**Fundamentals of Contract Management**

**Introduction**

This document looks at the fundamentals of contract management to ensure you are fully equipped and prepared right from the outset. This section explores planning and preparation for your contract, the management and delivery including relationships, good practice for contract administration and how to seek improvements.

**Preparation and Planning**

Good preparation and planning prior to letting a contract is fundamental for a successful contract. When planning your contract, you should allow for active management, which in turn means ensuring you have the right people in place to manage the contract from the outset.

**What you need to do**

Make sure you choose the right contract

The contract sets out the rules, terms and conditions by which both parties must operate. By selecting the correct contract from the outset, this will ensure both parties can operate as necessary and develop a good working relationship.

If the contract is put together poorly, or not understood by the CA, it will make contract management more difficult and harder to form a good working relationship with the contractor.

**What you should consider**

Ensure the contract includes the following (where appropriate)

* A clear definition of the works or services which need to be carried out during the contract
* A way to record and monitor performance
* An agreed level of service, and mechanisms for a reduction in payment if this is not met
* Pricing mechanisms, along with stage or interim payments, any incentive you wish to have, retentions (where necessary) and a method for dealing with variations, invoices
* Review a standard form of contract and seek advice about any amendments which might be necessary to meet internal processes (SEC can assist you with this).
* A method for transferring data, warrantees, O&M manuals etc. at the start and end of the contract
* Preferred communication routes, timings etc.
* Data security and intellectual property provisions
* A plan in place to successfully manage implementation, transition, mobilisation etc.
* Escalation procedures are in place along with mechanisms for dispute resolution

**What you need to do**

Allow sufficient resources to manage the contract

It is important you have sufficient resources to manage the contract so that it can be managed effectively. There are 3 key areas of contract management which are, performance/delivery management, relationship management and contract administration. Each area is important and planning of your resources at the outset will ensure these areas are managed successfully.

**What you should consider**

* Decide how to organise your staff to manage each of the areas. It might be an idea to assign a dedicated individual for each area, or a team. An individual might be suited to cover more than one area.
* Remember different skills, techniques and knowledge will be required in each of the different areas
* Each of the different areas will be required to be actively managed.
* Consider if any additional training is required for staff managing the contract
* Where possible, include key staff members who will be managing the contract at the planning stage. Their input will ensure they understand what the contract is trying to achieve

**Managing Service Delivery**

This stage is usually when the tender process has been completed and you are mobilising the contract, and then right through the life of the contract. There are key areas for consideration and items which you should aim to do to ensure the contract is actively managed. By performing these tasks, this will assist you in meeting the aims and objectives of the contract and allow for a good working relationship with your contractor or service provider.

It specifically relates to establishing service levels and making sure they are maintained throughout the contract. There is a balance to be struck between cost and quality to make sure you have an overall value for money approach. It is also about managing risks and having continuity plans in case of a service failure or interruption.

**What you need to do**

Manage the contractor/supplier

Once the contract is let and you have a supplier or contractor on board there is an opportunity to develop supply chains and shape the delivery that is required. It is a good opportunity at the pre-contract meeting to discuss these items. It is also good practice to ensure there is a method for providing feedback on client performance

**What you should consider**

* Ensure there is embedded sustainability performance criteria in the contractor programmes
* For effective contract management, it is critical to ensure there is a good supply chain or service delivery for the duration of the contract. Discuss this with your contractor.
* Feedback from contractors greatly reduces the risks or likelihood of problems or issues being identified too late. This means issues can be resolved quicker and also helps with establishing and maintaining a good working relationship between both parties.

**What you need to do**

Establish what levels of service are required and ensure they are maintained

This is the process of managing the service level and performance of the contractor in terms of the customer, which should be specified in the contract. This is how you balance cost and quality to ensure value for money. Remember, it is important to measure quality, not just cost.

**What you should consider**

* The contract terms need to detail the expected service levels, along with quality commitments and performance.
* Consider taking a flexible approach in the early stage of the contract, in regards to enforcement to help establish what is expected of the contractor. This will help with relationship management as well.
* Your measure of quality could include completeness, capacity, reliability, timeliness and availability, in addition to traditional quality elements.
* Other parts of your contract can be measured by numerical means and others may require subjective assessment.
* Remember that value for money does not always mean the lowest cost, and you should try to optimise your ratio between value and cost.
* Take into account the benefits the contract will provide in relation to any ongoing investment it requires.
* Remember there are many different costs associated with a contract including initial costs, recurring costs, fixed costs, unit costs and OHP

**What you need to do**

Risk Management

Risk management is a process that allows individual risk events and overall risk to be understood and managed proactively, optimising success by minimising threats and maximising opportunities and outcomes. In terms of contract management, it involves identifying and controlling factors that may have an impact on fulfilling the contract.

It is also essential to have a continuity plan in place, in case the service or work is interrupted or there is a complete service failure.

**What you should consider**

* All risks need to be identified and managed. Risks can relate to different aspects of the contract such as changes in demand, change in requirement, lack of capacity and so on.
* Consider methods of risk mitigation such as avoidance, reduction, acception or transferring. Remember the management of the associated risk should be placed with the best person/party to deal with them. Also remember if you are transferring a risk to a contractor, there may be additional costs associated with this
* Business risks must remain with you as the client, they cannot be transferred or mitigated by the contractor. The final responsibility for achieving the overall outcomes of the contract is with you.
* Except in cases of force majure, it is usually the contractor’s responsibility to manage continuity as stipulated in the contract. However, it is important to take into account in your wider continuity plan.
* The specific risks associated with with interruption or failure are critical, and should be included in your continuity plan. They should also be specifically assigned to an individual owner and actively managed in accordance with good risk management practice.

