

Our insights

Contract management in local government

Identifying, assessing and managing any risks associated with contract arrangements

Assigning responsibility to staff who have the skills and knowledge needed to manage contracts, as well as a sound understanding of the contract terms and conditions and the contracted service or function

Providing training and having contract management policies and procedures that provide sufficient information to help staff manage contracts effectively

Regularly monitoring and evaluating contractor performance against agreed performance standards

Keeping adequate records to support and inform the ongoing management of the contract. This is particularly important for long-term contracts where responsibility for contract management can change

Establishing a contract management plan to help staff manage contract requirements, including the obligations of the contractor and the council, and monitor and report on contract performance

South Australian councils spend over \$720 million each year on contracts to deliver council services and support their functions to the community. Councils contract out a range of services and functions that vary significantly in value, complexity and duration, including:

- waste management services
- road repairs and maintenance
- information and communication technology management
- community wastewater management
- managing recreational facilities
- maintaining parks and gardens.

All councils have contract arrangements in some form that they need to manage. We reviewed two councils in detail and our report provides key insights for managing contracts effectively that all councils should consider when reviewing their own practices.



Contract management framework

Why contract management is important

Contracting out services does not diminish a council's responsibility to provide the required standards of service to their community and manage the associated risks. Councils must have effective contract management activities in place to ensure:

- the contractor delivers the service to the required standard, on time and for the agreed amount, while achieving value for money over the term of the contract
- management, reporting and key contract requirements are met.

Key contract management phases

A council's contract management activities will vary depending on the nature, risk, complexity and value of each contract, including:



Essential elements of effective contract management

Policies and procedures that provide sufficient information to support consistent contract management practices and decision-making across the council, including clear roles and responsibilities and reporting requirements

Sound risk management practices to identify, assess and manage contract management risks and risks specific to the contract

Evaluating contractor performance regularly to ensure services are delivered at the required level, agreed performance standards are met and value for money is maintained throughout the term of the contract

Basing decisions about contract variations and extensions on assessments of the impact on the contractual arrangements and associated risks, value for money and the contractor's performance to ensure the intended benefits of the contract are maintained and that it still represents value for money

Contract managers with appropriate skills and knowledge of the contracted services and how to manage contracts. For complex services, the contract manager will need to have the specific industry knowledge to manage these contracted services

Well-defined service levels and performance standards documented in contracts to provide a clear framework to monitor, measure and hold the contractor to account for delivering the contracted services

Monitoring and reporting contract performance to provide assurance that key contract requirements are met and key services are delivered in line with the contract. Effective monitoring activities can help identify any potential problems and allow early remedial actions to be taken. They also enable reporting to senior management on contract performance and any issues

Maintaining adequate records to support and inform the ongoing management of the contract

Find out more at audit.sa.gov.au