



Procurement Strategy

July 2015 – June 2018

PR02-01 (Jul15)



Foreword

Our previous Procurement Strategy was published in 2012. Since that time both Auckland Transport and the Procurement function have evolved. In 2014 the new procurement structure was implemented along with our new role and purpose. This strategy reflects these changes and supports the evolving role of procurement in Auckland Transport.

The purpose of this strategy is to demonstrate how we will proactively support the delivery of business priorities, improve commercial discipline and value for money, manage procurement reputation and risk and improve the effectiveness and efficiency of the procurement process.

The scope of this strategy encompasses the whole Procurement Lifecycle and is aligned to four key stages: Plan, Source, Implement and Manage. These are supported by the procurement functions of Category Management, Sourcing Management, Contract Management and Supplier Management.

There are some key changes in this Strategy (from previous) and these are:

- Procurement methodology (Delivery Models and Supplier Selection Methods) have been reviewed and updated.
- Updated guidelines:
 - Make up of Tender Evaluation Panel.
 - Non-price weightings.
 - Time periods for tendering.
 - Use of electronic tendering (GETS).
 - ATPACE.
- Introduction of a consistent approach to Contract Management and Supplier Management.
- A focus on stakeholder engagement and early involvement in the project initiation and planning phases.

This Procurement Strategy is an important step in the continuing development of procurement capability and the delivery of sustainable, value for money outcomes in support of Auckland Transport's organisational priorities and objectives.

Jeff Parsons

Head of Procurement
Auckland Transport

Approvals

This Procurement Strategy was reviewed and approved by the Auckland Transport Chief Executive on the 2nd of June 2015.

The Procurement Strategy has also been endorsed by the NZ Transport Agency (the Transport Agency) Board on the 14th of August 2015 and approval of the specific advanced and customised procurement procedures, highlighted in section nine of the strategy, has been obtained or is being obtained.

Why do we have a strategy?

The Auditor General in its Guidance for Public Entities sets the expectation that an organisation should develop a procurement strategy if procurement is integral to achieving its overall business strategy.

The NZ Transport Agency requires us to have a procurement strategy that documents our long term integrated approach to the procurement of transport sector activities funded under Section 20 of the Land Transport Management Act and Amendment Act 2013.

Auckland Transport designs, builds, maintains, operates and upgrades Auckland's transport infrastructure. This involves spending public money. We need to say how we will undertake our procurement activities and deliver value for money.



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1 Strategic Overview

1.1 Who we are and what we do

Auckland Transport is a Council-Controlled Organisation (CCO) of Auckland Council. We came into being in November 2010 through a process of Local Government amalgamation.

“Our task is to connect the city’s people and places with safe and sustainable transport choices that they can afford and can access easily.”¹

We design, build, maintain and upgrade Auckland’s entire transport infrastructure, excluding state highways.

Key activities:

- Construction and guardianship of transport assets including roads, road signs and footpaths, bridges, street lights, bus shelters and busways, rail and bus stations, electric trains, ferry facilities and wharves, car parking buildings and on-street parking machines.
- Planning, funding and coordinating bus, rail and ferry services.
- Managing the road network as ‘one system’ in partnership with the Transport Agency.
- Coordinating road safety and travel demand initiatives such as travel plans.
- Preparing strategic transport programmes that order by priority all planned activities.

We have guardianship of New Zealand’s highest valued group of publicly held assets, worth \$15.6b.

Partnerships:

We work closely with a wide range of partners, including: Auckland Council and its other CCO’s, the Transport Agency and KiwiRail, to give our customers a seamless, personalised experience of using the transport system and interacting with us.

1.2 What we are mandated to solve

Auckland is under pressure to accommodate an estimated 250,000 new residents within the next 10 years. The Auckland Plan (AP) also identifies the transport system as being critical to achieving its vision of being ‘the world’s most liveable city’ by 2040.

This vision is both ambitious and challenging. While the city regularly attains high world rankings for livability, its infrastructure does not rate so well due to historic under-investment, particularly in public transport.

