



Civilution

February 2016

Focus on: National Treasury Standard for Infrastructure Procurement and Delivery Management



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Procurement strategy

The *Standard for Infrastructure Procurement and Delivery Management* introduces a stage in the delivery management control framework for strategic resourcing. This stage requires that a procurement strategy be developed. This standard defines a procurement strategy as the “selected packaging, contracting, pricing and targeting strategy and procurement procedure for a particular procurement”. Users of the standard need to understand what precisely a procurement strategy is.

INTRODUCTION

Strategy in the delivery and maintenance of infrastructure may be considered as the skilful planning and managing of the delivery process. It involves a carefully devised plan of action which needs to be implemented. The *Standard for Infrastructure Procurement and Delivery Management* (SIPDM) includes a Stage 2 (strategic resourcing) which requires that a delivery and/or procurement strategy be developed for a portfolio of projects which identifies the delivery strategy in respect of each project or package and, where needs are met through own procurement, a procurement strategy. This standard requires that:

a) The delivery management strategy:

- be developed following the conducting of a spend, organisational and market analysis;
- indicates how needs are to be met for each category of spend through one or more of the following:

- a public-private partnership
- another organ of state on an agency basis
- another organ of state’s framework agreement
- own resources
- own procurement system.

b) The procurement strategy:

- be based on a spend, organisational and market analysis;
- documents the selected packaging, contracting, pricing and targeting strategy and procurement procedure for all required goods or services or any combination thereof, including professional services; and
- includes the rationale for adopting a particular option.

A procurement strategy only needs to be developed where the delivery management strategy selects the “own procurement system” option.

SANS 10845-1 defines procurement strategy as “the selected packaging, con-

tracting, pricing and targeting strategy, and procurement procedure for a particular procurement” (see Figure 1).

Strategy is all about taking appropriate decisions in relation to available options and prevailing circumstances in order to achieve optimal outcomes.

PRIMARY AND SECONDARY OBJECTIVES

Procurement objectives are required in the formulation of a construction procurement strategy. They inform the choices that are made when selecting an option from the available menu of options. Procurement objectives relate to the delivery of the product (primary objectives), and what can be promoted through the delivery of the product (secondary or developmental objectives).

Primary objectives relating to the delivery and maintenance of infrastructure accordingly include:

- tangible objectives, including budget (cost of the works), schedule (time for completion), quality and performance characteristics required from the completed works and rate of delivery (how quickly portions of the works or a series of projects can be delivered or funds can be expended);
- intangible objectives, including those relating to buildability, i.e. the ease with which the designed building or

infrastructure is constructed, relationships (e.g. long-term relationship to be developed over repeat projects, early contractor involvement, integration of design and construction, etc), client involvement in the project, end user satisfaction and maintenance, and operational responsibilities.

Secondary objectives typically include those relating to Broad-Based Black Economic Empowerment, gender or

racial equality, work opportunities for SMMEs, alleviation of poverty, local economic development, development of CIDB-registered contractors, transfer/development of skills, minimising the transmission of HIV-AIDS, reduction of environmental impacts, improvement in health and safety performance, etc.

Secondary or developmental procurement objectives are additional to those associated with the immediate

