#### **NOTICE 63 OF 2004**

## **CONSTRUCTION INDUSTRY DEVELOPMENT BOARD**

## THE CONSTRUCTION INDUSTRY DEVELOPMENT BOARD ACT, 2000

(ACT 38 OF 2000)

### CONSTRUCTION PROCUREMENT BEST PRACTICE

The Construction Industry Development Board (CIDB) is a Schedule 3A public entity established in terms of the Construction Industry Development Board Act, 2000 to provide leadership to stakeholders to stimulate sustainable growth, reform and improvement of the construction sector for effective delivery and the industry's enhanced role in the country's economy.

### The Act Tasks the Board to:

- 4. (c) determine and establish best practice that promotes—
  - (i) improved industry stability;
  - (ii) improved industry performance, efficiency and effectiveness;
  - (iii) procurement and delivery management reform;
  - (iv) improved public sector delivery management;
  - (v) national social and economic objectives, including—
    - (aa) growth of the emerging sector;
    - (bb) labour absorption in the construction industry;
    - (cc) improved labour relations; and
    - (dd) positive safety, health and environmental outcomes;
  - (vi) human resource development in the construction industry;
  - (d) promote best practice through the development and implementation of appropriate programmes and measures aimed at best practice and improved performance of public and private sector clients, contractors and other participants in the construction delivery process;
  - (e) promote uniform application of policy with regard to the construction industry throughout all spheres of Government;

After publishing Draft Construction Procurement Best Practice in Board Notice 126 of 2003 in Government Gazette No 25656 of 31 October 2003, for comment and evaluating comments received, the CIDB has in terms of section 4(c) of the Act, published Construction Procurement Best Practices contained in the schedule hereto.

These Best Practices may be used to implement construction procurement in accordance with the requirements of the CIDB Standard for Uniformity in Construction Procurement published in terms of Regulation 24 (b) of the Construction Industry Development Regulations, issued in terms of section 33 of the Construction Industry Development Board Act.

BRIAN CAMERON BRUCE

CHAIRPERSON: CONSTRUCTION INDUSTRY DEVELOPMENT BOARD

## CONSTRUCTION PROCUREMENT BEST PRACTICE

### 1 PREAMBLE

Supply chain management is concerned with demand, acquisition, logistics and disposal management and supply chain performance. Procurement forms but one element of supply chain management.

Construction procurement is an important activity within the infrastructure delivery management processes that are associated with the provision and maintenance of construction works and forms an integral part of supply chain management functions. Procurement occurs at any point in the delivery management process where resources (services or supplies in any combination) external to the client are required. It also occurs when surplus plant, equipment and materials is disposed of and the when redundant buildings and infrastructure need to be demolished.

Procurement systems, practices and procedures have an impact on the construction industry. For example:

- Ineffective and inefficient procurement systems can impede delivery or compromise the intended project outcomes.
- Fragmented, non-uniform procurement practices between different authorities and different spheres of the public and private sector may increase tendering costs, expose tenderers to increased risks and frustrate initiatives aimed at the development of an adequate procurement skills base.
- Undue emphasis on lowest price rather than best value may impact negatively on industry performance in terms of time, cost and quality. It can affect the sustainability of enterprises and their ability to develop and retain a skilled workforce, and to actively promote safety, health and the environment. It tends to encourage opportunistic tenders, leading to a delivery paradigm that focuses on claims and adversity.
- Poor choices in contracting, pricing and targeting strategies can lead to disappointing or costly project outcomes.

For clients construction procurement is associated with specific types of risk. Unlike most forms of procurement, construction procurement generally involves a lengthy process from conception to delivery and thereafter a period of more than 50 years from construction to deconstruction. Delivery involves a process that must be managed to ensure quality, cost efficiency and public health and safety over the full lifespan of the product. To ensure these outcomes payment is usually phased throughout the delivery cycle. These are some of the aspects that define the specialized nature of construction procurement.

