



## AUDIT SERVICES REPORT

May 2012

### Contract and Client Management within Suffolk County Council

Auditors: Richard Hart, Philippa Agent  
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Audit Reference: X100914/003



## **Executive Summary**

Authorities, including Suffolk County Council (SCC), need to find ways to make savings to 'balance the books' without reducing quality and breadth of services to the public.

Historically, the Council has been structured to provide services directly using its own specialist staffing and facilities along with all the necessary management and administrative structures to support it. As an enabling authority, there will be a fundamental shift in the Council's approach to providing services to the public. In simple terms, once services are to be procured rather than provided in-house, different structures, controls and measures should be planned and put in place for comparable service delivery to be achieved.

Suffolk's multi-million pound "Divestment Programme" was instigated as an innovative and progressive response to Government budget cuts, along with other high value contracts such as PFI, to establish new models for delivering public services. A critical point to support the ongoing delivery of these services is the process of planning procuring and the ongoing management of providers and their service delivery contracts with the Council.

Some key risks emerge if the Council fails to adequately address the management of large contracts and supply of service in the future:

- Risk to Service users;
- Failure to meet Statutory duties;
- Poor performance of the service provider being undetected and allowed to continue;
- Overpayments by Suffolk County Council ;
- Inaccurate assessments of performance ;
- Excessive costs of contract performance monitoring;
- Missed opportunities for service improvements;
- Health and safety risks. e.g. building and equipment maintenance and public risk;
- Failure to obtain value for money;
- Poor transition, continuity and contingency arrangements;
- Reputation;
- Long-term relationship issues between the Council and the provider;
- Loss of control;
- Loss of key business knowledge or resources;
- Cultural difficulties;
- Loss of focus on customers;
- Poor staff morale;
- Loss of Corporate identity and loyalty.

There are concerns that, as a Council, engaging in high value contractual relations, there may be a lack of recognition of the risks involved in not having adequate structures, policies and procedures, planning systems and resourcing to sustain an appropriate level of contract and client management. The Council needs to consider how this activity and specialism should be developed so that it can meet its needs effectively as an enabling authority.

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Currently the following questions need to be answered and addressed to ensure adequate systems and controls are implemented for the future:

- What is the corporate strategy for contract management?
- Do current organisational development and review principles adequately consider the structure and skills required to move towards an enabling body with services delivered through contractual relationships? And what should be done to prevent piecemeal development?
- Should contracts be managed centrally or through historic Directorate based structures?
- Is there a rationale for sharing contract management costs between contracts that the council is managing and will related efficiencies be gained?
- How should resourcing (proportionate to the contract risk) for contract management be decided upon?
- Should there be a corporate challenge or gateway specific to the area of contract management for each contract and arrangements for contract management (or at least above set parameters)?
- Should there be independent challenge whether contract management has been adequately planned and implemented?
- Does the Council always have the right skills to work well with commercial suppliers and manage contractual services in the future?

The above is not an exhaustive list but acts as a prompt to establishing how advanced the Council's thoughts are on one of the key activities of the future.

As part of this exercise, Audit Services have utilised outside best practice guidance regarding contract management to assess systems controls and processes. It is recommended that these are considered in more depth as part of any policy or procedural development. These documents are listed at Appendix A. Audit Services are aware that some Authorities, for example Essex County Council, are considering similar issues and may be more advanced than Suffolk County Council. It is recommended that their activities in this area be also considered.

As a by product of audit work on the Fire PFI project, a proposed methodology that could be adopted for defining contract management at project level is attached to this report in Appendix B. It is recommended that this is utilised for appropriately sized contracts, Divestments and PFI work in the short term until a clear policy be implemented.