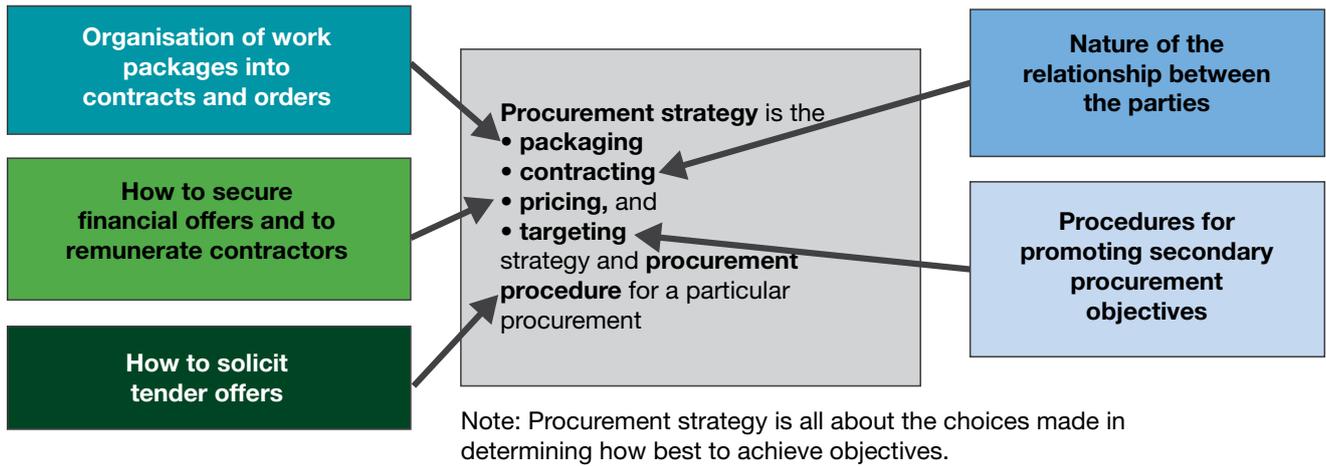


Figure 1: Components of a procurement strategy

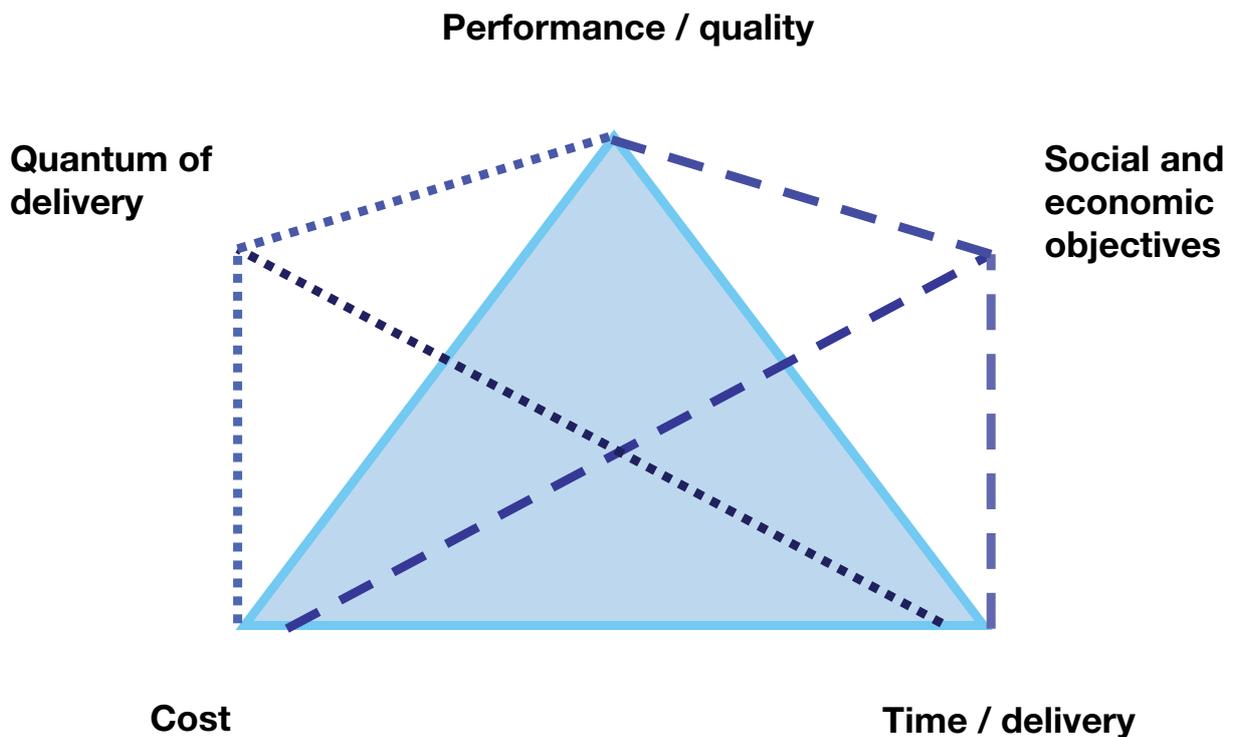


Figure 2: Competing procurement objectives

objective of the procurement itself. Secondary procurement policy objectives influence procurement strategies both directly and indirectly. Competing objectives (see Figure 2) need to be balanced when formulating a strategy.