Client needs in construction projects are sometimes unique and consequently each project meeting those needs has unique characteristics. Construction activities are not ongoing and the team assembled for a project usually disbands upon completion. At the same time, clients are under pressure to deliver projects on time, on budget, to a higher standard of quality and within shorter time frames. The cost of finance on many projects is such that an early return on investment is preferred. Clients accordingly require a range of contracting options and procurement strategies to satisfy their requirements.

South Africa's public procurement system is in the process of being overhauled, modernised and transformed. It is moving away from the rigid, prescriptive and centralised system that was established in the 1960s whereby tender boards assumed responsibility for procurement to a more flexible, performance-based and decentralized system. The public sector has in

recent years also explored new ways of delivering construction works, including design and build and public private partnerships.

Further progress and proficiency in both the public and private sectors will be supported by construction procurement best practice that promotes delivery efficiency, effectiveness and value to clients and society.

# 2 UNIFORMITY, ETHICS AND EFFICACY IN PROCUREMENT METHODS, PROCEDURES AND PROCESSES

Procurement can broadly be regarded as being the sequence of activities that creates, manages and fulfils contracts, the principal activities being:

- 1 Establish what is to be procured
- 2 Decide on procurement strategies
- 3 Solicit tender offers
- 4 Evaluate tender offers
- 5 Award contract
- 6 Administer contracts and confirm compliance with requirements

There are a limited number of generic procurement methods, procedures and processes associated with each of these activities. For example, tender offers may be:

- solicited form a single tenderer;
- invited only from tenderers who have expressed an interest to undertake the work and are qualified to do so;
- submitted in response to an invitation to do so; or
- solicited from those tenderers whose proposal are considered to be acceptable.

Likewise, tender offers can be evaluated in terms of price, price and preference, price and quality or price, preference and quality.

There can be different approaches to procurement between the public and private sector as best value may take on different meanings in these two sectors. Capability and capacity to engage in specific procurement strategies may also necessitate that certain clients limit their procurement options. Nevertheless, many of the fundamental procurement methods, procedures and practices apply equally to both the public and private sectors.

Uniformity in construction procurement procedures, processes and practices promotes improved industry performance and improved value to clients. It engenders a culture of consistency and predictability within the procurement process.

- ➤ CIDB Construction Procurement Best Practice Guideline A1 (1001), *The procurement cycle*, establishes desirable and appropriate procurement processes and procedures.
- CIDB Construction Procurement Best Practice Guideline A2 (1002), Applying the procurement prescripts of the CIDB in the Public Sector, establishes desirable and appropriate construction procedures and methods that are consistent with the public sector regulatory environment.
- ➤ CIDB Construction Procurement Best Practice Guideline A3 (1003), *Evaluating tender offers*, provides desirable and appropriate standards for the evaluation of tender offers.
- CIDB Construction Procurement Best Practice Guideline A4 (1004), Evaluating Quality in Tender Submissions, establishes desirable and appropriate procedures for the evaluation of quality in all forms of construction procurement.
- ➤ CIDB Construction Procurement Best Practice Guideline A6 (1006), *Applying the Registers to Construction Procurement*.

- ➤ CIDB Construction Procurement Best Practice Guideline B1 (1007), Formulating and Implementing Preferential Procurement Policies, provides desirable and appropriate procedures to enable the legislative requirements to be satisfied in construction procurement.
- ➤ CIDB Construction Procurement Best Practice Guideline B2 (1008), *Methods and procedures for implementing Preferential Procurement Policies*, establishes desirable and appropriate procedures and methods for implementing preferential procurement policies.

## 3 UNIFORMITY AND EFFICACY OF PROCUREMENT DOCUMENTATION

Procurement documents comprise those documents required to:

- solicit tender offers:
- prequalify tenderers so that they may be invited to tender; and
- establish the terms and conditions of the contract.

