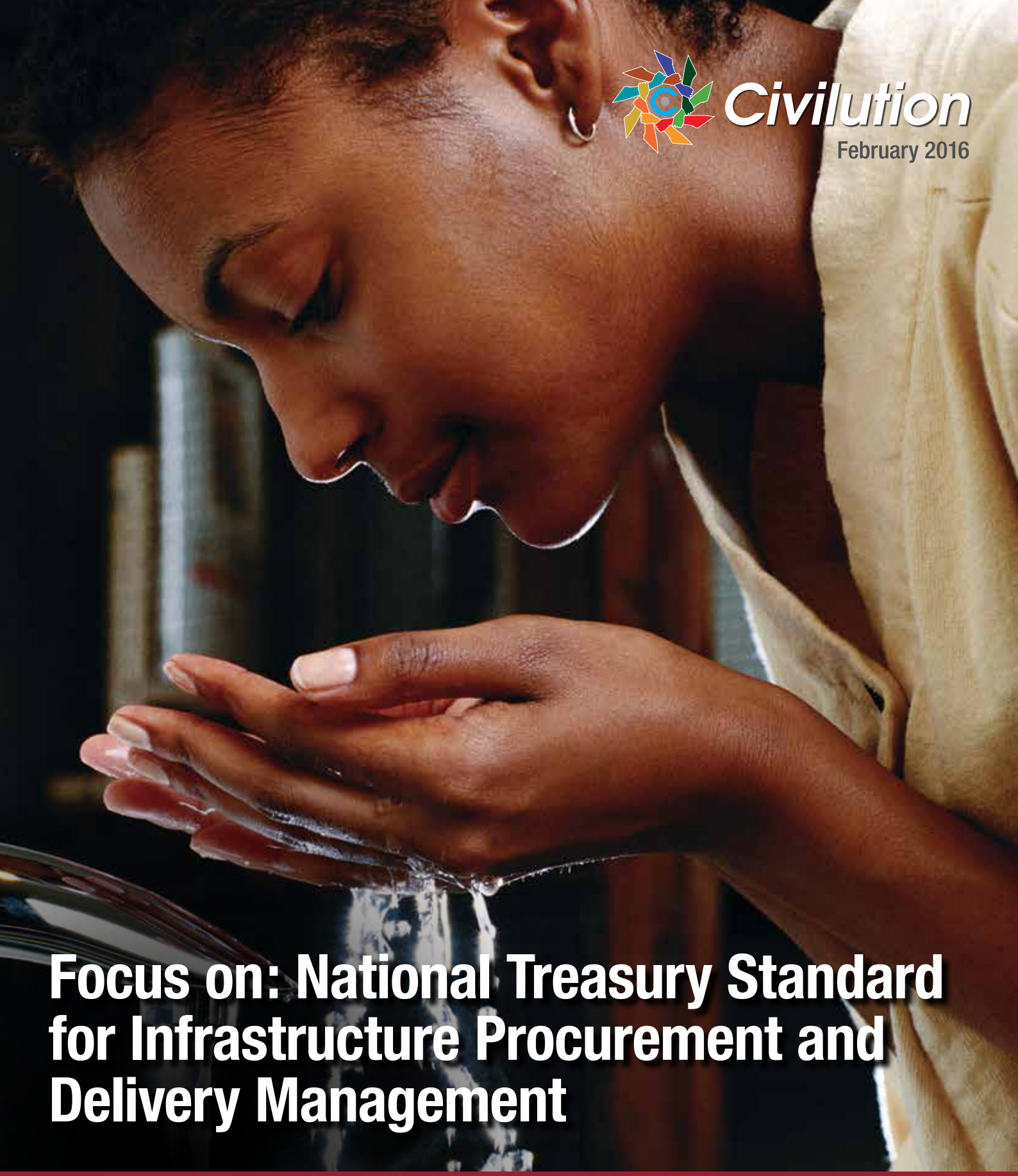

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Focus on: National Treasury Standard for Infrastructure Procurement and Delivery Management

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

An overview of the Standard for Infrastructure Procurement and Delivery Management

National Treasury Instruction No 4 of 2015/2016, issued in terms of the Public Finance Management Act of 1999 (PFMA), requires accounting officers and accounting authorities to implement the National Treasury Standard in the planning, design, procurement or execution of infrastructure projects, and to develop a suitable supply chain management policy for infrastructure procurement and delivery management.

