



Sector Procurement Strategy High Level Overview - Progress

July 2010



The Business Trusts Support Programme for Accelerated Infrastructure Development (SPAID)

SPAID is a partnership between the Business Trust and the Presidency of the South African Government. SPAID works to combine the resources of business and government to accelerate the achievement of the Government's infrastructure development targets.

SPAID's objectives are that:

- Private Sector support accelerates public sector delivery by mobilising:
 - private sector initiative;
 - private sector systems and delivery approaches; and
 - focused strategic support.
- Dialogue and understanding between senior public and private sector stakeholders in the infrastructure sector improves.

Please visit the website for more information: www.spaid.co.za.

The Presidency



Strategic objectives defined by South Africa's Presidency include:

- Co-ordination, monitoring and communication of government policies and programmes;
- fostering nation building;
- enhancing an integrated approach to governance for accelerated service delivery and supporting and consolidating initiatives for building a better Africa and a better world;
- bringing government closer to the people; and
- facilitating a Developmental State through accelerating economic growth, interventions in the second economy, elimination of poverty and fostering nation building.

Initiatives being undertaken by AsgiSA fall into six broad categories; a massive investment in infrastructure, targeting economic sectors with good growth potential, developing the skills of South Africans and harnessing the skills already there, building up small businesses to bridge the gap between the formal and informal economies, beefing up public administration and creating a macroeconomic environment more conducive to economic growth.

For more information on The Presidency and AsgiSA, go to: www.thepresidency.gov.za

The Business Trust



The Business Trust combines the resources of business and government in areas of common interest to accelerate the achievement of national objectives. It focuses on creating jobs, building capacity and combating poverty.

The partnerships of the Business Trust are structured through:

- The corporate partners who fund the Business Trust. Over 140 of South Africa's leading companies have committed over R1billion to the Business Trust since 1999.
- The board of the organization, made up of cabinet ministers and the heads of the major corporations who support the Business Trust.
- Sector specific partnership committees made up of business and government leaders, who oversee project implementation.
- A series of implementing partnerships with the agencies that implement Business Trust programmes.

Please visit the website for more information www.btrust.org.za.

1 Introduction

1.1 Background

In 2009 the Support Programme for Accelerated Infrastructure Development (**SPAID**)¹ undertook the development of a sector wide Infrastructure Procurement and Contracting Strategy in Education in Limpopo Province. In 2010 this support was extended to include technical support for the implementation of the strategy in that Province. Discussions are ongoing to align SPAID supporting for the roll-out of the sector procurement approaches and methodologies with the National Treasury's Infrastructure Delivery Improvement Programme and the work of the Construction Industry Development Board.

The purpose of this overview is to brief interested stakeholders on the approach and the lessons learned in the pilot application of this approach to expediting the delivery of education infrastructure in Limpopo Province with a view to encouraging interest in its wider application.

1.2 Need for a procurement strategy

A need through research studies and engagements of SPAID was identified for an analytical approach that could support the development of sector specific procurement and contracting strategies in order to improve governance and delivery outcomes.

Public sector procurement is governed by the legislative framework established in the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996), the Public Finance Management Act (Act 1 of 1999), the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003), the Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000) and a number of other pieces of legislation.

Under the Public Finance Management Act, National Treasury has issued a Supply Chain Management Framework and subsidiary guidelines, regulations and practice notes. Government procurement within the construction industry is also subject to the Construction Industry Development Board Act (CIDB), 2000 (Act 38 of 2000). The Supply Chain Framework requires government bodies to follow the prescripts and practice notes issued by the CIDB.

The CIDB regulates construction procurement through the Construction Industry Development Regulations, the CIDB Standard for Uniformity in Construction Procurement and the CIDB Code of Conduct for the Parties engaged in Construction Procurement. These are supported by a range of practice notes and best practice guidelines (see www.cidb.org.za).

The CIDB construction procurement processes, procedures and methods are supported by a number of South African national standards. The construction procurement processes, procedures and methods currently form the basis of an 8 part series of international standards for construction procurement (ISO 10845, Construction Procurement) which have reached an advanced stage of development and are scheduled to be published in 2010.