The key findings of the audit are as follows:

***No assurance could be gained from audit work that there is clear policy, guidance, risk assessment or understanding of resourcing requirements for the management of existing or future contract.***

***Aspects of good practice was identified by the audit and the sharing of best practice was evident although not consistently applied across the organisation.***

***The Council is rapidly implementing a series of divestments and entering into key strategic contracts for the provision of future services without considering an***

***overarching approach to how the management of these activities are to be structured and delivered effectively in the future.***

***To address this, the Council should define strategically its approach to contract and client relationship management, This should compliment the future structure of the Council and ensure that efficient systems and processes then support management. In the short term, the attached 10-point plan (or something similar) should be adopted for individual projects, which will result in an external provision of the service.***

***An action plan to address these key issues is attached at Appendix C to assign responsibility for the development of solutions to the risks identified.***

### **Background**

Included in the annual audit plan for 2012/13 as historic audit work and risk assessment has identified that this is a key risk area for the Council moving forward. Historic contract management is inconsistent in its application and performance.

### **Objectives & Scope of Review**

The review has sought to establish if assurance can be gained that adequate systems and controls are in place to manage the major contracts and contractual activity within the Council. In addition, to develop an understanding of how well the Council will manage its contracts in the future and to question whether it is equipped to meet its statutory responsibilities in the longer term through contractual arrangements rather than direct service delivery.

To fulfill the above scope the following have been undertaken;

- To ascertain if standards, procedures or expectations exist for the management of contracts. Ascertain good practice. Examine how contract management is being approached with regard to Divestments. Samples have been taken across the different types and levels of contracts within the organisation.
- Assessment of policy and procedure for contract/client management, defining responsibility for contract/client management within Directorates, identification of contracts listed by the Council, and identification of training or guidance for contract/client management.
- A cross-directorate assessment of the contract/client management of high-level contracts, including Divestment activity.
- Analysis and evaluation of results to inform and identify outcomes and methodologies for SCC to improve contract/client management.

## **Detailed Findings**

### Strategy, Policies and Decision Making

The 2011 to 14 Procurement Strategy states that SCC will 'manage all major partnerships and strategic contracts to ensure that they continue to provide value for money, deliver appropriate services that customers want and deliver innovation and continuous improvement'. At present, Suffolk County Council Procurement Regulations stipulate that Chief Officers and Heads of Specialist Support Functions (Heads of Service) shall ensure arrangements are in place for the effective management of all contracts, consistent with the Council's Contract Management Policy and Framework. A Contract Management Policy and Framework was drawn up in December 2011 by Procurement, but has not been published.

Divestment of a number of services was approved by Cabinet in 2011. As one would expect, the majority of information provided to Cabinet was about the choice of provider or model for provision and the related savings and costs for the provision of service. There was little to identify the longer-term costs and implications of managing these contracts.

### **Conclusion**

Although it is recognised within strategy documents and regulations that both contract management and client management are integral with both procurement of services and ongoing service provision, there is no clear guidance or vision on how this is considered and implemented. It is also not clear that implications and costs of contract management, and the related change in approach to service provision, have been considered when reports are submitted to Cabinet or Council.

### Assessment of Historic, New and Forthcoming Divestment Programme Contracts

Assessment of historic contracts evidenced that there are inconsistencies in how the Council has dealt with contract management failures. In the best case, failures in contract and client management with CSD have been identified and work has been completed to rectify them. There have been unexpected costs for 'not getting things right first time'. Lessons learnt from this have been acted upon and, principally, a stronger 'clientside' has been put in place to mitigate the greatest risks to the Council. However, in ACS where failure has been identified, resolution has been a thornier problem due mainly to the nature of the service delivery, structure of contracts and current management arrangements. Future contractual arrangements may be at greater risk as review work has identified a lack of consistency in planning for resourcing the procurement process through to contract and client management. Whilst PFI projects evidence good procurement practice, there is limited resource planning for continuing contract management arrangements.

In ESE, where two contracts were assessed, there was good evidence that sound project management practice ensured that resourcing and continuity of contract and client management was well considered.

The following paragraphs reflect the key issues emerging from examination of individual contracts and procurements:

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CSD: Lessons have been learnt from SCC's experience of major partnership working with a commercial company. It is important that the relationship with the contractor is clearly understood from the outset. As defined within the Council's own self-assessment of this contract, eight years into a ten-year contract, client and contract management were, and remain as, critical drivers.

HML (occupational health scheme): When inefficiencies of the existing in-house system were identified, a new contract was procured with clear specifications and KPIs. Contract management staff were involved in the procurement process through to managing the contract with the provider. The provider was also fully engaged in this process and there is now a drive by both SCC and the provider to achieve satisfactory performance.

