



**O.R. TAMBO
DISTRICT MUNICIPALITY**

**THE OR TAMBO DISTRICT MUNICIPALITY CONTRACT
MANAGEMENT FRAMEWORK**

**O.R. TAMBO DISTRICT MUNICIPALITY
APPROVED**

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DEFINITION OF TERMS

TERM	DEFINITION
Contract	An agreement between the parties which has legal effect and sets out respective rights and duties involving the transfer of financial or some other type of benefits.
Contract Life Cycle Management	A process that establishes uniform and sound contract management practices in rendering services to the municipality. It is also to ensure roles and responsibilities are clearly defined, contracts entered by the municipality are managed in a manner which minimizes service delivery risk and maximizes intended objectives, contract obligations and social value is realized.
Contract Management	An end to end process to ensure that contracts entered into by the municipality are managed in a manner that minimizes service delivery risks and maximizes intended benefits, contractual obligations are fulfilled, roles and responsibilities are clearly defined and social values are realized.
Contractor	The contracted party providing the municipality with the services and or goods. This include suppliers and service providers.
Contract Management Plan	A dynamic tool for ensuring that the municipality identifies and addresses all relevant issues through out the lifecycle of the contract. It is a document created during the contract formation stage that may need to be modified throughout the life of the contract.
Contract Management Framework	Contract Management Framework is a municipal document for integrated supply chain management. It is a comprehensive set of critical business activities and critical business controls.
Contract Risks	Contract risks are those risks which if realized, may have a negative impact on a contract.
Contract Owner / Project Manager / End-User	The terms Contract Owner / End User/ Project Manager are used interchangeable to refer to the person from whose department scope of work / specification or requisition emanated. He / she has the responsibility for the compilation of the risk register of the contract.
Counter party risk management	The processes to identify and manage the contractual risks that the municipality encounter when entering into contracts with suppliers i.e. what a potential risks that the municipality may be exposed to in the conclusion of contract with supplier.

Default	The failure of a party to perform a contractual requirement or obligation, including failures to meet deadlines, to perform to a specified standard or to meet its obligations in relation to materialized risk.
Force majeure	Act of god and other specified risks which are beyond the control of the parties to the contract and as a result of which a party is prevented from or delayed performing any of its obligations under the contract.
Material Amendments	A material term is vital to performance of obligations of the contract, i.e. expiry period, the parties to contract. A material amendment is an amendment which increases the scope, cost or risk of the contract by more than 10% of the contract value. It also includes the amendment to a material term of a contract
Notice period	A special period of time for a party to rectify a default before the municipality has the right to enforce any remedies for default specified in the contract.
Risk allocation	The allocation of responsibility for dealing with the consequence of a project risk to one of the parties to the contract, or agreeing to deal with the risk through a specified mechanism which may involve sharing the risk.
Risk assessment	The determination of the likelihood of identified risks materializing and the magnitude of their consequences if they do materialize.
Risk identification	The process of identifying all relevant risks
Risk management	The identification, assessment, allocation, mitigation and monitoring of risks. The aim is to reduce their variety and impact.
Risk matrix	A method of presenting all possible significant risks likely to be encountered, the magnitude and likelihood of the risks occurring, their areas of impact, and the risk mitigation techniques to be employed.
Service Level Agreement	A service level agreement whereby the processes, deliverables, key performance indicators and performance standards relating to the required delivery the contract are contained.
Supplier Relationship Management	The maintenance of mutual trust and understanding, openness communication.

CHAPTER 1: THE CONCEPT CONTRACT MANAGEMENT FRAMEWORK

1.1 INTRODUCTION

This is the OR Tambo district municipality contract management framework that serve to guide the implementation and institutionalization of contract management in the municipality. It is developed to address poor management and administration of contracts which negatively impact to service delivery and budget spending. The framework addressed a challenge of contractors / service providers who fail to complete projects to the required standards and the quality of goods supplied do not meet the specification and not delivered on time. The other contributing factor are delays in the payment of suppliers, litigations, escalation of costs on project completion, variation orders and deviations. These necessitated the development of the contract management framework to provide guidance across all programmes within the municipality. **NB** The framework customized the **National Treasury and the Provincial Treasury Contract Management Framework** into the municipal environment.

1.2 SCOPE AND APPLICATION

The contract management framework addresses the core component and activities of contract management for supply chain through the municipality. It applies and enforceable from the date of its approval by council.

1.3 UNDERSTANDING OF CONTRACT MANAGEMENT

Contract management is an end to process to ensure that:-

- Contract entered by the municipality are managed in a manner which minimizes service delivery risk and maximizes intended benefits
- Contract obligations are fulfilled
- Roles and responsibilities are clearly defined, and
- Value for money is realized.

There are seven (07) core sub-processes of contract management which are addressed in the contract management framework.