The CIDB has also developed an Infrastructure Delivery Management Toolkit (IDIP Toolkit) in collaboration with National Treasury. This toolkit has published in support of National Treasury's

¹ The SPAID is an initiative of the Business Trust in partnership with the Presidency of the South African Government. SPAID aims to mobilize an increased private sector contribution to meeting the AsgiSA infrastructure targets, so as to ensure that underserved communities have access to infrastructure.

Infrastructure Delivery Improvement Programme (IDIP). The IDIP Toolkit serves as the basis for consistent and improved public sector infrastructure delivery. It provides a systematic approach to infrastructure delivery covering the full cycle from needs identification, planning and budgeting through to procurement, construction, handover and maintenance. It also provides appropriate procedures and guidelines for delivery managers in the public sector by linking them to relevant policy, legislation and regulation that underpin the planned implementation of government's infrastructure.

Notwithstanding the above, most government bodies do not draw on the full range of procurement procedures and methods currently enabled by existing legislation, policy and described in various toolkits and guidance notes. As a result, poor and disappointing delivery outcomes are frequently encountered.

There is currently an absence of processes, procedures and methods which assist government bodies responsible for the delivery of infrastructure to select the appropriate procurement approach for individual infrastructure projects. This has resulted in the prevailing situation in which government bodies (with some exceptions) generally only utilize time honoured and familiar procurement methodologies. These are often inappropriate given the government bodies specific internal capacities or fail to recognise the capacities available within the local private sector infrastructure sector and often results in infrastructure being procured in an inefficient or ineffective manner.

1.3 What is a sector procurement strategy?

The central objective of developing a sector procurement strategy is to guide the allocation of resources by a government body in a more rational fashion and identify the most appropriate and best value delivery management and contracting approach and procurement arrangements for identified categories of work as set out in the overall sector specific infrastructure plan and budget. Such a strategy recognises and responds to the specific primary and secondary delivery objectives (desired outcomes) of the government body.

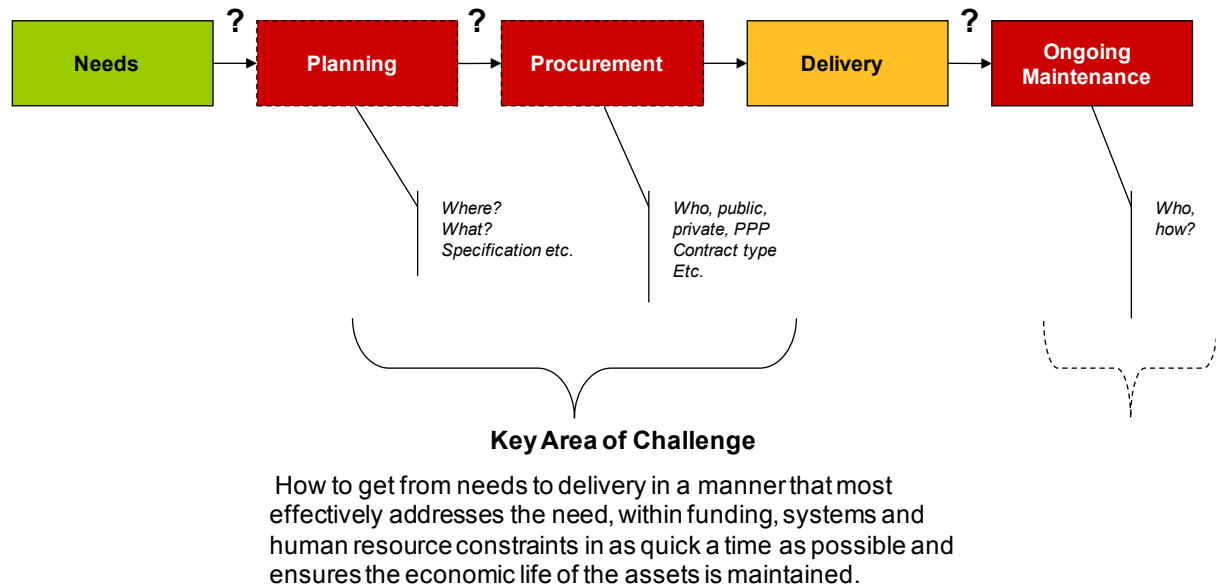
Currently within the provinces, good progress has been made with respect to social infrastructure planning and generally data exist in respect of current needs. In addition the MTEF assists in developing clear and explicit budgets for investment in such infrastructure. However no adequate framework or methodology exists to help the government body formulate an overall approach for implementing the planned infrastructure spend in a manner that expedite delivery, maximise value-for-money, deliver on the outcomes and ensure long-term sustainability.

