



National Audit Office

## Central government's management of service contracts

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**Comptroller and Auditor General**  
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**12 December 2008**

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# SUMMARY

**1** In 2007-08 central government spent over £12 billion on service contracts primarily in the areas of information and communications technology, facilities management and business process outsourcing. As well as providing routine support services, service contractors also deliver high profile, business-critical services, such as the IT system supporting the payment of social security benefits, the provision of security at court buildings, and the production and delivery of passports. Service contractors also regularly handle large amounts of personal and security information.

**2** The organisations we surveyed estimated that they spent on average the equivalent of two per cent of annual contract expenditure on managing their service contracts. Applying this average indicates that central government spent an estimated £240 million in 2007-08 on managing service contracts. The delivery of

public services, protection against service failure and achievement of value for money are all dependent on effective contract management. The consequences of service failure can be serious and we have reported previously on the difficulties the Rural Payments Agency and its contractors experienced in implementing the IT systems for administering the single payment scheme for farmers. The more recent delays in the marking of SATS tests have further highlighted the important role contractors play and the impact service failure can have. At the same time, this report identifies examples of good practice contract management, such as the Department for Work and Pensions' contract with BT to provide telecommunications services where there was good senior management engagement with the supplier. There has also been some effective joint working between government organisations and suppliers to improve services and reduce costs.

**3** This report examines how well central government organisations are managing their service contracts, assessed against the good practice framework for contract management which we developed at the outset of our work. We also examined the effectiveness of the Office of Government Commerce in supporting central government to improve contract management. The methods we used are set out in Appendix 1.

**4** Our work focused on contracts for information and communications technology, facilities management and business process outsourcing, where the contract had been signed and the service was up and running. Contract management is especially important where suppliers are engaged to provide services over a long period of time and customers need to ensure that service levels and value for money are maintained over the duration of the contract. The contracts we covered included both those procured under the Private Finance Initiative (PFI) (19 per cent of the contracts in our survey) and non-PFI contracts (81 per cent of the contracts in our survey). While there are issues which may arise in relation to PFI contracts which involve an added degree of complexity, for example in their arrangements for refinancing, our work focused on the core areas of contract management which are common to both types of contract. Our findings and recommendations are therefore applicable to all long-term contracts and support messages from previous National Audit Office reports on PFI contracts.

## Our key findings

**5 Central government organisations are not always according contract management the priority it deserves.** There is often no one individual with overall responsibility for contract management across an organisation, though our survey indicated that at the top of organisations there is a fairly good understanding of the importance of effective contract management. For example, the Permanent Secretary at the Department for Work and Pensions is actively involved in the management of major suppliers. There was no documented plan for managing individual contracts in over a quarter of cases and where plans did exist, supplier input was limited.

**6 Central government organisations do not always allocate appropriate skills and resources to the management of their service contracts.** Twenty-seven per cent of commercial directors/heads of procurement rated the level of resources allocated to contract management as poor, and resources were

stretched on a number of the contracts that we assessed. One contract manager, for example, was managing two other service contracts as well as the £29 million a year contract for the provision of court security. Most contract managers have three or more years experience of managing large contracts and have attended some relevant training, though there is a lack of structured training programmes and few contract managers hold any formal commercial qualification (for example, membership of the Chartered Institute of Purchasing and Supply).

**7 There are weaknesses in key performance indicators and limited use of financial incentives to drive supplier performance.** By and large, organisations collect performance information and discuss supplier performance regularly, though one contract we assessed (the Foreign and Commonwealth Office's £23 million a year contract for travel services) had no formal performance measures (service level agreements/key performance indicators). In addition, key performance indicators are not always reviewed and updated on a regular basis to keep pace with changing business requirements. Where financial incentives were in place, 38 per cent of contract managers did not always invoke payment deductions in the event that supplier performance fell below the specified standard.

**8 Despite the critical nature of the contracts in our survey, many did not have in place some or all elements of good practice risk management processes.** For example, 37 per cent of contracts did not have a risk register and 56 per cent did not have a contingency plan in case of supplier failure. On one of the contracts we assessed (the Driving Standards Agency's contract for driving theory tests), risk management processes are being reviewed following the loss within the contractor's data centre of a computer hard disk drive containing personal information.

**9 Value for money testing can result in significant savings but the extent to which central government tests the value for money of ongoing services and contract changes is variable.** For example, a benchmarking exercise resulted in the Home Office saving £17 million a year on its IT contract, around 20 per cent of the total annual contract expenditure. In terms of supplier development, central government organisations are regularly working with suppliers to secure performance improvements, although much of this activity is uncoordinated with only 53 per cent of contract managers having a formal plan for supplier development.

**10 In general both central government organisations and their suppliers are positive about working relationships, though less than half of organisations had implemented a supplier relationship management programme despite what appear to be clear benefits.**

Eighty-three per cent of suppliers involved in such a programme considered it had helped to improve the relationship with their customer. Ways in which day-to-day working relationships might be improved include defining more clearly the expected behaviours of both parties throughout the duration of the contract.

**11 The Office of Government Commerce can do more to support central government organisations to improve contract management.** A key theme from the Procurement Capability Reviews is that there is considerable scope for government departments to improve contract management, with in particular a shortfall in contract management skills and resources. The Office of Government Commerce is in the process of improving its guidance and developing training on contract management, and it is also collecting and disseminating information on supplier performance to help central government manage major suppliers, though to date this exercise has not extended much beyond the IT sector.

## Our value for money conclusion

**12** While there are examples of good practice, central government's management of service contracts is not consistently delivering value for money. Nearly all the organisations we surveyed thought that value for money could be improved through better contract management, in terms of more or better services, and/or lower costs. Based on the survey, we estimate that better contract management could potentially generate efficiency savings of between £160 million and £290 million a year across the organisations we surveyed through reduced contract expenditure, and this may well be a conservative figure as it is based on estimates the organisations themselves provided in our survey. As well as financial savings, better contract management could bring improvements in the quantity and/or quality of services, the avoidance of service failure, and better management of risk.

## Our recommendations

**13** Our recommendations below set out the actions we consider necessary to secure improvements in contract management and thereby better value for money. The changes required to implement the recommendations primarily involve a more effective use of existing resources by central government organisations and the Office of Government Commerce, although some changes would result in some additional costs.

### For central government organisations

**14** To achieve better value for money and reduce contract risk, central government needs to apply good practice contract management more consistently. There should be an expectation of improvement throughout the duration of a contract and central government organisations should exploit opportunities to work with suppliers to get more out of their contracts. Organisations should benchmark their arrangements for contract management against our good practice framework and, in light of the results, put in place an improvement plan. Organisations should pay particular attention to the following areas.

**a** Raising the profile of contract management

**Service contracts are essential for the delivery of central government's objectives but contract management is not always accorded the priority it deserves.** To raise the profile of contract management central government organisations should include in their annual report details of their most important (taking account of contract risk and expenditure) service contracts, and highlight the actions taken to improve value for money and reduce risk.

**b** Ownership of contract management policies and strategy

**Less than half the organisations surveyed had an individual with overall responsibility for contract management.** Central government organisations should assign ownership of contract management issues across their organisation to a single individual (for example, the commercial director/head of procurement) who has a clear remit to improve contract management and the authority to deliver change. Among other things, the individual should be responsible for ensuring that contract management plans and appropriate governance arrangements are in place for all major contracts.



- c** Establishing effective management arrangements at the outset of each contract

**For some of the contracts we assessed it had taken several years to reach the point where the contract was being managed well in terms of, for example, putting in place sufficient resources and appropriate performance measures.** Central government organisations should integrate the establishment of good contract management arrangements into the final stages of the procurement process, and before approving the award of major service contracts senior managers should review these arrangements and sign them off as fit for purpose.

- d** Resourcing of contract management

**More than a quarter of commercial directors/ heads of procurement rated the level of resources allocated to contract management as poor, and resources were stretched on a number of the contracts we assessed.** In deciding how to resource their contract management activities, central government organisations should assess the value for money opportunities and level of risk associated with individual contracts across their portfolio of service contracts, drawing on the guidance in our good practice framework. This assessment will help organisations determine whether the resources they have are allocated to best effect, and whether they need to improve the quantity and/or quality of resources to exploit opportunities for value for money gains and to manage risk effectively.

- e** Performance measurement

**A number of contracts had inadequate key performance indicators to measure and drive the performance of suppliers.** Central government organisations should review key performance indicators at least annually and update them as necessary to reflect changing requirements.

- f** Financial penalties for poor performance

**Over a third of contract managers did not always invoke payment deductions for under-performance by a supplier when the contract entitled them to do so.** Where mechanisms for financial penalties are in place, central government organisations should apply them rather than forgoing revenue entitlements for fear of jeopardising relations with the supplier.

- g** Value for money testing

**Value for money testing is particularly important where contracts run for a long period for time, but central government organisations do not routinely test their service contracts.** Organisations should regularly test the value for money of both ongoing services and any major additions to the contract through, for example, price benchmarking or market testing. Where contracts do not include provision for value for money testing, organisations should negotiate such clauses at the earliest opportunity.

- h** Risk management

**Despite the critical nature of many service contracts, involving for example the handling of personal information, good practice risk management practices are not being consistently applied.** Central government organisations should review the risks associated with their major service contracts. Risks should be identified in a risk register and assigned an owner, and there should be regular reporting of business-critical risks at Board level. Mitigating actions should be planned and implemented, and each major service contract should have a contingency plan in case of supplier failure.

## For the Office of Government Commerce

**15** Responsibility for managing service contracts clearly rests with central government organisations, but the Office of Government Commerce has a role to play in, for example, providing guidance and supporting the development of training programmes. It has begun to provide more support to central government to improve contract management. In doing so, it should pay particular attention to the following areas.

- a** **Limited guidance is available on contract management.** In enhancing the material it provides, the Office of Government Commerce should build on the good practice framework we have developed to provide contract managers with comprehensive and easily accessible guidance.
- b** **Central government organisations identified a need for better training for their contract managers.** The Office of Government Commerce should support the development of training which complements existing provision and which draws on good practice from both the public and private sectors (for example, the modular programme developed by Lloyds TSB highlighted in this report).