National Treasury Circular No 77, issued in terms of the Local Government: Municipal Finance Management Act of 2003 (MFMA), provides guidance to municipalities and municipal entities to establish a suitable supply chain management system for infrastructure delivery which is better able to deliver value for money, while minimising the scope for corruption. Attached to this circular is a *Model Supply Chain Management Policy for Infrastructure Procurement and Delivery Management*, which is issued in terms of the MFMA in support of the Supply Chain Management Regulations as a Treasury guideline, determining a standard for municipal supply chain management policies. This policy is linked to the National Treasury *Standard for Infrastructure Procurement and Delivery Management*.

INTRODUCTION

The National Treasury *Standard for Infrastructure Procurement and Delivery Management* (SIPDM) establishes:

- a control framework for the planning, design and execution of infrastructure projects and infrastructure procurement;
- requirements for the following matters as applied to the supply chain management (SCM) system for infrastructure procurement and delivery management:
  - institutional arrangements
  - demand management
  - acquisition management
  - contract management
  - logistics management
  - disposal management
  - reporting of SCM information
  - regular assessment of SCM performance
  - risk management and internal control; and
- minimum requirements for infrastructure procurement.

The SIPDM applies to the procurement of all infrastructure-related goods, services and works, including professional services. It does not apply to:

- the storage of goods and equipment, following their delivery to an organ of state, which are stored and issued to contractors or to employees of that organ of state;
- the disposal or letting of land;
- the conclusion of any form of land availability agreement;
- the leasing or rental of moveable assets;
- public-private partnerships; and
- the provision of municipal services by means of external mechanisms referred to in Chapter 8 of the Municipal Systems Act.

The SIPDM includes the procurement of goods and services necessary for a new facility, as delivered, to be occupied and used as a functional entity.

The SIPDM does not establish planning and budgeting or asset management requirements. It merely establishes the forward and backward linkages between

such systems. The output of the budgeting and planning system is an input into the infrastructure procurement and delivery management system, while the output of this system is an input into the asset management system. There are also feedback loops within the infrastructure procurement and delivery management system to the budgeting and planning system, and asset management system.

The SIPDM requires that organs of state differentiate between the supply chains for infrastructure from those for general goods and services. Underlying the separation of the supply chains is the notion that the effective and efficient functioning of the SCM system for infrastructure delivery will realise value for money and good-quality service delivery.

CONTROL FRAMEWORKS

A control is a restraint or check point within a process where:

- decisions are taken before authorising the proceeding with an activity within a process, or commencing with the next process;
- confirmation of conformity with requirements is required before completing a task or activity; or
- information is provided which creates an opportunity for corrective action to be taken.

A control which authorises the proceeding with an activity within a process, or commencing with the next process, is referred to as a gate. Gates provide a means for directing an organ of state towards what is aimed or sought, and confirm conformity with requirements.

The SIPDM maps out the work flow for infrastructure procurement and delivery management processes, and establishes a number of gates linked to documented deliverables where decisions are required to progress to the next activity or process (see Figure 1). These gates not only enable risks to be proactively managed, but also facilitate auditing.

The SIPDM requires that all major capital projects having an estimated capital expenditure greater than or equal to the prescribed value be subjected to a gateway review of the Stage 4 deliverable (concept report or feasibility report) prior to acceptance of this deliverable. Such a review in the first instance focuses on the quality of the documentation, and thereafter on deliverability, affordability and value for money.