Uniformity in procurement documentation enables tenderers to more accurately price the risks, which they are to assume. It can enable the effectiveness and efficiency of procurement to be improved, promote savings in cost and an improvement in quality of procurement outcomes. It also facilitates effective participation by new entrants or emerging enterprises to the construction environment. Uniformity permits the documentation process to be simplified and computerized and provides a platform for the future introduction of e-procurement processes.

The two fundamental considerations in reducing the number of forms of contract in use in are:

- uniformity; and
- having documentation capable of catering for a wide range of client requirements.

The first stage in any initiative aimed at uniformity is to limit the choice of the forms of contract, based on an evaluation of the existing forms of contract against desirable and objective criteria, in a manner that ensure that clients are provided with a range of contracting and pricing strategies. Obviously, forms of contract which apply only to specific sub-sectors of the industry cannot be considered.

The second stage in any such initiative is to develop a common format for the compilation of procurement documents and to establish generic conditions of tender that establishes a tenderer's obligations in submitting a tender and the employer's undertakings in soliciting and evaluating tender offers. Similarly, standard conditions for the calling for expressions of interest are also desirable.

- ➤ CIDB Construction Procurement Best Practice Guideline C1 (1009), *Preparing procurement documents*, establishes a standard structure for procurement documents and identifies desirable and appropriate forms of contract and component documents.
- ➤ CIDB Construction Procurement Best Practice Guideline C2 (1010), Choosing an appropriate Form of Contract for Engineering and Construction Works Contracts, establishes desirable and appropriate methods for selecting an appropriate form of contract for a project or for use within an organization.

## 4 CONTRACTING STRATEGIES

There are a number of ways in which risks, liabilities and obligations can be allocated between the two main parties to a contract, i.e. the employer and the contractor. Total investment costs are influenced by the risk / reward strategy that is adopted in a particular procurement. Contracting and pricing strategy permits the employer to allocate risk to the party that is best able to manage the risk.

➤ CIDB Construction Procurement Best Practice Guideline A5 (1005), *Managing Construction Procurement Risks*, establishes desirable and appropriate risk management practices.

## 5 DISPUTE RESOLUTION

The procedure whereby disputes are settled by arbitration or court proceedings is both costly and time consuming. These procedures are not necessarily in the interests of the parties, or appropriate. The delayed resolution of disputes impacts negatively on project outcomes for all participants.

Most standard forms of contract make provision for the settlement of disputes by a number of means including expert determination, mediation, conciliation and adjudication. Each of these has its place in the course of dispute resolution.

## **ADJUDICATION**

Adjudication has become the preferred international procedure for dispute resolution. This rapid and relatively inexpensive procedure, which is conducted by a third party intermediary within the contract period, results in a decision that is binding on the parties in dispute. The decision is final, unless and until it is reviewed by either arbitration or court proceedings.

The strength of adjudication lies in the contractual commitment by the parties to engage a specific, named (independent) person or persons who will become and remain acquainted with the project and are therefore enabled to make an expeditious finding. Furthermore, the terms and procedures for the process of adjudication are agreed and detailed in the contract itself. This results in an informed, transparent, relatively speedy decision.

Several international forms of contract in South Africa make use of adjudication and there is a need for the South African construction industry to embrace this form of dispute resolution in its local forms of contract.

CIDB Construction Procurement Best Practice Guideline C3 (1011), Adjudication, provides desirable and appropriate procedures for a third party intermediary to conduct a rapid and relatively inexpensive dispute resolution process which results in a decision which is binding on the parties in dispute and is final, unless and until later reviewed by either arbitration or court proceedings, as provided for in the contract.

#### 6 SUBCONTRACTING ARRANGEMENTS

Subcontractors often have unequal negotiating power with prime contractors due to the sheer size of the parties and their dependency for future work. Traditionally, as employers only have a contractual relationship with the prime contractor, they regard subcontracting issues to be the prime contractor's problem and of no concern to them. Subcontracting is, however, an effective means of involving small, medium and micro enterprises in the supply chain. In fact the construction industry is characterised by a wide range of specialist

subcontractors, whose function is critical to project outcomes. It is in the interests of a healthy industry that the position of subcontractors should be strengthened by procurement best practice.

