

Using this guide

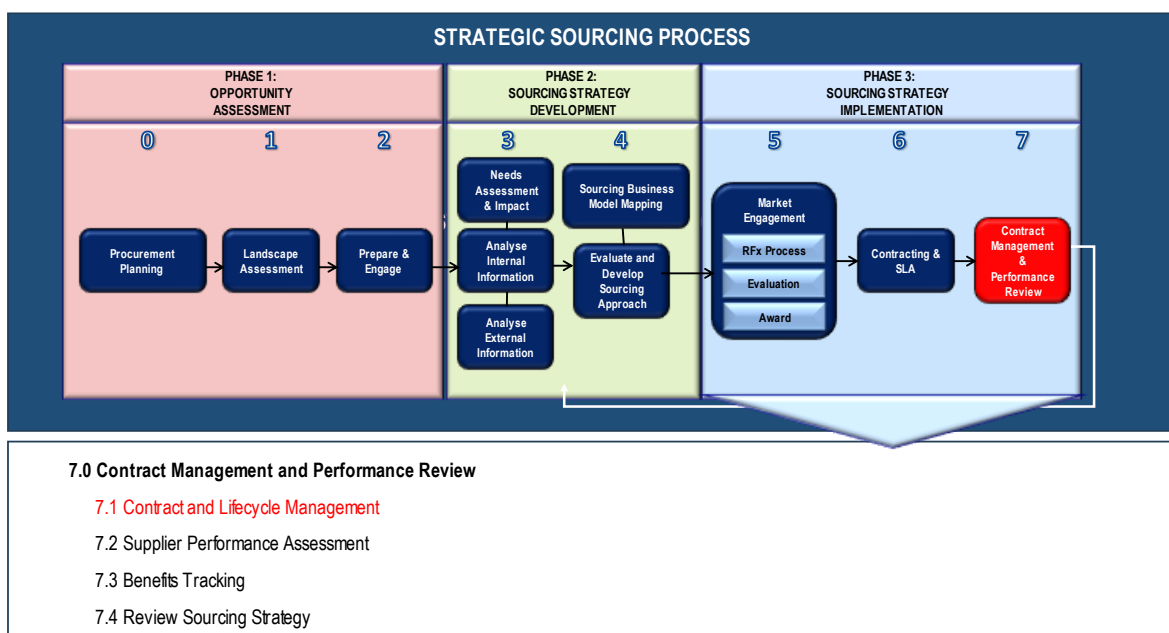
This guide accompanies the National Treasury's Strategic Procurement Framework (SPF) for Strategic Sourcing in the Public Sector. For more information, visit the

National Treasury website at <http://ocpo.treasury.gov.za/>

The SPF can be found here:

http://ocpo.treasury.gov.za/Resource_Centre/Documents/1A.%20Strategic%20Procurement%20Framework.pdf

CONTRACT LIFECYCLE MANAGEMENT



1.0 Introduction

- i. At this stage, the procuring institution is working on implementing the sourcing strategy through contract lifecycle management.
- ii. Contract lifecycle management involves contract creation, contract execution, contract administration and close-out.
- iii. The following good practice guides and templates are applicable in contract lifecycle management:
 - a. The contract management plan

- b. Contract management risks
- c. Records maintenance and reporting
- d. Contract close-out (template)
- e. Lessons learnt (template)

1.1 The objective

- i. To ensure a smooth execution of the contract in line with the contractual terms and conditions and the service level agreement (SLA).

1.2 Output

- i. Contract management plan
- ii. Close-out report
- iii. Lessons learnt

2.0 Good practice guides

2.1 Contract lifecycle management

- i. Four stages constitute contract lifecycle management.
- ii. These are contract creation, contract execution, contract administration and contract close-out.

2.1.1 Contract Creation

- i. It is critical at this stage that all parties to the contract derive the same meaning of the terms used in the contract. For example, where Latin words such as Obiter dicta (words said in passing) are used, an English explanation must be applied.
- ii. This is important so as to derive the same understanding and the meeting of the minds.
- iii. Contract creation involves:

- a. Planning: defining the templates or annexures to be used
- b. Creation: creating a draft contract for input by parties to the contract.
- c. Collaboration: the signing of the contract, distribution to the relevant parties and storing according to the document management policy of the procuring institution.

2.1.2 Contract Execution

- i. The execution stage involves the following activities:
 - a. Placing a purchase order through delegated processes.
 - b. Acceptance or
 - c. Rejection leading to escalation issues in terms of the contract.

2.1.3 Contract Administration

- i. The administration of the contract involves the following activities:
 - a. Managing disputes.
 - b. Providing contract updates.
 - c. Coordinating with different units within the institution such as the legal team or the user.
 - d. Making fair, impartial decisions.
 - e. Analysing risks.
 - f. Setting quality standards.
 - g. Communicating expectations.
 - h. Setting meetings.
 - i. Monitoring performance compliance to Terms and Conditions (T&Cs)
 - j. Assessing T&Cs against the implementation plan.