The intention of a sector procurement strategy is to enable the government body to select the most appropriate delivery and contracting approach and procurement arrangements for implementing the sector wide infrastructure plan. This should include consideration of:

- The infrastructure requirements and types of infrastructure to be delivered (e.g. categorisation based on physical, spatial or other characteristics)
- Specification of the desired outcomes (primary and second objectives)
- Delivery and management capacity of both the public and private sectors
- Contract type – PPP, maintenance contract, partial outsource etc.

The figure below indicates broadly what a sector procurement strategy seeks to address.

Figure 1: What is the Sector Procurement Strategy trying to address?



Where a sector procurement strategy is developed, there is no longer a need for a procurement strategy for individual packages of work, as these are already defined in the overall sector wide strategy.

2 Methodology Overview

2.1 Sector Procurement Strategy Overview

A sector procurement strategy is the selected delivery management strategy, contracting strategy and procurement arrangements for each of the particular categories or packages of work in the overall infrastructure plan.

The sector procurement strategy identifies the best way of achieving the objectives for each package of work in way that secures best value for money, taking into account specific risks and constraints.

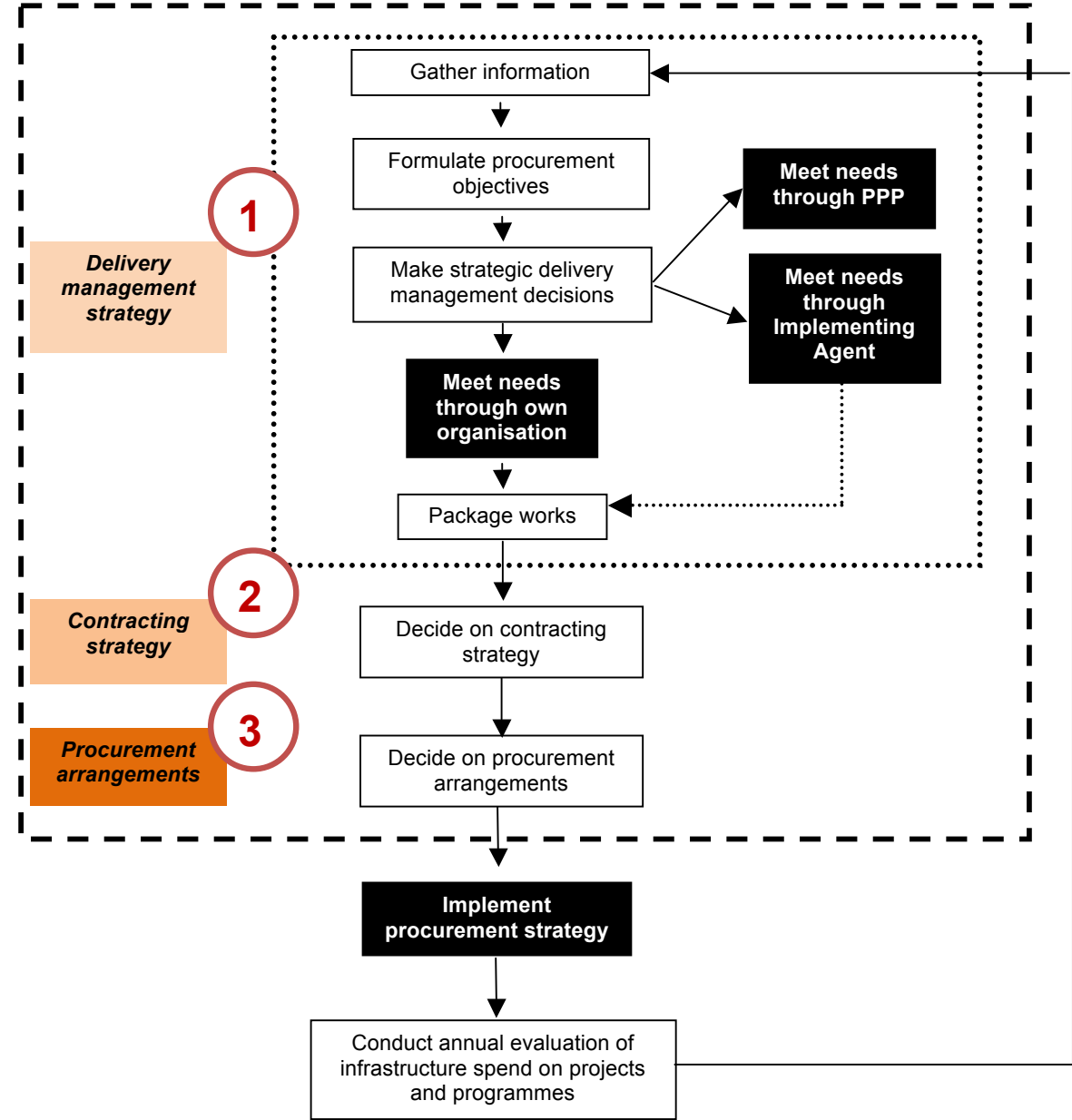


A sector procurement strategy comprises:

- 1) a **delivery management strategy**: the management of the process of public service delivery as applied to infrastructure and maintenance projects;
- 2) a **contracting strategy**: that governs the nature of the relationship which the employer wishes to foster with the professional service providers and the contractor, which in turn determines the risks and responsibilities between these two parties and the methodology by which the contractor is to be paid; and
- 3) **procurement arrangements**: process which creates, manages and fulfils contracts

The process in arriving at a sector procurement strategy flowing out of a 5 year infrastructure development plan and the three year MTEF is outlined in the figure below.

Figure 2: Sector Procurement Strategy Development Process Overview



3 Components of a Procurement Strategy