Core sub-processes of contract management

Governance	Ensuring that the contract life cycle management processes is implemented within the municipality
Human Capital	Ensuring that adequate skilled and sufficient contract management human resources are available
Planning	Ensuring the effective and efficient planning for the transition from the bidding phase to contract phase
Delivery Management	Ensuring that the goods and / or services are being delivered in accordance with agreed performance, costs and quality levels set out in the contract.
Supplier Relationship Management	Ensuring that relationships with suppliers are managed in order to develop and maintain open and constructive associations.
Contract Administration	Ensuring that the formal contractual processes and obligations are complied with
Contract Review / Closeout	Ensuring that the contract is monitored at each and every milestone and closed out in an orderly manner, including all the deliverables, terms and conditions of the contract have been adhered to and that lessons learnt have been properly recorded / documented.

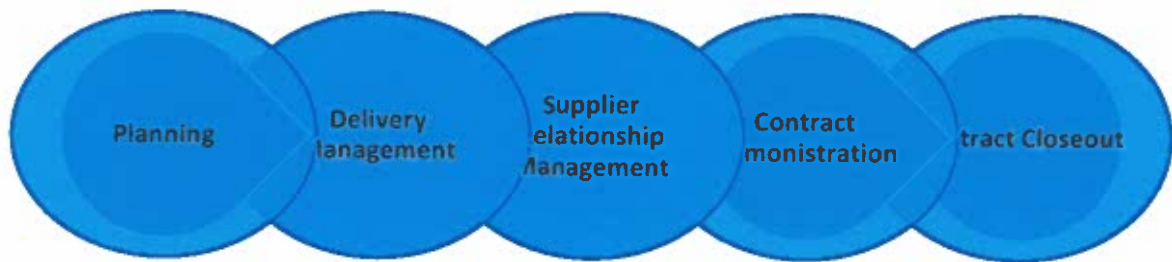
Contract management in its nature appears at the end of the procurement cycle. However, it must be considered at an early stage of the procurement cycle in order to plan for the effective implementation.

The two diagrams below illustrate procurement cycle and the contract management cycle.

Figure 1: Procurement Cycle



Figure 2: Contract Management Cycle



As illustrated in the above diagram, contract management processes depends on **sound governance processes, adequate and sufficient skilled human capital as well as efficient and effective monitoring processes.**

1.4 BENEFITS OF EFFECTIVE CONTRACT MANAGEMENT

The municipality seeks to develop a robust system of contract management which will yield to the following benefits:-

- Ensuring delivery of goods and services at an agreed quality, quantity and price;
- Increased competitive and strategic advantages through effective control;
- Social commitments are closely monitored and enforced to allow accountable reporting;
- Reduction of costs, continuity of supply and security of supply;
- Roles, responsibilities, rights, obligations of all stakeholders are clearly communicated and understood;
- Poor contract management performance is effectively dealt with, minimizing risks and increasing accountability;
- Eliminating unethical practices within the municipality;
- Entrenching uniformity in management of contracts;
- Eradicate variations and deviations;
- Ensure normal open competitive procurement processes are timeously effected and;
- Creating a database for lessons learnt for future planning processes;

1.5 OBJECTIVES OF CONTRACT MANAGEMENT FRAMEWORK

The objectives of the contract management framework are to:-

- Give effect to the contract management within the municipality;
- Ensure that contracts within the municipality are managed in an integrated and uniform manner;
- Create a common understanding and interpretation of roles and responsibilities;
- Provide a practical tool to ensure that the quality of contract management throughout the municipality is significantly improved;
- Ensure all contractual obligations are fulfilled including transformation and development targets;
- Ensure that contractual risks are properly identified, assessed, and managed;
- Enhance cost saving opportunities;
- Ensure administrative efficiency;
- Improve internal and external stakeholders service; and
- Ensure proper planning pre and post contract finalization.

1.6 STRUCTURE OF CONTRACT MANAGEMENT FRAMEWORK

The Contract Management Framework is structured in the following manner:-

- At the beginning of each chapter applicable principles of contract management are set out. Critical activities and controls are also indicated;
- Thereafter, the principles and controls measures are elaborated;
- An explanation of what one needs to do in relation to the issues are further addressed.

CHAPTER 2 : GOVERNANCE IN THE CONTRACT LIFE CYCLE

2.1 INTRODUCTION

Governance of the contract lifecycle ensures that the contract life cycle management process is implemented across the municipality, institutionalized in accordance with the set of norms and standards. The application principles of the framework is detailed in the table below:-

	Key Principles	Critical Activities	Critical Controls
Contract Management Control Framework	<p>Principle 1: The municipality contract life cycle management governance process is implemented within the institution.</p>	<p>The Municipality Contract Management Framework is developed, documented and communicated</p>	<p>1. The Contract management framework is developed.</p> <p>2. The Contract management framework contains amongst others:-</p> <ul style="list-style-type: none"> • Appropriate regulatory and legislative requirements • Contract management roles and accountabilities • Relationship management at strategic and operational level • Communication level and information flow • A performance matrix.

