



HM Government

# Government Functional Standard GovS 008: Commercial

Version: 1.0

Status: Approved for internal government trial

Date issued: March 2019

This standard forms part of a suite of operational standards that set expectations for management within government. Standards may include both mandatory and advisory elements. The following conventions are used to denote the intention:

Term	Intention
shall	denotes a requirement: a mandatory element.
should	denotes a recommendation: an advisory element.
may	denotes approval.
might	denotes a possibility.
can	denotes both capability and possibility.
is/are	denotes a description.

The meaning of words is as defined in the Shorter Oxford English Dictionary, except where defined in the Glossary in Annex B.

It is assumed that legal and regulatory requirements shall always be met.

© Crown copyright 2019

Produced by Government Commercial Function.

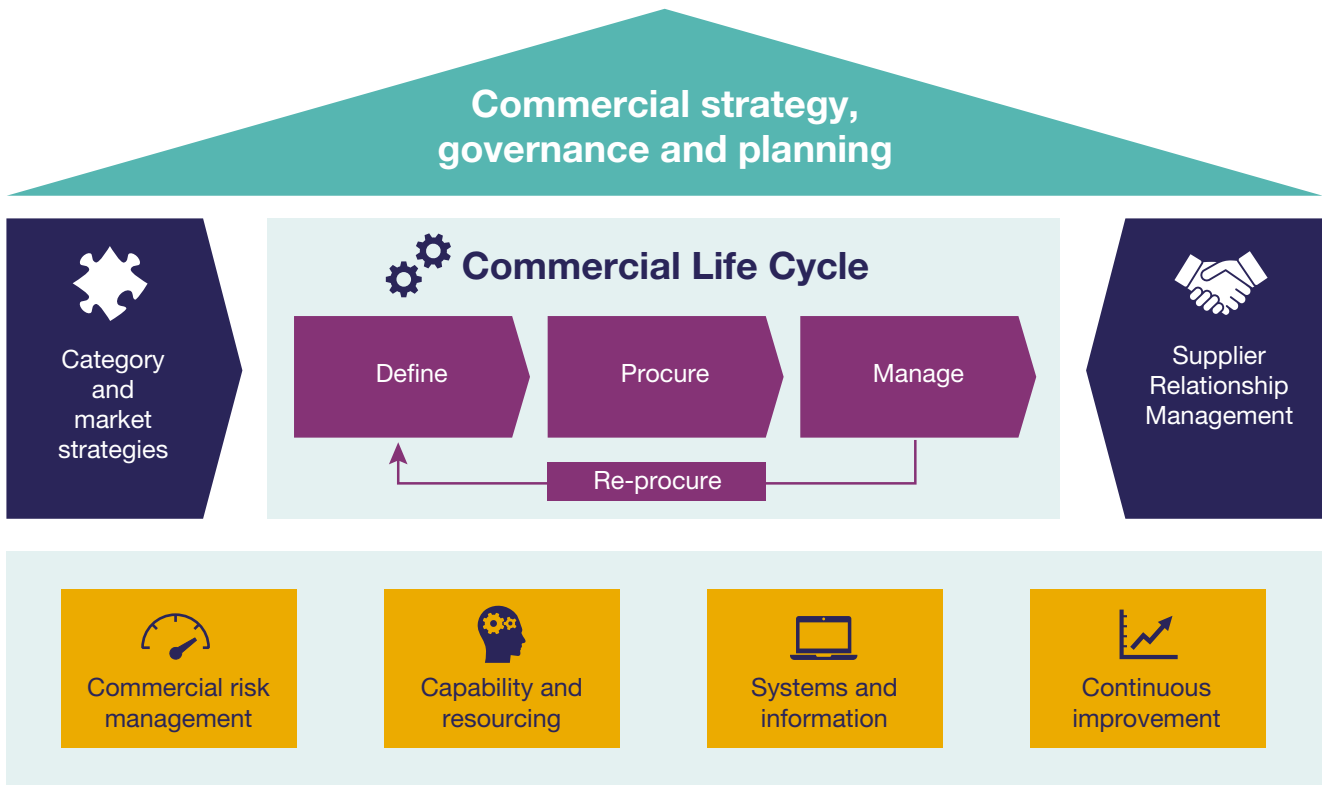
You may re-use this information (excluding logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> or email: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk)

Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned.

# Contents

<b>1</b>	<b>About this government functional standard</b>	<b>5</b>
1.1	Purpose of this government standard	5
1.2	Scope of this government standard	5
1.3	Government standards references	5
<b>2</b>	<b>Principles</b>	<b>6</b>
<b>3</b>	<b>Commercial governance and planning</b>	<b>6</b>
3.1	Governance and management framework	6
3.2	Commercial strategy and plan	7
3.3	Commercial pipeline	7
3.4	Approvals	7
3.5	Commercial assurance	8
3.6	Roles and responsibilities	9
3.7	Governance constraints	11
<b>4</b>	<b>Commercial life cycle</b>	<b>12</b>
4.1	Define	12
4.2	Procure	14
4.3	Manage	15
4.4	Re-procure	17
<b>5</b>	<b>Commercial management practices</b>	<b>18</b>
5.1	Category and market strategies	18
5.2	Supplier relationship management	19
5.3	Commercial risk and issue management	20
5.4	Commercial capability and resourcing	20
5.5	Systems and management information	21
5.6	Continuous improvement	22
	<b>Annex A. References</b>	<b>23</b>
	<b>Annex B. Glossary</b>	<b>25</b>
	<b>Annex C. Example of aligning decisions between commercial work and a project's life cycle</b>	<b>29</b>
	<b>Annex D. Example supplier and contract tiering</b>	<b>31</b>
	<b>Annex E. Government Commercial Standards Assessment Framework</b>	<b>34</b>

Figure 1 – Areas of commercial practice covered by this standard



# 1 About this government functional standard

## 1.1 Purpose of this government standard

The purpose of this standard is to set expectations and drive consistency in the planning, management and execution of commercial activities, ensuring contracts and relationships with suppliers realise value for money and result in delivery of high quality public services.

This standard provides direction and guidance for:

- permanent secretaries, accounting officers, directors general, chief executive officers of arm's length bodies, ensuring an environment exists which integrates with their other activities
- senior officers accountable for commercial management at government and organisational levels, ensuring the breadth of practices required for successful commercial management are planned for and used
- owners of departmental commercial processes and guidance to ensure consistency in scope across government
- assurance and audit bodies, for testing best practice
- business owners, including senior responsible owners and those responsible for contracts
- commercial specialists and their teams

*Note: where applicable this standard should be used with reference to other central Government Commercial Guidance, particularly the Government Outsourcing Playbook <sup>(1)</sup>.*

This standard should also be of interest to suppliers and contractors and it is expected that they follow similar principles and approaches in relation to their commercial work.

## 1.2 Scope of this government standard

This standard applies to the planning, delivery and management of government commercial activity in all departments and arm's length bodies, regardless of commercial approach used.

This standard excludes:

- the management of grants, which are covered in General grants Gov S015 and Finance Gov S006
- activities relating to income generation.

