Dispute Resolution / Terminations / Contract Exit

Purpose of This Guidance

This guidance supports organisations to manage disputes, potential contract failure, termination, and contract exit in medium- to high-risk contracts.

Its aims are to:

- Protect continuity of public services
- Ensure legal and financial compliance
- Maintain value for money
- Minimise disruption to service users and operational teams
- Provide a consistent, defensible approach supported by audit evidence

Quickfire Guide

Quickfire Guide

Principles for Managing Disputes and Termination

1. **Proportionality** – Medium and high-risk contracts require early visibility of risks, structured escalation, and robust documentation.
2. **Fairness & transparency** – All decisions must be well-evidenced and communicated clearly.
3. **Continuity of public service** – Any dispute or termination process must prioritise maintaining service delivery and safeguarding citizens.
4. **Collaboration first** – Formal escalation and termination should only occur after reasonable attempts at resolution.
5. **Legal compliance** – Seek legal guidance early in cases involving severe breach, financial loss, or risk to people.

Escalation

Open or close

Contract management arrangements should identify what happens when the contract is not being delivered as agreed or, the agreed quality standards are not being met.

Performance issues should be addressed immediately, and escalated within the supplier's organisation if not resolved promptly.

If you find that the supplier is not delivering the agreed level of service, you should raise this with them immediately. For quickness, this can be done by telephone but should be followed up in writing. The supplier should be asked for an action plan to ensure that the required levels of service re-commence in a short time frame. Depending on the severity of the issue, it may also be necessary to hold a face-to-face meeting with the supplier. All discussions/meetings, etc. should be minuted to ensure an audit trail exists. If resolution of the issue is not completed within the timescales agreed then the issue should be escalated (see below) and your Organisation’s procurement contact notified of the problem;

- If the issue(s) raised are not resolved to your satisfaction, they should be escalated within the supplier's organisation. An early face-to-face meeting should be arranged where actions and timescales to remedy the situation should be agreed and implemented. The recovery actions should be monitored on a regular basis to ensure that the agreed recovery/ resolution dates do not slip. All discussions/ agreements should be noted in writing;
- Contract Managers/ Contract Management Officers should ensure the escalation process is clearly defined, understood and communicated to all stakeholders and end users.

Dispute Resolution Processes

Open or close

A structured approach ensures disputes do not escalate unnecessarily and risks are managed systematically.

Below is a **four-level escalation model** for medium–high risk contracts.

Level 1 – Informal Resolution (Operational Level)

Purpose: Resolve issues quickly and locally.
Led by: Contract Manager

Typical Scenarios

- Late delivery
- Key Performance Indicators (KPIs) performance issues
- Poor-quality service
- Minor invoicing discrepancies

Expected Actions

- Contract Manager discusses issue with Supplier Contract Lead
- Agree corrective action plan with timescales
- Document the issue and resolutions in the **issues log**
- Monitor KPIs and improvement within a defined period (typically 30 days)

If issue persists - escalate to Level 2.

Level 2 – Formal Performance Escalation

Purpose: Address unresolved issues affecting service delivery or compliance.
Led by: Senior Contract Manager / Category Lead

Triggers

- Repeated KPI failures
- Breach of service levels
- Non-compliance with statutory or regulatory requirements
- Health & Safety concerns

Expected Actions

- Issue a formal escalation note or improvement notice
- Hold a structured meeting with supplier senior management
- Update the **risk register** to red/amber
- Increase monitoring intensity (e.g., weekly MI)

- Agree a revised CAP with milestones and reporting

If no improvement - move to Level 3.

Level 3 – Dispute Resolution (Formal Contractual Route)

Purpose: Follow the dispute mechanism defined in the contract.
Led by: Head of Procurement / Legal Services (joint)

Triggers

- Material breach of contract
- Significant financial loss
- Supplier refusal to comply with contractual obligations
- Reputational or statutory risk

Actions

- Activate the contract's **dispute resolution clause**, usually including:
  - Senior executive engagement
  - Mediation
  - Expert determination
- All communications must be formally documented
- Suspend parts of the service if contract allows (rare and high risk)
- Consider partial remedy, deductions, or withholdings

If dispute remains unresolved - Level 4 (termination consideration).