The framework has been created to ensure that contract management within the municipality adheres to the highest standards of professionalism, efficiency, compliance and integrity. It is therefore of utmost important that the management of every contact within the municipality adheres to the framework.

2.2 THE GOVERNANCE FRAMEWORK FOR CONTRACT MANAGEMENT

The governance framework for contract management consists of the followings:-

a) The Supply Chain Policy

The aim of the policy is to ensure that the municipality gets value for money in the procurement of goods and services, in order to fulfill the mandate, while redressing the economic imbalances and service delivery on the ground.

b) Contract management strategy

The aim of the strategy is to establish uniform and sound contract management practice throughout the municipality. It is also to ensure that roles and responsibilities are clearly defined and the contract entered into by the municipality are managed in a manner which minimizes business risk and maximizes intended benefits, contractual obligations are fulfilled and social value is realized.

c) The Contract Management Framework (Critical Activities and Controls)

The framework identifies the critical activities as well as critical controls. These critical activities are those activities which are critical to the successful implementation of each sub-process within the contract management cycle.

d) The Contract Management Framework

The aim of the framework is to give effect to and promote guidance on implementation of the contract management. It promotes step by step guidance on the management of contracts within the municipality.

2.3 MONITORING OF COMPLIANCE WITH THE GOVERNANCE FRAMEWORK

The municipality through the Budget and Treasury Office, will periodically test the overall level of compliance with the governance framework. This will be done through the control self-assessment at regular basis. The monitoring process is designed to identify any breaches or areas of improvement of the framework and to recommend remedial measures to ensure that such breaches do not occur in future and that there is improved efficiency.

2.4 STATUS OF THE GOVERNANCE FRAMEWORK

The governance framework constitute the minimum control which must be in place throughout in addition to these minimum controls. The institution may introduce further controls to enhance the management of contracts within the supply chain. These additional controls may also be introduced by the specific departments noting their areas of specialization e.g. Engineering Services.

What you need to do	Points to consider
<ul style="list-style-type: none"> • Get acquainted with the supply chain Policy, Contract Management Strategy and the Contract Management Framework, • Invest in your development by attending training sessions on contract management. • Ensure that contracts are managed in accordance with the governance framework. • Complete control self-assessment questionnaires • Corporate with the Audit process and • Contribute to the annual review of the contract management governance framework 	<ul style="list-style-type: none"> • The governance framework for contract management does not consist of only one document, but a number of key documents. e.g General Conditions of Contract. • The management of all contracts must adhere to the governance framework • Non-compliance with the governance framework will be seen in a serious light.

CHAPTER 3: HUMAN CAPITAL

3.1 INTRODUCTION

The human capital aspect of Contract management ensures that adequately skilled and sufficient contract management human resources are available. The principles of the contract management framework are detailed as follows:-

	Key Principles	Critical Activities	Critical Control
Contract Management Control Framework	<p>Principle 2: Availability of sufficient and adequately skilled contract management resources</p>	<p>Contract management resources are appointed and trained to execute the contract management functions.</p>	<p>1. The Supply Chain Management unit to documents relevant contract management skills, competencies and qualifications on skills matrix for the positions of contract owner, Contract Manager / Designated official / Designated official and contract administrator.</p> <p>The matrix identifies the following: Position / Job title</p> <ul style="list-style-type: none"> • Qualifications • Level of experience • Development paths, and • Skills required of the post award management and control of contracts. This should include the management of relationships and service delivery. <p>2. Human Capital recruits employees with the necessary skills to fill the vacancies and conduct annual performance assessments to</p>

			<p>identify developmental areas, skills, competencies and qualifications required.</p> <p>3. Employees who are not in possession of the necessary skills attend training programs, are re-evaluated and if required, are re-deployed.</p>
			<p>1. The SCM unit develops, documents and approves a contract management structure identifying the reporting lines and accountabilities for contract management activities which is documented in the organogram to ensure that contract management activities are properly assigned and are actioned.</p> <p>2. Management allocates the roles and responsibilities for the contract management activities through appointment letters and performance agreements.</p>

Ensuring that contracts are managed by people with proper skills set is pivotal to effective contract management. The contract management team needs a range of skills including interpersonal, project management, financial management and human resources skills relevant to the particular contract. Proper contract management are requires that sufficient time be developed to critical tasks such as contract drafting, monitoring and evaluation, administration and close-out.

The matrix of roles and responsibilities of various stakeholders in the contract management.

3.2 ROLES AND CONTRACT OWNER (END-USER / PROJECT MANAGER)

The primary responsibility of the contract owner include:-

- Identifying the need
- Compiling the business case
- Conducting the risk assessment of the contract and ensuring that the results thereof are documented in a risk register;
- Completion the risk after contract has been signed by both contracting parties;
- Monitoring the risks which have been identified throughout the lifecycle of the contract;
- Ensuring that the Contract Manager / Designated official / Designated official is informed at every step throughout the processes; and
- Signing off contractors' invoices.