Fire PFI: Procurement has been well managed. However, the Fire and Rescue Service is yet to make a decision on who should contract manage the contract going forward. It is also unclear how this will be resourced. In last year's review work, Audit Services provided the Fire Service with a ten-point plan to ensure that appropriate contract and client management activities are implemented.

The Waste PFI project is a multi million-pound contract and will, if well managed over the 25 years, realise significant savings (£350m over the term) for SCC. The Programme Director confirmed that he has some concerns that, overall, as SCC moves towards more high value contractual relationships, it may not have fully considered the risks involved in not having adequate resources to sustain an appropriate level of contract and client management.

Contract and client management for the Waste PFI project has been well planned and implemented so far. Good practice has been recognised and shared within the service. It has also been recognised that the recent retirement of the contract manager leaves a risk of lack of continuity and the service is working to rectify this.

The Highways Project Team is currently in competitive dialogue with prospective contractors with a view to a contract go live date of April 2013, for the provision of highways maintenance. A gateway process is being employed to ensure there is an independent review of the project, including challenge that the contract management strategy is reasonable. With the project timeline in mind, resources have been identified to the value of £250,000 and the business case for these costs has been approved by the Head of Service: noted as an example of good practice but the auditor notes that this decision-making process/rationale has been made at Directorate level on a single project basis.

The divestment of sixteen SCC residential care homes will be a high value contract estimated to the value of approximately £15m per annum with a TUPE transfer date of October 2012. Audit Services has identified, in recent review work, that there are still insufficient controls around contractual arrangements with residential care providers. It has been recognised that none of the current project team will be following through the management of this contract. Audit Services is continuing to work closely with ACS to identify areas of concern and risk. This will include the assessment of future contract monitoring and management arrangements and, as part of this ongoing process is scheduled to be reported soon after the end of July 2012.

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Leading Lives: Audit Services have been advised that the Council and the social enterprise (Industrial Provident Society - IPS) will be working in partnership with a view to commercial re-tendering prior to the end of the three year arrangement. It is understood that the SCC Project Lead, on commencement of the divested service, will become the lead officer for the contractor. Therefore, there is a risk that SCC will lack a robust 'clientside.' Governance arrangements for the partnership have only just been identified. Although the legal status of the contractor has been confirmed, it is not clear that there will be a binding framework in place for the assets or service delivery arrangements between the Council and the IPS or when critical elements for measuring and managing service arrangements with this supplier will be in place.

#### **Conclusion**

Across the organisation, there is a lack of consistency in the planning and resourcing of contract and client management. It is accepted that the levels required need to be rationalised against the risks of financial loss and loss of service delivery. It is not clear how this is being done across the organisation and how consistent the outcomes are.

#### **Corporate Approach to Contract and Client Management**

HR: Current organisation development work is focused on the reduction of costs within the organization; there is a continuation of the spans and tiers work which looks at management structures and costs. It is understood that the specialist skills and structural re-organisation required to move the organisation to an enabling authority is not part of the current work. However, it has been identified and discussed that there is a need to establish the requirements for the organisation to manage contracts and relationships going forward.

Systems Thinking/Business Process Re-Engineering: a report to CMB in December 2011 included some proposals on the potential benefit of reviewing and restructuring contract management processes. The report goes on to say 'Using Systems Thinking fully in any particular area will fundamentally change the way that part of our organisation thinks about and organises itself to deliver services'. Audit Services have not identified any references to this work from key officers during this review. Audit Services is currently assessing the progress of this programme since the report was issued, but has not, as yet, been provided with any further details on planning or timeframes.

#### **Conclusion**

There is an underlying understanding that effective contract and relationship management is a growing need. Audit Services could not gather adequate assurance that there is a co-ordinated approach across the organisation to the development of contract management skills or organisational vehicle or structure to deliver the varying activities associated with contract management and relationship management.

It is critical that the Council plans for the quality and efficiency of future services to the public as well as realising savings both in the short and long term.

