



the dr&pw

Department:
Roads and Public Works
NORTHERN CAPE PROVINCE
REPUBLIC OF SOUTH AFRICA

INTERNAL MEMO

DATE:	11 OCTOBER 2016	REF. NO.	
TO:	THE DIRECTOR: POLICY, RESEARCH, MONITORING AND EVALUATION		
FROM:	THE DEPUTY DIRECTOR: POLICY AND RESEARCH MANAGEMENT SERVICES		
SUBJECT:	RE-SUBMISSION FOR APPROVAL OF THE DEPARTMENTAL CONTRACT MANAGEMENT POLICY		

Dear Mr. Mathews

Please find attached the final draft of the departmental Contract Management Policy for your perusal and consideration, which is hereby submitted for approval by the Head of Department (HOD). Please take note that this policy was submitted for approval by myself in August 2014 already, but no feedback on the submission was received. Ms. Pumla Sogoni of the Legal Services Unit indicated to me earlier today that it has now become an audit query, therefore the policy is re-submitted for approval.

Regards



Tom Ferreira



the dr&pw

Department:
Roads and Public Works
NORTHERN CAPE PROVINCE
REPUBLIC OF SOUTH AFRICA

INTERNAL MEMO

DATE:	11 OCTOBER 2016	REF. NO.	
TO:	THE HEAD OF DEPARTMENT (HOD)		
FROM:	THE DIRECTOR: POLICY, RESEARCH, MONITORING AND EVALUATION		
COPY:	THE CHIEF DIRECTOR: CORPORATE AND MANAGEMENT SERVICES		
SUBJECT:	SUBMISSION FOR APPROVAL OF THE DEPARTMENTAL CONTRACT MANAGEMENT POLICY		

Purpose

1. The purpose of this submission is to obtain approval from the Head of Department (HOD) for the operationalization within the Department of the Departmental Contract Management Policy.

Recommendations

1. The final draft of this policy has been circulated departmentally by the Communications Unit.
2. It is therefore recommended that the HOD approve this policy as departmental policy.
3. Please see e-mail attached of the Evidence of departmental Consultation.

MR K. MATHEWS
DIRECTOR: POLICY, RESEARCH, MONITORING AND EVALUATION
Recommended / Not Recommended

11/10/2016
DATE



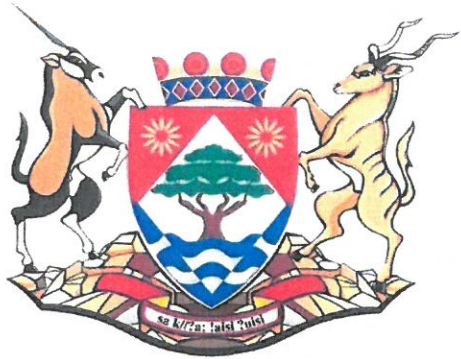
MS A. MPOTSANG
CHIEF DIRECTOR: CORPORATE AND MANAGEMENT SERVICES
Recommended / Not Recommended

2016-10-14
DATE



MR K. NOGWILI
HEAD OF DEPARTMENT
Approved / Not Approved

19.10.16
DATE



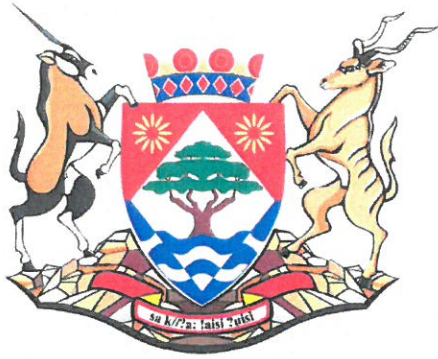
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Department:
Roads and Public Works
NORTHERN CAPE PROVINCE
REPUBLIC OF SOUTH AFRICA

DEPARTMENTAL CONTRACT MANAGEMENT POLICY

**SUBMISSION FOR APPROVAL
11 OCTOBER 2016**

**EVIDENCE OF CONSULTATION WITH
DEPARTMENTAL STAKEHOLDERS**



the dr&pw

Department:
Roads and Public Works
NORTHERN CAPE PROVINCE
REPUBLIC OF SOUTH AFRICA

