Value Selection of Construction Tenders

# General

The purpose of this guide note is to provide guidance on the value selection of Department for Infrastructure & Transport (DIT or the Department) building construction tenders and specifically on the use of services criteria to provide:

* an understanding of the role and use of services criteria in construction contract tender evaluation
* a methodology to determine appropriate services criteria and weightings
* a process and system for the evaluation of tenders.

A critical element of project delivery is selecting the most appropriate contractors for the building project. The inclusion of services criteria in the evaluation of construction tenders for building projects contributes to the achievement of the objectives of value for money in major purchasing.

The concept of value for money includes additional factors other than a competitive price. To achieve value for money, there is general acceptance that those assessing Government tenders and the Department’s construction tenders in particular, need to consider the following issues in addition to price when making tender recommendations.

* Cost related factors including capital cost, whole of life costs and transaction costs associated with acquisition, use, holding, maintenance, and disposal.
* Non-cost factors such as fitness for purpose, quality, service and support.
* Contribution to the advancement of Government priorities.

Services criteria can be used to reflect the project and Government priorities and other non-cost factors that may be critical to a project's success by including them in the procurement process. Priorities and factors could include:

* fitness for purpose
* technical issues and compliance with specifications
* risk exposure
* experience and capability of tenderer
* tenderer capability
* the capacity to support local industries and employment in a competitive manner
* training or development opportunities to foster local expertise
* availability of maintenance and support.

# Scope

This guide note applies to the evaluation of construction tenders on all the Department’s building projects exceeding $150,000 in value where value selection has been nominated in the registration of interest and/or tender documents.

## Competencies Required

The competencies required for the tender evaluation panel comprise a range of skills encompassing:

* construction contracting knowledge
* the ability to prepare tender documents
* technical knowledge of the project and the capability to fully understand and interpret tender submissions
* sound knowledge of SA Government purchasing policies
* proficiency in the application of the tender evaluation process
* understanding of the impacts of legislation and common law.

## Related Documents

Other policies and standards that impact on this guide note include:

* Code of Practice for the South Australian Construction Industry
* Australian Standard AS 4120-1994 Code of tendering

# Use of Services Criteria

Services criteria are included in the tender evaluation process to provide greater certainty of project outcomes. The inclusion of services criteria in the tender evaluation process is based on the recognition that:

* the lowest priced conforming tender does not necessarily represent best value for money
* critical project requirements may be better satisfied by contractors who demonstrate specific skills or experience
* services evaluation criteria have a role in the realisation of Government priorities and project outcomes.

Services criteria provide a mechanism for assessing each tenderer's approach to the project. The scoring reflects the manner in which the tenderer demonstrates capability and experience and addresses methodology, resource strategy and other criteria. To ensure that services criteria are used effectively, the following strategies should be employed.

* Eligible tenderers need to be informed of the services criteria and the information required in their tender submissions.
* The information in support of services criteria needs to be requested in a format that enables measurement and comparison of all tenders.
* Issues associated with the use of services criteria include ensuring:
  + the criteria elicits meaningful information from tenderers
  + the information provided by tenderers is in a format that allows easy comparison of tenders
  + the information provided at the time of tendering is easily verified
  + tenderers understand how to respond to the criteria
  + tenderers understand at an overview level the evaluation panel’s judgement of the relative importance of services criteria to Price.

# When to use Services Criteria

The use of services criteria will depend on a number of key factors, namely:

* value of the project
* project risk profile
* project procurement method
* whether the project is of regional or strategic significance.

The table below gives an indication of the DPTI assessment of when value selection might appropriately be applied to the evaluation of construction tenders.

|  |  |  |  |
| --- | --- | --- | --- |
| Procurement Method | Projects  >$10M | High Risk Projects $4M to $10M | Projects  $0.15M to $4M |
| Traditional | Recommended | Consider | Not recommended |
| Non-traditional | Highly Recommended | Recommended | Consider |
| Fee only | Highly Recommended | Highly Recommended | Recommended |

In determining the use of services criteria, the following issues need to be considered.

* Higher value projects potentially expose Government to higher risks and therefore the application of services criteria is more appropriate.
* Projects delivered by non-traditional procurement systems allocate a higher degree of responsibility to the contractor and generally require more emphasis on project specific services criteria than traditional lump sum projects.
* For traditional procurement projects less than $4M in value, the preferred criteria is Price. However, there may be valid reasons for wishing to apply services criteria. Recommendation for approval to include services criteria should be made to the appropriate Departmental delegate.

# Selecting Evaluation Criteria

## Determine Criteria

Evaluation criteria are used to determine which tender represents best value for money. Three basic criteria are considered.

* Price
* Services (project specific objectives)
* Industry Participation Plan

The price and services criteria can be further broken down into more specific sub-criteria that are sub-weighted.

The Department’s sub-criteria for price are:

* tender sum (scored lowest to highest)
* price risk (scored relative to Price Benchmark).