- c** **There is currently no cross-government contract management community.** In taking forward its plans to incorporate explicitly such a community within the overall Government Procurement Service structure, the Office of Government Commerce should in particular seek to embrace the large numbers of contract managers without procurement backgrounds and who sit outside central procurement functions.
- d** **The work to assist central government in monitoring and managing major suppliers has focused mainly on the IT sector.** The Office of Government Commerce should extend the approach it has adopted with the IT sector to cover other major service categories. It should collect and disseminate information on the performance of major suppliers, and work with central government and suppliers to secure performance improvements.

# PART ONE

## The importance of contract management in central government

### Central government contracting

**1.1** In December 2007 the Department for Business Enterprise and Regulatory Reform commissioned Dr DeAnne Julius to lead a review<sup>1</sup> of the 'Public Services Industry' (all private and third sector enterprises that provide services to the public on behalf of government or to government itself), with the aim of building a better understanding of the Industry and the value of its contribution, and identifying the factors that could support its growth.

**1.2** In her Review, DeAnne Julius estimated that the total revenue of the UK Public Services Industry was £79 billion in 2007-08, covering both central and local government. In broad terms the types of service contract we have focused on in this report – information and communications technology, facilities management and business process outsourcing (**Figure 1**) – were estimated to account for around £23 billion of the total Public Services Industry revenue, covering both central and local government. The Review noted, however, that categories may overlap and highlighted more generally the difficulties that exist in compiling data on the Public Services Industry.

#### 1 The service contracts covered by our report

- Information and communications technology – the outsourcing of the entire IT function or specific services such as desktop support or operating a website.
- Facilities management – the outsourcing of the entire facilities management of an estate or specific services such as catering or security.
- Business processes – the outsourcing of, for example, call centres, human resources administration, accounting and payroll, and fleet and travel services.

**1.3** In 2007-08 the 33 central government organisations which provided details of their expenditure on service contracts (16 government departments, eight executive agencies, eight non-departmental public bodies and one special health authority) spent £12.2 billion on service contracts (**Figures 2 and 3 overleaf**).

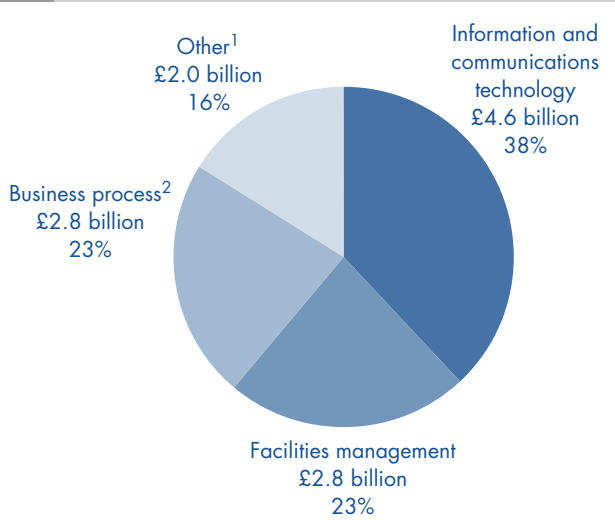
<sup>1</sup> Department for Business, Enterprise and Regulatory Reform, *Public Services Industry Review (Understanding the Public Services Industry: How big, how good, where next? A review by Dr DeAnne Julius CBE)*, July 2008.

**2** Breakdown of expenditure on service contracts by organisation surveyed, 2007-08

Organisation	Expenditure (excluding VAT) £ million
Ministry of Defence	4,800
Department for Work and Pensions	2,743
HM Revenue & Customs	1,153
Home Office	457
Department for Environment, Food and Rural Affairs	377
Identity and Passport Service	299
Ministry of Justice	271
Youth Justice Board	256
National Police Improvement Agency	246
Department for International Development	246
Other	1,392
<b>Total</b>	<b>12,240</b>

Source: National Audit Office surveys and information provided directly by departments

**3** Breakdown of expenditure on service contracts by category, 2007-08



Source: National Audit Office surveys and information provided directly by departments

**NOTES**

1 Other includes services such as medical services, commissioning of secure accommodation and livestock disposal.

2 Business process contracts include contracts covering the outsourcing of, for example, call centres, human resource administration, accounting and payroll, fleet and travel services, and printing.

**1.4** DeAnne Julius’s Review concluded that the supply side of the Public Services Industry is dynamic, with many companies moving into the market, and international. Many suppliers operate in the commercial as well as the government sector. The Review also found that, whilst some segments are highly specialised, the supply side has in general considerable depth with a large number of companies competing across the public services market. The database of service contracts we compiled for this report comprised 185 contracts spread across 123 different suppliers.

**1.5** As well as receiving large amounts of public money, suppliers to central government are routinely providing high profile, business-critical services, highlighting the importance of effective contract management and the risks if it is not achieved. Our survey of contract managers found that:

- 90 per cent of contracts involved the provision of services which were regarded as critically important to the delivery of the business objectives of the organisation;
- for over two thirds of contracts, there was considered to be a significant reputational risk to the customer organisation in the event of supplier failure; and
- in 65 per cent of contracts, suppliers were dealing with personal or security information.

**The importance of contract management**

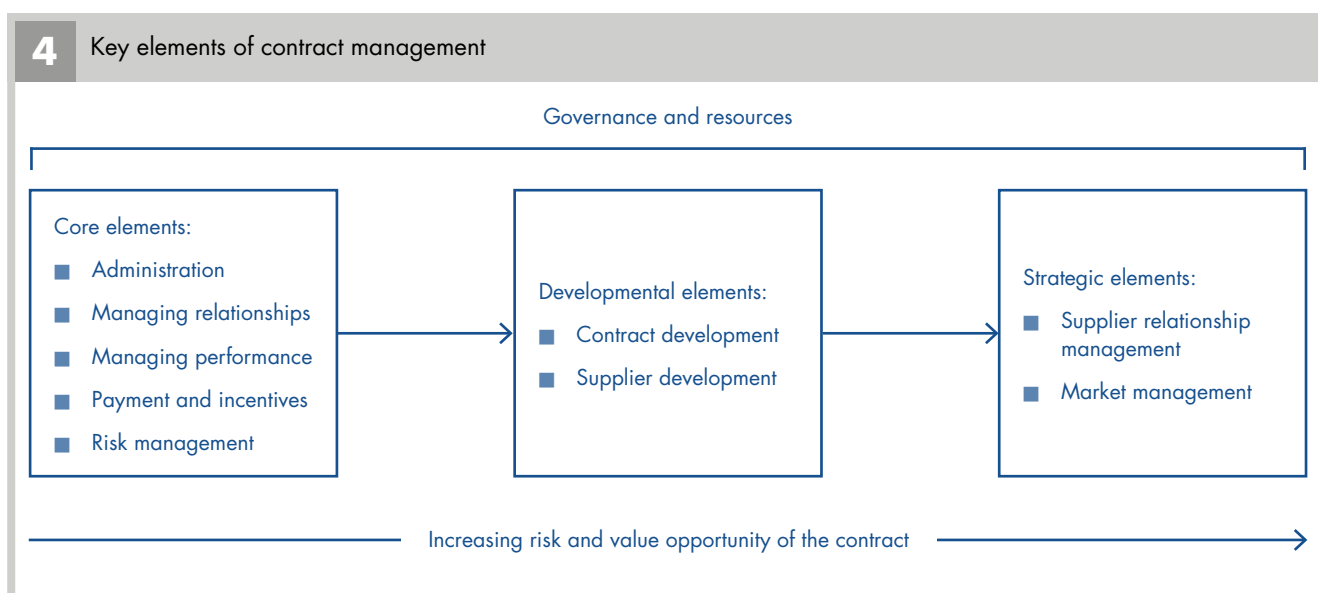
**1.6** Once a contract has been awarded, contract management should ensure that both parties – customer and supplier – deliver in line with the contract. From the customer’s perspective, the central aims of contract management are to secure the services agreed in the contract and achieve value for money. Contract management becomes especially important where suppliers are engaged to provide services over a long period of time and customers need to ensure that service levels and value for money are maintained over the duration of the contract. The contracts covered by our survey had an average length of eight years.

**1.7** Contract management comprises a variety of activities ranging from core administration, such as paying invoices and monitoring performance, to more developmental and strategic activities, such as supplier relationship management. In broad terms, the resources devoted to contract management and the sophistication of the activities undertaken by the customer organisation will vary from one contract to the next and should reflect the risk and value opportunity associated with the contract.

**Figure 4** illustrates that as risk and value opportunity increase, the contract management focus should widen to incorporate more developmental and strategic activities such as supplier development and market management. Guidance on assessing the appropriate approach is covered in our good practice framework for contract management.

## The structure of contract management in central government

**1.8** **Figure 5 overleaf** provides an example of the structure for contract management within a central government organisation with the contract management function providing a key interface between end users of the service and the supplier. Where the contract management function sits within an organisation may vary from one body to another, as we found during our contract assessments. For example, the Department for Work and Pensions has centralised the management of many of its service contracts within its commercial function, while many of the Health Protection Agency's contracts are managed by business areas at individual sites.



**1.9** The extent of the resources devoted to managing a service contract also varies. The number of people involved in managing the contracts covered by our survey ranged from over 100 in the case of the largest contracts to one person for some smaller contracts. On average, we found that in 2007-08 the cost of managing a service contract was equivalent to two per cent of the annual expenditure on the contract.