PACKAGING STRATEGY

A packaging strategy is, according to SANS 10845-1, the “organisation of work packages into contracts”.

Work packages can be linked either to contracts or to a series of orders issued in terms of a framework agreement over a term. The number of packages within a portfolio of projects establishes the number of contractual relationships which an employer and his management team have to manage and administer. It also establishes the number of procurement transactions which need to be processed. The packaging strategy determines the quantum of resources that an employer has to have at his disposal to procure infrastructure or services relating to the maintenance thereof. The packaging strategy has accordingly a major impact on an organisation’s capacity to deliver and maintain infrastructure against a budget, particularly a multi-year budget.

There are a number of factors that need to be considered when packaging works. These include interdependencies between projects and programmes, whether or not framework agreements will be put in place, levels of competition amongst contractors, organisational and managerial complexities, the spatial location of projects, the scale and nature of the work, economy of scale, the manner in which interfaces between packages are to be managed and controlled, project risk, risk allocations, programming (scheduling) requirements, attractiveness to markets, matching contractor skills and capabilities, commissioning requirements, deployment of administrative resources, scope of service and secondary (developmental) procurement policy objectives.

CONTRACTING STRATEGY

A contracting strategy according to SANS 10845-1 is “the strategy that governs the nature of the relationship which the employer wishes to foster with the contractor, which in turn determines the risks and responsibili-

ties between the parties to the contract and the methodology by which the contractor is to be paid”. A contracting strategy determines not only the risk allocations between the parties to a contract, but also the project management demands, the design strategy and the nature and number of professional service agreements that are entered into (see Table 1).

PRICING STRATEGY

A pricing strategy, according to SANS 10845-1, is the “strategy which is adopted to secure financial offers and to remunerate contractors in terms of the contract”. There are two types of pricing strategies – price-based and cost-based. The range of commonly encountered options are indicated in Table 2.

TARGETING STRATEGY

SANS 10845-1 defines a targeted procurement procedure as “the process used to create a demand for the services or goods of, or to secure the participation of, targeted enterprises and targeted labour in contracts in response to the objectives of a secondary procurement policy”. There are a number of targeted procurement procedures which can be used to promote secondary procurement objectives, as indicated in Table 3.

PROCUREMENT PROCEDURE

A procurement procedure is, according to SANS 10845-1, the “selected procedure for a specific procurement”. The *Standard for Infrastructure Procurement and Delivery Management* permits the use of the procedures described in Table 4.

DEVELOPING A PROCUREMENT STRATEGY

A procurement strategy can be developed for a single project, a programme of projects or a portfolio of projects to identify the best way of achieving objectives and value for money, while taking into account risks and constraints. Choices are informed by project objectives, namely the reason for undertaking the project, as well as broader societal objectives. Project objectives need to be translated into procurement objectives.

The activities identified in Table 5 should be undertaken to produce a

delivery and procurement strategy at a portfolio level for implementing projects in an infrastructure plan over at least a three-year period.

The framework as set out in Figure 3 enables choices to be made and aligned with project objectives in the development of a procurement strategy to be systematically developed and documented. The application of the framework can rationalise the delivery of projects within a programme or portfolio of projects, and minimise the contractual relationships which are entered into. This can be utilised to address public sector capacity constraints in spending budgets, as it can be used to reduce the number of contracts that need to be procured and managed, and taps into the resources of the private sector without compromising objectives. The application of the framework can also be used to improve upon secondary procurement outcomes.

>> Please turn over for Tables 1–5 and Figure 3.

NOTE

Further insights and information can be obtained from:

- BS 8534:2011. *Construction procurement policies, strategies and procedures – Code of Practice*. British Standards Institute.
- CIDB 2011. *Delivery Management Guidelines Practice Guide 2 – Construction Procurement Strategy*. Construction Industry Development Board and National Treasury.
- SANS 10845-1:2015 ISO 10845-1:2010. *Construction procurement – Part 1: Processes, methods and procedures*. South African Bureau of Standards.
- Watermeyer, R B 2010. Alternative models for infrastructure delivery. *IMIESA*, 68, October.
- Watermeyer, R B 2012. A framework for developing construction procurement strategy. *Proceedings of the Institution of Civil Engineers, Management, Procurement and Law*, Volume 165, Issue 4, pp 223–237 (15).
- Watermeyer, R B 2012. Selecting a suitable NEC3 form of contract. *Civil Engineering*, 20(1): 14–18.
- Watermeyer, R B 2014. Realising value for money through procurement strategy in the delivery of public infrastructure. 8th CIDB Post-Graduate Conference, University of the Witwatersrand, Johannesburg, February.