DEPARTMENTAL CONTRACT MANAGEMENT POLICY

Version 1
October 2016

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1. DEFINITIONS AND ACRONYMS

“Accounting Officer”	Is the Head of Department (HOD), according to the PFMA, 1999. The PFMA clarifies the division of responsibilities between the Head of Department (the Accounting Officer (AO)) and the political head (called the “Executive Authority” – the Member of the Executive Council (MEC)). The Executive Authority is responsible for policy choices and outcomes, while the Accounting Officer implements the policy and achieves the outcomes by taking responsibility for delivering the outputs defined in the departmental budget, which is also prepared by the Accounting Officer.
“CFO”	Means the Chief Financial Officer.
“Contract Manager”	Means an official designated to manage the administrative activities associated with handling contracts.
“Contract Management”	Is the process of managing contract creation, execution and analysis to maximize the departmental key outputs and manage risks attributed thereto.
“Department” / “DR&PW”	Means the Department of Roads and Public Works, Northern Cape Province.
“Legal Services Unit”	Means the Legal Services Unit of the DR&PW, responsible for the drafting and reviewing of contracts for and on behalf of the Department.
“Official”	Means any person in the employ of the Department.
“Performance Management”	This includes activities which ensure that goals are consistently being met in an effective and efficient manner. Performance management can focus on the performance of an organization, a department, employee, or even the processes to build a product or provide a service.
“Policy”	Means the Contract Management Policy for the Northern Cape Department of Roads and Public Works.
“Project Management”	Is the application of processes, methods, knowledge, skills and experience to achieve the project objectives. A project is a unique, transient endeavour, undertaken to achieve planned objectives, which could be defined in terms of outputs, outcomes or benefits. A project is usually deemed to be a success if it achieves the objectives according to their acceptance criteria, within an agreed timescale and budget.
“Project Leader / Manager”	Means an official designated to manage a project on behalf of the DR&PW, from its inception to its execution.

“Risk Management”	Is the identification, assessment, and prioritization of risks (more closely defined as <i>the effect of uncertainty on objectives</i>) followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities.
“SCM”	Means supply chain management. It is the management of the flow of goods. It includes the movement and storage of raw materials, work-in-process inventory, and finished goods from point of origin to point of consumption. Interconnected or interlinked networks, channels and node businesses are involved in the provision of products and services required by end customers in a supply chain.
“SCM Unit”	Means the supply chain management unit of the Department.
“Service Provider”	Means a consultant, supplier, company or any other third party who renders services to the Department.

2. INTRODUCTION

- 2.1 The importance of proper contract management activities to the overall success of the Department cannot be over emphasised. Obtaining products and services through prudent acquisition practices will add to the ultimate success of the Department by ensuring quality products and services at competitive prices.
- 2.2 The key effort of this policy centres on advancing uniform management of contracts and to promote a much stronger management foundation for major investments and projects. Key to this will be to ensure that the Department has a comprehensive integrated approach to the management of its assets and services which is supported by an effective performance management regime.

3. PURPOSE

- 3.1 The purpose of this policy is to:
- 3.1.1 Ensure compliance with applicable legislation.
 - 3.1.2 Ensure uniformity in the administration and management of Departmental contracts.
 - 3.1.3 Ensure that commitments of the Department’s resources are made in an optimal, cost effective and efficient manner.
 - 3.1.4 Pro-actively, practically and constructively manage contracts entered into by the Department.
 - 3.1.5 Assist the Department to achieve broader objectives, which include:
 - a) Ensuring that services are provided according to the best practice and, where applicable, to relevant international standards.

- b) Delivering significant, improved services to our client departments.
- c) Clearly articulating responsibilities for outcomes.

4. SCOPE AND APPLICATION

- 4.1 This policy shall apply to all employees of the Department and any other entities that procures products and services on behalf of the Department.
- 4.2 This policy is also applicable to all employees of the Department appointed at the Districts and the Northern Cape Fleet Management and Trading Entity, as well as to contractors, service providers, consultants, temporary and other workers.

