Contract Procedures Manual (SM021) Part A – Appendix XXVIII

Stage 1 procurement strategy

**<<Insert project Name>>**

**STAGE 1 PROCUREMENT STRATEGY**

# Purpose

The purpose of this Stage 1 procurement strategy is to:

* document the key considerations made in the selection of a delivery model for the <<insert project name>> project, and
* confirm the high level details in the approach to be taken to procurement.

# Background

## Description

<<List the high level objectives of the project, its key features, and the major scope items>>

<<Note the latest project out-turn cost estimate and the allocation for the design phase>>

<<Summarise the key programme dates, or attach the most recent risk adjusted programme, based on the selected delivery model>>

<< Summarise how the project fits into the national/regional state highway plan and the key drivers and objectives behind the project (i.e. priority)>>

## Status

<<Include a brief description of the status of critical aspects of the project such as: funding, statutory approvals, property acquisition, consultation, investigations including geotechnical data, scheme assessment, etc.>>

## Major projects portfolio

<<Describe the tie-in with other projects due for tender/construction during the same period, including where possible consideration of both internal and external projects, at both a regional, and national level, if there are likely to be any capacity constraints etc.>>

<<Include consideration of the expected tenderers for the respective PS and PW tenders>>

# Delivery model assessment

<<Make an assessment of the relative merits of the various PW delivery models available, in comparison to the project key characteristics, risks, programme constraints, and the market assessment.

Include a consideration, where relevant against each of the following criteria:

* Scale.
* Complexity/Scope for innovation.
* Programme constraint.
* Market conditions.
* Risk (quantum and type).
* Stakeholders.
* Client involvement, control and capability.
* Focus on non-cost success (e.g. social and environmental).
* Tangible demonstration of value for money.
* Flexibility to deal with change.

OPTIONAL: use the model selection matrix, attach the output, and explain the logic used in applying weightings etc.>>

<< For the two or three most appropriate models list the advantages and disadvantages of each model for the project being considered. Then state the selected model and summarise the key reasons (see listed advantages and disadvantages for models at the end of this template). Describe how best value for money will be obtained through the selected delivery model and supplier selection process>>

# Procurement details

Accordingly, the <<traditional, ECI, DC, competitive alliance, pure alliance>> delivery model is the preferred approach for this project.

## Professional services

<< Describe the proposed supplier selection method, i.e. the approach proposed to the tender of the pre-implementation phase is .... >>

<<Examples of details required are:

* non-price attribute weightings
* TET members including nominated qualified evaluator
* timeframes
* current estimate, etc.

## Physical works

<< Describe the proposed procurement process, i.e. the approach proposed to the tender of the construction works is ….>> << State outline/high level information on the process, i.e. timeframes. This information will have detail added and be confirmed in the Stage 2 procurement plan>>

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Prepared by: |  | Signed |  | Date |  |
|  | << Project Manager>> |  |  |  |  |
| Endorsed: |  | Signed |  | Date |  |
|  | << Senior Manager>> |  |  |  |  |
| Agreed: |  | Signed |  | Date |  |
|  | <<Senior Manager OPPI / Senior Manager OPPP / CFO / Board >> |  |  |  |  |

### Generic information on delivery models should be adapted on a project specific basis

#### Traditional

* Scale – suitable for both small, medium and some large scale projects.
* Complexity/scope for innovation – little scope for innovation and not suitable for complex projects.
* Programme constraint – design must be fully completed prior to tendering resulting in a later construction start.
* Market conditions – due to low risk transfer, well defined outputs and low tendering costs competitive tendering can be achieved.
* Risk (quantum and type) – suitable for low to medium risk profiles.
* Stakeholders – the client has design control so retains the majority of responsibility.
* Client involvement, control and capability – the client retains design control and site supervision.
* Focus on non-cost success (e.g. social and environmental) – Waka Kotahi retains control during the design process and have the ability to value non-cost success.
* Tangible demonstration of value for money – due to the competitive tender process it is relatively straightforward to demonstrate value for money in the construction phase.
* Flexibility to deal with change – little flexibility to deal with change. Variations can be costly.

Advantages:

* + Allows for strong competitive bidding.
  + The design is completed prior to letting the PW contract so the outputs are known at the outset of the contract and the client has a high level of control.
  + Low procurement costs for both supplier and purchaser.

Disadvantages:

* + In the event of a risk occurrence the client retains responsibility which may result with the construction phase having a higher cost.
  + Coordination between design/construction suppliers and stakeholders can be more complex, and increases Waka Kotahi’s resources.
  + Few incentives to optimise the design.
  + Separation of contractor and designer limits innovation and build-ability.
  + Later site start date as detailed design must be complete before site works starts.
  + Design errors can be costly to the client.

#### D&C

* Scale – suitable for medium to large scale projects.
* Complexity/scope for innovation – lots of scope for innovation and suitable for complex projects.
* Programme constraint – detailed design is completed after construction is started so earlier construction start/finish dates are possible.
* Market conditions – high-risk transfer and medium to high tendering costs limit the number of contractors/designers able to tender. This can mean fewer contractors awarded contracts.
* Risk (quantum and type) – suitable for medium to high risk profiles
* Stakeholders – the client has little design control post tender so the contractor/consultant must take the lead in negotiations and liaison.
* Client involvement, control and capability – the contractor has design control post tender and responsibility for Implementation during construction.
* Focus on non-cost success (e.g. social and environmental) – Waka Kotahi retains control during the design process and have the ability to value non-cost success.
* Tangible demonstration of value for money – proposed tender designs are assessed for tangible cost benefits and assigned a premium. This should ensure the successful design achieves the best value for money possible.
* Flexibility to deal with change – the detailed design is completed as construction is ongoing so variations can be accommodated into the design. However changes in scope can be costly.