3.1 Delivery management strategy

The first stage in developing a sector procurement strategy is to decide on the **delivery management strategy**. This comprises:

- **Planning and prioritisation of infrastructure needs:** Produce approved infrastructure plan using the IDIP Toolkit or update infrastructure plan based on new information including any feasibility studies.
- **Spend analysis:** This involves clustering needs in terms of types of output e.g. construct a new school, categorising the clusters in terms of specific attributes, nature of the work, spatial location and dependencies.
- **Organisational analysis:** Assess the level of client organisation's capacity and capability in respect of key areas of competence e.g. limited / adequate in respect of technical/project management/programme management etc.
- **Market analysis:** Identify at a macro level the available external capability and capacity, e.g. limited / adequate in respect of professional services and construction capacity
- **Definition of primary delivery objectives:** Define the client's primary objectives and prioritise them in order of importance.
- **Definition of secondary delivery objectives²:** Formulate secondary objectives and prioritise them in order of importance.
- **Strategic delivery management decisions:** Review the information gathered and delivery objectives and decide on the strategic delivery management approach, which can include:
 - Meeting needs through a programme of projects or a series of independent projects
 - Meeting needs through PPP³
 - Meeting needs through an implementing agent(s)⁴
 - Meeting needs through framework agreements
- **Packaging works⁵:** Establish project packages, ignoring professional services associated with the works, by balancing factors (amongst others) such as



² Secondary objectives are additional to those associated with the immediate objective of the procurement itself. Secondary policy objectives influence procurement strategies both directly and indirectly. It is for this reason that secondary objectives need to be considered as early as possible.

³ A Public Private Partnership (PPP) is a contract between a public sector and a private sector party, in which the private party assumes substantial financial, technical and operational risk in the design, financing, building and operation of a project over time.