## 1.3 Government standards references

The following functional standards should be used in association with this standard:

- GovS 002, Project delivery
- GovS 010, Analysis
- GovS 015, General grants

*Note: new functional standards are being created and trialled during 2018 and early 2019. The above standards will be available for use by April 2019.*

## 2 Principles

At all times, those directing and managing commercial activities shall ensure:

1. commercial objectives are aligned to government policy and organisational objectives
2. goods, works and services are procured using legally compliant, fair and open processes, guarding against corruption and fraud
3. they act in a way that promotes trust between government, its suppliers and the public
4. governance, management frameworks and controls are proportionate and appropriate to the work and the level of prevailing risk
5. accountabilities and responsibilities are defined, mutually consistent and traceable across all levels of management with appropriate separation of duties
6. experience and lessons are captured, shared and used to promote future performance improvement
7. work is undertaken and is assigned to people who have the required capability and capacity to undertake it
8. public service codes of conduct and ethics and those of associated professions are upheld

## 3 Commercial governance and planning

### 3.1 Governance and management framework

Commercial governance comprises authorising, directing, empowering and overseeing management of commercial activities. The governance of commercial activities should be an integrated part of the organisation's overall governance arrangements.

Each organisation shall have a senior officer accountable for its commercial activities.

Each organisation shall have a defined and established commercial governance and management framework, which:

- complies with government and organisational policies and directives, and with this standard
- defines which commercial activity should be included and how it should be managed
- should be reflected in the respective accounting officer system statement<sup>[5]</sup>
- should be periodically reviewed to ensure it is still valid

The framework should include: organisational commercial policies (if any); the criteria for the tiering and segmentation of commercial agreements and suppliers; authority limits; decision making roles and rules; degree of autonomy; assurance needs; reporting structure; accountabilities and responsibilities – together with management frameworks for undertaking the practices in sections 3, 4 and 5 of this standard. Tiers may be by value, risk and/or business impact.

*Note: see Annex D for guidance on tiering.*

## 3.2 Commercial strategy and plan

Each organisation should have an approved and maintained overall commercial strategy and plan that sets out their vision and objectives that align with the organisation's overall strategy and financial plan. The commercial strategy and plan should include a roadmap for delivery, required resources and targets.

Organisations should develop and have approved a commercial blueprint or equivalent operational plan, which sets out a forecast of future commercial activity (derived from the commercial pipeline), required resources and operating model, forecast budget and any transformation or business improvement plans.

*Note: in central government the commercial blueprint is updated and approved on a cyclical basis.*

*Note: in central government the organisation's plan is called the single departmental plan.*

## 3.3 Commercial pipeline

A commercial pipeline provides a forward view of commercial activity so that sufficient time and resources can be allocated to develop commercial strategies, make recommendations and act upon them in good time.

Organisations shall prepare and maintain a commercial pipeline, including new commercial activity and changes to existing contracts. For the most complex contracts, the pipeline should extend three to five years ahead of the contract being required.

The pipeline should be utilised to ensure that contracts are extended only after undertaking a review of available commercial options (see 4.4).

A projection of the organisation's future commercial opportunities shall be published in the public domain where permissible in order to allow the market the greatest opportunity to participate.

*Note: the commercial pipeline should be structured in accordance with the commercial pipeline guidance <sup>(1)</sup>.*

## 3.4 Approvals

### 3.4.1 Decision making

Commercial decisions should be made and approvals given in a timely manner, in accordance with the organisation's commercial governance and management framework, financial management controls (including delegations of authority), government policy and the commercial strategy and plan. Alternative choices should be agreed against defined criteria and in consultation with stakeholders and subject matter experts. Decisions might relate to:

- approving commercial strategy
- approval to invite offers from the market
- approving a contract award recommendation
- authorising payments
- raising contractual notices
- approving a contract extension or contract change
- claims and dispute resolution
- suspending or terminating a contract
- approving the completion of a contract

Additionally, for complex outsourcing contracts the approval process shall include a Project Validation review as defined in the Outsourcing Playbook <sup>(1)</sup> and GovS 002.

Decisions may be conditional provided responsibility for fulfilling such conditions is assigned. Decisions should be:

- holistic, taking account of the external context, broad commercial considerations, potential negative impact and the relevant functional standards
- communicated to the relevant stakeholders

Analysis relating to decisions should be undertaken in accordance with GovS 010, Analysis.

### 3.4.2 Commercial justification and business cases

To facilitate governance and scrutiny, commercial activity shall be justified and documented throughout the commercial life cycle (see 4). Such justification should be in accordance with HM Treasury requirements (see Green Book <sup>[12]</sup>). Justification may be documented either in the form of a business case or as a separate commercial strategy or other proportionate format, which should be defined in the organisation's commercial governance and management framework.

For contracts required as part of a programme or project, a commercial case should be prepared as input to the project or programme's overall business case. This case should be developed in stages throughout the project life cycle, in accordance with GovS 002, Project delivery. If required, subsequent approval shall be obtained in accordance with HM Treasury and Cabinet Office policy and spend controls <sup>[4]</sup>.

*Note: for an example showing the linkage between a contract case and project business case, see Annex C.*

## 3.5 Commercial assurance

Commercial assurance is the systematic set of actions necessary to provide confidence to senior leaders and stakeholders that commercial work is controlled, on track and aligned with government policy or the organisation's strategy.

Organisations shall include commercial assurance in their organisational approach to assurance and be aligned to government assurance guidance and arrangements. For contracts associated with major projects, this should be within an integrated assurance strategy (see GovS002, Project delivery).

Commercial assurance should ensure at least three separate and defined levels of assurance are applied that are proportionate to the risk and value of the commercial activity. Typically, these include:

- 1st line: carried out by, or on behalf of, the operational management that own and manage risk
- 2nd line: carried out by, or on behalf of, those who have no first line responsibilities, but oversee management of the risk to ensure the first line of defence is properly designed, in place and operating as intended
- 3rd line: carried out by independent audit, or other independent body, to provide senior management with an objective opinion on the effectiveness of governance, risk management and internal controls, including the effectiveness of the second and first lines of defence

*Note: see assurance frameworks for more on three lines of defence <sup>[2]</sup>.*



*Note: for highest risk contracts and commercial activity a 4th line of defence may be adopted to provide an additional layer of assurance. This may be carried out by the National Audit Office or other third party.*

For eligible contracts, commercial assurance reviews and audits should be scheduled prior to significant decisions, including, as a minimum, commencing procurement or before awarding a contract, to provide decision makers with an assessment of the status and outlook for the work.

Assurance reviews should continue to take place after contract award, to monitor contract delivery, and be planned to minimise impact on the work by combining them, where applicable, with programme, project or other related assurance reviews.

Commercial contracts should be designed and implemented to promote proactive commercial assurance through the inclusion of terms and conditions that may include:

- open book arrangements
- right to audit clauses
- obligations to provide management information
- contingency and/or resolution plans

Where commercial spending controls are applicable, the relevant Cabinet Office and HM Treasury stakeholders shall be consulted in a timely manner, to facilitate commercial assurance activity and ministerial approvals <sup>[4]</sup>.

## 3.6 Roles and responsibilities

Roles and responsibilities contributing to operational or strategic commercial activities shall be defined in the organisation's governance and management framework. This includes, but is not limited to, reporting lines and the activities, outputs or outcomes they are responsible for.

### 3.6.1 Accounting officer

The Accounting Officer is the senior executive in a central government organisation, accountable to Parliament and the public for the stewardship of public resources, ensuring they are used effectively and to high standards of probity. The Accounting Officer has ultimate accountability for commercial activities in their organisation and is responsible for ensuring commercial resources set out in the blueprint are made available.

