Project management 101 *by Zavanak*

17. FINANCING & CONTRACTS

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17.2 Contracts

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Contracts are essential to the project

Business case – justifying the project as the best way to attain the strategic goals

Project activity plan – specification, scope, tasks, time scales, costs, resources, risks, etc.

Project management plan – how the project will be designed, conducted and overseen

Project plan

Contracts – arrangements with suppliers for project work, assigning risks

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What is a contract?

A **contract** is a legally-enforceable instrument that defines the obligations which the parties to the contract agree to enter into, and also defines the remedies any party can turn to if another one fails to meet its obligations.

A contract can be made in writing, by word of mouth or by action.

A contract exists if there is:

- an **offer** – which must be intended, clear and certain, and valid when accepted
- an **acceptance** – which agrees to the entire offer
- a **consideration** – what is done in return for what
- an **intention** to create legal relations.

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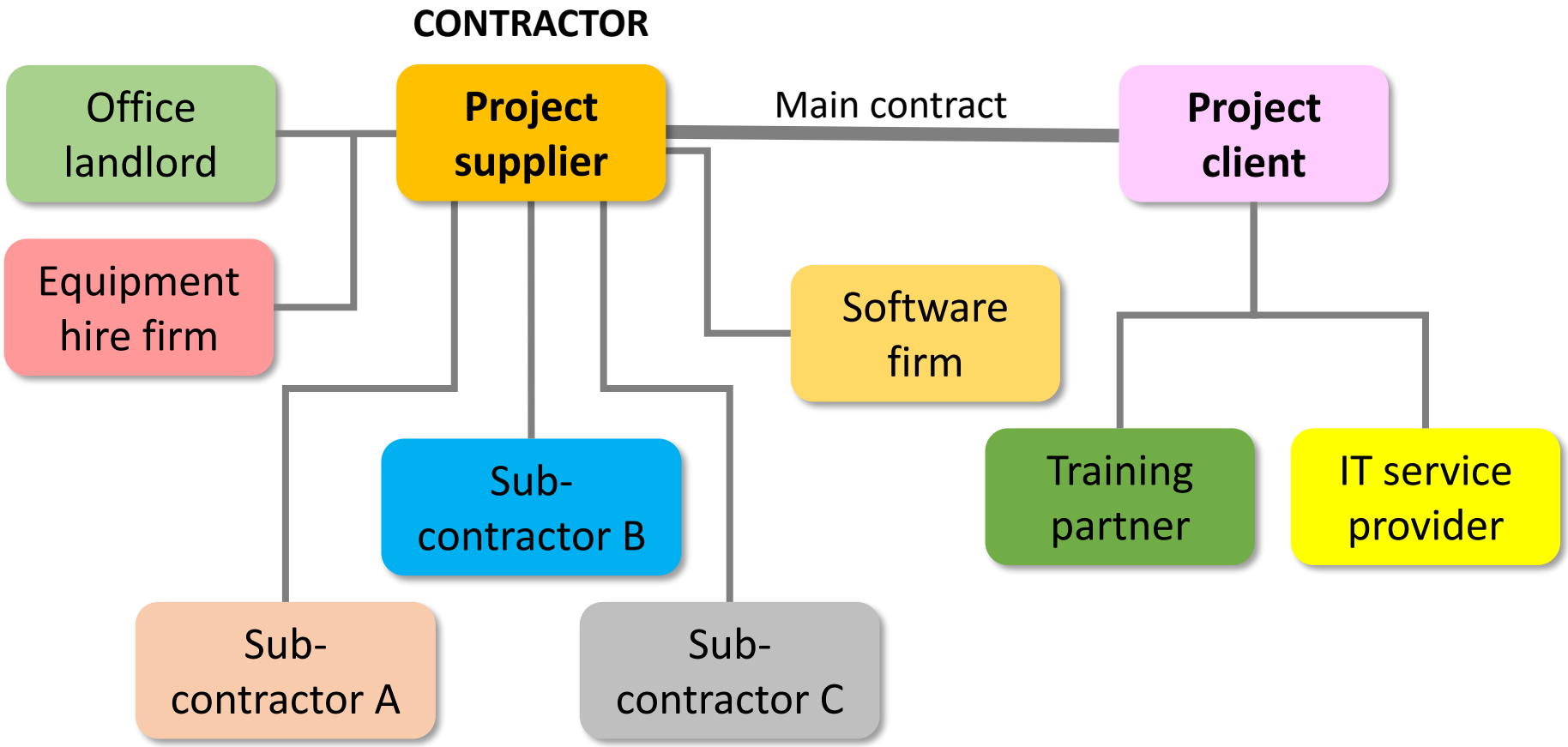
A network of contracts



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What does a contract do?

It defines the **relationship and the responsibilities** of the supplier and the customer, including what is to be supplied and when. This includes the quality expectations of the customer.

It sets out the **pricing structure** for the work, and any adjustments allowed for things like inflation and changes to interest rates.

It defines **how the supplier will be paid**, including how stage payments will work. The contract may contain incentives so that if the supplier exceeds certain targets they get an extra reward.

