

Guide to Contract Management

Source: Procurement & Contract Management

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1. Foreword:

This 'guide' aims to help you begin to understand the various structures and aspects involved with the principles, processes, workings and the steps to be followed within contract management. The prospect of managing contracts on behalf of Cambridgeshire County Council can be daunting for anyone who is new to the process, or unfamiliar with it from a public sector perspective.

This contract management guide is an attempt to explain what is involved in an easy and concise style. If after reading the guide you have any questions about contract management, or require any further advice, please contact:

Procurement and Contract Management Service
Cambridgeshire County Council
RES 1406
Shire Hall
Cambridge
CB3 0AP

Tel: 01223 715345

Fax: 01223 717224

Email: strategic.procurement@cambridgeshire.gov.uk

2. Background:

Cambridgeshire County Council spends over £300 million on goods, works and services on an annual basis. As this is public money the Council has a duty to secure value for money (VFM) when purchasing goods, works, and services in an open and transparent format. Once a contract is awarded, all the features of contract management have to be implemented.

There is a specific requirement under The Council's Contract Regulations for a contract manager to be appointed and responsible for all contracts (see Contract Regulations page 26). Pro-active and high quality contract management has the overriding intention to ensure The Council's commitment to providing high quality services for its users by ensuring the best balance of quality & price.

There are differing rationales and interpretations surrounding the concept of contract management. For instance, there is a theory that states contract management principles and practices commence merely from day one of the contract starting. Another school of thought insists however that the drafting of the contract specification, coupled with the co-ordination of the tender process, is in fact the initial phase of contract management. There is also confusion as to whether performance monitoring, which will strive to ensure

continuous improvements in service delivery, should form part of contract management practices. Undoubtedly though, there are tangible benefits for including this in the whole contract management process.

What Contract Management Is

Good and practical contract management is the process of administering an agreement/contract through establishing a mutually beneficial relationship between all parties.

Contract management is a worthwhile necessity, otherwise potential advantages that could be gained maybe squandered from the commencement of the contract.

The purpose of contract management is to ensure the delivery of cost effective (value for money) and reliable services (to a high standard). Once the successful supplier has been confirmed, pro-active contract management practices should ensure the following aspects:

- Service delivery is in compliance with agreed contract conditions & standards
- Ensure value for money through performance monitoring of the contractor against contract requirements
- Potential service difficulties are identified & alternative strategies are devised
- Costs are monitored and kept within budget constraints
- Identify service improvement opportunities
- Meets both parties business requirements & manage all necessary service changes
- Manage & control all the necessary Service changes
- Constant communication to ensure the successful co-ordination of the contract through documentation and evaluation of agreed processes.

The underlying intention of contract management enables both (or all) parties to meet their obligations surrounding the contract, to ensure that all objectives are met. Building a mutually beneficial working relationship between the contract manager and provider throughout contract duration is a necessity. This then enables both parties to anticipate future needs and requirements, along with reacting to current issues as and when they should occur.

Poor or lack of contract management can result in improvement and value for money opportunities not being realised. Indeed, the worst possible way to manage a contract would be to simply leave it to run its own course. Such a

dysfunctional approach will inevitably lead to problems of varying degrees.

Constructive contract management has the purpose of ensuring there is close collaboration between all concerned parties. Managing a professional relationship encompasses a finite set of responsibilities and actions that, for larger contracts, will more than likely have to be assigned to a nominated contract manager.

The importance of good contract management can be quantified in that should problematical issues arise, discussions can commence which will allow for the possibility of swift and harmonious resolutions.

Supplier Requirements/Service Delivery Management

As with any contracting opportunity and agreement, there are always two sides to the situation. It can be all too easy to overlook the fact that there has to be 'give and take' in contractual arrangements, due to the simple reason because the purchaser is paying the supplier. Such a belief can lead to a scenario which results in the purchasing organisation having total control, and having the latitude to dictate terms. It is important to bear in mind for the purpose of good relations, and sound contract management practices, the stance of the purchaser should not be overly draconian and should look for partnership working.

