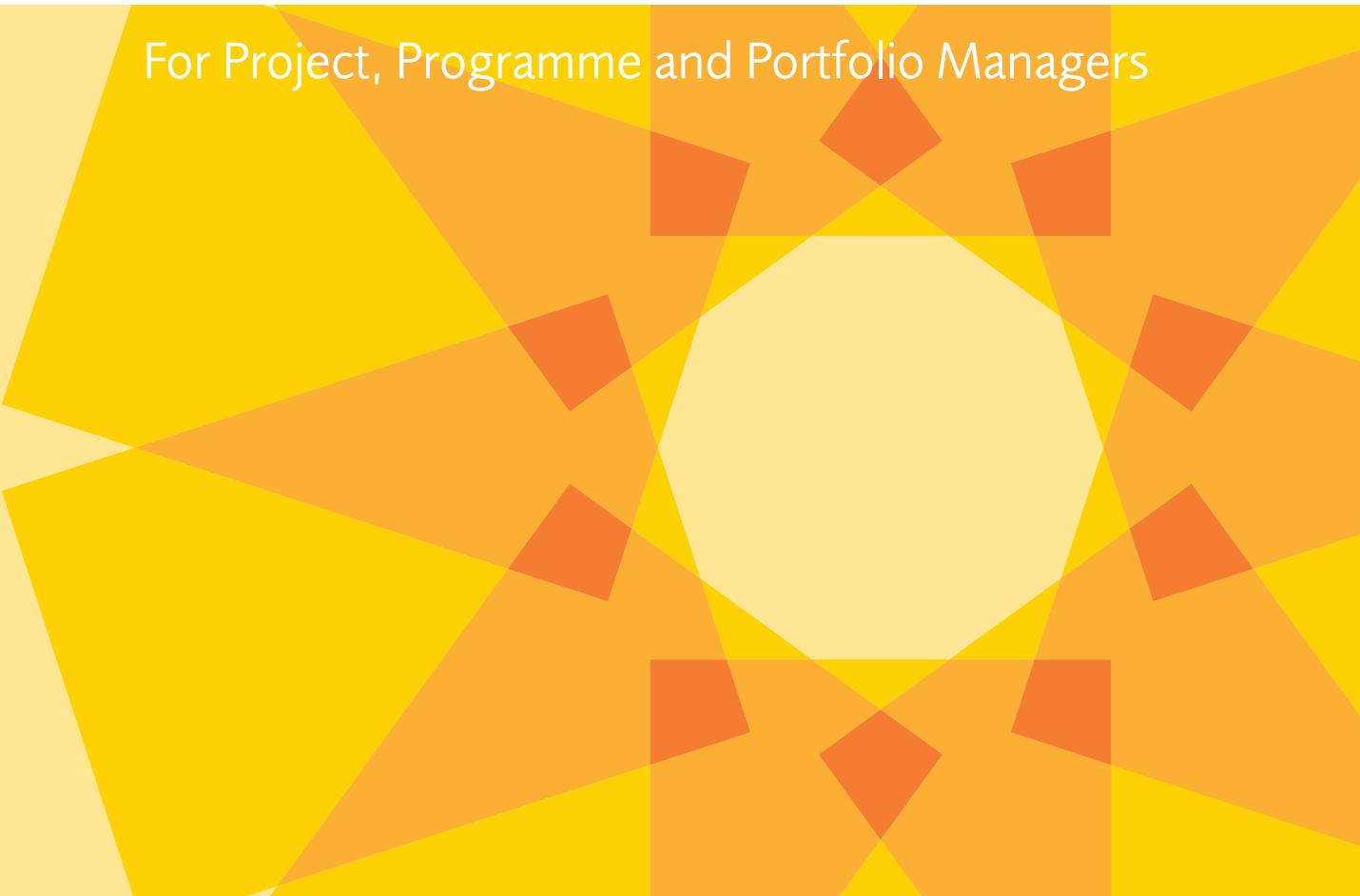


APM Guide to Contracts and Procurement

For Project, Programme and Portfolio Managers

The background features a large, light yellow circle centered in the middle. This circle is surrounded by several overlapping triangles of varying sizes and shades of orange and yellow. The triangles are oriented in different directions, creating a dynamic, radiating effect from the center.