Advantages:

* + High risks associated with constructability such as complicated traffic management, and working close to live lanes along the motorway can be addressed in the detailed design phase in consultation with the contractor.
  + After the specimen design has been completed the detailed design and construction can be let as a lump sum contract, transferring potential risks to the contractor who is best placed to manage them.
  + Works can be competitively tendered giving price tension.
  + Increased potential for build-ability and design innovation.
  + Waka Kotahi requires less design resource.

Disadvantages:

* + Specimen design, designations, resource consents and property purchases must be in place prior to tendering the detailed design and construction. This means a later site start date compared to ECI or alliance models.
  + Letting separate portions as design and construct contracts is not practical as it can lead to design conflicts.
  + Procurement cost for both the client and supplier are higher.
  + Minimum standard designs are encouraged.
  + Greater risk transfer to supplier may increase costs.
  + Post contract variations and scope changes can be costly.
  + Flexibility is reduced after award.
  + The number of potential suppliers is reduced due to tendering costs and risk transfer.

#### ECI

* Scale – suitable for medium to large scale projects.
* Complexity/scope for innovation – lots of scope for innovation and suitable for complex projects.
* Programme constraint – detailed design, designation, consents and property purchase can be completed after construction is started so earlier construction start/finish dates are possible compared to traditional and D&C models.
* Market conditions – generally low-medium tendering cost should allow a range of interested contractors/consultants to tender. Due to the contractors high level of commitment in the investigation and design phase some contractors may be less interested in tendering during periods of high workload.
* Risk (quantum and type) – suitable for medium to high risk profiles. The construction portion of the contract is let on a D&C basis so the contractor has the responsibility for the detailed design.
* Stakeholders – the client retains design control until the D&C phase is awarded. At this point the contractor/consultant must take the lead in negotiations and liaison.
* Client involvement, control and capability – the contractor has control of the detailed design and responsibility for Implementation during construction.
* Focus on non-cost success (e.g. social and environmental) – Waka Kotahi retains control during the preliminary design process and have the ability to value non-cost success.
* Tangible demonstration of value for money – an independent parallel estimate is conducted on the specimen design prior to award of the D&C phase to ensure a competitive construction price is achieved. The specimen design is developed in conjunction with Waka Kotahi and in consideration of project requirements.
* Flexibility to deal with change – the ECI model allows for design and scope changes to be incorporated before the D&C portion of the contract is let.

Advantages:

* + High risks associated with constructability such as complicated traffic management, and working close to live lanes along the motorway can be addressed in the design phase in consultation with the contractor.
  + Increased potential for build-ability and design innovation.
  + The ECI model will enable the staged design and construction to occur concurrently allowing an earlier start on site works
  + There is currently a strong buyers market with some contractor’s known to have very light order books. This should assist in ensuring a competitive PW price.
  + The ECI model allows Waka Kotahi to retain control over the project during development. This is considered of high importance as final scope is dependent on consent and alteration designation processes.
  + ECI allows stakeholder consultation to continue and be fed into the design as portions of the works are commenced on site.
  + After the specimen design has been completed the detailed design and construction can be let as a lump sum contract, transferring potential risks to the contractor who is best placed to manage them.

Disadvantages:

* + Decreased competition on price may result in higher PW costs.

#### Competitive alliance/Alliance

* Scale – suitable for large and very large projects
* Complexity / scope for innovation – suitable for complex projects. The shared risk/profit model drives innovation form all parties
* Programme Constraint – site works can begin as the design is developed allowing earlier construction start and finish dates to be achieved
* Market conditions – the potential for the contractor and consultant to share in cost savings driven by good performance means this model should be attractive to suppliers in most market conditions.
* Risk (quantum and type) – this model is suitable for low, medium and high risk projects.
* Stakeholders -
* Client involvement, control and capability
* Focus on non-cost success (e.g. social and environmental)
* Tangible demonstration of value for money
* Flexibility to deal with change – cost reimbursable and TOC means this model has flexibility to deal with variations and scope changes.

Advantages:

* + Suitable for delivery of large complex projects.
  + Allows the exact scope to be developed as the project progresses.
  + High risks associated with constructability such as complicated traffic management and working close to live lanes along the motorway can be addressed in the design phase in consultation with the contractor.
  + Increased potential for build-ability and design innovation.
  + The shared cost saving model and joint responsibility drives a high project team performance.
  + The model allows site works to start before the detailed design has been finished cutting overall project duration.
  + The cost of tendering for proponents is relatively low compared to project size.
  + Integrates specialist suppliers/designers into one delivery team giving improved co-ordination and promoting efficiency.
  + Risks are managed by the party most capably with shared exposure.
  + The client does not pay a premium for transfer of risks which may not occur.
  + Pricing transparency.

Disadvantages:

* + Decreased competition on price may result in higher PW costs.
  + The procurement process and subsequent project involvement requires substantial/senior Waka Kotahi resources.
  + Requires significant resources from the successful consortium to manage the contract.
  + Waka Kotahi’s ability to make unilateral project decisions is restricted.