A good supplier should never set or agree to unrealistic targets on performance and delivery, as in the long run this will undoubtedly damage the service they are attempting to deliver, and indeed their own reputation. They could have the intention to firstly attract potential future business opportunities from the purchaser in question, and secondly, will aim to forge an excellent impression of their capabilities for when the contract in question is up for renewal.

Trust, like communication, is a key concept of contract management principles. The purchasing authority has to feel it has the confidence in a provider to carry out what is required. Gaining the purchaser's trust and professional respect will be an overriding objective for the supplier. Once a providing organisation is regarded as proven and trustworthy to meet and even go beyond the set service criteria, the service should have the basis on which to thrive and progress.

A good and attentive supplier will be aware of the need for sound and proactive communication channels and will want to be contract managed by the purchasing authority. The provider should be keen and proactive in establishing clear and consistent lines of communication.

Contract Administration

Contract administration focuses on the day-to-day running of the contract.

Aspects of contract administration surround the following:

- Recording and documentation of general updates
- Outcomes from contract review meetings
- Contract maintenance and change control matters
- Cost monitoring
- Management reporting
- Document storage

Contract administration should not be underestimated in terms of determining the overall success of the contract, and for the relationship between all sides.

Clear and concise administration procedures should ensure that all parties understand who does what, when, where and how. Contract documents are required to be accurate and up-to-date. Without fail, they must correctly reflect the arrangements, and any subsequent changes (required by legislation changes or procedural alterations).

For good practice principles, both electronic and paper files should be created, along with being updated and revised as and when necessary. It is important to refresh documentation that is no longer vital and/or is out of date as this could create unnecessary problems and confusion, and using a worse case scenario, could potentially result in a misunderstanding over service requirements.

A significant part of contract administration will be based around meetings between the purchasing organisation and the supplier. It will be important to document all obtained benefits and how value for money is achieved, as and when this occurs, during contract duration.

Through ensuring timely and accurate contract administration, this should reduce the risk of a knowledge and skills shortfall through key personnel leaving. Such measures will also assist with the re-tendering, or extending, of contracts.

Managing the Relationship

Relationship management is arguably the key component of contract management. It has the aim of attempting to guarantee that the association

between the two parties is open and constructive, with the aim to identify and resolve any problematic issues.

The approach will be dependent on the nature of the contract – the greater the importance and/or monetary value – the more attention, time, and resources will be allocated. It is important that the specific roles are not neglected, even if some are not the direct responsibility of the designated contract manager. Management structures of a contract need to be designed to facilitate a good relationship. The main aims should be to ensure:

- A strategic approach to managing the contract
- To achieve maximum value for money
- Guarantee budget efficiency & effectiveness for all parties
- Good working practices adopted and added value achieved

Business continuity will consistently have to be addressed throughout the contract duration. The coordination and delivery of a contract is a two-way process. A 'win win' scenario is the aim – benefits have to be realised for both the purchasing and supplying organisations. As an unwritten rule, but certainly advantageous to consider and adopt, are these three main factors relating to quality relationship management practices:

- Mutual trust & understanding
- Openness & effective communication
- A joint approach to managing service delivery

Issues that can affect the relationship in a detrimental way could include a clash of working cultures, through which business goals and objectives could differ. In addition, contracted firms may not fear competition for future work, and thus may steer away from best value principles. Also, the council could have fears that contracts may over-stretch some providers management resources, & financial capabilities at some point during contract duration.

At all levels, the same impression and dialogue of how the contract is performing must be consistent with regards to the messages communicated. Good communication is an enabler of a particular culture between purchaser and provider: one built on openness and trust, which in turn, will undoubtedly cultivate mutual benefits. Trust may well be a very intangible concept, but tangible efforts can be made to try to engender or promote a spirit of trust within the relationship.

Handling problematical situations

In all likelihood the tone of the relationship will be set and developed through meetings between all parties. Regular dialogue and discussions are required to enable good practices to be established and maintained. The

contract manager should never lose sight of the principle that the supplier will want to be 'managed', and will be enthusiastic about service monitoring and enhancements.

Progress meetings can be either formal or informal, depending on the nature, value, and sensitivity of the contract. Quite often, informal discussions on a regular basis result in breaking down of any communication and personality barriers, resulting in a more efficient service delivery. Such measures should be complemented by either formal monthly, quarterly, or half yearly meetings with agreed agendas and relevant contract personnel being present.

