Crown Commercial Service

LOCAL PARTNERSHIPS

Government Commercial Function

Local Government Association

CONTRACT MANAGEMENT PIONEER PROGRAMME

Headline pack

PART OF CONTRACT MANAGEMENT SUITE OF TOOLS

THE PURPOSE OF THIS PACK

The following information provides an overview of the challenges for local authorities in contract management of housing projects and contracts, and headlines on how to address those challenges.

CONTENTS

1 ADDRESSING THE CHALLENGE

Here are some of the challenges facing councils which makes effective contract management of housing projects essential:

One in every three pounds of public money, over £300 billion a year, is spent on public procurement (research reference: DLUHC – Transforming Public Procurement).

Research shows poor contract management can waste around 9% of an organisation's total budget per annum (research reference UK based World Commerce and Contracting).

As a high percentage of spend is with third sector providers, effective contracting is essential to the council's performance.

The Procurement Act 2023 will require publication of performance information for the top contracts in each council.

Based on engagement with the sector there is evidence of weaknesses across the local government commercial and procurement sector, leading to:

- Poor value for money.
- Pressure on commercial and procurement capacity.
- Weaknesses in contract performance.
- Non-standardised procurement processes.
- Poor performance in delivery, build quality.
- Loss of control over costs.
- Stalled projects.
- Missed housing targets.
- Financial loss.
- Scrutiny and reputational risk.
- Need for strong leadership.

Examples of issues direct from councils include

Only four of our top 20 contracts are currently reporting performance at or above contract requirements.

We don't measure or report on overall performance for contract management and we don't have performance information on most contracts.

We don't have a governance structure that focuses on contract management.

Our approach to contract management shows significant shortfalls vs CIPFA good practice.

Public awareness of our top contracts is likely to increase demand for performance information on other contracts.

2 DELIVERING BETTER PERFORMANCE ON EXTERNAL SPEND

As a council-wide priority there is the opportunity to create a structure for making significant, long-lasting improvements to contract management practice to deliver critical benefits for residents.

These can be based on the stages of:

Getting the fundamentals right	Doing the basics to make sure contracts deliver what is expected.
Improving performance	Driving better performance and ensure suppliers meet requirements.
Delivering greater benefits	Achieving financial and service benefits and increase social value.

To address the problem, several approaches can be taken:

- Significantly improve understanding of contract performance and how to govern external spend once contracts are signed.
- Arming the council leadership team with information on contract performance and a clear understanding of good practice contract management.
- Contract Management Pioneer Programme (CMPP) driving organisational change through training and support and advocating establishing an oversight board and assessing using metrics.
- Performance metrics can provide oversight and show where to focus action and/or promote good practice.
- A contract management assurance board, with senior responsible owners for contracts, can provide senior focus to drive improvements and support sustained improvement of contract management processes. This can ensure the process is followed for contracts across the council and drive the results expected from contracts.

Examples of implementing improvements are an assessment of the top 20 contracts against fundamentals to see if performance and charging are in line with contractual obligations, followed by a review of say 15 contracts per quarter with less risk. Review policy and approach vs best practice guidelines. Provides critical insight for the Assurance Board to take informed action.

3 CONTRACT MANAGEMENT ASSURANCE BOARD

Although various groups may exist to review and monitor contracts there may not be a cross council overview. Also, there may not be a defined governance route for supporting good contract management and/or challenging undue risk or concerns at an aggregated level. A contract management assurance board could create and maintain a culture of high standards in the performance of contract management.

The role of the contract management assurance board would be to address consistent delivery across the council based on an agreed framework; explore lost value in performance reporting; provide oversight of risks to provide mitigation; and raise profile and professionalism of the commercial function.

The assurance board can use performance metrics to determine whether contract management has improved as a practice across the organisation in addition to the board acting as a quality assessor for contract management.

Points of good practice for the assurance board are:

- Hold regular reviews and undertake ongoing monitoring to reduce financial, reputational and strategic risks.
- Allow for proportionate, effective and efficient monitoring which is easy to use and accessible.
- Make best use of resources including procurement investment, making every pound count.
- Build a repository for learnings for future commissioning and proposals, harnessing council spending for greater future effectiveness.
- Create a dashboard of reporting that brings together an overview of contract performance.