CIDB Construction Procurement Best Practice Guideline D1 (1012), Subcontracting Arrangements, describes desirable and appropriate subcontracting practices. It also identifies standard industry forms of subcontract which are framed around fair conditions of subcontract.

## 7 JOINT VENTURE ARRANGEMENTS

Joint ventures may be formed for a variety of reasons, common ones being the following:

- The project is too large, or complex, for a company to undertake with its available resources.
- The project requires specialist skills, or abilities, which a company is unable, itself, to provide.
- The skills and expertise of emerging firms can be developed through their association in joint ventures with well-established experienced companies.
- ➤ CIDB Construction Procurement Best Practice Guideline D2 (1013), *Joint venture arrangements*, describes desirable and appropriate joint venturing practice, particularly where joint ventures are formed in response to preferential procurement policies. It also identifies standard industry joint venture agreements.

## **Schedule**

# **Construction Procurement Best Practice Library**

The standards, processes, procedures, methods and systems embodied in the following CIDB publications are deemed desirable and appropriate by the Board:

Title Synopsis		
	d efficacy in procurement methods, procedures and processes	
Best Practice Guideline A1: The Procurement Cycle (1001)	This practice guide identifies six main procurement activities that apply to all procurements irrespective of their categorization as supplies, services and engineering and construction works. It also identifies the generic steps (sub-activities) associated with such activities and the logical points in the process where controls should be introduced. The actions associated with these activities and sub-activities are documented as well as the inputs and outputs to each of the actions in a logical framework.  The practice guide also presents the recommended approach to performing the various activities and sub-activities	
Best Practice Guideline A2: Applying the procurement prescripts of the CIDB in the Public Sector (1002) Best Practice Guideline A3: Evaluating tender offers (1003)	This practice guide provides guidelines on the application of the CIDB's Standard for Uniformity in Construction. It also establishes the relationship between this standard and National Treasury's Regulatory Framework for Supply Chain Management. Guidance is also provided on the establishment of a procurement policy within an institution and the manner in which procurement may be managed and controlled.  This practice guide provides guidance on the evaluation of tenders in accordance with the provisions of the CIDB Standard for Uniformity in Construction Procurement respect of the seven steps identified in Practice Guide A1 associated with this activity. It also contains proforma forms to evaluate tender offers and an example of a tender evaluation report.	
Best Practice Guideline A4: Evaluating Quality in Tender Submissions (1004)	This practice guide defines quality within the procurement context and reviews the requirements for evaluating quality in the accordance with regulatory requirements and the provisions of the CIDB Standard for Uniformity in Construction Procurement for the evaluation of quality. It furthermore provides practical guidelines on the awarding of preferences for quality, pre-qualification on the basis of quality and the scoring of tender submissions in terms of quality and price or quality, price and preference.	
Best Practice Guideline A6: Applying the Registers to Construction Procurement (1006)	This practice guide outlines the processes associated with the implementation of the register of contractors and the register of projects in accordance with the provisions of the Construction Industry Development Regulations. It provides guidelines to employers and their agents to comply with the requirements of these regulations in their procurements and describes the manner in which requirements relating to contractor grading designations may be incorporated in procurement documents.	
Best Practice Guideline B1: Formulating and Implementing Preferential Procurement Policies (1007)	This practice guide presents a range of policy options and implementation methodologies that may be pursued in the formulation of preferential procurement policies that are consistent with the provisions of the South African regulatory regime. The guide introduces the thinking behind preferential procurement policies, the manner in which such policies are implemented internationally and the constraints to implementation within South Africa. It interprets the Preferential Procurement Policy Framework Act and related regulations, identifies the methods by which preferences may be applied, provides guidelines as to how preferential procurement policies may be formulated to satisfy legislative requirements and contains examples of preferential procurement policies that are drafted in accordance with this practice guide.	
Best Practice Guideline B2: Methods and Procedures for Implementing Preferential Procurement Policies (1008)	This practice guide provides a range of uniform methods and procedures for implementing a wide range of policy themes in a consistent manner. The guide presupposes that a preferential procurement policy is in place and focuses on the capturing of preferencing requirements in procurement documents. It contains sample preferencing schedules, clauses required to activate preferencing in the Tender Data where use is made of the CIDB Standard Conditions of Tender, and data capture forms.	