Contents

List of figures and tables	vii
Preface	ix
Acknowledgements	x
1 Introduction	1
1.0 Who is this guide written for?	1
1.1 Background to this guide	2
1.2 How to use this guide	11
1.3 Key term definitions used in this guide	12
2 Concept and feasibility	15
2.0 Overview	15
2.1 Background	16
2.2 Inputs	17
2.3 Activities	17
2.4 Outputs	30
3 Project procurement strategy	33
3.0 Overview	33
3.1 Background	34
3.2 Inputs	37
3.3 Activities	37
3.4 Outputs	52
4 Package contracting strategy	53
4.0 Overview	53
4.1 Background	54
4.2 Risk management	54
4.3 Inputs	58
4.4 Activities	58
4.5 Outputs	88
5 Prepare the contract terms and requirements	91
5.0 Overview	91
5.1 Background	92
5.2 Inputs	94

Contents

5.3 Activities	100
5.4 Outputs	111
6 Select provider and award the contract	113
6.0 Overview	113
6.1 Background	114
6.2 Risk management	120
6.3 Inputs	121
6.4 Activities	123
6.5 Outputs	140
7 Manage and deliver the contract	141
7.0 Overview	141
7.1 Background	142
7.2 Inputs	142
7.3 Activities	143
7.4 Outputs	158
8 Contract closure, handover, operation and support	161
8.0 Overview	161
8.1 Background	162
8.2 Inputs	164
8.3 Activities	164
8.4 Activity 1: Assign resources	165
8.5 Activity 2: Contract closure	166
8.6 Activity 3: Handover	169
8.7 Activity 4: Ongoing operation, maintenance and support activities	170
8.8 Outputs	172
Acronyms and abbreviations	173
Bibliography	175
Appendix A	177
Appendix B	185
Appendix C	189
Index	193

1

Introduction

1.0 Who is this guide written for?

The intended audience for this guide is:

1. Project, programme and portfolio (P3) managers and project procurement professionals who require an easy to use 'how to' guide for procuring externally sourced 'works'.¹
2. Stakeholders within organisations who wish to increase their awareness of how works can be procured e.g. financial officers, operational professionals, engineers, etc.

This guide is **not** aimed at those procuring standard off-the-shelf manufactured goods or standard consultancy services. There is already a wealth of good information available from other sources covering this type of procurement.²

The guide is applicable for those involved in both public and private sectors including those projects that are subject to European Union (EU) procurement rules.³

¹ The word 'Works' is the term used in EU Procurement for a procurement of a project or programme, as opposed to the purchase of goods and services (European Union, 1993). At the time of publication of this guide, the United Kingdom had voted to exit the European Union ('Brexit'). Despite this event, it is important to note that the prevailing EU Procurement Directives remain enshrined in law in the UK through Acts of Parliament. Consequently, even after Brexit the relevant EU legislation will still apply unless and until changed by an Act of Parliament.

² For free material and some you have to pay for go to the Chartered Institute of Procurement and Supply's (CIPS) website at www.cips.org (Chartered Institute of Procurement and Supply, n.d.) and click on resources. Alternatively, a book especially for project managers on this topic is by Ward, G. (2008) *The Project Manager's Guide to Purchasing – Contracting for Goods and Services*.

³ We, however, point out that this guide should not be taken as definitive from a legal perspective and legal advice should always be taken on the respective legal matters. See also note 1 above.

