

# Practice Note

## Reducing procurement costs

### EXPLANATORY NOTE:



This Practice Note is a product of the Construction Industry Leadership Forum. It provides a principle-based strategy with options that are available to procuring agencies in response to the identified challenge. Implementation of options may necessitate change to existing government policy or procurement rules to give them broader application.

### PRINCIPLE:

Government will adopt standardised, dynamic procurement practices to reduce duplication and facilitate real time interface with industry that creates efficiencies for Government and reduces the cost of bidding for industry.

### CURRENT CHALLENGES:

The volume and scale of projects in the infrastructure pipeline, and the time, logistical and resourcing costs associated with bidding these, may result in some contractors either electing to refrain from committing, or being unable to commit, appropriate and adequately qualified and experienced resources to respond effectively for each procurement. This creates a challenge for Government, which requires market appetite to ensure competition.

High bid costs are attributed to:

- » **Non-essential / Non-comparative data:** requirements to provide information and materials that are not highly variable across bidders, a determining factor in the evaluation outcome or relevant / required to demonstrate the bidders' capability and capacity to deliver the works (i.e. standard pre-qualifications, demonstration of compliance or certifications) or specific to a project.
- » **Insufficient market engagement:** requirements that create potentially unnecessary burden or competition upon bidders, including engaging multiple bidders primarily to maintain increased competitive tension or minimise the impact of a bidder withdrawing, prolonged procurement periods, lack of feedback during procurement resulting in redundant design effort, or lack of awareness of available pipeline of upcoming procurements.
- » **Lack of standardisation:** non-standard approach to tender documentation and process, bespoke or variable commercial and contractual principles and terms that require additional time, effort and resources to consider, appreciate and respond.

### OPTIONS:

Set out below are options available to address the principle as applicable to the particular circumstances of a project. The practices identified below should not be considered mutually exclusive. An approach could be to involve a mix of options. That mix could vary depending on contract type and procurement model.

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#### 1 **Systematise**

Develop and implement a dynamic electronic database or register for ongoing registration that:

- » enables industry to maintain and validate in real-time, non-project specific information including current project engagements, capacity, capabilities, resources, accreditations, certifications, financial status and other non-essential or non-comparative data, in lieu of contractors submitting during every procurement;
- » facilitates a new Government approach to the Registration of Interest and Expression of Interest processes – whereby contractors communicate their interest to participate in a process, validate that their database information is current and then Government uses “live” information from the database instead of through submissions from contractors; and
- » is self-governing, with industry responsible for registering, maintaining and validating information on the system.

#### 2 **Prequalification schemes**

Government will improve and utilise existing prequalification schemes, in particular with respect to information sharing on track record of registered pre-qualified contractors.

#### 3 **Collaborate**

Engage in more frequent, open and collaborative communication with industry, both during and outside of procurement periods, to:

- » reduce costs through not pursuing unfavoured or redundant designs and solutions;
- » provide ongoing accurate information about projects/procurements, including relevant political and community or stakeholder views, to allow government and industry to best align and allocate resources; and
- » benefit from industry input into geotechnical and site investigation methodology during project development to increase relevance of investigations required to sufficiently inform both parties of applicable site conditions.

#### 4 **Procurement and packaging strategy**

Establish ongoing and collaborative engagement between government and industry to develop and plan the timing, packaging and procurement approach for future major projects and packages for optimal project and market wide outcomes. Strategic factors are:

- » structured engagement with industry on upcoming opportunities in the pipeline of major projects and packages will increase understanding of optimal timing to release tenders;
- » selecting the procurement model based on the project specific circumstances and market capability;
- » procurement packaging is more efficient where aligned to industry capability and can be a more influential driver for success than aggregating scope packages to minimise interfaces;
- » bid costs will be lower where there is less design effort required upfront and packages are simpler to bid; and
- » complex interfaces in major projects or a programme of works can be effectively managed using collaborative instruments and agreements between multiple parties.

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#### 5 Reduce design and documentation requirements

- » establish standardised technical, legal and commercial terms and requirements for major projects across jurisdictions, departments and projects. Potential for these to be contained centrally or linked from the electronic register recommended in practice 1;
- » compress the volume and standardise the level of information required to demonstrate response to evaluation criteria including decrease in page limits, design outputs and management plans;
- » when considering how to streamline submission requirements, this should be balanced with any project specific requests to facilitate early mobilisation or other specific activities; and
- » transition to electronic submissions as soon as practicable.

#### 6 Creating efficiency in tender duration

Bid periods should allow sufficient opportunity for bidders to undertake appropriate preparation and due diligence without committing bidders to the time and expense of a protracted process.

Tender documentation that is fully developed and finalised prior to release, limiting addenda, and streamlining internal government approval processes following evaluation outcomes will shorten the process.

Documentation required from bidders should be considered alongside the duration of the bid period and the phasing of the bid process for bidders to prepare and respond to the phase of a tender but still provide sufficient information to enable shortlisting and preferred tenderer(s) to be selected.

Clearly match minimum tender returnables directly to evaluation criteria to focus the assessment timeframe and ensure there is sufficient information to proceed to the preferred contractor(s) stage with sufficient certainty.

Structure procurement processes so that unsuccessful bidders are relieved from the process as soon as possible and are not retained or included unnecessarily to maintain competitive tension or mitigate the risk of a bidder withdrawing from a tender process.

#### 7 Finding opportunities for shorter shortlists

Procuring agencies should:

- » undertake early market sounding to ascertain market appetite to bid on a project, to enable agencies to communicate shortlisting intentions in EOI documentation;
- » identify evaluation criteria that will allow agencies to differentiate between EOI respondents and have confidence in shortlisting for the RFP stage;
- » select shortlists of no more than three parties for each major infrastructure contract, and be prepared to select shortlists of only two. The financial and other risks of short listing two bidders must be considered, taking account of project scale and complexity, market depth and competing projects; and
- » ensure, in evaluating EOI submissions, that only companies which are demonstrably capable of delivering the project are selected for shortlisting.