*Note: the Accounting Officer is generally the Permanent Secretary. The permanent head of a government department is its Principle Accounting Officer, who generally appoints the most senior executive in organisations under the department's ambit as an Accounting Officer. See Managing Public Money [3], Cabinet Office controls [4], Assurance framework [2], accounting officer system statements [5] and accounting officer assessments [6].*

### 3.6.2 Senior officer accountable for the Government Commercial Function activity

The senior officer accountable for the government commercial function (currently referred to as the Government Chief Commercial Officer) is accountable to the Chief Executive of the Civil Service for the development and implementation of the cross-government commercial vision and strategy, and should:

- provide leadership and direction for improving commercial practice across government
- develop commercial policy
- improve the management of contracts across government
- strengthen commercial capability across government
- ensure that government acts as a responsible and intelligent client

### 3.6.3 Senior officer accountable for an organisation's commercial activity

The senior officer accountable for an organisation's commercial activity is accountable to a defined higher authority for the direction and governance of an organisation's commercial activity, and should:

- provide leadership and direction for all commercial activity within the organisation
- ensure the implementation of commercial policy and compliance to this standard
- own the organisation's commercial strategy and plan
- ensure the required benefits from commercial activities are realised, at an acceptable level of risk and cost
- engage, at senior level, with those accountable for all commercial activity in the organisation's commercial pipeline
- provide commercial advice, guidance and assurance to senior business owners and their teams
- allocate appropriate commercial resources to commercial activity

*Note: the senior officer accountable for commercial activity is a specialist commercial role, often called a Commercial Director or Organisation Chief Commercial Officer.*

*Note: the higher authority depends on the context and might be the accounting officer, a departmental, Arms Length Body or executive board or a portfolio board.*

### 3.6.4 Senior business owner

The senior business owner is accountable to a defined higher authority in the organisation for their assigned contracts (or group of related contracts) and/or their assigned supplier relationship and associated commercial activity, and should:

- own the justification for the contract(s)
- be accountable for all aspects of contract governance and management
- ensure commercial and other specialists are involved throughout the commercial life cycle
- evidence the effectiveness of contract management plans
- if applicable, be accountable for effective management of a strategic supplier relationship

*Note: in a programme or project context this role might be undertaken by a Senior Responsible Owner or other person assigned by them. In other contexts it might be a senior manager in the organisation.*

### 3.6.5 Contract manager

In the context of this standard a contract manager is an individual who has been assigned responsibility for managing the day-to-day delivery of a contract.

The contract manager is accountable to the senior business owner and should work with and be supported by others, including commercial specialists, to ensure the best possible outcome from the commercial life cycle activities (see 4).

*Note: in a programme or project context this role might be undertaken by a programme manager, project manager or team manager. In other contexts, it might be a line manager.*

*Note: the Contract Management Professional Standards (7) provides further guidance on required competencies and scope of the role.*

### 3.6.6 Commercial specialists

Other specialist commercial roles should be defined to suit the needs of the commercial activity being undertaken. This can be for managing a variety of aspects of commercial practice in accordance with this standard and the organisation's commercial governance and management framework. Such roles may be either advisory as part of a team, or taking a leadership or executive role with accountability assigned.

*Note: Government Commercial Function, People Standards for the Profession [8] includes the professional standards for a range of commercial management and specialist roles.*

### 3.6.7 Use of third parties

Employment of private sector agents to undertake commercial activity on behalf of the organisation should be subject to approval in accordance with the commercial governance framework. Such agents should be skilled and competent to carry out their tasks.

Clear allocation of responsibilities and, where appropriate, indemnity against costs should be established.

## 3.7 Governance constraints

### 3.7.1 Managing public money

Commercial activity shall be undertaken in accordance with Managing Public Money <sup>[3]</sup>.

### 3.7.2 Procurement policy notes

Commercial activity shall be undertaken with due regard to cross government and organisational procurement policies.

*Note: cross government commercial policy is published as Procurement policy notes <sup>[9]</sup>.*

### 3.7.3 Procurement regulations

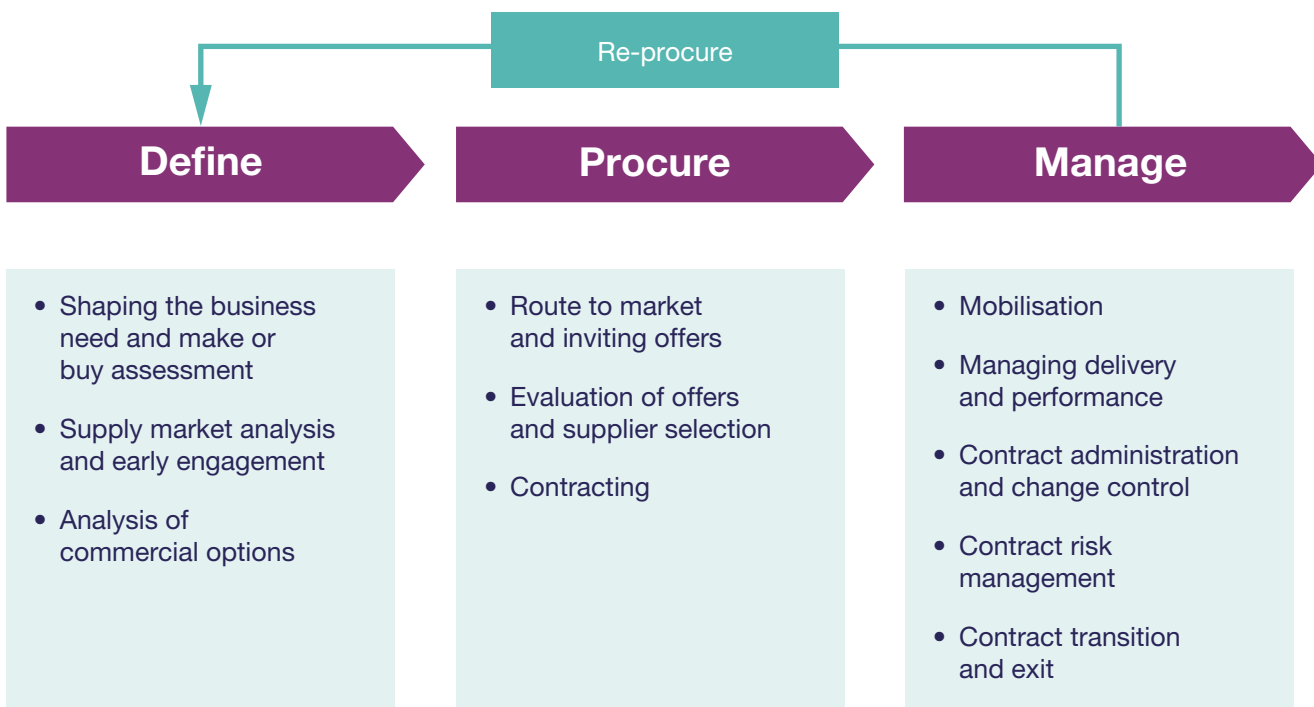
Public sector procurement is restricted by regulation which must be complied with. Such regulations apply to the majority of procurements with a total value over a specified threshold. They stipulate the procedures to be followed in the commercial lifecycle, especially relating to time limits, specifications, advertising, tendering and contract award. Organisations should select the most appropriate procedure on a case-by-case basis.

*Note: public sector procurement is governed by the regulations that implement the EU Procurement Directives, the PCRs 2015, the UCRs 2016, and CCRs 2016 <sup>[10]</sup>.*

## 4 Commercial life cycle

The commercial life cycle (figure 2) provides a framework for defining commercial strategies and the delivery and management

of contracts in support of organisational and governmental needs.