New Zealand depends on Auckland’s economic performance. Excessive congestion at peak times is estimated to be costing our country \$1.25b each year.

To fundamentally reconstruct Auckland’s transport system for our residents and visitors, we must make bold and innovative decisions and continue accelerating the pace at which we deliver key infrastructure projects.

Auckland’s population

1902: 60,000
 1961: 500,000
 1996: 1 million
 2012: 1.5 million
 2040: 2.2 million (predicted)

1.3 Our vision, mission and values – our culture



¹ Source: Auckland Transport Annual Report 2014



1.4 How we are governed

Board of Directors: We are governed by a Board appointed by Auckland Council, with six to eight members that include two Councillors and one non-voting member nominated by the Transport Agency. All Board members serve a maximum of two, three-year terms.

Guiding responsibilities: The Board's responsibilities include:

- Negotiating the Statement of Intent (SOI) with Auckland Council.
- Actively reviewing and directing the overall strategy, policies and delegations.
- Identifying, evaluating and mitigating controllable risk factors.
- Providing leadership in relationships with key stakeholders.

Board meetings: In general, the Board holds publicly open monthly meetings, in accordance with its principle of open and transparent decision making. Closed sessions are also held to respect the need for commercially sensitive information to be protected.

Finance and Risk Committee: The Finance and Risk Committee assists the Board to fulfill its responsibilities for financial reporting, audit and risk management. It provides assurance regarding compliance with internal controls, policies and procedures.

Capital Review Committee: The Capital Review Committee monitors the capital portfolio of projects whose construction is longer than one year in duration. It identifies risks, ensures sound documentation, forecasting and reporting and other governance-related matters.

Customer Focus Committee: The Customer Focus Committee gives the Board greater input and governance oversight of initiatives to continuously improve customer service. Its initial focus is on a customer experience plan and consultation with stakeholders.

Our relationship with Auckland Council

As a CCO, we are accountable to Auckland Council (the Mayor and its 20 elected Councillors) which sets our objectives and monitors our performance. Auckland Council is assisted by the CCO Governance and External Partnerships Department and the CCO Advisory Board.

Auckland Transport, Auckland Council and its Local Boards have a three-way relationship, which is integral to achieving the goals and objectives of all three parties. The relationship operates under an agreed 'no surprises' approach. The Board keeps in mind that Auckland Council has interests wider than those of ordinary shareholders in private companies and is sensitive to the demand for accountability placed on Auckland Council from residents, ratepayers and other bodies.

Auckland Transport is subject to 14 accountability mechanisms including a SOI, an annual letter of expectations, a shareholder expectation guide, Board performance reviews and quarterly, half-yearly and annual reports. The Local Government Act 2002 requires Auckland Transport to give effect to Auckland Council's Long Term Plan (LTP) and to act consistently with relevant aspects of other plans and strategies.

Our relationship with the Transport Agency

The Government's Policy for transport is set out in the Government Policy Statement on Land Transport Funding (GPS). As the delivery agency, the Transport Agency invests in the country's transport system through the National Land Transport Fund (NLTF).

The objectives of the Transport Agency include:

- A high-quality transport system for Auckland to deliver economic growth targets.
- A 'one network' approach that views all modes and networks as part of a larger, integrated system.

A key focus is to work with us to ensure funds from the NLTF are prioritised and that Auckland has efficient and effective transport infrastructure. Improving customer service, embedding the Safer Journeys Strategy and ensuring efficient freight movement are key drivers of the NLTF 2012-2015.