3.3 ROLE OF CONTRACT MANAGER / DESIGNATED OFFICIAL / DESIGNATED OFFICIAL

The Contract Manager / Designated official / Designated official has the key role in ensuring that the requirements of the contract are delivered. The Contract Manager / Designated official / Designated official must have the necessary experience or receive training and development prior to contract award, so that they have an understanding of the contract and environment they are responsible for managing. The contract risk register is reviewed by the contractor manager.

The primary responsibility of the Contract Manager / Designated official / Designated official should be considered during the drafting of the scope of work. / specification, bid documents and contract. These include:-

- Developing a contract management plan
- Clearly setting out the roles, responsibilities and standards
- Monitoring performance, compliance with conditions of contracts, key performance indicators and milestones including supplier development commitments;
- Managing associated risks;

- Ensuring that effective communication is maintained between all parties and is free from bias
- Monitoring conflicts of interest that may arise between the parties and facilitating their resolution
- Managing the budget and maintenance financial control
- Working with the contractor for continuous improvement
- Managing changes or variations to the contract;
- Liaisons with the end user as and when required
- Ensuring authorization of payments consistent with the contract terms;
- Exercising contract remedies, as appropriate, where a contractor's performance is deficient
- Documenting significant events / occurrences
- Maintain contract register; and
- Maintaining appropriate records.

Ideally the role of the contract owner and Contract Manager / Designated official / Designated official should be performed by the different persons. However, it is not unusual for these roles to be performed by the same person where available resources are lacking.

3.4 CONTRACT MANAGEMENT RESOURCES REQUIRED PER CONTRACT

a) The Contract Management Team

The contract management team is responsible for delivery against service levels and key performance indicators of specific contract. This team is also responsible for ensuring that contractual matters are dealt with as efficiently as possible. The contract management team should be set up at the inception of the contract, and should consist of Contract Manager, contract Owner, a project / contract administrator. Representative from the following departments may be invited on an as and when required basis; internal audit / control unit , legal and finance. This team must meet as frequently as stipulated in the contract management plan. the contractor's representative will also meet with the contract management team as stipulated in the contract management plan/ Service level Agreement (SLA).

EFFECTIVE CONTRACT MANAGEMENT TEAM

What you need to do	Points to consider
<ul style="list-style-type: none">• Be familiar with your role and responsibilities as contract owner.• Supply Chain Management must put the right people in place to manage the contract.• The Contract Manager / Designated official / Designated official must draw up a contract management plan for strategic contracts.	<ul style="list-style-type: none">• Having the right people in place to manage a contract is a key element of effective contract management.• The team responsible for management must be adequately staffed and have knowledge / understand both sides of the arrangements.• The Contract management plan must be developed.

CHAPTER 4: CONTRACT PLANNING

4.1 INTRODUCTION

Contract planning ensures the effective and efficient planning of the transition from the bidding phase to the contract phase. Proper planning ensures that the objectives of the contract are achieved, including but not limited to risk mitigation (management), efficiency and stakeholder management and value maximization. It also assist all stakeholders in determining the municipal needs, drafting the contract planning for contractor monitoring and contract oversight. All stakeholders must be identified and their input obtained on how to manage the contract through out its lifestyle. Once the bid award is awarded the process must be not left "hanging". Practical steps must be taken to ensure smooth transition to the contract phase. These steps include:-

- Concluding a contract with the contractor using standard contract templates
- Assigning roles and responsibilities
- Preforming a risk analysis; and
- Documenting and communicate a contract management plan

4.2 DEVELOPING THE CONTRACT MANAGEMENT PLAN

Once the Contract Manager / Designated official / Designated official and / or Administrator has been appointed or identified, the contract management plan must be drawn up. A contract management plan is an important tool for ensuring that the municipality identifies and addressees all relevant issues through the life of the contract. It is a dynamic document which is created during contract information stage and may need to be modified throughout the life of the contract.

Contractual management plans are essential where the;

- Contract is also of strategic nature or long term;
- The consequences of contract failure will have adverse consequences for the municipality.
- The contract contains complex terms and conditions, and

- The contract has a high financial value

The contract management plan should detail the contract structure, contract measures, contract administration, contract review and risk management.

4.3 RISK MANAGEMENT

There must be a formal, proactive and systematic analysis and assessment of risks linked to a particular contract. The contract owner is responsible for risk management or treatment through lifecycle of the contract. Contract management risks vary depending on the type of contract. Risks within the contract management include product risk, process risk, financial risk, counter party risk and legal risk. The process risk management is classified in three stages: -

- Identifying the risk
- Quantify, analyses the likelihood of and potential impact of identified risk and
- Mitigate or manage the risks

The contractual risks cannot always be precisely defined. Risk determination is based on objective factors as well as subjective experience. Several factors that may be useful in identifying the level of risk may include:-

- The complexity and subject matter of the procurement;
- The value amount of acquisition i.e. whether this will result in high value or major contract;
- The anticipated payment methodology;
- Whether the acquisition is of a strategic nature and impact it will have on the institution if it fails.
- Time constraints or the expected duration of the contract; and
- The type , availability or experience of staff resources required to implement the objectives of the contract.