>> Please turn over for Tables 1–5 and Figure 3.

Table 1: Contracting strategy options

| Contracting strategy | Description |
|-------------------------|--|
| Design by employer | Contract under which a contractor undertakes only construction on the basis of full designs issued by the employer. (Design is a separate function to construction and is managed by the client or his agent.) |
| Develop and construct | Contract based on a scheme design prepared by the client under which a contractor finalises the production information and constructs it. (The final design details are integrated with construction and are managed by the contractor.) |
| Design and construct | Contract in which a contractor designs the works based on a brief provided by the client and constructs it. (Design is integrated with construction and is managed by the contractor.) |
| Construction management | Contract under which a third party (professional service provider) provides consultation during the design stage and is responsible for planning and managing all post-contract activities for a group of contractors appointed by the employer. |
| Management contractor | Contract under which a contractor is responsible for planning and managing all post-contract activities, including, if required, any design of the works or portion thereof, and for the performance of the whole of the contract. |

Table 2: Pricing strategy options

| Pricing strategy | Description |
|-----------------------------|--|
| Price-based | |
| Lump sum | Contract in which a contractor is paid a lump sum to perform the works. (Interim payments which reflect the progress made towards the completion of the works may be made.) |
| Bill of quantities | Contract in which a bill of quantities lists the items of work and the estimated / measured quantities and rates associated with each item to allow contractors to be paid, at regular intervals, an amount equal to the agreed rate for the work multiplied by the quantity of work actually completed. (A bill of quantities is prepared in accordance with a standard system of measurement.) |
| Price list / price schedule | Contract in which a contractor is paid the price for each lump sum item in the Price List / Schedule that has been completed and, where a quantity is stated in the Price List / Schedule, an amount calculated by multiplying the quantity which the contractor has completed by the rate. |
| Activity schedule | Contract in which the contractor breaks the scope of work down into activities which are linked to a programme, method statements and resources, and prices each activity as a lump sum, which he is paid on completion of the activity. The total of the activity prices is the lump sum price for the contract work. |
| Cost-based | |
| Cost reimbursable | Contract in which the contractor is paid for his actual expenditure plus a percentage or fee. |
| Target cost | Cost reimbursable contract in which a target price is estimated and, on completion of the works, the difference between the target price and the actual cost is apportioned between the employer and contractor on an agreed basis. |

Table 3: Targeting strategy options

| Method | Description |
|--------------------------|---|
| Evaluation points | Give a weighting to social and economic policy objectives along with the usual commercial criteria, such as quality, which are scored at the short-listing stage or the admission to a database. |
| | Give a weighting to social and economic policy objectives along with price and where relevant, quality, during the evaluation of tenders. |
| Incentives for KPIs | Incentive payments are made to contractors should they achieve a specified target (key performance indicator) associated with a social or economic goal in the performance of a contract. |
| Mandatory subcontracting | Require contractors to invite competitive tenders from targeted enterprises for specified portions of the works in terms of a specified procedure and specific forms of subcontract. Upon the award of the contract, the subcontractor becomes a domestic subcontractor. |
| Contractual obligations | Make policy objectives a contractual condition, e.g. <ul style="list-style-type: none"> ■ a fixed percentage of the work is required to be subcontracted out to enterprises that have prescribed characteristics, or a joint venture shall be entered into; and ■ parts of the works are to be executed using employment-intensive methods. |

