

Contract Management

The steps that enable both the contracting authority and the economic operator to meet their obligations within the contract in order to deliver the objectives set by the contract – European Union

Important Issues for Contracting Authority

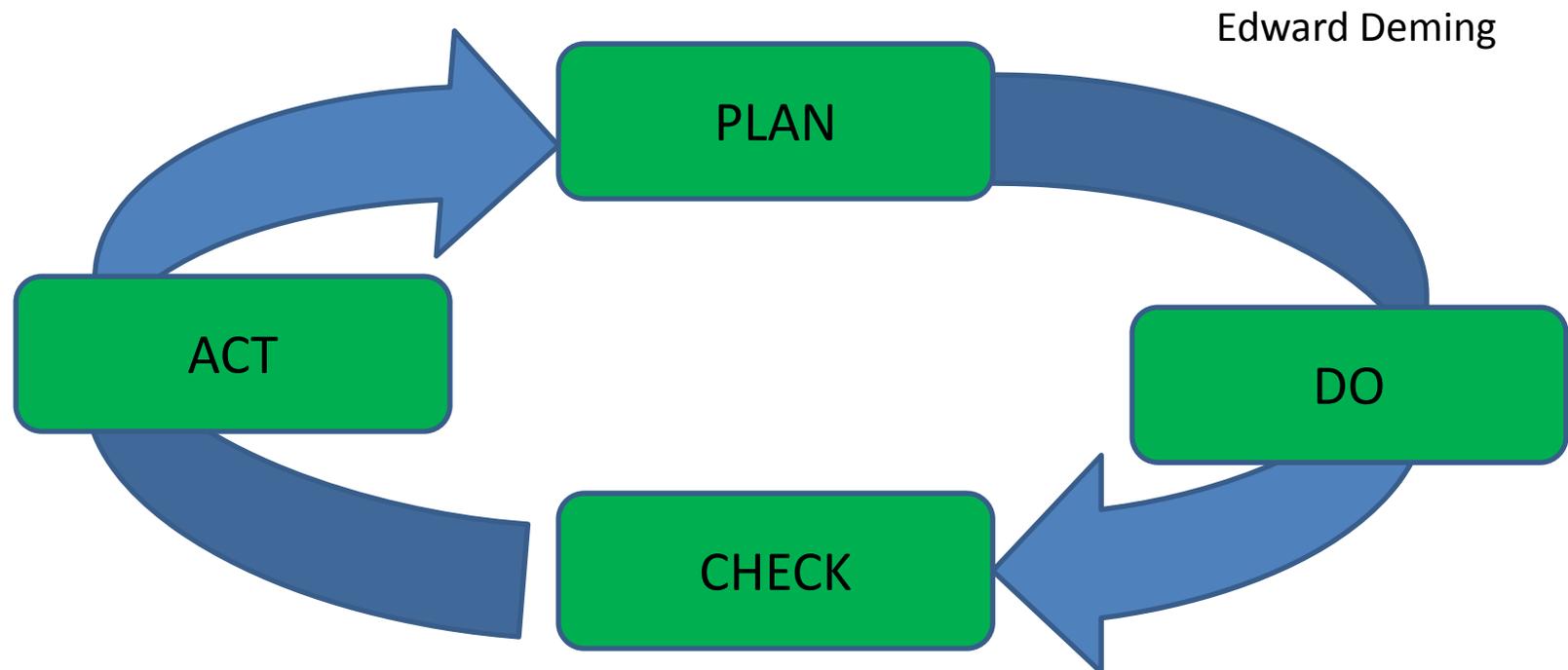
- Ensure that the Goods/Services/Works are delivered to the specification and terms and condition

Importance of contract management

- Organizations in both the public and private sectors are facing increasing pressure to reduce costs and improve financial and operational performance.
- New regulatory requirements, globalization, increases in contract volumes and complexity have resulted in an increasing recognition of the importance and benefits of effective contract management. (Source: Contract Management Guide CIPS)

Contract Management

For Successful Contract management – PDCA Cycle can be adopted.



