LOCAL PARTNERSHIPS

Government Commercial Function | Crown Commercial Service | Ministry of Housing, Communities & Local Government | Local Government Association

CONTRACT MANAGEMENT PIONEER PROGRAMME

Contract tiering guidance

PART OF CONTRACT MANAGEMENT SUITE OF TOOLS



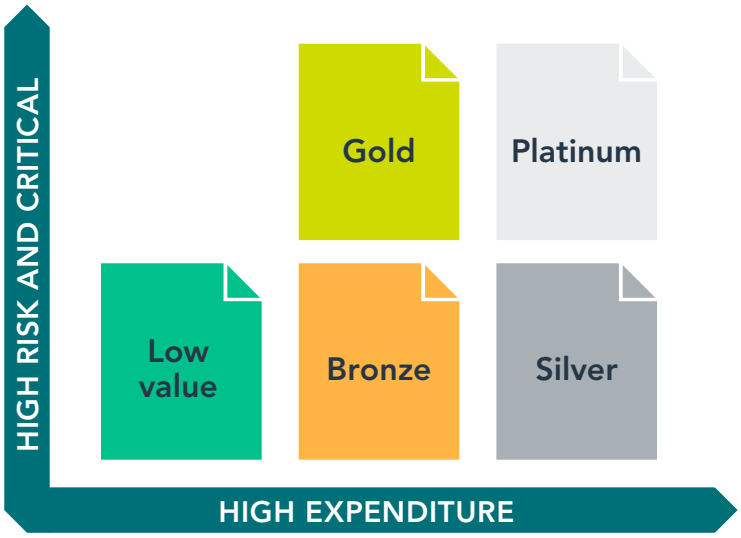
1: WHAT IS CONTRACT TIERING AND WHY DO IT?

Tiering is a method of assessing and evaluating the criticality of the council's contracts to help determine:

- What actions should be taken in implementing, delivering and monitoring each contract.
- The contract management resource applied (based on the experience, capability and quantum of Contract Manager resource).
- The level of prioritisation each contract should receive within the council.

Gold, silver, and bronze are often used to categorise contracts and show the levels of importance. Sometimes platinum is used as an additional high level or applied to a supplier holding multiple contracts; and green can be used for very low contracts. Not all contracts need to be in one of these tiers and will depend on the council's relevant policy and guidelines. The Government Commercial Function has produced a contract tiering tool that may be helpful to categorise

contracts (**Library – Government Commercial Function (GCF) – Knowledge Hub (khub.net)**). Note, however, that this was originally aimed at central government departments and, therefore, may have more relevance to top-tier contracts.



It is important to make sure tiering systems clearly identify which contract management actions are required for the different levels. Key issues to consider when scoping a new tiering tool include:

- Tiering contracts should lead to meaningful changes in actions and focus, for the process to be worthwhile.
- Top-tier contracts should bring benefits in terms of enhanced contract management.
- Additional resources and training may be necessary for effective top-tier contract management.
- Risk of reduced contract management quality overall, if increased administrative requirements are specified for top-tier contracts only.
- Allowance for flexible tier adjustments (upward or downward) during periodic or ad hoc reviews is essential.
- 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 important therefore not to overly focus on process, when measuring the success of the approach.

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:

Financial 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 determined by criticality, strategic relevance, and reputational risk, 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/performance subjectivity: degree complexity of the contract, 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.

Current risk: 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.

C The risk of cost increase.

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.

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.

Delivery of the contract

- **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).

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.

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 contract, 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

(copy to Excel to create the tiering filters)

Activity (sample)	Tiering filter
Read Contract Management Framework to become familiar with the requirements	Gold
	Silver
	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

Activity (sample)	Tiering filter
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 monitoring reports received ensuring the contract is on track, including social value	Gold
	Silver
Once a month monitoring reports and meeting when necessary 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 year; oversight board review every six months; deep dive conversation twice a year	Silver
Conduct contract reviews: self evaluation check twice a year; oversight board review three times a year; deep dive conversation every 18 months	Gold

Activity (sample)	Tiering filter
Ensure financial and business checks diarised e.g. once a year. 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 a 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 every six months	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
Every six months 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

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