



# Contract Management Procedure Guide

## 2018 – 2020

*A corporate approach to effective contract management will ensure that the Council maximises opportunities and potential savings in the delivery of goods, services and works*

*In year 1 (2018-2019) this Guide will underpin Dorset County Council's contract management principles as the Council moves through Local Government Reorganisation. In year 2 (2019-2020) the Guide will be reviewed with the aim to reflect the needs and aspirations of Dorset Council.*



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## Introduction

Dorset County Council follows contract management standards that are set as best practice by the Government Commercial Function, the National Audit Office and the Local Government Association.

The pressing need to find savings means the Council must explore new ways of commissioning and delivering services within a diverse and growing market for public services. The Council needs effective contract management to ensure that it maximises both the opportunities and the potential savings these can bring.

Approximately a third of the Council's annual budget is spent on buying goods, services and works with external suppliers. Not all these third-party spend is on-contract as it includes low-value, transactional spend; but the majority of it is. It will involve many types of contract, according to the type and scale of work and the risks involved. Contracts encompass short-term arrangements, spot purchasing, call-off contracts in time-limit framework agreements, and long-term public contracts.

Potential savings and other benefits result from robust performance management, good data and incentives for suppliers to be flexible.

The Council recognises it is important to have the right commercial contracts in place through tactical and strategic sourcing, but it is equally important to manage these contracts well to ensure that the benefits identified by the business case are realised.

## Statement

This Contract Management Procedure Guide applies to the management of all Council contracts, including, but not limited to contracts for the supply of goods, works and services but excluding employment contracts and non-binding memoranda of understanding.

The Guide supports but is subordinate to the Council's Contract Procedure Rules and is complemented by the Council's Procurement Strategy. The key objectives of the Guide are to ensure that:

- Contract documentation sets out the obligations, benefits and performance requirements of respective parties to all contracts;
- the Council receives the benefits expected from contracts and contractual relationships throughout the contract life;
- Officers of the Council understand the Council's obligations under contracts; and
- Officers of the Council manage contracts in a manner which fulfils the Council's responsibilities, minimises risk and maximises benefits.



## Corporate Approach

This Contract Management Procedure Guide sets out the Council's corporate approach to third-party arrangements. However, this does not mean that all contract management is centralised but means that there is a centre-led approach to support officers who are responsible for managing contracts within business areas.

It is centre-led to ensure that there is an overview of all contracts and spend, with clear ownership of contracts and roles and responsibilities for their management.

Robust contract management will support improved service delivery through continuous improvement in the quality of goods, works and services delivered to or on behalf of the Council. It will also support the development of the provider market in the delivery of services to the Council and raise the standard of contract performance.

Effective contract management will enable the Council and suppliers to meet their contractual obligations at an agreed cost and quality. But circumstances change over the life of a contract, so it will also involve managing changes and variations in scope, terms and prices.

It forms part of a strategic and holistic approach called supplier relationship management (SRM). Good SRM will enable contractual issues that affect the relationship between the Council and suppliers to be explored and resolved as early as possible.

A good working relationship with suppliers should combine trust and flexibility with robust discussions about performance and changing needs where necessary. For example, the Council can engage with suppliers to renegotiate and review processes to reconfigure services to reduce costs, or to respond more effectively and efficiently to emergencies.

Good contract management is active and dynamic; ensuring the Council can manage change and aim for continuous improvement throughout the life of the contract.

It will help the Council to identify and manage risks (both the Council's and the suppliers) within a collaborative and professional relationship. If these risks are not managed, they can bring about provider insolvency, service failure, or fraud: all with reputational and financial damage to the Council.



