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SECTION 1

Introduction

1.1 EXECUTIVE SUMMARY

In recent years, as they have outsourced an ever-increasing proportion of their services, public sector organisations in the UK have improved their contract management skills. However, contract management remains an undervalued discipline and, as austerity bites more deeply, there is a growing risk that client budgets will be cut and the progress that has been made will be reversed.

The foundations of good contract management lie in the planning and procurement phases. A *Practical Guide to Outsourcing in the Public Sector* (CIPFA, 2015) provides practitioners with a step-by-step guide to determining whether outsourcing is the right solution and, if a decision is taken to go ahead with outsourcing, what is required at each stage to achieve a successful outcome. It contains material that is relevant to contracts for supplies and for works, as well as for services.

This new guide focuses on the operational period and covers all types of contract. Its purpose is to give practitioners, whether working at a corporate or individual contract level, practical advice about how to improve contract management in order to support their organisation's objectives and maximise value for money. The material is based on experience from a wide range of contracts across the public sector as well as current best practice distilled from the recommendations of leading bodies, including the Crown Commercial Service, the Local Government Association and the National Audit Office.

The key messages of this guide are that:

- contract management deserves more attention than it has hitherto received
- investment in contract management brings considerable benefits
- a corporate approach to contract management is required
- individual contracts need to be managed more strategically, but
- it is also essential to get the basics right.

Public sector organisations need to take a corporate approach to contract management so that the planning, procurement and management of contracts are joined up, sufficient resources are allocated to contract management and a culture that supports contract management pervades the organisation. At the same time it is important to avoid excessive centralisation and bureaucracy.

At the individual contract level there needs to be a greater focus on strategic management, which means looking at what needs to be done in the longer term to ensure the contract meets the organisation's objectives and delivers value for money. This requires keeping the

contract under constant review and proactively considering what changes may be needed to ensure the contract remains fit for purpose.

For the strategic approach to be of practical value, however, it must be grounded in the reality of what it takes to manage contracts on a day-to-day basis. It is essential to get the basics right. This requires good record-keeping and having the right tools in place for contract management teams to do their job properly. It is particularly important that the contract manager has an up-to-date copy of the contract and understands both the client's and the contractor's contractual obligations.

Relationships with the contractor and with key stakeholders must be proactively managed in order to maximise the value that the organisation derives from a contract. This means that contract management teams need people skills, as well as commercial and administrative skills, and that effort must be put into maintaining good communication and co-operation with the other parties.

1.2 SCOPE OF THIS GUIDE AND TARGET AUDIENCE

Scope of the guide

Public sector organisations enter into a wide variety of contracts for supplies, services and works. These can range in complexity from a simple arrangement for the purchase of stationery to a complicated PFI contract involving both the construction of new facilities and the provision of services over a 30-year period.

The detailed material in this guide is most relevant to long-term public services contracts, but the main principles apply to all types of contract, whether for supplies, services or works, irrespective of whether the client is in the public or the private sector.

Overview of what is different about construction contracts

Construction contracting is a specialised area, which usually involves professional experts, such as architects, quantity surveyors and engineers. These contracts are subject to the Construction (Design and Management) Regulations, which is also a specialised area.

Construction contracts result in the creation or enhancement of an asset and are therefore different from supplies and services contracts in that once the contract is complete there is no ongoing need for the substantive work to be performed, although the contractor may be required to rectify snagging issues and defects after the main works are complete.

Special considerations that apply to construction contracts are highlighted throughout this guide. Practitioners who require detailed guidance in this area should obtain specialist advice.

Target audience

This guide is aimed at policy makers, managers and practitioners at all levels in the public sector who may either have an influence on or have direct responsibility for contract management.

The material in Sections 2 and 3, recommending that organisations invest in contract management and adopt a corporate approach, is aimed mainly at policy makers and

senior managers. Sections 4 to 14 are geared specifically towards staff directly involved in managing contracts, including those in the unenviable position of being given responsibility for a contract without the benefit of any handover from the procurement team, any prior experience of managing contracts, or any training.

Senior managers responsible for services where contracts are a key means of delivery are strongly recommended to read the whole guide. Others who wish to gain a real insight into what it takes to manage contracts properly will also find the whole guide to be of interest.

Table 1.1 sets out the types of people who should be aware of the principles of good contract management and will therefore find this guide useful.

