

Capital Works Management Framework

Contractor PQC Service Risk Assessment



The suite of *Capital Works Management Framework* documents is available online (www.hpw.qld.gov.au):

- **The Capital Works Management Framework policy document** describes the capital works management process and contains the policy requirements.
- **Guidelines** complement the policy document and expand on various aspects of the capital works management process, particularly in terms of best practice procedures. The Prequalification (PQC) System guidelines are also included in the *Capital Works Management Framework* suite of documents.
- **Policy advice notes** provide advice on particular policy issues and/or procurement processes relating to the planning and delivery of government building projects.
- **The Online Toolbox** provides online support to assist in the implementation of best practice planning and delivery of government building projects. It includes templates, flowcharts, guides, sample documents, and links to useful information.

Contractor PQC Service Risk Assessment

Queensland Department of Housing and Public Works

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Contents

1.0 Introduction	3
1.1 Purpose	3
1.2 Definitions	3
1.3 Who should read this guideline?	3
1.4 Review of the guideline.....	3
1.5 Related documents	3
2.0 Prequalification (PQC) System	4
3.0 Identification of PQC service elements	4
4.0 Open and select tenders.....	5
5.0 PQC Service risk assessment using Table 1	5
6.0 PQC services assessed as high risk	6
7.0 Considerations in matching services with contractors	6
8.0 Confirm the PQC service risk rating shortly before tender call	7
Table 1: PQC Service Risk Assessment	8
Notes to Table 1.....	9
Attachment 1: Definition of a government building project	10
Attachment 2: High Risk/Significant (HRS) building projects	11

1.0 Introduction

1.1 Purpose

This guideline explains the process for determining the service risk rating for the various services associated with government building projects under the Queensland Government's Prequalification (PQC) System. It also facilitates the risk assessment of services for High/Risk Significant (HRS) building projects as identified in the *Capital Works Management Framework*.

Service risk rating is an important element in the tendering and selection process for building industry contractors and is used to assist in the selection of suitably qualified contractors registered under the PQC System.

1.2 Definitions

The term building industry contractor (hereafter referred to as 'contractor') is defined under the PQC System as 'an organisation or individual contracted directly to the Queensland Government to provide services in relation to government building projects'.

The terms client and client agency refer to a 'government department' as that expression is defined in the *Financial Accountability Act 2009*.

The term government building project is defined at Attachment 1.

The term High Risk/Significant (HRS) building projects is defined at Attachment 2.

The term service is defined as the scope of work contained in the contractor's contract.

1.3 Who should read this guideline?

This guideline should be read by Queensland Government officers (or their agents) responsible for the procurement and/or management and maintenance of government building projects. It may also be of interest to contractors seeking to work on government building projects.

1.4 Review of the guideline

The Department of Housing and Public Works, in consultation with government departments and industry representative bodies, will periodically review this guideline.

1.5 Related documents

The guideline is to be read in conjunction with the following policies, guidelines and procedures developed for use in the procurement of government building projects (and as amended from time to time):

- *Capital Works Management Framework* (CWMF) and associated guidelines and policy advice notes (Department of Housing and Public Works)
- *Maintenance Management Framework* (Department of Housing and Public Works)

- *Contractor PQC Tendering and Selection Process* and other PQC System documents (Department of Housing and Public Works)
- State Procurement Policy (Department of Housing and Public Works).

2.0 Prequalification (PQC) System

The Queensland Government's process for selection of contractors is based on a system of prequalification, known as the PQC System. Under the PQC System, contractors must be appropriately prequalified and registered to be eligible for invitation to tender on government building projects estimated to exceed \$1,000,000 in value.

The PQC System records entity and office details, past performance on projects and preferences for work. It also provides a comprehensive assessment of a contractor's capabilities, financial capacity, and commitment to continuous improvement against prescribed criteria including experience, systems, people and business. The system utilises self-assessment in which the contractor is assigned to one of four PQC levels ranging from base level (1) to world's best practice (4).