### Achieving better value for money through good contract management

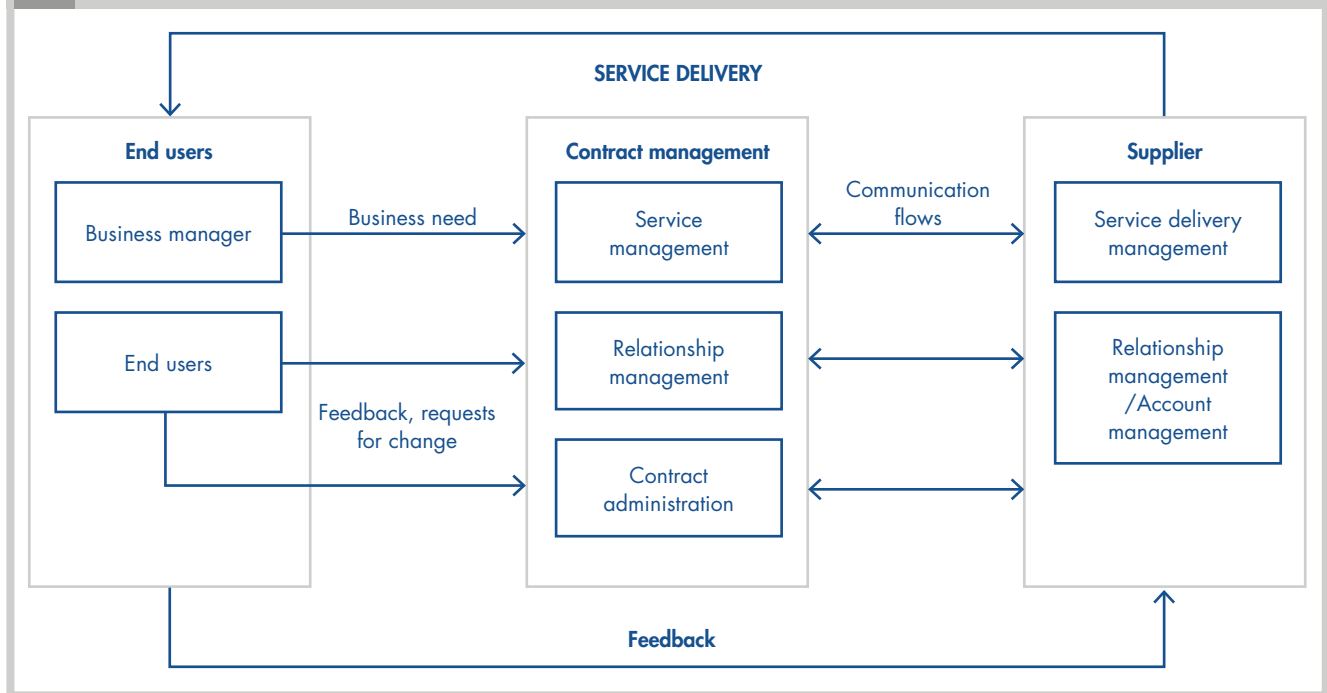
**1.10** Good contract management has the potential to improve economy, efficiency and effectiveness, for example, by:

- improving the quantity and/or quality of the service provided without increasing contract expenditure; or
- reducing contract expenditure while maintaining the quantity and quality of the service provided.

**1.11** We found that there is considerable potential to improve value for money through better contract management. Nearly all commercial directors/heads of procurement (97 per cent) considered that the quantity and/or quality of the service provided could be improved through better contract management without increasing expenditure; and 67 per cent considered that better contract management could result in expenditure across their service contracts being reduced while maintaining the quantity and quality of the service (Figure 6). Lower, though still substantial, proportions of the suppliers surveyed also considered there was scope for improved value for money through better contract management.

**1.12** Our work highlighted examples where good contract management had resulted in service improvements for the customer organisation at no additional cost. For example, at no additional cost, the Land Registry received an enhanced computer network linking all its sites from its IT infrastructure supplier, Hewlett Packard, which led to a reduction in the Land Registry’s telecommunications costs.

#### 5 An example of the structure for contract management in central government

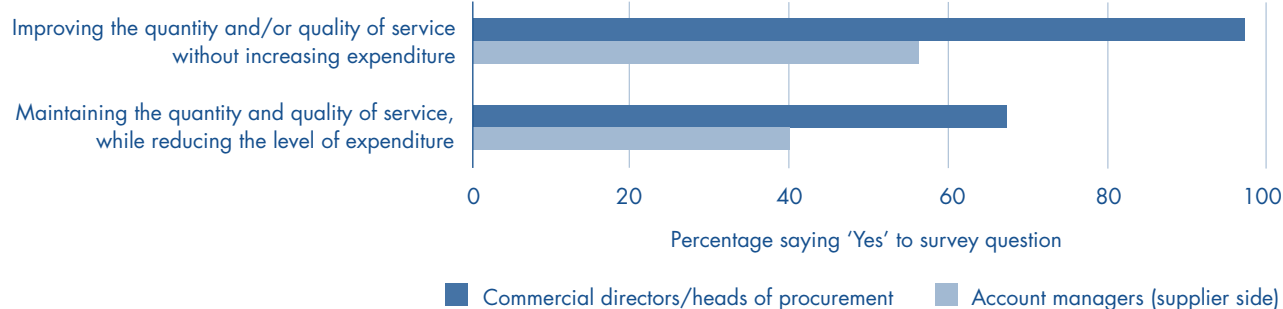


**1.13** To quantify the scope for reducing contract expenditure while maintaining the quantity and quality of the service provided, we asked central government commercial directors/heads of procurement to estimate the potential reduction in expenditure across their service contracts that might be achieved as a result of better contract management. The estimates ranged from less than one per cent to five per cent. Applying these percentages to each organisation's total expenditure on service

contracts in 2007-08 indicates that potentially between £160 million and £290 million a year could be saved as a result of better contract management (see Appendix 1 for details of the calculation of the potential efficiency savings). As well as financial savings, better contract management could bring improvements in the quantity and/or quality of services, the avoidance of service failure, and better management of risk.

## 6 Views on whether value for money could be improved through better contract management

Do you think that better contract management could improve value for money by:



Source: National Audit Office commercial director/head of procurement survey and supplier survey

# PART TWO

## The management of service contracts by central government

**2.1** This part of the report evaluates the management of service contracts by central government organisations. Our assessment was based on the good practice framework for contract management that we developed at the outset of our work. The framework is divided into

four sections, comprising 11 areas that organisations should consider when planning and delivering contract management (**Figure 7**). Key elements of good practice in each area are highlighted in bold text throughout this part of the report.

### 7 Overview of the good practice contract management framework

#### Structure and resources

- |                           |   |
|---------------------------|---|
| 1 Planning and governance | Preparing for contract management and providing oversight.                              |
| 2 People                  | Ensuring the right people are in place to carry out the contract management activities. |
| 3 Administration          | Managing the physical contract and the timetable for making key decisions.              |

#### Delivery

- |                          |   |
|--------------------------|---|
| 4 Managing relationships | Developing strong internal and external relationships that facilitate delivery.   |
| 5 Managing performance   | Ensuring the service is provided in line with the contract.   |
| 6 Payment and incentives | Ensuring payments are made to the supplier in line with the contract and that appropriate incentive mechanisms are in place and well managed. |
| 7 Risk                   | Understanding and managing contractual and supplier risk, including risks relating to personal data.  |

#### Development

- |                        |  |
|------------------------|--|
| 8 Contract development | Effective handling of changes to the contract. |
| 9 Supplier development | Improving supplier performance and capability. |

#### Strategy

- |                                     |  |
|-------------------------------------|--|
| 10 Supplier relationship management | Having a programme for managing and developing relationships with suppliers.               |
| 11 Market management                | Managing the wider market issues that impact on the contract, but lie beyond the supplier. |



**2.2** Our assessment drew in particular on evidence from the following.

- Three surveys – of 30 central government commercial directors/heads of procurement, 97 contract managers for the largest service contracts across central government, and 95 account managers on the supplier side for the same contracts. The surveys were conducted on our behalf by Ipsos MORI between 24 April and 4 July 2008. Further details can be found in paragraphs 10, 11 and 12 of Appendix 1.
- Assessments of how eight contracts selected from the survey population (**Figure 8**) were being managed. The results from the assessments are summarised in **Figure 9 overleaf**, which shows our ‘red/amber/green’ rating for each of the 11 contract management areas in our good practice framework.

## 8 The contracts we assessed

Customer – supplier and contract description	Expenditure in 2007-08 (excluding VAT) £ million	Start date	End date
Department for Work and Pensions – BT Provision of voice and data network services	198	Contract realigned in 2005	March 2011
Home Office – Fujitsu Services Provision of desktop, remote access and application infrastructure, and support and maintenance	80	February 2001	February 2011
Driving Standards Agency – Pearson Provision of driving theory testing services	33	October 2003	September 2011
Ministry of Justice – MITIE Provision of building security for HM Courts Service’s courts estate	29	April 2007	April 2011
Land Registry – Hewlett Packard Provision of distributed IT infrastructure (desktops, servers, networks, peripherals)	24	July 1999	July 2009
Foreign and Commonwealth Office – Hogg Robinson Group Provision of travel services	23	December 2007	December 2012
Cabinet Office – Ecovert Provision of facilities management services to the Cabinet Office estate	13	April 2003	March 2009
Health Protection Agency – Johnson Control Systems Provision of engineering maintenance services to the Porton Down site	5	April 2002	March 2010

## 9 Results of our assessment of the management of eight contracts

	Structure and resources			Delivery			
	1 Planning and governance	2 People	3 Administration	4 Managing relationships	5 Managing performance	6 Payment and incentives	7 Risk
Department for Work and Pensions – BT							
Home Office – Fujitsu Services							
Driving Standards Agency – Pearson							
Ministry of Justice – MITIE							
Land Registry – Hewlett Packard							
Foreign and Commonwealth Office – Hogg Robinson Group							
Cabinet Office – Ecovert							
Health Protection Agency – Johnson Control Systems							

- No real evidence of good practice and more than one significant area of concern requiring major improvement.
- Limited evidence of good practice, and a number of areas that require improvement, including one significant area of concern.
- Some evidence of good practice, but with room for improvement in a number of areas.
- Good practice generally, with some room for improvement in relatively minor areas.
- Exemplar performance – very good practice with only minimal room for improvement and areas of ‘best in class’ performance.

### NOTE

Contracts are shown in order of annual contract expenditure.

Development		Strategy	
8 Contract development	9 Supplier development	10 Supplier relationship management	11 Market management

## Structure and resources

### Area 1: Planning and governance

**There should be senior executive support and oversight of contract management, and a plan for the management of each individual contract, to ensure a focus across the organisation on delivering value for money from service contracts.**

**2.3** In total 83 per cent of central government commercial directors/heads of procurement considered that their Permanent Secretary/Chief Executive had a good or adequate understanding of the importance of effective contract management (Figure 10). The picture for organisations’ Boards was slightly less favourable, with the understanding of seven per cent rated as poor. For individual contracts, the extent to which senior managers are involved will depend on the value and risk associated with the contract. Our contract assessments highlighted examples of excellent senior level engagement. For example, at the Department for Work and Pensions, the Permanent Secretary is actively involved in the management of the contract with BT and sits on the Strategic Partnership Development Board which meets every six months.

