

For General Release

REPORT TO:	Cabinet – 15 December 2014
AGENDA ITEM:	11
SUBJECT:	Transformation Strategy: Contract Management Transformation
LEAD OFFICER:	<i>Sarah Ireland, Director Strategy, Commissioning, Procurement and Performance</i>
CABINET MEMBER:	<i>Cllr Simon Hall, Cabinet Member for Finance and Treasury</i>
WARDS:	All

CORPORATE PRIORITY/POLICY CONTEXT:

Contract Management Transformation is a key theme in the Croydon Challenge Programme that focusses on driving improved outcomes and ensuring value for money in our third party spend. Croydon Council spends just under £400 million per annum, or 40% of the entire revenue budget, with third party providers. The Council’s relationship with these providers and the performance of contracts is central to our ability to deliver good quality services which contribute to the delivery against the Council’s strategic objectives.

AMBITIOUS FOR CROYDON & WHY ARE WE DOING THIS:

The Administration’s manifesto sets out a series of policy commitments and strategic outcomes to improve the lives of Croydon’s local communities. For those services which are delivered through third parties, it is important that we develop a contract management framework that supports the Council’s commitment to achieving these objectives. The manifesto also sets out the Council’s ambition to further embed social value within our contracts and to develop a more diverse range of service delivery models. This potentially means the Council will have increasingly complex relationships with providers and an effective contract management framework will further support and enable this, ensuring a consistent and professional approach across all Council services whilst also delivering potential additional efficiencies which could contribute to the budget challenge over the next 3 years.

FINANCIAL IMPACT

The development of an effective contract management framework requires a rebalancing of resources by the Council in order to adopt a more outcome and commercially focussed approach. This will present the opportunity to deliver significant cost savings for the Council both through cashable efficiencies and cost avoidance. Evidence from other public sector bodies suggests contract management savings of at least 3-5% are to be expected from the roll-out of an effective framework (£7.4m - £18.5m across third party spend). Efficiencies totalling £2m have been committed as a result of this programme in the Council’s 15/16 budget.

KEY DECISION REFERENCE NO.: N/A

The Leader of the Council has delegated to the Cabinet the power to make the decisions set out in the recommendations below

1. RECOMMENDATIONS

The Cabinet is recommended to:

- 1.1 Endorse the proposed principles and approach to the Contract Management Transformation programme

2. EXECUTIVE SUMMARY

- 2.1 The coalition government that took office after the 2010 general election has followed a policy aimed at reducing the public sector deficit, principally through reductions in public expenditure. As a result Councils have had significant reductions in their funding from government grants and further reductions are expected over the medium term. At the same time the Council has faced increasing demand for some services due to demographic pressure (population growth due to natural increases and migration, particularly in older age groups and children) and the consequences of other government policies such as welfare reform.
- 2.2 The London Borough of Croydon is no different from other council. In order to balance its budget the Council has delivered over £100m in efficiency savings so far with a 31% reduction in government grant.
- 2.3 Despite this, further funding and grant reductions are expected from national government over the medium term with a funding gap of over £100m projected by 2017/18 (a quarter of the base budget). To address this funding gap the Council has initiated the Croydon Challenge programme to drive through the transformation of Council services. The programme will focus on making our council more efficient but critically more effective, through our focus on the right outcomes, and delivering services to the public that changes people's lives for the better. While we focus on managing this challenge, we will also be demanding the government take immediate action to deliver a Fair Funding Share for the People of Croydon.
- 2.4 Contract Management Transformation forms an important part of the Croydon Challenge transformational programme. The Transformation Programme acts to shape the structure of the Council in two clear ways. Firstly the programme itself has identified the changes required which will improve key outcomes and the service models/business models which will enable these outcomes to be achieved. These models influence the structure of the Council. Secondly the structure of the organisation needs to be re-modelled to successfully deliver the

'ideas' which have been created and thus ensure the structure of the Council is robust both in terms of the resource envelope available and key outcomes which have been prioritised.

3. DETAIL

Contract Management Transformation

Programme objectives:

- 3.1 Croydon spends over £400m with third party providers, with major elements of service provided by private sector organisations. As the Council develops more diverse service delivery models, and establishes relationships with a variety of providers (including the community), service outcomes will increasingly be delivered in partnership with third parties. Therefore it is important that the Council has in place a contract management framework that allows for transparent and accountable decision making based on evidenced impact.
- 3.2 The Council's approach to contract management is at times inconsistent and operationally focussed, not always optimising strategic commercial support. There has been minimal investment in contract management which can result in those responsible for managing contracts not always having the appropriate support, guidance or training. This can lead to opportunities identified through the procurement process not always being realised. The current fragmented approach does not optimise contract management expertise and encourages a service delivery model based on operational silos.
- 3.3 The Council's experience reflects the experience of many public sector organisations. Recent publications by the Local Government Association and the National Audit Office provide accounts of the consequences when contract management goes wrong and identify areas for improvement. The primary recommendation being the professionalisation and commercialisation of contract management approaches. There is significant evidence to suggest, through examples in Croydon Council and other Local Authorities, that a focus on commercial skills and contract management can deliver at a minimum 3%- 5% savings, improve outcomes for the council and the public it serves, improve supplier relationships and promote continuous improvement.