5. REGULATORY FRAMEWORK

- 5.1 The Constitution of the Republic of South Africa Act, Act No. 108 of 1996.
- 5.2 The Promotion of Access to Information Act (PAIA), Act No. 2 of 2000.
- 5.3 The Disciplinary Code and Procedure for the Public Service (PSCBC Resolution 2 of 1999).
- 5.4 The Public Finance Management Act, Act No. 1 of 1999 (The PFMA), as amended.
- 5.5 The Preferential Procurement Policy Framework Act, Act No. 5 of 2000.
- 5.6 The Preferential Procurement Regulations, 2011.
- 5.7 The Electronic Communications Act, Act No. 36 of 2005.
- 5.8 The Electronic Communications and Transactions Act, Act No. 25 of 2002 (The ECT Act).
- 5.9 The Protection of Personal Information Act, Act No. 4 of 2013 (The POPI Act).
- 5.10 The Criminal Procedure Act, Act No. 51 of 1977.
- 5.11 The Protection of Information Act, Act No. 84 of 1982.
- 5.12 The Promotion of Administrative Justice Act, Act No. 3 of 2000.
- 5.13 The Prevention and Combating of Corrupt Activities Act, Act No. 12 of 2004.
- 5.14 National Treasury Regulations of 2005.

- 5.15 The Northern Cape Provincial Government Information Security Policy, as endorsed by the DR&PW.
- 5.16 The Northern Cape Provincial Government Supply Chain Management Policy, 2010.
- 5.17 The departmental policy on Contractor Development.
- 5.18 The departmental Supply Chain Management Policy.
- 5.19 The departmental Risk Management Policy.
- 5.20 The departmental Risk Management Strategy.

6. POLICY STATEMENT

- 6.1 This policy is intended to help the Department to put effective mechanisms in place to manage contracts in DR&PW and to meet its responsibilities in a number of stages involved in the contract cycle which includes:
 - 6.1.1 Where the **official or consultant to manage** the contract is appointed.
 - 6.1.2 Where the contract has to be managed within the framework of a **Contract Management Policy**.
 - 6.1.3 Ensuring proper input by the **Legal unit**.
 - 6.1.4 Ensuring payments against completed deliverables in the **office of the CFO (Finance)**.
 - 6.1.5 Managing the end- user relations and allowing for material **amendments to the contract**.

TAKE NOTE:

The management of a contract:

- *Should start at the inception phase of a project in DR&PW;*
- *Contract should be designed in detail towards the end of the procurement phase;*
- *Is put in practice after the signing of the contract.*

- 6.2 Most of the principles provided in this policy are generic, with small variations to different types of projects or services that may require specific forms of treatment with regard to managing that specific contract, however these underlying principles should apply to all contracts.

7. CONTRACT MANAGEMENT FRAMEWORK OF THE DR&PW

7.1 Functions

- 7.1.1 The various responsibilities and tasks that need to be undertaken during contract management can broadly be divided into three main functions:

- a) **Partnership Management**, which is concerned with structures of accountability and how the Department and the Service Provider relate to each other.
- b) **Service Delivery Management**, which can be described as the systems and procedures designed to manage risk and performance deliverables.
- c) **Contract Administration**, which relates to the administrative process required to ensure that all the procedures contained in the contract and all documentation relating to the contract are effectively managed.

7.2 Phases

7.2.1 In practice there will be a considerable degree of overlap between these functions, and they will often need to be undertaken simultaneously at any particular phase of the project:

- a) **The Inception and Drafting Phase:** This covers the periods from when the project is initiated by the Department until the project is procured.
- b) **The Procurement Phase:** Covers the period from when the Department goes out on tender for a project, until the signing of the contract, including all activities carried out before the signing of the contract.
- c) **The Development Phase:** Begins from the signing of the contract and lasts until service delivery begins. It includes the transition to the new delivery arrangements, and depending on the nature of the project, may involve the design of facilities, the commissioning of goods and equipment, or the construction/ availing of buildings etc
- d) **The Delivery Phase:** Refers to the period when the services are delivered and used according to the contract's specified output.
- e) **The Exit/ close-out Phase:** is towards the end of the life of the project- whether the project is ending through expiry or termination.