Risk assessment is an ongoing process and should be reviewed and re-evaluated on a continual basis until the contract fully delivered and final payment is made. The primary approach to managing risk after a preliminary risk assessment level is to document the initial

perception of the level of risk, identify and assign experienced staff resources to manage and/ or monitor it.

CHAPTER 5: DELIVERY MANAGEMENT

5.1 INTRODUCTION

Delivery management is the process of ensuring that the goods and / or services are delivered in accordance with agreed performance, costs and quality levels set out in the contract. It is important to note that aside from ensuring that the municipality obtain value for money from its contracts, managing delivery is also concerned with ensuring that any social economic commitment made by the contractor are met. This also ensures the management and monitoring of any identified risks to ensure business continuity, should failure to deliver or interruption occur. Poor delivery management will result in the municipality losing value, which invariable leads to bitter relationships with supplier. Effective delivery management on the other hand result in both contracting parties fulfilling their contractual obligations towards each other in a mutually beneficial manner.

5.2 CONTRACT KICK-OFF

A post award kick-off meeting with the successful bidder or contractor should be held which must include, the contract manager, personnel responsible for administering the contract and the end-user. This should typically be held soon after the contract award. It is an orientation for the successful bidder or contractor to ensure a clear and mutual understanding of all contract terms and conditions as well as respective responsibilities of all parties. It also serves as a tool to clarify and resolve any potential misunderstanding early in the process.

Factors used to determine the need for a contract kick-off meeting include:-

- Type of contract
- Level of risks associated with the contract
- Contract value, complexity, length of contract
- Period of performance and delivery requirements
- Procurement history of the required goods and services as well as expertise of the contract

- Urgency of delivery schedule
- Any special or unusual contract requirements, i.e. payment requirements, conditions precedent and etcetera.

5.3 CONTRACT KICK-OFF MEETING AGENDA

At the commencement of the meeting, it should be made clear that the purpose of the meeting is to clarify contract requirements and not to make changes to or re-negotiate the contract term.

After the contract kick-off meeting the municipality, should prepare minutes of the meeting and a copy must be kept on the file. The minutes should make reference to any aspect still requiring resolution, a list of participants, and in particular, those individuals assigned responsibilities for further action as well as due dates for those actions. Copies of the minutes should be distributed to all contract kick-off meeting participants and relevant stakeholders as soon as possible after the meeting.

5.4 MONITORING PERFORMANCE

This is key function of delivery management. The methods used to monitor contractor performance should be clearly stated in the contract and service level agreement. Forcing a contractor without prior knowledge, to comply with stringent compliance monitoring requirements could give rise to the legal challenges. It is therefore important that all these aspects are dealt with upfront in the contract or SLA.

The purpose of monitoring performance is to ensure that contractor performs all obligations in accordance with the contract and for the municipality to be aware of any developing problem or issues. Low value or less complex contracts normally require little monitoring. This does not exclude the possibility of more detailed monitoring if deemed necessary. Generally performance monitoring should focus on high value contracts.

The amount of performance monitoring should be balanced and adequate to meet the need and to achieve the desired results without unnecessary increasing costs. Overly restricted oversight can interfere with the contract's ability to accomplish the work and may inadvertently increase the cost of the work. The Contract Manager / Designated official / Designated official / designated individual must select the most appropriate monitoring methods and ensure that this is linked to the scope of work which should set specific

deadlines for completion of task and a schedule for submission of deliverables, required meetings, presentations, or other activities.

Different methods of monitoring include:-

- **Site Visit and Audits (full or limited)**

Full scope site visit are typically scheduled visits to the contractor's place of business. They are based on a preliminary risk assessment and cover a broad range of contract compliance and performance issues. Limited scope on the other hand focus on the resolution of a particular problem e.g. contractor has provided a corrective action plan for a problem.

- **Desktop Review**

These are reviews of reports submitted by the contractor to the department. These reports should be linked to the various deliverables identified. These are reviewed by comparing the followings:-

- Actual performance against the approved budget or contract value;
- Actual expenditure against the approved budget or contract value;
- Current period to prior periods
- Current contractor with other contractors performing similar work; and
- Preparing a report with what is known about the contractor's operating environment.

5.5 HOW TO USE THE RESULTS OF MONITORING REVIEWS

Monitoring review and audits should be routinely followed up to ensure corrective actions have been taken and that common problem areas that might require training and improvement are identified. The Contract Manager / Designated official / Designated official / designated person should follow a process that is designed to bring the contractor back into compliance with the contract requirements. Monitoring results should be used to improve the contract requirements for future contracts.

