

# **Contract Management Procedure**

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## 1. Introduction

This procedure has been created as part of the Contract Management Framework in conjunction with, the Contract Management Policy and Statement of Principles; it also compliments the Council's Procurement Strategy. Furthermore, it recognises the aims and values set out within the National Procurement Strategy [2018-2022](#).

The Contract Management Procedure sets a foundation for the implementation of a consistent approach to contract management across all service areas, in order to drive value from new and existing contracts.

As well as implementing consistent cross-service processes for contract management, the Council aims to improve existing supplier relationships through increased effective engagement and at the same time maximise spend with local businesses and [Small to Medium Enterprises \(SMEs\)](#).

## 2. Purpose of Contract Management

The function of Contract Management is to:

- ensure a contract is successfully executed
- provide a formalised method of monitoring supplier performance against contract requirements, [including risk management](#)
- ensure that there is clarity of the roles and responsibilities by all parties relating to contract management
- monitor overall compliance by all parties to the terms of the agreement and contract, refining and improving key performance indicators (KPIs) and Service Level Agreements (SLAs) and service delivery through honest, open communication between the supplier and the Council, delivering improvements to both parties
- improve and develop relationships with key supplier representatives based on mutual trust and understanding, open communications and a joint approach to managing delivery
- realise estimated and planned savings through continuous monitoring of spend
- identify potential additional savings and benefits through proactive contract management
- co-ordinate the supply chain
- provide a focus for development of initiatives / innovation
- deliver learning and knowledge transfer
- drive continual improvement
- ensure effective and timely procurement planning

## 3. Aims of this Document

Supporting the objectives set out in the Council's Procurement Strategy, this procedure aims to provide a standard corporate approach and guidance to contract management, defining clear ownership for operational day-to-day management throughout the lifecycle of a contract.

This procedure will achieve its aims by defining the procedure for developing and maintaining close relationships with business partners and key providers, and creating a consistent, standard contract management process, applicable to all goods, services and works.

## 4. Determine Level of Contract Management

It is important when developing the Contract Strategy to determine the level of management required for the proposed contract once awarded, based on size, value and organisational risk, as this will influence and determine the frequency and content of supplier review meetings.

Guidelines are given below, but each service, will need to consider the appropriate level of management required for individual contracts, by considering factors such as:

- value and length of contract,

- business criticality and dependency,
  - number of customers / end-users,
  - public visibility,
  - openness to complaints or challenges,
  - risk,
  - performance criteria; and
  - compliance with requirements of governing bodies.
- **Low level** - ensuring compliance to the contract by monitoring management information from the supplier, end-user feedback, managing delivery, and compliance of the contract.
  - **Medium level** - managing the performance of the contract and the supplier through management information monitoring, end-user feedback and a minimum of one performance review meeting held per annum.
  - **High level** - managing the performance of the contract and the supplier using a combination of management information monitoring, and quarterly (or other frequency determined) meetings.

The table below gives examples of the level of contract management that a contract requires

<u>Level</u>	<u>Aim</u>	<u>Characteristics</u>
<u>High</u>	<p><b><u>Close Monitoring</u></b></p> <p><u>Ensure effective contract delivery and supplier performance, risk management / mitigation and maximisation of supplier and market development opportunities, monitoring and delivery of actions.</u></p>	<ul style="list-style-type: none"> <li>• <u>Contracts that have high value and/or high risk.</u></li> <li>• <u>Manage to ensure effective service delivery.</u></li> <li>• <u>Through effective contract management opportunities for supplier development and greater market knowledge can be identified.</u></li> <li>• <u>This includes managing the performance of the contract and the supplier using the foundation of medium level contract management.</u></li> <li>• <u>Annual review of Contract Management Plan.</u></li> <li>• <u>Conduct up to 4 contract review meetings per annum.</u></li> <li>• <u>Site visits where applicable.</u></li> <li>• <u>Any applicable “Medium” and “Low” characteristics.</u></li> </ul>
<u>Medium</u>	<p><b><u>Active Monitoring</u></b></p> <p><u>Ensure continuity of supply, value for money, risk management / mitigation and supplier performance.</u></p> <p><u>Monitoring and delivery of actions.</u></p> <p><u>Seek supplier development where possible.</u></p> <p><u>Retain/gain market knowledge.</u></p>	<ul style="list-style-type: none"> <li>• <u>Low/medium risk.</u></li> <li>• <u>There may be an abundant supply base and a chance to improve price or limited supply base for a non-business critical and/or high-cost item.</u></li> <li>• <u>Contract managers ensure continuity of supply through ongoing and effective contract management.</u></li> <li>• <u>Annual review of Contract Management Plan</u></li> <li>• <u>Typical contract management activity and tools include contract review meetings, use of KPIs, gathering user feedback, reviewing spend data, benchmarking costs, market intelligence, elements of supplier health check, and use of a risk register.</u></li> <li>• <u>Ensuring compliance to the contract by managing delivery of the contract using – cost, quality, delivery, service.</u></li> <li>• <u>Conduct up to 2 contract review meeting per year.</u></li> <li>• <u>Consider internal feedback with focus on specific problems</u></li> <li>• <u>Any applicable characteristics from “Low” level.</u></li> </ul>
<u>Low</u>	<p><b><u>Baseline Monitoring</u></b></p>	<ul style="list-style-type: none"> <li>• <u>Low value, low risk.</u></li> <li>• <u>Procurement requirements are non-business critical and there is an abundant supply base.</u></li> </ul>