Table: Contract Management Framework				
Critical phases and illustrative time frame		Key functions		
		Partnership Management	Service Delivery Management	Contract Administration
Phase 1	Inception & Drafting	Appointment of project Manager Establishment of a project management team Deciding on project type and procurement method	Establish the project's outputs Specifications, affordability limits, identification of major risks in project	Establish tracking and document management systems Identify budgets Establish financial management systems
Phase 2	Procurement	Establish the	Develop the	Develop a contract

		contract management and procurement team	procurement plan Develop the payment mechanism and performance management plan Develop a risk management plan	administration plan
Phase 3	Development	Ensure seamless transition to new arrangements Establish sound partnership Manage change	Establish risk control measures Establish performance Management systems Monitor the development of the service towards the commencement date Manage variations	Maintenance and variation management procedures Keep track of milestones
Phase 4	Delivery	Review and revise the partnership as necessary Manage change Review and revise contract if required	Ensure contracted services are provided in accordance with the output specifications Manage risks Manage performance Manage variations	Contract maintenance and variation management Calculate and record penalties Track and record milestones Update the contract management policy (if required)
Phase 5 and onwards	Exit and Close-out	Manage change Organize closure	Assess deliverables, value for money, quality, innovation achieved by the project Organize post-implementation review Deliver to end-user	Implement hand-back procedures Formally close out the contract (ie, send and confirm notices) Calculate and deduct penalties, set-off's etc

7.3 Exit Strategy

7.3.1 The project management team should prepare an exit strategy as part of the process of complying with this policy.

- 7.3.2 This strategy should be based on the provisions contained in the contract in relation to termination and expiry and should demonstrate the Department's capacity to bring the project to an end efficiently and ensure ongoing service delivery. This may be achieved by continuing the functions in-house or by engaging an external consultant.
- 7.3.3 The Exit Strategy should include:
- (a) An analysis of option, within the parameters of the contract, for continuing the service after termination or expiry and initial recommendation on the preferred option.
 - (b) Plans for organizing a post-implementation review of the project, which should:
 - Assess key deliverables, value for money, quality and project innovation.
 - Be carried out within 6 (six) months of the expiry or termination date of the contract.
 - (c) Handing over the product to the end-user (and any event incidental thereto).
- 7.3.4 The exit strategy should be reviewed at appropriate points during the delivery phase, and revised as necessary to ensure that robust plans are in place well in advance of the expiry of the contract.

8. ROLES AND RESPONSIBILITIES

A critical aspect of contract management for the Department is to clarify the roles and responsibilities of key individuals. Ambiguity about the functions of important players in the contract management process could lead to unnecessary delays and disputes. The primary entities involved in contract management on the Department's side are:

- the Accounting Officer / Head of the Department;
- Project Leaders (Managers);
- The Contract Management team;
- the Office of the CFO (SCM and Finance);
- the Legal Unit;
- the Risk Management Unit and;
- all managers in the Department.

8.1 The Accounting Officer (Head of Department)

- 8.1.1 In relation to contract management, the responsibilities of the Accounting Officer or his/her delegate(s) are to:
- a) Mobilize support for the project amongst politicians and other key stakeholders.
 - b) Indicate financial threshold.
 - c) Obtain approval from treasury for the project budget.
 - d) Delegate the necessary powers to the project manager/ leader at inception of the contract to enable him/her to ensure the implementation of the contract.
 - e) Resolve any dispute which the project manager is unable to settle.

- f) Provide executive commitment.
- g) Provide financial oversight.
- h) Ensure that the contract is properly enforced.
- i) Report on the performance of the contract in the Department's annual report.

8.2 The Project Leader / Manager

8.2.1 The key responsibilities are:

- a) Manage the project on behalf of the Department, based on his/her professional/ technical expertise.
- b) Ensure all parties meet their contractual obligations.
- c) Ensure the requirements of the output specifications are achieved.
- d) Build a strong partnership and good working relations with the Service Provider and other stakeholders.
- e) Prevent and resolve disputes.
- f) Manage risks.
- g) Monitor the service provider's performance and take corrective action where necessary.
- h) Report on the management of projects as required.
- i) Manage approved variations.
- j) Develop an effective communication framework.

8.2.2 Where project management expertise is brought in from outside the Department, either on an *ad hoc* basis or under a long term arrangement, it will be important to ensure that commercially confidential information held by the Department is protected. The terms of reference, time frames and basis of fees for such advisers must be clearly defined to ensure that the final management of the contract rests with the Department. Any contract with independent professional advisers must contain clear arrangements for reporting the results of performance monitoring to the Department and the Service Provider.

8.2.3 In all their dealings, all parties to the contract should be guided by the provisions of the Ethics Policy in DR&PW.