The proposed approach:

- 3.4 Contract management transformation is an important theme of the Croydon Challenge with the potential to make savings and improve outcomes for Croydon people. The programme will develop a new model for contract management designed to incorporate the best practice identified nationally. The key principles and approach of the programme are set out below:
- 3.5 Effective contract management takes place on four distinct levels:
 - **Strategic contract management** – ensuring strategic alignment with changing need and local priorities, leading commercial negotiations and developing the supply market.

- **Contract management** – ensuring effective controls are in place to manage total costs, contractual changes, benefits realisation and the relationship with the supplier.
- **Contract performance monitoring** – regular monitoring and validation of costs and performance.
- **Service management** – day-to-day operational management and customer and stakeholder engagement

3.6 The key principles underpinning an effective contract management framework are:

- **Commercial** - the Council understands the whole life cost of its contracts from its own and the supplier's perspective, its position in specific markets and, the maturity of the relationships with its suppliers.
- **Professional** – the Council has agreed definitions of contract management and those responsible understand their role and have the tools to do the job, work within an agreed framework, with professional standards.
- **Senior leadership** - are aware of contract performance and, play an active role in leveraging our market position and developing supplier relationships.
- **Proportionate** - one size does not fit all. The contract management framework can be flexed dependent on strategic importance, commercial value and levels of risk involved.
- **Outcome focussed** - contract management framework is aligned to our corporate priorities and is designed to measure impact on outcomes rather than processes.
- **Transparent and accountable** - contract management forms part of the wider performance management framework and we ensure that local communities are informed about contract performance.

3.7 The Council is in the process of developing detailed options for the future operating model and it is important in doing so that the different but complementary skill sets required to effectively manage a contractual relationships at all of the four levels identified in para 3.5 are recognised. The detail of the model will be developed during the next phase of the programme following extensive consultation with key stakeholders.

4. CONSULTATION

4.1 Meaningful consultation and engagement form an important part of the development of this programme. The detailed business case and implementation plan will include a comprehensive stakeholder map identifying those most likely to be impacted by the proposed changes. Stakeholders will be given the opportunity to influence, shape and comment on the detailed solutions before they are implemented. Key stakeholders identified so far include:

- Council contract managers
- Contract management support staff
- Executive Directors/Directors
- Commissioning and procurement staff
- Cabinet Members
- Key providers/suppliers
- Local business community
- Voluntary, Community and Social Enterprise representatives

5 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 5.1 The expected efficiencies from this programme stream is £2m across both contract management and specific contract renegotiation. Detailed work is being undertaken to identify where these efficiencies will come from within the Council.

(Approved by: Richard Simpson, Director of Finance and Assets and Section 151 Officer)

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

- 6.1 The Council Solicitor comments that the contents of this report do not require any specific legal advice but advice will be provided on a project by project basis as the programme evolves.

(Approved by: Julie Belvir the Council Solicitor & Director of Democratic & Legal Services)

7. HUMAN RESOURCES IMPACT

- 7.1 An important part of the next phase of the programme is to actively consult with key stakeholders to shape the options and final solutions. As such any HR implications will be identified during the detailed development of the proposals and will be managed in accordance to Council policy and employment legislation.

(Approved by: Hansa Bharadia, HR Business Partner on behalf of the Director of Human Resources)

8. EQUALITIES IMPACT

- 8.1 The Contract Management transformation programme sets out the Council's ambition to further embed equality and social value within our contracts to assist the Council in meeting a series of policy commitments and strategic outcomes to improve the lives of Croydon's diverse local communities.
- 8.2 An Equality Analysis of the programme will be undertaken on any options developed as a part of the delivery of the programmes set out in the report to

assess the actual or likely impact the project would have on groups that share a protected characteristic and those who do not. The equality analysis will also be used to ensure that meaningful consultation and engagement form an important part of the development of the programme.

9. ENVIRONMENTAL IMPACT

9.1 There are no environmental impacts identified as a part of the programmes set out in this report.

10. CRIME AND DISORDER REDUCTION IMPACT

10.1 There are no crime and disorder reduction impacts identified as a part of the programmes set out in this report.

11. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

11.1 Contract Management Transformation forms an important part of the Council's Croydon Challenge programme. The principles and approach set out in this paper are designed to ensure that we develop the most effective and efficient solutions that enable the Council to deliver the necessary budget efficiencies over the next 3-4 years.

12. OPTIONS CONSIDERED AND REJECTED

12.1 The development of options forms the next phase of the programme.

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BACKGROUND PAPERS - LOCAL GOVERNMENT ACT 1972: none