

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

DECEMBER 2016

REPORT ON CONTRACT MANAGEMENT

Report from Corporate Director, Strategic Resources

1.0 PURPOSE OF THE REPORT

- 1.1 To inform Members of the arrangements relating to contract management within the County Council and the principles of good contract management.
- 1.2 To describe the strategic direction of the Corporate Procurement Group to improving contract management within the Council.
- 1.3 To provide Members with an analysis of the future challenges and risks the Council faces in terms of contract management.
- 1.4 To inform Members of recent activity and next steps.

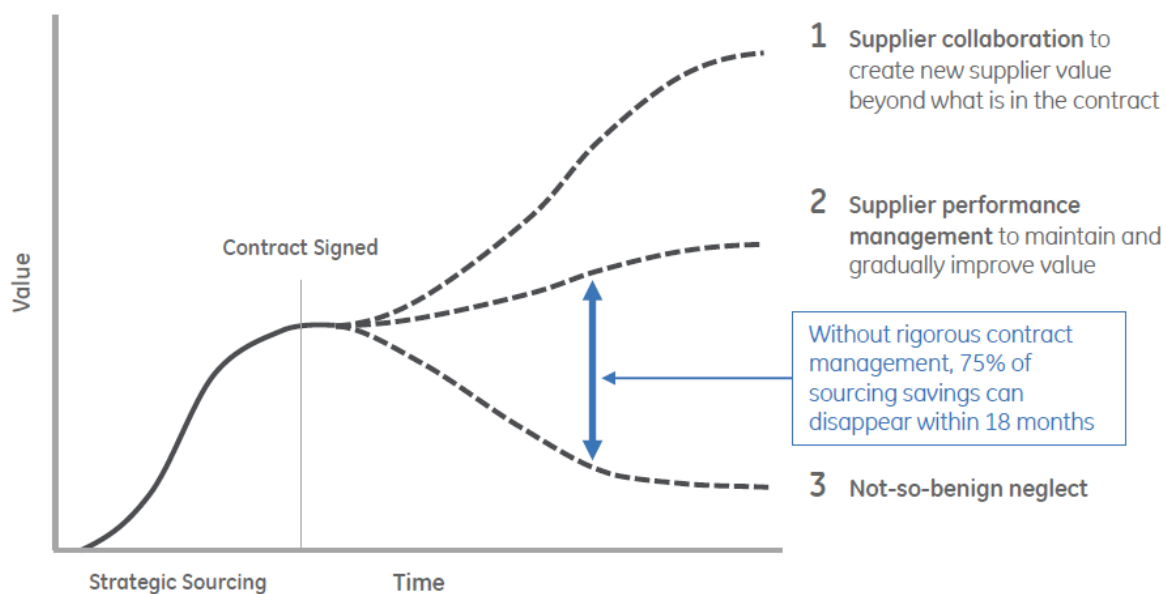
2.0 BACKGROUND

- 2.1 Contract Management is about the way in which contracts are developed, agreed and managed, in order for them to achieve the benefits expected of them. The Council has contractual arrangements valued at over £300m/year with third party contractors covering products, services and works.
- 2.2 The Council has visibility on its current contracts with them being captured on the Council's Contracts Register which is updated quarterly. Future spending plans are proactively managed through the use of the Directorate Forward Procurement Plans (FPPs).
- 2.3 As the Council enters into more third party arrangements to find savings good contract management becomes increasingly more important, not only in ensuring suppliers meet their contractual obligations, but in helping to identify its own and supplier risks to achieve savings and continuous improvement throughout the life of the contract. It is important that any savings delivered through the procurement are not "lost" as a result of ineffective contract management.
- 2.4 The benefits to effective contract management are immense for both the Council and contractor. Good contract management can ensure cost effective, reliable and timely services will be provided at an agreed price and a level of quality consistent with a Councils requirements. Contract management also ensures that legal standards, financial probity and management accountability are adhered to whilst maintaining good customer relationships.

- 2.5 A key strand running through the corporate procurement strategy is a need to strengthen both early engagement with suppliers and to ensure that Council officers are well equipped to manage contracts post award. In doing so it recognises that many staff will be more experienced and confident in professional or service delivery arrangements rather than managing a contract with an external supplier.
- 2.6 The illustration below highlights the importance of getting contract management right, showing how value is lost through poor supplier management. Neglecting suppliers post contract award leads to a state of constant firefighting and the loss of savings generated, both through the original procurement process and those available through good supplier performance management.

Supplier Value Scenarios

ILLUSTRATIVE



3.0 THE PRINCIPLES OF GOOD CONTRACT MANAGEMENT

3.1 The following areas are features of good contract and supplier management although the list should not necessarily be regarded as exhaustive:-

- provide corporate support for contract management
- aim to get continuous improvement in NYCC and contractor's performance
- invest in developing commercial skills
- collaborate to maximise gains
- monitor benchmark costs and performance

3.2 Good contract management does require "whole life" thinking about the contract. starting from identifying the need for provision, running through procurement of the goods / services; followed by ensuring delivery of the contract to specification, improving the contract; and ending in a review of the effectiveness of the arrangements.

- 3.3 Contract managers must challenge contracts that are not delivering with insufficient time being spent on re-negotiation and improvement of the provision due to issues such as cultural fear to challenge, lack of time and insufficient skillset to deal effectively with the supplier.
- 3.4 A good contract management approach allows for the Contract Manager to explore improvements with the supplier and to adopt a more strategic approach to Contract Management. This in turn improves the likelihood that the next time the contract is put out to procurement the competitive exercise delivers a fit for purpose contract.

