



City of Westminster

Meeting or Decision Maker:	Audit and Performance Committee
Date:	29 th November 2022
Classification:	The report is General Release however Appendix 1 and 2 will be declared exempt from publication as the business to be transacted involves the disclosure of information as prescribed by paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972, as amended, in that they contain information relating to information relating to the financial or business affairs of any particular person (including the authority).
Title:	Annual Contracts Review FY 2021/22
Wards Affected:	All
Policy Context:	The Council spends over £550 million each year on third party services and contracts. Procurement, commercial activities, and contract management are therefore key enablers in ensuring the delivery of maximum value for Westminster and its residents and partners
Cabinet Member:	Not required for Cabinet Member reports
Key Decision:	N/A
Financial Summary:	N/A
Report of:	Gerald Almeroth, Executive Director Finance & Resources

1. Executive Summary

- 1.1 This report is the Annual Contracts Review for 2021/22 for consideration by the Audit and Performance Committee, in accordance with their Terms of Reference. In September last year we reported on the performance of contracts and compared them to National Audit Office (NAO) best practice guidelines for the first time. This report was well received by the Committee. This year's report has a similar format supplemented with a deep-dive into how our highest value and risk contracts are being managed.
- 1.2 Within WCC, day-to-day operational contract management is undertaken by managers within the directorates, while expert support and guidance is provided by a team in the Procurement and Commercial services. The Supplier Relationship Management team within procurement aim to improve contract management practice across the council as well as demonstrate how suppliers are helping to deliver Fairer Westminster.
- 1.3 Core to effective contract management at WCC is the Contract Management Framework (CMF), a set of operating principles based on the NAO good practice, used by staff who are managing supplier relationships and contracts. Principles of good contract management such as consistency and value of money have been applied to the council's largest 23 major suppliers and contracts ("Platinum"), which account for 50% of the council's total third party annual spend. A regular contract management survey has shown several areas of strength and consistency. It has also highlighted areas that need to be further enhanced, either through training or better systems support. The operational performance of these suppliers and outlook, are largely satisfactory.
- 1.4 In addition, we are working with our major contracts and suppliers to support the 2030 Net Zero target, by baselining the carbon attributed to these contracts, and implementing ambitious plans to reduce carbon through the contract lifespan.

2. Recommendations

- 2.1 It is recommended that the Committee:
 - 2.1.1 note the contents of this report and provide feedback on whether it meets their needs, as well as suggesting any changes or additional content they would like to see in future reports.
 - 2.1.2 note that Appendix 1 & 2 attached to this report be exempt from disclosure by virtue of the Local Government Act 1972 Schedule 12A, Part 1, paragraph 3 as amended, in that they contain information relating to the financial or business affairs of the Council.

3. Reasons for Decision

N/A

4. Contract Management Approach at WCC

Overall Context of Procurement Transformation & Contract Management

- 4.1 Given the council spends over £550 million each year on third party services and contracts, the Procurement and Commercial Service has a vital role to ensure the delivery of key contract outcomes, value for money and social value for the city, it's residents and partners.
- 4.2 Contract management supports the Fairer Westminster strategy in a number of ways. For instance, 10 of our highest carbon intensity contractors have established a system of accurately baselining, monitoring and reducing carbon in their contracts, with the ultimate aim of establishing a net zero carbon target. This directly supports the Fairer Environment goals.
- 4.3 We have also engaged in a series of Supplier Engagement events, targeted at Small Suppliers and Minority Owned businesses, so that such businesses in our community can aim to get a larger share of our contracts, thus supporting Fairer Economy. In many cases, we have influenced our Tier 1 contractors to do the same with such suppliers. See section 5.8 for more details.

Contract Management Framework (CMF)

- 4.4 The CMF was created to set out best practice principles that could be applied to all external third-party relationships across WCC. The aims of the CMF are:
- a) A consistent approach and awareness of contract management activity
 - b) Ensure value for money, drive savings throughout the contract period and mitigate any risks with suppliers.
 - c) Define roles and responsibilities of Contract Managers, Budget Holders, Procurement teams, etc. who play a major role in contract management.
 - d) Define the key controls that need to be applied to each contract, depending on the level of risk and criticality.
 - e) Ensure that resources are in place and have the necessary skills, to manage key contracts and suppliers.
- 4.5 The CMF, originally created in 2019 was re-launched in January 2022, via channels such as the Contract Managers' Forum and the intranet. A 'community of practice' forum has now been created for contract managers