**Figure 2 The components of the commercial life cycle**

### 4.1 Define

#### 4.1.1 Shaping the business need and make or buy assessment

Shaping the business need and assessing whether to deliver the requirement in-house or to contract with a third party (make or buy) helps to ensure the commercial strategy and approach delivers the business objectives and aligns to the supply market capacity and capability.

Commercial specialists should be appointed early to support definition of the business need and a make or buy assessment. Market intelligence and engagement should be utilised to help shape the need and inform the assessment.

*Note: refer to Government Outsourcing Playbook <sup>[11]</sup> for detail on conducting a ‘make or buy’ assessment.*

The business need should be translated into requirements which can be defined in a contract or equivalent commercial format. Demand analysis should be carried out to fully quantify the requirement and identify opportunities for consolidation. Data, asset registers and other information applicable to the requirement should be gathered and used to ensure accurate specification of the need. Requirements should as a minimum:

- be output or outcome based
- be accessible to the targeted supply market and aligned to market place capability
- be sufficiently flexible to allow for possible future changes or innovation

- take account of how delivery will be managed
- allow performance and outcomes to be measured
- take into account whole life costs and supplier cost drivers
- take account of mobilisation, transition and exit if relevant
- take account of implementation and delivery risks

The inclusion of a pilot phase should be considered for contracts where a complex service is outsourced for the first time and there is limited information available about the requirements and risks. The pilot phase involves running the service for a limited period to test viability. See further guidance in the Outsourcing Playbook <sup>(11)</sup>.

#### 4.1.2 Supply market analysis and early engagement

Early market engagement can lead to increased competition, promote innovation and improve value for money in contracts by ensuring potential suppliers have sufficient time to appropriately influence, understand and prepare to make an offer against the contract requirements.

A commercial specialist should assess the business need, conduct supply market analysis and recommend the most appropriate market engagement approach. Outcomes from the market analysis and market engagement should be used to shape the business need, define the contract requirements and develop the commercial options. Where available, supply market intelligence contained in existing category strategies should be utilised (see 5.1).

All eligible commercial opportunities should be advertised in the public domain.

*Note: early market engagement might include adverts in Contracts Finder, publication of Prior Information Notices, Requests for Information, supplier messaging and supplier days.*

#### 4.1.3 Analysis of commercial options

Identifying and analysing commercial options enables effective appraisal and selection of the optimum commercial approach to delivering the intended outcome.

*Note: refer to the Green Book <sup>(7)</sup> and associated guidance for detail on options appraisal and developing the commercial elements of a business case.*

For eligible contracts, justification for choosing a particular commercial option should be documented. This should be done through cross-functional analysis, and the timely production of commercial cases with options for appraisal and a recommendation for a preferred commercial option.

The analysis of commercial options should take account of:

- characteristics of the requirement and demand analysis
- opportunities and constraints in the supply market
- opportunities for cross-government collaboration
- findings from market analysis and engagement
- procurement regulations and policy
- existing category strategies
- risk allocation and risk premiums
- possible routes to market
- options for forms of contract and payment models
- how the contract should be managed

Commercial options should be chosen to maximise competition unless there is a clear justification for selecting an alternative approach.

Analysis should be conducted in accordance with GovS 010, Analysis.

*Note: please refer to the Outsourcing Playbook <sup>(11)</sup> for further guidance on risk allocation*

## 4.2 Procure

### 4.2.1 Route to market and inviting offers

The selected route to market should be justified and aligned to the selected commercial option (see 4.1) and comply with current prevailing commercial policy and applicable regulations (see 3.7).

*Note: routes to market might include using existing government framework agreements, open competition, restricted competition, direct award and changes to an existing contract.*

Supplier(s) should be invited to submit documented offers to deliver the requirement in accordance with processes and controls defined in the organisation's commercial procedures or equivalent and in compliance with regulations.

*Note: please refer to the Outsourcing Playbook <sup>(1)</sup> for further guidance on supplier dialogue and negotiation.*

### 4.2.2 Supplier selection and evaluation of offers

Effective supplier selection and evaluation of offers ensures the appropriate supplier is chosen to undertake the work, that required outcomes are obtained and that value for money is achieved.

The criteria for selecting suppliers and offer evaluation method shall be established before inviting offers from the supply market.

Offer evaluation criteria enables differentiation between supplier offers and should consider both priced and unpriced elements to identify the most economically advantageous offer, including but not limited to:

- quality
- deliverability
- capability, knowledge and skills (only where critical to the delivery of a service)

- social value
- price and whole life cost

Where the contract is high risk, methods such as should cost modelling and sensitivity analysis should be used to assess the risks relating to different offers.

Proportionate due diligence, including financial testing, should be carried out on the selected supplier prior to recommending a contract award.

Contract award recommendations should be justified and approved in accordance with section 3.4.2.

*Note: refer to Outsourcing Playbook <sup>(1)</sup> for further guidance on bid evaluation techniques and supplier due diligence.*

### 4.2.3 Contracting

A contract is a legally binding agreement that sets out obligations between parties. The purpose of a contract is to manage expectations and set boundaries between the contracting parties and minimise the likelihood of disputes.

A form of contract should be selected prior to inviting offers from the market. Model forms of contract should be used, except when otherwise justified, to facilitate more efficient sourcing and contract management and to avoid prejudicing the position of either party.

Risks applicable to a contract should be identified and apportioned within the contract to the parties best placed to manage the risk (see 5.3). The approach to risk allocation should be agreed as part of the commercial strategy and inform the contract model and pricing mechanism. Each contracting party's liabilities and obligations should be documented and communicated to relevant stakeholders.



The contract should define how the supplier should be paid for delivering the requirement. The pricing mechanism should:

- take account of risk appetite of both contracting parties and the risk allocation approach
- take account of the level of scope definition and consider the extent to which the scope is expected to change
- include the cost of potential future options

Finalised contracts should reflect negotiations with the prospective supplier and shall be signed by duly authorised representatives from the contracting parties. No work should start until a binding contract exists.

## 4.3 Manage

### 4.3.1 Mobilisation

Contracts should be allocated a tier in accordance with definitions set out in the organisation's commercial governance framework. Roles and responsibilities in managing the contract should be confirmed, including assignment of the senior business owner, contract managers, commercial specialists and other roles as required at the point of initial approval. The budget for the contract shall be set up and processes for committing and monitoring contract spend established.

Contract mobilisation obligations should be understood by the parties prior to contract commencement and undertaken in accordance with an agreed mobilisation plan.

The agreed contract management plan should be finalised for applicable contracts, as defined in the commercial governance and management framework. The contract management plan should include but may not be limited to:

- definition of the contract management team, including roles and responsibilities
- contract risk management approach, including set up of risk and issue logs
- contingency options
- the plan for exit or transition
- plan for re-procurement or contract extension if applicable (see 4.4)
- the processes and tools required to support contract administration, monitor delivery and manage performance

When the contract involves taking on a service from an incumbent supplier, mobilisation shall be planned to take into account the outgoing supplier's transition plan.

The contract manager should track the delivery of mobilisation obligations against the contract and mobilisation plan.

### 4.3.2 Managing delivery and performance

Delivery of goods, works and services should be managed and supplier performance monitored to ensure intended outcomes and benefits from contracts are realised.

