

Panel of Suppliers

Construction Procurement Guidelines

October 2019

Overview

Clients that are delivering multiple projects over a long time period may want to consider establishing a panel of suppliers. A panel of suppliers is a list of suppliers who have been pre-approved by an agency and who have agreed to the terms and conditions for supply. In establishing a panel of suppliers, the agency will verify which suppliers are capable of delivering the works and will agree in advance with each supplier the terms and conditions of supply of the goods, services or works, including the pricing (eg, hourly rates) or the pricing mechanism that will apply. Once the panel has been established, the client can select an appropriate supplier from the panel each time a project needs to be delivered through a secondary procurement process.

This guideline is specifically aimed at construction related services and does not include consideration of specific matters related to the development of a panel of suppliers for project management or design consultancy services. While these are outside the scope of this guideline, the 'At a glance' section contains some useful information on the potential benefits and key points to note for panels of suppliers that will similarly apply to consultancy services.

Selecting panel suppliers for contracts for individual projects

Although several methods can be adopted for selecting suppliers for individual projects, the nature and scope of construction projects tends to vary to some degree between locations, and no two sites are the same. It's therefore considered good practice to adopt a mini-tender approach for construction projects to achieve best value. Setting up a mini-tender process should limit information sought from the contractor to matters specifically related to the project eg:

- specific pricing and details of the contractor's proposed programme
- quality
- methodology and resources for delivery.

Evaluating pricing

Evaluating pricing information when establishing a panel for contractors can be difficult without specific project details. However, it's good practice to set out a framework for pricing future projects, and to request some initial pricing information at panel selection stage. This enables public value to be properly considered at the outset. Whatever framework is established to provide a basis for pricing, it should be sufficiently flexible to allow more refinement in the secondary procurement stage, once the specific details of a project are known. The following examples may be useful:

- Clients starting a known programme of work could use the first projects to be delivered as a basis for evaluating the pricing component.
- Sample projects could be used for pricing purposes, and as a basis from which future projects can be priced.
- Clients could seek to establish a fixed range of specified percentages for preliminaries and margins to be applied to the construction cost of future projects, based on a specified range of project values and described complexities.

- A standard schedule of rates for common components of projects can be developed, from which contractors are evaluated. These can be used as a basis for future pricing of projects.
- Clients who have a high volume of similar projects with reliable cost data may be able to develop a set of target cost benchmarks, from which suppliers are asked to develop proposals that meet or improve on these requirements.



Whichever method of pricing evaluation is chosen for panel selection, the panel agreement will need to clearly set out the process for selection of suppliers, including how quality and price components are evaluated for individual projects.

Opportunity for continuous improvement

In contrast to one-off procurements, panel arrangements provide an opportunity to develop a long-term partnership between the client and the supply chain and other stakeholders. This supports a working environment that can drive continuous improvement. A continuous improvement framework can be set up within the panel to establish objectives and targets, and monitor performance. Panels provide the opportunity to measure and improve performance on projects, comparing successive projects to ensure that lessons are transferred. Keeping a team together over successive projects avoids the steep learning curve usually required for one-off projects.



Key areas for contract documents

Key areas to be addressed in panel contract documents:

- Definition of the scope and potential locations for the works or services.
- Anticipated volume and frequency of work.
- Start and end dates for panel.
- Details of panel selection criteria.
- Requirements for quality and pricing information for panel selection.
- Contract conditions to be used for:
 - pre-construction services including design services
 - execution of the works.
- Key terms of contract:
 - requirements and obligations regarding insurance, bonds and warranties
 - inflation, interest and retention percentages to be applied
 - incentive mechanisms to be applied
 - dispute resolution procedures to be applied.
- Details of how suppliers will be selected from the panel for specific projects (eg selection by rotation, mini tender, direct source based on the best fit for purpose, equal division of work, or geographical location) (secondary procurement process).
- Details of how contracts will be managed at various stages and how the client will interface with the supplier.
- Any other criteria required from tenderers so the client can properly assess their suitability.

At a glance - Panel of Suppliers

Guidelines for use

This model is best used where clients:

- are delivering a significant programme of work requiring construction or maintenance services, requiring multiple procurements of a similar nature
- have a good degree of certainty on the pipeline in terms of planned volumes of work and their timing
- want to develop long-term strategic relationships with suppliers to encourage industry investment in skills and training
- want to adopt a continuous improvement approach to realise the wider programme benefits a panel can bring.

Potential benefits

- Contracts for individual projects above value thresholds set by the Government Procurement Rules can be awarded without the need to advertise on the open market each time, significantly reducing the time and costs of procurement activity.
- Panels are based on a long-term partnership between the client, supplier and other stakeholders, which can help support the working environment needed to drive continuous improvement.
- Panels offer the structure needed to measure and improve performance during a project, compare successive projects, and ensure lessons are transferred.
- The long-term relationship with suppliers can create a commercial environment that encourages sustainable investment and employment in local businesses and can cut waste in processes and physical resources.
- Performance measurement systems designed to encourage continuous improvement can assist auditors and members to verify that public money is being used wisely.
- There's opportunity to incorporate specific construction methods into the design.
- Construction resources are secured earlier and early procurement of critical items with long lead times, such as steel and precast concrete, is possible.
- All parties have a better understanding and ownership of risks and how best to manage them.

Points to note

- Clients who adopt panel approaches for the sole purpose of reducing the time and cost of procurement will miss an opportunity to deliver greater public value through the wider programme benefits a panel can bring.
- A stop-start workload won't promote the right environment for continuous improvement.
- Continuous improvement requires a clear framework for establishing objectives and targets, and monitoring performance.
- The work needed up front to establish a panel is more than for tendering a single project, although longer-term benefits should outweigh this.
- Evaluation of pricing information should be part of the initial panel selection process, to avoid selecting panel suppliers that are unable to deliver public value, once the panel is used later to select suppliers for specific projects.
- Be very clear at the panel tender stage about the selection mechanism and criteria to be used for selecting suppliers for specific projects when the panel is in use (eg selection by rotation, mini tender, direct source based on the best fit for purpose, equal division of work, or geographical location).
- Clients that are unclear about the volume and frequency of projects may not attract the best suppliers or value proposition and run the risk of future complaints from suppliers.
- The size of the panel should be proportional to the anticipated demand to give suppliers a fair opportunity of winning work. Panels with too many suppliers for the volume of work available will not deliver the potential benefits.