**2.4** Below Board level, less than half of organisations (43 per cent) had an individual with overall responsibility for contract management across the organisation, in effect a head of profession. At the level of individual contracts, our surveys showed that 96 per cent of contracts had a ‘Senior Responsible Owner’, though this was not the case for two of the eight contracts we assessed, those at the

Ministry of Justice and the Foreign and Commonwealth Office. The Ministry of Justice had had a Senior Responsible Owner for its contract with MITIE during the tendering exercise, but this role ended once the contract was awarded.

**2.5** There was no documented plan for managing 28 per cent of contracts, and where plans did exist, supplier input was limited. Seventy-three per cent of suppliers were either not aware of the plan or were aware but had not seen the plan, and only 13 per cent had provided input into the plan. Inadequate contract management plans were a recurring theme in our assessments, with four of the eight contracts either having no documented plan or having elements of a plan across a number of documents but not drawn together into an overall plan.

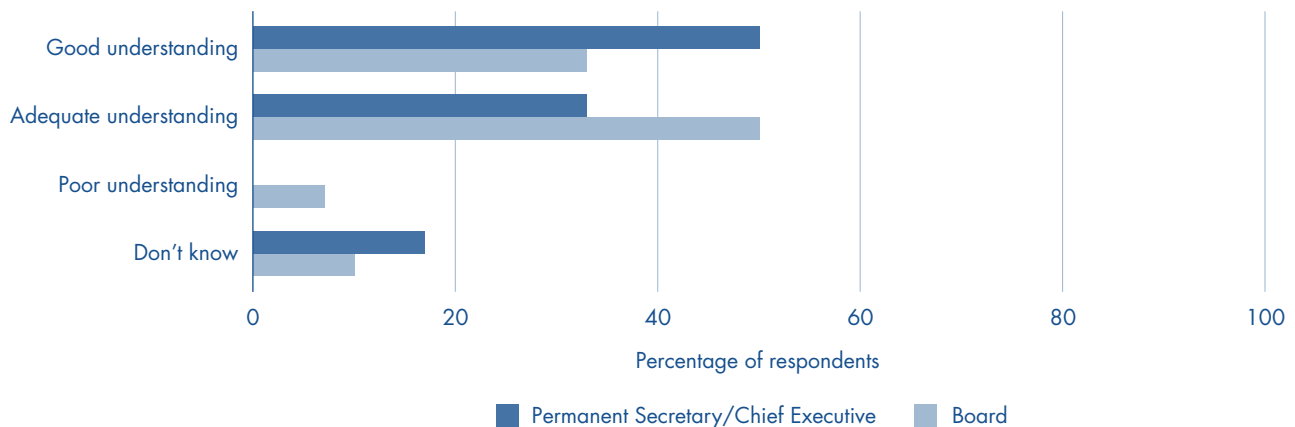
### Area 2: People

**Effective contract management requires sufficient people with the right experience and skills, who have access to appropriate training and ideally are part of a contract manager community within their organisation to support the sharing of good practice.**

**2.6** Our survey of contract managers found that in 2007-08 on average the equivalent of two per cent of annual contract expenditure was spent on managing the contracts. Applying this average to total contract expenditure indicates that the organisations we examined spent an estimated £240 million in 2007-08 on managing their service contracts.

**10** The understanding of the importance of effective contract management at the top of organisations

Please rate your Permanent Secretary’s/Chief Executive’s and Board’s understanding of the importance of effective contract management



Source: National Audit Office commercial director/head of procurement survey

**2.7** No commercial director/head of procurement rated the level of resources allocated to the management of their major service contracts as good, 67 per cent rated the level of resources as adequate, and 27 per cent as poor. In addition, 22 per cent of the contract managers surveyed considered that they did not have enough time to perform their contract management responsibilities well, including 21 per cent of those managing higher value contracts, worth over £20 million a year.

**2.8** Resources were stretched on a number of the contracts we assessed, potentially resulting in opportunities for value for money improvements being missed and contract risks not being managed effectively. For example, the contract manager for the Ministry of Justice's contract with MITIE for court security was heavily loaded in that he also managed two other contracts for the provision of cleaning and catering services at courts, although the contract with MITIE was by far the largest of the three. The contract manager was supported by procurement specialists in each HM Courts Service region and various contract management initiatives were underway, including an efficiency review. The contract manager and the supplier nevertheless raised concerns with us about the contract manager's workload, which may have helped to explain why he was unaware of significant regional variations in the quality of performance information on the number of prohibited items being seized in court buildings.

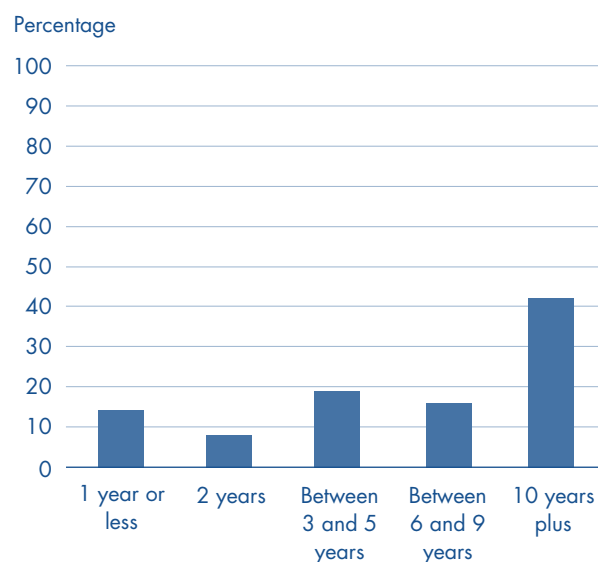
**2.9** There were also cases where the under-resourcing of contract management activities had been addressed. The Home Office, for example, allocated substantial additional resources to managing its contract with Fujitsu Services after recognising that driving further value from the contract would require more active management.

**2.10** We made the following findings on the experience and skills of contract managers.

- Seventy-seven per cent of contract managers had three or more years experience of managing contracts with annual expenditure of over £500,000, with just 14 per cent having one year's experience or less (**Figure 11**).

## 11 The experience (number of years managing major contracts) of contract managers

How much experience do you have managing contracts with an annual expenditure of over £500,000 a year?



Source: National Audit Office contract manager survey

- Most contract managers had no formal commercial qualification. For example, 70 per cent held neither the Chartered Institute of Purchasing and Supply Graduate Diploma, the core graduate procurement qualification, nor the Government Procurement Service Certificate of Competence. The low numbers are likely to reflect the fact that many contract managers do not have a procurement or commercial background and sit outside their organisation's procurement function. At the time of our work, the Office of Government Commerce was initiating a project to update the content of the Certificate of Competence qualification, including expanding the content on contract management.
- Most contract managers had undertaken some relevant training. For example, 80 per cent had received general contract management training and 82 per cent training in negotiation skills. There was, however, a lack of structured training programmes and of established contract management 'communities' where contract managers could meet to discuss issues and share good practice. Sixty per cent of the organisations surveyed did not provide a structured training programme, and 57 per cent had not established a contract management community. **Case example 1 overleaf** provides details of Lloyds TSB's structured staff training programme.

## CASE EXAMPLE 1

### Lloyds TSB's structured staff training programme

*"We are seeing an increasing executive awareness and recognition that poor supplier relationship management can have serious risk and cost implications for our business."*

– Caroline Booth, Procurement Director, Lloyds TSB

Over the last two years, Lloyds TSB has put significant effort into improving its contract and supplier relationship management. It has placed particular emphasis on raising awareness of the importance of supplier management, on building a supplier management community to disseminate best practice, and on ensuring that staff have the skills and capability to deliver the desired results.

In March 2008 Lloyds TSB launched a 'Supplier Management Academy' to develop the knowledge and skills of its staff. The Academy is available to all staff within the organisation but is targeted at those who manage relationships with the top 50 suppliers. In due course 180 staff are expected to undertake the Academy's training programme.

Training is delivered via a mix of face to face courses and on-line modules, covering areas such as influencing skills, negotiation skills and conflict resolution. The induction programme, a one day workshop, is seen as a key part of the training programme and is compulsory for new relationship managers. After induction, staff agree with their manager which further modules they should complete. In addition, Lloyds TSB's Group Procurement team follow up the induction programme with monthly calls to relationship managers to identify issues and offer support.

Source: Lloyds TSB

## Area 3: Administration

**Processes for managing the physical contract documentation and to identify when key decision/trigger points (for example, notice periods) should be in place to underpin all other contract management activities.**

**2.11** Basic contract administration is an area of strong performance. While 80 per cent of organisations managed their contract documentation centrally, 92 per cent of contract managers were able to access the documentation within one day, most within one hour. In addition, 88 per cent of contract managers had a formal mechanism – such as a spreadsheet highlighting key dates – for identifying decision/trigger points, for example when work needs to start on re-competing the contract in advance of the expiry date.

