

## **Performance and Finance Select Committee**

**9 July 2018**

### **Contract Management Task and Finish Group (TFG)**

#### **Report by Chairman of the TFG**

#### **Executive Summary**

The annual scrutiny work programme identified contract management processes at the Council as a key priority topic for 2018/19. Performance and Finance Select Committee agreed to set up a Task and Finish Group to scrutinise this issue. The Group met three times and reviewed the proposals for transforming the contract management processes currently in place. This includes the establishment of a central-led team.

The TFG supported the new operating model, have made a number of recommendations to ensure the success of the new model and have identified a new process for member oversight of contract management processes.

The focus for the Committee is to review the recommendations of the TFG and determine whether these should be put to the Cabinet Member for Finance and Resource for consideration.

#### **Recommendations**

The Committee is asked to review the findings of the TFG and support the recommendations below:

- 1) That the new operating model is implemented across the organisation;
- 2) That the TFG reconvenes in 12 months to review how the new model has been embedded and that the improvements to systems have taken place;
- 3) That staff skills and capabilities are recognised as key components to the success of the new structure, particularly in relation to commercial awareness and risk;
- 4) That contract risk needs to be fully understood by all contract managers and systems are in place to escalate risk reporting when necessary;
- 5) That one source of information in relation to basic contracts information, as described in para 2.7 above, is developed and made easily accessible;
- 6) That outcome focussed KPIs are developed for new and amended contracts in order to measure performance effectively;
- 7) That the standardised and enhanced contract monitoring in terms of performance and financial health should be embedded across all contracts and that staff need to be sufficiently skilled to recognise any issues for resolution

early;

- 8) That a new system of member involvement is developed whereby the Business Planning Groups of all the Select Committees review the contract performance information of the County's Top 20 contracts relevant to their responsibilities;
- 9) That the Performance and Finance Select Committee should have a more proactive over-arching role in relation to any strategic contract management and performance concerns across the organisation and through referrals from service select committees or Business Planning Groups; and
- 10) That the new system for member involvement is reviewed when the TFG reconvenes in twelve months' time.

## **1. Introduction**

- 1.1 The Contract Management TFG was established in response to issues raised at the Scrutiny Work Programme Planning event held in September 2017. The Business Planning Group of the Performance and Finance Select Committee agreed that the issue should be included to its work programme and that the most effective way of reviewing processes was to establish a working group to examine the issues in depth.
- 1.2 Roger Elkins was appointed as the Chairman of the Group. Other Members of the Group were Duncan Crowe, Joy Dennis, Nigel Jupp, Kate O'Kelly, Chris Oxlade and James Walsh. The Terms of Reference as agreed by the Group at the first meeting are attached as Appendix A. The Group has held three meetings which have been supported by key officers, Katharine Eberhart Director of Finance, Performance and Procurement and Matthew Wigginton, Head of Procurement and Contract Services.
- 1.3 The key objectives of the Group were:-
  - Review the mechanisms in place for the planning, delivery and monitoring of contracts and the proposals for future arrangements,
  - Review how contract performance is managed and how contract deficiencies/issues are resolved,
  - Consider how Members can oversee and obtain assurance for the effectiveness of contract management arrangements.
- 1.4 Currently contracts are managed in a decentralised way across the Council within specific service areas. This has been recognised through work with the Strategic Partner (PWC) as having limitations and risks. The service is therefore in the process of implementing a new operating model which will introduce a new structure, attached as Appendix B. This new structure will involve a centre led/centralised system of contract management which aims to provide corporate oversight and controls, standardisation of procedures and investment in officer skills and capability. Standardised performance monitoring of contracts will also be developed as part of the new model. The Group has therefore concentrated its review on the new model rather than looking back at issues under the old structure.

1.5 As part of the evidence presented to the Group it received information on the Top 20 suppliers (by financial spend), see Appendix C, a summary of the findings of a recent Internal Audit report on the controls in place to manage these top 20 contracts and how the new model will improve systems in place.