The Contract Manager / Designated official / Designated official / designated person may decide on the following actions should the contractor not remedy the breach or should the breach be of a serious nature.

a) Withholding Payment

Contract Manager / Designated official / Designated official / designated person have the responsibility to protect the interest of the municipality. Under appropriate circumstances, it may be necessary to withhold payment from contractors. Circumstances where it may be necessary to withhold payment include:-

- Material breach of the contract by the contractor
- Errors in the invoice;
- Unsupported or undocumented costs, to remedy previous overpayment on the same contract
- Where the contractor's performance is unacceptable.

Payment approval must be made in line with performance by the contractor. Invoices should be reviewed to ensure that the contractor's billing coincides with progress made and milestone achieved. This requires that the contractor's progress be measurable. Cost incurred or invoices submitted, are insufficient indicators of the contractor's progress. If the Contract Manager / Designated official / Designated official / designated person believes that the requested payment does not match the contractor's progress, an explanation should be requested from the contractor prior to approval of the invoice. Payment should be withheld pending the municipality's satisfaction with the contractor's progress.

Invoices must be approved by the end-user staff prior to payment. Payment must be made in accordance with the contract provisions. The invoice should be reviewed to ensure that:-

- The contractor is billing only for goods and /or services received by the municipality;
- The goods and /or services have been accepted;
- The total payment do not exceed the contract limits.

b) Penalties

Penalties may be imposed for non-fulfillment of key objectives. However, the imposition of the penalty does not exonerate the contractor from fulfilling its contractual obligations. The municipality must therefore ensure that all obligations are met.

c) Security

Where security has been provided, e.g. performance bonds, or parent company guarantees, these security instruments must be called up if / when the contractor fails to perform.

5.6 FINAL ACCEPTANCE OR GOODS RECEIPT

The statement of work should clearly define how the municipality will determine that the contract has been satisfactory completed. The scope of work or specification sets standard for acceptance of the deliverable and establish procedure to receive or reject the deliverable based on specific factors. Predetermined milestones and methods of evaluation allow a Contract Manager / Designated official / Designated official / designated person and the contractor to determine objectively whether each milestone has been met.

What you need to do	Points to consider
<ul style="list-style-type: none"> • Contract Manager / Designated official / Designated official arrange a kick-off meeting with the supplier • Establish what levels of service are required and ensure they are maintained. This is the process of managing performance. 	<ul style="list-style-type: none"> • All the parties must fully understand the contractual obligations
<ul style="list-style-type: none"> • Measure quality as well as quantity The quality and quantity of the goods and /or services being delivered must be constantly monitored. 	<ul style="list-style-type: none"> • Quality measures might include aspect such as completeness, availability, durability, flexibility and timelines. Some may be measurable by numerical means whilst others may require subjective assessment.
<ul style="list-style-type: none"> • Ensure value for money and socio economic commitments are achieved. This involves the balance between quality and cost to ensure that the contract continues to provide value for money over its life. It also involves close monitoring of the contractor's supplier development or empowerment obligations. 	<ul style="list-style-type: none"> • Aim to optimize the ratio between value and cost • All costs associated with the contract must be taken into consideration, including: set up costs, recurring costs, fixed costs and the organization's own overheads in managing the contract. • Price comparison offer a quick and effective way to determine whether the municipality is

<ul style="list-style-type: none"> • Managing risks The contract owner must continuously manage the identified risks. <p>Ensure continuity Alternative suppliers must be identified to ensure continuity of supply if contractor fails to deliver</p> <p>Penalties and or security must be activated if/when the contractor fails to perform.</p>	<p>getting value for money, i.e. through benchmarking.</p> <ul style="list-style-type: none"> • The risks associated with the interruption or failure should be identified, formally recorded in a risk register, assigned to an individual owner, i.e. risk manager and actively managed in accordance with good risk management practice. • Risk can relate to many aspects of contract including fluctuation in demand, lack of capacity, change in requirement and transfer of skilled staff. • All risks must be monitored and /or managed. • Risks should be placed with the party best placed to manage them. • It will normally always be the contractor's responsibility to manage delivery continuity and this will be stipulated in the contract. • Aspects of delivery identified as official require careful consideration and creation of business continuity plan.
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CHAPTER 6 : SUPPLIER RELATIONSHIP MANAGEMENT

6.1 INTRODUCTION

Supplier relationship management ensures that contracts with contractors are managed in order to develop and maintain open and constructive relationship.

6.2 SUPPLIER RELATIONSHIP MANAGEMENT

In addition to the achievement of the contractual and commercial aspects of the contract, a healthy relationship between the municipality and its contractors must be maintained as this underpins the overall successful and effective management of a contract. Management structures for contractors need to be designed to facilitate such a healthy relationship. There must be set procedures for raising and handling issues, so that these are dealt with as early as possible and at the appropriate level within the municipality.