Table 4: Procurement procedure options

| Procedure | | Description |
|-----------|-----------------------------------|---|
| 1 | Negotiation procedure | A tender offer is solicited from a single tenderer. |
| 2 | Competitive selection procedure | Any procurement procedure in which the contract is normally awarded to the contractor who submits the lowest financial offer or obtains the highest number of tender evaluation points. |
| | A | Nominated procedure Tenderers that satisfy prescribed criteria are entered into an electronic database. Tenderers are invited to submit tender offers based on search criteria and, if relevant, their position on the database. Tenderers are repositioned on the database upon appointment or upon submission of a tender offer. |
| | B | Open procedure Tenderers may submit tender offers in response to an advertisement by the employer to do so. |
| | C | Qualified procedure A call for expressions of interest is advertised, and thereafter only those tenderers who have expressed interest, who satisfy objective criteria and who are selected to submit tender offers, are invited to do so. |
| | D | Quotation procedure Tender offers are solicited from no less than three tenderers in any manner the employer chooses, subject to the procedures being fair, equitable, transparent, competitive and cost-effective. |
| | E | Proposal procedure using the two-envelope system Tenderers submit technical and financial proposals in two envelopes. The financial proposal is only opened should the technical proposal be found to attain the minimum threshold score. |
| | F | Proposal procedure using the two-stage system Non-financial proposals are called for. Tender offers are then invited from those tenderers who submit acceptable proposals based on revised procurement documents. Alternatively, a contract is negotiated with the tenderer scoring the highest number of evaluation points. |
| | G | Shopping procedure Written or verbal offers are solicited in respect of readily available goods obtained from three sources. The goods are purchased from the source providing the lowest financial offer once it is confirmed in writing. |
| | H | Confined market procedure Tenders are invited from a very limited number of contractors who are able to provide goods, services or works which are not freely available in the market, or which are provided solely for the employer in accordance with unique requirements. |
| 3 | Competitive negotiation procedure | A procurement procedure which reduces the number of tenderers competing for the contract through a series of negotiations until the remaining tenderers are invited to submit final offers. |
| | A | Restricted competitive negotiations A call for expressions of interest is advertised and thereafter only those tenderers who have expressed interest, who satisfy objective criteria and who are selected to submit tender offers, are invited to do so. The employer evaluates the offers and determines who may enter into competitive negotiations. |
| | B | Open competitive negotiations Tenderers may submit tender offers in response to an advertisement by the employer to do so. The employer evaluates the offers and determines who may enter into competitive negotiations. |

Table 5: Activities, sub-activities, steps and outputs associated with the development of a delivery and procurement strategy

| Sub-activity | | Step | | Output |
|--|---|------|--|--|
| # | Description | # | Description | |
| 1 Develop a delivery management strategy | 1.1 Gather and analyse information | 1 | Conduct a spend analysis | Spatially located work items in the infrastructure plan grouped into categories of spend with common attributes |
| | | 2 | Conduct an organisational analysis | Descriptions of client organisational characteristics |
| | | 3 | Conduct a market analysis | Descriptions of market characteristics |
| | 1.2 Formulate procurement objectives | 1 | Formulate primary procurement objectives | Identified primary procurement objectives |
| | | 2 | Formulate secondary (developmental) procurement objectives | Documented and prioritised secondary (developmental) procurement objectives |
| | 1.3 Make strategic delivery management decisions | - | Decide on how needs are to be met | A delivery strategy which indicates how each of the categories of spend or portions thereof are to be delivered |
| | 1.4 Package works | 1 | Identify opportunities for framework agreements | Categories of spend, or portions thereof, to be implemented through own framework agreements |
| | | 2 | Identify packages | A package plan for construction, supply and maintenance projects, or a combination thereof, which states the mode of delivery for, and identifies each package |
| 2 Decide on contracting arrangements | 2.1 Allocate risks for packages | 1 | Decide service requirements and/or contracting strategy | Service requirements and risk allocations for each package, i.e. allocation of responsibilities, pricing strategy and standard form of contract |
| | | 2 | Decide on pricing strategy | |
| | | 3 | Decide on form of contract | |
| | 2.2 Establish requirements for outsourced professional services | - | Identify services areas that are required | Identified professional services which need to be procured |
| | 2.3 Package professional service contracts | 1 | Decide on contracting strategy | Requirements for outsourced professional services categorised as single discipline or multidisciplinary |
| | | 2 | Decide on the type of contract | Requirements for outsourced professional services linked to a specific package or a programme or a number of undefined packages or programmes |
| | 2.4 Allocate risks for professional service contracts | 1 | Decide on pricing strategy | Identified pricing strategy for required professional services |
| | | 2 | Decide on form of contract | Identified standard form of contract for a professional service contract |
| 3 Decide on procurement arrangements | Decide on procurement procedure | - | - | A suitable procurement procedure |
| | Decide on targeted procurement strategy | - | - | Suitable targeted procurement procedures |
| 4 Document the identified procurement strategy | - | - | - | A documented procurement strategy that documents the logic behind the choices that are made at each step |
| 5 Accept procurement strategy | - | - | - | An accepted procurement strategy |