## Delivery

### Area 4: Managing relationships

**Strong internal and external relationships are essential if service contracts are to be managed effectively. A constructive relationship with the supplier, built on trust and mutual respect, can, for example, help to overcome problems through joint working.**

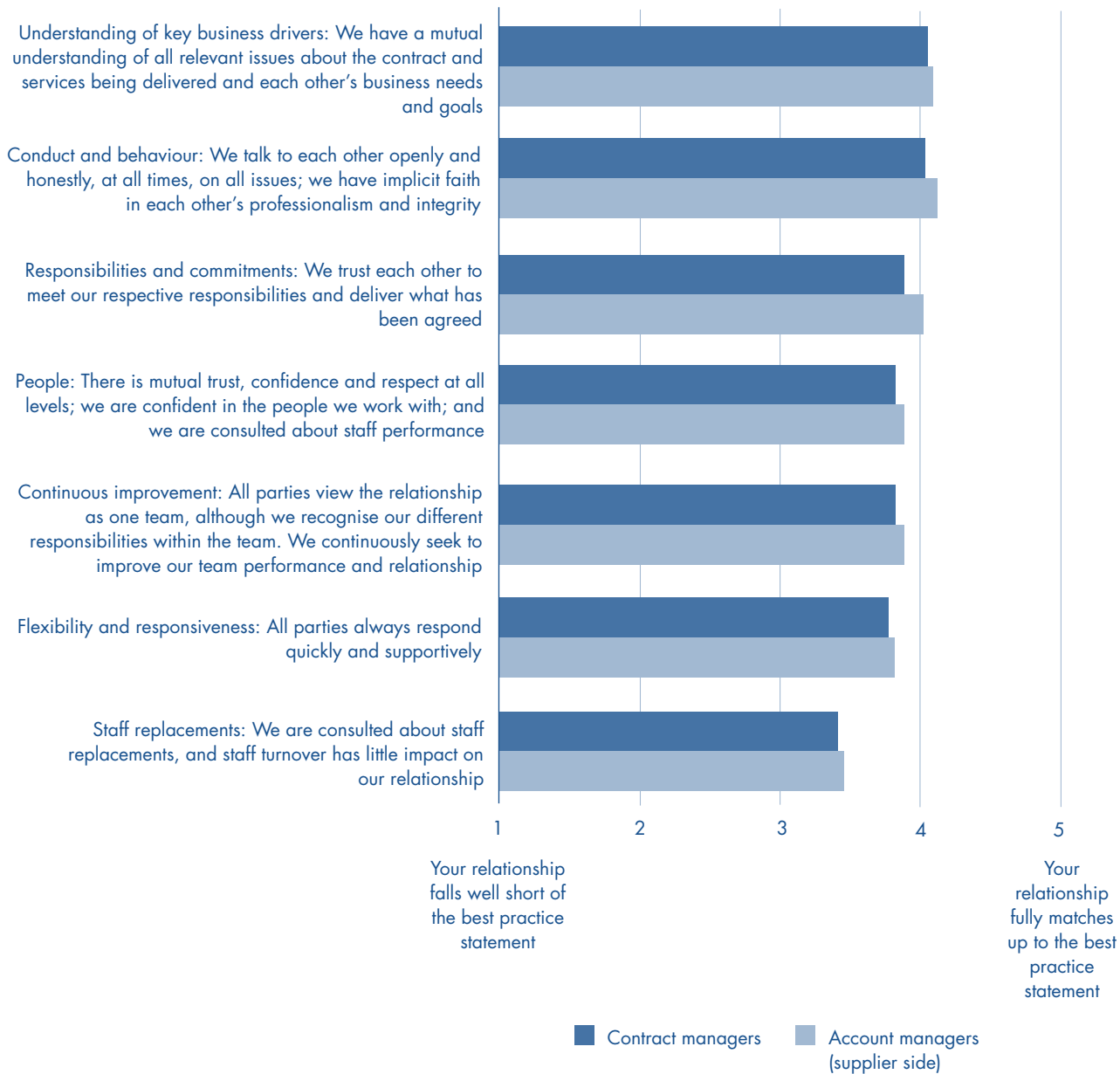
**2.12** Both the contract managers and suppliers surveyed were positive about their working relationships, on average scoring their relationship between 3.4 and 4.2 out of 5 against seven good practice relationship statements (**Figure 12**). They identified a number of ways in which relationships might be improved including:

- having more clearly defined contract management roles and responsibilities within the customer organisation;
- outlining explicitly in a document the expected behaviours of both customer and supplier throughout the duration of the contract; and
- more training to improve the interpersonal skills of contract managers.

**2.13** Customer/supplier relations were also good on the contracts we assessed, though in some cases the relationship was still improving from a relatively low starting point. One example of a strong relationship was between the Land Registry and its IT supplier, Hewlett Packard, and a number of factors had contributed to this position.

- Key contract management staff from the Land Registry and supplier account management staff from Hewlett Packard were co-located on the same floor in the Land Registry's building.
- There was frequent communication both on an informal day-to-day basis and through more formal meetings and boards.
- Each party was clear about the roles and responsibilities of the other, and there was a 'Partnership Charter' outlining the behaviour expected of each party for the duration of the contract.
- Both the Land Registry's contract manager and Hewlett Packard's account manager stated that there was genuine trust and respect on both sides and a 'no blame' culture.

## 12 The strength of the customer/supplier relationship



Source: National Audit Office contract manager survey and supplier survey

## Area 5: Managing performance

**Having performance measures (service level agreements/key performance indicators) that are aligned to the business requirements of the organisation, and which are updated regularly, is essential for managing supplier performance. It is also important to provide regular feedback to suppliers on their performance and for organisations to ask suppliers for regular feedback on their performance as customers.**

**2.14** Seventy per cent of contract managers considered that it was very or quite easy to manage the performance of their supplier. Of the 30 per cent who considered it was either quite or very difficult to manage performance, the main reason given was inadequate service level agreements and key performance indicators. From the perspective of suppliers, while 77 per cent of account managers thought they received “about the right” level of feedback on their performance, 28 per cent thought that the key performance indicators in the contract did not allow the customer to judge their performance accurately.

**Case example 2** provides details of the performance measurement regime BP has in place for its advertising and marketing contract.

### CASE EXAMPLE 2

#### **BP’s performance measurement regime for its contract with Oglivy and Mather**

*“You can’t expect to have a successful strategic supplier relationship if the basics of contract and performance management are not firmly in place.” – Ken Cronshaw, BP Procurement Centre of Excellence*

Since 1999 BP has contracted with Oglivy and Mather (part of the WPP Group) to provide advertising and marketing services. Measuring supplier performance is difficult in such areas where the services provided are relatively intangible, but BP has developed a strong performance measurement regime, which has helped to drive improvement, by:

- focusing on the needs of the business and measuring ‘what it is that the business wants from the supplier’;
- developing a set of 10 key performance measures, covering areas such as strategic understanding, financial accountability and timeliness of service delivery;
- regularly reviewing the key performance measures to make sure they remain up-to-date and relevant to the business; and
- conducting quarterly in-house surveys to collect customer feedback on Oglivy and Mather’s performance, and sharing the feedback with Oglivy and Mather at regular local level meetings.

Source: BP

**2.15** On the contracts we assessed, there was regular collection of performance information and discussion of performance with suppliers. An exception was the Foreign and Commonwealth Office’s travel services contract with Hogg Robinson Group, which contains no formal performance metrics (service level agreements/key performance indicators) and there was therefore no formal way of measuring supplier performance.

**2.16** A more general weakness was the frequency with which performance measures were updated to keep them aligned with an organisation’s business requirements, and there were a number of instances where key indicators had not kept pace with changing requirements. For example, there have been significant changes to the requirements for the Home Office’s contract with Fujitsu Services since it was signed in 2001, including the incorporation of new policy initiatives such as the ‘points based’ migration management system. The Home Office has made some revisions to the service level agreements and key performance indicators to reflect the changing requirements, although at the time of our work there remained scope for further improvements and the Home Office was in the process of reviewing the key performance indicators as part of a wider review of the contract.

**2.17** Performance specifications should also be reviewed on a regular basis as making minor changes can lead to cost savings. For example, the Home Office is considering whether to increase the response time for the telephone helpdesk from 20 to 30 seconds. This could save up to £90,000 a year by reducing the number of staff required.

**2.18** Our surveys also covered the extent to which central government organisations sought feedback from suppliers about their own performance as a customer. Seventy-four per cent of suppliers were either only occasionally or never asked for feedback about the performance of their customer, a finding confirmed by the contract managers surveyed.

## Area 6: Payment and incentives

**Good contract management should include financial incentives to encourage suppliers to improve performance beyond the terms of the contract, if this provides real benefits to the customer organisation. Incentives can also be designed to stimulate supplier innovation which can result in improved service levels or cost reductions.**



**2.19** Central government makes limited use of financial incentives to improve supplier performance. Fifty-three per cent of contracts used financial incentives, 35 per cent had no provision for financial incentives, and 10 per cent had provision for financial incentives but they were not being used. In addition, 38 per cent of contract managers whose contract allowed for service credit deductions (deductions in payments for under-performance against agreed service levels) did not always invoke the deductions even when the contract entitled them to do so. Concerns that invoking service credits would damage the organisation's relationship with the supplier or would not improve supplier performance were cited by contract managers as reasons for not invoking service credits. Where financial incentives were being used, however, 80 per cent of suppliers thought that the incentives were either reasonably or very well aligned with the contract objectives and did encourage them to perform.

**2.20** While most of the contracts we assessed had arrangements for payment deductions in the event of under-performance, few had positive incentives whereby the supplier would be rewarded for better than expected performance where it provided real benefits to the customer, or for cost saving initiatives. The payment

deductions for under-performance can also be very small. For example, on the Land Registry's contract with Hewlett Packard, a half day's 'downtime' when IT systems were unavailable at the Land Registry's Plymouth office triggered a payment deduction of £440.