The process of contract management

- Managing service delivery
Ensuring Service is being delivered at the required level of performance and quality, as stated in the contract
- Relationship management
Maintain Open and Constructive relationship
 - The three key factors for success are trust, communication, and recognition of mutual aims
- Contract Administration
Formal governance of the contract and changes to documentation during the life of the contract

Contract Management

Good Practice Note

- It is a good practice to hold first meeting (ice breaker) soon after the contract has been awarded.

WHY???

To:

- 1. Understand the roles and responsibilities of everyone present
- 2. Discuss the implementation and/or project plan
- 3. Discuss issues that impact on the operation of the contract
- 4. Discuss control mechanisms

Unmanaged Contract

- The provider is obliged to take control, resulting in unbalanced decisions that do not serve the customer's interests
- Decisions are not taken at the right time – or not taken at all
- New business processes do not integrate with existing processes, and therefore fail
- People (in both organizations) fail to understand their obligations and responsibilities
- There are misunderstandings, disagreements and underestimations; too many issues are escalated inappropriately
- Progress is slow or there seems to be an inability to move forward the intended benefits are not realized
- Opportunities to improve value for money and performance are missed.

“Ultimately, the contract becomes unworkable”

Source: Office of Government Commerce, UK

Contract Management

How to keep control of the contract?

- Performance Management
- Review meetings
- Managing the relationship
- Communication

Monitoring Sustainable Performance

- Where a contract includes sustainability provisions or specific sustainability key performance indicators (KPIs), public authorities must monitor contractor compliance with these provisions. (Refer SBD's clauses)
- Sustainability KPIs must be measurable and clearly defined. The contract should specify actions that may result if there is a downward trend or fall in performance against any agreed benchmark or threshold. Potential approaches to addressing sustainability through KPIs may include:

Approaches to addressing sustainability through KPIs may include

- setting specific targets or actions that the supplier is required to meet within a prescribed timeframe — e.g. requiring a contractor that indicated in their offer they were moving towards implementing an ISO 14001 accredited Environmental Management System, to achieve accreditation within one year of contract commencement.
- requiring a contractor to progressively increase the sustainability performance of their products — e.g. a minimum of 30% of a supplier's product catalogue have a certain environmental certification or eco-label standard within two years of contract commencement, and this is to rise to 40% by the end of year four.
- requiring supply chain initiatives or reporting — e.g. reporting on the origin and certification of products or components (such as imported timbers).
- requiring contractors to provide a general update (e.g. an annual report) on their progress, initiatives and innovations relating to sustainability.
- In order to have the information available to measure the benefits associated with sustainable procurement, it is vital that related performance measures and reporting requirements are specified in the request document.
It is then the responsibility of the Contract Manager to proactively manage the contract and ensure that KPIs are monitored and reporting requirements met.
- Refer reading material : Sustainable Public Procurement Guidelines.

Reasons for contract failure

- Poorly drafted contracts
- Inadequate resources are assigned to contract management
- The customer team does not match the provider team in terms of either skills or experience (or both)
- The wrong people are put in place, leading to personality clashes
- The context, complexities and dependencies of the contract are not well understood
- There is a failure to check provider assumptions
- Authorities or responsibilities relating to commercial decisions are not clear
- A lack of performance measurement or benchmarking by the customer
- A focus on current arrangements rather than what is possible or the potential for improvement
- A failure to monitor and manage retained risks (statutory, political and commercial).

Effective objectives: 'SMART'

- **Specific**
 - clear and well-defined statement
- **Measurable**
 - susceptible to monitoring, review and measurement
- **Attainable**
 - achievable and realistic, given the time and resources available
- **Relevant**
 - performance measures should be relevant to, and aligned with, the strategic objectives of the organisation and the policies and objectives of the procurement function
- **Time-bounded**
 - given defined timescales and deadlines for completion (or review)

Contract performance measurement

Performance measurement

- is a key factor for ensuring that contract objectives and targets are met
- Ensures that the rights and obligations of the parties to the contract are correctly fulfilled
- performance measurement methodology should be an integral part of the preparation of tender and contract documentation,
- Must be understood and agreed by all parties when entering into the contract

Why Contract performance measurement?

- Provides the ultimate answer to the question of whether a particular contract – but also, a public procurement system, at all levels and in all its parts – works efficiently and delivers “value-for-money”.