2.1.4 Contract Close-out

- i. The contract close-out activities include the following:
 - a. Ensure all the contractual requirements have been completed in line with the agreed terms of reference and contractual obligations.

- b. Close-out is completed when all administrative actions have been completed, and all disputes settled, pending the final payment.
- c. Collect recommendations and performance feedback.
- d. Receive the close-out report with lessons learnt for improvement of future projects.

2.2 Contract Management Risks

- i. Risks related to the procurement of goods and services are identified and documented throughout the planning, tendering/evaluation and contract formation process.
- ii. Some of the more common risks related to managing a contract include:
 - a. The failure of either party to fulfil the conditions of the contract;
 - b. Inadequately administering the contract;
 - c. Unauthorised changes to the contract;
 - d. The failure to meet the strategic objectives of the procurement;
 - e. The loss of intellectual property;
 - f. Changing scope;
 - g. Changing technology;
 - h. Fraud;
 - i. The lack of properly maintained records;
 - j. Unethical behaviour or conflicts of interest; and
 - k. Changes or absences in key personnel.
- iii. These risks should be monitored and eliminated or minimised during the contract management period.
- iv. New risks may also be identified and documented during this period.
- v. Appropriate professional advice should be sought at an early stage when a legal or governance issue arises.

2.2.1 The Contract Management Plan

- i. The Contract Management Plan (CMP) is an important contract management tool.

- ii. The CMP is generally developed or used for high complexity and/or high value/ impact procurements during the procurement planning phase. It addresses the key issues related to managing the contract and achieving the specified objectives.
- iii. In particular, the CMP:
 - a. Outlines the objectives and outcomes of the contract and how the contract should be managed;
 - b. Identifies the role, responsibility and obligation of each party;
 - c. Identifies the strategic objectives of the contract and the key success factors;
 - d. Identifies any specific performance measurement and reporting requirements;
 - e. Outlines the approach for dealing with contract variations; and
 - f. Addresses the tasks necessary to ensure a successful contract outcome and to minimise risk.
- iv. The CMP should include all necessary information to enable the contract manager to manage the contract effectively.
- v. This may include details regarding:
 - a. Communication and relationship management;
 - b. Completion and renewal arrangements;
 - c. Continuous improvement;
 - d. Contract changes and variations;
 - e. Contract deliverables;
 - f. Contract management meetings;
 - g. Data and information management;
 - h. Dispute resolution processes;
 - i. Ethical conduct;
 - j. Financial management;
 - k. Governance structures;
 - l. Inspection and testing procedures;
 - m. Insurances;

- n. Key success factors or performance indicators;
 - o. Payment milestones;
 - p. Performance monitoring and reporting;
 - q. Quality assurance practices;
 - r. Risk management;
 - s. Schedule management;
 - t. Statutory and regulatory requirements;
 - u. Training; and
 - v. Warranties.
- vi. The contract manager should regularly refer to the CMP and ensure it is amended when circumstances change.

2.3 Records Maintenance and Reporting

2.3.1 Records maintenance

- i. An important component of contract management is the maintenance of comprehensive and accurate records about:
 - a. Responsibilities of both parties;
 - b. Claims;
 - c. Payments;
 - d. Negotiations (and agreed changes);
 - e. Price adjustments;
 - f. Poor/incorrect service delivery;
 - g. Other significant events/activities; and
 - h. Contract variations.
- ii. Appropriate records must be established and maintained to ensure an audit trail and to assist others involved in the contract to understand the arrangements that have been put in place and how they have progressed.
- iii. Records maintenance is also important to enable compliance with reporting requirements.
- iv. Regular or ad-hoc reports on various aspects of procuring institution's contracts may be required, and these may include:

- a. Supplier information;
- b. Contract value;
- c. Usage;
- d. Savings or cost avoidance;
- e. Performance;
- f. Improvement opportunities; and
- g. Service delivery.

2.3.2 Reporting

2.3.2.1 Performance management

- i. Performance management is a critical element in all contracts to assess whether a supplier is meeting their obligations under a contract.
- ii. Developing performance measures is an integral part of the contract planning phase and should be included in the contract terms and conditions. The level of performance management is scalable, However, maintaining consistency in recording information is important.
- iii. For strategic and high-risk contracts, the contract can be divided into two categories: service level agreement (SLA) and key performance indicators (KPIs).
- iv. The SLA is a formal negotiated agreement between two parties that follows the contract of appointment.
 - a. It sets out minimum performance levels required under the contract.
 - b. It is an effective tool for managing contracts
- v. KPIs are metrics used to quantify the performance of the supplier and monitor adherence to the SLA on a predetermined frequency.
 - a. When set correctly, KPIs give an early indication of when the supplier is struggling to reach the agreed level of service.
 - b. KPIs can then be used as a mechanism for risk identification, management and mitigation.
- vi. Supplier behaviour is influenced by the performance measures adopted.