## The Commissioning Cycle

As illustrated below, The Institute of Public Care (IPC) links within a commissioning cycle a series of commissioning activities that are grouped under four key performance management elements: **Understand** → **Plan** → **Do** → **Review**

For the Council to have effective third-part arrangements in place, contract management is to be considered and applied throughout the commissioning cycle; from Understand to Review





## Contract Management Principles

The following key principles will underpin effective contract management for the Council:

### **Principle 1 Adopting a Corporate Approach**

*Designing effective contracts, and managing them well, will save the Council money, achieve wider objectives and minimise risks.*

The Council's corporate approach to lead and support contract management will:

- recognise and value the role of the contract manager both for the Council and the provider
- ensure roles and responsibilities are clearly defined to avoid internal and external disputes
- put in place the structures, systems and processes to create effective accountability and reports that include identification, allocation and continuous management of risk
- ensure that the contracts database captures:
  - how many contracts the Council has
  - how much spend is on contract
  - when contracts are due for review
  - when contracts are due for renewal or retendering
  - who is responsible for monitoring contract compliance
  - which terms and conditions contracts contain
  - contract review information, including monitoring performance and reviewing, where applicable, key performance indicators (KPIs)
- integrate contract management within its commissioning and procurement model, ensuring that technical service expertise combines with procurement and contract management skills during the whole of the contract life
- invest money and time in developing and sustaining sufficient capacity for good contract management practices



## **Principle 2 Aim to get continuous improvement and value for money**

*To achieve outcomes requires active management over the life of the contract.*

*Continuous improvement can benefit both parties and is more than means to drive prices down.*

The Council will develop contracts that:

- have contract management requirements specified in comprehensive specification with identifiable and measurable outcomes (including service level agreements and key performance indicators)
- contain incentives and levers to vary costs and service levels, where possible
- encourages innovation and continuous improvement
- encourages and rewards productivity and performance improvements
- has rigorous change control governance arrangements
- control costs and incentivise savings and other benefits
- has means and adequate tools to support the management of poor performance

## **Principle 3 Invest in developing commercial skills**

*Effective contract management requires skills that are linked with, but different from procurement of service delivery.*

The Council will provide contract management training to develop Contract Managers to be able to:

- understand costs, profit and the market, as well as service quality
- be on top of the contract detail, including review and renewal dates
- foster professional relationships with suppliers (supplier relationship management)
- carry out robust approach to renegotiation, including any legal implications
- understand the procurement and contract management phases including contractual provisions and key documents
- understand the service requirement, performance standards and social value implications
- achieve value throughout the life of the contract



#### **Principle 4 Collaborate to maximise gains**

*Collaboration has the potential to promote more transparency about prices and performance. This includes extending the benefits from collaborative procurement to making provider performance and costs more open and transparent.*

The Council will work collaboratively:

- internally across services and with other public-sector organisations to share information about prices and performance, learn of innovation and manage risks
- internally across services and other public-sector organisations to explore tactical and strategic sourcing opportunities to secure contract value
- with suppliers to agree mutually beneficial outcomes from changing terms and conditions
- to develop and sustain relationships that promote flexibility in managing change and a good understanding of the impact of change

#### **Principle 5 Monitor and benchmark costs and performance**

*Benchmarking contract spend / outcomes internally over time, and with other public-sector organisations, will gather market intelligence about supply markets and emerging technologies. This informs contingency planning and re-competition strategies.*

The Council will ensure that systems and process are in place to:

- measure how much of spend is on contract (compliant)
- collect direct feedback on performance to help monitor contract performance
- measure the benefits, including savings obtained
- develop performance indicators that are aligned with business outcomes that are reviewed regularly





**Principle 6 Support supplier sustainability and quality**

*A key component of contract management is ensuring the safety and quality of services including service continuity and supplier sustainability.*