	<p><u>Ensure continuity of supply and risk awareness.</u> <u>Monitoring and delivery of actions.</u></p>	<ul style="list-style-type: none"> <li>• <u>Requirements may be one off.</u></li> <li>• <u>In general content management of contracts will include gathering management information, monitoring trends and maintaining awareness of key risks.</u></li> <li>• <u>Ensuring compliance to the contract by managing delivery of the contract using – cost, quality, delivery, service.</u></li> <li>• <u>Conduct up to 1 contract review meeting/site visit per year.</u></li> </ul>
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## 5. Priorities

Priority areas to achieve contract management objectives include the:

- Implementation of standardised templates for managing and documenting supplier meetings consistently across all commodity / category areas.
- Incorporation of a mechanism to review council performance and feedback within review meetings
- Introduction of management meetings with identified key suppliers for each category, with an aim of continuous improvement in the execution of contracts.
- Regular review of both contract performance and supplier performance through structured joint and service-inclusive meetings to improve output, savings and knowledge, and to reduce risk
- Encouragement of prime contractors to engage with local suppliers and SME's through the inclusion of ~~Community Benefit / Sustainability~~ Social Value clauses.
- Standardisation of the supplier management process, and implementation of rigorous controls to manage the supplier database and transactions within Procurement systems.
- Continual review of the Contract management process to ensure it remains fit-for-purpose.

## 6. Contract Process

This document sets out the procedure that is used to manage contracts and the supplier relationship post-supplier selection and contract award. Equally, it applies to the management of existing contracts.

The Contract Management process begins with migration and mobilisation and continues through a post-contract award meeting with the successful supplier, which as a guideline, should be conducted within 1-3 weeks of the contract award. Contract award is after the standstill period (where applicable) and before the contracts are completed as the KPIs need to be included in the contract documents.

The purpose of this meeting is to discuss the contract implementation phase and agree roles, responsibilities, identify activities and agree SLA's, KPI's, timescales and expectations. It is important to keep in regular contact with the supplier during the contract implementation phase and to arrange meetings and maintain open dialogue throughout.

## 7. Contract Implementation

Contract Implementation consists of three distinct phases:

- **Mobilisation** - the process of moving from contract award to 'go-live' i.e. the point when a user can actually buy from the contract
- **Migration** - facilitating the movement of an organisation to a new contract post 'go-live'
- **Communication** – ensuring all stakeholders are aware of the contract and what it involves

Actions that should be considered to migrate and mobilise a contract include:

### 7.1 End-User Information Packs

An information pack may be required to communicate and publicise the contract to inform end-users of its content, which can contain key information about the use of the contract including:

- contract objectives, details of the goods and services available, prices, supplier contact details, ordering and invoice process, returns / complaints / escalation process, and Contract management process.

Any information pack should be proportionate to the contract, and should demonstrate how it delivers best value and provides information relating to the benefits of the contract, e.g. cost savings, KPIs, SLAs, improvements in quality and service.

## **7.2 Supplier / Buyer Events**

Depending on the size, value and risk level involved with the contract, a useful way to raise awareness of the contract amongst end users is to organise a Supplier / Buyer 'launch' event to give stakeholders who have yet to meet as part of the selection and award stage, the opportunity to meet each other, and present details of the contract and what it affords. This is also an opportunity to distribute information packs / buyer's guides. Where a large number of users are affected, it may be useful to also publish a news item via the Intranet.

