



Australian Procurement
and Construction
Ministerial Council

**National Prequalification
Criteria Framework**

Queensland 1998

Meeting of Australian Procurement and Construction Ministers
Australian Procurement & Construction Council Inc
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INTRODUCTION

'Improved risk management by assisting continuous improvement in the construction industry through the encouragement of best practice'.

Governments are major buyers of construction and related services. As principals in construction projects and as customers of the industry's service providers, Governments are playing a lead role in establishing performance criteria and benchmarks for the construction industry. The Australian Procurement and Construction Council (APCC) has used its unique position in bringing together Commonwealth, State and Territory Government construction agencies to achieve national consistency in the criteria for prequalification of contractors.

This nationally consistent framework is the consolidation of existing APCC member jurisdictions prequalification criteria that have been developed through ongoing industry consultation within jurisdictions.

This leadership at a national level enables both government agencies and the construction industry to respond positively to the current challenges facing the industry.

The Australian Procurement and Construction Ministerial Council is committed to ongoing partnership with industry to achieve nationally consistent processes to enhance the delivery of best practice outcomes for the mutual benefit of Government and Industry. This nationally consistent framework demonstrates Ministers' commitment to:

- optimising cost, time and resource investment;
- improving returns to investors and the community;
- proactive leadership; and
- facilitating support and ease of doing business with Government on a national basis.

Nationally consistent best practice benchmarks will allow contractors to invest resources to continuously improve their practices knowing that they will not be disadvantaged. In fact, contractors who fail to keep up with the prevailing standards will not stay competitive.

Nationally consistent performance criteria will contribute to an improved image of the Australian construction industry locally in both the public and private sectors and in overseas markets. An established, sound, consistent system for measurement of contractors, can reassure investors here and abroad that the Australian construction industry has really 'got its act together'.

BACKGROUND

Most private sector contractors in the building and construction industry provide services to a number of individual government agencies, usually within one state although sometimes in a number of states or even nationally.

The Australian Procurement & Construction Council Inc. (APCC) is involved with the process to manage the risks associated with doing business with private contractors. The APCC has recognised the need to continually consider the contracting processes used by the varying government jurisdictions (Commonwealth, State and Territory Governments) and to evaluate the impact that these processes have on both the public and private sectors of the industry.

The size and scope of government purchasing power suggests that the APCC has an opportunity to manage these risks by influencing the direction of the industry through the adoption of 'best practice' initiatives by contractors.

Best practice initiatives implemented by contractors can improve their operational and management practices in a consistent manner across the industry. Customers can be more confident that risks are better managed when they procure services from those contractors who have adopted industry acknowledged best practices.

Government agencies working with the private sector have become increasingly aware of the 'global' nature of the industry - intrastate, interstate and internationally. Responding to the realities of the market-place as responsible purchasers, agencies have been considering ways in which they may minimise risk by becoming more consistent in their procurement process. Risk may be minimised if agencies adopt internal best practice procedures and provide contractors with increased certainty through consistent and known measurement criteria.

The objective should be to enable contractors to focus more on service delivery to meet the customer's requirements rather than spending time to interpret the requirements of the current variety of prequalification systems and measurement criteria in use across Australia.

The development of a nationally consistent prequalification framework has been a focus of the APCC for the last few years. The assessment of industry participants through prequalification was a key component of the agreed '*National Action on Security of Payment in the Construction Industry*' endorsed by Commonwealth, State and Territory Ministers responsible for construction in late 1996. In addition the '*National Code of Practice for the Construction Industry, 1997*', requires a best practice commitment of contractors which will be assessed through the use of prequalification and other selection processes.

THE ROLE OF THE PREQUALIFICATION PROCESS

The Commonwealth, State and Territory Governments have agreed to use prequalification as one strategy to drive the development of a national construction industry committed to best practice, international competitiveness and the highest ethical behaviour.

The prequalification process aims to identify capable contractors before the calling of tenders.

This has two advantages:

1. It expedites the tender review process, minimising the cost of tendering to industry and governments; and
2. facilitates industry development.

The criteria for prequalification should allow reliable and objective assessments to be made of a contractor's capacity to complete a project in terms of time, cost and quality. Criteria should also be adopted to allow the identification of those contractors committed to industry reform and achievement of best practice performance.

The adoption of the prequalification process and nationally consistent prequalification benchmarks will enable the Commonwealth, State and Territory Governments to reward better performing contractors.

Wherever possible, the commitment to best practice will be tested and measured using the criteria incorporated into the prequalification process. Service providers will be expected to justify claims by reference to past performance or evidence of the implementation of appropriate systems and standards. They may also expect to be monitored, reviewed or audited during the contract period, and subject to post-contract analysis.

