2.6 Select a procurement route

2.6.1 Procurement routes
Procurement is the purchasing of products, work and services. It is more important than its unglamorous name suggests and plays a major part in any project. The procurement route determines many aspects of the client’s relationship with the design and construction teams.

Procurement processes are usually subject to a variety of controls, including internal standing orders, external audit, review by funding partners and, for publicly funded projects, statutory regulations such as the European Union procurement directives. Government recommends that central government clients use integrated processes such as design and build, prime contracting and various forms of public private partnership (PPP), including PFI, to benefit from the input of all the essential skills at the earliest relevant moment. However other routes, such as traditional ones, may be used if they can be shown to offer better value for money. If such routes are used, attempts should be made to maximise integration and allow contractor/specialist input to design – such as early contractor involvement through a two-stage traditional approach.

2.6.2 Advice
How procurement is decided and managed can make or break a project and it is vital to take proper advice. It cannot be treated as an afterthought as it affects every aspect of the project. Advice should be taken from someone with experience of having delivered projects, able to take a balanced view of the client’s needs in relation to quality, time, cost and risk.

Fig 17: Get help to choose a procurement route
Box 32: **Questions to help select the right procurement route**

**Project balance – quality, time, cost, risk**
- Is the project quality to be ‘ambitious and inspirational’ or good but not outstanding?
- How much cost certainty is needed and at what stage?
- How important are time constraints, what is the urgency?
- What is the relative importance of quality, time and cost? Is one more important than the others?
- Will any of these aspects jeopardise the project if requirements are not met?
- How technically complex is the construction?
- What are the unknowns, where are the big risks?
- How much flexibility to make changes at various stages is required?
- Who is best able to control the risk?

**Project management**
- Who should manage the project?
- How involved does the client want or need to be?
- Should any aspect be managed directly by the client?
- What skills and strengths are available?
- If the project is managed outside the client organisation, should it be by the contractor, an independent project manager, a design professional, a financial expert, another specialist, or a combination of these?

**Risk management**
- What is the degree of uncertainty to be expected in funding, in the client’s brief, inherent in the site, because of innovation, etc? Will some decisions need to be deferred as long as possible?
- Are potential changes foreseeable?
- Who is best able to control the risks – client, contractor, others?
- Is the client able or willing to carry risks?
- How should carrying risks be compensated?

**Selection and competition**
- Should there be a design competition?
- Should any design competition be open and widely advertised, or invited from known or recommended people?
- Does the project fall within OJEU thresholds for selection of consultants, contractors or both?
- Is funding tied to the procurement method?
- Do any public/private finance issues apply?
2.6.3  **A procurement plan**

Projects with 50% or more public funding and above a set cost threshold must follow precisely the European Union (EU) procedures and timetable which can lead to a lengthy process.

### Four approaches

All clients, even those who are not from large public sector organisations, need to understand procurement options. Different routes share responsibilities, risks and rewards in different ways. They vary in:

- how participants (designers, builders and sometimes funders and facility managers) are chosen
- their relationship to the client or end-user
- the participants’ and client responsibilities
- the type and extent of risks the participants and clients choose to take or accept
- how much overlap there is between design and construction
- who signs the contracts
- who manages the final building
- the ownership of the project

There are four broad ways in which arrangements are made between clients, designers and building contractors, although these are constantly evolving. The four categories each have several variants but in simple terms they are:

- **A procurement plan**

  Procurement must be planned as part of the project. This will help ensure that the schedule allows the project to meet regulations and obligations. Basic decisions should be summarised as a procurement plan, which defines the main areas of client responsibility. The client adviser can help put this plan together. The procurement plan may be part of the plan for carrying out the whole project, sometimes called a Project Execution Plan (PEP).

  There is a great deal of jargon in this topic but in essence the decisions that need to be made are fairly clear.

  A procurement plan must cover:

  - who the client is, who will represent them as project sponsor
  - how and when procurement routes for services, works and supplies will be chosen
  - how and by whom procurement processes will be managed
  - how and when the project delivery team – architects contractors and others – will be appointed
  - a provisional timetable or programme, including key stages and dates in the process
  - how and when reviews and monitoring will be carried out
  - how and by whom the new building/facility will be managed

  Work sheet 1 contains tabular information about the ways different procurement routes may be suitable for different projects. These tables should be used when the best way forward is being discussed with advisers. Work sheet 4 describes the PPP/PFI procurement route.


Section 2.7
Traditional relationships – designer-led projects in which design and construction teams are procured separately, one after another, and managed independently. A worked-out design is the basis for construction cost.