4.0 STRATEGIC DIRECTION

- 4.1 Contract Management is an important strand of the Corporate Procurement Strategy for the period 2014 to 2020, with the following areas being particularly pertinent:-

What we need to achieve the vision

Contract management should be developed in a manner which demonstrates that contracts are governed, written and managed to help deliver the Council priorities.

Ensure that the service being provided is being delivered as agreed, to the required level of performance and quality

Maintaining the contract administration and changes to the contract documentation

Maintain the relationship between the two parties as open and constructive, aiming to resolve tensions and identify problems early and to deliver continuous improvement

Add value throughout the life of the contract

- 4.2 An action plan has been developed in order to address all of the above areas. Key themes in the action plans include the following:-
- Identifying staff who carry out the role of Contract Manager and performing a skills audit to identify training gaps
 - Improving commercial awareness across the Council as a whole and particularly those with Contract Management responsibilities
 - Designated contract management support available for strategic contracts focusing on relationship management.
- 4.3 The Contract Management strand of the Procurement Strategy Action Plan is now led by a specific post relating to Contract Management. This was filled on an invest to save basis. The cost of engagement was recovered within the first 3 months of a 12 month trial period. The role has been made permanent, and to date has saved a total of £528,765.
- 4.4 The Contract Management post has also contributed to income generation for the Procurement Service. The post holder is currently undertaking a short piece of national work for the Local Government Association on contract management,

delivering an income of £6,000. We believe this work will lead to further and greater income generation opportunities.

- 4.5 Work within the Contract Management strand of the Procurement Strategy Action Plan is progressing well. There continues to be close liaison between Procurement and Audit with regular meetings discussing areas of concern and appropriate actions, such as resource support. Further support to contract managers will be available both in terms of direct links from the new procurement manual to contract management tools and formal NYCC contract management resource delivering training to internal colleagues. Procurement professionals will also be provided with workshops to train and improve their contract management skills with concepts and initiatives being reviewed and applied where appropriate from professional bodies, such as the International Association for Contract and Commercial Management (IACCM).

5.0 CHALLENGES FACING THE COUNCIL ON CONTRACT MANAGEMENT

- 5.1 During this period of austerity there is greater emphasis on the need to be good at contract management but, at the same time, we are presented with some increased pressures. Some of these themes are explored further in the remainder of this section.

Council capacity – staffing numbers have consistently reduced over the last 4 years as a result of the Council’s savings programmes. This raises the prospect of less time being spent on managing a contract with a subsequent increased scope of contract “drift” with adverse impacts for the Council

Council skills – The Council is a multi-functional organisation where many of its suppliers are dedicated to particular services or products. As a result, suppliers can often be more knowledgeable and / or more commercially orientated. In such cases, there is a heightened risk that suppliers are exercising more control in the contract than is desirable.

Contractor behaviour – as the Council has been seeking savings, beneficial prices have been secured in many procurements (as witnessed through analysis of forward procurement plans). Suppliers cannot fail to have understood the need for the public sector to make savings and therefore understand that they need to be more competitive at the point of procurement. Suppliers may, however, have identified opportunities to increase margins following appointment through contract variations. Whilst such behaviours should be tested as much as possible during procurement, such practice can only be picked up at contract management stage and requires robust management on the part of the Council.

Poor quality contracts – some suppliers may well ensure delivery within the financial envelope but seek to reduce their costs by providing goods / services at a quality below the threshold set out in the contract.

Contract management given insufficient attention by staff – there is a risk that contract management is seen as a ceremonial role, or an “add- on” to the day job. Some staff are likely to be managing contracts but have come to this arrangement

with little in the way of commercial experience. Some staff may regard contract management as part of the procurement function and therefore falling within the remit of Procurement. It is therefore essential that there is clarity of responsibility and support is provided accordingly.

- 5.2 A systematic approach across the Council is required to identify those areas of highest risk and to deploy resources effectively in order to understand the commercial realities involved in contractual relationships.

6.0 NEXT STEPS

- 6.1 As the Audit Committee will be aware, Internal Audit already carry out reviews into contract management which are reported on an annual basis. Issues are picked up accordingly and fed into the Corporate Procurement Strategy. A member of Internal Audit management is now part of the Corporate Procurement Group to ensure that there is good two way knowledge transfer.
- 6.2 The Corporate Procurement Strategy features many of the actions identified above and a targeted delivery plan for contract management training has already begun. In the last twelve months, 111 officers have received training, including 20 from Hambleton District Council.
- 6.3 The Action Plan for the Corporate Procurement Strategy has been produced on a SMART basis with clear actions; a key accountable officer; and a specific date for delivery. Monitoring of this action plan will therefore be undertaken alongside all of the embedded procurement disciplines such as Forward Procurement Plans and the Gateway approach.
- 6.4 The Procurement Service has now been insourced from YPO, and will be restructured to follow a category management model. The proposed structure includes a specific role for Contract Management. This role, as now, will continue to have oversight for Contract Management across the Council, and continue to share best practice and training to Officers. The role will also take responsibility for managing a number of corporate contracts, including the operational hand over to the procure to pay system (Oracle). This continued investment shows the importance the Council places in good contract management.
- 6.5 Through the new Procurement Service and the Corporate Procurement Strategy we are committed to improving our approach to contract management and will continue to develop our approach over the next four years. We will ensure that our approach to contract management is appropriately commercial and our processes stand up to scrutiny and challenge.

7.0 RECOMMENDATIONS

- 7.1 Members are asked to:-

- (i) note the content of this report.
- (ii) identify areas and provide comments in order to further add value to the ongoing work on Contract Management.

Gary Fielding
Corporate Director, Strategic Resources

Author of Report –

Kevin Draisey
Head of Procurement and Contract Management
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