The contract manager should ensure the necessary resources, processes and systems are in place to:

- instruct the supplier to provide the goods, works or services
- track delivery against contractual obligations
- monitor performance, assure quality and realise benefits
- manage operational service and supply issues
- drive continuous improvement
- validate invoices, make payments and track costs

Contract managers should ensure supplier performance management information is available and regular reviews of supplier performance are carried out proportionate to the contract risk. This may also include audits and sample testing of delivery against obligations. The contract manager should regularly report to the senior business owner the effective application of their contract management plan and the ongoing performance of the supplier.

Where performance is unlikely to, or does not meet the requirements of the contract, preventative and/or corrective action should be taken, within the terms of the contract, to remediate the situation, such as through formal notice or a performance improvement plan.

A process for managing contract disputes should be established and the status of ongoing contract disputes monitored and reported.

Periodically through the life of a contract, the senior business owner, supported by the contract manager and commercial specialists, should ensure that the contract accurately reflects the parties' relationship, current risks, market conditions and that the contract continues to deliver the organisation's business needs and value for money.

#### 4.3.3 Contract change control

Contract changes shall be justified and controlled to ensure the requirements continue to meet the organisation's business needs. Contractual change control should ensure:

- there is an audit trail of contractual changes defined in a change register
- the cost of change is quantified and justified with reference to the original business case

- required approvals are received prior to implementation (see 3.4)
- evidence is retained to inform future procurement and in case of a later dispute
- the changes represent value for money and adhere to applicable regulations

#### 4.3.4 Contract risk management

Contract and supply chain risks should be identified, logged and maintained in a risk register and risks managed in accordance with the organisation's commercial risk management approach (see 5.3).

For high risk contracts, stress testing and scenario analysis should be used to identify and classify risks. Organisations should have in place contract contingency plans for high risk contracts to mitigate against contract failure.

Where applicable, organisations should ensure suppliers have agreed resolution plans in place to ensure continuity of service provision.

*Note: refer to Government Outsourcing Playbook <sup>[11]</sup> for further guidance on resolution planning.*

The financial health of suppliers can change during the life of a contract and organisations should have mechanisms in place to monitor and ensure early warning of changes to financial standing of its key suppliers and respond accordingly.

#### 4.3.5 Contract transition and exit

Contract transition ensures, in cases where a service is passed from one party to another, that a complete and smooth handover is conducted, with no unplanned interruption to service.



Transition goals and responsibilities should be defined in a transition plan, agreed and activities allocated to the responsible parties including, but not limited to:

- data handover
- supplier staff transition
- contingency plans

All eligible contracts should include transition responsibilities for each party and allow for the modification or expansion of the transition arrangements.

Contracts may be exited either when completed or when terminated early.

Early termination of a contract should be a last resort only enacted after other provisions for the delivery of the contract, including contractual remedies for improving performance, have been exhausted. When early termination provisions are enacted, this shall be approved by an authorised representative and all measures to minimise the cost and impact of the termination should be considered.

On contract closure, all information systems should be updated, staff and facilities (if any) reassigned and the contract documentation archived in accordance with the organisation's information retention policy and procedures.

## 4.4 Re-procure

The senior business owner should ensure that the approach to re-procurement, if required, is agreed early and all commercial options are analysed in accordance with 4.1.

Contracts should only be extended after undertaking a review of available commercial options. The commercial pipeline should be used to ensure such reviews occur in sufficient time prior to a contract extension notification date to allow time for analysis, selection and implementation of the best option (including running a new competition and subsequent mobilisation).

# 5 Commercial management practices

## 5.1 Category and market strategies

### 5.1.1 Category strategies and expertise

An organisation can segregate its third party spend into categories and may appoint category experts to manage this spend through the development and implementation of category strategies and plans.

The purpose of managing third party spend by category is to:

- develop and utilise category and supply market expertise
- realise opportunities for collaborative sourcing
- access innovation and secure supply from the market
- co-ordinate effective sourcing and supplier management
- assist market development where required

*Note: example categories include technology, professional services, facilities and utilities.*

Where applicable, organisations should develop category strategies, which should include:

- key stakeholders and engagement strategies
- category spend and demand analysis
- existing category resources and future requirements

- existing contract portfolio within the category (from the management information system, see 5.5)
- supply market analysis
- prioritised value delivery opportunities to be delivered as part of a category plan

The category strategies and plans should be approved in accordance with the organisation's commercial governance and management framework.

### 5.1.2 Collaborative procurement

Organisations should maximise purchasing power by aggregating demand and utilising collaborative procurement channels including, where it represents best value for money, the use of the Crown Commercial Service collaborative procurement deals.

*Note: the Crown Commercial Service <sup>[17]</sup> provides a collaborative procurement service, particularly for common goods and services, so that public sector organisations with similar needs achieve value for money by buying as a single customer. The Crown Commercial Service also develops and delivers government-wide category strategies and plans in common categories.*

### 5.1.3 Market development

In constrained markets and in areas where first generation outsourcing is being considered, market making or development might be required to ensure a capable and sustainable supply market exists to service the business need.

Organisations should conduct analysis of its key supply markets to understand the key characteristics including but not limited to:

- strengths, weaknesses, opportunities and threats in the market
- key existing and emerging suppliers
- market trends and projections

Market analysis should be used to inform whether market making or market development is required. Where market making or development is required, organisations should produce a market development plan.

Market development activities may be delivered through a category team, supplier relationship management team or as part of the commercial lifecycle.

*Note: for further guidance on market development and first generation outsourcing considerations, refer to Playbook 1 [11].*

## 5.2 Supplier relationship management

The purpose of supplier relationship management is to:

- engage collaboratively with strategic suppliers to improve delivery of organisation objectives
- increase mutual value beyond that contracted
- manage risk and ensure security of supply

Supplier relationships should be developed and maintained with key suppliers at both a government (see figure 3) and organisational level. High impact suppliers should be selected based on their criticality, value and potential impact on government policy and organisational objectives.

Each supplier selected for relationship management shall have an assigned senior business owner. Suppliers should be segmented according to their commercial and business impact. A list of suppliers to be managed should be maintained at government and organisational levels, referenced by category and tier.

Supplier relationships should be collaborative and of mutual benefit to both parties. A supplier relationship plan should be developed, aimed at:

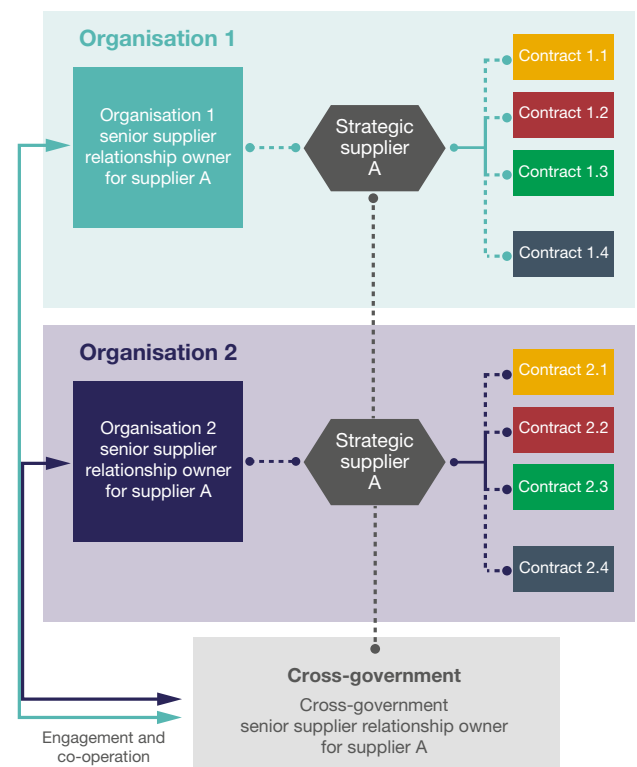
- improving relationships
- reducing risk
- securing supply
- improving operational efficiency
- improving value for money

Benefits from supplier relationship management should be defined in the plan and measured on an ongoing basis.