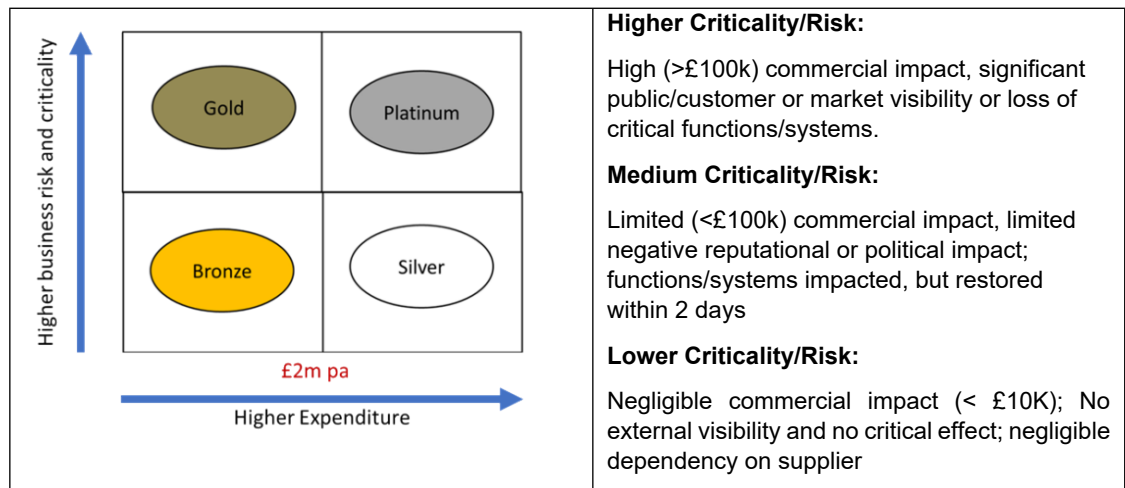
(now with over 200 members) providing access to contract, supplier information and guidance.

Supplier Segmentation

- 4.6 In line with the CMF, supplier contracts are categorised into one of four designated groups according to value and risk. This guides the level and intensity of contract management required and ensures the council can allocate resources, skills and governance proportionately taking account of commercial impact, contract, and supplier risk.

Contracts Segmentation principles

- 4.7 Contracts are assessed by risk and expenditure and categorised into four areas, as set out overleaf:



- 4.8 WCC's 2021-22 third party expenditure was £576m, as set out below:

Segment	No of suppliers	Spend	% Share
Platinum	23	£ 320,587,997.23	56%
Silver	23	£ 87,887,014.60	15%
Gold	97	£ 26,847,911.16	5%
Bronze	2156	£ 140,898,520.71	24%
Grand Total	2299	£ 576,221,443.70	100%

The majority of the spend is concentrated in the Platinum and Silver groups where 71% of spend falls to only 46 suppliers.

5. Contract performance

- 5.1 Our suppliers' performance are central to the council objectives of providing a value for money and good service outcomes for residents and stakeholders. Regular contract performance measurement and monitoring

provides the assurance that suppliers are delivering their contractual obligations.

- 5.2 This year, we have a more comprehensive reporting of performance, taken from the contract managers themselves. In addition, since June 2021, we have begun to measure how well contracts are being managed, using the CMF requirements, based on NAO principles, and online surveys. This process is repeated quarterly.

Results from survey of Platinum Supplier Contract Managers

- 5.3 We reviewed the performance and outlook of the 23 Platinum suppliers, via their Contract Managers, through a comprehensive online survey. In addition, we reviewed how well Contract managers are undertaking each of the key tasks defined in the CM Framework for such critical contracts. All statements are taken directly from the contract managers.

Overall Performance

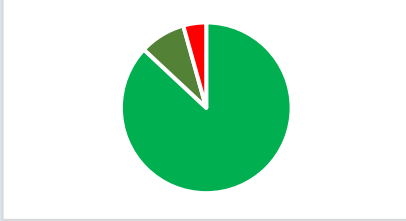
- 5.4 The contract managers were asked to rate their suppliers on the quality of their performance. The table below reflects their view. 95% of suppliers are performing well or satisfactorily, and generally meeting standards. While there may be operational issues in some cases, these are managed and resolved through regular dialogue with suppliers.