- a. Keep KPIs to a minimum. A few targeted, measurable KPIs are better than many unmeasurable KPIs.
 - b. Performance measures should strike a balance between supporting performance management activities without incurring unnecessary costs.
 - c. Have a good balance between qualitative and quantitative measures
- vii. Key considerations about performance measures include:
- a. Is the intended measure clearly understood by both parties;
 - b. Do the measures focus on contract performance against contract deliverables and intended value;
 - c. Can the measure be objectively assessed;
 - d. Do the measures encourage performance improvement over the life of the contract;
 - e. Is administering the performance system cost-effective for the organisation and the supplier; and
 - f. Does contract performance against the measures provide the basis for identifying underperformance and provide grounds for remedial action and/or penalty payments?
- viii. Lessons learnt
- a. Lessons learnt is a deliberate process to gather information that contributed to the success of the project.
 - b. The lessons learnt can not only be limited to the successes but must also focus on the negatives: things that must be avoided in future projects.

2.3.2.2 Reporting process

- i. Where relevant, the contract should include provisions for ongoing monitoring and assessment.
 - a. For example, how often to report contract performance (monthly, quarterly, annually or aligned with a contractual milestone) and how to carry out performance assessment.
- ii. The institution may assess performance using its own qualitative and quantitative data sources such as an organisational-level customer satisfaction survey.

iii. The supplier may carry out a self-assessment and report to the organisation.

- a. While this does not provide an objective view, it may still offer a method for monitoring performance where the supplier has customer feedback and data embedded in their systems.

2.3.2.3 Scalability in Reporting

- i. Figure 1 provides an example of the contract management reporting structure and shows the scalability that can be applied depending on the requirements and complexity of the contract and organisational requirements.

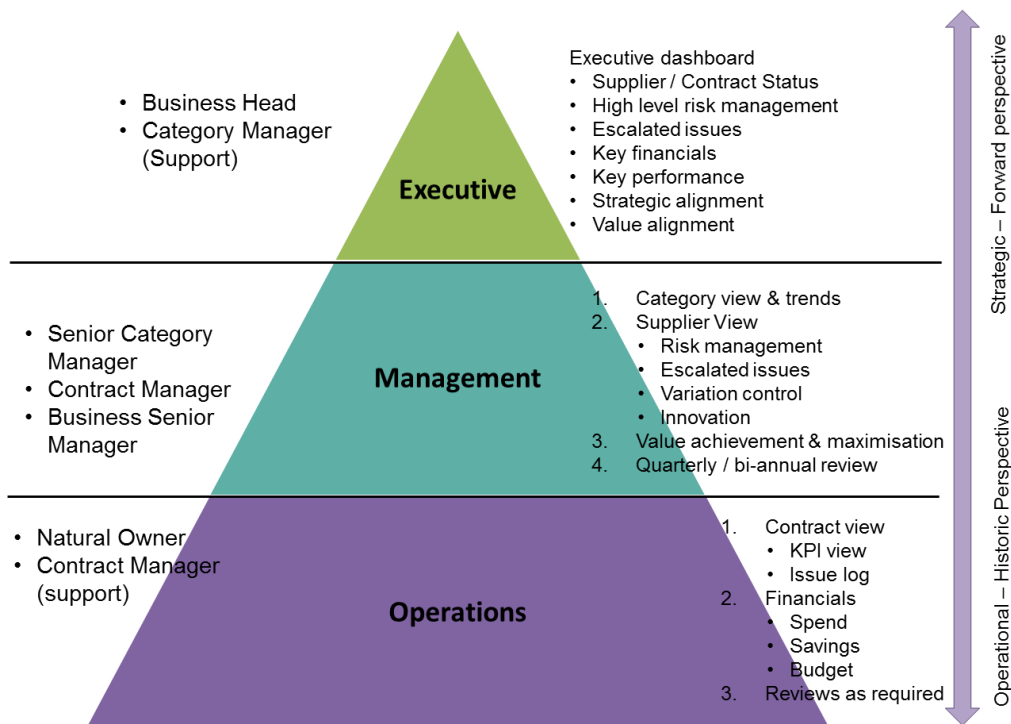


Figure 1: Scalability for Reporting

2.3.2.4 Issues management

- i. Logging, managing and reporting issues is an essential function when managing a contract.
- ii. An issue, if not addressed immediately, can have serious consequences.

2.3.2.5 Operational reporting

- i. Operational reporting is the foundation for contract management reporting of procurement activities.

- ii. It includes detailed performance against agreed KPIs and SLAs and other information identified as relevant by the contract manager and operations personnel.