*Note: management of cross government suppliers is delivered through the strategic partnering programme [13].*

*Note: for further information on this section, see guidance on supplier relationship management [14].*

**Figure 3 Example of a strategic supplier being managed across government and within a number of organisations**



## 5.3 Commercial risk and issue management

The purpose of commercial risk and issue management is to ensure government contracts are awarded and completed successfully in support of government policy or organisation objectives, taking into account the extent of identified threats and opportunities. Overall risk should be managed within the organisation's risk appetite and tolerance and in accordance with the Orange Book <sup>[15]</sup>.

A risk is an uncertainty of outcome (positive or negative).

An issue is a relevant event that has happened (or is inevitable), was not planned and requires management action.

Risks and issues should be:

- identified, assigned an owner and evaluated
- responded through mitigating actions to eliminate, reduce or avoid consequences or reduce the possibility of occurrence; risks may be accepted
- monitored to resolution and closed when no longer valid

Risk controls should be reviewed to ensure they are still effective.

Commercial risks might relate to:

- the ability of the market to provide the quantity and quality of services or goods required
- interruptions to public services which rely on suppliers
- poor performance by suppliers
- impact of uncertainties in volume of service or goods provided

- failure of a supplier to meet all or part of their obligations
- contract provision for risk allocation

Organisations shall ensure effective risk management is established in their assurance and governance processes. Risk registers should be defined, maintained and regularly reviewed by senior business owners and the senior officer accountable for an organisation's commercial activity. Risk registers should include key risks and associated mitigations relating to the commercial portfolio.

Organisational contingency and business continuity planning should be defined for contracts where failure presents a clear risk to organisational objectives. Ownership for enacting plans should be defined.

For critical outsourced services, risk management and contingency planning should be conducted in accordance with the Government Outsourcing Playbook <sup>[11]</sup>.

## 5.4 Commercial capability and resourcing

The management of commercial capability, capacity, resourcing and competency ensures that an organisation has the right commercial resources and skills in place when needed.

Organisations should have in place a commercial operating model capable of delivering the scope of this standard, including the pipeline of future commercial activity and other activities necessary to manage and respond to risks and issues. The resource baseline should include the target cost of the function, staff grade mix and resourcing plan in the context of its scope, which may include grants and revenue generation as well as procurement.

Commercial activity should be planned in sufficient time to enable resources to be identified and mobilised.

Commercial work should be assigned to people who are competent, experienced and, where applicable, are accredited to carry out their assigned role. The appropriate level and number of commercial specialists, who are trained and have proven competency, should be assigned to each eligible contract.

*Note: details of the commercial skills and competencies are outlined in the Commercial Career Framework [16] which describes common role types, capabilities and learning opportunities for commercial professionals across government.*

Organisations should provide guidance and support to those undertaking commercial activities and promote effective contract management and commercial delivery.

## 5.5 Systems and management information

### 5.5.1 Commercial systems and data

Organisations should make use of appropriate commercial systems and data to enable process efficiency, robust controls and effective decision making. Commercial systems might be used to enable sourcing processes, requisition to pay processes, contract management, supplier and market relationship management and commercial planning.

Management information should be used to support the development of the commercial strategy and plan and the undertaking of the practices defined in this standard.

### 5.5.2 Document management and record keeping

Document management and record keeping ensures necessary information,

documentation, data and other records (both physical and electronic) are securely stored, distributed and retrievable when needed to support and evidence commercial management practices.

Information, documents, data and records relating to contracts and which need to be managed should be defined.

Contract information shall be retained to meet statutory and contractual requirements, in accordance with organisational information retention policies and legal requirements.

Records and data relating to a specific contract should be readily available.

### 5.5.3 Reporting

Reporting ensures management teams and interested parties are aware of the current status and outlook regarding all aspects of commercial management defined in this standard.

A reporting framework should be defined as part of the commercial governance and management framework which meets the needs of report recipients in a timely manner. This should be:

- for government, as a whole
- for each organisation
- for each contract

Reporting to the public on suppliers and contracts shall reflect commercial policy and regulations (see 3.7).

Organisations should be able to report on all commercial activity and contracts in their pipelines by name, tier, category, value and risk rating, together with accountabilities, collated with other data, as needed.

*Note: the listing of current contracts is often called a contract register.*

## 5.6 Continuous improvement

Continuous improvement ensures government commercial practices, at government and organisational levels, become more effective, delivering improved outcomes and value for money in contracts.

At the start of commercial work, those involved should identify and apply relevant lessons from previous work. Throughout the commercial life cycle, lessons, including feedback from suppliers, should be captured, evaluated and shared to facilitate continuous improvement.

Organisations should have a continuous improvement plan in place as part of their overall commercial strategy and plan. Progress should be reported regularly to relevant stakeholders. Organisations should collaborate to facilitate continuous improvement including:

- accessing best practice
- sharing lessons learned
- peer reviewing commercial practices
- completing periodic assessments of current practices using the Government Commercial Standards Assessment Framework [see Annexe E]

Organisational leaders and owners of standards, processes, methods, commercial policy notes, tools and training should update their knowledge sources and communicate learning as appropriate.

# Annex A. References

ID	Description
1	Commercial pipeline guidance <a href="https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/683067/Commercial_Pipeline_Guidance_Feb_2018.pdf">https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/683067/Commercial_Pipeline_Guidance_Feb_2018.pdf</a>
2	HM Treasury (2012), Assurance frameworks guidance <a href="https://www.gov.uk/government/publications/assurance-frameworks-guidance">https://www.gov.uk/government/publications/assurance-frameworks-guidance</a>
3	HM Treasury, Managing Public Money <a href="https://www.gov.uk/government/publications/managing-public-money">https://www.gov.uk/government/publications/managing-public-money</a>
4	Cabinet Office, Cabinet Office controls <a href="https://www.gov.uk/government/publications/cabinet-office-controls-version-5/cabinet-office-controls-policy-version-5">https://www.gov.uk/government/publications/cabinet-office-controls-version-5/cabinet-office-controls-policy-version-5</a>
5	HM Treasury (2017), Accounting officer system statements <a href="https://www.gov.uk/government/collections/accounting-officer-system-statements">https://www.gov.uk/government/collections/accounting-officer-system-statements</a>
6	HM Treasury (2017), Accounting officer assessments <a href="https://www.gov.uk/government/publications/accounting-officer-assessments">https://www.gov.uk/government/publications/accounting-officer-assessments</a>
7	Contract Management Professional Standards <a href="https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/683151/6.4006_CO_Commercial_Capability_Programme_Framework_Interactive.pdf">https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/683151/6.4006_CO_Commercial_Capability_Programme_Framework_Interactive.pdf</a>
8	Government Commercial Function, People Standards for the Profession <a href="https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/583625/People_Standards_for_the_Profession_v2.0.pdf">https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/583625/People_Standards_for_the_Profession_v2.0.pdf</a>
9	Procurement policy notes (This collection brings together all procurement policy notes, providing guidance on best practice for public sector procurement.) <a href="https://www.gov.uk/government/collections/procurement-policy-notes">https://www.gov.uk/government/collections/procurement-policy-notes</a>
10	Public procurement policy <a href="https://www.gov.uk/guidance/public-sector-procurement-policy">https://www.gov.uk/guidance/public-sector-procurement-policy</a>
11	Government Outsourcing Playbook <a href="https://www.gov.uk/government/publications/the-outsourcing-playbook">https://www.gov.uk/government/publications/the-outsourcing-playbook</a>