SCM MATTERS DEALT WITH IN THE STANDARD

General

The current SCM regulations issued in terms of the PFMA and MFMA establish requirements for a number of matters. Most of these requirements

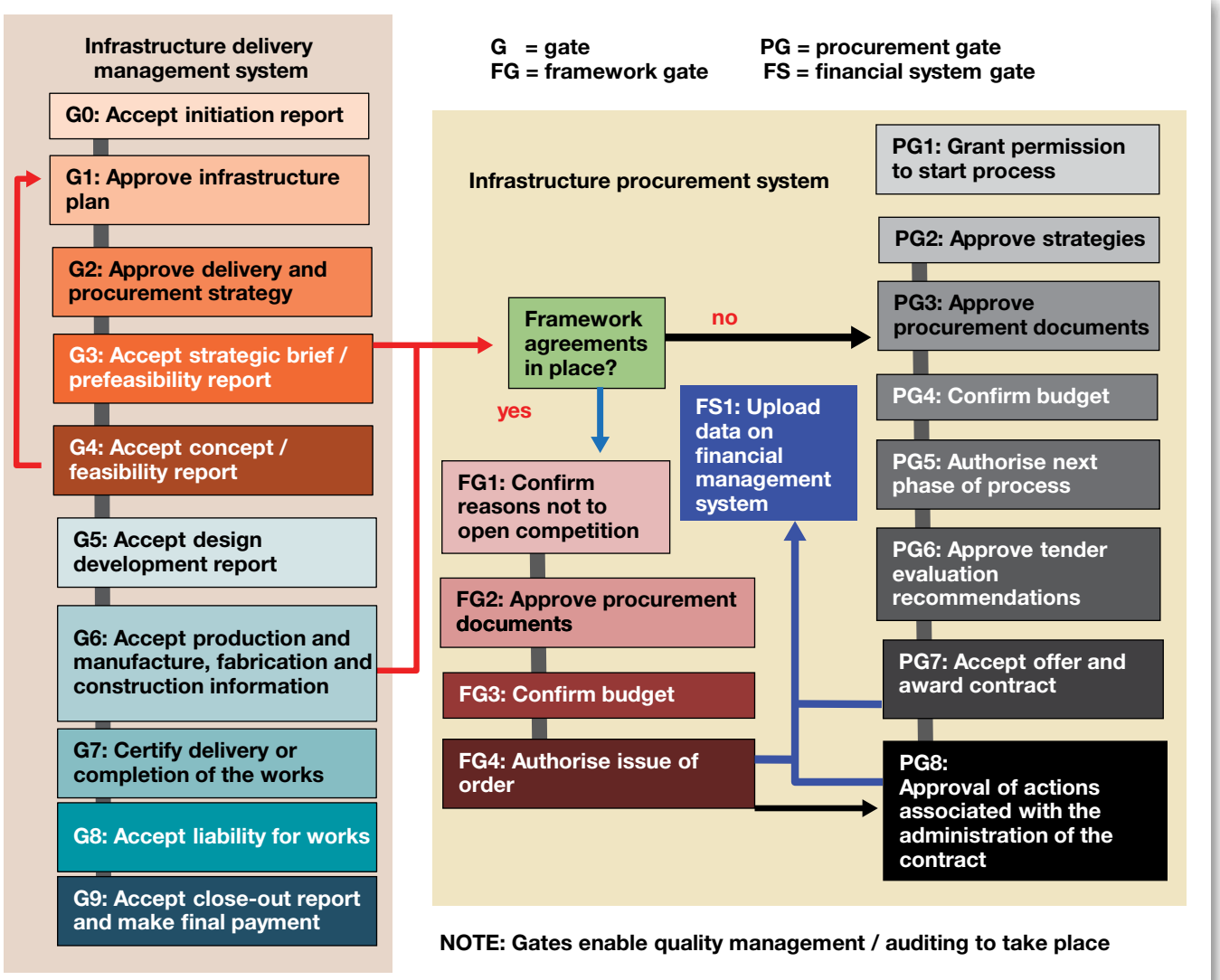

Figure 1: Control framework for infrastructure procurement and delivery management

have been formulated around a supply chain for general goods and services. As a result, these requirements do not address many of the issues which are pertinent to infrastructure and delivery management. The SIPDM establishes specific requirements for infrastructure procurement and delivery management for SCM matters which are unique to infrastructure projects.

