

Contract review and negotiation ***Getting a better deal***

Public sector organisations that fall short of monitoring their contractual arrangements fail to maximise income, control costs and open their organisations up to a multitude of risks.



Getting a better deal

As public sector organisations begin to realise the impact of major spending cuts across government, reviewing and renegotiating contracts could assist in achieving significant financial savings both in the short and long-term.

A focused strategy to review contractual agreements with suppliers will improve the return on services and products, and will enable the organisation to better capture value and realise cost savings while enhancing service delivery. Our experience suggests that where contracts have characteristics such as complex pricing and

subjective value, savings of up to 15% of contract spend can be identified. However, in organisations with strong supply and contract management we would expect more modest opportunities in the range of up to 5% realisation on targeted spend.

We recommend that all public sector bodies should regularly review their portfolio of supply and capital contracts. A regular review will identify the need to renegotiate any changes to these contracts – for example, in scope of service – and confirm that the service is being received to the contracted levels. It will also ensure that no over or unnecessary payments have or will be made.

Outcomes

Business improvements and cost savings can be found:

Retrospectively: Discrepancies for goods and services already delivered that can be reclaimed directly from contractors;

Prospectively: Discrepancies can be corrected for future contractual transactions and savings obtained;

Derived from improvements:

Business practices that are identified as a consequence of a thorough review of contracts; and

Through renegotiation and initial negotiation:

Value from restructuring, re-scoping services and incentive regimes. Re-aligning risk allocation to deliver value.

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