Managed forms of construction – design procured separately from construction, the management of which is contracted for a separate fee. One version is illustrated but there are many variants.
**Design and Build, including Prime Contracting** – the builder is responsible for design and construction. In Prime Contracting a relationship is developed between the contractor and the entire supply chain.

**Design, Build, Finance and Operate DBFO** (PFI is an example of this) – a Special Purpose Vehicle (SPV) is created to undertake all aspects of the project including operating it for a period (say 25 years), after which it may revert to the client depending on the contract for the specific project. Instead of spending capital, the client payments are made from revenue budget.
2.6.5 **An integrated team**

The terminology surrounding procurement routes has multiplied and evolved over the last few years. Government initiatives, described in reports such as *Constructing the Team* (The Latham Report), *Rethinking Construction* (The Egan Report) and *Accelerating Change* have strongly emphasised the need to get away from the ‘blame culture’ and adversarial approach previously prevalent in the construction industry.

An integrated approach can apply in any procurement route. Where team members initially work separately, for example in some versions of traditional procurement, this may result in a designer and contractor working in sequence rather than in parallel. If this is the case, greater efforts are needed to achieve integration. This is easier, for example, in a two-stage procurement route that can bring design and construction skills together early, which will help to achieve a degree of integration.
2.6.6 **Public Private Partnership (PPP)**

The procurement methods that place importance on working in partnership with private finance and in integrated teams have been practised for a decade or more, and some good practice is emerging about how to get good design in, for example, a PFI project. Variations of specific ways PPP is used are being developed, for example in the primary care and health sectors. Prime contractor relationships are being used on Design Build Finance and Operate (DBFO) rolling programmes so that many smaller projects may be undertaken by a team led by the prime contractor, but not all are defined or let on day one. However the lessons for tendering, and how these can be used to help a client achieve good design, are similar in all types.

PFI projects often give private financial partners responsibility to design, build and manage and/or operate the facility for many years – usually 25 – beyond initial construction, after which management and operation may be taken over by the client depending on the contract with the SPV. These are complex arrangements, designed to introduce finance and management approaches from the private sector into public projects, and require extremely careful definition of the required result (output specification), including the importance of all aspects of design quality. This needs to be built into the legal contracts between client and supplier.

This method enjoys strong government support. The advantage of the PFI route, especially for major (over £20M) and complex capital projects with significant ongoing maintenance or management requirements, is that the team that will be responsible for long-term management and maintenance of the facility is often included from the outset, which transfers this risk to the supplier. This provides a powerful incentive for the design/construct team to provide a well designed building that is easy and efficient to maintain and manage, built using materials and techniques that will stand the test of time, and that offers good value for money throughout its life in use.

However you will only get what you ask for, so clients must take great care to express their output requirements carefully and, to be achieved, high quality design must be explicitly requested.

---

PFI:meeting the investment challenge, July 2003

see HM Treasury

Work sheet 4
2.6.7 **Choosing a procurement route**

The procurement route should be chosen so that risk always resides with whoever is best able to bear it. It should aim to:

- make appropriate trade-offs between quality, time and cost, without compromising quality
- get best value through the right type and level of competition
- share risk in a suitable way between contractors, designers and the client
- provide suitable rewards for acceptance of risk
- provide for innovation where needed

Expert advice is needed from someone familiar with the features, benefits and problems of the different procurement routes, to help choose the right one for the project. A workshop, to consider all the options available and the pros and cons of each, is a good way to proceed. High quality cannot be taken for granted in any procurement route and the client must emphasise the need for it all the way through the process. Before starting on a building project clients, particularly first-timers, may have in mind a ‘traditional’ approach, which may or may not be suitable or in line with best practice.

For projects with major government funding, three integrated approaches are currently preferred – Design and Build, Prime Contracting and a Private Finance Initiative (PFI). Reasons why projects have failed in the past have been considered by both the government, through the OGC, and by the construction industry. *Rethinking Construction, Accelerating Change* and the *Achieving Excellence* initiative, all emphasise the need for processes where the design and construction teams work together as an integrated team to deliver best value for the client.

Points to consider and discuss with advisers:

- small projects can and should use simpler methods than larger ones
- when time and cost certainty are required at the outset – design and build may be used to achieve this – ways must be sought to protect design quality as the design evolves
- is the project sufficiently advanced and the client sufficiently experienced for an effective and complete output specification to be created – as would be needed for PFI projects?
- in projects with many unknowns at the outset, the risk is likely to be distributed differently from those with more certainty
- projects that are part of larger schemes may have to follow the procurement route chosen for the overall project