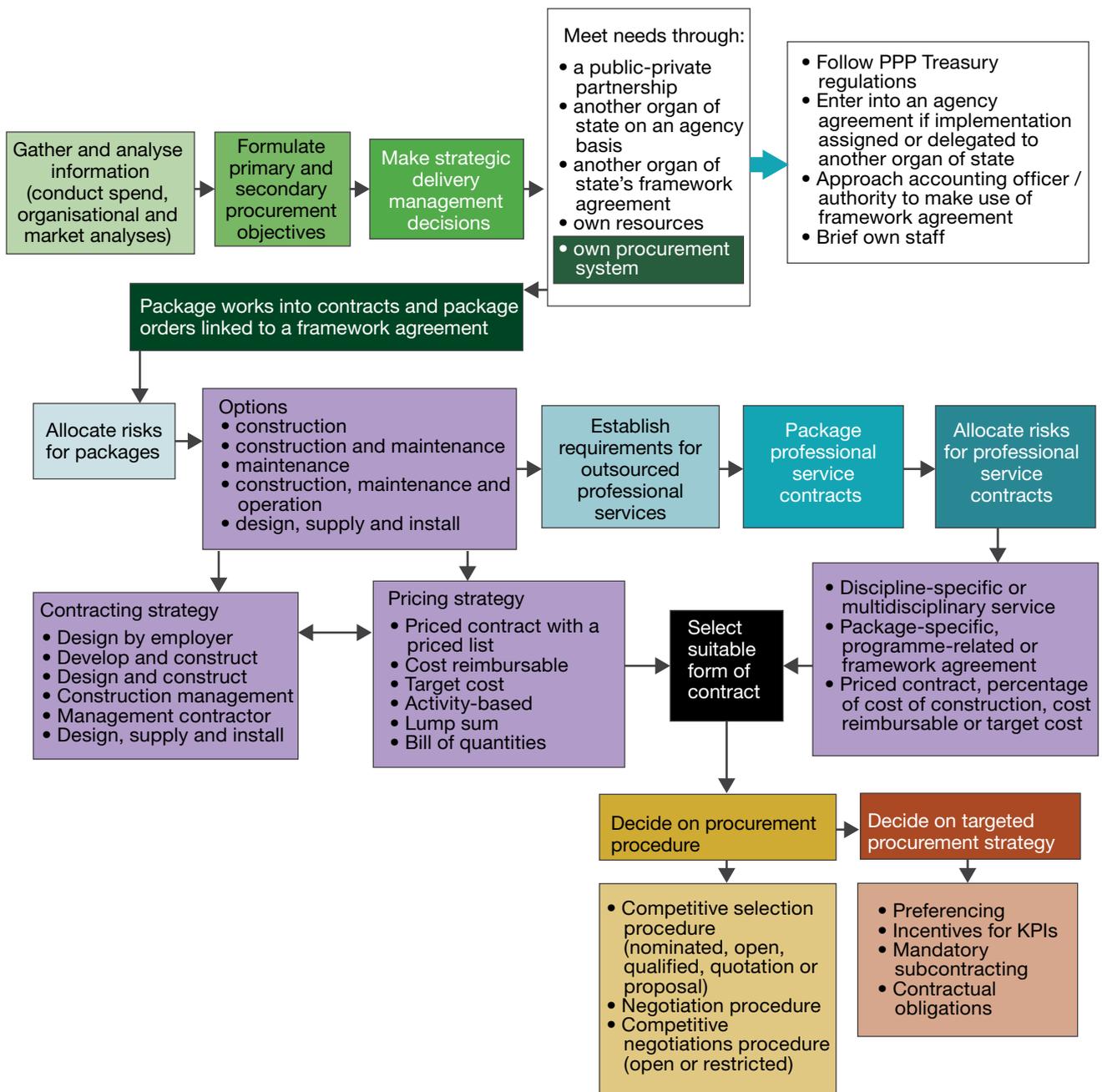


Figure 3: Framework for developing a procurement strategy