1.5 Our strategic themes

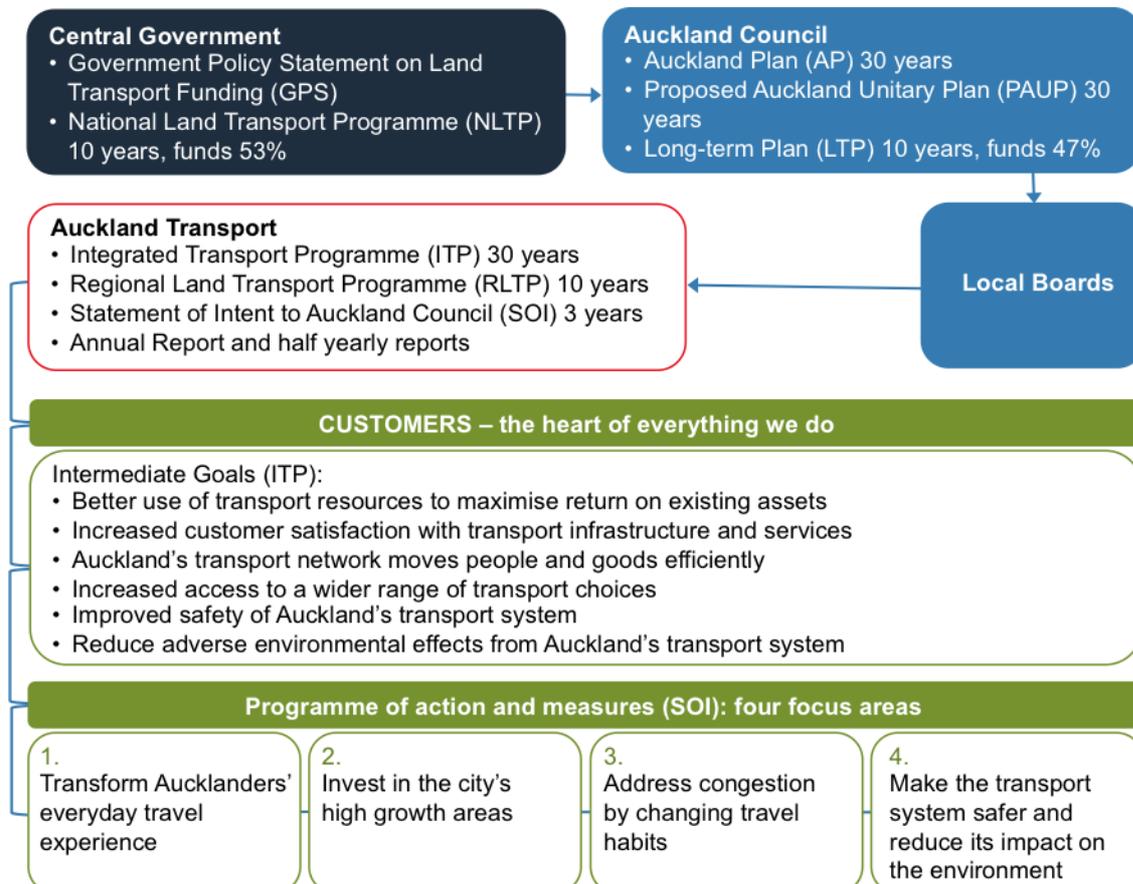
Auckland Transport has developed five strategic themes to drive the delivery of the transport components of the AP, which are illustrated below.



Procurement has an impact on the delivery of all of these strategic themes. In particular how we procure and the 'value for money' we obtain from procurement, will have a direct impact in ensuring a sustainable funding model.

We also believe that this strategy will allow us to deliver flexible and innovative procurement.

1.6 Our strategic planning framework





Documents that guide us

There are also a number of key guiding documents which set the scene and direction for the future of our procurement activities. These include:

- The **Government Policy Statement (GPS)** – produced by Central Government, the GPS sets out the Government’s priorities, objectives and funding levels for land transport. It establishes funding ranges for land transport activity classes and identifies the results expected from this investment.
- The **National Land Transport Programme (NLTP)** – produced by Central Government, the NLTP contains all the land transport activities, such as public transport services, road construction and maintenance, that the Transport Agency anticipates funding over the next three years.
- The **Auckland Plan (AP)** – produced by Auckland Council, the AP is a 30 year strategy to make Auckland ‘[the world’s most liveable city](#)’. This plan will have a major impact on Aucklanders’ lives and shape where we live and work and the transport we use. Contained within section C4 of the AP are the following decision making principles, which we will work by to achieve our outcomes; [working together](#), [valuing te Ao Māori](#), [being sustainable](#), [acting fairly](#), [making the best use of every dollar](#), and [being affordable](#).
- The **Proposed Auckland Unitary Plan (PAUP)** – produced by Auckland Council, the PAUP sets out the proposed rules for what can be done with and on land, air and water in the Auckland region. It defines where and when growth occurs by coordinating Auckland Transport’s future investment.
- The **Long Term Plan (LTP)** – produced by Auckland Council, the LTP is a 10 year plan to build a better Auckland. It identifies the need for a ‘[world class transport system that allows Aucklanders’ to travel around the city](#)’ and takes the first steps toward achieving the goal of the AP by identifying the projects and initiatives that will provide the catalyst for Auckland’s transformation and how to fund it.
- The **Integrated Transport Programme (ITP)** – produced by Auckland Transport, the ITP integrates key strategies, technical plans, programmes and project packages developed by Auckland Transport, Auckland Council, the Transport Agency and KiwiRail to deliver an integrated ‘[one system](#)’ approach for developing and operating Auckland’s transport system.
- The **Regional Land Transport Plan (RLTP)** – produced jointly by Auckland Transport and the Transport Agency, the RLTP is a ten year plan that details the transport activities to be delivered in the next three years, in a prioritised order. It also provides the basis for requests for Government funding through the Transport Agency. It covers all land transport activities (trains, trucks, cars, ferries, buses, walking and cycling) undertaken in the Auckland region by Auckland Transport, the Transport Agency and KiwiRail.
- The **Regional Public Transport Plan (RPTP)** – produced by Auckland Transport, the RPTP specifies the public transport policies and services that Auckland Transport proposes for Auckland. A service must be included in the plan in order for Auckland Transport to contract for its provision.
- The **Statement of Intent (SOI)** – produced by Auckland Transport, the SOI sets out Auckland Transport’s strategic approach and priorities for the next three years. The programme of action which forms the foundation of the SOI is sourced from the key projects and strategic priorities set out in the AP, LTP, RLTP: and the Mayor’s Letter of Expectation.
- The **Annual Report (AR)** – produced by Auckland Transport, the AR is our way of being accountable to the public. As a CCO, Auckland Transport is required to produce an AR to reflect on performance and achievements and to have financial and performance information audited.
- The **Māori Engagement Framework** – included in the AP is a specific Māori outcome: ‘[Te Hau o Te Whenua, Te Hau o Te Tangata a Māori](#)’: A Māori identity that is Auckland’s point of difference in the world. Auckland Transport’s Treaty of Waitangi obligations are given effect through our Maori Engagement Framework.



Key legislation and policy

In developing our Procurement Strategy, we have ensured consistency with our internal Procurement Policy and external requirements of:

- The Local Government Official Information and Meetings Act 1987.
- The Local Government Act 2002.
- The Local Government (Auckland Council) Act 2009.
- The Land Transport Management Act 2003 and Amendment Act 2013.
- The Public Transport Management Act 2008.
- The Official Information Act 1982.
- The Commerce Act 1986.
- The Public Finance Act 1989.
- The Electronic Transactions Act 2002.
- The Public Records Act 2005.
- The Office of the Auditor General: Procurement Guidance for Public Entities (2008).
- The Transport Agency Procurement Manual (2014 update).
- The NZ Government Rules of Sourcing (third edition 2015).
- The Ministry of Business, Innovation and Employment (MBIE) Mastering Procurement Guide (2011).

2 Procurement Operating Model

2.1 What we are trying to achieve

“Procurement is all of the business processes associated with purchasing, spanning the whole cycle from the identification of needs to the end of a service contract, or the end of the useful life and subsequent disposal of an asset”².