ID	Description
12	HM Treasury, The Green Book: appraisal and evaluation in central government (with associated guidance) <a href="https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government">https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government</a>
13	Crown Representatives and strategic suppliers <a href="https://www.gov.uk/government/publications/strategic-suppliers">https://www.gov.uk/government/publications/strategic-suppliers</a>
14	Government Supplier Relationships Management Programme <a href="https://www.gov.uk/government/publications/civil-service-helping-you-with-managing-suppliers-and-contracts/civil-service-helping-you-with-managing-suppliers-and-contracts">https://www.gov.uk/government/publications/civil-service-helping-you-with-managing-suppliers-and-contracts/civil-service-helping-you-with-managing-suppliers-and-contracts</a>
15	HM Treasury, The Orange Book: management of risk – Principles and Concepts <a href="https://www.gov.uk/government/publications/orange-book">https://www.gov.uk/government/publications/orange-book</a>
16	Commercial career framework <a href="https://www.gov.uk/government/publications/the-commercial-career-framework">https://www.gov.uk/government/publications/the-commercial-career-framework</a>
17	Crown Commercial Service <a href="https://www.gov.uk/government/organisations/crown-commercial-service">https://www.gov.uk/government/organisations/crown-commercial-service</a>



# Annex B. Glossary

[Glossary subject to review with wider functional standards programme]

Term	Definition
blueprint	A document that sets out the commercial operating model, required resources, organisation structure and core transformation/ improvement activities.
CASIE	A central government technology system, intended to aggregate data across organisations.
category management	Category management is the strategic approach for buying specific categories of goods and services that aligns organisational spend and requirements with supply market capability and capacity. The majority of organisational external spend can be grouped into common categories.
category plan	A category plan defines how the category strategy should be delivered. Category plans include performance reporting for the category, project management approach and risk management.
category strategy	A category strategy defines the overall approach to managing the category, including the strategic objectives and how the category should support the wider business objectives.
commercial	Commonly used term in central government to define broad procurement activity, but does not include wider commercial activity including income generation for the purposes of this document.
commercial pipeline	A commercial pipeline provides an ongoing view of commercial activity so that sufficient time and resources can be allocated to develop commercial strategies, make recommendations and act upon them.
commercial specialists	Staff, of any rank, with particular expertise in the undertaking of specialist commercial activities as defined in this standard, including commercial specialist roles as defined in the Government Commercial Function people standards [8].

Term	Definition
commercial system	A technology system designed and used specifically for commercial use.
complex outsourcing	First generation outsourcing; significant transformation of service delivery; obtaining services from markets with limited competition or where Government is the only customer; and/or any service obtained by contract that is considered novel or contentious.
contingency planning/ plans	A course of action and resulting document(s) that prepares the organisation to respond effectively to future significant events, incidents and risks.
contract	A legally binding agreement that sets out obligations between parties. A contract can take any form, such as a licence agreement, memorandum, service agreement. (For the purpose of this standard the term is used to describe a broad range of commercial arrangements but does not include grants which are covered in GovS 015, General Grants.)
contract Management Plan	Documented plan which sets out the resources, risks and contract management activities required to effectively manage a contract.
contract segmentation	A process through which the contract portfolio is categorised according to the organisations judgement of risk, value and criticality.
demand management	An approach to understanding, forecasting and influencing the requirements of the organisation through alignment with market capacity and capability.
dynamic purchasing system	An electronic system used to procure commonly used goods, works or services, and which allows suppliers to apply to join at any time.
lines of defence	An assurance model that defines three distinct groups of stakeholders involved with separate but complimentary assurance activity (see Functional Standard).

Term	Definition
market structure	The interconnected characteristics of a market, such as the: number and relative strength of buyers and sellers and degree of collusion among them; level and forms of competition; extent of product or service differentiation; and ease of entry into and exit from the market.
mobilisation plan	A plan detailing how a supplier intends to mobilise their resources ready for undertaking their contract obligations.
project validation review	Project Validation Reviews (PVR) – An assurance review that brings together the full weight of cross government expertise at the early stages of the project to help assure deliverability, affordability and value for money.
route to Market	The route to market is the approach selected to invite an offer or offers from the supply market. Example routes to market include using existing government framework agreements, open competition, restricted competition, direct award and changes to an existing contract. Permitted routes to market are often restricted by public procurement regulations.
resolution plans	A component of contingency planning that defines how a significant incident will be resolved and who is accountable and responsible for the plan within the organisation.
scenario analysis	A process through which potential future requirements are explored with cross functional stakeholders to ensure contracts are sufficiently flexible to remain fit for purpose if demands and business objectives change.
should Cost	A financial modelling technique to determine the expected cost of goods or services that are provided by suppliers.
standardisation	The process of setting generally uniform characteristics for a particular good or service to improve value and streamline procurement activity.
strategic supplier	A supplier that is considered critical to delivery of an organisation's objectives and strategy.

Term	Definition
supplier segmentation	A process through which suppliers are categorised according to the organisations judgement over risk, value and criticality.
tier	The level a contract is assigned to in the organisation's hierarchy of criticality, as defined by its risk assumptions.
transition plan	Documented plan detailing how an incumbent service provider is to hand over their responsibilities to an incoming service provider.
whole life costs	A financial estimate to define all of the direct and indirect costs associated with a procurement or commercial arrangement. This includes costs contract management costs incurred by the contracting party. Also known as 'Total Cost of Ownership.