Institutional arrangements

Organs of state who are responsible for infrastructure projects need to establish a suitable infrastructure procurement and delivery management SCM policy to implement the SIPDM. Such a policy as a minimum needs to assign responsibilities for approving or accepting deliverables associated with a gate in the control framework or authorising a procurement process or procedure, to establish delegations for the awarding of a contract or the issuing of an order, and to provide ethical standards for those involved in the procurement and delivery of infrastructure. Organs of state who delegate or assign responsibilities to another organ of state need to enter into an agency agreement which sets out the terms, conditions, roles and responsibilities regarding infrastructure projects.

Demand management

The demand management system needs to be aimed at ensuring that goods and services, and any combination thereof, are delivered at the right price, time and place, and that the quality and quantity of such goods or services satisfy needs.

The demand for infrastructure delivery needs to be managed through service life plans and infrastructure plans. Identified projects need to be prioritised and budgeted for in the infrastructure plan, and, wherever possible, be delivered in accordance with established norms and standards which are designed to yield value for money. Costs need to be proactively managed through the setting and proactive monitoring of control budgets for projects through the project planning, detailed design and site processes.

Acquisition management

Budget submission for budget approval to advance a project or package relating to the delivery or planned maintenance of infrastructure in a financial year need to be broken down into the stages

Table 1: Stages and end-of-stage deliverables

Stage			End-of-stage deliverable
No	Name		
0	Project initiation		An initiation report which outlines the high-level business case together with the estimated project cost and proposed schedule for a single project or a group of projects having a similar high-level scope.
1	Infrastructure planning		An infrastructure plan which identifies and prioritises projects and packages against a forecasted budget over a period of at least five years.
2	Strategic resourcing		A delivery and/or procurement strategy which, for a portfolio of projects, identifies the delivery strategy in respect of each project or package and, where needs are met through own procurement system, a procurement strategy.
3	Prefeasibility		A prefeasibility report which determines whether or not it is worthwhile to proceed to the feasibility stage.
	Preparation and briefing		A strategic brief which defines project objectives, needs, acceptance criteria and client priorities and aspirations, and which sets out the basis for the development of the concept report for one or more packages.
4	Feasibility		A feasibility report which presents sufficient information to determine whether or not the project should be implemented.
	Concept and viability		A concept report which establishes the detailed brief, scope, scale, form and control budget, and sets out the integrated concept for one or more packages.
5	Design development		A design development report which develops in detail the approved concept to finalise the design and definition criteria, sets out the integrated developed design, and contains the cost plan and schedule for one or more packages.
6	Design documentation	6A Production information	Production information which provides the detailing, performance definition, specification, sizing and positioning of all systems and components enabling either construction (where the constructor is able to build directly from the information prepared) or the production of manufacturing and installation information for construction.
		6B Manufacture, fabrication and construction information	Manufacture, fabrication and construction information produced by or on behalf of the constructor, based on the production information provided for a package which enables manufacture, fabrication or construction to take place.
7	Works		Completed works which are capable of being occupied or used.
8	Handover		Works which have been taken over by the user or owner complete with record information.
9	Package completion		Works with notified defects corrected, final account settled and the close-out report issued.

contained in the control framework for infrastructure delivery management, as indicated in Table 1. Implementation plans relating to new infrastructure, or the rehabilitation, refurbishment or alteration of existing infrastructure, need to be developed for each project or package (work which is grouped together for delivery under a single contract or an order) which is to be delivered in a financial year. Financial data needs to be gathered to enable a financial report to be generated at regular intervals.

Contract management

The person responsible for the administration of the contract or an order on behalf of the employer needs to act as stated in the contract that is entered into, subject to any constraints that may be imposed by the employer or the employer's SCM policy for infrastructure procurement and delivery management. Such a person is also responsible for providing data for capturing on the contract management system, for providing regular reports on events which impact on time and cost, and for making inputs into the close-out report.