8.3 The Legal Services Unit

8.3.1 Contract management currently falls under legal services, whose responsibilities with regard to contract management shall be to:

- a) Co-ordinate and communicate this Policy to all contract originating units within the Department.
- b) Maintain effective contract management practices during the duration of all contracts entered into by the Department.
- c) Develop and implement a contract management plan or strategy.

- d) Manage records and document management.
- e) Monitor and record the milestone of the contract.
- f) Manage the contracts and monitor expiry thereof.
- g) Monitor and review contracts and independently advise the Department on significant contract management issues.
- h) Manage consequences of breach of contract.

8.3.2 The legal aspect of the responsibilities of the unit shall be:

- a) Contract drafting and negotiations.
- b) Provision of legal advice to all stakeholders.
- c) Assist with review or amendments of contracts.
- d) Report any risk identified to the risk management unit.
- e) Safekeeping of original documents.
- f) Represent the Department's interests at contract level.
- g) Developing a Contract Management Guide/ Manual (Strategy) which will give guidance as to the procedures to be followed when dealing with contracts entered into by the Department.

8.4 The Office of the CFO

8.4.1 Shall be responsible to:

- a) Ensure communication management from the inception stage to the development stage.
- b) Monitoring compliance with procurement processes (SCM).
- c) Authorize payments of invoices in line with contract deliverables and internal processes.

8.5 The Risk Management Unit

Shall be responsible for monitoring and evaluating any risk reported by any unit in the Department relating to any specific project or contract.

8.6 All Managers in the Department

8.6.1 Shall be responsible for:

- a) Implementing this policy, ensuring compliance and knowledge of its elements and for taking immediate and appropriate corrective actions when warranted.
- b) Escalation of contract problems.

9. APPROACH TO CONTRACT MANAGEMENT

9.1 Effective contract management requires the Department's focus to be on the service outcomes to be achieved, using appropriate mechanisms for quality assurance, spot checking, performance monitoring, reporting, evaluating and taking appropriate corrective action when necessary.

- 9.2 The management of a contract requires a range of “soft” skills from both the Department and the Service provider. The approach which the Department adopts will have an important bearing on the chances for project success. Too much intervention could sour relations with the Service Provider and stifle innovation; too little intervention on the other hand could lead to end-user dissatisfaction or expose the Department to unnecessary risk, there is thus a balance that needs to be achieved. Contract management approach must be aligned to the Contract Management Framework as adopted by National treasury in order to ensure reduction in costs, increase revenue and promote enhanced service delivery.
- 9.3 The Department’s approach should to a large extent be determined by the sector in which the project operates, the risk profile of the project and the particular phase the contract has reached at a given point. Thus, where the consequences of the service provider’s failure would be severe, a rigorous monitoring regime would be required. In less exacting circumstances, a more flexible monitoring system might be possible.
- 9.4 This policy seeks to provide a single view on performance of contracts, therefore skills and data integrity are vital to eliminate errors.

9.5 Critical Success Factors:

- 9.5.1 Broadly speaking, a contract is being managed effectively and successfully if the following conditions are met:
- a) The arrangements for service delivery continue to be satisfactory to both the Department and the Service Provider.
 - b) The expected benefits, value for money and innovation are being realized.
 - c) The Department is aware of its contractual obligations and has the necessary resources and expertise to honour them.
 - d) Disputes are resolved expediently, at the appropriate level and through partnership management systems without recourse to external dispute resolutions.
 - e) Changing service delivery requirements are anticipated and variation procedures are used to minimize any negative consequences and maximise opportunities brought about by change.
 - f) Decisions are taken at the right time.
 - g) New business processes are integrated effectively within the existing processes.

10. PARTNERSHIP MANAGEMENT

- 10.1 Partnership management, also known as relationship management, involves the development process to ensure accountability and to manage the relationship between the Department and the Service provider.

10.2 A successful contract delivers the services that meet the required specifications through a commercial arrangement that is acceptable to both parties, offering value for money to the Department and adequate profit for the Service Provider.

TAKE NOTE:

The parties to a contract have different but complementary interests, not necessarily common interests.

10.3 Five Key Dimensions of Partnership Management:

- a) Corporate Governance.
- b) Trust and attitudes.
- c) Communication and information sharing.
- d) Relationship management.
- e) Dispute resolution.