The various services required for the procurement of government building projects in accordance with the PQC System are correspondingly rated according to their complexity and risk. Contractors must be appropriately registered on the PQC System and have a PQC level that matches or exceeds the PQC service risk rating to be eligible to tender for a government building project. Consideration will also be given to the assessed Maximum Annualised Contract Value that a contractor may undertake.

Performance evaluations are carried out during a contract and involve completion of a standard contractor performance report. Once completed, such reports are forwarded to the PQC Registrar and the results of the performance report are recorded against the contractor's registration in the PQC Database. More information on contractor performance reporting is available in the PQC System guideline *Contractor PQC Performance Reporting*.

3.0 Identification of PQC service elements

Government building projects may require a number of separate contractor services for which there are different risk ratings. Each of these services must be assessed separately for their risk rating and the assessment process needs to be documented, transparent and auditable.

A service risk rating table is provided in this guideline to assist users of the PQC System to determine the service risk rating for a particular service. When the service risk rating for a particular service is being assessed, it is important that project managers document their decision process and record the rating in the PQC System to provide sufficient information to enable audit and/or independent review.

4.0 Open and select tenders

The PQC service risk assessment process is used in the selection of all contractors regardless of whether an open (publicly advertised) tender or a select tender process is used. More information on these tendering options is available in the PQC System guideline *Contractor PQC Tendering and Selection Process*.

The PQC service risk rating is used together with other project specific factors to identify suitably prequalified contractors from the PQC register. To be eligible to compete for a project, contractors must be appropriately prequalified on the PQC register and hold a matching or higher PQC level. It is therefore essential that the PQC service risk rating is identified clearly in the tender documentation and any associated call for tenders.

5.0 PQC Service risk assessment using Table 1

A PQC service risk assessment should be conducted as soon as possible in the planning stages of each government building project. This assessment will enable the impact of decisions and assumptions made to that point to be considered on a contract basis, and the practicalities of providing that service to be analysed.

The PQC service risk assessment (Table 1) is used to determine the service risk rating for particular services based on a consideration of the procurement system, estimated contract sum, use of project bundling (tender packages involving a number of projects on different sites¹), and a range of service attributes.

The highlighted areas of Table 1 differentiate the service characteristics of government building projects which are considered to be High Risk/Significant (as defined in Attachment 2), whereas the remainder of the table identifies service attributes that are to be used where the service characteristics do not automatically clarify the PQC service risk rating.

For PQC services, which are not considered to be High Risk/Significant (as defined in Attachment 2), project managers will need to consider the service attributes for the appropriate procurement system and determine which attributes are most relevant for their project. Most services are expected to have a PQC service risk rating of 1, 2 or 3.

The 'Assessment' column of Table 1 should be used to assist in the process and also provide a record for future reference. Generally, the PQC service risk rating will correspond to the largest group of selected attributes. However, if the most relevant service attributes are spread across a number of service risk ratings, careful consideration needs to be given to the service attribute(s) corresponding to the highest service risk rating, particularly where this (or these) may lead to the assessment of a higher rating than might otherwise be justified. It

¹ The risk assessment criterion 'bundling' is only intended to identify projects where high level skills will be required to manage people, time and resources concurrently on a number of different sites. If there is any doubt about the need for high level skills for any particular bundled project, contact the Manager, Building Policy and Practice.

is important in such circumstances to record the basis of the decision to adopt the service risk rating.

Aspects of sensitivity also need to be identified and recorded. If there is uncertainty as to the most appropriate PQC service risk rating, advice should be sought from Building Policy and Practice, Department of Housing and Public Works.

Any subsequent changes to the scope, timing or cost of the project, will affect the services to be provided and therefore require a new assessment.

It is important that the service is not over-classified as this may restrict the number of service providers eligible to compete for the work. Conversely, under-classification of the service risk rating may lead to a situation where the contractor is not technically or managerially capable of undertaking the work. This could have flow on effects in terms of time and cost over-runs, and reduced quality of work.