Our aim To achieve sustainable **‘value for money’** through collaborative relationships, that encourage and foster fair competition and innovation in the delivery of Auckland Transport’s objectives to the satisfaction of its customers.

We will achieve this by implementing a Procurement Framework that supports Auckland Transport in achieving its mission of **‘delivering effective and efficient transport solutions to our customers’**. Procurement supports this mission through its objective of **‘sustainable value through smart buying’** by:

- Proactively supporting the delivery of critical and important business priorities.
- Improving commercial discipline and **‘value for money’**.
- Managing procurement supply chain and reputational risk.
- Improving the efficiency and effectiveness of the procurement process.

Our Procurement Framework

- Procurement Policy
- Procurement Strategy
- Procurement Manual
- Procurement Guidelines
- Procurement Templates
- Procurement Reports and KPIs

Procurement supports Auckland Transport’s business in the delivery of efficient output focused solutions underpinned by **‘smart buying’** principles. We will seek to leverage the procurement opportunities as a **‘smart buyer’** to obtain economies of scale through the use and development of innovative procurement solutions. Such principles will however be balanced with the requirement to maintain a sustainable and competitive supplier market.

This Strategy is also intended to assist suppliers by:

- Providing visibility and transparency of our procurement function and how we will undertake our procurement activities.
- Making it easier for suppliers to do business with us through smarter procurement practices.
- Implementing alternative and innovative procurement models to enable us to become a **‘client of choice’** for suppliers.

We will apply the five principles of Government Procurement in all of our procurement activities. These principles are:

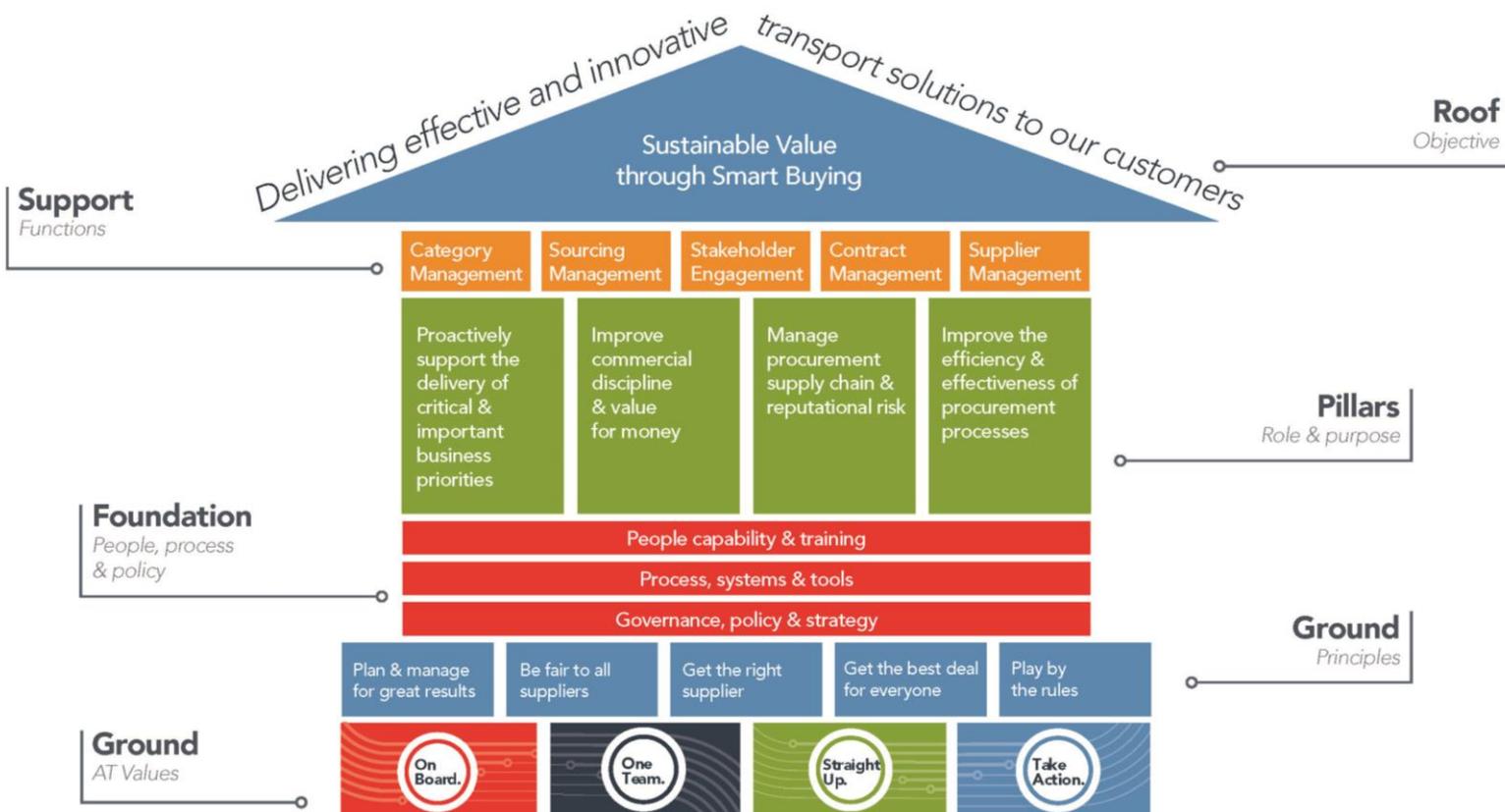


These principles are consistent with those detailed in the AP section C4 and the Auckland Council Procurement Strategy.

² Source: Office of the Auditor General: Procurement guidance for public entities – Good practice guide June 2008

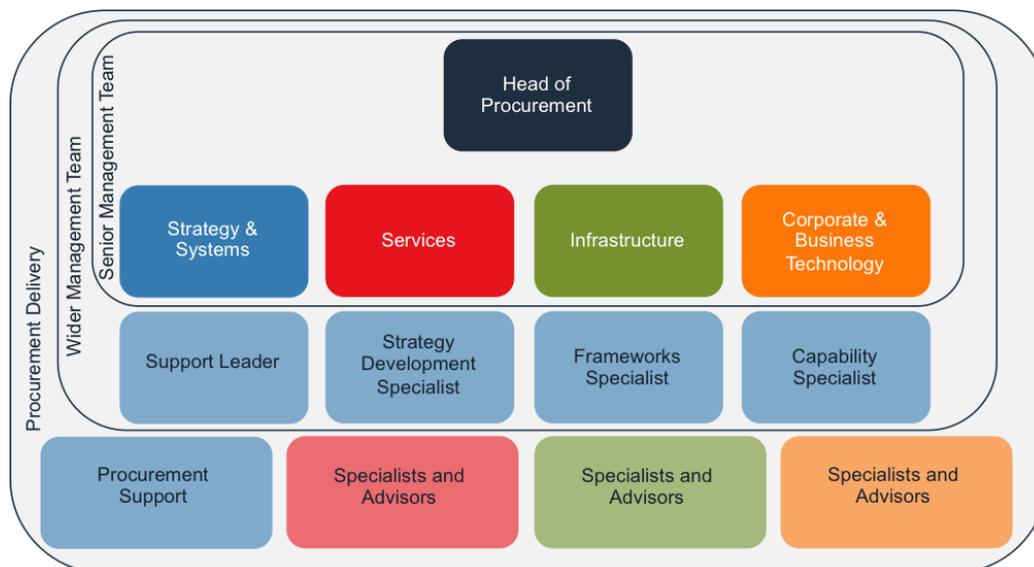


Our aims and principles are fulfilled using Auckland Transport's values, as represented in our 'Procurement House' shown below:



2.2 Our capability and capacity

We operate a mixed procurement model combining centralised and embedded dedicated staff. A key feature of this model is leveraging the balance of specialist support staff (the centralised wider management team) whilst retaining flexibility in providing customised support for individual business units (the embedded, dedicated procurement delivery staff). Governance and overall accountability for procurement outcomes sits with the Head of Procurement. The Procurement Department is organisationally located in the Finance Division and is currently structured as below:





Our procurement model has been developed to support our programme of work in the upcoming years. It acknowledges that the successful delivery of our programme will require a highly effective procurement function that understands its supplier markets, implements strategies for engaging with those markets and manages risks and supplier performance within those markets.