## **8. Council-wide Joint Contracts**

Where services within the Council agree to carry out joint procurement of a contract to provide goods, works or services a lead service for the contract procurement and management will be identified as the Contract Manager.

The contract manager will be responsible for organising regular contract management meetings with the supplier and representatives from the internal services who are part of the joint contract. These meetings should follow the contract performance review meetings process as detailed in section 10.

## **9. Software Contracts**

It is widely accepted that services are not going to replace or renew a software contract when all that is needed is an upgrade; however, there are certain parts of a contract that need to be reviewed and therefore a procedure in place to manage software contracts.

### **Process to Review, Renew or Replace**

This section gives guidance on how software contracts should be reviewed, renewed or replaced, taking into consideration the following matters:

- All contracts should have an end date / identify any extensions
- Corporate impact of change
- Support needed for change
- Interfaces
- Benchmarking
- Functionality - Doing what it needs to do (or not?),
- Value
- Risk
- Length been in place

Many companies lease systems and software on an annual basis and have to find a way of keeping track of renewal dates. Unfortunately, many software suppliers fail to notify customers of renewal dates and either continue to take direct debit payments or disable the software when payment is not received on time. Both can be equally detrimental to a business and can be avoided or mitigated by appropriate planning and monitoring.

It is important to review the cost and efficiency of leased services regularly to ensure that:

- a) the performance still meets requirements; and
- b) financially, it is the best deal in the market place.

The same applies to annual software maintenance payments, domain name renewals and even I.T. equipment which are leased.

## 10. The Contract Management Plan

Once the contract implementation has been completed and the level of management determined, a Contract Management Plan, see Appendix 2 for an example, should be constructed which outlines:

- Roles & responsibilities
- Agreed level of management (low/medium/high)
- Contract objectives
- Performance Management Framework, e.g. KPIs & SLAs
- Mobilisation Plan
- Risks & issues
- Migration Plan
- Contract Compliance
- Escalation process (within supplier organisation and the council)
- Review meeting schedule

*This will need to be agreed with your supplier. All of these, in particular, the routes for escalation and the review meeting schedule should have been built into the initial Contract(s) Strategy and tender, with reference to the fact that a Contract Management plan will be developed.*

## 11. Contract Performance Review Meetings

Performance Review Meetings are an important part of the Contract Management process and provide Service Users and the Supplier with an opportunity to focus on what is going well, identify any problems at an early stage and agree opportunities for improvement and innovation.

For contracts / suppliers where a **medium** level of management is being applied, there should be at least one performance review meeting per year. Meetings for Contracts / Suppliers where a **high** level of management is being applied should be held at least quarterly.

### Meetings should focus on:

- i Review of Actions and Minutes from previous meeting(s)
- ii Supplier Business Review, with updates on new products / product developments, customer-affecting issues (e.g. product issues, recalls), complaints, etc.
- iii Council Business Review / Service Improvement Plan Update
- iv KPI review – (to determine current level of performance (Improving / Degrading))
- v ~~Sustainability & Other Benefits Realisation~~ Social Value Delivery
- vi Review of risks and Issues
- vii Issues for escalation
- viii Financial Monitoring (Spend monitoring, P2P, Invoicing, financial stability).
- ix Areas of Improvement (e.g. Innovation, new process)
- x Change Control

These are suggested agenda topics for discussion however these will need to be adapted for specific types of contract and / or suppliers.

The initial performance review or inaugural or kick-off meeting should also include a 'Lessons Learned' session with the supplier on the tendering and contract implementation process, and cover areas such as roles and responsibilities, performance levels, invoicing arrangements, etc.

Meetings should recur as agreed until the contract approaches its completion, and documented (minutes, actions, change in performance) throughout, with actions followed up as agreed.

Minutes of meetings and agreed actions should be communicated to all stakeholders following each meeting (supplier & service area management, Policy & Governance Team for SLT reporting).

## **12. Risk Management in Contracts**

Risk management is a key part of contract management and contract risks must be identified, assessed, mitigated and monitored and regularly reviewed throughout the contract term. The Council's Risk Management Framework should be used to assess risks in contracts. Contract risks will need to be added to Ideagen and regularly reviewed.