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	defficacy in procurement documentation
Best Practice Guideline	This practice guide identifies the various types of procurement documents and provides
C1: Preparing	a uniform format for the drafting and compilation of these documents. It also establishes
Procurement	a practical approach to uniformity and standardization of procurement documents within
Documents	an organization and makes recommendations regarding the forms of contracts which
(1009)	should be used. It also contains a number of proforma component documents to
	facilitate a uniform approach
Best Practice Guideline	This practice guide presents the fundamental considerations in the selection of a form
C2:	of contract for engineering and construction works. It presents an overview of three
Choosing an	different series of forms of contracts and provides practical guidance of the selection of
appropriate Form of	appropriate forms of contract for an organization or for use in selected pricing and
Contract for	contracting strategies
Engineering and	
Construction Works	
(1010)	
Theme: Contracting st	
Best Practice Guideline	This practice guide outlines the main elements of the risk management process. It
A5: Managing	identifies the generic sources of construction related risks, presents a range of options
Construction	for risk allocation between the employer and the contractor and discusses the question
Procurement Risks	of insurances. It also provides guidelines for the management of risk.
(1005)	
Theme: Alternative dis	
Best Practice Guideline	This practice guide provides an overview of what adjudication is, presents the principles
C3: Adjudication	underpinning adjudication, reviews the provisions for adjudication in standard forms of
(1011)	contract (NEC, FIDIC and CIDB), outlines an approach for the selection and use of
	adjudicators, and provides sample clauses and proforma agreements to be included in
	procurement documents.
Theme: Subcontracting	
Best Practice Guideline	This practice guide establishes acceptable practices in respect conditions of
D1: Subcontracting	subcontract. Features of forms of subcontract which are unacceptable to the Employer
Arrangements	and the Contractor are identified and described. It also recommends forms of
(1012)	subcontract which have desirable features for use with the main contracts identified in
	Practice Guide C2 and reviews the legal considerations in the engagement of labour
	only subcontractors
Best Practice Guideline	This practice guide identifies the reasons for forming joint ventures, reviews
D2: Joint Venture	requirements for the formation of joint ventures in response to preferential procurement
Arrangements	policies and presents an overview of the typical content of a joint venture agreement. It
(1013)	also identifies the standard joint venture agreements forms that are suitable for use or
	to serve as a basis for the development of an agreement.

The following publications are referenced in the abovementioned CIDB publications and as such form an integral part of the provisions of these publications. They too contain desirable and appropriate standards, processes, procedures, methods and systems endorsed by the focus group - and as such also constitute best practice.

Documents			
Title	Synopsis		
CIDB Adjudication Procedure (1014)	This document contains an adjudication procedure and an agreement for the appointment by the parties of an adjudicator. It may be used in any form of contract or subcontract.		
CIDB Standard Professional Services Coniract (1015)	This standard form of contract establishes the risks, liabilities and obligations of the parties to a professional service contract.		
CIDB Subcontract For Labour Only Engineering and Construction Works (1016)	This standard form of contract establishes the risks, liabilities and obligations of the parties to a labour only subcontract involving engineering and construction works.		
CIDB Joint Venture Agreement (1017)	This joint venture agreement establishes the basic agreement between the joint venture partners and outlines the content of the schedules that are necessary to make the agreement project specific.		
CIDB General conditions of purchase (1018)	This standard form of contract establishes the risks, liabilities and obligations of the parties to very basic supply contracts.		
CIDB Contract for the Supply and Delivery of Goods (1019)	This standard form of contract establishes the risks, liabilities and obligations of the parties to a simple supply contract.		