⁴ This is an agent of the client who is a government department or state owned enterprise which implements a programme or project on a client's behalf.

geographical spread of project, the technical mix of the work, marketability i.e. attractiveness of the packages to the market etc.

3.2 Contracting strategy

The second stage in developing a sector procurement strategy is to decide on the **contracting strategy** for each the package of works and the professional services required to implement the contracting strategy.

This comprises:

- **Formulation of initial strategic brief for a package:** Formulation of an initial (preliminary) strategic brief, if necessary, in order to define the package.
- **Risk allocation:** This includes:
 - **Construction service options:** This involves identifying a range of appropriate contractual arrangements and related pricing strategies for each package, linking to the market analysis, and primary procurement objectives with reference to a range of factors such as: cost (price certainty); time; quality (high or prestige level required); risk (transfer risk to contractor), etc. These options then need to be prioritised (and eliminated if necessary) and the most suitable forms of contract selected for each package.
 - **Construction and maintenance service options:** Identifying suitable forms of contract for the package, based on decision criteria and suitable pricing strategies for the selected forms of contract.
 - **Maintenance service options:** Adopt the CIDB General conditions of service if the contract is for the delivery of goods on or before the date stated in an order without any incidental work or services; or the NEC3 Term Services Contract and identify a pricing strategy.
- **Formulation of final strategic brief for a package:** Formulate a final strategic brief, if necessary, including contracting strategy in order to fully define the package and the strategic actions to take the project forward.
- **Requirements for outsourced professional services:** Identify the need for professional services in relation to each package and the contracting strategy selected for that package, and establish whether or not there are sufficient internal resources with the required capabilities and capacity to provide the required service.
- **Contracting arrangements for professional service contracts:** Determine if discipline specific or multidisciplinary professional services are to be procured, and determine the type of appointment based on the decision criteria contained. This also needs to include the identification of a suitable pricing strategy for professional service contracts and the selection of a suitable contract (either the NEC3 Professional Service Contract or the CIDB Standard Professional Services Contract).



⁵ Construction works are a combination of goods and services arranged for the development, extension, refurbishment, rehabilitation or demolition of a fixed asset, including building and engineering infrastructure.

3.3 Procurement arrangements

The final stage in developing a sector procurement strategy is to decide on the procurement arrangements. This includes the following components:

- **Determine quality strategy:** Determine the strategies to ensure quality in the procurement in addition to the full and unambiguous specification of requirements in the scope of work.
- **Determine procurement procedure:** This involves the selection of an appropriate procurement procedure, which could include a basic, competitive selection or competitive negotiation procedure.
- **Determine if eligibility criteria are to be used:**⁶ Determine if respondents or bidders need to satisfy eligibility criteria relating to their capabilities and capacities in order for their expressions of interest or tenders to be evaluated.
- **Determine targeted procurement strategy:** one or more of the targeted procurement procedures based on decision criteria contained to support secondary procurement objectives.
- **Determine tender evaluation procedure:** Identify the appropriate tender evaluation procedure based on the pre-requisites.
- **Determine procurement documents requirements:** Identify the procurement documents required which reflect the decisions taken in developing the procurement strategy.

Delivery
management
strategy

Contracting
strategy

Procurement
arrangements

⁶ Eligibility criteria are a form of prequalification. They are used to ensure that only those respondents or bidders who are likely to be able to perform the contract have their submissions evaluated.

4 Limpopo Province Pilot Project

4.1 Project overview

In 2009 SPAID identified the need to pilot the development of a sector specific infrastructure procurement strategy as part of its Technical Assignments Programme. This was in support of its objective to find innovative means to accelerate and improve infrastructure delivery through the mobilisation of private sector resources and know-how. Given the priority status of Education, it was agreed with the SPAID Steering Committee that the first pilot should be in the education sector. The Limpopo Department of Education (**LDoE**) was identified as a partner with which to develop and test an education sector infrastructure procurement strategy.

