# **Pre-qualified supplier arrangements – Goods and services procurement guide**

## About pre-qualified supplier arrangements

Pre-qualification arrangements provide a list of suppliers who meet certain criteria. A procurement process needs to be undertaken by the buyer to determine which supplier offers best value for money.

Pre-qualification is often referred to as a multi-use list (under the various free trade agreements) or a register of suppliers.

Essentially, it’s a ‘list’ of suppliers who satisfy certain key selection criteria relating to their interest and capability in supplying goods and/or services.

Successful suppliers are added to a list from which a buyer can invite an offer(s) using the rules of use adopted for the arrangement.

Aggregated purchasing - Pre-qualified supplier arrangements provide administrative efficiencies and can also provide benefits from aggregated purchasing. For more information about aggregated purchasing refer to the:

* Market analysis and review - Goods and services policy and
* Aggregated purchasing – Goods and services procurement guide.

When selecting a supplier(s) from the pre-qualified arrangement, buyers access information ranging from basic business details to more comprehensive details including:

* the capability of the supplier;
* management and operating systems used by the supplier;
* financial capacity;
* areas of expertise/skills/resources;
* compliance with the [Supplier Code of Conduct](https://buyingfor.vic.gov.au/supplier-code-conduct-suppliers); and
* past performance.

The extent of information available to buyers depends on what was requested from suppliers when establishing the arrangement. The information requested will depend on the market analysis and where efficiency can be gathered through the capture of information. Criteria must be established for inclusion on the prequalified supplier arrangement.

Conversely, suppliers have an indication of:

* the organisations that may use the arrangement;
* the rules of use applied by an organisation in selecting a supplier;
* other processes associated with the operation of the arrangement (e.g. performance reporting, management issues, changed requirements, etc.); and
* in some instances, an indication of the scope of potential business.

Suppliers are therefore able to target their services to potential buyers and better prepare a submission to supply.

Note: the term pre-qualification register should not be confused with the activity of shortlisting suppliers assessed as ‘qualified’ to proceed to the next step of a procurement process.

Note that:

* the criteria for pre-qualification should align with the scope of goods and services sought;
* being pre-qualified does not guarantee a level of business.

A binding arrangement only exists once a supplier has been formally engaged and a formal contract has been executed.

## When to consider setting up a pre-qualified arrangement

The market analysis for each procurement category and the level of complexity will identify opportunities for establishing pre-qualification arrangements.

Details of pre-qualification arrangement processes, management and operation are considered further during the sourcing stages when approach to market is being determined.

Pre-qualification arrangements provide a list of suppliers who meet certain criteria. A procurement process needs to be undertaken by the buyer to determine which supplier offers best value for money.

Suggested minimum key selection criteria for suppliers based on the level of complexity of the procurement are shown in the following table:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Transactional complexity (low risk) | Transactional/Leveraged complexity | Focused/Strategic complexity |
| Company details | * Business name * Address * Contact person * ABN/ACN | * Business name * Address and office location(s) * Contact person and contact details * ABN/ACN | As per leveraged, plus:   * Relationship between parent and local company (legal/operational) * Subsidiary business relationships/trust arrangements * Legal entity references * Company philosophy/objectives/mission statement * Annual reports (min. two years) |
| Technical Capability | * Market sector(s) ability to supply | * Market sector(s) ability to supply * Past experience of relevance | As per leveraged, plus:   * Performance/deliverables associated with relevant experience |
| Financial capability |  | * Insurances * Financial viability | As per leveraged, plus:   * Financial health-check information, financial details, financial viability/status reports by external services, audit reports, liabilities, funding facilities (borrowing capacity), trading performance * Insurance details * Operating details for three-year period * Any legal action/liquidation/ administration/disputes |
| Management and staff capability |  | * Management structure * Key personnel and roles * Workplace stability * Business directions | As per leveraged, plus:   * Management structure/systems * Key personnel qualifications/experience * Professional development programs * Workload information * Stakeholder management systems |
| Compliance with the Supplier Code of Conduct | Meeting minimum ethical standards in   * Integrity, ethics and conduct * Conflict of interest; gifts, benefits and hospitality * Corporate governance * Labour and human rights * Health and safety * Environmental management |  | * As from 1 July 2017, all new suppliersare expected to commit to comply with the Code. |
| Other |  | * Professional/industry certification * Business-related legal claims (past 24 months) * Referees * Systems * Acceptance of standard contract terms and conditions | As per leveraged, plus:   * Certification under legislative/regulatory requirements, QA systems, employee relations history, ancillary interests/involvements in industry or service delivery development/environmental performance * Documented past performance feedback * Systems for performance management * Business/association memberships/ monitoring/reporting |