Before board formation, priorities will be to:

- Select a sample of contracts based on a tiering contract matrix (where contracts are tiered depending on complexity, value and risk) that have been signed within the last 60 days.
- Complete the Contract Management Good Practice Questionnaire.
- Compile Actions from any previous meetings so the CMAB can understand progress, evaluate the impact of completed actions and consider future actions required.

Illustrative approach to tiering housing contracts

Tier	Value/risk	Description
1	High	‣ Full build contract with contractor ‣ Long term supplier agreements ‣ Complex in scope ‣ Large budget ‣ Legal review, detailed risk assessment and approvals processes needed
2	Medium	‣ Moderate value ‣ Sub-contractor agreements (plumbing, electrical) ‣ Project Manager oversight, uses of standard contract templates and mid-level sign off processes and approvals
3	Low value	‣ One off/short term contracts (e.g. landscape, cleaning) ‣ Minor repairs/maintenance agreements ‣ Approvals by project or site supervisor ‣ Standard terms

At the board meeting the activity will be to:

- Invite contract leads to attend to review specific contract management issues, look at short and long-term challenges.
- Address escalations brought to the board.
- Review specific projects.
- Review overall contract management performance, risks and pipeline.
- Outline new or changes to contract management policy/frameworks.
- Raise and reflect on the impact of changes to central government policy.
- Consider the overview of training and networking needs in the council.
- Consider any capacity and skills gaps.

Post the board meeting the tasks will be to:

- Circulate/make available on a shared platform relevant documents such as RAID log, RAID (risks, assumptions, issues and dependencies) actions notes, minutes.
- Note contracts that need to be reviewed as they did not meet best practice standards.
- Contracts that meet good practice standards to be time stamped for review.

There are a number of tools that can support assurance which are outlined as the following:

A template for a light touch review	An initial review asking key questions about the management of individual contracts, resulting in an overview where there are any areas of concern which need addressing. It contains a set of key questions regarding the fundamentals of contract management. To complete as an individual or a group if several people are involved in the management of a particular contract.
Template for self-evaluation	Set of questions to assess whether the requirements of contract management are being sufficiently met. The aim is to support contract managers with any emerging issues and look at ways of addressing them. Highlighted risks can be raised with the assurance board. The evaluation can be used in preparation for a deep dive conversation or if an audit is due. The evaluation can be completed by an individual contract manager or by a group.
Template for deep-dive conversation	To support contract managers in identifying and addressing emerging issues. The results, when combined with other deep-dive conversations, can also give the assurance board a view of how contracts are being managed across the council. This will form a series of questions to prompt a two-way conversation which should improve understanding of a contract's performance.
Contract risk tiering tool	Analysing and categorising the contracts to be prioritised and reviewed for the assurance board. It is a way to risk assess contracts based on cost and impact. Using this tool you can review value and risk level within the contract based on agreed parameters.
RAID (risks, assumptions, issues and dependencies)	The RAID log records key risks and issues during the contract life cycle. It is reviewed and updated regularly, informing any required escalations.

RACI (responsible, accountable, consulted and informed)	The RACI illustrates roles and responsibilities in connection with the activities for carrying out the contract management. It should be reviewed regularly to ensure the roles/ responsibilities of the individuals involved have not changed. It can be part of the RAID so you have information in one document.

Performance dashboard	A dashboard can provide an overview of results of the contract management function that can be presented to the assurance board. It can bring together data of individual contracts to form an overview next to baseline KPIs.

4 METRICS AND MEASURES

Good contract management is about taking informed action to achieve objectives. Measuring the performance of contract management across an organisation is an important part of understanding how an organisation is managing a key part of expenditure. It also allows identification of opportunities to take action to improve contract management and drive better service delivery, along with other benefits such as cost savings or greater social value.

With the significant majority of a council's annual budget on external spend, it is impossible to deliver good quality services without suppliers performing. Assessments of individual contracts can create an overall view of the current contract management culture and suggest actions to address any shortcomings or opportunities identified. This will involve understanding contract management performance processes in terms of overall approach, compliance, coverage and capturing and using information to identify actions.

