

MEMORANDUM FOR THE CABINET
BY THE HON. MINISTER OF WORKS AND HOUSING

Setting up of a Panel of Contractors for
Government Works Contracts

The Director of Public Works is soliciting approval to set up a panel of contractors who would be allowed to tender for Government works contracts. The idea is to start with a panel for construction works only. Later on, the panel will be extended to cover also other works such as the installation of electricity and water services, blacksmith and carpentry works, etc.

2. This proposal is not new. In fact, as far back as 1948 the then Minister of Works and Reconstruction advanced such a suggestion and a Press Notice inviting applications was issued. Unfortunately the scheme was not proceeded with possibly because it was limited to the reconstruction of war-damage property in "White Areas".

3. The reasons for the setting up of a panel of contractors are many and varied. At present tendering for works is completely open to anyone who cares to submit a tender. This system has only one advantage; that of securing low tender rates, possibly even cut-throat ones. Against this, there are the following grave disadvantages:

- (a) It promotes excessively keen competition often resulting in tender rates which do not permit of the workmanship, and possibly also the materials, being of the required standard.
- (b) It allows competition from non-bona fide contractors who have neither the plant nor the organization to undertake the work.
- (c) It does not exclude contractors who have no financial backing. Such men have often to borrow money at usury rates and can only keep going by quoting cheaper and cheaper rates in order to obtain contracts.
- (d) Contracts may be secured by persons who cannot even read plans, let alone working drawings such as for complex reinforced concrete structures.
- (e) No limit is imposed on the extent of the contracts for which contractors may compete. Important contracts may therefore be secured by men just setting up in business.
- (f) It makes it inadvisable to go out to tender for completed projects, such as the Housing Schemes, where speed would result from one contractor being responsible for the whole of the work.

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4. Under the present system, therefore, contracts are often awarded to inferior contractors at very cheap rates with the result that the quality of the workmanship and finish is often below standard.

5. It may be argued that the conditions of contract provide against such inferior workmanship and, if properly enforced, would safeguard against work below standard.

6. In theory this is so. But in actual practice it is difficult to enforce the specifications to the full when the contractor is either not equipped with men and plant to produce the standard of workmanship required or has secured the contract at rates which do not allow him to do so and still make a profit.

7. It should be borne in mind that because of the shortage of supervisory staff works of a major entity are often put up under the supervision of a tradesman because a foreman is not available. Strict control at all times is therefore impossible.

8. It is true that the engineer could order the demolition of the parts of the structure that are not up to the required standard. But in many instances - as for example in concrete structures - it is not possible to detect defects in finish and sometimes even in workmanship until long after the member has been completed.

9. Government is then faced with the decision of having to order the demolition of the sub-standard part and thus delay completion or of accepting inferior finish owing to pressure for early completion of the work.

10. It will also be argued that a contractor who is proved really unsuitable could be black-listed. Here again this is correct in theory but quite valueless in practice. Under existing practice there is nothing to prevent a black-listed contractor from tendering under someone else's name.

11. The only remedy that would eliminate the above handicaps is a panel of trusted and selected contractors. If this system is introduced it may be made to resemble closely the one already obtaining in Malta in the Services Works Department, and it will work as outlined hereunder:

- (i) Contracts for works will henceforth be classified into three value limits and contractors will be admitted to the panel on this basis. The panel will thus be divided into three classifications and each contractor will be allowed to tender only up to the limit in which he is placed.
- (ii) The proposed value limits to be the following:
 - (a) From £1,000 to £10,000.
 - (b) Over £10,000 to £50,000.
 - (c) Over £50,000.

/Works

Works below £1,000 will be open to competition for all contractors even if outside the panel in order to allow the small contractor to continue tendering as in the past. However, this procedure would serve as a good basis to assess the small contractor's work for his eventual inclusion in the panel.

- (iii) Contractors will be invited to apply for inclusion in the panel by means of a Press Notice. Applications will be accompanied by a Questionnaire Form showing details of work performed, items of plant owned, number of men engaged, etc. These particulars will first be confirmed from the reference given by each contractor. A Board will later examine the actual works performed by the contractors with a view to recommending (i) the eligibility for inclusion in the panel, and (ii) the appropriate classification for each contractor.
- (iv) Approved classifications will be revised from time to time and changes will be made on the basis of the work performed by the contractor for the Government or for third parties. Contractors can also apply for admission to the panel or for a change of classification.
- (v) The panel will be limited to local contractors unless a foreign firm has a working organisation already in the Island. This does not mean that foreign firms will be excluded from tendering but, before consideration can be given to their tenders, they will have to show that they are capable of carrying out the work satisfactorily. This procedure was adopted in the case of the Harbour contract.

12. It may be stressed that the setting up of a panel would result in tender rates going up as the contractors would form rings to control prices. While this is by no means certain - indeed it is improbable except for the biggest contracts for which only a few contractors would be allowed to tender - there can be no objection to contracts being placed at prices which permit good workmanship provided these prices are below a fair estimate.

13. Government is expected to set a standard and to give a good example for others to follow. In this particular case, however, the private builder is far ahead of the Government in that he calls for quotations only from those contractors who are known to be reputable and whom he can entirely trust.

14. ~~The Economic and Financial Adviser has seen this paper and supports the scheme. It is strongly recommended.~~

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