## Key factors supporting pre-qualification

Pre-qualification is relevant where most of the following factors apply:

* the procurement activity relates to a range of goods and services that are purchased on a regular basis;
* the exact scope and nature of individual procurements in a category of goods and services may not be fully defined but there is an indicative program (generally over a 3+ year period) of future requirements of a common nature;
* there are numerous ‘credentialed’ players in the related market sector(s) that satisfy the test of financial diligence;
* the register will streamline procurement processes; and
* the organisation has the capability to establish the prequalification arrangement, manage the risks and achieve the benefits expected.

Pre-qualification arrangements may not be appropriate in all situations.

There may be no benefit in proceeding with pre-qualification where:

* there is a single or very infrequent procurement requirement;
* a very limited supply market exists due to the level of specialised knowledge required to deliver the procurement;
* the procurement requirement is for the supply of standard ‘off-the shelf’ products or services with little opportunity to drive performance improvements, better pricing or deliverables; and
* the cost in establishing and maintaining a pre-qualification register exceeds the benefits of directly approaching the market using standard supplier engagement processes.

## Benefits of pre-qualification

The intent of pre-qualification is to give your organisation confidence that suppliers invited to bid have some relevant capability. It reduces the risk for buyers carrying out procurement activity and minimises the administrative burden of repeatedly approaching the open market for each individual procurement requirement.

A pre-qualification can:

* provide an early indication of players in the market with the potential capability and capacity to satisfy the requirements of a category of procurement activity;
* streamline supplier selection processes by applying consistent repeatable processes (forms, templates, notification, etc.);
* better manage risks for buyers who have background information on potential suppliers;
* reduce costs for suppliers by not having to prepare a detailed capability and capacity submission for each and every procurement opportunity;
* inform suppliers of potential supply opportunities; and
* drive continuous improvement by refreshing the pre-qualification criteria and pool of suppliers.

## Open and closed pre-qualification registers

An open register allows new suppliers to join at any time during the period of the arrangement.

Non-covered organisations may consider the use of closed registers.

Open registers are suited where:

* prices and rates in the market may be variable;
* the procurement requirements are broad;
* there is diverse expertise in the marketplace or there is significant movement of expertise in the marketplace;
* there are a large number of suppliers in the marketplace;
* the market is immature with the likelihood of new players emerging over time; and
* there is potential for government purchasing power to influence the market, which would be restricted if the arrangement was closed to new entrants.

Closed registers are generally suited where:

* there is a requirement for specialist expertise/skills/knowledge relevant to a particular supply market; and
* a more stable pool of suppliers facilitates innovation from partnerships, risk sharing and continuous improvement.

Deciding on the number of suppliers on a closed register is a balanced judgement between:

* optimal number of suppliers who can satisfy the requirements of the procurement and the scope of potential work
* generating a level of contestability and competition between suppliers, and
* the cost to the organisation in maintaining and refreshing the database in relation to the value derived from the procurement.

Note: For the purpose of this guide, International Agreement means any international agreements entered into by the State or the Commonwealth that applies to procurement undertaken by an organisation - Refer to the [Government procurement under International Agreements – procurement guide](https://buyingfor.vic.gov.au/guide-government-procurement-under-international-agreements).

### Informing the market

When establishing a pre-qualification register, inform the market of:

* the categories of goods and services sought;
* application requirements;
* the selection criteria (specify the criteria and weightings to be used);
* management arrangements;
* profile of buyers and the scope of potential business (where applicable);
* an indication of the rules of use applied by buyers in selecting a supplier; and
* review and refresh processes relating to the prequalification arrangement.

## Using this guide

This guide accompanies the goods and services supply policies. There are 5 supply policies:

* Governance policy
* Complexity and capability assessment policy
* Market analysis and review policy
* Market approach policy
* Contract management and disclosure policy

This guide supports the [Governance policy](https://buyingfor.vic.gov.au/governance-goods-and-services-policy-and-guides).

Refer to [Aggregated purchasing – Goods and services procurement guide](https://buyingfor.vic.gov.au/aggregated-purchasing-goods-and-services-procurement-guide) for more information about aggregated arrangements.

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