Appendix B Criteria for selecting a delivery model

Selection criteria

To select the appropriate delivery model, approved organisations should assess the activity against the following criteria:

- complexity and uncertainty
- scale
- timing and urgency
- innovation potential
- risk management
- supplier market.

To select the delivery model for an infrastructure procurement activity, approved organisations should analyse the conditions that surround the procurement event that the organisation identified in the strategic context analysis and specified in the activity description. All considerations must be documented as part of the reporting requirements for the procurement procedures in this manual.

The capability and capacity of the purchaser influences what delivery models can be used. If, after assessment, the delivery model selected proves to be outside the purchaser's capability and capacity, an alternative delivery model should be selected. The purchaser should consider investing in the development of capability and capacity where no reasonable alternative exists. Alternatively the capability and capacity required could be outsourced for a one off event.

The sections below discuss how to select a delivery model and define the criteria listed above. Note that this is general guidance only and that detailed guidelines on the specific application of each delivery model are contained in the procurement procedures in this manual.

Complexity and uncertainty

What levels of complexity are involved in the activity, as described by the scope definition and with an understanding of the breadth of the activity (eg a narrow, clearly defined scope versus one that is wider and more general in nature)?

The level of complexity relates to structural and technical complexity:

- Structural complexity is the number of varied components and the interdependence of these components.
- Technical complexity is the extent to which untested or new technical issues need to be addressed in delivering the activity.

Uncertainty is present when it is impossible to exactly describe the existing state or future outcome, or assess the probability of a future outcome occurring.

When assessing the activity's complexity and uncertainty, approved organisations should consider the following questions:

- What level of uncertainty exists in the methodology and expected outcomes? Complexity will increase with uncertainty.
- How many separate components exist in the activity?
- Are these components interdependent? Complexity will increase as the number of interdependent components increases.

Appendix B Criteria for selecting a delivery model continued

Scale	**Will contract size have an impact on the type of supplier or groups of suppliers sought to deliver the activity?** Contract size has a bearing on procurement in terms of the scale of the supplier and the resources required to complete the job (ie more than one supplier may be needed for particular aspects of an activity).
Timing and urgency	**Does the activity have an urgent deadline (eg emergency works, or would the activity be enhanced by an early completion date)?** Some delivery models involve longer processes than others due to the different mix of supplier and purchaser involvement and responsibilities. The type of delivery model used to purchase an activity can affect the expected delivery date for the outputs, so selection of the delivery model can change timing. When selecting a delivery model, approved organisations should consider which model is most likely to optimise activity delivery time.
Innovation potential	**Would the introduction of incentives into the delivery model substantially increase value for money through innovation aimed at minimising risk, bringing forward completion and increasing the quality of the outputs purchased?** Incentives are used to encourage a supplier to be innovative in their business solutions and capital technology in order to deliver high-quality outputs, minimise programme delays and increase efficiency. When selecting a delivery model, approved organisations should assess the potential of the supplier(s) to introduce innovation into the delivery process that will positively affect the quality and, if applicable, quantity of outputs, minimise risks and deliver benefits earlier (enhance value for money). Incentives for supplier innovation will affect the quality of outputs, risks and delivery times. This question is related to issues of risk, complexity and contract size. The possibility, or capacity, to innovate is potentially greater in large activities with a less well-defined scope at the start and numerous risks, compared with a small-value activity with a well-defined scope.
Risk management	**Where does the majority of the control and therefore risk sit in the delivery model – with the purchaser or the supplier(s)?** Risk can be defined as a situation that could occur during the lifetime of a good or service that has the potential for negative impact in terms of human injury, capital damage or economic loss. The level of risk depends on the probability of such a situation arising and the potential negative effects the situation may cause. Risk and uncertainty are separate issues: • Risk in general can have a probability of occurrence attached to an event and can be assigned to a party in the contract. • Uncertainty is unknowable and unquantifiable, and cannot be assigned. There is always some uncertainty associated with the delivery of an activity.

Appendix B Criteria for selecting a delivery model continued

Risk management continued

Common risks in procurement can be grouped into:

- cost risks – situations that have the potential to result in costs being above the budget
- time risks – situations that have the potential to result in time delays and undesirable completion dates
- quality risks – situations that have the potential to result in a completed good or service that does not meet the requirements of the purchaser
- technical risks – those risks associated with the activity that cannot be carried by the supplier (eg geotechnical risks)
- scope risks – those situations where the scope has the potential to change during delivery, or the supplier(s) fall short of the scope specified for delivering the activity (in these cases, obtaining value for money, based on the activity specified during the funding allocation process, is jeopardised)
- third party risks – those situations where third parties may be directly affected by coming into contact with the activity during its delivery phase (those affected can include customers, motorists, asset or service users, and the public in general); such risks can include health and safety issues, time delays, denial of service and environmental impacts.

Note that risk is not always negative. Positive outcomes to the delivery of activities can include early completion and less third party impact than anticipated.

Allocation and management of risk is intended to keep risk under control, prevent the occurrence of a situation that may result in large negative impacts and mitigate the negative impacts should such a situation eventuate. Risks should be allocated to a party based on their ability to:

- control the arrangements or actions required to minimise the potential for situations arising that may negatively impact on the activity
- influence any effects that result from such a situation arising
- benefit from the activity and the minimisation of risks.

An important factor in the selection of a delivery model is how risk should be allocated and which party can best manage the risk. Note that it is unlikely that all risk can, or should, be managed away through the contract.

Supplier market

Is it anticipated that there will be a highly competitive market of potential suppliers for this activity, or does the activity profile suggest that the supplier market will be lacking in competition?

Whether an approved organisation is able to obtain value for money directly relates to the state of the supplier market. Selecting a supplier who will minimise whole-of-life costs, while providing the required quality of output, will typically arise from a competitive bidding environment and an effective supplier market.

The number of possible suppliers in the market who can deliver the activity to the required quality standard will be a factor to consider in selecting the most appropriate delivery model and determining how the activity will be specified. The number of suppliers will depend on the scope, complexity, contract size and expected output of the activity. Smaller, well-defined activities may have a larger supplier market to access than larger, more broadly defined activities, or activities requiring specialist knowledge or equipment.