored Platinum: 4 - Monitored Platinum Plus: 5 - Optimised
9	Supplier development	Improving supplier performance and capability.	For higher value and more critical contracts it is important to have a structured plan to improve the efficiency and effectiveness of the supplier's performance.	Continuous improvement plan, benefits reports, records of joint working	Bronze: 2 - Informal Silver: 3 - Standardised Gold: 3 - Standardised Platinum: 4 - Monitored Platinum Plus: 5 - Optimised
Strategy					
10	Supplier relationship management	Having a programme for managing and developing relationships with suppliers.	A customer organisation's interfaces with its supplier base should be well managed. Organisations should categorise suppliers according to their importance to the organisation and there should be a clear programme for developing relationships with the most critical suppliers. Each relationship with a critical supplier should be 'owned' by a senior executive.	Senior relationship meeting records, relationship objectives, MoUs or similar agreements to support relationship development	Bronze: 2 - Informal Silver: 3 - Standardised Gold: 3 - Standardised Platinum: 4 - Monitored Platinum Plus: 5 - Optimised

#	Area	Description	NAO Good Practice Statement	Examples of Evidence	Self-Assessment Maturity Expectations
11	Market management	Managing the wider market issues that impact on the contract, but lie beyond the supplier.	Organisations should consider a wider set of issues outside the immediate contract, including ongoing market intelligence; timely consideration of options at the expiry of the contract and development of any re-competition strategy; and whether 'market making' activities are required.	Market intelligence reports	Bronze: 2- Informal Silver: 3 - Standardised Gold: 3 - Standardised Platinum: 4 - Monitored Platinum Plus: 5 - Optimised