



Industry Prequalification

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Abstract

Prequalification is a joint industry initiative, involving Transit New Zealand (Transit), the New Zealand Contractor's Federation (NZCF), and Roading New Zealand (RNZ) in which Transit calls for contractors to apply for registration as a prequalified contractor. Tenders for physical works contracts are then sought from registered contractors.

The Prequalification Trial was initiated in 2000, and commenced in July 2003. It was extended into the North Island in July 2005. The trial has been approved through to 30 June 2007.

Under prequalification Contractors apply for up to 5 work categories and one of four classification levels. Each work category has four possible quality levels, where A is the highest and D is the lowest

The Objectives of Prequalification are to:

1. Reduce tendering costs.
2. Simplify the tendering procedures and to
3. Provide consistency of tender assessment.
4. Improve Quality

Ultimately, it is expected that the Prequalification scheme will replace all existing lowest price conforming and the majority of Price Quality Method (PQM) physical works tenders.

There are currently 135 contractors who are prequalified to work on the State Highways (60% NZRF members are prequalified).

Introduction

Prequalification is a joint industry initiative, involving Transit New Zealand (Transit), the New Zealand Contractor's Federation (NZCF), and Roothing New Zealand (RNZ) in which Transit calls for contractors to apply for registration as a prequalified contractor. Tenders for physical works contracts are then sought from registered contractors.

Initially proposed by the then CEO of NZCF (John Pfahlert) in 2000 the system underwent significant industry consultation and development culminating in Land Transport NZ's (formerly Transfund) endorsement in December 2002.

Prequalification is a process in which contractors apply for and are assessed under different work categories in order to become eligible tenderers. Contractors are assessed over a broad range of preset quality standards for each category of work. Low cost, low complexity contracts for each work category will be let to the eligible tenderer with the lowest price. More complex, high risk or high cost projects will include further evaluation of contract specific attributes.

Transit's Requests for tenders specify the minimum prequalification quality performance standard that applies to that tender, and only tenderers prequalified to the specified standard (and above) may submit a tender, with all other tenderer's submissions being returned unopened.

In July 2003 Transit commenced a South Island trial of this new tendering system. The system was extended into the North Island from 01 July 2005 through to 30 June 2007.

Ultimately, it is expected that the Prequalification scheme will replace all existing lowest price conforming and the majority of Price Quality Method physical works tenders

Objectives of Prequalification

Prequalification was initiated in response to an industry desire to

1. **Reduce tendering costs.** By reducing the overall administration cost throughout the industry by both reducing suppliers' time for tender preparation and reducing Transit's time in evaluating and letting tenders
2. **Simplify** the tendering procedures and to
3. Provide **consistency** of tender assessment.

In addition Prequalification is expected to lead to an improvement in quality standards, as only contractors who achieve a predetermined performance level will be registered and eligible to submit tenders.

Over the last 2 years of the trial Transit have experience contractors obtaining higher levels of quality assurance certification, undergoing health and safety training, and traffic management training.

Effective periodic prequalification of tenderers will allow Transit to maintain records of competence, quality and experience to ensure the integrity of the tender evaluation process.

Prequalification The Journey.

Following the initial idea to develop a prequalification scheme mid 2000, the project underwent significant investigation and development, culminating in the extension of the trial in July 2005 for a further 2 years .

Stage One Development of a Conceptual Prequalification Model: Included the investigation of overseas schemes, identifying appropriate work categories, how to measure the contractor's ongoing performance and appeals procedures. Resulted in a process suitable for New Zealand suppliers.

The development included a cost / benefit analysis of the Model to determine the value of Prequalification when compared to the existing tendering procedures. A major milestone was achieved in April 2002 when the Heads of Agreement document was signed by Rick Van Barneveld (Transit), Chris Olsen (RNZ), and John Pfahlert (NZCF). The Heads of Agreement set out the protocol for the development of Prequalification for Physical Works Contracts amongst the 3 partners.

Key to the success of this phase was the regular communication between stake holders, and within their respective organisations.