NATIONAL PRINCIPLES

On 2 October 1998, Commonwealth, State and Territory Ministers responsible for construction endorsed a set of principles applying to the prequalification of contractors in the construction industry. These principles form the basis for a program of national action across all government jurisdictions:

- The following eleven criteria are adopted as a national framework for prequalification criteria by all government jurisdictions responsible for construction projects:
 1. Technical capability;
 2. Financial capacity;
 3. Quality management;
 4. Occupational health safety & rehabilitation;
 5. Compliance with code of practice;
 6. Human resource management (including skill formation);
 7. Commitment to client satisfaction;
 8. Co-operative contracting and partnering;
 9. Management of environmental issues;
 10. Management for continuous improvement; and
 11. Compliance with legislative requirements.
- Jurisdictions, where prequalification of contractors applies, will base their prequalification process on all or part of these eleven national criteria.
- Within the national framework, jurisdictions, at their discretion, can apply measures which conform to their particular requirements.
- Jurisdictions will progressively implement the eleven criteria, where appropriate.
- Jurisdictions accept that the framework is a dynamic document and accordingly agree:
 - To continually review the framework with consideration of the developments in the construction industry.
 - To periodically review the appropriateness of the framework with a view to optimising the number of criteria used for prequalification.
 - That where jurisdictions propose to use criteria on an on-going basis which are outside those recommended, they should endeavour to have the criteria included in the prequalification framework through agreement by the APCC.

The National Prequalification Criteria Framework outlines the criteria identified by Government and industry as being essential for strengthening the capability of the construction industry.

PREQUALIFICATION CRITERIA - GUIDELINES

These guidelines provide a framework for setting benchmarks for the prequalification criteria. Each government jurisdiction will develop assessment measures based on this framework to suit their respective organisational and operational requirements.

For the Financial Capacity criteria assessment the APCC has agreed to a framework for undertaking a nationally consistent approach to the assessment of the financial capacity of contractors as a first step to developing nationally consistent assessment measures for the remaining prequalification criteria.

1. TECHNICAL CAPABILITY

This principle aims to ensure that if a contractor is awarded a project, the client can be confident the contractor has the capacity to complete the project on time, within budget, and to the required quality standard.

The following typical information will assist in making this assessment:

- details of projects undertaken relevant to the type of work for which prequalification is sought, as well as other types of work;
- past performance on previous projects. Such performance can be assessed from contractor performance reports and referees nominated by the client and the contractor. Past performance may include consideration of:
 - time management;
 - standard of work;
 - adherence to quality assurance;
 - management of site personnel;
 - quality of personnel;
 - co-ordination of subcontractors;
 - contract administration;
 - occupational health, safety and rehabilitation;
 - management structure including names, qualifications and professional experience of Principals, Partners, Directors and other senior staff;
 - number and classification of permanent employees;
 - details of major plant and equipment; and
 - evidence of effective life cycle costing on projects.
 - past examples of innovation, research and development activities which are relevant to the type of work being sought or the business in which the client is involved

2. FINANCIAL CAPACITY

For the successful completion of a project, the contracting company needs to maintain a sufficiently sound financial position to ensure it can meet its commitments under the contract and can meet its debts as and when they fall due. This financial assessment

process provides the purchaser with a degree of assurance that the service provider can meet these expectations.

Financial Assessment Process

The measurement of Net Tangible Assets and Quick Assets Ratio will be used as a minimum measure for short term viability and capability to undertake a certain level of work over a short term period, ie 12 months.

Where limitation of project size is considered to be a critical issue then the measures of Net Tangible Assets, Quick Assets Ratio and Annual Turnover are assessed.

When considering project value, there may also be a need to measure whether a contractor is financially at risk through a commitment to multiple projects at about the same time. Maximum annual turnover in relation to project size limitations will be used for managing this risk.

Where a longer term relationship is considered important then the additional measures of Shareholders' Equity and Profitability are taken into consideration in addition to the measures of Net Tangible Assets, Quick Assets Ratio and Annual Turnover.

The use of additional criteria by individual jurisdictions for critical and/or high risk projects should be resisted in order to achieve consistent practice around Australia. However secondary supporting criteria are available to give a second tier assessment should the initial assessment be inconclusive due to the nature of an individual project. These criteria can be used to extend the measurement process should this be deemed necessary in subsequent years.

3. QUALITY MANAGEMENT

A contractor committed to the principles of quality assurance will increase the likelihood of the project being delivered to the required quality standards.

The level of commitment by the contractor will be assessable from information sought from the contractor on its progress towards documenting and implementing the appropriate quality system.

The level of Quality Assurance sought should reflect the nature of the risk associated with a project.

4. OCCUPATIONAL HEALTH SAFETY & REHABILITATION (OHS&R)

The construction industry has a poor record relating to Occupational Health Safety & Rehabilitation (OHS&R). Improved management of OHS&R is aimed at reducing the level of accidents, curtailing lost time due to industrial disputes and increasing the industry's productivity.

Contractors can demonstrate their commitment to the development and continuous improvement of OHS&R with a specific system which addresses issues such as:

- management responsibility;
- subcontracting and purchasing;
- work method control;
- inspection and testing;

- control of non-conformance;
- corrective and preventative action;
- handling, storage, packaging, and delivery of hazardous substances;
- management of OHS&R records;
- control of OHS&R documents;
- audits;
- training;
- statistical analysis of data; and
- design control.