Table 1 is available in the PQC Database and should be used by project managers to support their decision process and record the rating in the PQC System. This will provide sufficient information to enable audit and/or independent review.

Further information on the procurement systems identified in Table 1 is provided in the CWMF guideline *Procurement Strategy and Contract Selection*.

6.0 PQC services assessed as high risk

Where a service is assessed as high risk (i.e. PQC service risk rating 3 or 4), it should be reviewed and consideration given to reducing or removing the high risk elements from the service being sought from the contractor. Approaches could include:

- incorporating the high risk elements in non-price criteria, requiring tenderers to address these elements in their tender and then giving appropriate emphasis in the selection of the contractor to the way in which the non-price criteria will be addressed (use of non-price evaluation criteria should be in accordance with the *Contractor PQC Tendering and Selection Process guideline*)
- where applicable, unbundling of certain services
- managing the high risk elements 'in-house' or under a separate contract.

7.0 Considerations in matching services with contractors

The underlying concept of the PQC System is to obtain the best match between the PQC service being provided and the service provider (in this case, the contractor). In this context, the PQC service risk rating should clearly indicate the level of challenge (and therefore required capability and capacity) anticipated in the delivery of the service.

The higher the PQC service risk rating, the greater will be the challenge in delivering the service. Accordingly, the capabilities of the contractor will need to be higher for PQC services assessed as being of higher risk.

The PQC Database provides information on each contractor's capabilities and capacity, which will assist users of the PQC System to obtain the most appropriate match of contractor and PQC service.

8.0 Confirm the PQC service risk rating shortly before tender call

The PQC service risk rating for each service should be reviewed shortly before the inviting of tenders, and the earlier service risk rating confirmed or amended. This is essential because, as the tender call for a particular service draws nearer, changes may occur in the scope, timing, cost or complexity; or more detailed information may be available than when the initial service risk assessment was undertaken.

Table 1: PQC Service Risk Assessment

	Procurement Strategy	Estimated Contract Sum	PQC Service Attributes Generally:	Assessment ⁴	PQC Service Risk Rating
Bundled ¹ >\$10M	All	>\$10M	<ul style="list-style-type: none"> • bundled projects where the total value of the projects exceeds \$10M 	<input type="checkbox"/>	3 (or 4) ⁶
Not Bundled or Bundled ≤\$10M	Traditional	<\$20M ⁵	<ul style="list-style-type: none"> • traditional design, materials and simple services trades with minimal requirement for innovation • completion date, while important, is not critical • no or low level sensitivity²– Identify sensitivity: 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	est. contract sum ≤\$5M = 1 or >\$5M = 2
			<ul style="list-style-type: none"> • a requirement to resolve industry standard construction techniques and/or buildability issues • completion date is critical and has implications • moderate level of specialist services trades required • medium level sensitivity²– Identify sensitivity: 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	2
			<ul style="list-style-type: none"> • a requirement to resolve complex construction techniques and/or buildability issues • completion date is critical and has significant implications • high level of specialist services trades required • higher than industry standard quality required • high level sensitivity²– Identify sensitivity:..... 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	3 (or 4) ⁶
		>\$20M	High Risk/Significant building project ³	<input type="checkbox"/>	3 (or 4) ⁶
	Non Traditional	<\$10M	<ul style="list-style-type: none"> • a requirement to develop documentation • a requirement to resolve industry standard construction techniques and/or buildability issues • completion date is critical and has implications • normal consultation with stakeholders required • moderate level of specialist services trades required • medium level sensitivity²– Identify sensitivity: 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	2
			<ul style="list-style-type: none"> • a requirement to develop design and documentation • a requirement to resolve complex construction techniques and/or buildability issues • completion date is critical and has significant implications • extensive consultation with stakeholders required • high level of specialist services trades required • higher than industry standard quality required • high level sensitivity²– Identify sensitivity:..... 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	3 (or 4) ⁶
>\$10M		High Risk/Significant building project ³	<input type="checkbox"/>	3 (or 4) ⁶	
	Combination of Standard Contracts >\$10M	>\$10M	<ul style="list-style-type: none"> • projects delivered utilising a combination of standard contracts and where the separate components are expected to exceed \$10M in value 	<input type="checkbox"/>	3 (or 4) ⁶

