**Contract Management Strategy Tool**

# Background

The Contract Management Strategy (CMS) Tool provides guidance on the key contract management processes, tools, reporting and capabilities that can be used for different levels of procurement complexity. It accompanies the Guide to Developing a Contract Management Strategy.

# Audience

* Accountable Officer (AO)
* Chief Procurement Officer (CPO)
* Contract Manager

# Use of this document

* The CMS tool is reviewed as part of the periodic procurement planning and strategy processes. This can be done after assessing the complexity of the organisation’s procurement portfolio.
* The AO and CPO determine if their contract management framework is comprehensive enough to answer the five questions listed below based on the complexity of the organisation’s procurement portfolio.
* If the AO or CPO considers their contract management framework to be insufficient to answer these five questions, the organisation needs to increase its capability.

| Complexity Quadrant | Value for Money (VFM) | Risk Management and Contingency Planning | Capability and Responsibility | Performance Monitoring | Continuous Improvement |
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| 1. What are essential set of controls (systems and processes) the organisation needs to have in place to ensure value for money outcomes are achieved? | 1. What are the minimum controls the organisation requires to determine if the supply is at risk and what back up arrangements could be required to ensure continuity of service? | 1. What are the minimum actions the organisation can take to determine the appropriate capability exists to undertake contract management? | 1. What does the organisation need to do to know if suppliers are fulfilling their contract obligations and if expected commitments are being realised? | 1. What can the organisation do to improve procurement practice to drive value for money? |
| Transactional | * Pricing is relative to industry standards | * Understanding of market in order to identify other supply points if required | * Refer capability assessment | * Not required | * Monitor spend by key categories to identify opportunities for aggregation of demand, HSV collective agreements or pre-qualification arrangements |
| Leveraged | * When developing contracts, consider pricing mechanisms such as volume based discounts to enhance VFM * Communication and training plan for new contracts to create internal awareness and ensure compliance * Develop financial benefits checklist * Consider inclusion of non-performance penalties in contract development | * Use short-form risk assessment and supplier segmentation to understand potential risks (refer to the Developing a Procurement Activity Plan guideline) * Based on market analysis, determine if business continuity plan is required where competitive market does not exist * Clear escalation path for issues established, and tracking mechanism for all issues | * Refer to the Developing Capability Assessment guideline * Appoint category leader to drive synergies across similar procurements * Articulate roles and responsibilities and appoint relationship manager and service delivery manager | * Performance management built into contract management framework * Implement standard supplier scorecard template and ensure regular benchmark of supplier performance on scorecard * Generate standard procurement KPI reporting for management on a regular basis | * Processes are in place to monitor variations and extensions of contracts against supplier * Implement a supplier relationship management plan, including feedback from supplier and staff performance * Engage with contract users to identify opportunities for improvements * Establish framework for review of performance and the application of non-performance penalties as required * Review financial benefits to monitor achievement of VFM |
| Focused | * When developing contracts, consider pricing mechanisms such as alliance, penalties/incentives/risk share arrangements, and other pricing models to enhance value * Ensure total cost of ownership has been calculated and accounted for including all ongoing service requirements * Build service performance KPIs into contract * Develop tailored financial benefits checklist to drive VFM * Consider inclusion of non-performance penalties in contract development | * Undertake long-form risk assessment and supplier segmentation to understand potential risks (refer to the Developing a Procurement Activity Plan guideline) * Require suppliers to submit business continuity plans * Detailed contingency planning is undertaken and regularly reviewed * Establish a clear escalation path and tracking mechanism for all issues | * Refer to the Developing Capability Assessment guideline * Articulate roles and responsibilities and appoint a relationship manager and service delivery manager * Consider the independence of contract management staff * Consider level of involvement required by technical / subject matter expert | * Develop KPIs tailored to contract and project outcomes. Ensure these can be efficiently and consistently measured with minimal effort * Ensure supplier buy-in for performance management program in order to develop the framework of a relationship that works for all parties involved * Implement a tailored supplier scorecard (using the template) and ensure regular benchmark of Supplier performance on scorecard | * Processes are in place to monitor variations and extensions of contract against suppliers * Implement a supplier relationship management plan, including feedback from both suppliers and staff on contract performance * Establish framework for review of performance and the application of non-performance penalties as required * Review financial benefits to monitor achievement of VFM and identify areas of improvement |
| Strategic | * When developing contracts, consider pricing mechanisms such as alliance, penalties/incentives/risk share arrangements to enhance value * Ensure total cost of ownership has been calculated and accounted for including all ongoing service requirements * Build service performance indicators into contract * Develop tailored financial benefits checklist to drive VFM * Consider inclusion of non-performance penalties in contract development * Communication and training plan for new contracts | * Undertake long-form risk assessment and supplier segmentation to understand potential risks (refer to *the Developing a Procurement Activity Plan guideline)* * Require suppliers to submit business continuity plan * Detailed contingency planning is undertaken and regularly reviewed * Establish a clear escalation path and tracking mechanism for all issues | * Refer to the *Developing Capability Assessment guideline* * Articulate roles and responsibilities, appointing relationship managers and service delivery managers, ensuring a clear escalation path for all issues * Consider establishment of project board to oversee procurement process and ensure probity and VFM outcomes throughout process * Consider level of involvement required by technical/subject matter expert where the good or service being procured is highly technical | * Develop KPIs tailored to contract and project outcomes. Ensure these can be efficiently and consistently measured * Ensure supplier buy-in to performance management program * Implement a tailored supplier scorecard template and ensure regular benchmark of supplier performance on scorecard * Establish feedback forums to identify performance issues or improvement opportunities * Establish regular stakeholder meetings as part of the performance monitoring process to identify and quickly raise any performance issues | * Processes are in place to monitor variations and extensions of contract against supplier * Regular reviews by senior management of performance reporting * Establish framework, including relevant stakeholders, for review of performance and the application of non-performance penalties as required * Non-performance penalties are enforced i.e. a case-by-case basis considering the degree of loss or disruption and/or the availability of alternatives * Review financial benefits to monitor performance and identify areas of improvement |

# Disclaimer

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