



National Audit Office

Guidance

by the National Audit Office

Good practice contract management framework

DECEMBER 2016

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Overview

- 1** This is the second edition of the NAO good practice contract management framework. We are republishing this framework alongside the insights and emerging best practice from our work across government contracts and our framework for auditing commercial relationships.¹ This is because we believe, and are told by practitioners, that the framework remains one of the best references for the basic tasks necessary for good contract management.
- 2** We first published this good practice framework in 2008 with the help of the Office for Government Commerce, then part of HM Treasury. We did so because there was then no widely available contract management good practice standard. We needed a benchmark to assess how departments managed their contracts as part of our 2008 report *Central government's management of service contracts*,² and we felt it important to make this available for contract management practitioners to use as well.
- 3** In the years that followed, some government practitioners started to use the framework to benchmark their own practice. In 2013, following a number of contracting scandals, the Cabinet Office commissioned forensic auditors to assess government's contracts with Serco and G4S against the framework. Since then it has become government's standard reference text for contract management. We often hear about teams using it to improve their contract management, and internal auditors using it to assess how departments manage their contracts. Earlier this year, the Crown Commercial Service published its contract management principles which build on the 2008 framework.³ And we have continued to use the framework across our work.
- 4** It is encouraging to see the 2008 framework being used across government - we believe that implementation of the tasks set out in the framework help improve contract management.

¹ National Audit Office, *Commercial and contract management: insights and emerging best practice*, November 2016, available at: www.nao.org.uk/report/commercial-and-contract-management-insights-and-emerging-best-practice/

² Comptroller and Auditor General, *Central government's management of service contracts*, Session 2008-09, HC 65, National Audit Office, December 2008.

³ Crown Commercial Service, *Contract management principles*, available at: www.gov.uk/government/publications/commercial-capability-contract-management-standards

5 But, this comes with a big caveat. Undoubtedly there have been improvements in contract management over recent years but we have seen that getting the most from contracts relies on more than getting contract management 'right' by following the framework. We have seen contract management not meeting these framework standards directly leading to poor value for money. But we have also seen departments striving to abide by the framework principles and still not achieving what they wanted from the contract. As government contracts for complex things, often in complex ways, we have seen how it needs to think about more than contract management. Contract success and failure depends as much on the soundness of the commercial strategy, the client's capability, and the robustness of the procurement as it does on the management of the contract.

6 This second edition of the framework thus makes no amendments to the framework itself other than to add this note of caution - failure to meet the contract management standards set out in this framework may well lead to problems, but achieving them may not be enough to achieve value for money. The framework focuses on the activities that organisations should consider when planning and delivering contract management and not their overarching approach to commercial and contract management.

7 In our companion document outlining the insights and emerging best practice from our work across government contracts and our framework for auditing commercial relationships, we set out why we believe government needs to work towards higher contracting standards across the full contract lifecycle and provide some insights on what this may look like.

Framework

The good practice contract management framework

Introduction

1.1 The focus of the framework is on the activities to be undertaken during the operational phase of the contract, i.e. after the contract has been awarded and once the service is up and running. This fits within the 'contract management' domain of our commercial relationships audit framework published in November 2016. This good practice framework defines the four blocks – structure and resources, delivery, development, and strategy – comprising 11 areas (**Figure 1**) that organisations should consider when planning and delivering contract management. It outlines, the key activities that fall under each of the 11 areas.

Figure 1

The good practice contract management framework



1.2 The framework has particular relevance to service contracts (covering information and communications technology, facilities management and business processes) where service levels and value have to be maintained and improved often over long contract periods.

Contract management in context – the effect of the tendering/contract award phase

1.3 Whilst the framework focuses on the operational phase of the contract, contract management success and the activities undertaken are strongly influenced by what has happened during the tendering/contract award phase, in terms of both 'hard' outputs, such as the terms and conditions that have been agreed, and the type of relationship between customer and supplier that has been established during the tendering/contract award phase. In this way, the tendering/contract award phase and the contract management phase should be seen as a continuum rather than distinct phases, with contract management planned for from the start of the procurement process. Our *Commercial and contract management: insights and emerging best practice* outlines some of the broader issues that influence the contract lifecycle.

The framework

1.4 The key activities to be undertaken under each of the 11 contract management areas are set out below. The numbering is not intended to indicate that the activities should be executed in a sequential manner. Indeed, many of the areas and activities are relevant throughout the contract management phase.

