Contract and Supplier Management Introduction

Route 3 high-value, high-risk contracts play a critical role in delivering essential public services across Scotland.

These contracts often involve significant financial investment, complex technical requirements, strategic supplier relationships, and substantial implications for service users, communities, and public funds. Effective management of such contracts is therefore vital to ensuring that public bodies meet their statutory duties, achieve value for money, and maintain the highest standards of governance, transparency, and accountability.

This guidance provides a structured, practical framework for managing high-value, high-risk contracts and supplier relationships within the Scottish public sector. It aligns with the principles set out in the Scottish Public Finance Manual (SPFM) and The Public Contracts (Scotland) Regulations 2015. It is designed to support contract managers, service leads, commercial teams, and senior stakeholders in meeting their responsibilities throughout the full contract lifecycle—from mobilisation and performance management to contract changes, risk management, continuous improvement, and exit/transition.

Route 3 contracts require proactive, collaborative and disciplined contract and supplier management. This guidance outlines the processes, roles, tools, and controls needed to ensure:

- High-risk contracts remain stable, transparent, and well-governed
- Performance is consistently monitored, measured, and improved
- Risks and issues are identified early and addressed effectively
- Supplier relationships are constructive, fair, and aligned to public sector outcomes
- Financial and commercial risks are controlled and appropriately escalated
- Sustainability, social value, and community benefits are delivered
- Service continuity is protected throughout the contract lifecycle

By applying the principles and practices in this guidance, Scottish public bodies can strengthen their commercial capability, drive better outcomes, and ensure that high-

value, high-risk contracts deliver maximum value and public benefit.

Purpose of Contract and Supplier Management (CSM)

Open or close

The purpose of Contract and Supplier Management is to work closely with suppliers and internal customers to:

- minimise the total cost of ownership and
- maximise supply chain efficiencies throughout the life of the contract.

Contract and Supplier Management should result in contract procedure and process improvements. It should also increase Procurement Function knowledge and experience, which can then be used to benefit future contracts. This can be done by:

Relationships	Developing and managing constructive and transparent relationships with suppliers
Execution	Ensuring the contract is successfully executed. Includes meeting all special conditions relating to the performance of the contract which may cover economic, innovation-related, environmental, social or employment-related conditions
Value for money	Maximising value for money from suppliers and contracts
Monitoring and Improvement	Providing a formalised system of monitoring, managing and continuously improving the supplier and the Organisation's performance against the contract
Roles and Responsibilities	Ensuring that all parties recognise and understand their contractual roles and responsibilities
Compliance	Monitoring overall compliance to Key Performance Indicators and Service Level Agreements. Implementing improvement plans in the event of underperformance. Leveraging supplier expertise in pursuit of cost and efficiency gains
Improved Benefits	realising additional savings and benefits and sharing them appropriately
Supply Chain	Effectively managing the prompt payment of the supply chain

Innovation	Providing a focus for development of initiatives and innovations
Continuous Improvement	Driving continuous improvement
Lessons Learned	Identifying lessons learned to inform future contract terms or strategies
Efficiency	Developing supplier relationships to maximise efficiency. Collaborate towards common goals and reduce waste, environmental or social risks
Strategic Goals	Support the achievement of strategic goals, such as attracting Community Benefits through the contract
Sustainable Procurement	Monitoring Sustainable Procurement benefits through the life of the contract and ensuring that targets are met
Community Benefits	Monitoring Community Benefits achieved vs anticipated

Care should also be taken to manage the risks to changes in contracts e.g. you may require to retender if there is substantial modification.

CSM Vision

Open or close

Organisations should use the four quadrants of the balanced scorecard in a consistent manner. This will allow measurement of a supplier's performance across all organisations and / or sectors using that supplier.

Contract and Supplier Management should:

- ensure that the service/contract is delivered to the required standards
- provides value for money;
- proactively identify and manage any risks which may impact on a supplier's service delivery / fulfilment of the contract requirements;
- improve and develop contract and supplier performance across organisations, sectors and nationally. A consistent approach will maximise efficiencies and promote adding value across the supply base;
- appropriately influence supplier activity and decisions, improving value for money, over and above cost savings;

- ensure the contract is effectively administered, for example from a change management perspective.