In order for such meetings to be effective and for the benefit of the contract relationship and its performance levels, the meetings require a structure upon the following lines:

- Agenda, venue, duration & attendee list
- Update and happenings since last meeting – e.g. staff changes, business promotions, issues, new products
- Measure current service levels against specification
- Praise for the supplier when and where appropriate
- Assessment of any issues with a method for resolution
- Allocate responsibility for any alterations and projects
- Map out work to commence prior to next meeting
- Agreement on reporting issues and matters for next meeting

There should be an agreed set of procedures in place between the council and provider for handling problems. Such measures should seek to anticipate problems as well as resolve them. Whatever the nature of the problem, it is vital that:

- Issues are recorded as they occur to assist with highlighting trends
- The supplier is notified of any issues
- Approaches to resolving issues are documented
- Escalation procedures are followed through at the correct hierarchical levels

Performance Monitoring

Performance monitoring ensures that the service is being delivered to the required standard set within the pre-determined terms and conditions of the contract. In simplistic terms, if the service is not delivering the basic requirements of the agreement that was devised, something is fundamentally wrong.

Contract performance monitoring should be undertaken by both organisations. Some of the reasons as to why it is vital to monitor performance include:

- Ensure compliance with timescales, service delivery & price
- Technical compliance with contract specification
- Check payment periods
- Measure against pre-devised budget allocations
- Customer feedback
- Comparison with key performance indicators
- Audit – ensure suppliers remain up-to-date with monitoring obligations

The performance of a contract has to be closely monitored and scrutinised through good relationship management principles i.e. reporting and communicating. The primary purpose is to identify shortcomings in performance and it will be possible to evidence value for money, continuous improvement, and innovation.

One of the most common ways to assess contract performance is through whether or not the service delivered is fully complying with pre-set standards. This can be achieved through statistical and analytical assessments i.e. benchmarking and conferring with service users.

Gauging value for money will allow public bodies to consider whether or not the same levels of investment might have been better used on other projects instead. Value for money is achieved through the effective, efficient and economic use of resources. Monitoring the performance of a contract will also assist with evidencing of how key performance indicators (local and national), are being met.

Managing Risk

Monitoring practices should also incorporate risk management activities. This will be required to identify and control risks that may have an impact on a contract being fulfilled. Contract management risk centres on the provider not being able to deliver, or not providing the service to the necessary standard. This could be because of lack of capacity/resources, the provider's business focus switches, or the provider's financial status alters to a detrimental effect.

Other risk factors can include:

- Staff with 'intelligent customer' knowledge may leave
- Demand is higher than anticipated
- The purchaser cannot meet new demands placed upon it – i.e. legislation changes
- Fundamental changes in customer requirements

- Legislative changes
- Ensure contingency measures are in place for all identifiable risks

When risk is anticipated, both purchaser and provider should collaborate to decide who is responsible for the risk, how it can be reduced, and how it should be managed.

With regards to contract monitoring, if this is carried out effectively, problems will be spotted early and the degree of any disruption from the corrective action will be minimal. It may not always be possible to predict all variation matters. Changes to service requirements normally affect the cost and so will need to be recorded and negotiations undertaken.

Change Management

There may be occasions where what has been agreed in a contract needs to be slightly amended during the duration of the contract. A number of elements may be used to support any subsequent change(s), so that the whole contract remains workable under revised arrangements. A change may be based upon a mutual agreement to vary the contract, with the intention of enhancing service delivery. As a direct result, value for money and continuous improvement opportunities will be achieved.

Be careful when seeking to implement any one-way imposition of change that it is contractually justified, otherwise it may be interpreted as a repudiation of the original contract, enabling the other party to terminate the contract and seek damages. This is why continuous communication and the developing a good working rapport is vital when suggesting contract alterations.

A bilateral decision to vary the contract, within the variation or change control process outlined in the existing contract, will be the most practical method to take forward. These are often called change control provisions. Ensure that any contract variations do not constitute detrimental impacts to the contract scope, timings, legal terms and conditions, and most importantly service delivery.