1.5 Not all of the 11 areas are equally relevant to all contracts. Generally, the more developmental and strategic areas and activities (areas 8 to 11) become increasingly important the higher the contract risk and the greater the opportunity to add value.

Structure and resources

Area 1: Planning and governance

Preparing for contract management and providing oversight

- 1.1 There is a planned transition from the tendering/contract award phase to the contract management phase, and a handover to contract manager; the cost of contract management is included in the business case and budgets.
 - 1.2 Contract ownership is clear, with the budget holder, senior responsible owner (SRO), and contract manager clearly defined; there is continuity of governance as far as possible.
 - 1.3 There are well defined processes and a clear contract management plan, with a focus on outputs and a 'whole life' approach to performance.
 - 1.4 Overall ownership of contract management across the organisation is clear, with a 'contract management senior responsible owner' with responsibility for driving organisation-wide contract management performance.
 - 1.5 Contract management processes are aligned with, among others, wider organisational governance processes, operational boards, and risk structures.
 - 1.6 Contract management issues and performance are reported through the governance structure with senior level engagement.
 - 1.7 Regular assessment and evaluation takes place to ensure that the cost of contract management activities is justified and proportionate to the benefits obtained.
 - 1.8 Knowledge management is embedded, capturing key data and lessons from contract management process and experience both within the organisation and more widely.
 - 1.9 Professional contract management guidance is developed, or identified from external sources, and made available to contract managers.
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Area 2: People

Ensuring the right people are in place to carry out the contract management activities

The contract manager (or contract management team)

- 2.1 The contract manager has continuity (ideally through involvement during the tendering/contract award processes) and a handover from the staff responsible for the tendering/contract award.
- 2.2 The contract manager has a detailed knowledge of the contract and other relevant issues, such as service level agreements, and ongoing supplier performance.
- 2.3 The contract manager has the appropriate skills (both specific contract management skills and more general commercial awareness and expertise), with access to relevant training and development. Experienced contract managers are utilised on key contracts.
- 2.4 Contract managers have accurate job descriptions, roles are positioned at an appropriate level and salary, and there is a career path for contract management staff.
- 2.5 Contract managers have clear objectives and reporting lines and their performance is managed through reviews and appraisals.
- 2.6 The contract manager has appropriate delegated authority to manage the contract effectively.

Wider staff issues

- 2.7 Balanced contract management teams are brought together, with an appropriate range of skills; the teams may vary in composition over the life of the contract to meet specific needs.
 - 2.8 Contract management is adequately resourced, in proportion to the importance of the contract (primarily but not exclusively its cost), and there are enough staff to carry out the required activities.
 - 2.9 The organisation has a contract management 'community' allowing contract managers to share good practice. The community also plays a role in the wider government contract management/procurement community.
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Area 3: Administration

Managing the physical contract and the timetable for making key decisions

- 3.1 Hard copy contracts are stored and logged, and are easily accessible when required; for complex contracts, a summary and/or contract operations guide is produced.
 - 3.2 Contract management software is used for recording key information, to give, for example, search capability; relevant ongoing contract management information and documentation is retained and managed.
 - 3.3 There are mechanisms in place for identifying key contract 'trigger points', such as notice periods.
 - 3.4 There is regular and ad hoc reporting of contract management information.
 - 3.5 There are mechanisms in place for handling administration around contract closure or termination.
 - 3.6 The customer considers the cost of contract management activities to the supplier, and the cost is proportionate to the contract size and risk.
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Delivery

Area 4: Managing relationships

Developing strong internal and external relationships that facilitate delivery

Roles and responsibilities

- 4.1 The contract manager understands his/her own role and has clear visibility of well-structured roles and responsibilities on the supplier side.
- 4.2 The respective responsibilities of the contract manager and the supplier are clear, and potentially defined in a 'joint statement of intent' or similar document.