## **2. Mechanisms in place for planning, delivery and monitoring of contracts**

2.1. Contract management is a key activity across the organisation as in 2017 £743m was spent with 4,310 suppliers. It is therefore important to ensure that the mechanisms in place to plan, deliver and monitor contracts are effective.

2.2. Limitations have been recognised in the old structures as it was a largely reactive model therefore a new structure, based on Local Government Strategy guidelines is being implemented. The first step in the implementation is underway with staff workshops held to outline the new model and working arrangements and recruitment activity taking place for key officers to be in post by September 2018. This new structure aims to improve contract management through the development of a strategic, centralised contract management team to ensure best practice is adhered to across all services in the Council.

2.3. The objectives of this new model/structure are:

- Standard approach to contract management
- Governance arrangements are clearly defined
- Clear risk management approach is in place
- Documented and understood contract management procedures exist and are implemented across the organisation.
- Centre led team will lead on process and policy, ensure best practice is followed and provide additional resource capability to services for any key risk areas identified
- All resources are grouped centrally and report through to a lead, senior officer.

2.4. The 2018/19 budget includes provision for this new model to be implemented, including resource for extra staffing.

2.5. Members discussed the new arrangements to be put in place and overall were satisfied that the new model would result in improvements to contract management across the organisation. They recognised that staff capability and training were key components to the success of the new model and wanted to ensure that commercial awareness and the recognition of contract risk were built into the recruitment process and training that takes place.

2.6. Members recognised that the early identification of risk and systems to escalate the risk were key to good contract monitoring. The understanding of contractual and supplier risk is currently identified as having "limited assurance" in the Internal Audit review of the Top 20 contracts. Members were therefore keen to ensure that management action is taken to improve this in the new structure arrangements.

- 2.7. Members had reviewed good practice guides provided by national organisations such as the LGA and NAO as part of their background research. As part of this research they highlighted the fact that information about the contracts in place should be easily accessible and available. Information should include who the contract is with, the services provided, value of the contract, length of the contract, when it is due to terminate and any provision for break clauses. Currently this is not available but plans are in place to develop one source of contract information that could be accessible via the Council's intranet. This would be a useful and informative document for both officers and members across the organisation.

### **Recommendations**

- 2.8. That the new operating model is implemented across the organisation
- 2.9. That the TFG reconvenes in 12 months to review how the new model has been embedded and that the improvements to systems have taken place.
- 2.10. That staff skills and capabilities are recognised as key components to the success of the new structure, particularly in relation to commercial awareness and risk.
- 2.11. That contract risk needs to be fully understood by all contract managers and systems are in place to escalate risk reporting when necessary,
- 2.12. That one source of information in relation to basic contracts information, as described in para 2.7 above, is developed and made easily accessible.

### **3. Contract performance and resolution of contract issues**

- 3.1 Members of the TFG received information in relation to the performance monitoring arrangements in place for the Top 20 contracts. This included a summary of the 'Flash Reports' which were produced following the collapse of Carillion. These reports highlighted the strengths and weaknesses of each of the contracts.
- 3.2 The new model will put in place enhanced performance and financial monitoring including:-
- Engaging with contract managers for strategic supplier reviews to ensure best value and performance,
  - Standardising contract performance
  - Increasing the frequency of financial health-checks
    - At least once a year for Top20 and other critical suppliers
    - On-going monitoring of approx. 85 suppliers through an 'active alert' system
    - Financial assessment undertaken if extending or amending a contract
  - Expanding financial diligence reviews
- 3.3 Members were keen to ensure that the monitoring information used was fit for purpose and stressed the need for outcome based KPIs. They were assured that the new model would ensure a more standardised focussed

system that would include regular and more in-depth monitoring of both contract performance and financial health. This more standardised system would ensure issues were identified and resolved as early as possible. This is again heavily reliant on the skills and capability of officers in agreeing contracts in the first place and also monitoring them through the contract term.