The value, risk and strategic nature of a contract will dictate the appropriate degree of supplier relationship management to be established per contract. Establishing a sound relationship with contractor will help in building a strong relationship and to provide constructive and positive feedback.

6.3 COMMUNICATION WITH THE CONTRACTOR

It is important to establish and maintain a constructive relationship through regular communication, in particular, problems that have arisen must be identified and every effort must be made to resolve such problems at an early stage. Problems which are not dealt with timeously can easily become exacerbated resulting in poor relations with the contractor. Escalation procedures must be put in place to deal with any unresolved problems. Providing positive and constructive feedback will assist in maintaining healthy relationships.

Effective supplier relations management will enable the municipality to identify early warning signals and thus indicate whether alternative contractors or products should be identified. Payments should be made without unnecessary delays in line with payment terms. The municipality must pay suppliers within 30 days of submission of an undisputed invoice.

It is important to listen to the contractor's side of the story, to identify any problems, address them promptly and explain decision in an impartial way. This involve contractors that invoice ongoing service delivery that extend over a considerable period of time. In such contractors management of relations with the contractors could consist of:-

- Informal, day to day discussions; and
- Formal meetings at pre- determined intervals with nominated personnel from both the municipality and the supplier.

It also may be beneficial to have different individuals undertaking the contract management and the relationship management activities.

CHAPTER 7: CONTRACT ADMINISTRATION

7.1 INTRODUCTION

Contract administration ensures that the formal contractual processes and obligations are complied with.

7.2 WHAT IS CONTRACT ADMINISTRATION

Contract administration focuses on the practicalities of the relationship between the institution (municipality) and the supplier in relation to the routine administration and clerical functions. The functions included under post-award contract administration responsibilities such as:-

- Drafting of correspondence
- Updating of contract register
- Updating risk register
- Cost monitoring
- Contract meeting schedule and planning
- Drafting minutes
- Contract termination or extension/ renewal; and
- Record keeping.

The contract administration must ensure that there is thorough understanding of the components of contract, including:-

- Expected outcome measures – significant deliverables should be tied to the payment schedule; and
- Acceptance / rejection terms – municipality's right to inspect and accept or reject the goods and /or services and the conditions of acceptance or rejection.

7.3 AMENDMENTS TO CONTRACTS

Contracts may be amended by:-

- a) Extending / reducing the period of the contract
- b) Increasing / decreasing the value of contract
- c) Changing the scope of work
- d) Changing the contracting parties and
- e) Changing any other terms and conditions of the contract.

A decision to amend a contract shouldn't be taken lightly. Amendments to contracts must have been an unforeseen occurrences and be proven beyond the reasonable doubt and compelling reasons must be provided demonstrating possible disruption of essential service delivery, impact thereof, possible loss of life, revenue and saving of costs by the and user in consultation with the Contract Manager / Designated official / Designated official and if approved. Any amendment must be signed off by the person with delegated authority. The requesting department must demonstrate the financial implication of such amendment including sourcing / availability of the funds which will be confirmed by the Budget and Treasury Office. It need to be noted that cumulative value of contract must be taken into account in the request from the Budget and Treasury.

7.4 SAFE CUSTODY OF BID DOCUMENTS, CONTRACTS AND CONTRACT FILES

- a) All contract related documents must be kept in one complete master contract administration file by the contract administrator as part of contract records. The file will provide a basis for setting claims and disputes should they arise in administrative or court action. A non-exhaustive contract file list of documents should always be available and attached.

- b) Contract files must be kept in a neat and orderly manner.

CHAPTER 8: CONTRACT CLOSE OUT AND /OR REVIEW

8.1 INTRODUCTION

This process ensures that at the end of a contract period, the contract manager/ administrator checks that all elements of the contract have been adhered to and that lessons learnt have been properly recorded.

The contract manager, contract owner / end user and contract administrator must consistently monitor the contract execution per the milestone / deliverables and such be recorded during contract period. This will ensure the most accurate process of the close-out report on the contract well before it expires or is terminated. It is recommended that finalization of close-out process must take place not less than one month before expiry or termination. The purpose for this is to verify that both parties have fulfilled their contractual obligations and that outstanding matters will be resolved before contract expires or terminated. This is the stage where overall success of the contract is evaluated and any lessons learnt for development of the future contracts are determined. The contract owner / end user should determine that all deliverables have been satisfactory completed by the contractor. A contract is completed and ready for close out when:-

- All goods and /or services have been received and accepted;
- The goods and services were of the agreed quality and quantity;
- All reports have been delivered and accepted
- All administrative actions have been finalized
- The department's furnished equipment / space have been returned in the same way it was received
- Final acceptance from the project manager / end user has been received
- Final payment has been made to the contractor

8.2 ADMINISTRATIVE MATTERS

Various administrative tasks must be completed as part of close-out process. These tasks include:-

- Ensuring that the contractor returns all documents, equipment and all material belonging to the municipality
- Ensuring that intellectual property rights of the respective parties are properly recorded
- Ensuring that a proper financial reconciliation is conducted before outstanding payments are made, and
- Terminating all access rights of the contractor to the municipal premises / sites.