**Good Practice Guidance**

<b><i>Title</i></b>	<b><i>Author</i></b>
A guide to contract management for PFI and PPP projects	4ps
Technical Note No 6 – How to manage the delivery of long Term PFI Contracts	Treasury Taskforce – Private Finance
Operational Taskforce Note 2: Project transition guidance March 2007	HM Treasury
Making Savings in operational PFI contracts – July 2011	HM Treasury
A practical guide to the internal audit of the operational phase of PFI projects	CIPFA
Contract audit Toolkit	CIPFA
A guide to the Financial Management and Audit of Contracts	CIPFA

Contract Management Assessment Methodologies

Detailed below is a 10 point plan (similar to the plan provided to the Fire Service by Audit Services in the recent PFI- Fire Station improvement – Facilities Management Contract Report issued February 2012 ) that could be used as a guide in the decision making process to implement contract management/monitoring processes at project or programme level. This should be seen as a starting point for a potentially complex issue. There must be consideration for proportionality: the level of risk and financial value must be considered and the right level of resources for the contract involved.

It is imperative that effective contract management arrangements are in place that reflect the nature of the contract and provide value for money to SCC. Whilst the points below will have a resource and cost implication, implementation should result in efficiencies and savings throughout the life of the contract.

1) – Level and type of contract management/monitoring required

Prior to allocating resources to manage the contract, a formal decision will need to be made as to the level of contract management/monitoring that is required to provide assurance. This decision should assess-

- Suffolk County Council's contractual requirements;
- The contractual risks to Suffolk County Council;
- How much trust will be placed on the contractor, and the type of relationship that the Authority would wish to have with the contractor (please refer to point 5);
- The assurance levels that will be required;
- How disputes will be investigated and resolved;
- What other Authorities are doing in relation to contract management/monitoring.

2) – The format contract management/monitoring will take and the resources required

Once the extent of contract management required has been determined, a decision can be made on how contract management will be provided. Contract management can be undertaken in-house or externally. It can be provided by an individual, a team or management structure.

Audit Services has listed a number of issues for consideration that can be used within the decision making process:-

- Whether the Council has the resources and expertise to undertake this role;
- Where resources should be sited within the organisation;
- Whether the contract monitoring role has to be undertaken by resources within the Council;
- Whether contract management can be achieved by one person or if a contract team is required;
- If contract monitoring can be undertaken in partnership with another Authority;

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- How continuity will be achieved, due to the longevity of the contract;
- What the remit of contract management for this contract will be;
- The best option which would give value for money to SCC;

Contract management will not only have to provide assurance but will also have to challenge, work in partnership with the providers, demonstrate that value for money is being achieved and look for efficiency savings in the future.

#### 3) – Performance measurements

Determine the following:-

- The development of relevant KPI's. Consider if KPI's reflect the current service delivery;
- Whether they will provide assurance;
- The supporting evidence the contractor would have to provide to support the performance information provided;
- If local indicators need to be implemented to strengthen the contract monitoring process;
- Who the results will be reported to, including how and when;
- Who will have the role of challenge or agreement;
- Whether sample testing will be undertaken. For example, consideration could be given to instructing the contractor to report on a quarterly, six monthly or annual basis on its performance over a set period. This information could then be reviewed by service users and challenged if appropriate;

Performance should be measured in line with contract penalties or credits.

#### 4) – The role of Management Boards

A decision on governance responsibilities is required. Once this decision is made a clear terms of reference needs to be put in place for each board.

The scope or the terms of reference for these boards should include responsibilities for-

- Monitoring;
- Challenging;
- Reporting;
- Developing;
- Assurance.

A decision on the level of stakeholder and end user representation will be required. If contract management/monitoring are to be outsourced or done in partnership, consideration will need to be given to the introduction of a relevant governance arrangement, which includes board representation.

#### 5) – Contractual relationship with the Service Provider

From the start of the operational phase, it is important to have a clear understanding of the type of relationship that is required. Does the Authority want a 'hands off' approach, work in partnership, or more intense monitoring relationship? Whichever relationship is agreed, both parties should be on board and signed up to this approach.

#### 6 – Financial model and the processing of invoices

Contract management/monitoring should include the checking and processing of the payment of invoices for services received.