Level 4 – Pre-Termination Process

Purpose: Assess whether termination is justifiable, safe, and compliant.
Led by: Legal Services + Chief Officer + Senior Procurement Lead

Required Actions

- Undertake a **termination impact assessment**, covering:
  - Service continuity

    - Replacement supplier options
    - Cost of termination vs continuation
    - Impact on citizens and service users
    - Labour, TUPE, and data protection implications
- Confirm the type of termination:
    - Termination for breach
    - Termination for convenience
    - Partial termination
    - Suspension

Decision-Making

- Escalate the recommendation to the appropriate governance board or accountable officer.
- Document all decisions, evidence, and legal advice.

Contract Termination

Open or close

Termination should be a **last resort** and must follow the exact contractual provisions.

Types of Termination

Termination for Material Breach

Used when the supplier has committed a significant breach and failed to rectify it.

Usually requires:

- Notice of breach
- Opportunity to remedy (e.g. 10–30 days)
- Evidence of failure to remedy

Partial Termination

Used for multi-lot or modular contracts where part of the service can be removed.

Suspension

Temporary cessation of services where safety or statutory concerns exist.

For further guidance in contract termination, please visit the Exit Strategy Station

Legal and Governance Requirements

Open or close

Before issuing termination:

- Seek **legal advice**
- Conduct a **risk and options assessment**
- Prepare a **contract exit plan** (see section 5)
- Notify internal stakeholders (e.g., Finance, IT, HR, Data Protection)
- Ensure compliance with:
    - Procurement regulations
    - Audit requirements
    - Contractual notice periods

For further guidance in contract termination, please visit the Exit Strategy Station

Communication Strategy

Open or close

A structured communication plan should identify:

- Who needs to be informed
- When notices will be issued
- Messaging for service users, staff, and suppliers
- Media and reputational risk management

Contract Exit Management

Open or close

Medium to high-risk contracts require a **formal exit plan**, which may be agreed at contract start and updated annually.

Objectives of Contract Exit

- Ensure smooth transition to new provider or in-house delivery
- Protect service users
- Avoid data loss, service interruption, or unmanaged risks
- Recover assets and outstanding materials
- Ensure compliance with FOI, GDPR, and records management requirements

Key Components of the Exit Plan

Governance Structure

- Exit Manager (public body)
- Supplier Exit Lead
- Weekly exit meetings
- Clear milestone plan

Exit Timeline

Typical phases:

1. **Initiation** – 0–2 weeks
2. **Transition** – 2–8 weeks
3. **Handover** – weeks 8–12
4. **Closeout** – after new contract goes live

Timeline depends on contract complexity and should be adjusted accordingly.

Exit Deliverables

The supplier must provide (as per contract and as required):

Asset and Inventory Lists

- Equipment

- Locations
- Serial numbers
- Outstanding repairs

Data & Records

- Service logs
- Asset histories
- Invoices and payments due
- Security access reviews
- GDPR-compliant data transfer

Knowledge Transfer

- Process maps
- Training for new supplier or internal staff
- Outstanding risks/issues and mitigation plans

Final Reporting

- Exit report summarising performance
- Lessons learned log
- Confirmation of warranty position

Managing Service Continuity During Exit

For medium/high-risk contracts, the following should be enforced:

- **Dual running** of supplier and successor (where possible)
- Increased monitoring during transition
- Contingency plan activation if risks escalate
- Clear approval processes for any service changes
- Validation of data handed over
- Independent verification of assets

For further guidance in contract termination, please visit the Exit Strategy Station

Lessons Learned and Continuous Improvement

Open or close

After contract closure:

- Review performance issues and dispute triggers
- Identify root causes of escalation
- Update organisational contract management frameworks and templates
- Capture learning for future procurement exercises (e.g., strengthen KPIs, risk clauses, mobilisation plans)

A lessons-learned report should be stored in the contract file and shared with procurement governance boards.

For further guidance in contract exit, please visit the Exit Strategy Station

Checklist

Checklist

Summary Checklist

Dispute Resolution

- Use a 4-level escalation model (see guidance above)
- Document all issues and agreements
- Implement formal corrective action plans
- Engage senior management and legal where required

Termination

- Conduct impact and risk assessments
- Follow contractual notice procedures exactly
- Notify stakeholders and manage communications
- Ensure audit-ready documentation
- Please note that purchases of goods and services may routinely be the subject of Freedom of Information (FoI) requests.

Contract Exit

- Implement a formal exit plan with milestones
- Secure data, assets, and knowledge transfer
- Ensure continuity of services
- Record lessons learned

For further guidance in contract exit, please visit the Exit Strategy Station