Refer to notes on separate page

Signature _____ Date ___/___/___

Notes to Table 1

- 1 Refers to projects where high level skills will be required to manage people, time and resources concurrently on a number of different sites. If there is any doubt about the need for high level skills for any particular bundled project, contact the Manager, Building Policy and Practice, Department of Housing and Public Works. The definition of a High Risk/Significant project also refers to bundling.
- 2 Sensitivity refers to identified risk issues associated with the service. Such issues would typically relate to environmental, cultural, heritage, social, workplace health and safety and public health and safety aspects of the service. The building industry contractor would require the appropriate levels of experience, systems, people and business skills to address the issues of sensitivity.
- 3 Refer definition of High Risk/Significant project
- 4 Tick the box or boxes of the most relevant service attributes and then circle the service risk rating that best corresponds to the selected attributes.
- 5 If the estimated contract sum is >\$5M under the traditional procurement strategy, the minimum PQC service risk rating must be 2.
- 6 A PQC service risk rating of 4 would be used only in unique or extraordinary circumstances. If a rating of 4 is proposed, advice should be sought from Building Policy and Practice, Department of Housing and Public Works in the first instance.

Attachment 1: Definition of a government building project

Government building project generally means a building project for a 'government department', as defined in the *Financial Accountability Act 2009*. A government building project must be owned by a government department on completion.

Work covered by this definition includes:

- a) the erection, establishment or construction of a building; or
- b) any maintenance of a building assessed as high risk/significant; or
- c) the repair, renovation, refurbishment, alteration, extension or improvement of a building or maintenance of a building combined with any of these works; or
- d) the demolition or removal of a building; or
- e) any site work (defined as building work under the *Queensland Building Services Authority Act 1991*) related to work of any kind associated with a) to d) above as a separate contract in itself;

or

- f) the provision of services generally (including but not limited to power, lighting, communications, security systems, fire, heating, ventilation, air conditioning, lifts, travelators and escalators, water supply, sewerage or drainage) under installation or supply and installation contracts associated with a) to d) above as a separate contract in itself,

but excludes:

- g) service maintenance contracts associated with a building;
- h) the construction, maintenance or repair of a road under the *Land Act 1994*;
- i) the construction, maintenance or repair of a bridge;
- j) the construction, maintenance or repair of railway tracks, signals or associated structures;
- k) the construction, maintenance or repair of harbours, wharfs and other marine structures not related to land based building work; and
- l) the construction, maintenance or repair of a dam.

The majority of government building projects involves construction of new buildings, extensions to buildings or major refurbishments to existing buildings.

Notwithstanding, this definition should be taken as a guide only and is not exhaustive. This definition does not capture grants to organisations that are external to government departments, although government departments making grants to such organisations may, at their discretion and after receiving advice from the Department of Housing and Public Works, attach conditions to a grant to give effect to specific elements of the *Capital Works Management Framework*.

Enquiries on the applicability to particular government building projects should be directed to Building Policy and Practice, Department of Housing and Public Works.

Attachment 2: High Risk/Significant (HRS) building projects

HRS building projects are those where:

- failure to meet project objectives of time, cost and quality would critically affect the delivery of services to the community; and/or
- the lack of clear and transparent processes in the procurement of high value projects may impact on Government as a whole in terms of industry development and consistency of approach.

Such projects require whole-of-Government management strategies to minimise exposure to risk.

One of the risk management strategies is the early identification and ongoing monitoring of projects considered to be high risk or significant. This requires the development of criteria/parameters that describe 'high risk and significant'.

The following criteria should be used to identify HRS projects. The features listed below are intended as a guide only, as projects may also be considered HRS by virtue of potential risk elements not defined below.