From the outset it is extremely likely that a contract will have to alter prior to its conclusion. Changes though can often result in additional costs being incurred as well as varying the original specification. When changes are proposed by either the council or supplier, it is vital that the contract manager along with colleagues considers:

- Defining the limits of variations
- Assess the impact of changes
- Re-analyse the service risk

- Ensure changes are received in written form with approval
- Update all necessary contract documentation
- Benchmarking/assess value for money

The need to address failure of contract performance can be rectified in a number of differing ways, without having to resort to contract changes. It is necessary to realise from the outset what will trigger such actions, and that any such occurrences will have to be documented fully. Issues that the contract manager and provider may have to vary during the contract duration might include:

- The need to re-schedule work deadlines
- Additional service output on behalf of the supplier
- Re-scoping future service requirements

Contract Management Overview

Although contract management principles and procedures can involve plenty of arduous work in terms of time, details, and personnel, there will be a number of notable benefits. It is worthwhile bearing in mind that effective and stringent contract management is often overlooked. Should this be the case, there will be a detrimental effect on service output. Many of the obvious and most renowned benefits are outlined as follows:

- Reduced costs, because the correct practices are being followed (i.e., effective and efficient operations)
- Enhanced contract planning procedures
- Reduced administration procedures and costs
- Enhanced monitoring and control procedures of suppliers re initial contract terms
- Maximisation of opportunities and service potential
- Highlighting poor operational processes long term profitability, efficiencies, and sustainability
- Closer partnership working
- Better maintenance/administering of existing contracts

Contract management encompasses an array of principles, procedures and processes including:

- Regular & updated contract documentation
- Maintain regular scheduled contract meetings
- Constant performance monitoring
- Change control adaptations
- Rectify any non-performance issues

- Ongoing assessment of contract risk
- Regular contract management reporting

Poor or lack of contract management can result in improvement opportunities and value for money not being realised. If contract management is not given enough of a priority, or is conducted in an inadequate fashion, then ultimately the contract will become unworkable. Reasons as to why this may indeed be the eventual situation include:

- Poorly drafted contracts
- Inadequate resources
- Insufficient contract alterations
- The context, complexities, and dependencies of the contract are not well understood
- Failure to check provider assumptions
- A lack of performance measuring or benchmarking by the customer.
- Too much focus on current arrangements rather than what could be possible for future improvements.