**Relationship Management**

This is fundamental to contract management as the relationship you have between your contractor and your team will determine how smoothly the contract runs throughout its life. It is important to build a mutual understanding, with transparency and openness to provide clear communication and manage expectations. This is your best method for avoiding disputes and allows for issues to be dealt with very early on to avoid wider problems. It is in both parties’ interests to make the relationship work so that a successful outcome can be achieved.

**What you need to do**

Communication is key and early discussions resolve issues promptly

Excellent communication skills and strategies allow for any issues to be resolved early. It helps to build an aspect of mutual trust and allows an appreciation of each other’s priorities. Sometimes, however good the relationship is or good services are being provided, issues can arise. The contract itself formally addresses how these can be dealt with, but it is also linked with how you both work together.

**What you should consider**

* Define the methods and timescales for communication. In other words, what information you would like and how often.
* In contract management, there are 3 different levels of communication, in terms of a contractual arrangement which are strategic, operational and delivery. Therefore communication between the contractor and you as the client should be on a peer to peer basis.
* Escalation procedures need to be in place and followed strictly, with an established hierarchy.
* The CA must be familiar with the escalation procedure and be sure to use it in situations which require an escalation.
* The contract terms define the procedures for where corrective action is needed. Ideally the action plan you receive should be SMART to enable you to monitor the progress for the desired outcome.

**What you need to do**

Attitude, behavior and culture are just as important as the contract.

There will always be different perspectives between the client and the contractor, which in turn creates some tensions. Effective contract management concerns easing or resolving these tensions to help build a mutually beneficial relationship.

**What you should consider**

* What are the common ideals or cultures you both have? Use these common ideals to help with building your relationship
* Ultimately the right attitudes will engender the right behaviours. Therefore both parties’ objectives need to be shared and understood by either side.
* Remember, approaches which may be deemed adversarial by either party, are likely to result in communication issues, or create distance between the contractor and client.

**Contract Administration**

Contract administration is the management of contracts made with contractors and clients. It refers to the management of all actions after the award of a contract. This is to assure that terms of a contract are complied with. For example, timely delivery, acceptance, payment, and closing contract. Contract administration includes all dealings between parties to a contract from the time a contract is awarded until the work has been completed and accepted or the contract terminated, payment has been made, and disputes have been resolved.

Therefore contract administration deals with the mechanics of the relationship between the client and contractor. In particular contract documentation must be maintained, especially where any changes to services, requirements, procedures or contracts are concerned. Senior management and budget holders should be kept informed through clear reporting mechanisms.

**What you need to do**

Understand the administration of the contract is extremely important

Clear administrative procedures ensures everyone knows who does what, when and how. There are various elements that need managing, shown below.

**What you should consider**

* Budget procedures
* Ordering and payment procedures
* Contract maintenance and change control
* Charges and cost monitoring
* Notice periods, contract completion or termination
* Management reporting
* Resource management and planning

**What you need to do**

Maintain the contract documentation and ensure changes are controlled

Maintaining the contract documentation means keeping it up to date to ensure it is relevant and accurately reflects what is happening on the ground. This task should be completed by the CA throughout the life of the contract. Any changes to procedures, contracts or services may have a large impact on service delivery, costs, performance and on whether the contract still represents value for money. Therefore the specification and administration of change control is a key area of contract administration.

**What you should consider**

* Make sure you establish procedures to keep the contract documentation up to date and the information is disseminated to all relevant parties. Ensure the procedure is maintained by the contractor as well.
* Make sure any changes do not fall outside of any original OJEU advertisement or conflict with PCR 2015. It is also important to consider any S20 implications. You can always contact SEC if you are not sure and we can advise in this regard
* Any additional demands on the contractor need to be controlled, and always consider a possible cost implication. Consider if core service delivery will be impacted in a negative way, especially if this requires more resources from the contractor or supplier.
* Ensure you have a single change control procedure across all changes that are made.
* Make sure any formal internal procedures are imbedded into any change procedure, especially in relation to authorisation.

**Seeking Improvements**

This final section looks at how you can seek to make improvements by providing incentives to the contractor. These are usually built into the contract itself, and the aim is to have a continuous improvement in value for money and/or performance.

**What you need to do**

Give your contractor an incentive or reasons to improve

An incentive acts as a way to motivate your contractor to improve by offering some desirable benefit(s) as a reward for added value or improved performance. Types of incentives can include revenue sharing, commercial opportunities and guaranteed levels of capcity.

**What you should consider**

* Make sure any incentives to improve are included in the contract. For example through a price decreasing year on year
* Any financial incentives should offer rewards to both parties to ensure they reflect fairly any investment that they have to make to achieve the saving in the first place
* Ensure the incentives are balanced and make sure they do not emphasise one aspect of the performance at the possible expense of others
* It is important that continuous improvement is seen as desirable and beneficial to both parties, not just an exercise to drive down prices
* Therefore consider seeking to bring down costs, not margins. This will allow a contractor to obtain a reasonable return to cover items such as development and training.