Table 1.1: People who will find this guide useful

Role	Relevance
Policy makers, eg government ministers, council leaders, board members and members of governing bodies	Awareness of the importance of contract management when: <ul style="list-style-type: none"> ■ initiating policies that require the organisation to enter into complex contracts ■ approving corporate procurement and contract management strategies ■ approving the organisation’s budget ■ approving plans for individual projects to be delivered through contracts
Chief finance officers	<ul style="list-style-type: none"> ■ Awareness of the importance of contract management when developing the organisation’s financial strategy ■ Ensuring sound financial management is embedded in contract management arrangements
Senior managers in charge of procurement	Ensuring that: <ul style="list-style-type: none"> ■ procurement processes lay the foundation for good contract management ■ there is continuity between procurement and operational phases ■ where relevant, contracts include suitable provisions for: <ul style="list-style-type: none"> – business continuity in case the contractor is unable to deliver – transition to new arrangements when the contract ends

<p>Senior managers in charge of service departments</p>	<ul style="list-style-type: none"> ■ Contributing to the development and implementation of corporate procurement and contract management strategies ■ Ensuring that their departments comply with the corporate contract management strategy ■ Ensuring that arrangements for the management of contracts relating to their services meet service objectives and provide value for money ■ Ensuring that contract management teams within their own departments have the skills, resources and support they need
<p>Staff directly involved in contract management</p>	<p>Understanding of:</p> <ul style="list-style-type: none"> ■ how the contracts for which they are responsible serve corporate objectives and/or the needs of end users ■ how their contract management role fits within the corporate contract management strategy ■ how to achieve value for money from contracts ■ good contract management principles ■ the various tasks they need to undertake ■ the various skills that are needed within their own teams
<p>Operational staff providing support to contract management, eg finance staff responsible for contractual payments</p>	<ul style="list-style-type: none"> ■ Understanding of contract management in order to be able to provide effective support

A number of themes in the table are developed in later sections of this guide.

1.3 STRUCTURE OF THIS GUIDE

The guide begins with a **Glossary**, which readers should consult first in order to understand terms that have specific meanings for the purposes of this guide. Subsequent sections are outlined as follows:

- **Section 2** argues that ongoing improvement in contract management should be an integral part of a public sector organisation’s strategy and activities. It highlights the work that the UK central government has done to improve contract management since the discovery in 2013 of overbilling in the Ministry of Justice’s contracts for electronic monitoring. It also calls for the profile of contract management to be raised across the public sector.
- **Section 3** recommends a corporate approach to contract management. It stresses the importance of a combined strategy for the procurement and management of contracts. The benefits of a corporate approach, including the sharing of skills and knowledge across the organisation and the fostering of a culture that supports contract

management, are explained. The section warns, however, against excessive centralisation and bureaucracy.

- **Section 4** defines the role of contract management as being to ensure contracts support corporate objectives and provide value for money. It argues that individual contracts need to be managed more strategically in order to achieve long-term objectives. It also sets out the resources and skills that are required to manage contracts effectively, and discusses how the contract management function should be organised, emphasising the need for clarity as to who owns the contract so that lines of accountability are clear. The final part of this section considers what needs to be done to put contract management arrangements in place at the beginning of the operational period.
- **Section 5** explains that it is essential to get the basics right. This requires good record-keeping and use of appropriate tools, including an operations manual, contract management planner and risk register.
- **Section 6** discusses financial management and control of a contract. It covers both day-to-day activities, including ensuring invoices are paid and income is received, and the longer term need to ensure the contract is affordable.
- **Section 7** explains how open book accounting may be used to improve value for money and increase accountability for the use of public money. It also points out that significant additional skills and resources are required within contract management teams for the potential benefits of the open book approach to be realised.
- **Section 8** discusses performance management, which should be a key priority for the contract management team. It explains that the purpose of a performance regime is to incentivise the contractor to perform well, and that the client and contractor need to co-operate to ensure continuing good performance. It also explains what the client needs to do to manage its own performance.
- **Section 9** discusses periodic activities, notably benchmarking and market testing. It also explains that the contract manager needs to keep the contract itself and the relationship with the contractor under review in order to ensure that the contract continues to meet corporate objectives and deliver value for money.
- **Section 10** discusses the process for varying a contract. It emphasises the importance of taking a proactive approach to considering what changes are needed to ensure the contract remains fit for purpose. Against a background of public sector austerity it also explores how savings can be made in contracts.
- **Section 11** explains that risks need to be managed intelligently. It sets out the key types of risk that may arise in a contract. It emphasises the need for the client to maintain a contingency plan in case of contractor failure and to ensure the contractor maintains a suitable disaster recovery plan. Finally it considers how the risk register and issues log should be used.
- **Section 12** is about managing relationships, which are critical to the success of a contract. It explains why relationships with strategic contractors need to be managed at the corporate level and the usefulness of the supplier relationship management model. The management of relationships with end users, or customers, and other stakeholders is also discussed.

- **Sections 13** and **14** set out the circumstances in which a contract may be terminated early and the issues that may arise for clients as a contract approaches its end, whether it is terminated early or continues to its expiry date. Section 14 also explores the options for continuing performance of the work after the contract has ended, including retendering, bringing the work in house and using alternative delivery models.

The guide ends with a **Further Reading** section for those interested in delving deeper on specific topics.