8.3 REVIEW AND EVALUATE THE CONTRACT

Evaluation should be done in an objective and structural manner against predefined criteria. It should confirm what happened, understanding why it happened, identify and be able to disseminate good practice and inform future planning. It should also establish whether commercial and socio-economic objectives have been achieved, performance standards and costs specified in the contract were met and that specification still meet current needs.

In the final report of the contract, Contract Manager / Designated official / Designated official should consider whether the contract met its original objectives, value for money and how it compares with similar contracts.

8.4 LESSONS LEARNT

Identifying and recording lessons learnt is not only an information collection process but also involves a substantive analysis of the performance of both parties to the contract. The benefits of conducting a proper close-out are that:-

- Risks that have materialized are identified
- The impact of the risks are properly assessed
- The contract management team deepens its understanding of the likelihood and severity of the risks for the benefit of future contracts; and

- Best practice methodologies which may have evolve from the management of the contract are documented and implemented when future contracts are concluded.

8.5 TERMINATION

When the contract is terminated, the parties are released from further underperformed obligations in accordance with the agreed terms and conditions. A contract may be terminated on two separate ways which are termination for convenience or termination of default

a) Termination on Convenience

A termination for convenience, also known as no-fault termination, allows the municipality to terminate any contract at any time in its sole discretion. This happens when the municipality determines that termination is for its best interest. The process is instituted through a written notice specifying the date and time of termination. In this instance the contractor is usually paid the for allowable costs incurred up, to the termination.

b) Termination for Default

A contractor may be terminated for default when it fails to perform, make progress or breaches the contract. The municipality must determine whether it is in their best interest to terminate or pursue other alternatives. The alternatives such as extending delivery date, surety to complete the outstanding work and etcetera.

There are various factors to be considered prior making a decision to terminate:-

- (i) Whether the municipality has done everything to assist the contractor in addressing default
- (ii) The provision of the contract and applicable regulations
- (iii) The urgency of the need for the contracted goods / services as against disadvantages
- (iv) The availability of goods / services from other sources
- (v) Availability of funds to re-purchase / re contract whether there is any bad faith on the part of contractor

Nevertheless the contractor may not be financially capable to finance the re-purchase or such demands may result to the protracted legal action. If the contractor is terminated for default it remain liable for the actual damages and costs incurred by the municipality.

8.6 EXCUSABLE CAUSES

A contractor may not be terminated for default when failure to perform is due to excusable causes. In order to qualify as an excusable causes, the cause must be beyond the control and without the fault or negligence of contractor. Such excusable causes includes but not limited acts of god or forced majeure.

8.7 NOTICE TO REMEDY BREACH

Prior terminating a contract for default, a breach notice should be sent to the contractor. A breach notice is a letter provided that outlines period of time to correct the breach, deficiency or violation. The content of the signed contract together with the General Conditions of Contract must be noted and followed to the letter prior termination.

8.8 NOTICE TO TERMINATE

If the contractor fails to correct the breach, the contract may be terminated. The notice of termination should contain the following:-

- (i) The contract number and date of contract
- (ii) The effective date of termination
- (iii) Reference to the clause under which the contact is being terminated
- (iv) A concise, accurate statement of facts justifying the termination
- (v) A statement that the goods / services being terminated may be re-procured and that the contractor will be hold liable for any additional costs incurred due to repurchase.

8.9 ARCHIVING

At this stage the contract administrator and contract owner must ensure that all the information relating to the contract has been securely archived. The contract as well as the contract administration file and related general correspondences must be kept in a proper and safe archiving facility for a period of five years after completion or in line with the

municipal archiving policy. These files should be recorded in a formal register so that they can be easily traced when required for audit, investigation or litigations.

What you need to do	Points to consider
<ul style="list-style-type: none"> • Verify that all administrative matters have been concluded • Verify that all technical issues have been resolved • Record the date of release of retention and / bank guarantees • Conclude final contract payment • Summarize claims made against or received from the supplier • Review contract to determine whether all required work has been completed • Complete a lessons learnt exercise to determine and document the successes as well as failures and any issue which arose from performance of the service • Ensure that all proper and ownership issues have been resolved 	<ul style="list-style-type: none"> • This stage involves analysis of the overall successes of the contract. The analysis should include the followings:- <ul style="list-style-type: none"> ○ Whether the value or period of the contract was appropriate ○ Whether value for money was obtained ○ Whether the contractor performed according to the Service level Agreement ○ Any lessons learnt ○ Make use of contract close-out
<ul style="list-style-type: none"> • Request feedback from the supplier on how the contract was managed 	

CHAPTER 9: IMPLEMENTATION DATE

The contract management framework is applicable from the date of the signature.

APPROVED BY



B. MASE

MUNICIPAL MANAGER

26/01/2026
DATE