1.1 Background to this guide

1.1.1 Managing procurement in a project context

Procurement covers a wide breadth of activities which may range from buying paper clips to contracting a new IT system, or the building of a new shopping centre. It is a common perception, however, that procurement should be handled by a specific purchasing resource or department rather than being a central competency within P3 management.⁴ In complex projects this can – and we find frequently does – lead to unforeseen issues developing, leading to time cost and quality overruns due to the project manager being unaware of the pitfalls that can arise when contracting to third parties.

In this guide, we focus on the procurement of works in the form of 'packages'. These will typically have a higher level of uncertainty associated with them compared with the procurement of basic goods and services (commodities) and may form a substantial part of the main project. Indeed, the cost of such contracted-out packages may outweigh all other project spend. For example, each of the following packages may account for over 90 per cent of the total project spend:

- A contract for construction of physical asset.
- A contract to develop, install and manage an information technology capability.
- A contract for the supply of complex machinery designed and manufactured specifically for an employer.

The guide is based on the procurement life cycle stages as illustrated in Figure 1.1.

Chapter 1 of this guide provides an introduction, with follow-on chapters (2–8) addressing each life cycle stage. Chapters 2–8 are structured to enable the reader to quickly gain the necessary guidance relevant to each stage in the procurement life cycle to include:

- **Overview:** Defining the chapter content to enable the reader to understand whether the chapter addresses their immediate concerns

⁴ P3: Project, programme and portfolio. We use the term 'project manager' in this guide to cover any P3 (project, programme and portfolio) management role.

- **Background:** Providing further background for optional reading.
- **Inputs:** Listing what is needed at the stage start.
- **Activities:** Tasks to be performed based on the stage process diagram included.
- **Outputs:** What the stage provides when completed.

Where applicable, an additional section summarises the risk aspects that should be considered during the stage.

It should be noted that we define some specific terms which relate directly to contracts and procurement (e.g. the provider, the employer). Summary definitions of these terms are given in section 1.3 below. The guide also includes the generic definitions from the APM's *Body of Knowledge* series 6th edition and other prior learnt material, where applicable, in text boxes to assist the reader and provide a route to further research.

In this guide, we describe a generic process which can be followed regardless of the size of the project or programme. For a small procurement, it may mainly be a thought process. However, the larger the project or programme, the more thought should be applied with more formality in terms of recording the decisions made and reasons why. Indeed, for a major procurement exercise, this guide could be used as the starting point for the process of developing the required contracts and an aid to seeking further detailed advice or guidance if required.

We believe that you will find the following chapters a useful introduction to each of these activities and it will spur you on to further develop your understanding and skills in these areas.

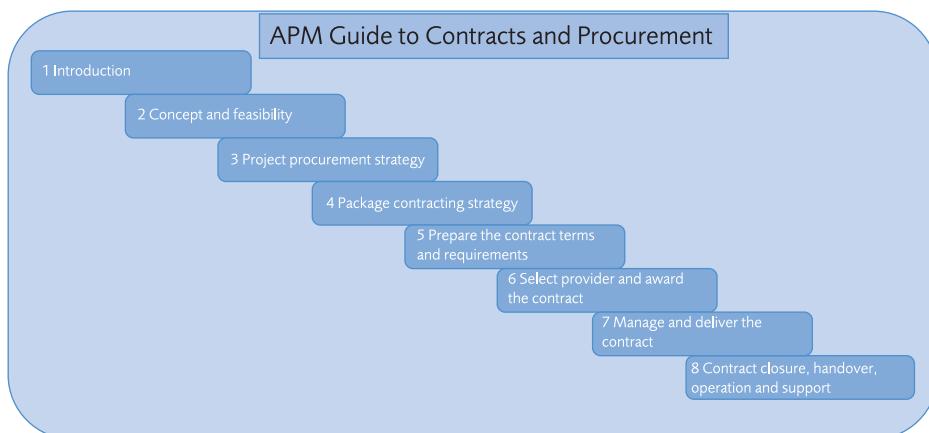
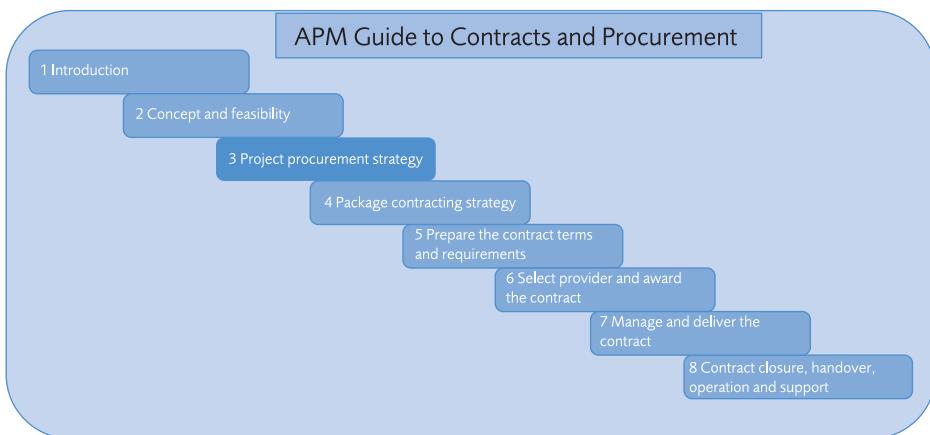