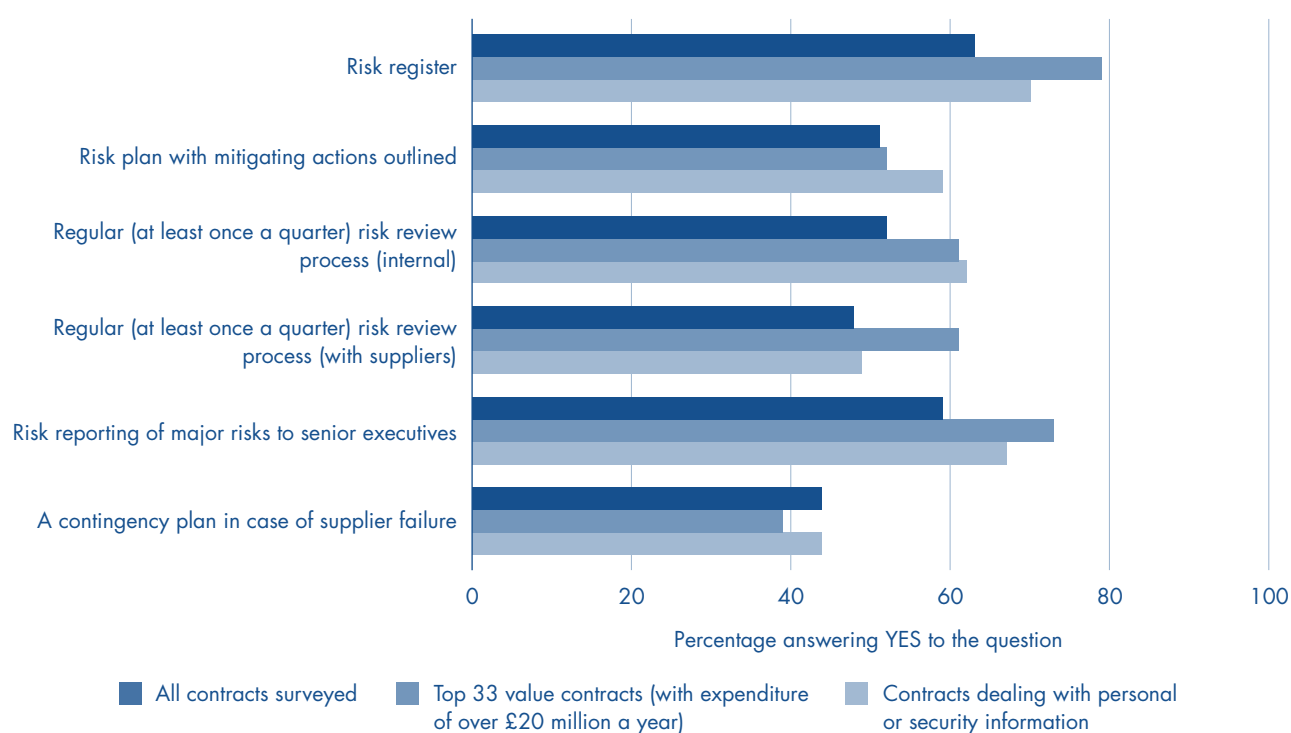
## Area 7: Risk

**Many service contracts are critical to the delivery of the organisation's business objectives, carry significant risk if the supplier fails, and involve the handling of personal or security information. It is important that contract and supplier risks are clearly identified and managed.**

**2.21** Despite the critical nature of the contracts in our survey (see paragraph 1.5), a considerable number did not have in place some or all elements of good practice risk management (**Figure 13**). Higher value contracts (the 33 contracts with expenditure of over £20 million a year) and contracts where the supplier was dealing with personal or security information did, in the main, have better risk management processes than the sample as a whole. For higher value contracts, however, a higher proportion (61 per cent) did not have a contingency plan in case of supplier failure and 30 per cent of contracts dealing with personal or security information did not have a risk register.

### 13 Risk management processes in place across central government service contracts

Which of the following risk management processes do you have for the contract?



Source: National Audit Office contract manager survey

**2.22** There was a variety of risk management arrangements on the contracts we assessed, including examples of excellent processes. The Department for Work and Pensions, for example, has a network of risk registers for its contract with BT, with registers at the operational level feeding up to an IT strategic risk register for the Department as a whole. Any significant risks may also appear in the Department's overall strategic risk register, although none for the contract with BT is currently included. Each risk has a clearly defined owner and the risk registers also include planned mitigation and a summary of the actions taken. Risks are also regularly discussed with BT.

**2.23** In contrast, at the time of our work, the Driving Standards Agency did not have a specific risk register for its contract with Pearson, though contract risks were incorporated into a directorate risk register. Following the loss within Pearson's data centre of a computer hard disk drive, containing personal information about driving theory test applicants, the Agency is carrying out a review of contract management processes and a specific contract risk register is planned.

## Development

### Area 8: Contract development

**It is important that changes to the contract can be made easily to allow the contract to evolve to meet changing business requirements. The value for money of major changes to the contract and of ongoing existing services should be assessed regularly.**

**2.24** Seventy-six per cent of contract managers thought it was easy to make changes to the contract, though 32 per cent of suppliers considered the process was overly bureaucratic and time-consuming. Change processes were working effectively on the contracts we assessed, though in some cases arrangements could have been streamlined. For example, the manager of the Land Registry's contract with Hewlett Packard has no delegated financial authority with all additional expenditure requiring the approval of more senior members of staff, which has added to the time taken to make minor changes to the contract.

**2.25** The value for money of ongoing services and additions to the contract can be tested through price benchmarking, market testing and open book processes, although it is important that such testing is done in a constructive and collaborative way so as not to damage relationships. Price benchmarking compares the price charged or offered by the incumbent supplier against a 'market' price (or that potentially offered by other suppliers) for equivalent goods or services, without a full competitive tendering process. With market testing, the buying organisation offers a contract for goods and services to the market for competition with the incumbent supplier having to compete to win that particular element of business. Under 'open book' processes, the supplier allows the buying organisation access to internal accounts or other management information for the purposes of examining costs or profitability.

**2.26** We found that 25 per cent of the contract managers who were responsible for contracts signed before 2005 (i.e. they had been running for at least three years) had undertaken no value for money testing; and 41 per cent of contract managers had undertaken no value for money testing of new services purchased under the existing contract.

**2.27** Contract managers gave a number of reasons for not undertaking value for money testing, including that there was no provision for it in the contract, it would have been too expensive to carry out, and that the contract manager did not have the required knowledge. In addition, 13 per cent of commercial directors/heads of procurement stated that their organisation had no policy for testing the value for money of existing or new services and 10 per cent stated they did not know if there was such a policy.

**2.28** Our contract assessments highlighted the additional value that can be achieved through value for money testing. The Home Office, for example, saved £17 million a year on its IT contract with Fujitsu Services (around 20 per cent of the total annual contract expenditure) by benchmarking the service against market prices.

## Area 9: Supplier development

**For higher value and more critical contracts it is important to have a structured plan to improve the efficiency and effectiveness of the supplier's performance.**

**2.29** Fifty-three per cent of contract managers had a formal plan to improve the efficiency and effectiveness of their supplier's performance or how they work with their supplier. For higher value contracts worth over £20 million a year, 64 per cent had a formal plan for supplier development. Our contract assessments provided examples of joint working between organisations and suppliers, though most activity was uncoordinated and not part of an overall plan to drive supplier development. The Driving Standards Agency, for example, has worked effectively with its supplier Pearson to secure improvements, including holding joint workshops which resulted in the closure of call centres on Saturday when demand was very low, leading to cost reductions, and sharing knowledge about call centre management. The development activity is governed by a quarterly review meeting which focuses on strategic development matters rather than day-to-day operational issues, though there is no formal plan for supplier development.

## Strategy

### Area 10: Supplier relationship management

**A customer organisation's interfaces with its supplier base should be well managed. Organisations should categorise suppliers according to their importance to the organisation and there should be a clear programme for developing relationships with the most critical suppliers. Each relationship with a critical supplier should be 'owned' by a senior executive.**

**2.30** Less than half of organisations (40 per cent) had a formal supplier relationship management programme, despite what appear to be clear benefits, with 83 per cent of suppliers involved in a programme stating that it had helped to improve the relationship with their customer. Formal supplier relationship management programmes were in the early stages of development

in most of the organisations where we assessed contracts. The Department for Work and Pensions has a more advanced programme, led by the Department's Commercial Director and with a high level of Board involvement. The Department and BT have a joint relationship development plan and the relationship with BT is owned by the Department's Chief Information Officer. **Case example 3** provides details of CSC's supplier relationship management programme.

### CASE EXAMPLE 3

#### CSC's supplier relationship management

*"The success of this project was driven by both organisations' commitment and collaboration, ultimately delivering tangible benefits to both companies." – Lee Rimmer, CSC Supply Chain Director*

Since 2001 CSC has contracted with Alexander Mann Solutions, a human resources services company, to provide a managed service for sub-contractor provision. CSC has a structured approach to managing its suppliers, focusing significant attention on a small number of top suppliers. The relationship with Alexander Mann Solutions is one of CSC's 'top 12' contracts in Northern Europe and the relationship is governed through a structured review process.

- A monthly operational review is attended by the contract manager from CSC and the service manager from Alexander Mann Solutions and is based around performance reporting and monitoring of service levels.
- A quarterly review acts as a point of escalation, involving more senior CSC procurement staff, and considers more strategic issues.
- A biannual 'strategic supplier review' considers mutual opportunities and longer term issues; actions are identified and linked back to day-to-day contract management. Attendees include the CSC Human Resources 'executive sponsor' for the contract.

Working together in this way has helped CSC and Alexander Mann Solutions to improve the efficiency of processes such as engagement of new contractors, and users have enjoyed a service that provides greater flexibility, and improved organisational capability.

Source: CSC

## Area 11: Market management

Organisations should consider a wider set of issues outside the immediate contract, including ongoing market intelligence; timely consideration of options at the expiry of the contract and development of any re-competition strategy; and whether 'market making' activities are required.

**2.31** Our survey of commercial directors/heads of procurement found that less than half of organisations (43 per cent) had a policy which defined the issues to be considered as major service contracts approached their expiry date. A number of the contracts we assessed were nearing their expiry date and the organisations concerned had considered the options open to them, and key activities such as developing a re-competition strategy were in general being done in a timely manner. For example, given the strategic importance and complexity of the Home Office's contract with Fujitsu Services which will expire in February 2011, work began in mid-2008 to look at the options for the next contract. In contrast, the Health Protection Agency's contract with Johnson Control Systems expires in April 2010. At the time of our work in summer 2008 the Agency had only recently made a decision to take action on the re-competition strategy, including consideration of whether to continue with a contract to cover engineering maintenance at its Porton Down site or to look for a single contract to cover a number of sites, making the timetable look tight.

**2.32** An example of where more 'market making' activity could be warranted was the Driving Standard Agency's contract for driving theory testing services. This is a niche market with few potential suppliers able to provide the range of services required, and a priority for the Agency will be to consider how to ensure competition when the contract comes to be re-let either in 2011 or following the possible three-year extension period in 2014.