The five most common types of contract risk are financial, legal, security operational and reputational risks.

Financial risk: this risk is the loss of money, the monetary loss can be caused by third-party bankruptcy, missing key contract dates, and auto-renewal of contracts without cost evaluation and analysis.

Legal risk: this risk exposes the council / supplier to litigation. It could be from breach of contract, infringing on intellectual property, failing to include key legal clauses, or missing compliance and regulatory requirements.

Security risks: This can happen when contract data is accessed or disclosed to unauthorised parties. If your data management practices are not compliant with privacy laws, you risk data breaches, which can cause further legal and financial losses and reputational damage.

Operational risk: this risk is any form of loss caused by inefficient internal or outsourced processes.

Reputational risk: this risk is often a fallout of financial, security, and legal risk, resulting in a negative public image.

## **12.13. Change Control**

Changes (variations) to services, procedures or contracts are likely to occur throughout the lifecycle of a contract, especially lengthy and / or major, strategic contracts, which could have an effect on many aspects of the contract including:

- Service delivery
- Scope of work
- Performance
- Costs
- Product availability / changes to specification / obsolescence / revision of rates
- Whether the contract continues to represent value for money

The primary aim in managing variations is to minimise their likelihood, however sometimes change is inevitable, therefore the specification and management of change (Change Control) is an integral and important part of contract management and administration. Change control procedures should be included within the contract and discussed at the inaugural meeting.

The respective roles and responsibilities of both parties in the change control process must be clearly identified, along with procedures for raising, evaluating, costing and approving change requests.

A single change control process should be applied to all contract changes. Flexibility does however need to be built into the process to deal with issues such as emergencies. A change control process should provide clear steps and clearly allocated ownership and responsibilities for:

- Requesting changes
- Assessment of impact
- Prioritisation & authorisation
- Agreement with provider



- Control of implementation
- Documentation and communication of change
- Updates to terms & conditions where applicable

If a specific change, or cumulative changes significantly increase or decrease the scale or scope of the contract, the responsible Contract Manager must question the contract's ability to achieve best value and value for money overall.

Similarly, the Contract Manager must also ensure that any changes do not take the contract outside the scope of the original tender in relation to the UK thresholds advertisement or permitted extensions to contracts. When this is in doubt, the change should be referred to the Policy & Governance team or One Legal for guidance.

The same level of diligence should be applied to contract variations as that applied to letting a contract.

#### **14. Change Control Procedure**

The change control procedure as detailed in the Contract should be used by services and supplier to enable changes to the contract, to provide clarity and documentary evidence of the change, and agreed actions. Appendix 3 details a contract variation template.

#### **15. Contract Extension Procedure**

Where a contract has an extension clause included, this should follow the contract extension procedure which includes the completion of the contract extension form see Appendix 4. This sets out the rationale for the contract extension with supporting evidence based on accurate and objective data, along with an appropriate authorisation for the extension.

There should be a timely review of contract performance well in advance of the proposed contract original expiry date.

#### **16. Contract Failure Reviews and Reporting**

Where severe and impactful underperformance has occurred in a contract, the Contract Manager must notify their Head of Service, Director and the Council's Monitoring Officer. Appropriate action must be taken as detailed in the contract terms and conditions.

A contract failure review must be undertaken and reported to Strategic Leadership Team for appropriate action to be taken and for lessons learned to be shared with staff.

A Head of Service or senior manager from a different service area and directorate from the service area where the contract failure has happened must undertake the review and produce a report, this must take place in a timely manner, within in a month of the contract failure. The report must, as a minimum, cover the following areas:

- Governance, process documentation, decision making and escalation;
- Definition of roles and responsibilities;
- Resource capability and capacity;
- Management information, reporting and contract data;
- Communication;
- Performance management and risk management,
- Measurement and monitoring of contract delivery; and
- Validation and assurance of supplier delivery and charges.

#### **17. Exit Strategy and Lessons Learned**

As a contract progresses, the Contract Managers will have responsibility for ensuring that both parties are working towards the planned fulfilment and exit of the contract, and the procurement process for securing subsequent supply arrangements if required.

The Exit Strategy should involve a full review of the Contract's performance. This should include a 'lessons learned' review which incorporates feedback from end-users and the supplier.

The final review and lessons learned should be clearly documented and communicated to appropriate stakeholders, as it may inform any subsequent procurement for similar commodities in the future.