Benefits of measuring contract performance

- Provides evidence regarding the achievement of value-for-money in response to the requirements set up for the individual procurement operation
- Provides information and guidance on the quality, capacity and capability of the public procurement system
- Will receive valuable feedback and confirmation
- The continuous process of “lessons learned”
- Position to Compare

Setting and measuring contract performance

Requirements and measurement will typically be set out in the agreed specification

The performance requirements that are common to most contracts for works, supplies and services are:

- Time
- Benefits/cost
- Quality

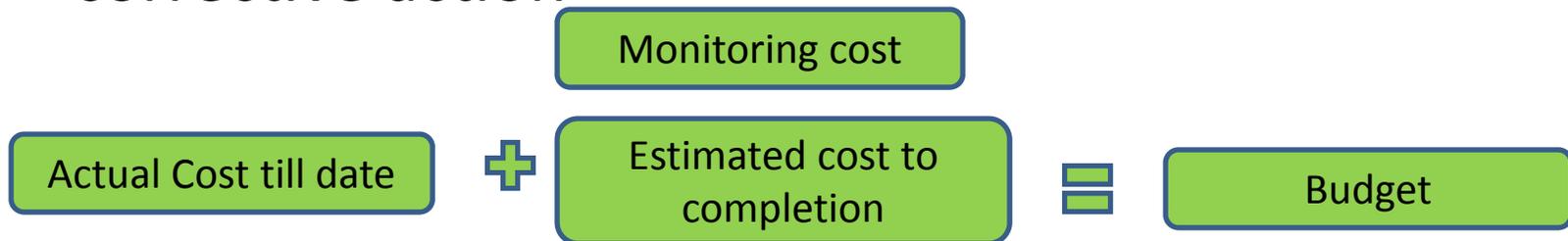
Setting and measuring contract performance

- Time – Short term projects (Works/Goods/Services) can a sufficient to measure performance
- For Long term Projects - accurate process of monitoring is required – to achieve final deadline.
 - schedule of key dates
 - a programme (which can range from very simple to very detailed)
 - a cash flow forecast
 - manpower curve

Setting and measuring contract performance

- Benefits/cost

- Price Paid to the Contractor/Supplier/Consultant
- Compare Actual cost to the Budget
- monitor costs throughout the contract period – To prevent from budget overrun and to take corrective action



Setting and measuring contract performance

Quality

“good value-for-money” is very closely related to the term quality

End product that results from the contract (whether supplies, works or services) meets the expectations

Quality achieved through means of inspection, testing or review processes that are specified in the contract

Verify that the product remains usable satisfying performance criteria
- comparing operation and maintenance costs to a budget or by means of user satisfaction surveys

Setting and measuring contract performance

- Check the **Environment and Social Criteria's are fulfilled**
 - How many jobs were created/were handicapped people were employed
 - How many trainings were given
 - How many safety incident occurred
 - How many complaints were received from the local community about noise, dust or pollution emanating from the site of work

Benefits of effective contract management

- Better control by the buyer over the execution of a contract (including performance to sustainability standards)
- Maintaining communication with the supplier during the course of the contract, and helping to achieve better performance of the contract by the supplier
- Promoting improvements in cost, quality and sustainability, thereby adding value
- The ability to anticipate and foresee sustainability problems early, and deal with them before they become serious

Post-contract 'lessons' management

- Whether and how far the project outcomes met the expectations of the sponsor and other stakeholders
- The effectiveness of the management of the process
- What on going risks, challenges, conflicts, trade-offs and barriers to sustainable procurement emerged during the project, and what solutions, improvements, steps forward or potential future opportunities (if any) could be identified

Contract Review

- At the end of a contract, or when deciding whether to exercise any available extension options sustainability performance should be included as part of the contract review process. Before deciding if a contract should be renewed or extended it is important to:
- review performance against the agreed sustainability KPIs;
- determine whether the desired sustainability objectives have been met and/or exceeded, and whether they still align to the Government's and/or the public authority's sustainable procurement strategy;
- assess whether the public authority's value as a client has changed or whether the market has changed (i.e. are there new suppliers in the market or new, more sustainable products available);
- document findings and lessons learned, so that this information can be used in the planning stage for any future contract.

Source: Sustainable Procurement practice guidelines, Australia, 2014.