# PART THREE

## The effectiveness of the Office of Government Commerce in supporting central government to improve contract management

**3.1** Though responsibility for managing contracts rests with the individual organisations concerned, the Office of Government Commerce plays a role in supporting central government to improve contract management. This part of the report considers the effectiveness of the Office of Government Commerce in assessing central government's contract management capability and in promoting and supporting good contract management.

### Assessing contract management capability

**3.2** As part of the 'Transforming Government Procurement' initiative, launched in January 2007, the Office of Government Commerce is carrying out reviews to assess the procurement capability of 16 government departments. At August 2008, ten 'Procurement Capability Reviews' had been completed with the remaining due for completion by the end of 2008. A key theme emerging is that there is considerable scope for departments to improve their contract management, with in particular a shortfall in contract management skills and resources. **Figure 14** sets out key points from the Reviews, which are consistent with the findings arising from the work we carried out for this report.

### Promoting and supporting good contract management

**3.3** While it regards contract management as a key part of the procurement lifecycle, the Office of Government Commerce's focus has been largely on the earlier stages that lead to the award of a contract. As part of the Transforming Government Procurement strategy, however, it has been taking steps to boost its work on contract management.

**3.4** In 2008 the Office of Government Commerce is planning to publish *Building the Procurement Profession in Government – Government Procurement Service Reward Strategy*, which will set out its strategy to encourage professional development and career progression across the government procurement profession, recognising contract managers as a key part of the profession. In this way, the Office of Government Commerce is aiming to strengthen the commercial capability of contract managers. In addition to the strategy, there are four strands to the Office of Government Commerce's work in this area.

#### 14 Findings on contract management from the Procurement Capability Reviews

- In a number of departments there was a lack of strong contract management resource and capability to drive value for money once contracts have been let.
- Contract management was not viewed as a core discipline by some of the central commercial/procurement functions with a lack of governance and support provided to contract managers.
- There were examples of lack of clarity in contract management roles and responsibilities.
- There were weaknesses in communications with suppliers and in problem resolution processes.
- A number of departments lacked a structured supplier relationship management programme to drive performance improvements.

Source: Summary of the Office of Government Commerce's Procurement Capability Reviews

### (a) Providing policy and guidance on contract management

**3.5** The Office of Government Commerce provides some guidance on contract management on its website, though it is currently pitched at a fairly high level. The key document, *Principles for service contracts – contract management guidelines*, was published in 2002. As part of a drive to enhance all the guidance it offers, the Office of Government Commerce is planning to improve its contract management guidance by the end of March 2009. In addition, at the time of our work the Office of Government Commerce was in the process of reorganising the material available on its website to make it easier to use.

### (b) Supporting the development of training on contract management

**3.6** The Office of Government Commerce supports the ongoing development of training by working with providers, such as the National School of Government, the Chartered Institute of Purchasing and Supply and private sector firms. It seeks to influence providers to deliver learning and development activities that meet the needs of central government. It has also developed an online 'Skills Development Directory', which allows central government organisations to post details of training courses they have developed or purchased that can be shared across government, including potentially in the area of contract management.

**3.7** The Transforming Government Procurement strategy highlighted the importance of raising procurement skills across government, and in October 2007 the Office of Government Commerce published a learning and development strategy for the Government Procurement Service. The research which informed the strategy had confirmed the provision of specialist contract management training as a priority area, and the Office of Government Commerce has set aside resources to fund the design and development of contract management training, where a gap in provision has been identified or where the available provision is not considered to meet the needs of central government. Funding will be provided on a short-term basis only and the intention is that commercial providers will take forward the training that is developed on an ongoing basis. The Office of Government Commerce's aim is for pilot training to be completed by March 2009 and for a training programme to be rolled out in full from April 2009.

**3.8** To date most of the Office of Government Commerce's training activity has been led by the Government Procurement Service, the group representing government procurement specialists. The focus on Government Procurement Service members has, however, made it difficult to connect with contract managers who do not have procurement backgrounds and are, therefore, not members of the Government Procurement Service. The learning and development strategy for the Government Procurement Service identified the importance of connecting with contract managers who do not have procurement backgrounds, and encouraged central government organisations to ensure that the learning and development needs of this group are catered for.

### (c) Developing a cross-government contract management community

**3.9** Historically, there has been no established contract management community across central government through which practitioners can discuss issues and share good practice. The Office of Government Commerce has, however, been planning for some time to set up a 'Contract Management Special Interest Group' and at the time of our work was in the process of getting the group established.

### (d) Monitoring and managing key suppliers to government

**3.10** The Office of Government Commerce is working to assist central government in managing major suppliers and to increase collaboration and intelligence sharing. In particular, it has established five 'category management teams' – covering energy, fleet, professional services, office solutions, and information and communications technology equipment – who are responsible for increasing collaboration through, for example, the use of framework agreements and for assisting in the management of major suppliers in the sector concerned.

**3.11** The most progress to date has been made in the category of information and communications technology equipment, for which the Office of Government Commerce has made arrangements to monitor the performance of suppliers on major government contracts.

- Each supplier has been assigned a ‘supplier relationship manager’ from the Office of Government Commerce together with a ‘senior relationship owner’ from a government department.
- Every six months the Office of Government Commerce circulates a performance assessment form (the ‘Common Assessment Framework’) to central government organisations that have significant contracts with these suppliers.
- The results of the assessments are disseminated to departmental Chief Information Officers to inform their management of suppliers. The information is also used to develop cross-government performance improvement plans for each supplier. Every six months a meeting is held with suppliers to discuss how performance can be improved.
- An assessment form is also sent to each of the suppliers to provide feedback on the performance of the government organisations it holds major contracts with, and the Office of Government Commerce is in the process of developing a performance improvement plan for government departments based on suppliers’ assessments.

**3.12** The four other categories referred to in paragraph 3.10 are less developed in terms of supplier management, and other significant areas of service contract expenditure (for example, facilities management) have no category management team in place. The Office of Government Commerce does, however, also provide central government with more general intelligence on suppliers, including six-monthly briefings on key suppliers with information on their financial health and performance. These written notes may be supplemented by oral briefings if requested.

## Central government’s views on the effectiveness of the Office of Government Commerce in improving contract management

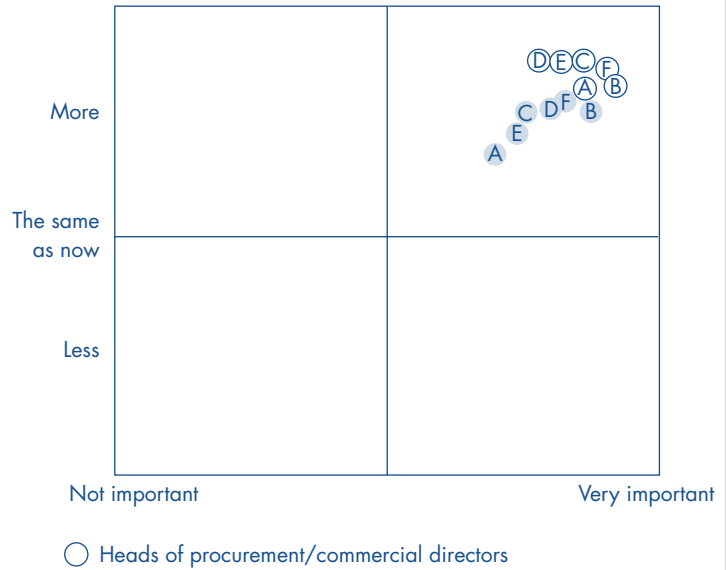
**3.13** Our surveys of central government staff confirmed that the Office of Government Commerce has an important role to play in improving contract management and that it could do more in all the areas outlined in paragraphs 3.5 to 3.12. Seventy per cent of commercial directors/heads of procurement and 57 per cent of contract managers thought that the Office of Government Commerce should provide more guidance on good practice contract management. For both groups of staff, for example, the provision of more guidance (circles ‘B’ in **Figure 15 overleaf**) was regarded as the most important way in which the Office of Government Commerce might improve contract management across government.

**3.14** Eighty-seven per cent of commercial directors/heads of procurement and 58 per cent of contract managers considered that the Office of Government Commerce should provide more training in contract management. Similarly, a clear message from the workshop we held with government departments to test our good practice framework was that it would be useful were there to be a structured training programme on contract management. In addition, the people we interviewed confirmed that it can be difficult to identify appropriate training in areas such as supplier relationship management.

**15** How the Office of Government Commerce can improve contract management across government

**Should the Office of Government Commerce provide more?**

- A Contract management policy
- B Guidance on good practice contract management
- C Practical training courses on contract management
- D Development of the contract management community across government
- E Co-ordination of the management of major suppliers to government
- F Information on the performance of major suppliers to government



Source: National Audit Office contract manager survey and commercial director/head of procurement survey

**NOTE**

Responses averaged across 97 contract managers and 30 commercial directors/heads of procurement.



# APPENDIX ONE

## Study methods

- 1** This report examines central government's management of service contracts. Our work focused on two main areas:
  - how well central government organisations are managing their service contracts, assessed against the good practice framework for contract management, which we developed as part of our work; and
  - the effectiveness of the Office of Government Commerce in supporting central government organisations to improve contract management.
  
- 2** We employed two experienced procurement professionals to assist with our work. Our lead consultant for the study was Peter Smith from Procurement Excellence and a former President of the Chartered Institute of Purchasing and Supply. He was supported by Alison Curtis, who is a member of the Chartered Institute of Purchasing and Supply and has procurement experience in a number of government departments. We drew on their expertise and experience throughout our study fieldwork, in particular in developing the good practice framework and in carrying out the assessments of individual contracts.
  
- 3** Within the National Audit Office, we drew on the expertise of our Project Delivery Practice Network and the 'gold standard for a successful contract', set out in our report on *Ministry of Defence: Using the Contract to maximise the likelihood of successful project outcomes* (HC 1047, Session 2005-06). We also drew on reports we have published previously on PFI projects, in particular *Making Changes in Operational PFI Projects* (HC 205, Session 2007-08) and *Benchmarking and market testing the ongoing services component of PFI projects* (HC 453, Session 2006-07).