Documents	
Title	Synopsis
CIDB Supply of Goods (Short Contract) (1020)	This standard form of contract, based on the NEC system, establishes the risks, liabilities and obligations of the parties to a simple supply contract.
CIDB The Supply Contract (1021)	This standard form of contract, based on the NEC system, establishes the risks, liabilities and obligations of the parties to a complex supply contract.
Practice Manuals published by the South	African Institution of Civil Engineering
SAICE Practice Manual #1. The use of South African National Standards in Construction Procurement	This practice manual provides comprehensive guidance on the use of SANS 294, SANS 10403, SANS 10396, and the SANS 1914, SANS 1921 and SANS 2001 families of standards in construction procurement. It also provides guidance on the use of SABS 1200 where procurement documents are compiled using in accordance with the provisions of SANS 10403.
SAICE Practice Manual #2: Delivering construction projects using the design by employer contracting strategy.	This practice manual presents an overview of a number of contracting strategies that are commonly encountered in engineering and construction works contracts and fully describes the processes and sub-processes associated with design by employer contracting strategy. It also outlines the administrative processes associated with FIDIC, GCC, NEC and JBCC forms of contract with this contracting strategy.
Standards published by Standards South	n Africa
SANS 294, Construction Procurement processes, procedures and methods	This standard provides processes, methods and procedures for the establishment within an organization of a procurement system that is fair, equitable, transparent, competitive and cost effective. It:  a) describes generic procurement processes around which an organization may develop its procurement system; b) establishes minimum requirements for the conduct of an organization's employees, agents, board members and office bearers when engaging in procurement; c) establishes the framework for the development of an organization's procurement policy including any preferential procurement policy; d) establishes generic methods and procedures for procurements including those pertaining to disposals; and e) provides standard conditions of tender and conditions for the calling for expressions of interest.
SANS 1914-1, Resource Standard for the Participation of targeted enterprises  SANS 1914-2, Resource Standard for Participation of targeted partners in joint ventures  SANS 1914-3, Resource Standard for Participation of targeted enterprises and targeted partners in joint ventures  SANS 1914-4, Resource Standard for Participation of targeted enterprises and targeted labour (local resources)  SANS 1914-5, Resource Standard for Participation of targeted labour  SANS 1914-6, Resource Standard for Participation of targeted labour  SANS 1914-6, Resource Standard for Participation of targeted enterprises in concession contracts  SANS 1921-1, Construction and Management Requirements for Works Contracts: Part 1: General requirements for engineering and construction works	These six standard targeted construction procurement standards:  a) describe the general requirements for engaging targeted enterprises and / or targeted labour on a contract for the provision of supplies, services or works, as relevant;  b) specify the contract participation goal (the value of a percentage of the value of the contract which represents the inputs of targeted enterprises and/or targeted labour in the performance of the contract;  c) set out the methods by which the contract participation goal will be measured, quantified and verified in the performance of the contract;  d) describe the means by which:  i) progress towards the attainment of the contract participation goal is to be monitored;  ii) compliance with requirements will be verified and monitored; and  iii) the contract participation goal will be adjusted to accommodate variations to the scope of the contract.  This standard establishes general construction and management requirements, which are applicable in a wide range of engineering and construction works contracts
SANS 1921-3, Construction and management requirements for works contracts, Part 3: Structural steelwork	This specification contains requirements for managing the fabrication and erection of structural steelwork.

Documents				
Title	Synopsis			
JBCC series 2000 Minor Works Agreement				
NEC Engineering and Construction Short Contract (ECSC)				
NEC Engineering and Construction Contract (ECC)				
NEC - The Professional Services Contract	This form of contract establishes the risks, liabilities and obligations of the parties to a professional services contract			
NEC Term services contract	This form of contract establishes the risks, liabilities and obligations of the parties to a professional services contract			
SAICE General Conditions of Contract for Construction Works (2004)	This form of contract establishes the risks, liabilities and obligations of the parties to a contract.			

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