Stage Two Development of Procedural Guidelines: This involved the finalisation of the prequalification model, which required achieving unanimous support from the industry prior to the development of the administration and procedural guidelines for users, development of an implementation plan for the trial including selection guidelines, tender document amendments and integration into PACE to address the ongoing performance monitoring issues.

Stage Three Development of CPP: Once the process was agreed, a Prequalification CPP was submitted to Land Transport NZ for approval. Land Transport approved the CPP in December 2002.

Stage Four undertake a working trial of the scheme: Implement the administration and procedural guidelines by calling for registrations and tendering contracts using prequalification in a selected region (South Island) within New Zealand. Ongoing monitoring / auditing of the prequalification model performance was undertaken throughout the trial, and used to streamline the process for the North Island implementation in 2005.

Stage Five North Island Expansion: The process manual was updated to incorporate best practice and improvements following the roll out of the South Island scheme. Consultation was undertaken by the three partners (Transit, RNZ, NZCF) in November 2004, prior to receiving Transit, and Land Transport board approval in January 2005. Registrations were called from North Island contractors seeking to become prequalified. These were processed between April and June, and resulted in 55 additional contractors becoming prequalified on 01 July 2005.

Stage Six Prequalification Process Development: Over the next 2 years Transit will undertake further industry consultation to ensure prequalification meets both Industry's, and Transit's needs for the future. In addition Transit would like to see prequalification extended to include professional services contracts, and as a means of working with industry to agree and develop improved processes, such as health and safety, and environmental requirements, which currently rely on referee letters, and contractors completing a self assessment of their systems.

Application and Tendering Processes

The Prequalification scheme will mean that contractors who repeatedly perform contracts of a similar nature will no longer have to submit non-price attribute information with each tender, and can instead refer to the information held in the Prequalification database. Contractors who are registered can bid for Transit work in any region (ie nationally).

Transit's physical works contracts are divided into 1 of 5 work categories, for routine works, surfacing, bridging, construction and minor works.

Contractors apply for up to 5 work categories and one of four classification levels.

Level A is the highest classification. Typically, Level A projects are technically complex, high risk, high value (>\$3m), and require the highest quality management system to ISO 9000.

Level D is the lowest classification and applies to those projects that are technically simple, routine or repetitive are considered low risk, low value (<\$0.5m) and need only a simple level of quality control i.e. TNZ: TQS2

Level B and C are intermediate levels which apply to projects that are considered to have aspects between levels A and D.

Each work category has four possible quality levels, where A is the highest and D is the lowest, The following table summarises the 20 Prequalification Classification levels available:

Work Categories	Classification Level			
	A	B	C	D
1. Routine Works (inc Provision and maintenance of signs, road markers, pavement markings, traffic signals)	1A	1B	1C	1D
2. Surfacing	2A	2B	2C	2D
3. Bridge Construction	3A	3B	3C	3D
4. Construction	4A	4B	4C	4D
5. Minor Works (inc Provision and operation of variable message signs, ATMS)	5A	5B	5C	5D

All Contractors seeking prequalification have to meet the requirements of the following 8 performance criteria.

- Quality Assurance
- Traffic Management
- Environmental Management
- Health and Safety
- Project Management
- Quantum or Size of Work
- Co-operation and Pro-active Partnering

The specific requirements for each performance criteria differ between those seeking level A, B, C or D classification levels.

Once a completed application is received by Transit, it is reviewed by the Transit office with local knowledge of the supplier, the Regional Primary Assessor (RPA). The RPA will use their local knowledge to review the application, and comment on

any anomalies (in particular the confirming letters) and endorse the application in their report to the Prequalification Evaluation team (PET).

The Prequalification Evaluation team (PET) will follow through on any anomalies reported by the Regional. They will contact the authors of the confirming letters to check references and seek clarification from the contractor if necessary. The PET may require the applicant to submit further confirming letters. The PET is responsible for recommending each application and preparing the Registration Certificate for signature by the Prequalification Review Committee (PRC).

The PRC will consider the PET's recommendation on each applicant, confirm the decision, and sign and forward the Prequalification Registration Certificate to the applicant. If the application is declined or awarded at a lower classification than the contractor applied for, the PRC will write to the contractor to explain the decision.