The availability, quality and use of information is a great test in its own right. The following are examples of metrics that can be developed through self-assessment and then aggregated for assurance to understand overall contract management delivery, its approach and consistency:

- An overview of contracts by type, value and risk level assessed through tiering within each directorate as has a whole.
- The number of current contracts with risk ratings in terms of their management.
- Actual and contracted supplier/provider performance – again this can be RAG rated.
- Numbers and percentages of invoices paid on time.

- Social value impacts delivered for the community.
- Savings generated, including mitigated costs.
- Wider benefits beyond the contract.
- Measure of relationship with the supplier – where there are no additional benefits through to notable benefits.

5 BUILDING THE APPROACH OVER TIME

A key element of contract management is to build assurance and quality overtime – capacity to develop may be an issue considering that contract management is usually only part of someones role and it is unusual to have a corporate contract management function.

A starting point can be the development of easy-to-measure metrics which can be presented to the assurance board e.g. type, level and overall performance of contracts. This can then build over time to develop contract management capabilities, focus on the relationship with gold tiered contracts and have a stronger approach to risk. The focus can develop further to provide insight into the metrics with a strong evidence base of performance and which areas need improvement.

6 TIERING CONTRACTS

1 Benefits of tiering

- Tiering contracts should lead to a more focused approach to contract management with clear actions identified to support robust and ongoing management.
- Top-tier contracts should see benefits in terms of enhanced contract management and performance.
- Tiering may identify additional resources and training needs in order to support effective contract management.
- Tiering allows for (and requires) flexible tier adjustments (upward or downward) through periodic or ad hoc reviews.
- Reviews should accurately reflect material changes, especially related to internal and external risk factors.

Adapting an existing tiering tool or developing a bespoke tool for an organisation can contribute to reducing subjectivity in the assessment of the criticality of the council's contracts.

The aim of the tiering process is to get the best outcomes for the council from its range of contracts. It's therefore important not to become overly focused on process when measuring and monitoring contract performance is the primary goal. Be mindful that there is also a risk of reduced contract management overall if increased administrative requirements are placed on top tier contracts – always therefore ensure that appropriate overview remains on lower tiered contracts.

2 How to tier contracts?

There are numerous ways to tier contracts. The intent is to get the right actions, resource and prioritisation to the right contracts. This should not automatically mean selecting the highest value contracts, and determinants are based on a number of factors:

- Contract value (£).
- Impact of contract.
- Contract complexity (technical, legal, stakeholder, interdependencies).
- Performance subjectivity.
- Risk level (strategic, operational, reputational).
- Opportunity.

Contract value – The value of a contract will always be a determinant to the level of contract management required. The higher the value is an illustration of the value the council places on the service being provided, with a higher level of financial risk.

Impact of contract – The contract's importance to the council is determined by criticality, strategic relevance and reputational risk and guides the necessary level of management and oversight. The impact on operations, residents and stakeholders, along with high visibility or community interest, are also factors.

Contractual complexity – I.e. degree of technical, legal, stakeholder complexity of the contract and interdependencies. For example, its charging mechanism, service level agreements (SLA), key performance indicators (KPIs) and payment schedule are key determinant factors. It is expected that where contract requirements are less tangible or involve technically complex contractual clauses or mechanisms, a higher degree of contract management and oversight will be required.

Performance subjectivity – Relates to the difficulty in determining the actual level of contractual performance and delivery. Where performance is highly subjective, there will be a requirement for more contract management resource, to ensure the performance is monitored, evaluated and reported on correctly.

The performance of a contract may also impact on the budget or overall cost of the service, e.g. through service credits or penalties, savings targets, or other criteria. These may not be easy to ascertain or predict.

Risk level – These relate to strategic, operational and reputational risks. Looking primarily at:

a. The combination of the impact of non-delivery to the council combined with the probability of non-delivery;
b. The risk of underperformance e.g. failure to deliver housing targets; and
c. The risk of cost increase e.g. due to increased materials, labour, abnormal costs or scope creep.