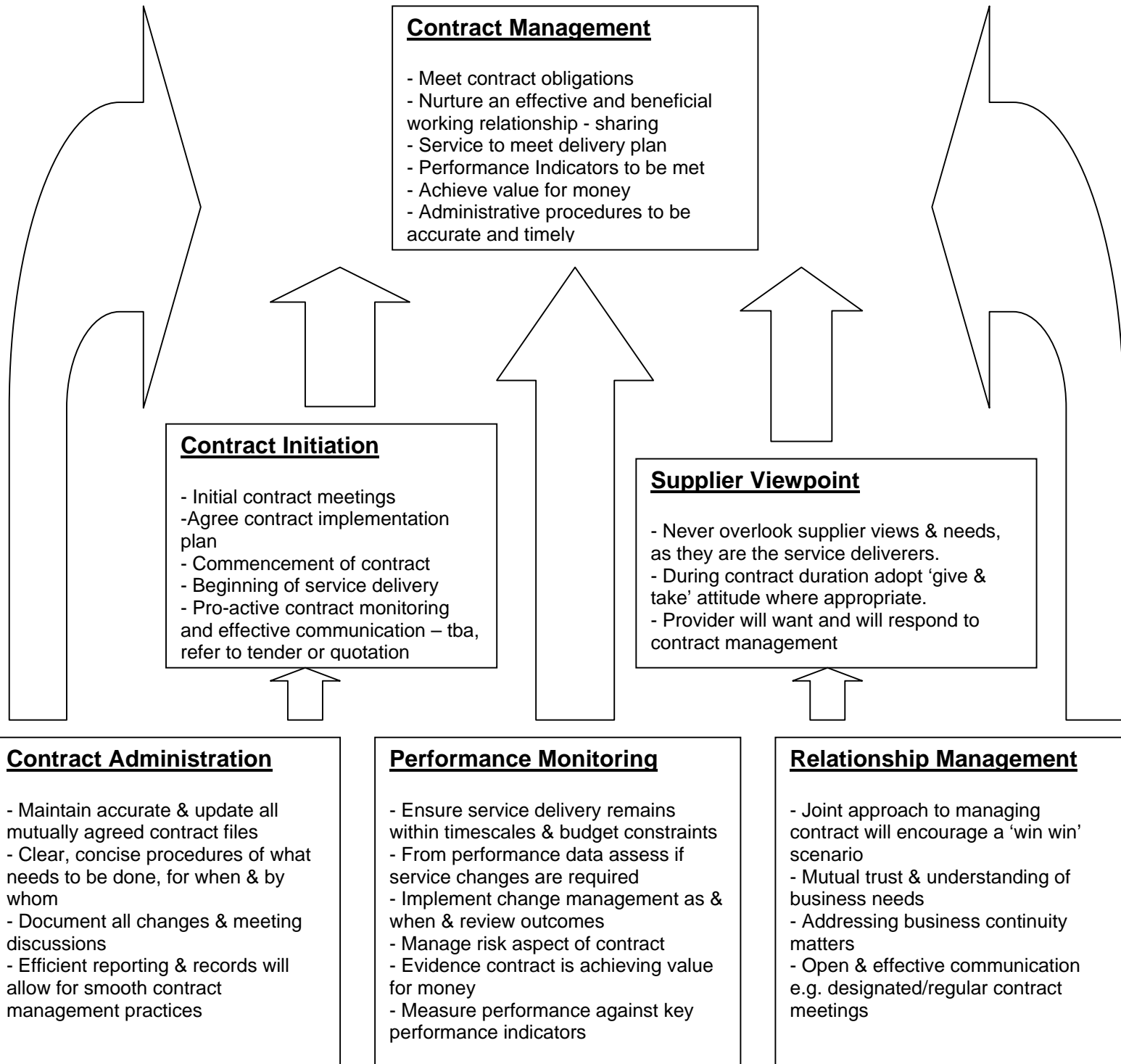
It is good contract management practice to state at the end of a contract and place on record what went well and what lessons can be learnt for any future contracts.

The various aspects of contract management can be put under the umbrella of the following headings:

- Service delivery management – day-to-day processes
- Relationship management – continuously ongoing
- Contract administration – as and when necessary

All of the above have to be managed successfully if the contract is to be a resounding triumph. The various aspects of contract management should not be separated from each other; rather the concept should form an integrated approach to managing service delivery, the working relationship, and making the contract one whole entity.

Contract Management Flow Chart



Contract Management Glossary

Contract management is a complex subject that incorporates many facets. The following is an overview of key related definitions that will act as a reference for further study and analysis.

Benchmarking – *The objective of benchmarking is to understand and evaluate the current position of a business or organisation in relation to ‘good practice’ and to identify areas and means of performance improvement. In order to agree the best possible competitive price for the contracted service, it is advisable to compare prices under evaluation. Also, it is advantageous to compare the marketplace so as there is an understanding of the pricing level that can be demanded.*

Change management – *is a structured approach to altering service provisions within the contract from its current status to its newly refined requirements. Having the scope, personnel and capabilities to implement necessary alterations and variations to enhance the contracted service are key aspects.*

Communication – *There needs to be consistent, effective and timely dealings between the local authority departments and the supplier(s) with relevant and key personnel. All matters relating to contracts need to be conducted in an open (two-way process), transparent, receptive, and professional manner in order to ensure value for money is achieved.*

Contract – *An agreement is put in place whereby a service is provided in return for payment. Every contract should define the services to be provided in the specification that defines delivery and performance standards to be expected and/or service levels – which are often referred to as SLA’s.*

Contract administration – *Keeping contract records up-to-date with regards to documentation, contract updates and any variations, progress reports, meeting outcomes. This should be the responsibility of the contract manager – or a delegated administrator. The need to keep a contract file for all-important pieces of documentation is of the up most importance.*