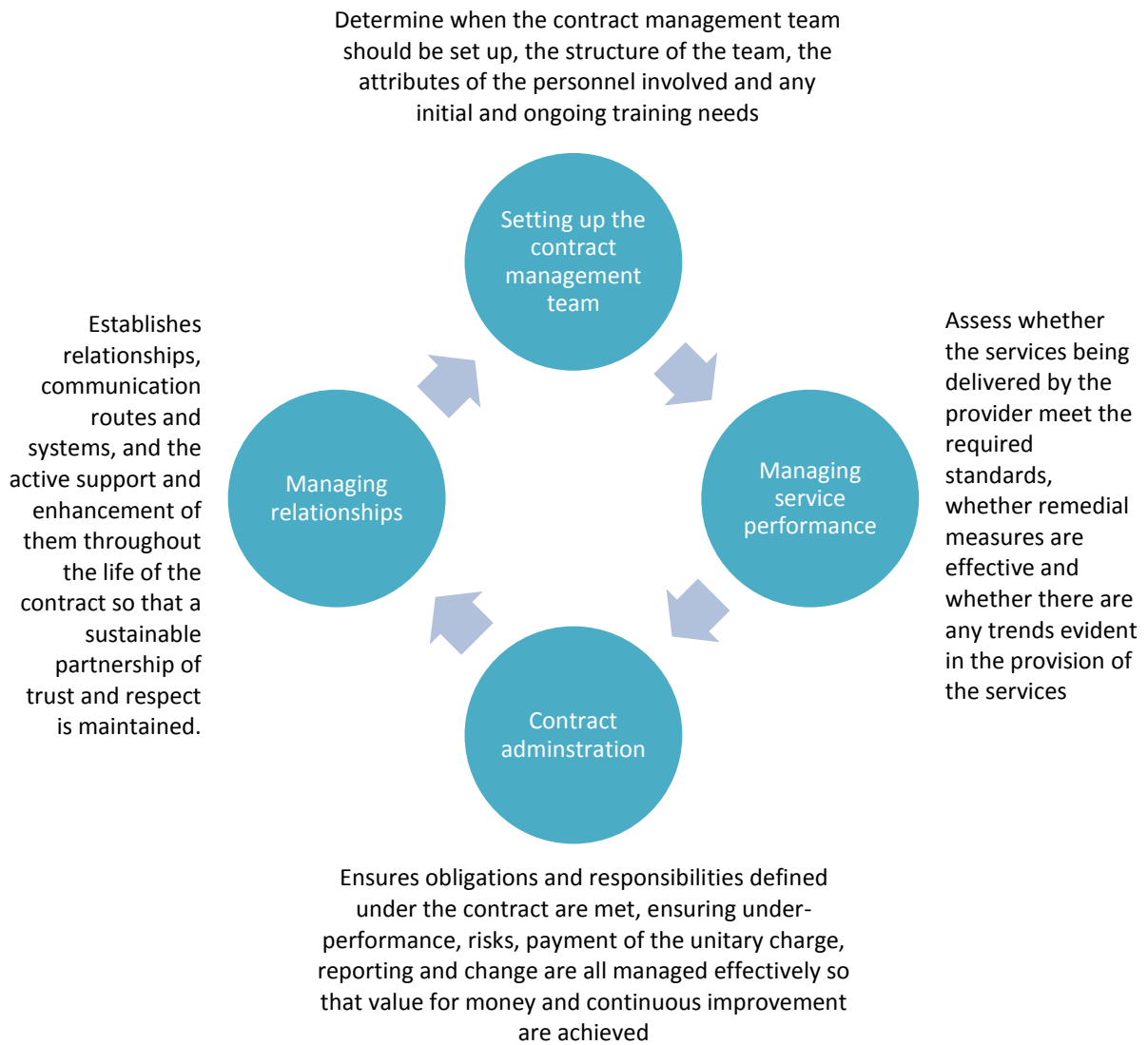
The Council will work collaboratively with partners and suppliers to ensure:

- quality of services is pro-actively monitored
- information is shared to ensure timely and effective intervention to safeguard people
- contracts have clear quality performance standards with safeguard communities and vulnerable people
- evidence is used to inform commissioning and contracting decisions to secure safety and quality of services
- there is a clear pathway for driving service improvement including decommissioning services which do not meet required standards
- policies in place relation to care home closure and supplier failure are: relevant, up to date; have clear roles and responsibilities of all partners, including Health
- standard operating procedures are in place in the event of service interruption or business failure; including active and open engagement between suppliers and the Council
- robust, and appropriate, business continuity plans are in place
- quality monitoring reports are carried out quarterly.