Figure 1.1 The procurement guide life cycle stages

3

Project procurement strategy



3.0 Overview

This chapter describes how to determine the project procurement strategy to be defined in the procurement management plan, which will specify:

- how the overall project is to be broken down into packages;
- which, if any, of these packages may be procured externally; and
- the high-level approach to be taken to procuring each package or category of packages.

To do this, a package breakdown structure (PaBS) is developed to cover the overall project scope, which is then divided into packages that can be considered for procurement.²⁷ The PaBS is produced via an iterative process that starts with a high-level version which is then refined to produce a final version that is used as

²⁷ See the PaBS definition in section 1.3.

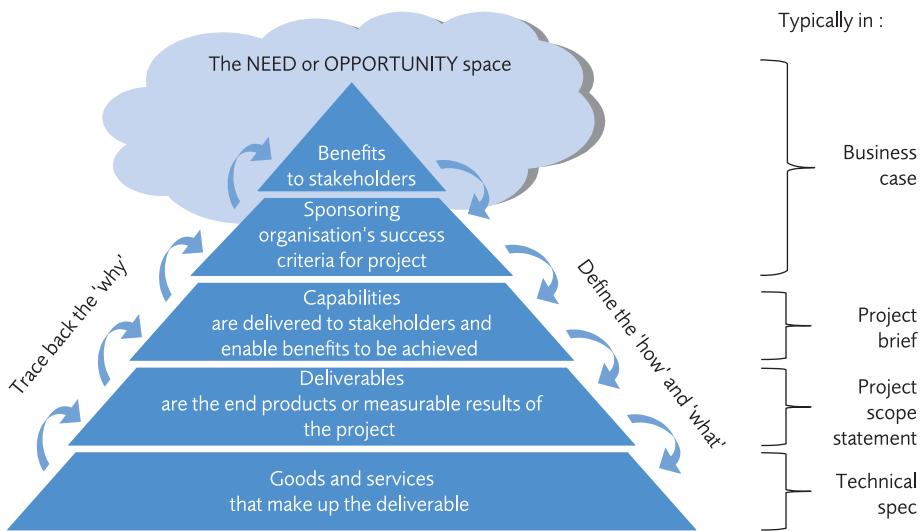


Figure 3.1 The requirements hierarchy expressed in a works contract

defined as performance specifications, if measurable, or alternatively as functional specifications if functional in nature.

Going up a level, the provider may contract on the basis of measures closely related to business outcomes, including the required benefits which are within their control or significant influence, e.g. measurable success criteria. For instance, for a marketing campaign for a product or service the provider may be paid on the basis of increased enquiries to the employer; or for a private finance initiative road project, payment may be linked to the number of journeys along it, average vehicle speed and lane availability. Notice that these are measurable outcomes.