## Examples of Sub-criteria for Services

Experience in and methodology for:

|  |  |
| --- | --- |
| Buildability/maintainability | Occupation management |
| Communication | Process for decanting |
| Community consultation | Professional service contractor management |
| Construction management | Programming |
| Cost management | Quality management |
| Design management | Safety |
| Documentation management | Site management |
| Ecological sustainability | Site specific considerations |
| Functionality | Staging of work |
| Incorporation of best practice | Subcontractor management |
| Innovation | Supporting equipment and systems procurement |
| Life cycle costs | User group/client management |

Contractor project team (and professional service contractor project team where applicable).

|  |  |
| --- | --- |
| Identification of key activities in terms of task and people | Past and current time related performance |
| Key managerial and supervisory personnel | Personnel back-up strategy |
| Key team members and their experience | Project organisation chart |
| Key trade packages | Referees |
| Managerial structures, roles, and reporting relationships | Other |

# Determine Criteria Weightings

Using criteria weightings is fundamental to the tender evaluation process in value selection. Weightings illustrate the relative importance of criteria and promote a good match between the contractor and the building project.

The criteria and an indication of the relative weighting of price, services and capability are published in the registration of interest and/or tender documents to provide tenderers an understanding of the relative importance of the criteria.

For recommended weightings, refer to the Tender Weighting Guidelines, available from:

<http://www.dpti.sa.gov.au/contractor_documents/tender_evaluation_guidelines>

## Criterion 1 – Price

Where a traditional procurement method is used, weighting of at least 70% is set for the price criterion based on the tender sum.

Where a non-traditional procurement method is used, weighting of at least 50% is set. Where fees only are tendered, weighting of at least 20% is set for the price criteria.

The weighting for price should generally be lower for tenders on projects requiring both innovative input and methodology. Lower weighting for price results in a high tender sum having a relatively lower impact on the evaluation outcome.

## Criterion 2 – Services (Project Specific Objectives)

Appropriate weighting for services and the project specific sub-criteria that make it up should be determined by considering the factors critical to the success of the project. Risks and opportunities associated with different types of projects may necessitate using contractors with specific skills and experience.

For traditional procurement projects, project specific services critera are used to address high risk or opportunity areas. Generally the maximum weighting for each services sub-criterion is 15%.

For non-traditional procurement or fee only projects, the weighting for project specific services criteria is usually much higher than for traditional procurement to reflect the importance of the increased role for the successful contractor. Generally there are more services sub-criteria with the weighting for each sub-criterion up to 10%.

## Criterion 3 – Industry Participation Plan

This has a minimum 15% weighting, which may be increased to 20% in some circumstances (eg Northern Adelaide Infrastructure) in accordance with the SA Government Industry Participation Ploicy (refer: http://www.industryadvocate.sa.gov.au/industry-participation-policy).

# Preparation of Tender Documents

It is essential that sufficient explanation be provided to tenderers in regard to the evaluation criteria to be used in the tender evaluation.

All evaluation criteria and sub-criteria to be used in the tender evaluation must be stated in the tender documents. To enable the evaluation of each criterion, the tenderers will be required to submit certain information that must be clearly requested through the tender documents.

Emphasis should be given to requesting quantitative information that can be objectively assessed. Requests for general or qualitative information can lead to ambiguous responses that are difficult to assess and monitor and therefore should be avoided.

In response to the services criteria, tenderers will commit to certain undertakings and a robust compliance mechanism is required to ensure that these undertakings are delivered. For example, if a tenderer states that 80% of a key resource’s time will be committed to the project then a reporting mechanism is required to substantiate that this 80% is achieved. The method for measuring and reporting compliance may be stipulated in the contract.

An indication of the relative weightings of price, services and capability criteria (as a range or an upper limit, but not precisely) should be provided.

# Evaluation of Tenders

Steps in the evaluation process are as follows.

## Pre-tender

* The Department’s project risk manager convenes tender evaluation panel at which the manager will provide an explanation of the method used to score the tender submissions and a general overview of the scoring regime. Details of the supporting measures used to score each of the sub-criteria and a checklist of issues to look for in the tender submissions will also be provided.
* The panel agrees by consensus the:
  + weightings for price, services and capability criteria
  + sub-weightings for price sub-criteria
  + sub-criteria and sub-weightings for services criteria
  + and incorporates criteria, sub-criteria and an indication of the relative weightings of criteria into registration of interest/tender documents.

## Tender Close

* The Department’s contracts management receives and schedules tenders.
* The Department’s project risk managers review tenders to ensure conforming bids have been submitted, including consideration of Workforce Participation and Industry Participation policy requirements.
* The Department’s project risk manager and budget risk advisor review tender sums submitted to determine whether there are any unacceptably low bids. In this event tender evaluation is deferred until confirmation is received from the tenderer(s) that the bid is conforming.
* The Department’s budget risk advisor reaches consensus with project cost manager on the price benchmark.
* The Department’s inputs all weightings, benchmarks and the performance scores into the value selection matrix, prepares overview summary of the services criteria information submitted by tenderers and in addition to a copy of all tenders, provides summary to members of the tender evaluation panel.