Directorate	Good - meets or exceeds requirements	Satisfactory - generally meets but some minor issues	Poor - falling short of requirements though not critically	Unsatisfactory - often falling short of requirements sometimes critically	Grand Total
Adults Services	4	3	0	0	7
Children's Services	0	0	0	0	0
ECM	4	1	0	0	5
Finance & Resources	2	1	0	0	3
GPH	4	3	0	0	7
Corporate Property	0	0	0	1	1
Grand Total	14	8	0	1	23
%	61%	34%	0%	5%	100%

- 5.5 From the survey of contract managers, one of the council's top suppliers were rated as Poor or Unsatisfactory in their day-to-day operational performance. Information on each of these is given in Appendix 1 (restricted document).

Forward Outlook

- 5.6 Contract managers were asked to state how they viewed their suppliers performing during the next quarter.

Topic	Survey Result
Performance outlook for the next quarter 	<p>Of the 23 suppliers surveyed, Contract Managers rated 20 as “Improving” their current delivery during the next quarter.</p> <p>1 supplier (also rated as currently poor) may be at risk of deteriorating services. There are active steps in place to manage their performance, with escalation routes and review meetings taking place regularly.</p> <p>2 other suppliers are rated as stable in their outlook</p>

Contract Management Framework Principles and Status

- 5.7 The table below shows the results and findings of the CMF Activities. (see appendix 2 for supplier-wise details)

CMF principle	Survey & Interview Findings
Contract administration <i>(Keeping the physical contract kept up to date and managing variations & compliance)</i>	Most contracts have a dedicated person who undertakes tasks such as maintenance of records, managing variations, costs etc.
Operational Management <i>(Day to day service management such as Quality Assurance, delivery, financial administration)</i>	The Contract Manager and in some cases, their teams, undertake the day-to day operational reviews. Cost/Budget variances are done by Finance representatives
Contract review meetings <i>(Regular review meetings with the supplier focusing mainly on delivery, social value, KPI's, risk)</i>	Reviews with suppliers are held either weekly or monthly, with suppliers providing regular reports. These reports are usually stored locally and sometimes in shared folders
Supplier performance review <i>(Strategic review of performance, risk, etc)</i>	KPIs are reviewed regularly – weekly in some cases. The focus is on service levels and deliverables against contract, with corrective action being taken quickly.
Improvement initiatives & innovation <i>(Formal review of improvement, innovation, or cost saving initiatives)</i>	Some contracts have defined and structured improvement plans such as Carbon reduction, and process improvement. But many others either do not measure improvement or are focused solely on operational deliver.
Responsible Procurement deliverables <i>(Review of achievements against responsible procurement obligations, including Social Value)</i>	Social Value is a deliverable in most contracts, but many managers tend to rely on the Social Value team to monitor and report on such obligations. More attention is being given to this area, and managers are measuring it along with operational KPIs. This is a key development area with the launch of the refreshed Responsible Procurement and Commissioning Strategy
Supplier risk monitoring <i>(Risk log, regular Credit Checks, horizon scanning of new or emerging risks)</i>	Currently, risk monitoring is limited to supplier's financial and credit ratings, along with a monthly review of suppliers in potential financial distress. Risk registers exist in many cases. Other risks such as Sanctions on

	foreign ownership, or Adverse Media reports are not currently monitored
Business continuity plan	While most suppliers have a business continuity plan, which is kept updated, there are some instances where such plans are missing or not reviewed.
Dedicated relationship Senior Responsible Officer <i>(SRO provides oversight and governance on strategic contracts)</i>	This is an area that deserves more attention as a significant number of contracts do not have a named SRO.
Relationship strategy <i>(defined strategy and governance with a focus on value and innovation)</i>	As this is linked to the above factor, many contracts do not have senior-level reviews on an annual basis, which would review and direct the supplier strategy, and get better value from the contract.