10.3.1 Corporate Governance

- a) Corporate governance is concerned with structures, systems, policies and other mechanisms of accountability within an organization.
- b) It includes the role and responsibilities of all senior managers, internal audit, integrated sustainable reporting, accounting and auditing, relations with clients and corporate communications.
- c) The governance structure should be consistent and headed by the accounting officer of the Department and the chief executive or equivalent officer on the Service Provider's side.
- d) Fairness, accountability, responsibility and transparency in the Department's monitoring of the Service Provider, should be guided by the provisions of the Promotion of Access to Information Act, 2000 and the Promotion of Administrative Justice Act, 2000.
- e) The Service Provider's reporting and disclosure obligations will be specified in the contract and must mirror the Department's disclosure obligations to the Auditor General.

10.3.2 Trust and Attitudes

- a) Trust cannot be mandated in the contract and although it may be anticipated, ultimately it has to be built and earned through actions and behaviours rather than assertions.
- b) This is not to say that the Department's contract management team should become a "soft touch". Commitment to managing the partnership and to long term success requires active and assertive, not passive and submissive behaviour.

10.3.3 Communication

- a) Good communication is often the make or break in managing a partnership. It is vital that the parties agree to formal disciplines about how they communicate in the project and that they do not break protocols or stray into informalities.
- b) The relationship between the Department and the Service Provider should generally operate at different organizational levels, with channels of communication running horizontally between equivalent levels on both sides. Three levels of communication can be identified as follows.

Levels of communication in a large scale project			
	Department	Communication Focus	Service Provider
Strategic level	Accounting officer	Contracting parties Commitment Corporate Governance Dispute Resolution	Chief executive Officer
Business Level	Project Manager/ Leader and Project Team	Partnership Management Service Delivery Management Contract Administration	Chief Executive Officer and Managers
Operational Level	Customers		Service Delivery Management

10.3.4 Relationship Assessment

Measuring performance against financial and service performance is a way of assessing other aspects of the partnership between the Department and the Service Provider. Periodic assessments might address issues such as:

- a) Whether each party is getting the expected benefits in terms of their agreement.
- b) How well the management structures are seen to be operating.
- c) How successful communication is seen to be.
- d) The degree to which information is shared freely and openly between the parties.
- e) Whether conflicts are being avoided or resolved effectively.
- f) End-user satisfaction and perception of the relationship.

10.3.5 *Dispute Resolution*

- a) A dispute resolution process must always be included in the contract. All disputes should in the first instance, be referred to the Department and the Service Provider's Project Managers, for them to find a solution. If they are unable to do this within an agreed period, the dispute should be referred to the accounting officer of the Department and the Chief Executive Officer of the Service Provider. If an agreement cannot be reached at this level, either the matter should be referred to an independent mediator or to an adjudicator to determine the outcome as part of fast tracking the dispute resolution process. Only if these alternative dispute resolution procedures have been exhausted should the dispute be settled in the courts.

- b) The main goal of the Project Manager/Leader should be to anticipate and prevent disputes from arising in the first place. When this is not possible, he and she should facilitate co-operation between both sides to ensure that problems are recognised and resolved quickly and effectively.

- c) Whatever the nature of the problem, the Project Leader/ Manager should ensure that:
 - Problems are recorded as they occur.
 - The private party is notified of problems using mechanisms as set out in the contract.
 - Approaches to resolving the problems are clear and documented.
 - The escalation procedures set out in the contract are followed.

11. SERVICE DELIVERY MANAGEMENT

11.1 Service delivery management in a contract can be divided into two principal categories:

- a) **Risk Management** – which involves keeping the exposure of the project to any potential threats at an acceptable level by taking proper action.
- b) **Performance Management** – is concerned with ensuring that the project remains affordable for the Department and manages, service delivery, value for money, quality and performance improvement.

11.1 Risk Management

11.1.1 As part of the process of developing a good project management plan, during the procurement phase of the project, the Project Manager/ Leader must develop a risk management plan based on a risk matrix.

11.1.2 Should the Department consider a Risk Management Plan, the plan should set out the following:

- a) For the Department:
 - i. An evaluation of different options for treating risk.