## **Recommendations**

- 3.4 That outcome focussed KPIs are developed for new and amended contracts in order to measure performance effectively.
- 3.5 That the standardised and enhanced contract monitoring in terms of performance and financial health should be embedded across all contracts and that staff need to be sufficiently skilled to recognise any issues for resolution early.

## **4. Member oversight of contract management arrangements**

- 4.1 Members considered how they could have a greater oversight of contract management across the organisation. They recognised that their role is at the strategic level and should not involve the operational day to day business of contracts. Their key concern was that they are sighted early when any issues occur.
- 4.2 A number of options were considered including the establishment of more specific Partnership Boards, similar to the Capita Partnership Board which already exists, or the introduction of one Strategic Partnership Board to oversee all contract issues across the organisation. However, the most appropriate solution put forward was to use the existing structures in place in relation to scrutiny. Therefore it is recommended that the relevant Business Planning Groups of the Select Committees review on a regular basis the County's Top20 (by value) contracts. Each BPG would review the contracts within its own area of responsibility. If they determine that there are significant issues being reported then they could refer the issue for formal scrutiny at a select committee meeting. Service specific issues would be reviewed by the individual select committee but any corporate issues could be referred for review to the Performance and Finance Select Committee's (PFSC) BPG. PFSC would have responsibility to review contract information relevant to its own portfolio areas through its BPG but also have a role in any corporate strategic issues around contract management which may be referred to them by a service select committee or one of the BPGs.
- 4.3 It is advised that the County's Top 20 (by value) contracts are looked at initially by the BPGs but that this could be extended to include critical service specific contracts as the system is developed and embedded across the organisation. They can be reviewed and modified by individual BPGs to meet their responsibilities as the processes are developed.
- 4.4 It was agreed by Members of the TFG that this process would ensure the wider membership are better involved in contract management and that the BPGs would gain ownership of the contracts relevant to their service portfolio areas without the need to create new governance systems.

- 4.5 It is also recommended that a standard template of information is produced for the BPGs. An example of the information that could be presented is attached as Appendix D.
- 4.6 This system of member engagement is reliant on the standard information being available for all contracts which will be developed through the new operating modal. It is therefore recommended that the system is reviewed when the TFG reconvenes in 12 months to assess whether this has improved member engagement and is a worthwhile addition to the system.
- 4.7 A Capita Partnership Board was established in 2013. The provision for such Partnership Boards is included within the Constitution in order to enable members to monitor and review contract performance on specific major contracts. Members of the TFG did not review the Capita Partnership Board in detail. However, they heard from officers that the Board had not met since late 2016 and that the Board had become too operationally involved in contract monitoring rather than taking a strategic view. It will be for the Cabinet Member for Finance and Resources to determine whether there is any value in amending the current remit of the Capita Partnership Board to ensure it is more strategic or whether the Board can be disbanded and the Capita contract is monitored using the recommended process outlined above.

## **Recommendations**

5. That a new system of member involvement is developed whereby the Business Planning Groups of all the Select Committees review the contract performance information of the County's Top 20 contracts relevant to their responsibilities.
  - 5.1 That the Performance and Finance Select Committee should have a more pro-active over-arching role in relation to any strategic contract management and performance concerns across the organisation and through referrals from service select committees or Business Planning Groups.
  - 5.2 That the new system for member involvement is reviewed when the TFG reconvenes in twelve months' time.

## **6. Implications**

- 6.1 There are resource implications in relation to the production of contract management information for the BPGs, however these should be addressed through the implementation of the new operating model and standardised systems for contract monitoring which are in the process of being implemented. There will also be a resource implication in relation to member time as the BPGs are being asked to look at new information around contracts. This will need to be monitored and reviewed in twelve months to ensure it is manageable.
- 6.2 There are no risk management, Crime and Disorder Act or Human Rights Act implications arising directly from this report. However, if any specific issues arise in relation to contract management these will be included and addressed through the risk management procedures of the organisation.

**Roger Elkins**

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**Appendices**

- A    Terms of Reference for the TFG
- B    Proposed new operating model
- C    Top 20 suppliers by value
- D    Example performance information for BPGs

**Background Papers**

None