### Development of a good practice framework for contract management

- 4** At the outset of our work, we developed a good practice framework for contract management, which we used to inform the design of our survey questionnaires and the audit programmes we used in assessing individual contracts. The framework was developed initially by our consultants who undertook a literature review and drew on previous work undertaken for the Office of Government Commerce in this area.
  
- 5** The framework is set out in a volume published alongside this report and available on the National Audit Office's website, [www.nao.org.uk](http://www.nao.org.uk). The framework covers 11 areas of contract management (summarised in Figure 7 of this report) and outlines the key activities that should be carried out

under each area. It also provides guidance to help organisations judge the risk and value opportunity associated with individual contracts and determine the appropriate approach to managing any particular contract.

## Workshops to test and refine the good practice framework

**6** Following the initial development of the good practice framework, we tested it at four workshops with representatives from government departments and other public bodies, specialist procurement organisations, IT suppliers, and facilities management suppliers. The workshop for IT suppliers was hosted by Intellect (the trade association for the UK technology industry) and the workshop for facilities management suppliers was co-hosted with the Confederation of British Industry.

**7** We refined the good practice framework in the light of feedback from the workshops. We then had further discussions with the Office of Government Commerce, the Chartered Institute of Purchasing and Supply and Partnerships UK to finalise the framework.

### The organisations that attended our workshops

Government departments and other public bodies	Specialist procurement organisations	IT suppliers	Facilities management suppliers
BBC	4Ps	BT Group plc	Carillion Private Finance
Department for Children, Schools and Families	Birmingham Business School	Fujitsu Services Ltd	Confederation of British Industry
Department for Environment, Food and Rural Affairs	Chartered Institute of Purchasing and Supply	Intellect	Eaga plc
Department for Transport	DLA Piper	Logica	Interservefm
Department for Work and Pensions	IDEA	Northgate Information Solutions UK Ltd	Pinnacle psg
Department of Health	International Association for Contract and Commercial Management	Oracle Corporation UK Ltd	Serco Integrated Services
HM Prison Service	Office of Government Commerce	Tata Consultancy Services	
HM Revenue & Customs	OGCbuying.solutions		
Home Office	Partnerships UK		
National Policing Improvement Agency	PricewaterhouseCoopers		
Ordnance Survey	South East Centre of Excellence		

## Compilation of a database of service contracts across central government

**8** Before carrying out our surveys, we compiled a database of key service contracts across central government. We contacted the Finance Director of 46 central government organisations requesting, for their five largest service contracts in terms of value, details of the contract manager and the account manager on the supplier side. We also requested details of the individual who would respond for the organisation on behalf of the central commercial/procurement function. The 46 organisations included all government departments, together with a number of executive agencies and non-departmental public bodies with significant procurement spending. This process was administered on our behalf by Ipsos MORI.

**9** The database we compiled comprised details of 185 service contracts held by 39 central government organisations. We analysed the database to establish a survey population by excluding contracts with annual expenditure of under £500,000. In addition, we decided that where an individual managed more than one contract a questionnaire would be sent with reference only to the largest contract he/she managed, with all other contracts excluded from the survey population. Similarly, only one survey would be sent to account managers on the supplier side. Following this analysis, we established a survey population comprising 104 contracts across 35 organisations.

## Survey of commercial directors/heads of procurement

**10** We surveyed the commercial directors/heads of procurement (or the individual nominated to respond on behalf of the central commercial/procurement function) of 35 central government organisations. We compiled the sample and the online survey was administered on our behalf by Ipsos MORI between 24 April and 4 July 2008. Responses were received from 30 organisations, a response rate of 86 per cent. The survey covered the following areas:

- overview of procurement and service contract expenditure, and the value for money obtained from service contracts;
- governance, administration and contract management resources;
- the mechanisms used to manage service delivery;
- contract, supplier and market development; and
- the role of the Office of Government Commerce.

### Survey of commercial directors/heads of procurement: the organisations which responded

Type of organisation	Respondents	
	Number	Percentage
Government department/non-ministerial government department	13	43
Executive agency	8	27
Non-departmental public body	8	27
Other	1	3
<b>Total</b>	<b>30</b>	<b>100</b>

## Survey of contract managers

**11** We surveyed the contract managers for 104 service contracts. We compiled the sample and the online survey was administered on our behalf by Ipsos MORI between 24 April and 4 July 2008. Responses were received from 97 contract managers, a response rate of 93 per cent. The survey covered the following areas:

- defining the contract type, contract expenditure and contract management resource;
- planning, governance and administration;
- the people involved in managing the contract;
- the mechanisms used to manage service delivery;
- contract, supplier and market development; and
- the role of the organisation's central commercial/procurement function and of the Office of Government Commerce.

### Survey of contract managers: the organisations which responded

Type of organisation	Respondents	
	Number	Percentage
Government department/non-ministerial government department	43	44
Executive agency	24	25
Non-departmental public body	21	22
Other	9	9
<b>Total</b>	<b>97</b>	<b>100</b>

## Survey of account managers on the supplier side

**12** We surveyed the account managers on the supplier side for the same 104 service contracts. We compiled the sample and the online survey was administered on our behalf by Ipsos MORI between 24 April and 4 July 2008. Responses were received from 95 account managers, a response rate of 91 per cent. The survey covered the following areas:

- contract management/account management resources;
- planning, governance and administration;
- the people involved in managing the contract;
- the mechanisms used to manage service delivery; and
- contract and supplier development.

## Detailed assessment of eight individual service contracts

**13** We selected eight contracts from the survey population to assess in more detail. The contracts were chosen to provide a spread across departments and other central government organisations (executive agencies and non-departmental public bodies), and across information and communications technology, facilities management and business process services. Within this framework, the contracts were selected with no prior knowledge of how each contract was being managed. Figure 8 of this report provides details of the eight contracts.

<b>The contracts we examined</b>				
Type of organisation	Information and communications technology	Facilities management services	Business process services	Total
Government department	2	2	1	5
Other central government organisation	1	1	1	3
<b>Total</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>8</b>

**14** The assessment process involved interviews with five key individuals involved in managing each contract.

- From within the customer organisation:
  - the contract manager;
  - the senior responsible owner for the contract;
  - the commercial director/head of procurement for the organisation holding the contract; and
  - a senior end user representative.
- From within the supplier, the account manager for the contract.

Each interview lasted between one and two hours with a structured set of questions based on our good practice framework. In addition, we asked each organisation to provide a set of supporting information in advance of the interviews.

#### **The information we requested as part of the individual contract assessments**

- Key contract documentation – summary of the contract containing key contract terms and conditions, description of service, payment mechanisms, service level agreements and key performance indicators
- Contract management plan
- Contract manager’s job description, objectives and training plan
- Contract manager’s delegated authority
- Examples of management information reporting related to the contract and its performance
- Document outlining expected customer/supplier behaviours
- Results of end user satisfaction surveys
- Service performance reports/reviews
- Example of performance feedback to supplier
- Description of incentive mechanisms
- Contract risk register
- Contract risk plan with mitigating actions
- Risk reporting to the Board
- Contingency planning documentation
- Benchmarking/market testing results
- Supplier development/relationship management strategy

**15** Based on the evidence from our interviews and the supporting information provided, we awarded a ‘red-red/amber-amber-amber/green-green’ rating to each contract for each of the 11 areas of the good practice framework. Figure 9 of this report describes the meaning of each of the different ratings. The ratings provide a snapshot of how these contracts are being managed and the individual assessments also provide qualitative evidence about contract management processes and examples of good practice. To ensure consistency of ratings across the eight contracts and across the 11 areas, we held a moderation session at the end of the assessment process.

## Interviews at the Office of Government Commerce

**16** We held interviews at the Office of Government Commerce to examine how it is supporting central government organisations to improve contract management. Interviews were conducted with key individuals involved in the following areas of the Office of Government Commerce’s work:

- the Government Procurement Service;
- the Procurement Capability Reviews;
- markets and collaboration; and
- procurement policy and guidance.

**17** In addition, we reviewed the published Procurement Capability Review reports and extracted the key messages relating to contract management.

## Private sector case studies

**18** We selected five private sector case studies to illustrate good practice in contract management. We selected the case studies to provide a broad range of good practice examples across the 11 areas outlined in the good practice framework. For each case study, we interviewed a key representative from the customer organisation. As four of the case studies (those involving BP, AXA, CSC, and Legal and General) had previously been nominated for the Chartered Institute of Purchasing and Supply/Supply Management Magazine awards under the ‘Best Purchaser-Supplier Collaboration’ category, we also reviewed the submissions made by the organisations in support of their application. The case studies are available on the National Audit Office’s website, [www.nao.org.uk](http://www.nao.org.uk).

### Our private sector case studies

- **Lloyds TSB** – Lloyds TSB is one of the UK’s largest financial services companies.
- **BP’s contract with Oglivy and Mather** – BP is one of the world’s largest energy companies; Oglivy and Mather is a major global advertising and marketing agency.
- **AXA UK’s contract with Williams Lea** – AXA is one of the largest financial services companies in the world; Williams Lea is a global business process outsourcing company specialising in corporate information solutions.
- **CSC’s contract with Alexander Mann Solutions** – CSC is one of the world’s largest IT services companies; Alexander Mann Solutions is a human resources services company.
- **Legal and General Group’s contract with Adare** – Legal and General is one of the UK’s largest financial services companies; Adare is a marketing and customer communications solutions company.

## Calculation of the potential efficiency savings from better contract management

**19** Of the 20 (67 per cent of the total) commercial directors/heads of procurement who considered that reductions in contract expenditure were possible through better contract management, five per cent thought the potential percentage reduction was below one per cent, 15 per cent thought that the potential percentage reduction was between one and two per cent, and 55 per cent thought the potential percentage reduction was between three and five per cent. Twenty-five per cent considered that reductions were possible but that it was not possible to estimate the percentage.

**20** The percentage estimates (both high and low ends of the range) were applied for each organisation to the total service contract expenditure for 2007-08 provided by commercial directors/heads of procurement to give a low to high range of potential efficiency savings. For those who felt it was not possible to estimate, we applied a low estimate of zero per cent and a high estimate of five per cent.



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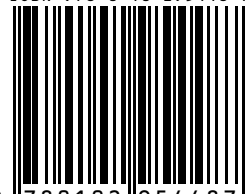
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