A number of considerations should be made on the processing of invoices in the future:-

- The Finance Module should be agreed and put in place.
- Once a decision is made on the bullet point above, a decision can then be made as to the extent of checking required to provide assurance that the amount being charged is correct. This decision should also consider who would be the appropriate person to undertake this task.
- A hierarchal authorisation mechanism should be introduced for invoices charged resulting from variations to the contract. This checking process should ensure that the variation is required and ensure that SCC is not being additionally charged for services that should be included in the contract.
- Value for money should be obtained and evidenced in relation to payments in addition to the contract. In addition, it should be clear what is actually classified as a variation to the contract compared to services that are not included within the contract.
- All information held to support the payment of an invoice should be held in one central location. Documents can be scanned and then held electronically so access to the information is readily available and a clear audit trail is maintained.
- Once a decision has been made on the checking and authorisation of invoices, the process should be included within the 'Contract Handbook' as detailed in point 7 below.

#### 7) – Contract Reference Guide to Operational Services, Performance and Reporting

If the contract is of considerable length, high value, and complexity, consideration should be given to the implementation of a service delivery operational manual. This manual should be written in plain English, and used to aid the day-to-day service delivery and contract monitoring processes. The Department of Communities and Local Government (DCLG) refer to this document as the 'Contract Handbook'. The handbook should be used to 'inform and assist contract management, service delivery and facilitate continuity of effective joint working and communication'.

Once decisions have been made and approved on the numbered points above consideration should be given to the introduction of such a handbook. If a handbook is to be introduced the following should be considered for inclusion:-

- Performance measures and timetable;
- Key stages of the contract over its life;
- Management Boards terms of references, and meeting plan;

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- Best value, service users' satisfaction surveys, market testing and tendering processes timescales and requirements can be detailed;
- Payment mechanism including timetable.

Consideration should be given to this document being owned and include a version control. It could be updated following variations to the contract and would be a useful aid to continuity. If a decision is made to outsource or work in partnership with another authority about contract management/monitoring, this document could be in the form of a Service Level Agreement or a contract of expectations.

The 'Contract Handbook' if implemented will belong to SCC and used within the contract management/monitoring process.

#### 8) – Managing/Reporting and highlighting risks

A decision needs to be made on how the Authority will manage report and highlight risks associated with the contract. Risk awareness, management, and reporting will have to be part of the contract management/monitoring process and should be in line with the contract.

#### 9) – Benchmarking, Market testing, and Value for Money

Benchmarking and value for money exercises can be included as a requirement of the contract. These can be useful milestones in the contract and should be used to adjust the contract in the future if it is found that value for money is not being achieved.

Contract management/monitoring arrangements ensure that the contractor is clear on what is required, how these processes will be performed and what will be done with the information once it is received. The Fire and Rescue Service should ensure that planning and the contract monitoring processes incorporate the responsibilities of both SCC and its contractor in these areas.

#### 10) – The role of Support Services

Support Services should be seen as a second line of defence with regard to the management of expenditure relating to the contract. The level and type of contract management/monitoring put in place following these decisions will impact on the requirement and the amount of resources required from support services in establishing robust and efficient systems for processing, recording and management of payments, budgets etc.

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Ref.	DETAILED RESULTS/RECOMMENDED ACTIONS	RISK OF NON-IMPLEMENTATION	OWNER/MANAGEMENT COMMENT	IMPLEMENT BY
1	<i>The Council should define strategically its approach to contract and client relationship management; This should compliment the future structure of the Council and ensure that efficient systems and processes then support management.</i>	<i>Contract management processes will not deliver the required Service for the Council</i>	<p>Agreed – Geoff Dobson, Head of Strategic Finance (Section 151 Officer).</p> <p>Action – Geoff Dobson, Head of Strategic Finance/Lucy Robinson, Assistant Chief Executive.</p>	June 2013
	<i>In the short term, the attached 10-point plan (or similar methodology) should be adopted for individual projects, which will result in an external provision of the service.</i>	<i>Contract management processes will not deliver the required Service for the Council</i>	<p>Agreed – Geoff Dobson, Head of Strategic Finance (Section 151 Officer).</p> <p>Action – Directors and responsible Assistant Directors within the Council’s Directorates.</p>	June 2012

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