INDUSTRY
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New Zealand

Understanding Public Sector Procurement Processes
A Supplier's Guide to the Procurement of ICT Goods and Services

CONTRACT MANAGEMENT

Booklet 6

CONTENTS

PREFACE

This booklet series has been developed by the Industry Capability Network (ICN) to assist suppliers of information and communications technology (ICT) services in the public sector.

It is intended to provide a practical understanding of the policies, rules and processes that agencies follow when undertaking the procurement of ICT goods and services. By understanding these policies, rules and processes, suppliers are able to communicate with agencies in a more informed manner and are better positioned to respond to an agency's requirements.

Whilst every effort has been made to ensure these booklets reflect current best practice, readers should refer to the Ministry of Economic Development web site *www.med.govt.nz* for current government procurement policy and rules.

These booklets have been developed in parallel with the training material taught to public sector procurement practitioners as part of the Ministry of Economic Development's procurement training programme.

Structure of the Booklets

- Booklet 1 provides an introduction to the framework governing public sector procurement and the procurement life cycle model.
- Booklets 2 to 6 detail the activities and processes that occur within each of the five phases of the procurement life cycle model:
  - Planning
  - Requesting and Receiving Offers
  - Evaluation of Offers
  - Contract Award
  - Contract Management

Procurement Life Cycle Model

This diagram shows the five phases of the procurement life cycle model.

| Planning | Requesting & Receiving Offers | Evaluation of Offers | Contract Award | Contract Management |

INTRODUCTION

This booklet is the sixth and final booklet in the ICN ICT procurement series designed to assist suppliers of ICT services in the public sector.

This booklet covers the contract management phase of the procurement life cycle model. This phase commences after contract signature and goes through to the evaluation/review and termination/expiry of the contract. The key topics covered in this booklet are:

- planning for contract management

- the contract management plan

- transition planning

- contract evaluation and review

Acknowledgement

This booklet draws on material from the United Kingdom's Office of Government Commerce Contract Management Guidelines (www.ogc.gov.uk).

Contract Management

"The process that enables both parties to a contract to meet their obligations in order to deliver the objectives required in the contract. It covers transition and implementation, ongoing day-to-day management, evaluation, and succession planning."

ANAO Contract Management Better Practice Guide 2001

Successful Contract Management

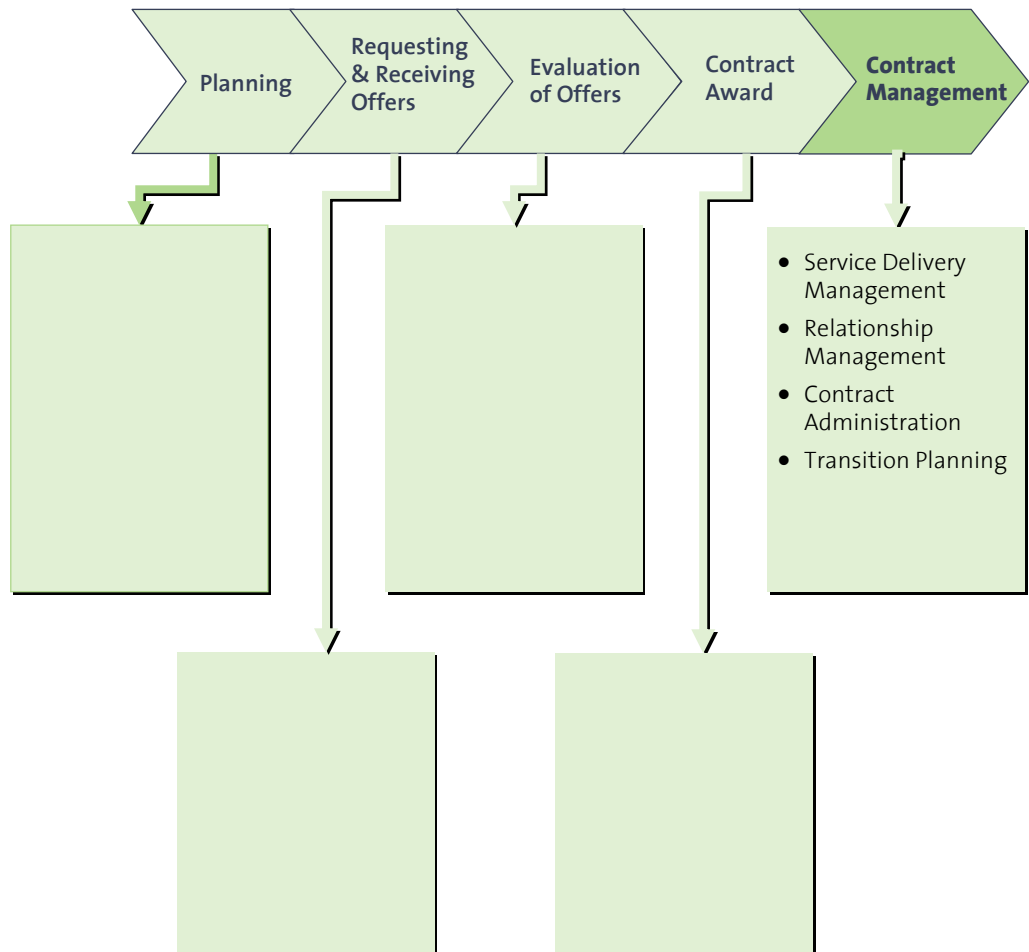Successful contract management is defined as existing when:

- the arrangements for service delivery continue to be satisfactory to both customer and provider

- expected business benefits and value for money are being realised

- the provider is co-operative and responsive

- the customer knows its obligations under the contract

- disputes are rare

- there are no surprises for either party

CONTRACT MANAGEMENT ACTIVITIES

This diagram shows the activities and processes in the contract management phase of the procurement life cycle model

This diagram shows the activities and processes in the planning phase of the procurement life cycle model.

Planning	Requesting & Receiving Offers	Evaluation of Offers	Contract Award	Contract Management

- Service Delivery Management
- Relationship Management
- Contract Administration
- Transition Planning

WHY IS THE CONTRACT MANAGEMENT PHASE IMPORTANT?

The contract management phase of the procurement life cycle often receives the least management attention and effort (at least until something goes wrong). However, if we take a typical two-year procurement project and look at the elapsed time and expenditure by phase, a fairly clear picture is painted of the importance of the contract management phase and the need for both parties to devote appropriate effort and resource.

Profile of Time Against Procurement Life Cycle Phases:

2–3 mths	1 mth	1–2 mths	1 mth	24 mths
Planning	Requesting Offers	Evaluation	Award	Contract Management

Profile of Agency Expenditure Against Procurement Life Cycle Phases:

2–3%	1%	2–3%	1%	95%
Planning	Requesting Offers	Evaluation	Award	Contract Management

The importance of this phase is further reinforced when we consider that this is the phase where the output of the procurement project occurs – the delivery of the required goods or services.

From the supplier's perspective, this phase is also important because it is its *performance* in this phase that will often be the basis on which future business will be won or lost. Not only its performance in terms of delivering the required goods or services in full, on time and to specification, but also its performance in terms of the relationship it builds with the agency and the added value it delivers.

PLANNING FOR CONTRACT MANAGEMENT

Agency planning for the management of the contract commences in the procurement planning phase and continues right through evaluation and contract negotiation. Throughout this period consideration is being given to the requirements of how the contract will be managed based on consideration of the value, complexity, strategic importance, risk, the general market maturity and the selected supplier capability.

In planning for contract management it is often broken down into three broad areas:

• service delivery management

• relationship management

• contract administration

All three areas must be managed successfully if the contract is to be a success.

Service Delivery Management

Service delivery management is concerned with ensuring the service is being fully delivered as agreed, to the required level of performance and quality.

In practice this means having a well structured service level schedule or service level agreement, with clearly defined performance targets and measures combined with regular reporting. The development of service levels is covered in *Service Levels* in *Booklet 5*.

The frequency of reporting will depend on the services being provided; however, monthly reporting on the main service levels is a good rule of thumb.
It is important that supplier reporting is provided in a format that makes it quick to analyse and identify service delivery issues. Use of a traffic-light-type system (or something similar) for summary-level monitoring of performance against the key service levels is a useful method for honing in on potential issues and problems.