The persons responsible for the administration of a contract or order relating to the provision of new infrastructure, or the rehabilitation, refurbishment or alteration of existing infrastructure, needs to be professionally registered with a built environment council falling under the umbrella of the Council for the Built Environment.

Logistics management

Suitable arrangements or measures need to be put in place where materials, equipment or plant are issued free of charge to contractors, to minimise:

- loss or damage to such items until the contractor has received and accepted them; and
- delays in supply which could result in increases in the contractor's fees for providing the works.

Procurement processes associated with long lead items of plant, equipment and materials may be initiated before the conclusion of Stage 4 (concept and viability or feasibility), provided that no contract is entered into until Stage 4 has been concluded and the budgets are in place to proceed.

Disposal management

A disposal committee needs to decide on how best to undertake disposals relating to the demolition or dismantling of infrastructure or parts thereof, and the disposal of unwanted, redundant or surplus materials, plant and equipment.

Reporting of SCM information

An implementer needs to report to the relevant treasury within one month of the award of a contract or the issuing of an order, all engineering and construction, supply, service and professional service contracts that are awarded, or orders that are issued, above a prescribed threshold. An implementer also needs to prepare an annual report and submit such report to the relevant treasury within two months after the financial year end. Such a report is required to include:

- a performance report covering specified indicators;
- a progress report focusing on time and cost of all contracts above a prescribed threshold;
- information on unsolicited proposals; and
- particulars relating to the cancellation or termination of a contract, the use of the negotiated procedure or confined procedure above a threshold, the evoking of the emergency procedures above a threshold, disputes which are referred to arbitration or a court of law for settlement, and contracts where the total of prices or the time for completion at the time that the contract was concluded or the order issued is exceeded by a prescribed percentage.

Assessment of SCM performance

An annual performance report needs to be prepared for each portfolio of projects involving infrastructure delivery, which reflects performance over a financial year in relation to expenditure, the efficacy of the tender system, variances between planned and achieved completion of stages, managing price increases and time overruns during the works stage, the time taken to handover a package following completion, the effectiveness of the control of costs during the execution of a works contract, and late payment.

Risk management and internal control

Risk registers need to be established and maintained to enable risk mitigation to be proactively managed at a portfolio, programme, project and contract level.

The gates in the control frameworks need, as appropriate, to be applied in making decisions to proceed, using suitable templates which record the approval or acceptance of documents.

INFRASTRUCTURE PROCUREMENT

The SIPDM establishes requirements which cover a number of aspects for infrastructure procurement, including thresholds for the use of certain procurement procedures and the use of quality as a criterion in the evaluation of tender offers. Requirements relating to the preparation of procurement documents, and the solicitation and evaluation of expressions of interest and tenders are linked to the recently published South African National Standard, SANS 10845 *Construction Procurement*. Organs of state are required to select a standard form of contract from a prescribed list, and administer such contracts strictly in accordance with the administrative procedures contained in the selected form of contract. Requirements relating to the application of the Construction Industry Development Board (CIDB) register of contractors and register of projects are linked to the CIDB *Standard for Uniformity in Construction Procurement*.

The SIPDM makes provision for the putting in place of framework agreements which enable orders to be issued over a term without any commitment to a quantum of work. Rules are also established for the use of one organ of state's framework contracts by another.

There are also requirements for persons who are professionally registered in certain categories of registration with built environment councils to prepare procurement documentation review and evaluation reports, and to evaluate quality as other objective criteria in tender submissions.

NOTE

Further insights and information can be obtained from:

Watermeyer, R B, Nevin, G & Langenhoven, K 2012. The supply chain management system for the delivery and maintenance of infrastructure by organs of state. *Civil Engineering*, 20(6): 51–58.

Watermeyer, R B, Wall, K & Pirie, G 2013. How infrastructure delivery can find its way again. *IMIESA*, 38(3): 17–29.

Watermeyer, R B 2015. Design and adoption of innovative procurement systems in infrastructure delivery. West Africa Built Environment Research Conference, Accra, Ghana, August.