2.3.2.6 Management reporting

- i. Management-level reporting provides information to support decision-making at the management level.
- ii. This includes key supplier and contract information for strategic, high-risk organisations and critical to business contracts, including contract status, financials, performance data, escalated issues and risks.

2.3.2.7 Executive reporting

- i. Executive level reporting provides information to support decision-making at the most senior level where key project performance is integral with organisational programme delivery, programme budget allocation, organisational governance, capability reviews, effective risk, and financial management.

2.4 Contract close-out

- i. The contract close-out process is usually a simple but detailed administrative procedure.
- ii. The purpose is to verify that both parties to the contract have fulfilled their contractual obligations and that no responsibilities are remaining.
- iii. In addition, contract close-out is the time to assess the success of the contract and determine if there are any lessons learned for future contracting.
- iv. A contract is completed when all goods or services have been received and accepted; all reports have been delivered and accepted; all administrative actions have been accomplished; including any equipment, material and related information and final payment has been made to the contractor.
- v. To initiate the close-out process, the institution should first determine that the contractor has satisfactorily performed all required contractual obligations.

vi. A contract is ready for closeout when:

- a. All deliverables, including reports have been delivered and accepted by the institution.
- b. Contract managers have compared actual performance against performance measures, goals and objectives to determine whether all required work has been completed;
- c. Final payment has been made;
- d. All monitoring issues have been resolved;
- e. All property inventory and ownership issues are resolved including the disposal of any equipment or licenses purchased under the contract;
- f. Final acceptance from the Project Manager has been received (if applicable);
- g. Supplier/contractor is aware of and in compliance with records retention requirements and a plan has been developed for contract file maintenance; and
- h. Any deficiencies found as part of the close-out process are documented and communicated to all appropriate parties.

3.0 Templates

3.1 Close-out report

TABLE OF CONTENTS

1. ABBREVIATIONS.....	1
2. PROJECT OBJECTIVES	2
3. PROJECT DESCRIPTION (SCOPE OF WORK).....	2
4. KEY PROJECT ACCOMPLISHMENTS	2
5. PROJECT MILESTONES	2
6. LESSONS LEARNED	2
7. RECOMMENDATIONS.....	2
8. PROJECT CLOSURE ACCEPTANCE	2

1. ABBREVIATIONS

List of abbreviations	

2. PROJECT OBJECTIVES

3. PROJECT DESCRIPTION (SCOPE OF WORK)

4. KEY PROJECT ACCOMPLISHMENTS

5. PROJECT MILESTONES

6. LESSONS LEARNED

7. RECOMMENDATIONS

8. PROJECT CLOSURE ACCEPTANCE

Compiled by:

	Date	
Recommended	Yes	No

Approval (1):

	Date	
Approved	Yes	No

Approval (2):

	Date	
Approved	Yes	No

3.2 Lessons Learnt

THE NAME OF THE PROJECT

Lessons Learnt Template

Project Title (Commodity)	Project Manager	Date of Report
Cross-Functional-Sourcing-Team		
Project Location		
Type of Lesson Learnt		
a. Positive		
b. Negative		
Lesson learnt. <i>(Provide a brief explanation of the lessons learned (e.g., from both successes and challenges) of the project. Include items that should have been done differently; were done per compliance/governance, but proved no value added; identify effort that should have been accomplished but was not and why.)</i>		
Project Objectives <i>(What was the objective of the project - As per the TOR / APP/ Project Plan)</i>		
Methodological Approach <i>(What methodology was used to address the initial issue that led to the outcome and the good/negative lesson learnt)</i>		

<p>Impact/Effect</p> <p><i>(What has been the positive/negative impact of this Lesson Learnt on the beneficiaries of the project including gender)</i></p>	
<p>Stakeholders</p> <p><i>(Who are the beneficiaries of the Lesson Learnt including other stakeholders)</i></p>	
<p>Validation</p> <p><i>(Have beneficiaries confirmed that their needs are properly met.)</i></p>	
<p>Success Factor</p> <p><i>(What conditions (institutional, environmental, political, social, economic) need to be in place for the lesson learnt to be successfully replicated in a similar context? Describe how successful you were in meeting or exceeding stated goals and deliverables.)</i></p>	
<p>Constraints</p> <p><i>(What were the challenges encountered by the beneficiaries when applying the practice/ Describe any challenges that limited or hampered the project's success?)</i></p>	
<p>Replicability and/or up-scaling</p> <p><i>(What are the possibilities of extending the lesson learnt more widely?)</i></p>	

Contact Details <i>(Name and contact details of project contact if more information is required on the good practice.)</i>	
Documents <i>(Is there any documentation, training materials etc. to provide as a reference?)</i>	
Keywords <i>(To be filled in by project manager/project lead)</i>	

Table 1: Lessons Learnt (Template)