

Key questions you should ask through the life cycle of major service contracts

Item One:

Before going to the market

"Will a long-term partnering relationship deliver continuous improvement, better value for money and business innovation?"

(Gateway Reviews 1 & 2)

- Is the future business direction of my organisation set and can it be articulated so as to be clearly understood by the market?
- Has the market been engaged or tested to assess whether our potential business requirements would result in an effective competition? Is the business requirement clearly understood?
- Have we carefully selected and fully consulted relevant experts with a sound track record and proven capability?
- Have we identified key users and stakeholders and verified with them that the procurement meets a real need?
- Have we arrived at a procurement strategy which will best serve our service delivery objectives over the long term?

Item Two:

Contract Development phase

The contract needs to provide a firm foundation for successful service delivery:

"Have any key issues not been satisfactorily addressed with our supplier?"

(Gateway Reviews 3 & 4)

- Does our leader of the contract negotiation and his team have the necessary skills, experience and defined authorities? Is there a proper balance of business and commercial skills?
- Have we ensured the active participation of users of the service, technical experts and legal advisors?
- Does the contract design align with current best practice? Are exit strategies being negotiated?
- Have we ensured continuity, now and in the long term, between those involved in negotiations and those who will manage the contract?
- Have we negotiated contingency plans to ensure continuity if the supplier cannot maintain the service or the contract is terminated?
- Are the risks allocated to the party best placed to manage them?
- Does the projected outcome of the negotiations fully meet our business requirement in every respect?
- Is there an agreed procedure for placing additional demands on the supplier?

Item Three:

Contract management phase

It is essential that there is a shared understanding of the contract from the outset, and any understandings and associated assumptions regularly tested:

"Do key assumptions continue to be tested and do they remain valid? Have any key differences emerged? If so, how are they being handled?"

(Gateway Review 5)

- Has enough time and resources been planned to do the job properly with the right experienced people to manage the contract? Is there still the right balance of business and commercial skills?
- Are formally acknowledged communication channels in place at relevant senior management, business and operational levels?
- Are the new requirements that are being added to the service contract only those that can be justified in business terms?
- Is the process working which ensures that all major changes to the contract are receiving the correct senior management attention and approval?
- Are risk and contingency plans reviewed and tested periodically against the business environment
- Does the contract management team possess the necessary budgetary management skills?

Item Four:

Managing the relationship

"Have both the department and the supplier provided the right level of personnel with the skills to manage the contract and business deliverables?"

- Is my "opposite number" in the supplier's organisation at the right level?
- Are the supplier's team and the department's team a match in skills, experience and authority to act?
- Does supplier team understand my business and the importance of the contract in delivering my objectives, and where does my contract fit in the supplier's overall business strategy?
- Is the professional behaviour expected from the parties being demonstrated - a non-adversarial and open relationship? Are there any "bedding-in" issues that need addressing?

Clear Requirements

Management Commitment

BEST PRACTICE

How Major Service Contracts Can Go Wrong

Sufficient Skilled Resources

Test Key Assumptions



Cope With Change

How Major Service Contracts Can Go Wrong

Why Problems Arise

Failure to develop the correct resource and communication strategies

- Lack of experienced people with knowledge of the business and sound commercial skills
- Failure to call in specialist expertise at the right times e.g. legal, procurement, commercial
- Failure to retain 'informed customer' expertise and underestimating the level required
- Appropriate communication strategies not introduced for all procurement stages

Inadequate Contract

- No clear business owner of requirements, contract and benefits to be realised
- Stakeholders not adequately involved
- Lack of senior management commitments and support on both sides
- Business impact of proposed change not communicated
- Inadequate attention to risk management, especially failure to consider supplier plans
- Negotiations in significant areas deferred by 'agreement to agree'
- Inadequate measures for performance, quality and cost of existing arrangements
- No shared understanding of existing arrangements, barriers to change, and how future service will be provided

Failure to manage contract

- Inadequate resources assigned to contract management
- Customer team does not match provider team in skills/experience
- Context, complexities and dependencies of contract are not generally well understood
- Failure to check supplier assumptions
- Authorities/responsibilities not clear in relation to commercial decisions etc
- Lack of measurement by customer / no benchmarking
- Focusing on what is currently in place, not what is possible
- Failure to monitor and manage retained risks (statutory, political and commercial)

Failure to cope with change

- Failure to keep an eye on the future
- Failure to secure senior management involvement and validation against business requirements
- 'Scope creep/creeping change: failure to monitor context of business and review the business case.
- Lack of adequately defined, understood, change management procedures and no audit trail of change
- Exit: lack of thinking ahead; exit strategy not defined and re-competition not considered in contract
- Insufficient incentives on the supplier to bring forward innovation and new systems
- Lack of effective dispute resolution procedures

Impact on Department

Contract led by supplier – not by business. Expectations not met. Loss of context, corporate knowledge, ability to challenge and manage the deal. Poor internal communication gives advantage to supplier.

Significant risk of failure if the right team is not deployed from the outset and communication is poor

No linkage between business objectives, contract, its associated costs and projected benefits. Unwelcome surprises such as political embarrassment because of failure to deliver service. Contract undefined in certain areas. Heading towards unworkable contract. Serious misunderstanding; unworkable because the service solution does not fit with the business and its infrastructure.

Ultimately business needs are not met

Supplier (obliged to) take control, unbalanced decisions. People do not understand their obligations/responsibilities. Business processes fail because of failure to integrate new with current processes. Misunderstanding and/or disagreement; risk to the business; underestimation. Lack of timely decisions; everything escalated; progress slows down, inability to move forward. No evidence of improvement; benefits not realised. Losing vfm and opportunities to improve performance.

Ultimately the contract is unworkable

Failure to make a connection between policy and ongoing requirement, so policy demands are not met. Increasing divergence between contract and reality. Nobody knows status of contract. Undertaking obligations and responsibilities that are not clearly defined. Impact on programme and costs escalating. Major costs; prohibitive costs of changing providers; lock-in; no prior obligations concerning change placed on provider in contract.

Contract no longer valid; ultimately the Accounting Officer and Ministers are vulnerable to external scrutiny

Let us know what you think

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