## Components of Contract Management

To support the contract management principles, four components will be applied; as illustrated below.



Source: Procurement and Supply Chain Management / Lysons & Farrington

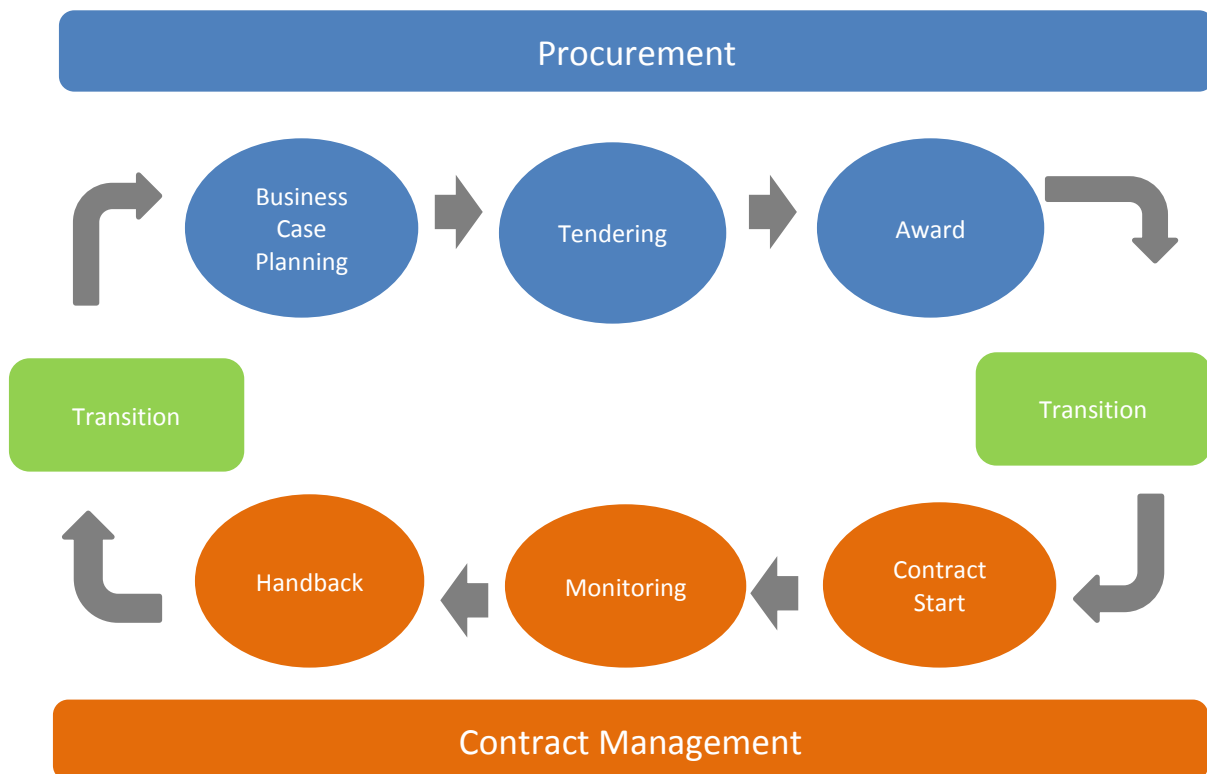


## Procurement and Contract Management

To be effective, commissioning, procurement and contract management are required to be planned and organised together, even if they involve different staff. This is to include all relevant staff from the planning stage, through the contract award, then during the contract period, to the point when the contracts are due to end and retendered or procured. Clear communications and handover points need to be established where these elements involve different staff.