At the project procurement strategy stage, we consider how the project is divided into packages; be they specified in terms of outcomes, satisfied success criteria, new or enhanced capabilities, unique physical works or delivered standard goods and services. The developed procurement strategy will define, for each package: the scope, including how that will be contractually defined, the significant interfaces and interdependencies, and the nature of the relationship being sought. By 'nature of the relationship being sought' we mean direction, at high level, on how the contracted package(s) will be procured in terms of contracting strategy, selection criteria and selection method.

Once defined for all packages or categories of packages, the outputs can be combined or summarised to form a procurement management plan.

3.2 Inputs

In order to decide on the procurement strategy, the outputs from the concept and feasibility stage (see Chapter 2), as included in the FBC, are required.

- The scope statement is critical in order to develop the package breakdown structure (PaBS) to an appropriate level of detail to define individual packages.
- The archived SBC and project brief may also give insight into the sourcing and delivery options considered for the project and the individual work packages within it. It is the starting point for developing criteria by which contracting strategies are developed and providers are selected.

3.3 Activities

The key activities of this phase are illustrated in Figure 3.2 and described in the following sections.

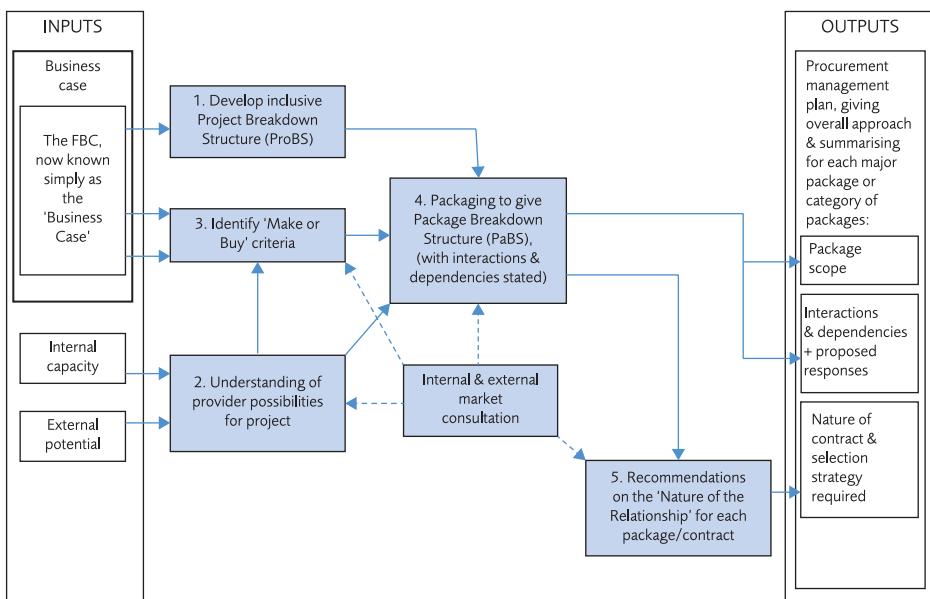


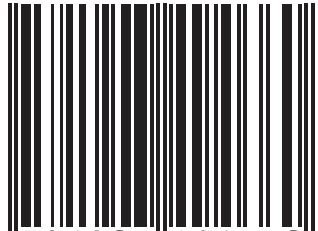
Figure 3.2 Process diagram for the project procurement strategy stage

Association for Project Management

Ibis House, Regent Park
Summerleys Road
Princes Risborough
Buckinghamshire HP27 9LE

Tel. (UK) 0845 458 1944
Tel. (Int.) +44 1844 271 640
Email info@apm.org.uk
Web apm.org.uk

ISBN-10: 1-903494-66-4
ISBN-13: 978-1-903494-66-0



9 781903 494660