Quality of Reporting

Poor-quality reporting is an area of frustration in many contracts. Poor-quality reporting includes reporting that is verbose, difficult to analyse and not targeted to the agency's needs. Ensure that your reporting is accurate, delivered on time and easy to read. Spend time with the agency to understand what data/information it requires and how it will use it. This enables you to tailor your reporting accordingly. Good reporting can be a relatively low-cost but high-value-adding activity. For example, in a help desk environment you might be required to report on the types of call being received. Without too much additional effort you might be able to identify user training that could be provided to reduce the number of "how to" calls being received each month.

Relationship Management

Relationship management is focused on keeping the relationship between the two parties open and constructive, resolving or easing tensions and identifying problems early.

From the agency's perspective, one of the key elements in relationship management is deciding on the appropriate type of relationship based on where the category and the contract sit in its Portfolio Analysis and where it sits in the Supplier Positioning Analysis (see *Portfolio Analysis* and *Supplier Positioning* in *Booklet 2* for further information). In most ICT services-based contracts, the relationship model tends to lie somewhere on a continuum between a traditional arm's-length arrangement and a full partnership arrangement:

- **Traditional arm's-length arrangement:**
  The agency orders and the supplier supplies. There is little need for the supplier to understand the agency, its strategic direction and business objectives. There is little opportunity for the supplier to add any value over and above supplying the ordered goods or services in full, on time and to specification. Some software licensing falls into this category. This is sometimes described as a transactional relationship

- **Partnership arrangement**
  Both parties fully understand each other's business and communicate openly. There is an absence of "game playing" or "manipulative" behaviour. Adding value is an essential element of the relationship. In a true partnership arrangement there is generally shared risk and reward. For a partnership arrangement to work successfully, there must be a degree of cultural alignment and some convergence in goals within the context of the relationship. There must also be a commitment to the relationship at all levels within both the buying agency and the supplier's organisations. Open communication, information sharing and trust are key elements

It is important for both parties to understand and agree the appropriate type of relationship model for the particular contract, recognising it will not be the same for all agreements. A lack of understanding and agreement on the type of relationship model can often result in frustration through the respective parties' expectations not being met.

Example

A large agency contracts with a small IT supplier for the development and support of a specialist application. The application is not critical to the agency and hence does not attract a lot of management effort. However, to the small supplier the contract is critical to its development and growth. The supplier is frustrated at the lack of attention it gets from the agency and the lack of feedback on new ideas and innovations it proposes. It wants to build a long-term relationship towards the partnership end of the continuum, however is not making any headway. On the other hand the agency is frustrated at the constant demands from a small supplier on what is supposed to be a simple contract.

When establishing a relationship management model towards the partnership end of the continuum, the following factors should be considered:

- the need to ensure that the relationship is championed at senior levels in both organisations

- recognising that the attitudes and actions of senior management will set the tone of the relationship. The "message" comes from the top

- ensuring that governance arrangements are equitable and relationships are peer to peer. If not, imbalances will occur

- there should be a place for long-term strategic issues to be considered as well as the more day-to-day service delivery aspects. These are best separated to avoid urgent and pressing matters constantly swamping the longer view

- roles and responsibilities should be clear and staff involved in managing the relationship need to be suitably empowered

- escalation routes should be understood and used properly – encourage an approach that seeks to resolve problems early and without escalating up the management chain unnecessarily

Contract Administration

Contract administration covers the formal governance of the contract and changes to the contract document. It is concerned with the mechanics of the relationship between the buying agency and the supplier. This includes the development and implementation of procedures covering the administrative and clerical activities.

Good contract administration is important for the successful management of any contract. Contract administration also requires appropriate resourcing, and as part of the contract management planning both the agency and the supplier need to consider the level of resourcing required for the particular contract.

Procedures should be in place for the management of the main contract management activities. These may include:

- contract variations, including change control

- cost monitoring

- ordering procedures, e.g. ordering of hardware

- payment procedures

- management reporting

These procedures are normally documented in the contract management plan.

Ensuring consistency with contract

As part of agreeing these procedures with the agency, it is important to ensure the processes are consistent with the contractual terms e.g. only in writing, approved at a certain level, and only agreed once they have been captured in a contract variation. While this is important for all contract management activities, it is particularly applicable to the management of change control and contract variations, and particularly in development projects, where there are frequently a large number of changes.