This factor should also consider sourcing complexity, in terms of the difficulty of replacing the supplier in case of contract exit, supplier collapse or in cases of poor performance. The ability to quickly replace the supplier would see the risk being lower than if a replacement could only be found following a lengthy procurement process and/or changes would see significant extra cost to the council (e.g. due to changes required to move to the new supplier).

Opportunity – This relates to the potential additional benefits that could be achieved by the council from the contract. This may relate to a new service where close management could enable cost savings or improved delivery performance.

3 Actions resulting from tiering

The following are split into different areas and will notably impact the effort, and therefore, resource required. The level of detail in each element and/or how often it is updated and reviewed will depend on the tiering level. It is important for each element to have clarity on the ownership and influencers to help maintain the council's approach over time.

Element one – Understanding and planning the contract

- Contract management plan to help guide the activities and determine who is doing what and when e.g. reporting, performance reviews, delivery confirmation etc.
- Identify and understand the contractual obligations on the supplier and on the council in the contract. This includes understanding how an obligation, such as service delivery, is determined to be fulfilled in line with the contract (and relevant payment due).
- Understand the rights and remedies in the contract to identify the key tools for managing the contract, helping to avoid poor performance, and knowing what to do if poor performance does occur. In particular it should be clear when action is needed. The dispute resolution process should also be understood.
- Records management to ensure there is clarity of where records are stored and what they contain, including any contract variations, extensions, performance reports, disputes etc. This is to ensure continuity of access information, for example when a Contract Manager is absent.

Element two – Delivery of the contract involves

- Mobilisation management to cover additional efforts and checks to ensure the supplier has successfully completed the mobilisation phase in line with the contract.
- Ongoing performance management covers a range of areas relating to the performance of the contract e.g. performance reporting, performance over time vs KPIs, discrepancies and disputes, documented supplier reviews and agreed actions. This should also include budget monitoring and payment management.
- End customer/user engagement to ensure the service delivery is optimal for those who should benefit or use the service. This also allows improvements to be identified that could help reduce costs and/or improve performance.
- Relationship management including the frequency and content of review meetings with the supplier. These should align with the contract but could look to go beyond these, particularly in terms of trying to drive improvements on areas such as social value.
- Strategic management review to ensure the contract is aligned to current corporate objectives. If corporate priorities have changed then the desired changes to the contract should be understood and actions determined.
- Improvement/opportunity plans to help drive better delivery and/or cost benefits from the contract. Typically, this would look to seek performance and benefits beyond contracted levels (contract performance should be covered in "ongoing performance management").
- Risk management that reflects the current risks and the actions to address or mitigate those risks. This could include a requirement for business continuity plans (check whether these are a contractual obligation) and/or business failure planning. A review of the supplier's latest financial standing should be included.
- Benchmarking of the contract's costs and performance to understand whether it's meeting expected levels. The benchmark could be of specific elements of cost (e.g. material costs that can be easily compared) or the whole service (e.g. comparing vs another local authority that has the same or similar service).

Element three – End of contract

- Exit plans covering the closing of the contract (whether from the contract naturally ending or being terminated early), including close-out reviews and lessons learnt; plans for the new contract including embedding lessons into the contract, specification and management approach; transition management, including any TUPE.

Element four – Governance

- Governance and oversight of the contract to reflect its importance. This will include who should review the contract management approach and what checks may be needed to provide confidence in the approach taken and compliance to the council's policy.

4 How many contracts should be covered?

The idea of tiering is to help determine the actions, resources and prioritisation for contracts, with higher priority contracts requiring more contract management and therefore resource. The capability and capacity of the available contract management resource can help to determine how many contracts should be covered at each tier. If one hundred contracts were deemed gold, this would seem unhelpful if there was only enough resource to properly contract manage five.

If tiering is new, it can make sense to increase the number of contracts covered over time. Perhaps starting with 10-20 contracts and addressing those deemed highest value or risk, first. Additional contracts can be added over time as the process becomes better known and the value of contract management is better understood. It can also provide more time to train staff on the approach, if the actions required under the tiering require additional training.

Reviewing all council contracts can be useful to understand the profile of impact, complexity and risk/opportunity. This can help to show which contracts should be in each tier, even if current resourcing does not allow the desired level of contract management to be applied straight away.

