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To: Policy and Resources Cabinet Committee – 15 September 2017

Subject: Contract Management

Classification: Unrestricted

**Summary:**

A sub-group of the Budget and Programme Delivery Board chaired by the Cabinet Member for Finance started a programme of contract management reviews in the 2016/17 financial year. The programme of reviews will resume in September for the 2017/18 financial year. This report sets out how the programme is conducted along with some high level findings.

**Recommendation(s):**

Policy and Resources Cabinet Committee is asked to NOTE the report and that a further progress report will be submitted in six months.

**1. Introduction**

- 1.1 The Policy and Resources Cabinet Committee (PRCC) meeting of September 2016 considered and endorsed next steps to developing the Council's commercial approach through effective contract management practice. Contract management is a key component of the commissioning cycle and enables the effective delivery of our strategic outcomes in line with the County Council's Strategic Statement "Increasing Opportunities, Improving Outcomes". It is arguable that contract management has historically received less attention than other phases of the commissioning cycle such as procurement whilst being equally important.
- 1.2 A sub-group of the Budget and Programme Delivery Board (BPDB) was subsequently convened and chaired by the Cabinet Member for Finance to undertake a series of contract management reviews. The objective of the sub group is to promulgate better practice that in turn improves value for money and management of risk. Membership of the sub group includes those listed below and recognises the critical role of members in providing oversight and governance around the commissioning cycle.
- Deputy Cabinet Member for Finance
  - Deputy Cabinet Member for Strategic Commissioning and Public Health\*
  - Corporate Director of Finance
  - Strategic Commissioner\*
  - Director, Strategic Business Development and Intelligence

- Head of Procurement

*\* attendees added in the 2017/18 financial year*

## **2 Approach**

2.1 The sub group adopted the National Audit Office (NAO) good practice contract management framework as the reference standard for its reviews. This framework identifies eight key contract management activities as follows.

- Planning and governance (preparing for contract management and providing oversight)
- People (ensuring the right people are in place to carry out the contract management activities)
- Administration (managing the physical contract and the timetable for making decisions)
- Managing relationships (developing strong internal and external relationships that facilitate delivery)
- Managing performance (ensuring the service is provided in line with the contract)
- Payments, incentives and remedies (ensuring payments are made to the supplier in line with the contract and that appropriate incentive and remedy mechanisms including liquidated damages are in place and well managed)
- Risk (understanding and managing contractual and supplier risk)
- Contract development (effective handling of changes to the contract)

2.2 The sub group used the framework to develop a contract management maturity assessment template for its reviews (Appendix 1 refers). Each contract owner completes the template and provides supporting evidence for submission prior to meeting the sub group. The expectation is that contract owners should have the information required to complete the template readily available in some form or another as part of a day-to-day good practice approach to contract management.

2.3 Unlike an audit the review process relies on self-assessment by the contract owner and the sub group does not itself verify evidence and check source material. Contract owners do though sign to attest that the information provided to the sub group is accurate and that they are accountable for it. The sub group would refer a matter to internal audit should the need arise.

## **3 Progress**

3.1 The sub group has so far considered seventeen contracts. Contracts have been chosen from across the range of services delivered by the Council.

## **4 Findings**

4.1 Overall the engagement between the sub group and the contract managers has been very positive and successful in promulgating good contract management practice. It is not appropriate to make a sweeping generalisation about the standard of contract management in the Council other than to say that it is inconsistent; some contracts were stronger and weaker in areas relative to others.

4.2 The positives to come from the contract reviews are several and varied. In one particular instance for example, a contract, circa £1.1m (8.5%) per annum saving has been achieved further to the review by the sub group\*. Another positive is that the majority of contract managers have now attended the two day contract management training and the Council is also now sponsoring a contract manager to undertake training to achieve membership of the International Association for Commercial and Contract Management (IACCM) with more expected to follow.

*\* depending on prescribing patterns*

4.3 It should be noted that some contract management issues are a legacy from long standing contracts let before the transition to being a commissioning authority. Some good work has been done to renegotiate contracts but realistically some of the issues will only be addressed through the next commissioning cycle. Bespoke forms of contract have been used when well established forms should have been used instead to avoid drafting errors, oversights and ambiguities for example.

4.4 Particular strengths of the Council's approach to contract management are as follows.

- Contract management teams have strong in depth operational knowledge.
- Application of the Council's governance requirements e.g. contract change control. There is a good level of procedural awareness.
- Contractual remedies are generally being applied where available.

4.5 Issues to address in improving the Council's approach to contract management include the following.

- Contract management teams would find it helpful to seek out comparison with other organisations and sectors more regularly (especially outside of Local Government) to better understand good contract management practice and just what can be achieved.
- Lack of formal commercial and contract management expertise and training in some areas that puts the Council at a distinct disadvantage relative to some of its providers.

## **5 Next steps**

5.1 The programme of contract reviews will resume in September 2017 using the same approach described previously. Some contracts that have already been reviewed will be revisited to determine what progress has been made (paragraph 2.1 refers). The sub group will in future be giving formal written feedback to appropriate Corporate Directors and Cabinet Members for them to consider as appropriate. A further progress report will be submitted to PRCC in six months.

5.2 The recent appointment of the Strategic Commissioner and pending implementation of the new commissioning organisation will lead to improvements in commercial leadership and judgement regarding contract management, working in partnership with directorates and providers. An initial focus is on addressing the inconsistency mentioned in paragraph 4.1. This work will be covered in the progress report.

## **6 Recommendation(s):**

Policy and Resources Cabinet Committee is asked to NOTE the report and that a further progress report will be submitted in six months.

## **7 Background Documents**

### 7.1 National Audit Office good practice contract management framework

<https://www.nao.org.uk/report/good-practice-contract-management-framework-2-2/>

## **8 Contact details**

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