Foundations are laid during the procurement process including specification and setting of service levels and key performance indicators. Approach, roles, responsibilities and the contract manager need to be determined at an early stage.

Procurement and contract management has two transition points, as illustrated below. Each of these stages is challenging and will require careful thought and planning. Contract management must not be viewed as only commencing when a contract award is made.



Source: Audit Commission



## Contract Planning

To maximise the benefits from contract management and develop contract management plans, the following will need to be determined at the early stages of commissioning and procurement planning:

### ***What will attract suppliers to deliver the Contract?***

Determine how suppliers will see the Contract in terms of a business opportunity; is the Council an attractive customer? Whilst the contract is of importance to the Council, it may not be attractive for a supplier to secure or maintain - therefore of no interest.

In the four-box model below, where would suppliers place the contract and / or the Council?

	<i>Low Value</i>	<i>High Value</i>
<i>High Attractiveness</i>	<b>Develop &amp; Nurture</b>	<b>Protect</b>
<i>Low Attractiveness</i>	<b>Nuisance</b>	<b>Exploit</b>

Supplier Preferencing Model

### ***What is the complexity of the contract?***

This will determine the skills and knowledge required from the Contract Manager. There may be:

- complex specifications
- complex cost models
- complex interfaces between supplier and the Council
- a need for complex relationship management
- an array of stakeholders to engage with
- small or niche markets which mean there is little choice to use alternative suppliers

Skills, knowledge and effort however are to be in proportion to the complexity of the contract management needed.



***What contract performance regime is required?***

This includes monitoring such as key performance indicators (KPIs) together with a supplier's obligation to deliver continuous improvement.

***What are the resources and cost of contract management required?***

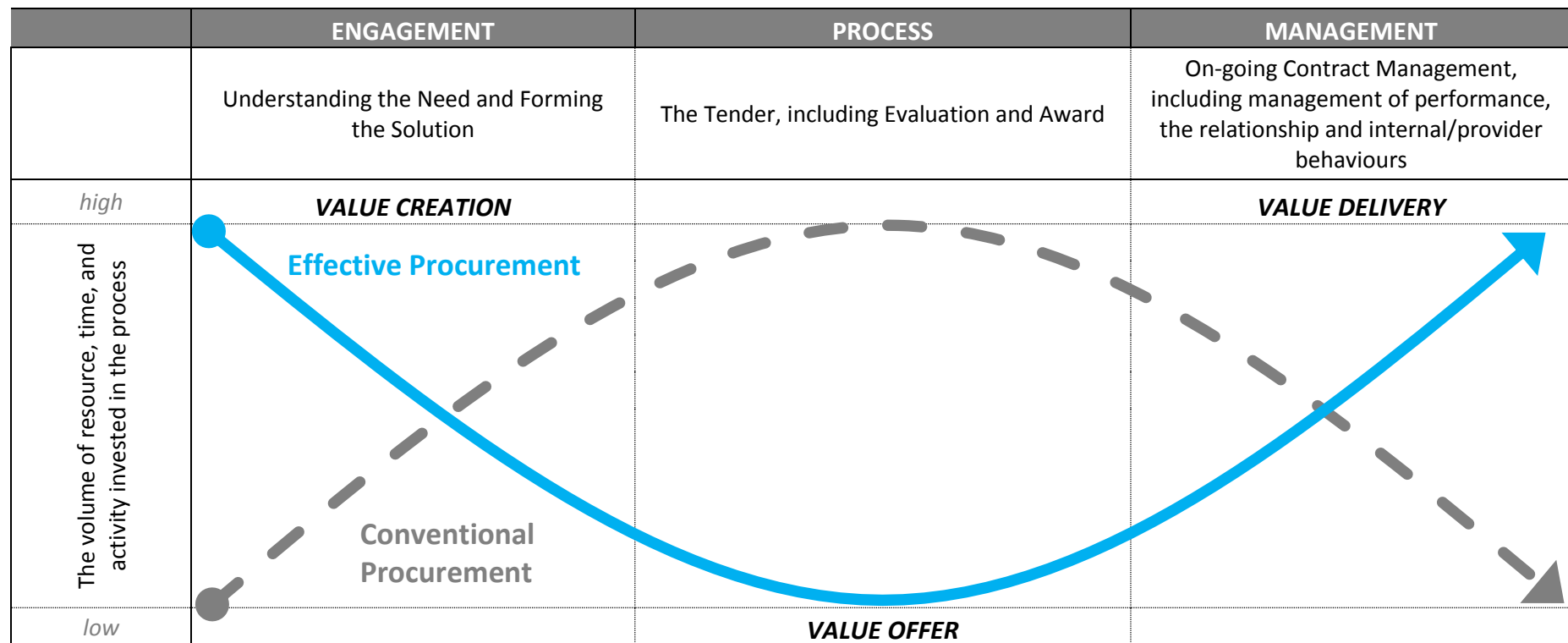
Sufficient resources to be allocated to the contract management activity. The cost of contract management will need to equate to 10% of the contract price on complex contracts. It should be recognised that the supplier will allocate sufficient contract management resources because they will be accountable for profit this is derived from the contract. The Council, to benefit from the contract, will need to do the same.