- ii. The Departmental official who will be responsible for managing the risk.
 - iii. The procedures and mechanisms that will be used to control the risk.
 - iv. An estimate of the resources that the Department will allocate to manage the risk.
- b) For each risk pertaining to the Service Provider, the risk management plan must set out:
- i. The obligations and reporting requirements which the Department has imposed on the Service Provider to ensure that the risk is managed.
 - ii. The Departmental officer who will be responsible for monitoring the risk.
 - iii. An estimate of the resources that the Department will devote to monitoring the risk.
 - iv. The mechanisms that will be used by the Department to deal with any failure of the Service Provider to manage the risk.
 - v. The business contingency plan that the Department will follow to ensure continued service delivery in the event that the Service Provider cannot maintain the service or the Department is forced to terminate the contract for whatever reason.

11.1.3 Structuring and consolidation of risk ownership

- a) After signing the contract the critical step for the Department in risk management is to structure and consolidate ownership of each risk. While the risk management will identify risk management responsibilities, this will need to be institutionalised. Ownership of each risk must be clearly defined, documented and agreed with the individual owners at all levels, so that they understand their various roles, responsibilities and ultimate accountability.
- b) The owner of the risk may not be the person tasked with the assessment or management of the risk but he or she is responsible for ensuring the process is applied.

11.1.4 Establishing Risk Mitigation Procedures

While the risk management plan will explain the mechanisms and procedures that the Department will use to manage, monitor and mitigate the risk, the Project leader should ensure that these mechanisms are put in place after the signing of the contract. Two highly effective risk mitigation instruments are a risk register and the summary of the risk profile:

- a) **The risks register** or risk log, describes each risk and keeps all information on the risk in one place so that a complete picture of risk exposure can be built up. The table below provides a basic set of contents which can be tailored as required:

Risk Description	Impact	Probability	Owner	Action
	✓ Time			
	✓ Cost			
	✓ Quality			

	(All expressed in High, Medium or Low)			
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- b) **The summary of the risk profile** is a simple mechanism designed to increase the visibility of risks. It is a graphical representation of information contained in the risk register. The Project Leader should update the risk register regularly and generate the graph which shows risks in terms of probability and impact, with the effect of a mitigation action taken into account. The table below sets out an example of a summary risk profile:

Probability	Very High				
	High				
	Medium				
	Low				
	Very Low				
		Very Low	Low/ Medium	High	Very High
	Risk impact Tolerance				

11.2 Performance Management

11.2.1 Affordability, service delivery, quality, value for money and performance management are major considerations from the start of the project. It is important to develop a performance management model as part of the contract. This should comprise of three key elements:

- The level of performance required to achieve the output specifications.** It is imperative to ensure that the standards are reasonable and objectively measurable.
- The means through which the Department will monitor the Service Provider's performance.** The monitoring methodology included in the contract should occur at three levels:
 - Systematic self-monitoring by the Service Provider through a quality management system.
 - A review of the Service provider's quality management system by the Department or an independent third party.
 - End-user feedback on the quality and effectiveness of service delivery- the contract must also specify the way in which the performance is reported for monitoring purposes.
- The consequences of failure to meet the required level of performance for the Service Provider.** The consequences of poor performance on the part of the Service

Provider must be handled in accordance with the contract, which should contain provisions for a number of responses to performance failure, ranging from formal warnings and penalty deductions to eventual termination of the contract.

11.2.2 Performance Management Plan.

- a) As part of the process of developing a project management plan, the Project Leader should develop a performance management plan to ensure that the requirements of the contract and the output specifications are met in terms of affordability, service delivery and value for money.
- b) The performance management plan should be based on the performance management model and should include details of:
 - The reporting obligations that will be imposed on the Service Provider in relation to self-monitoring.
 - The performance management system that will be used by the Department to review the Service Provider's quality management system.
 - The mechanism that will be established to solicit end-user feedback, including a complaints procedure.
 - The Departmental official who will be responsible for monitoring performance improvement.
 - An estimate of the resources that the Department will allocate to managing the Service Provider's Performance.

11.2.3 Performance Monitoring Systems

The performance monitoring systems should be established to enable the contract management team to:

- a) Regularly check progress to ensure that the project milestones are met, including site visits where necessary.
- b) Hold regular progress meetings with the Service Provider and consider performance reports.
- c) Conduct regular and random inspection of the supplied goods and services.
- d) Inspect deliverables to ensure inferior goods or services are not accepted.
- e) Maintain comprehensive documentation on performance monitoring.