You should frequently aim to improve your own and supply base performance by various techniques.

Definition and Importance

Open or close

Definition

Contract Management and Supplier Management differ.

Supplier Management refers to activities across a supplier’s whole portfolio of contracts. These activities are normally more strategic, longer term activities. Some examples could be:

- a project to move to reusable pallets for all products and contracts delivered by the supplier
- or for a stationery supplier, moving to a new on-line catalogue ordering system

Contract Management applies to the specific contract for the good(s) or service(s) being procured. For example:

- increasing the quality of refuse sacks to the UK requirements
- or amending the hours worked by staff on a security contract

However, although different, Contract Management and Supplier Management are linked. It is very difficult to perform effective Supplier Management if basic Contract Management disciplines are not in place. It would be difficult to discuss strategic partnerships, innovation or joint ventures if you do not understand the supplier's contract details. You need to understand how the supplier is performing day to day.

Effective Contract Management is therefore necessary for successful Supplier Management

Importance of Contract Management at Board/Senior Management Level

An effective Contract Management strategy should be a high priority for Chief Financial Officers (CFOs) or Chief Operating Officers (Accounting Officers) and Senior Management Teams.

Effective contract management is necessary for an efficient and compliant business. Contracts must be managed: especially those which deliver services, provide infrastructure or third-party essentials.

Central functions of an Organisation’s Contract Management strategy should include:

- complying with corporate governance regulations;
- managing risk;
- eliminating or reducing cost (not by impacting supply chain efficiency or profit);
- maximising revenue streams.

Managing the contract information, obligations and the contract life-cycle are critical to meeting compliance regulations. This means that the entire process needs to be sponsored at an executive level. This includes:

- contract creation;
- clarity of final agreement;
- electronic contract management system; and
- integration of contract data with back-end systems and contract performance reporting.

The above need to be rolled-out to your entire organisation (for at least the most critical/high impact contracts).

Robust Contract Management will reduce risk to your Organisation. This includes issues such as conflict of interest and fraud.

Your Organisation must consider these areas as a vital part of its governance. You must ensure all appropriate measures are taken to prevent, identify and remedy conflict of interest and include measures to combat fraud, throughout the life of the contract.

Benefits of CSM

Open or close

Both you and the supplier should be motivated and enabled to deliver additional value. This should be done within legal limits and over and above that specified in the original contract, e.g. not simply extending the expenditure. The process should deliver benefits such as:

Routes of Engagement	Provide formal routes of engagement at different levels of management. This allows opportunities for improvement at senior levels
Supply Costs	Ensure supply costs are contained and minimised, and that opportunities for improving cost effectiveness and efficiencies are explored and progressed e.g. packaging, service level definition
Deliver Business Needs	proactively ensure that the business needs under the contract are delivered. Ensure both customer and supplier's obligations are understood and managed. Reduce reactive 'incident resolution activity' to minimise the cost of failure and of managing the relationship
Issue Resolution	Promote proactive issue resolution. Ensure clear escalation paths exist within both organisations
Standardisation	Use a standardised approach for a number of suppliers/customers. This will embed operational efficiency, consistency and quality
Consistency	Limit the number of people involved. This ensures process consistency and communication. It ensures the right people are involved in the right activities at the right time with the right information

Improvements	Encourage the supplier to improve their product or service in ways which provide additional value to the customer and to future customers. Promote efficiencies within both organisations which will develop the skills of the employees and help the supplier's staff to deliver a better service.

Continuous Improvement

Open or close

There are a number of formal and informal continuous improvement methods. These range from: full continuous improvement programmes; to organisational collaboration; and improved internal and external communication.

One of the key continuous improvement tools used in the Scottish Public Sector is the Procurement and Commercial Improvement Programme (PCIP). This is designed to drive forward best practice and develop procurement activity.

Contract and Supplier Management can be considered successful when:

- the arrangements for service delivery continue to be satisfactory to both parties, and the expected business benefits and value for money are being achieved or exceeded;
- the supplier is efficient, co-operative and responsive;
- the Organisation understands its obligations under the contract;
- there are no surprises;
- there are no disputes;
- professional and objective discussions over changes and issues are straightforward and easily managed;
- efficiencies are being realised;
- the Organisation's procurement department contract and market knowledge improves, and benefits future contracts.