The Limpopo pilot project comprised four phases of work and related deliverables. The key deliverables of the project included the following:

- Review **existing sector plans and budgets** to confirm the appropriateness and robustness of the plans and budgets.
- Development of a **generic methodology (analytical framework)** comprising the following key steps:
 - (i) Determination of a delivery management strategy
 - (ii) Determination of a contracting strategy
 - (iii) Decisions regarding procurement arrangements.

Each of the key steps has a number of activities, which involve making decisions regarding the available options. The generic methodology provides decision tables to guide the decision-making process.

- Development of a **Limpopo specific education infrastructure procurement and contracting strategy**. Specifically the LDoE identified five categories of infrastructure spend for the purposes of developing a procurement strategy:
 - (i) **Greenfields Programme** (high value new buildings), managed by Head Office
 - (ii) **Brownfields Upgrade and Repair Programme** (medium value)
 - (iii) **Water and Sanitation Programme**, consisting of a mix of small civil and building projects managed by DWAF
 - (iv) **Routine and Preventative Maintenance Programme**, managed in consultation with SGB's
 - (v) **Schools Electrification Programme** with funds allocated to Eskom.

On the basis of considering all the available delivery management and contracting and procurement options in LDoE's organisational and market context and in the context of its primary and secondary procurement objectives, LDoE determined its sector wide procurement strategy.

- An **implementation plan** has also been prepared that sets out the next steps in implementing the strategy as well as outlines key support and other requirements

4.2 Outcomes and impact to date

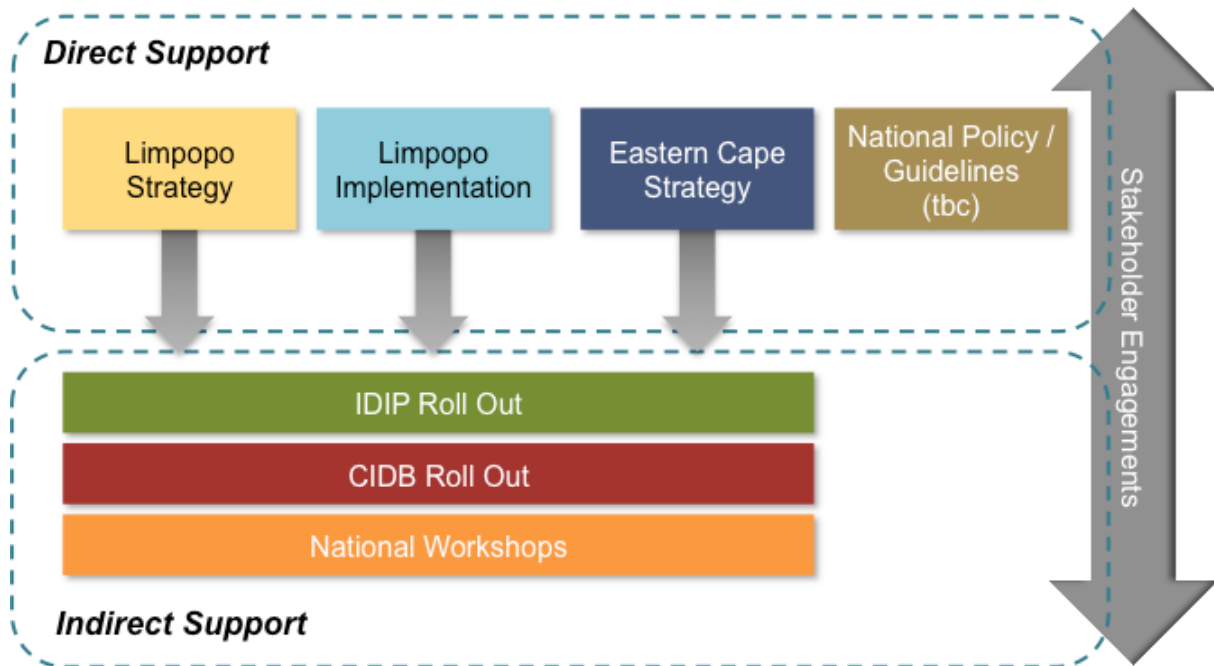
The strategy has been well received and accepted by LDoE as well as Limpopo Treasury. Notably the project managed to identify a range of work packages as well as PPP options that should result in expedited education infrastructure delivery.