Contract initiation – *The commencement stage of service delivery – an extremely critical part of the contract duration. It is important to monitor the service in its start-up phase as problems can be solved promptly.*

Contract meetings – *Matters discussed will include but not limited to contract performance progress, the need for alterations, future targets. All-important matters to arise from such discussions should be recorded and stored on the contract file.*

Contract Monitoring - *This is the process that ensures all parties to the contract fully understand their respective obligations enabling these to be fulfilled as efficiently and effectively as possible to provide even better VFM.*

Contract obligations – *All parties involved have a legal duty to honour commitments to each other and the service users. They are duty bound to meet their objectives that binds them to the contract.*

Designated contract manager – *The purchasing authority will assign an individual with the task of overseeing the running of a relevant contract. Day-to-day matters and performance delivery issues will be channelled through this person.*

Financial safeguarding checks – *A precautionary measure to ensure the financial viability of the supplier(s) to guarantee service delivery can be provided to the agreed pre-defined contract specification.*

Funding/Budgeting – *Ensuring that contracts have the correct budgetary funding streams in place to last for the duration of the contract period. If funding levels are to be split between differing contract requirements, it is vital there are no levels of overspend which detracts from other matters of that contract.*

Legal processes – *Ensure the contract is managed in a way that legally is in accordance with guidelines, and does not deviate from the original terms and conditions. Any alterations during the duration of the contract will require legal approval.*

Low risk purchases – *Dealing with low risk and generally low value purchases on a regular basis. These types of products require minimal contract management e.g. stationary*

Procurement – *Defined as being the acquisition of goods and/or services under legally binding contractual terms and conditions, which have been agreed by all parties, and forms the basis for a contract. Such acquisitions are for the direct benefit of the contracting authority, necessary for the delivery of the services it provides or for the running of its own business.*

Relationship management – *Ideally there should be a positive, pro-active dialogue and rapport between both the purchasing and supplying organisations. Local authority departments should aim to be a good customer, and openingly encourage feedback from suppliers and ask for any suggestions on how the relationship could be improved or processes streamlined. The overall objective of this phase is to monitor and rate the performance of your suppliers in order to develop their service and aim for continual improvement.*

Scope Creep – also called focus creep, requirement creep, future creep. This phenomenon can occur when the scope of a project/contract is not properly defined, documented, or controlled. It is generally considered a negative occurrence that is to be avoided.

Service delivery – Whilst the supplier ensures the contract output is achieved to the agreed standard for end users, there needs to be an effective partnership arrangement in place to achieve the original targets.

Service Level Agreement – A commitment that sets binding conditions with detailed specifications for levels of outcome and output performance. An SLA can relate to a 'supply' of a service or an administration of a grant award. The SLA reflects a common understanding about services, priorities, responsibilities, guarantees and warranties. Each area of service scope should have the 'level of service' defined. The SLA may specify the levels of availability, serviceability, performance, operation, or other attributes of the service such as billing.

Service review/Performance monitoring – Methods of measuring service delivery to ensure the pre-defined and/or updated targets are realised. Through such practices it will be possible to identify what aspects are working to plan, along with aspects that require further enhancement and reviews.

Supplier/provider viewpoint – Consider the views and proposals of the supplier. Contract management is a two-way process based on joint working. A 'win win' scenario should be the aim.

Sustainability – Ensuring the contract is sustainable 'whole life costs' for all parties have to be taken into due consideration. These must not damage the business values or needs of the organisation.

Value for money (VfM) – Ensuring contracts are procured with the intention to secure maximum benefit from the goods and services, within the resources available to the procuring authority. It not only measures the cost of goods and services, but also takes account of the mix of quality, cost, resource use, fitness for purpose, timeliness and convenience to judge whether or not, when taken together, they constitute good value. Achieving VfM may be described in terms of the 'three Es' - economy, efficiency and effectiveness:

Whole Life Costs – The decision-making process to analyse the full costs throughout the life of an asset/service. Also commonly referred to as "cradle to grave" or "womb to tomb" costs. Typical areas of expenditure which are included in calculating the whole-life cost are: planning, design, constructing operations, maintenance, renewal, financial (e.g. depreciation and cost of finance), and replacement or disposal of products/services.