5. COMPLIANCE WITH CODE OF PRACTICE

Various government jurisdictions have adopted Codes of Practice that establish the standards of behaviour they expect from all parties in the construction industry when doing business with Government.

Where such a Code of Practice exists, tenderers and contractors undertake to comply with the Code. Any prequalification process should include an assessment of the contractor's performance against this undertaking. If no such Code exists, consideration could be given to assessing performance against relevant Australian Standards, viz AS2120 *Code of Tendering* and AS4121 *Code of ethics and procedures for the selection of consultants*.

6. HUMAN RESOURCE MANAGEMENT (INCLUDING SKILL FORMATION)

A well trained and appropriately skilled work-force minimises the potential for costly disputes, adds to the potential for the introduction of innovative construction processes and improves the contractor's productivity and competitiveness. This supports the need for the selection of contractors with demonstrated capability and sound performance in human resource management.

The following information provides evidence of a contractor's performance and commitment to human resource management:

- corporate policies covering employee relations, enterprise agreements, and training commitments;
- a corporate program for workplace reform initiatives;
- a skill formation and training policy;
- compliance with award requirements and statutory obligations;
- procedures for evaluating subcontractors' capabilities in industrial relations and work-force training;
- evidence of continued commitment to improvements in human resource management.

Specific indicators which can be sought from contractors include:

- lost time due to industrial disputes;
- absenteeism;
- labour turnover; and
- expenditure on skill formation / training.

7. COMMITMENT TO CLIENT SATISFACTION

The achievement of a client-focused culture will lead to long-term productivity gains for the industry and to business development by contractors.

Assessment of contractors can be based on:

- a corporate policy for development and monitoring of progress in identifying client needs;
- an established program for raising staff and employees' awareness of client needs;
- an established program for discussing client needs, priorities and preferences with clients; and
- actions taken in response to client surveys.

8. CO-OPERATIVE CONTRACTING AND PARTNERING

The 'way ahead' for the future contracting environment is to adopt a co-operative approach to contract formulation, administration and dispute resolution, minimising time and cost implications for all.

A partnering approach can improve project outcomes for all participants by creating the better levels of commitment, trust, communications, performance reviews and conflict avoidance procedures that the process involves.

Information to be evaluated includes:

- evidence of past performance in:
 - co-operation with government agencies in the administration of contracts;
 - reducing over-runs through co-operative effort;
 - ensuring timely lodging and progress of contractual claims;
 - ensuring an appropriate level of competence in staff appointed to administer contracts;
 - ensuring a non-adversarial approach to dispute resolution is adopted and followed in accordance with the contractual dispute resolution procedures; and
 - ensuring litigation is reserved as a last resort;
- statistics on past disputes referred by the contractor to arbitration and/or litigation, including the outcomes or current status of such proceedings; of particular importance is the manner in which the dispute is managed and progressed by the contractor;
- commitment to ethical conduct in dealings with subcontractors, particularly in payment of money owed to parties lower in the contractual chain;
- experience in partnering;
- commitment to the partnering concept by all levels within the contractor's organisation associated with a project;
- contribution to effective communications, development of trust and team building, on a project;
- contribution to the monitoring and review procedures for assessing achievements of project objectives;

- development of strategic long-term relationships with subcontractors and suppliers; and
- willingness to undertake contracts on a partnering basis.

9. MANAGEMENT OF ENVIRONMENTAL ISSUES

All participants in a project should be aware of, and willing to contribute to the proper consideration of environmental issues.

A contractor can demonstrate a commitment to environmental responsibility by:

- implementation of a corporate policy for management of environmental issues;
- project planning and design management to minimise and control the impact of construction projects on the environment;
- development and implementation of plans to minimise the impact of construction activities;
- development of a program to train staff and employees in management of environmental issues; and
- evidence of experience in environmental management on contracts, including recycling.

10. MANAGEMENT FOR CONTINUOUS IMPROVEMENT

On-going development in the construction industry will only occur if parties are committed to continuous improvement.

The extent of a contractor's commitment to continuous improvement can be gauged from:

- a business plan including goals with measurable outcomes, understood by all employees and targeted to meet client needs;
- recognition of the importance of data collection and the use of statistical analysis;
- a corporate plan for development and implementation of bench-marking;
- a commitment to customer and supplier surveys and a policy for responding to the findings of these surveys;
- a corporate policy on research and development, including the encouragement of improved design and/or construction processes or products; and
- evidence of a willingness to explore and pursue opportunities for the greater use of information technology.

11. COMPLIANCE WITH LEGISLATIVE REQUIREMENTS

A contractor's record of compliance with legislative requirements is indicative of the level of commitment to best practice performance.

Matters for consideration include:

- details of convictions against the organisation, including circumstances of the conviction and penalties imposed;

- details of documents that have been rejected by a planning authority, regulatory body or other organisation because of non-compliance with their requirements; and
- evidence that procedures have been established to avoid repetition of breaches and/or non-compliances.