Contract Management Case Study

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Contract Management Case Study

1. Context for the presentation

- Experience drawn from three local authorities (County Councils)
- All have significant scale (c £280-£400m spend per annum)
- Each is undergoing significant transformation and change as they shift to ‘commissioning’ organisations and face budget pressure
- 60%+ of their non schools income is spent externally. Dependency and risk relating to third parties is increasing
- The spectrum of services/suppliers is wide (3500+ commercial relationships)
- Governance in relation to contract management is tactical (selective intervention)
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• Strong focus on ‘regulated’ procurement and the front end of the commissioning process
• Lack of transparency and consistency (though some pockets of good practice)
• No natural owner
• Devolved activity, little sharing of knowledge or skills across silos
• Contract management not really professionalised, skills and development ‘adhoc’
• Little appreciation of the difference between contract management and relationship management and confusion between contract ‘monitoring’ and management
• Use of technical and often alien language
• No mechanisms to make informed decisions about resource allocation and risk
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• Good contract outcomes result from actions and decisions made across the commercial cycle
• Whilst the contract represents the ‘legal’ agreement, success depends on wider factors
• For those the organisation needs to agree some basic principles
“Equip the organisation for the future, mitigate risk, save money and improve outcomes. An activity that should pay for itself.”

• A consistent approach that applies to all third party relationships
• Improve the awareness of contract management activity and its contribution to the future agenda
• Recognise the distinctive commercial skills and capabilities that contract management requires
• Provide the necessary support, knowledge sharing, training and systems
• Build a pragmatic and flexible approach that draws upon NAO/CCS and other best practice

“a management process that ensures that contract outcomes are delivered and where possible exceeded though pro-active management of third party relationships”

Working definition of contract management
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The “Contract Management Framework”

- Local flexibility within a common (corporate) approach
- Clear ownership and accountability – who does what
- Risk based prioritisation
- The same standard for all - contract management practice assessed against a common standard
- Agreed actions and improvements driven by ‘gaps’
- Standardised reporting
  - Of contract management practice
  - Of contract [supplier] performance
- Supported implementation with skills development, tools and a system
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Implementation approach

1. Contract Management Framework (CMF) Approval
   - 2.1 Segment Contracts
     - Segment contract in relation to spend and its criticality to business:
       - Platinum: High Spend, High Criticality
       - Gold: High Criticality, Low Spend
       - Silver: High Spend, Low Criticality
       - Bronze: Low Criticality, Low Spend
   - 2.2 Assess contract management activity
     - Assess and baseline contract management activities against industry best practice for Platinum & Gold contracts.
     - Identify shortfalls and outline an improvement plan to negate contract management gap
   - 2.3 Develop Supplier Risk Profile
     - Determine supplier risk profile for Platinum & Gold contracts, to include: financial stability, disaster recovery/business continuity, IT Security, etc.

2. CMF Implementation
   - 3. Develop Scorecard & Monitor Performance against CMF
   - 4. Report Supplier Performance (contract & corporate)

3. Monitoring & Reporting
   - On-going Activity

Delivered by a team representing all major parts of the organisation – with a senior sponsor.
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**Segmentation**

- Segmentation provides a basis for prioritisation and resource allocation as well as building consistency within each segment.
- Categorised by risk and value into 4 types uses aggregate values if there are multiple contracts. Value threshold can be varied.
- Names are important!
- Different requirements & practice ‘standards’ for each segment, for example:
  - **Platinum** – mandatory SRO, joint assessment, mandatory reporting
  - **Gold** – stronger focus on monitoring
  - **Silver** – stronger focus on commercial management
  - **Bronze** – basic ‘hygiene’

<table>
<thead>
<tr>
<th>Category</th>
<th>Typical £%/#</th>
</tr>
</thead>
<tbody>
<tr>
<td>Platinum</td>
<td>35%/0.1%</td>
</tr>
<tr>
<td>Gold</td>
<td>20%/20%</td>
</tr>
<tr>
<td>Silver</td>
<td>30%/0.1%</td>
</tr>
<tr>
<td>Bronze</td>
<td>15%/c80%</td>
</tr>
</tbody>
</table>
Role of the Contract Manager & SRO

- An SRO (senior relationship officer) is accountable for the effective oversight and governance of Platinum and selected Gold relationships. The SRO is normally the main budget holder or statutory officer.
- Each contract is required to have a named Contract Manager who is responsible for ensuring the effective day-day management of the contract in line with the standards defined in the Framework and the requirements of the contract.
- The contract manager will lead the assessment work.
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Assessment process

• Purpose
  – To establish a clear view of what is being done
  – Reference to the ‘standard’ for the segment
  – Based on evidence
  – Enabling rather than threatening

• In three parts
  – Gather some basic information
    • Company details
    • Location of the contract or contracts
    • Resources being applied and level of skill
    • Savings or other planned improvement
  – Undertake an assessment
    • About 2-3 hours
    • Evidence provided
  – Agree outcomes and gaps
    • Action plan
    • Reporting to SRO
    • Summary reports to Audit/Scrutiny Committee/Chief Exec Team
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Assessment process

- The assessment process is comprehensive and looks for evidence across 60 separate areas of good practice.
- The responses are rated into one of 5 categories based on the level of compliance demonstrated.
- Assessments are also be subject to selective independent (internal) audit.
- Different assessments for each segment.
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Skills and support for contract managers

- Individuals often become contract managers but may not have the skills or support to do it well
- Segmentation helps
  - People can learn or benchmark against each other
  - Training can be targeted by segment
- For example
  - Passport to practice – a practitioner level of accreditation for Platinum/Gold/Silver contract managers
  - Basic induction for Bronze contract managers
- Training, support and access to standard tools and information runs in parallel to the assessment process
- Peer-group learning and knowledge share sessions help build a ‘community of practice’
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Systems

• Not designed around contract management activity
  – Bolt on to finance system like ‘SAP’
  – Bolt on to e-procurement system

• Now need be contract manager ‘centric’ and built to support the process;
  – Document management
  – KPI Monitoring + information exchange with supplier
  – Contract expenditure
  – Customer complaints, supplier audits, visit and meeting information
  – CMF assessments

• As well as;
  – Providing standardised corporate reporting
    • CMF assessment status by segment and supplier
    • Standard supplier performance dashboard
    • Risk

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So where are they now?

• All three organisations responding very positively. Contract management has a high profile. Positive energy and a desire to do better.

• Beginning to see informed discussion about investment in contract management and sensible resource allocation.

• Need for improved systems and skills development remains, one is now leading with the development of a ‘cloud application’ which supports the whole process.

• The role of SRO – and managing and developing ‘relationships’ rather than just contracts still needs to be strengthened.

• Embedding does take 12-18 months or more.
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• Early days but ..
  – Segmentation is leading to more targeted communication and engagement (for example in relation to apprentices, treatments of SME’s and sustainability)
  – Encouraging collaboration around common ‘platinum’ suppliers
  – Encouraging use of common systems and training particularly the ‘passport to practice’ scheme
  – Very strong Member interest and support from Audit and Performance Scrutiny Committees, consistent reporting and classification is particularly helpful
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Questions?

Thank You!