Continuity and communications

- 4.3 Continuity of key supplier staff is desirable (ideally through involvement during the sales process); where this cannot be achieved, there is a handover from the staff responsible for the tendering process.
 - 4.4 Both regular structured and informal communication routes between the contract manager and supplier are open and used; customer and supplier staff are co-located where appropriate.
 - 4.5 Users are given clear expectations and an understanding of the contract and the services/performance to be delivered (for example, through newsletters or briefings).
 - 4.6 Communications between the contract manager, supplier and other stakeholders (users of the contract and others such as technical experts) are effective; and stakeholders are involved in contract management processes where appropriate.
 - 4.7 Problem resolution processes are well defined and used, and are designed to ensure minor problems do not escalate and cause relationship issues; a 'blame culture' is avoided (for example, through the use of a 'relationships charter' or similar document).
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Area 5: Managing performance

Ensuring the service is provided in line with the contract

Service delivery

- 5.1 Service management is well structured; baselines are understood by both parties, and suppliers understand the service they are required to deliver. The contract manager ensures that the customer organisation provides the supplier with the information and contacts needed to deliver the service.
- 5.2 A performance management framework is in place when the contract is signed. The framework is comprehensive, objective and provides incentives for the supplier to meet or exceed agreed performance standards.
- 5.3 Service levels agreements are in place, and are linked to business needs, understood by the supplier, and monitored by the contract manager and/or end users.
- 5.4 Supplier performance is assessed using clear, objective and meaningful metrics, linked where appropriate to the Office of Government Commerce's 'Common Assessment Framework' for monitoring suppliers.
- 5.5 Reporting is as far as possible on a focused, 'by exception' basis, with supplier self-measurement and reporting where appropriate but with independent checking mechanisms to alert the customer to performance issues (for example, user feedback).
- 5.6 Clear processes are in place to handle operational problem resolution and resolve issues as quickly as possible.
- 5.7 Where appropriate, user compliance with the contract is monitored and managed to ensure maximum operational effectiveness and value for money.

Feedback and communications

- 5.8 Regular and routine feedback is given to suppliers on their performance.
 - 5.9 There are clear contact points for service users both within the supplier organisation and with the contract manager. Users understand what the contract is intended to deliver, and are involved in the assessment of supplier performance where relevant. Users understand escalation routes where issues arise.
 - 5.10 Changes in user requirements are captured and considered as part of formal change and contract management processes.
 - 5.11 There are formal performance reviews with suppliers, with documented improvement plans agreed where necessary, covering both operational issues and adherence to key contractual requirements, for example, on data security.
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Area 6: Payment and incentives

Ensuring payments are made to the supplier in line with the contract and that appropriate incentive mechanisms are in place and well managed

Payment and budgets

- 6.1 Payment mechanisms are documented and are clear and well understood by all parties (including incentives, penalties, and non standard charges).
- 6.2 Payment processes are well defined and efficient; appropriate checks and authorisation processes are in place for paying invoices.
- 6.3 The costs of the services delivered and contract management costs are mapped against budgets and allocated appropriately.
- 6.4 Payment changes after the contract is let, for example from contract variations or benchmarking/ market testing, are made using contractual provisions and demonstrated to provide value for money.

Payment and incentive mechanisms

- 6.5 Incentive structures (financial or non-financial) relate clearly to desired outcomes, and are well managed and governed, with appropriate checks and approval mechanisms.
 - 6.6 Service credits or equivalent mechanisms are well managed and governed, and proportionate to supplier profitability.
 - 6.7 Where open-book or similar financial/pricing mechanisms are used, the process is managed professionally and fairly.
 - 6.8 The contract manager takes action where necessary to avoid the organisation being 'locked in' to onerous commercial terms throughout the contract period, such as price escalation or 'compulsory' maintenance payments.
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Area 7: Risk

Understanding and managing contractual and supplier risk

Processes and plans

- 7.1 Contractual/supplier risk management is in place with clear responsibilities and processes, identification of who is best placed to manage risk, and supplier involvement where appropriate.
- 7.2 Risks are formally identified and monitored regularly, with mitigating actions developed and implemented where possible, and 'obsolete' risks removed from consideration where appropriate.
- 7.3 Escalation and reporting routes are in place for risk governance.
- 7.4 Contingency plans are developed to handle supplier failure (temporary or long-term failure/default); exit strategies are developed and updated through the life of the contract.

Contractual terms

- 7.5 Contractual terms around termination are understood and monitored by the contract manager.
- 7.6 Contractual terms around warranties, indemnities and insurance are understood and monitored by the contract manager.
- 7.7 Contractual terms around security and confidentiality are understood and monitored by the contract manager, particularly issues relating to the security/confidentiality of personal data.
- 7.8 Dispute resolution processes are in place, including agreed adjudication procedures, mediation, and arbitration.