5 Example of tiering

The following is a list of activity in contract management with suggested categorisation of gold, silver and bronze. Authorities can choose to apply all three categories (Gold, Silver and Bronze) or apply one of two of the categories, as considered appropriate.

Read **Contract Management Framework** to become familiar with the requirements – gold, silver and bronze.

Ensure a senior responsible owner (SRO) is in place:	Gold	Silver	Bronze
Designate a contract manager:	Gold	Silver	Bronze

Use a tiering tool to categorise the contract based on financial level, risk and impact:	Gold	Silver	Bronze
Prepare a Contract Management Plan including agreed monitoring arrangements, governance requirements, milestones and tasks and how often items are reviewed:	Gold	Silver	Bronze
Open a Risk Register or Risks Actions Issues Decisions (RAID) log:	Gold	Silver	Bronze
Prepare a Business Continuity Plan (BCP) (short form):	Gold	Silver	Bronze
Key management activity – e.g. compile a project/contract team directory; added dates to diaries, payment schedule:	Gold	Silver	Bronze
Receive handover documentation from procurement:	Gold	Silver	Bronze
Prepare a supplier core performance tracker (KPIs/core contract requirements) for review and reporting:	Gold	Silver	Bronze
Set out and agree the escalation process for concerns and highlight progress:	Gold	Silver	Bronze
Prepare a calendar of supplier meetings and ensure secretariat is identified; agree TORs/ norms to ensure meetings are effective and lead to action. Standard agenda items e.g. performance data to be agreed:	Gold	Silver	Bronze
Complete a contract summary form (short form):	Gold	Silver	Bronze
Receive regular reports on performance to inform payments:	Gold	Silver	Bronze
Once a month receive monitoring reports received ensuring the contract is on track, including social value:	Gold	Silver	

Once a month receive monitoring reports and hold monthly meetings to ensure the contract is on track, including social value:	Bronze	
Compile an induction pack for team members:	Gold	
Address skills or capacity gaps:	Gold	Silver
Conduct contract reviews: self evaluation check once a month; oversight board review every six months; deep dive conversation every two years:	Gold	Silver
Prepare a Responsible, Accountable, Consulted, Inform (RACI) template, appropriate for your contract and its governance structure:	Gold	Silver
Conduct contract reviews: self evaluation check every six months; oversight board review every three months; deep dive conversation every eighteen months:	Gold	
Ensure financial and business checks diarised e.g. every 12 months. Consider if H&S or safeguarding checks are required and if so, the frequency:	Silver	Bronze
Ensure financial and business checks diarised e.g. four times year (more frequently if likely market pressures). Consider if H&S or safeguarding checks are required and if so, the frequency:	Gold	
Produce a payment flow chart and circulate:	Gold	Silver
Ensure variations are recorded and stored; ensure all variations inc. waivers are in accordance with Westminster's scheme of delegation:	Gold	Silver
Establish social value trackers, and track results three times a year:	Gold	
Establish social value trackers, and track results twice year:	Silver	

Prepare baseline Improvement plan template (savings, new ways of working, technology, horizon scanning):	Gold
Prepare high level a succession planning document for both supplier and client side:	Bronze
Prepare a succession planning document for both supplier and client side, with key dependencies and mitigations or risk:	Silver
Prepare a detailed succession planning document for both supplier and client side, with key dependencies and mitigations or risk, reviewed monthly:	Gold
Twice a year reviewing this contract using the threshold tiering tool, it may need to move up or down the risk/spend profile:	Silver
Once a year reviewing this contract using the threshold tiering tool, it may need to move up or down the risk/spend profile:	Gold
Sign up for relevant contract best practice and information updates from relevant bodies e.g. CIPS, relevant advisory firms, trade bodies to take advantage of free information and ideas:	Gold Silver

JOINTLY OWNED BY

HM Treasury

Local Government Association

Llywodraeth Cymru Welsh Government

Local Partnerships 18 Smith Square, London SW1P 3HZ
LPenquiries@localpartnerships.gov.uk | localpartnerships.gov.uk

@localpartnerships.bsky.social | local-partnerships-llp