## Alternate Bids

* The Department’s project risk manager convenes the tender evaluation panel and reviews any submitted alternatives and applies DPTI alternative assessment procedures.
* The Department inputs tender sums (revised to reflect acceptable alternatives) into value selection matrix and provides matrix to members of the tender evaluation panel.
* Where an acceptable alternate bid provides a very significant variation in the tender sum from the price benchmark, the alternate bid will be fully evaluated including conformity with technical and contractual requirements in the tender documents, prior to progressing the value selection process.
* Where an acceptable alternate bid is such that there is no possibility that other tenders will be judged to offer better value, then in these circumstances, the Department reserves the right not to continue with the subsequent steps of the value selection process.

# Scoring

## Scoring Services

In preparation for a meeting of the tender evaluation panel each panel member individually evaluates each tender submission and scores the services criteria.

After considering each panel member’s individual evaluation, the panel decides the scores for the services criteria by consensus. (Individual panel member’s scores are not averaged and are not recorded.)

Scoring produces a spread of points that reflects the relative merits of each tender submission. This guide note recommends a generic scoring method for project specific services criteria. Scores are allocated across a range from 0 to 10. The score is determined by assessing submissions, for example, as follows.

|  |  |
| --- | --- |
| **Range of scores (0 to 10 points)** | |
| 9-10 | Demonstrates excellent level of capability |
| 7-8 | Demonstrates good level of capability |
| 5-6 | Demonstrates adequate capability |
| 3-4 | Demonstrates some capability |
| 1-2 | Does not adequately demonstrate capability |
| 0 | Fails to address criterion |

The matrix then applies the agreed weighting of each services criteria to calculate the final weighted score for services criteria.

## Scoring Price

The Department’s value selection matrix includes a built in formula that creates a score for the two price sub-criteria of tender price and price risk based on the tender sum.

The **tender price** sub-criterion compares the tender sum with the lowest acceptable tender sum received. The lowest acceptable tender submitted always receives the highest score of 10.

|  |  |
| --- | --- |
| **Range of scores** (Sliding score to 2 decimal points) | **% greater than the lowest acceptable  tender sum** |
| Up to 10 points | 0-9% |
| Up to 8 points | 10-19% |
| Up to 6 points | 20-39% |
| Up to 4 points | 40-69% |
| Up to 2 points | 70-99% |
| 0 points | 100 or greater |

The **price risk** sub-criterion compares the tender sum with a price benchmark. The benchmark is established by the Department’s budget risk advisor in consultation with the project’s cost manager and takes into consideration the pre-tender estimate (as the professional assessment of the construction cost) and the submitted tenders (as the market assessment of the construction cost).

Tender sums close to the benchmark receive the highest scores. Tender sums percentages below or above the price benchmark receive increasingly reduced scores. A tender sum 25% below or above the benchmark receives a score of 0.

| **Range of scores** (Sliding score to 2 decimal points) | **% Below  Price Benchmark** | **% Above  Price Benchmark** |
| --- | --- | --- |
| 10 points | 0-5% | 0-5% |
| Up to 10 points | 5-10% | 5-10% |
| Up to 9 points | 10-15% | 10-15% |
| Up to 6 points | 15-20% | 15-20% |
| Up to 3 points | 20-25% | 20-25% |
| 0 points | >25% | >25% |

The matrix then applies the agreed weighting of tender price/price risk to calculate the final weighted score for price.

## Scoring Summary

The use of the Department’s scoring matrices ensures that there is accurate calculation and recording of selection criteria scores. This is crucial for an accountable and transparent tender evaluation process.

The output from the scoring matrix at the completion of the process is a weighted score (out of 100) for each tender. The highest score generally represents the tender that is best overall value for money and the preferred tender.

The tender evaluation panel considers the results of the evaluation and scoring, all information submitted, the project context and risks and any other information which contributes to a final judgement on best value and determines the initially preferred tender.

For example, if the tender with the highest score is the lowest price within acceptable benchmarks, then this would be judged as excellent value. If the tender with the highest score also has a significantly higher price, a judgement will be made as to whether it still represents best value compared with a lower scoring/lower price tender. If the panel determines that the highest score tender represents value the tender is the initially preferred tender.

# Recommendation of Preferred Tenderer

The initially preferred tender is then appraised for technical and contractual conformance using the Department’s tender evaluation procedures. In the event that the initially preferred tender does not meet the technical and contractual requirements of the tender documents, the second ranked tenderer will be evaluated in detail.

Finally at the completion of the evaluation by the tender evaluation panel, the Department’s project risk manager will prepare a formal recommendation to the appropriate delegate for acceptance of tender.

# Monitoring Commitments made in Response to Services Criteria

The responses to services criteria from the successful tenderer will, in many cases, be proposing a course of action throughout the contract with stated outcomes. These proposals and commitments are important to the success of the project and need to be adequately monitored.

Monitoring can only be effective if tenderers are made aware that compliance is an integral part of services criteria. The importance of monitoring service criteria compliance is communicated to tenderers in the tender documents. A compliance system may be stipulated through the contract.

Failure by a contractor to follow through with tender commitments made against services criteria may be identified and reported through the Prequalification System performance reporting process.