Ongoing supplier risk management

- 7.9 The contract manager monitors the supplier's financial health and business performance (including through the use of credit rating agencies).
 - 7.10 The contract manager monitors the supplier's compliance with contractual 'non-performance' issues (for example, on tax and sustainability targets).
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Development

Area 8: Contract development

Effective handling of changes to the contract

Change processes

- 8.1 The contract is regularly reviewed (with a view to updating where necessary) to ensure it meets evolving business needs.
- 8.2 Processes are in place that clearly lay out the governance of contractual change – who needs to approve what and how it will happen – with a focus on effective and prompt change implementation.
- 8.3 There are clear processes for the management of minor changes and contract variations, with a focus on the cost/effort being proportionate to the importance and value of the change.
- 8.4 There are more rigorous processes to handle major contractual changes, including clear approval mechanisms and accountabilities, and controls to demonstrate that changes offer value for money.
- 8.5 Where appropriate, value for money testing of existing services takes place through benchmarking or other processes.
- 8.6 There are processes to cover the introduction of new services under the contract, including market testing where necessary.
- 8.7 Dispute handling processes are in place to handle change related issues.

Processes for different types of change

- 8.8 Both parties have a clear understanding of the arrangements for any extension of the contract (both scope and time) and related issues.
 - 8.9 Processes are in place to handle commercial (financial) changes to the contract in a fair and structured manner.
 - 8.10 Price changes are managed fairly and effectively with the use of mechanisms such as benchmarking, competitive tendering (for example, for major additional works), or other techniques such as open book pricing as appropriate, to test value for money.
 - 8.11 The rationalisation of specifications and demand management are considered as options to achieve better value for money.
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Area 9: Supplier development

Improving supplier performance and capability

Processes

- 9.1 Processes are in place that clearly set out how supplier development activities will be planned, managed and governed.
- 9.2 Clear processes for benefits measurement and capture are in place to ensure that supplier development is focused on continuous improvement and achieving value for the customer organisation.
- 9.3 The customer organisation understands what motivates and drives the supplier and how supplier development fits with the supplier's goals.

Improvement activities

- 9.4 Supplier operational performance improvement activities (for example, 'Lean' and '6-sigma'), with potential input or assistance provided by the customer organisation.
 - 9.5 Joint working or shared activities between the two parties for the benefit of both the supplier and customer (for example, process improvement, shared training, task forces or joint project teams).
 - 9.6 Supplier improvement activities relating to wider government initiatives, with input or assistance provided by the customer organisation (for example, on sustainability, disability employment issues, use of SMEs (Small and Medium Sized Enterprises) and BMEs (Black Minority Ethnic suppliers)).
 - 9.7 Shared risk reduction programmes or activities.
 - 9.8 Supply chain development activities (for example, the development of second/third tier supplier performance).
 - 9.9 Shared management activities (for example, supplier boards) to drive performance improvement.
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Strategy

Area 10: Supplier relationship management

Having a programme for managing and developing relationships with suppliers

- 10.1 A supplier relationship management programme is planned and structured with appropriate governance and senior ownership.
 - 10.2 A benefits realisation plan is in place for supplier relationship management; there is a clear sense of what value is to be generated for both parties.
 - 10.3 There is a focus on capturing innovation from the supplier where necessary or valuable.
 - 10.4 Knowledge management issues are addressed, including knowledge capture from suppliers.
 - 10.5 The supplier relationship management programme considers all the supplier's interactions across an organisation and on a pan-government basis, including work with the Office of Government Commerce.
 - 10.6 Board level supplier/customer organisation interfaces and relationships are planned and managed in line with overall supplier relationship management objectives.
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Area 11: Market management

Managing the wider market issues that impact on the contract, but lie beyond the supplier

- 11.1 Processes are in place to evaluate and review options around delivering services in-house or outsourcing.
 - 11.2 Market intelligence is used to maintain an understanding of the market and of alternative suppliers (to inform benchmarking, contingency planning and re-competition strategies).
 - 11.3 The capacity and capability of potential suppliers is analysed, and linked to wider government analysis, for example, by the Office of Government Commerce.
 - 11.4 There is ongoing evaluation of emerging technologies and practices, and identification of opportunities from both immediate and parallel market sectors.
 - 11.5 Market making is undertaken where appropriate to stimulate competition and ensure the requirements can be delivered by the market; there is an understanding of issues such as switching and bidding costs.
 - 11.6 A re-competition strategy and plan is put in place in a timely manner; the contract manager feeds into strategy development for the 'new' procurement process.
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