***How will future contract risks be managed?***

Identify future risks and develop risk mitigation strategies that will constantly be reviewed under contract management. This will include what the risks are the responsibility of the Council, what risks are the responsibility of the supplier, and whether there are any risks that can be shared by both the Council and the supplier.

## Contract Focus

Procurement is the activity that is often has the most focus and has clearly identifiable resources in terms of people, processes and tools. But often the balance is wrong in that too much of the effort is focused on the procurement process when the real value to the Council can be achieved before and after the procurement. More energy to be invested in the planning of a contract and the management, as illustrated below.





## Contract Management Training

The Council recognises that managing contracts well requires specialist skills, including understanding cost and value, negotiating, and procurement and commissioning processes. Ensuring people with the right skills are in place to carry out contract management is essential to release more value from contracts.

The Council shall have in place formal contract management training to develop skills and increase capabilities of Contract Managers.

Contract management training to encompass the following themes but will be continually reviewed to ensure that the training meets the needs of the Council and Contract Managers:

### **Contract Management Principles**

- *governance, managing performance and change, continuous improvement and value for money*

### **Managing Supplier Relationships**

- *assessment models, conflict resolution, communication routes and systems, negotiation and disputes*

### **Managing Supplier Performance**

- *performance indicators (PI), key performance indicators (KPIs), management information (MI), targets and payment mechanisms*

### **Applying Contract Terms and Conditions**

- *consideration, offer and acceptance, express and implied terms, variation, extension, contract exit and termination, review and lessons learnt process*



## Summary

The Contract Management Procedure Guide has set out the Council's contract management standards and principles in accordance with best practice directed by the Government Commercial Function, the National Audit Office and the Local Government Association.

All Contract Managers of the Council are required to follow these standards and principles to ensure that the Council benefits from good contract management.

The Council recognises that the context in which it operates will evolve locally therefore this Guide will need to be updated and refreshed, as necessary, to ensure that effective contract management continues to secure best value for the residents of Dorset.

In year 1 (2018-2019) this Guide will underpin Dorset County Council's contract management principles as the Council moves through Local Government Reorganisation. In year 2 (2019-2020) the Guide will be reviewed with the aim to reflect the needs and aspirations of Dorset Council.

## Resources

Contract Management – Professional Standards Version 1.0; Government Commercial Function; 22-02-18

<https://www.gov.uk/government/publications/contract-management>

Commercial and Contract Management: insights and emerging best practice; National Audit Office; November 16

<https://www.nao.org.uk/wp-content/uploads/2016/11/Commercial-and-contract-management-insights-and-emerging-best-practice.pdf>