If a contractor considers that they have been unfairly assessed or classified, they have 14 days to appeal the decision.

Policing Poor Performance PACE and Prequalification

Suppliers performance is managed through PACE, or performance Assessment by Coordinated Evaluation.

PACE was developed following the major projects review in 1999, where consultants and contractors both requested greater consistency in the evaluation of their track record, throughout the country.

beneath the 4 PACE criteria lie a number of sub criteria (eg under management we have Skill level and competency, Risk management, Responsiveness). Suppliers are scored between 0 and 15 depending on their performance. In addition guidance notes are provided to assist evaluators in celebrating their suppliers performance against the industry standard

A supplier who scores 40% or below in any of the PACE criteria (Management, Production, Health and Safety, Administration) will be subject to a review of their performance on that contract by the Prequalification team.

Penalties for inadequate performance can apply to any or all Transit Regions and involve any of the following:

- **Warning:** any reoccurrence will lead to automatic suspension.
- **Suspension:** Prequalification withdrawn for a set period.
- **Downgrading:** Supplier required to re-submit application.
- **Rescind registration:** Prequalification withdrawn for set period and application must be resubmitted.

Business As Usual is the benchmark from which all suppliers are measured. The expectation is that the average supplier will satisfy the minimum requirements specified in our documents in most areas, there will be some slippages or imperfections. If a supplier carries out the minimum necessary to achieve the specified requirements then an average result can be expected. Areas of weakness or sub-optimal performance in one or more sub attributes will result in a score at the lower end of average. A number of weaknesses, particularly in areas that are identified as critical will result in a below average, or unacceptable PACE score.

Determining Business As Usual (BAU)

One of the key issues surrounding PACE assessments is the quantification of the expected BAU score against the suppliers performance for that project.

1. A score of **60%** for any sub attribute represents BAU
2. A score of **80%** for any sub attribute represents Best Practice, and is better than the minimum specified standard
3. A score of **100%** for any sub attribute implies the supplier has delivered perfection in that field.