Some of the initial advantages of the revised approval that have already been identified include:

- **Access to private sector finance and capacity:** The introduction of PPPs will enable the department to access private sector finance and capacity, and thus contribute to its primary objective of maximising finance available in light of the backlogs.
- **Quicker response times:** The use of framework agreements for works contractors will enable the department to substantially reduce its response times. Appointments from framework agreements will reduce the normal procurement period from approximately three months to a few days. This is particularly important for projects such as repairs to storm-damaged schools and maintenance.
- **Reduction in costs of Professional Service Providers (PSPs):** Previously, the department used to appoint PSPs from a roster or panel of PSPs, which it advertised on annual basis. The appointments were on a percentage fee basis, without any competitive tendering. The introduction of competitive tendering for PSPs will result in a need for the department to start to enter into 104 procurement processes for PSPs during the five year period. The use of framework agreements for PSPs, as described in this strategy, minimises the number of procurement processes required. The procurement processes for PSPs are justified by the cost savings which will result from using develop and construct contracts and competitive procurement procedures for PSPs. These savings should be in the order of R350 million over the five years.
- **Fewer procurement processes and contracts to manage for the works:** The procurement strategy will result in more efficient and faster procurement processes. The new strategy requires approximately 95 procurement processes leading to works contracts over the five years (excluding professional services contracts), as compared to 2201 procurement processes previously. Including professional services contracts, the department will need to enter into 199 procurement processes over the five years under the new strategy, as opposed to 2201 under the previous strategy. The reduction in the number of procurement processes and contracts will in turn have the following benefits:
 - It will enable officials in the department to spend more time on strategic issues and less time on operational issues
 - It will enable officials in the department and the implementing agents to allocate more time to managing each procurement process and contract, which should result in an improvement in the quality of service delivery.

5 Current Scope of Work

In 2010 approval was secured from SPAID to extend the work on sector procurement strategies. Engagement has taken place with National Treasury, IDIP and CIDB to finalise a properly aligned role for SPAID in the roll-out of the sector procurement approach to the other provinces and in respect of the other provincial infrastructure sectors. The figure below outlines the areas of support.



The intent is for SPAID to undertake work on the development of Sector wide delivery and procurement strategies for social infrastructure and wishes to ensure that the lessons learned and methodologies developed are properly refined and incorporated within the IDIP. particularly supporting the implementation of the sector procurement strategy developed with the Limpopo Department of Education, the finalization of tools, guides and templates for incorporation in the IDIP toolkit being developed by the CIDB and the support to the IDIP programme to roll-out sector delivery and procurement strategy approaches within provinces.

The table provides a high level outline of the component of support and description of the outcomes.

Components	Description of outcomes
Limpopo Strategy	Assessment and development of a Framework and Contracting Strategy for LDoE
Limpopo Implementation	Technical Support to the LDoE in implementing the Strategy Development of templates for use in procurement Facilitate / support workshops request by LDoE
Eastern Cape Strategy	Development of a sector wide strategy and Implementation plan for procurement of infrastructure
National Policy / Guidelines	Support the development of policy and guidelines for the national line departments (Education and Health) to clarify the need for provincial sector wide delivery and procurement strategies / guidelines
TA procurement induction	Preparation of procurement training material for TA induction Support the TA induction in respect of sector delivery and procurement approach
TA peer procurement	Pilot a peer review approach for the sharing of sector wide delivery and procurement strategy for implementation in provinces for TA's
Stakeholder Engagements	Engagement and support for the sector wide delivery and procurement approach with public and private sector stakeholders
Toolkit & Guides Input	Integration of materials developed and knowledge sharing into the CIDB
National Workshops	Sector procurement approach introduced to a wider public sector audience through a structured format

Inherent in the approach is the need for clear knowledge management to support the sustainably and use of the sector wide delivery and procurement approach,

Importantly, the governance and management structure is to be integrated into existing structure. SPAID, for its duration will participate as a member of the IDIP Technical Committee.

Stakeholder engagement with a varied and interested national and provincial lines departments will take place as required.