## Annex C. Example of aligning decisions between commercial work and a project's life cycle

### A simple single contract project

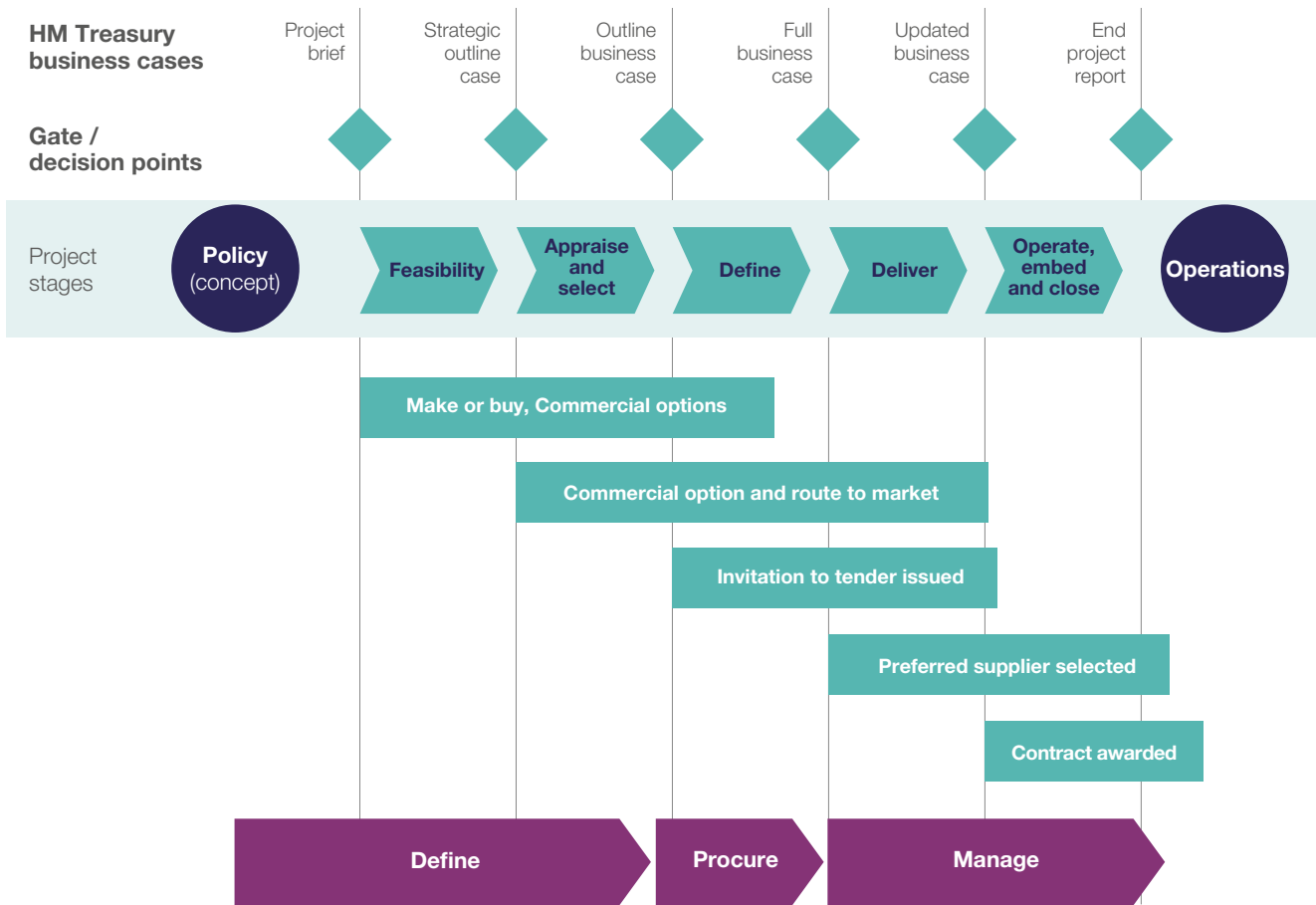
When a contract is part of a project or programme, the decision points should be aligned such that the commercial decisions are made as part of project decision making.

No commercial decision should be made which presumes the outcome of a project decision. For example, referring to the figure below, while a recommendation to award a contract to a particular supplier happens in the 'define' stage of a project, the actual award should not happen until after the full business case has been approved and start of the 'deliver' stage authorised. Mobilisation would start at the beginning of the 'deliver' stage.

The example below concerns the letting of a major contract, such as for the construction of a road – where the first three stages of the project are concerned with defining and designing the road scheme and the final two stages with the construction and handover, and use of the road, during its maintenance period. Such a project might also include other contracts, say for consultants to design the road, which would be let during the first stage of the project and run throughout the project life cycle.

For more information on project management see GovS 002, Project delivery.

Figure 4 – Example of comparative decision points between typical project and commercial life cycles



# Annex D. Example supplier and contract tiering

## Contract tiering

Various tools are available to support contract tiering. The best approach will depend on the contract portfolio, governance and assurance arrangements for each organisation but an illustrative example based on Cabinet Office guidance is shown below.

The full Cabinet Office guidance is available within the Knowledge Hub but can only be accessed by those who have been invited to join the relevant group.

**Figure 5 – Illustrative contract tiering methodology**

<b>1. Value</b>	–	<b>Description</b>	<b>Weighting</b>
<b>1.1</b> What is the Total Contract Value or expected Total Contract Value (incl. possible extensions)?			20%
<b>2. Complexity</b>	–	<b>Description</b>	<b>Weighting</b>
<b>2.1</b> How complex is the delivery or expected delivery of the goods/services?*			25%
<b>2.2</b> How quickly could organisation switch suppliers or re-procure the contract?			15%
<b>3. Risk Analysis</b>	–	<b>Description</b>	<b>Weighting</b>
<b>3.1</b> What is the potential impact of contract/supplier failure?*			30%
<b>3.2</b> Information Security Risk*		N/A	10%

## Supplier tiering (segmentation)

Many tools are available to tier and segment suppliers, including the identification of strategic suppliers. An example is of the Cabinet Office guidance for segmenting suppliers is shown below.

The full guidance is available at the following hyperlink:

### Figure 6

[Example supplier segmentation tool](#)

Evaluation Criteria	Description	Weighting
Risk	<p><b>0</b> – On aggregate risks identified are minimal</p> <p><b>1</b> – On aggregate risks identified are moderate and can be mitigated internally</p> <p><b>2</b> – On aggregate risks identified are significant or critical but can mostly be mitigated internally</p> <p><b>3</b> – On aggregate risks identified are business critical and often require supplier mitigation</p>	0.25
Spend	<p><b>0</b> – The forecast annual spend of all contracts with the supplier is less than £Xm</p> <p><b>1</b> – The forecast annual spend of all contracts with the supplier is greater than £Xm but less than £Xm</p> <p><b>2</b> – The forecast annual spend of all contracts with the supplier is greater than £Xm but less than £Xm</p> <p><b>3</b> – The forecast annual spend of all contracts with the supplier is greater than £Xm</p>	0.2
Scope	<p><b>0</b> – There is 1 contract with the supplier and this held is a single business area</p> <p><b>1</b> – There are a number of contracts with the supplier held in a single business area</p> <p><b>2</b> – There are a number of contracts with the supplier across the organisation</p> <p><b>3</b> – There are a number of contracts and unique supply chains with the supplier across the organisation</p>	0.1
Duration	<p><b>0</b> – The duration of the most significant contracts with the supplier is less than 1 year</p> <p><b>1</b> – The duration of the most significant contracts with the supplier is greater than 1 year but less than 3</p> <p><b>2</b> – The duration of the most significant contracts with the supplier is between 3 and 4 years</p> <p><b>3</b> – The duration of the most significant contracts with the supplier are in excess of 4 years</p>	0.1
Alignment	<p><b>0</b> – There is no alignment between the suppliers business aims and those of the organisation</p> <p><b>1</b> – There is some alignment between the suppliers business aims and those of the organisation</p> <p><b>2</b> – There is a high level of alignment between the suppliers business aims and those of the organisation</p> <p><b>3</b> – There is a high level of alignment between the suppliers business aims and culture and those of the organisation</p>	0.15



<p>Opportunity</p>	<ul style="list-style-type: none"> <li><b>0</b> – The organisation has not identified any additional value that could be achieved with the supplier other than that already identified within current contracts</li> <li><b>1</b> – The organisation has identified some additional value that could be achieved with the supplier beyond that already identified within current contracts</li> <li><b>2</b> – The organisation has identified a high degree of value that could be achieved with the supplier beyond that already identified within current contracts</li> <li><b>3</b> – The organisation has identified a high degree of value that could be achieved with the supplier and supply market beyond that already identified within current contracts</li> </ul>	<p>0.2</p>
--------------------	---	------------

# Annex E. Government Commercial Standards Assessment Framework

Please refer to separate attachment.