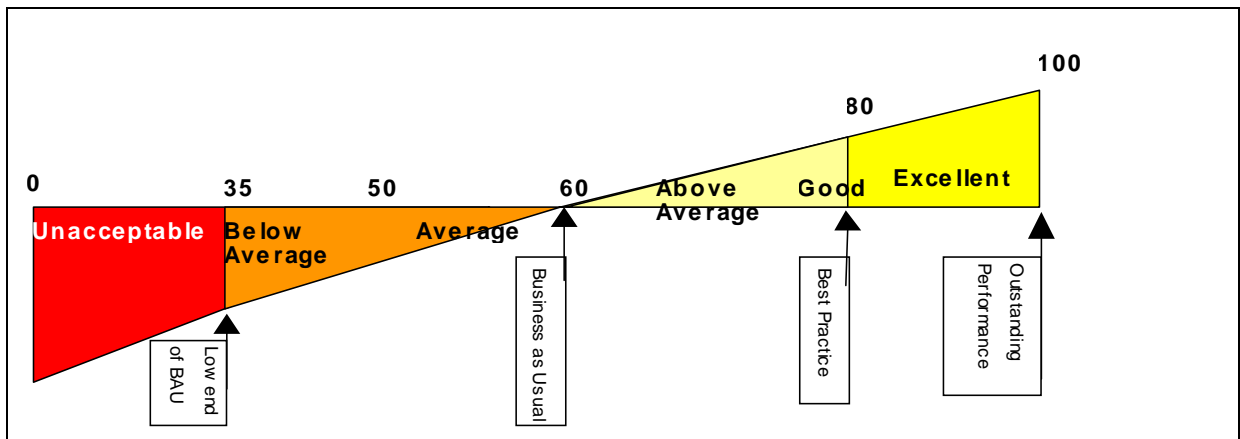


Figure 1 – Determining Supplier performance

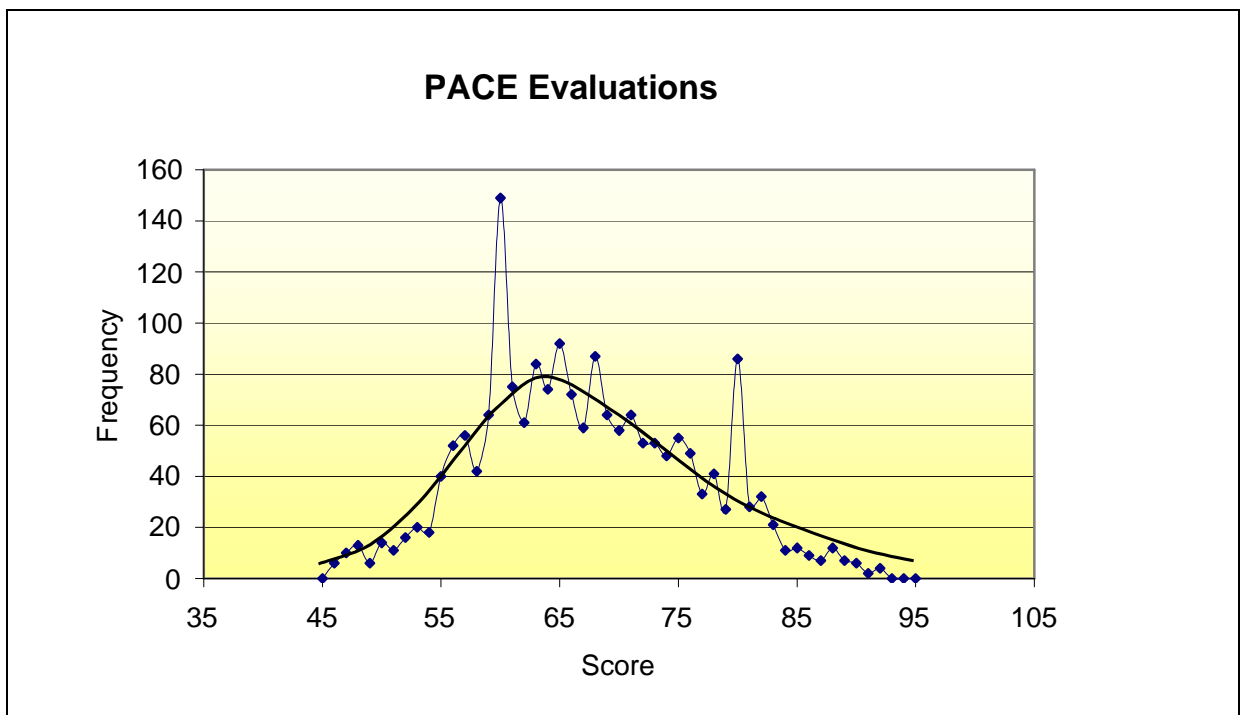


Figure 2: PACE evaluations currently in Transit database

Health and Safety System Requirements

This is an example of an industry's desire to raise the threshold in Health and Safety, and prequalification is the means for delivering this into Transit's business practices

Transit's current requirements for contractors' health and safety systems are evidenced through a self-assessment questionnaire.

Transit, in conjunction with RNZ and NZCF have agreed a set of criteria as a benchmark for any health and safety system provider, a key component of which is the reliance on external audit of the contractor's system.

The Health and Safety System Equivalence Criteria agreed with Industry are:

1. The Health and Safety (H&S) System shall meet the requirements of ACC Secondary Accreditation and the Industry specific Roding Audit Tool.
2. The H&S System shall have internal and external (ACC) evidence based audits that confirm that a contractor's health and safety system is being applied in the field, and is working.
3. The H&S System shall have appropriate mandatory competency based health and safety training for all employees for the following work categories:
 - A. Induction (all employees)
 - B. Operators
 - C. Supervisors
 - D. Management
4. The H&S System shall Benchmark the Contractor's H&S performance using robust information collected by an independent body (e.g. ACC Industry average claims record against the companies ACC claims record) and putting in place improvement plans for those contractors with below average (mean) industry performance.
5. Commitment to work with other health and safety systems providers, Clients, OSH, and ACC to develop a collective industry approach with the objective of continuously improving H&S outcomes in the roading sector.