Other Contract Management Initiatives:

5.8 We have also supported contract managers in the following areas:

- a) **Risk Management:** Through the Risk Governance Forum which meets every 6 weeks, we maintained a regular review of any issues that might affect suppliers. Primarily we focused on risk of financial insolvency using tools such as Creditsafe, and our own monitoring tools. During 2021-22, only a few suppliers were flagged to be at potential risk, but these were mainly due to them not reporting their annual statements to Companies House. Whenever a supplier we use is flagged as a risk we contact the contract manager to further understand (and mitigate) the risk
- b) **Supplier Engagement:** We have held two major cross-cutting supplier events this year (outside market engagement events for specific projects). The first one was an inaugural event attended by a cross-section of nearly 100 suppliers, large and small. The purpose was to introduce them to our team and some of our top suppliers, get their feedback on the Responsible Procurement & Commissioning strategy, and showcase our pipeline of contracts. Following the success of this event, we held another event aimed at SMEs and Minority Owned businesses based in Westminster in the construction sector where we held detailed workshop sessions to determine how our Tier 1s could work with smaller suppliers and share some of our contracts.
- c) **Climate Emergency:** The top 10 suppliers we are working with have now disclosed their direct carbon emissions associated with our contracts. We are determining appropriate annual reductions targets for all similar upcoming contracts and running projects which will help us reduce carbon in these contracts. We are aiming to learn from these contracts and roll them out across other areas too.

- 5.9 We are continuing to explore how we collect 'real time' reporting of contract performance, including Social Value KPIs, which are currently done manually. This corporate approach will further enhance our contract management approach and provide more visibility on the performance of contracts. It is important that the system is intuitive and easy to use for suppliers and contract managers.

Conclusions and observations

- 5.10 The following conclusions and observations are following this exercise:
- a) Overall, 87% of Platinum suppliers are rated as "performing satisfactorily, or good". Contract managers will continue to monitor operational performance of their suppliers
 - b) In three cases where their performance has been "Poor", there are mitigations and corrective measures in place which are demonstrating improvements.
 - c) As we do not yet have a system to monitor KPIs or SLAs, we are reliant on the views of contract managers. Independent assurance is therefore required, and we are continuing to look at a system that will work best for the council.
 - d) While Contract managers are aware of their responsibilities and take adequate steps in the operational performance of their contracts, there are areas of improvement in the storing and reporting of performance metrics.
 - e) Non-operational factors such as Responsible Procurement obligations and Innovation are not consistently measured in a number of platinum contracts.
 - f) Risk management of key suppliers needs to be enhanced to include emerging risks such as sanctions, anti-bribery and corruption, data privacy, cyber security, modern slavery, etc. Investment in commercially available tools is recommended.
 - g) Appointment of Senior Responsible Officers to each Platinum contract is a requirement and should be addressed without delay.

6. Key actions and next steps - platinum suppliers

- 6.1 The following actions will take place in the final two quarters of 2022/23:
- a) For non-performing suppliers, or those with a weak outlook, we will take more stringent corrective and improvement action, to ensure the right service levels are being met. If these interventions do not work, we will consider re-procurement, where necessary.
 - b) Launch of Procurement & Contract management eLearning modules, to enhance skills and capabilities of Contract Managers across WCC.

- c) Work with the relevant contract managers to ensure innovation, responsible procurement objectives, and improvement activities are being monitored and managed.
- d) Investigate external tools and present a business case for enhancing supplier risk measurement.
- e) Ensure that every platinum contract has a named SRO.
- f) Working with the social value team, we will engage with 15 top suppliers to start tracking their Social Value obligations, test and learn from feedback we receive and then look to roll out the learnings across our supply chain .
- g) We will investigate ways of engaging with our residents in order to get better feedback on how to improve supplier services to them.
- h) We will hold further supplier engagement events focused on the voluntary sector and micro/small businesses. We are jointly hosting a “Meet the Buyer” event on November 17 with the City of London Corporation and Metropolitan Police, which will bring together growth oriented and innovative Ethnic minority businesses working in the Buildings/ Facilities Services, Business/ corporate services & ICT sectors.

7. Financial Implications

- 7.1 There are no financial implications associated to this report.

Comments provided by Kim Wreford SFM Corporate Services

8. Legal Implications

- 8.1 Under section 3 of the Local Government Act 1999 the Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. It must comply with relevant procurement legislation and rules governing tenders and the award of contracts as set out in the Procurement Code.
- 8.2 It is essential that contract managers are familiar with the contract terms and understand the processes (for example when a default notice should be served) and remedies available when a supplier defaults. Failing to understand and comply with the contract terms could expose the Council’s legal position. Legal advice should be sought where necessary.

Comments provided by Kar-Yee Chan, Principal Solicitor (Contracts)

9. Carbon Impact

N/A

10. Equalities Impact

N/A

11. Consultation

N/A

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

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Appendices - Confidential

- Appendix 1: Details of contracts rated unsatisfactory in performance
- Appendix 2: Summary of results - Comparison with contract management Framework