THE CONTRACT MANAGEMENT PLAN

While the written contract is a record of each party's obligations, it is not designed as a management document for the contract. This is the role of the contract management plan. A well developed contract management plan allows the contract to "stay in the bottom drawer".

The contract management plan is usually formalised following contract negotiation, however it is a living document and will continue to be updated throughout the life of the contract. In some procurements the contract management plan includes transition activities, however in larger projects, or where transition is a significant or particularly critical activity, a separate transition plan will be developed.

The contract management plan might include:

- a summary by date of milestones and deliverables, including contract review and lead time for any re-tender or renewal

- key individuals and their responsibilities (both the agency and the supplier), e.g. the contract manager, governance board

- a schedule of risks that have been identified and are being monitored and managed

- reporting. For example, the frequency and content of the supplier's reporting, or the content, frequency and distribution of any internal reporting e.g. monthly reporting to the senior management team on key service statistics

- meeting schedules and any standard agenda items

- processes around how some of the contractual obligations are to be achieved e.g. how a regular survey of staff satisfaction is to be carried out, and sample size

- procedures for the management of any specific activities in the contract, for example how a service credits programme will be administered

- contract variations. Details of the approval process and approval authorities for each party (including delegations)

- details of any ordering procedures e.g. ordering of hardware

- payment procedures e.g. the level of detail to be provided on invoices (e.g. asset numbers) and the format for any electronic invoices

For additional information, refer to *Managing the Contract* in Part 2 of the Office of the Auditor-General's (OAG's) *Procurement – A Statement of Good Practice.*

TRANSITION PLANNING

Transition planning is an important activity whenever there is the potential for service delivery to be affected by the transition.

As noted in the section on contract planning, in relatively routine, straightforward procurements, transition arrangements may be covered in the contract management plan. However, in more complex procurements a detailed transition plan may be required. While the content of this plan will depend on what is being procured, headings may include:

* timeline of activities/events
* reporting
* resource requirements
* key roles and responsibilities
* training requirements
* communications requirements e.g. communications plans
* risks and risk management

For additional information on transition planning refer to *Managing the Transition from One Contract to the Next* in Part 2 of the OAG's *Procurement – A Statement of Good Practice*.

CONTRACT REVIEW

Where the agency has an ongoing requirement for the goods or services, it may have an option in the contract to extend the contract term for a further period. Alternatively, the agency may need to go back to the market and seek bids for a new contract period. Regardless of which approach is chosen, the agency will conduct a review of the existing agreement prior to making that decision.

The review will consider questions such as:

* does this contract meet our current and future needs, in terms of the goods and/or services provided?
* does the contract represent value for money?
* does the supplier's performance meet our current and future needs in terms of:
    – achievement of service levels?
    – contract management?
    – reporting?
* has the market changed sufficiently enough to have new products and/or services available to us that were not previously available?
* if we choose to go back to market for these services, what are the costs, risks and benefits of this process?
* what options do we have under:
    – the contract, i.e. does it provide for a renewal term?
    – the *Mandatory Rules for Procurement by Departments?*
    – our own procurement policy?

For additional information, refer to *Completing or Renewing the Contract* in Part 2 of the OAG's *Procurement – A Statement of Good Practice*.

BUYER–SIDE ETHICAL CONSIDERATIONS AT THE CONTRACT MANAGEMENT PHASE

Conflict of Interest

Buyer-side ethical considerations in the contract management phase include. ensuring the buyer agency does not place itself in a potential or perceived conflict-of-interest situation through the acceptance of inappropriate gifts or hospitality

RISK

Generic risks identified by agencies relating to the planning phase of the procurement life cycle include:

- a failure to put in place an effective contract management plan, which may result in the contract being poorly managed

- the agency and supplier not having a common understanding of the type of relationship the agency is seeking, which may cause frustration for both parties

- a failure to document and formalise changes to the contract document properly, which may result in misunderstandings and contractual disputes

- insufficient time and effort put into the contract review, which may result in a poorly analysed decision to either extend an existing agreement or re-tender