11.2.4 Performance Review and Corrective Action

- a) Effective monitoring should provide the basis for reviewing the actual performance of the Service Provider against the output specifications and other obligations contained in the contract. Like monitoring, reviews can be carried out by the Department and/ or independent third parties.

- b) The action taken by the Department to correct the Service Provider's performance must be in line with the provisions of the contract and commensurate with the severity of the transgression.
- c) The application of formal warnings, penalty deductions, step-in and other responses should be undertaken in a manner that is likely to achieve the best result from the Department's point of view. An overly rigid approach may jeopardize continuing service delivery to end users while too much lenience could encourage the Service Provider to commit further breaches.

11.2.5 Performance Improvement Measures

Seeking improvement is not about extracting more from the Service Provider against their will, but about working together to improve quality, performance, value for money or other aspects in a way that benefits both parties. Examples of these are:

- a) Eliminating aspects of the services that are no longer required.
- b) The use of new technologies that would provide a cheaper and more effective service.
- c) Changes in procedures or working practices that provide more efficient ways of delivering the service.
- d) Opportunities for innovation, where the Service Provider is given the chance to implement or devise new solutions that will improve the performance of the service.

12. CONTRACT ADMINISTRATION OF THE DR&PW

Contract administration involves the establishment of administrative processes to ensure that all procedures and documentation relating to the contract are effectively managed. Clear administrative procedures can help to ensure that all parties to the contract understand who does what, when and how. There are three main areas of contract administration, namely:

- a) Variation management.
- b) Contract maintenance.
- c) Financial administration.

12.1 Variation Management

12.1.1 Variation management is closely connected with contract maintenance and relates to the creation of mechanisms to enable changes to the contract to be made.

12.1.2 Such changes may be necessary as a result of a change in circumstances that could not anticipated or quantified when the contract was signed.

12.1.3 Four main categories of variations are:

- a) Variations that involve no additional cost.
- b) Small works variations.

- c) Departmental variations.
- d) Service Provider variations.

TAKE NOTE:

The relevant Treasury must be notified of all material amendments and variations before they are implemented. Variations that will have an impact on affordability or result in an increase need Treasury endorsement. Management of expansions or variations of orders against the original contract is specifically regulated under National Treasury Instruction Note, dated the 31st May 2011.

12.2 Contract Maintenance

Contract maintenance involves establishing procedures to ensure that the contract and the related documentation are consistent, up –to-date and accessible to all the relevant parties. It also involves taking action to allow all parties to develop a common view of contractual obligations.

12.3 Financial Administration

Effective financial administration involves the development of systems and procedures to make and receive financial payments and to keep records of financial transactions.

13. CONTRACT MANAGEMENT STRATEGY OF THE DR&PW

- 13.1 The main purpose of the contract management plan is to:
 - a) Demonstrate to the relevant treasury the capacity of the Department to effectively enforce the contract.
 - b) Provide a strategic management tool to guide the contract management activities that the Department and the Service Provider will require to undertake each stage of the project.
 - c) Clarify key Departmental roles and responsibilities during each stage of the project and identify the resources that the Department will require to undertake.
- 13.2 The contract management plan should be reviewed and updated annually. Changes in government policy, industry requirements, environmental standards, technology and end-user expectation could have important implications for the Departmental approach to contract management.
- 13.3 For the purposes of compiling a contract management strategy, a procurement plan and must be submitted at the beginning of every financial year.

14. ENFORCEMENT

Any employees, contractors, consultants, service providers, temporary and other workers of the Department who are found to have violated this policy may be subject to disciplinary/legal action

and/or criminal prosecution, including termination of employment contracts as well as any other types of contracts with the Department.

15. POLICY REVIEW AND AMENDMENT

- 15.1 This policy is effective from date of signature.
- 15.1 This policy is subject to review as and when deemed necessary or as required or whenever it is necessary to ensure that it is aligned to prevailing resolutions, regulations and conditions.
- 15.2 The policy shall be reviewed to specifically factor in changes in legal frameworks, organisational development, political and economic trends, as well as the outcomes of monitoring and evaluation processes.
- 15.3 Deviations from this policy must be approved by the Accounting Officer (Head of Department).

16. APPROVAL OF THE POLICY AND DATE OF EFFECT

This policy is Approved / Not Approved

Comments:

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HEAD OF DEPARTMENT

19.10.16
DATE