It makes it **clear when work is complete** and should be accepted by the client

It specifies **what remedies there are** if either the supplier or the customer does not perform as promised. This might include penalties or compensation.

It sets out **how disputes will be handled**.

It confirms under **which legal jurisdiction** the contract is enforceable.

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What else does a contract do?

It can define **which side bears which risks**. Risks should be borne by those best able to bear them and should be allocated so that they are motivational.

It might specify how much **money the customer can retain** until they are satisfied that the project output is working as promised.

It may explain how **changes to the contract** during the course of the project will be handled, such as by change control.

It might impose **constraints on how either party can behave** (e.g. discussing the project in public, using or not using particular suppliers)

It might define what **bonds and insurances** have to be taken out by the supplier.

It specifies **what documentation needs to be retained** by each party and for what period.

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The basis of a good contract

The parties agree the contract is fair if it:

- **recognises the respective goals of parties in the project and seeks to meet them**
- provides the basis for a good outcome for everyone involved
- **fosters a cordial working relationship rather than adversarial behaviour**
- encourages transparency and openness between the parties so that problems are not hidden.

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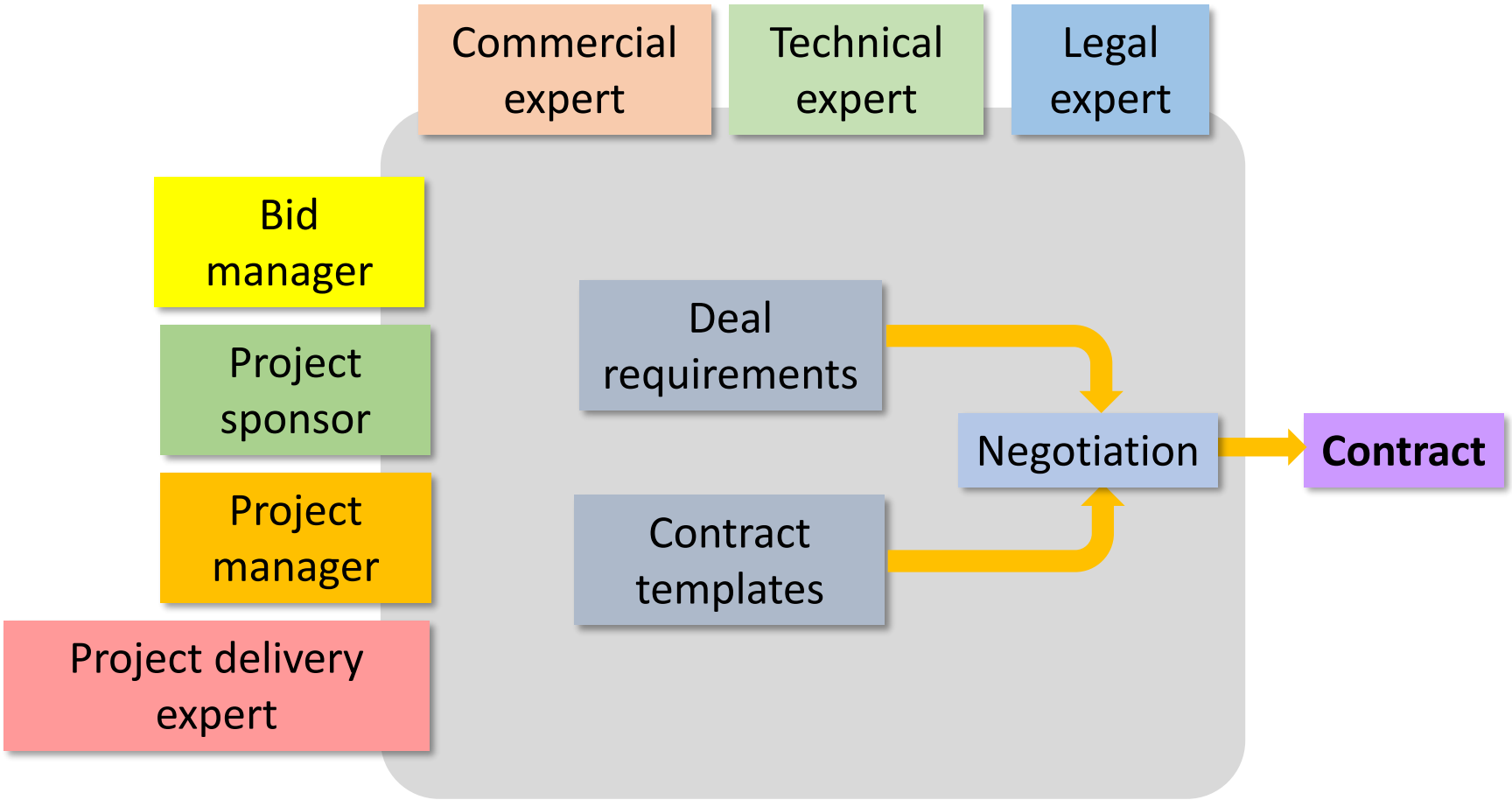
Contract development



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