Historically the focus of the Procurement Department was compliance and whilst this still remains important, the wider ranging role and purpose is supported by management.

With an annual procurement spend of over \$1.0b, we are a significant procurement organisation in New Zealand. To ensure that 'value for money' is achieved, the Procurement Department and other staff within the business undertaking procurement activities will have an appropriate level of experience, expertise, and resource levels. This principle is supported by management who will ensure that we have access to sufficiently qualified professionals to undertake key procurement tasks. This also includes having sufficient numbers of qualified tender evaluators available throughout the business.

We encourage targeted learning, development and mentoring of our procurement staff through individual personal development plans. For purposes of standardisation and best practice we will align our procurement processes where appropriate with:

- The Ministry of Business, Innovation and Employment (MBIE) as the lead agency in the NZ Government Procurement Reform Programme.
- The Chartered Institute of Procurement and Supply (CIPS) as the leading international representative body for the procurement profession.
- Auckland Council and its other CCO's.
- The Transport Agency as a key funder of our activities.
- Good practice both from New Zealand and international sources.

In-house professional services and administration

In-house professional service and administration activities will be undertaken across all of our business units delivering or supporting the delivery of our outputs. The following definitions will be applied in relation to in-house professional services and administration:

- Professional Services – Services integral to the activity. For funding purposes these are treated as an input and the cost is charged directly to the activity. They are provided by a person or persons skilled in the particular field for which they are engaged.
- Administration – Costs not integral to an individual activity but must be provided to support the delivery of activities. Administration is an overhead cost incurred in the delivery of activities.

'Value for money' will be achieved by employing staff with the appropriate skill set for the role they are employed. Human Resources policies determine the remuneration and limit the number of employees that we can employ and as such limit the in-house capacity available. Notwithstanding this, we will continually review our in-house capability and, where and when appropriate, adjust its structure to ensure best value is maintained.

The determination of whether to in-house or outsource a particular activity will be made by management on the basis of resource and skills available at the time of the requirement. When outsourcing core activities part of

Sustainable procurement

In essence, sustainability is about meeting the needs of today without compromising the ability of future generations to meet their needs. Sustainability should be viewed from a social, environmental and economic context.

Sustainable procurement means that when buying goods and services we will consider:

- Strategies to avoid unnecessary consumption and that manage demand.
- Minimising environmental impacts of the goods and services over the whole of life.
- Our suppliers' socially responsible practices including compliance with legislative obligations to employees.
- Value for money over the whole of life, rather than just the initial cost.

Issues that impact sustainability will be considered in all procurements, these may include;

- Optimising the use of natural resources.
- Climate change.
- Minimising the use of hazardous substances.
- Waste minimisation.
- Job creation.
- Health and Safety.
- Equality.
- Fair pay for suppliers' staff.
- Economic regeneration.
- Building sustainable markets.
- Legal compliance.
- Public image protection and enhancement.

As part of our procurement process we will be interested in our suppliers:

- Environmental management systems.
- Employment practices.
- Corporate social responsibility practices.
- Sustainability improvements already achieved.



the focus of the engagement will be to develop the skills in-house to ensure future core capability is maintained. The benefits of maintaining in-house services include:

- Stronger ownership and a longer time view of activities.
- Greater flexibility and responsiveness.
- Strong relationships are developed with contractors and other service providers.
- Risk is easier to manage.

Transport Agency funded in-house services

In-house services carried out against the Transport Agency funded activities are subject to funding from the Transport Agency.

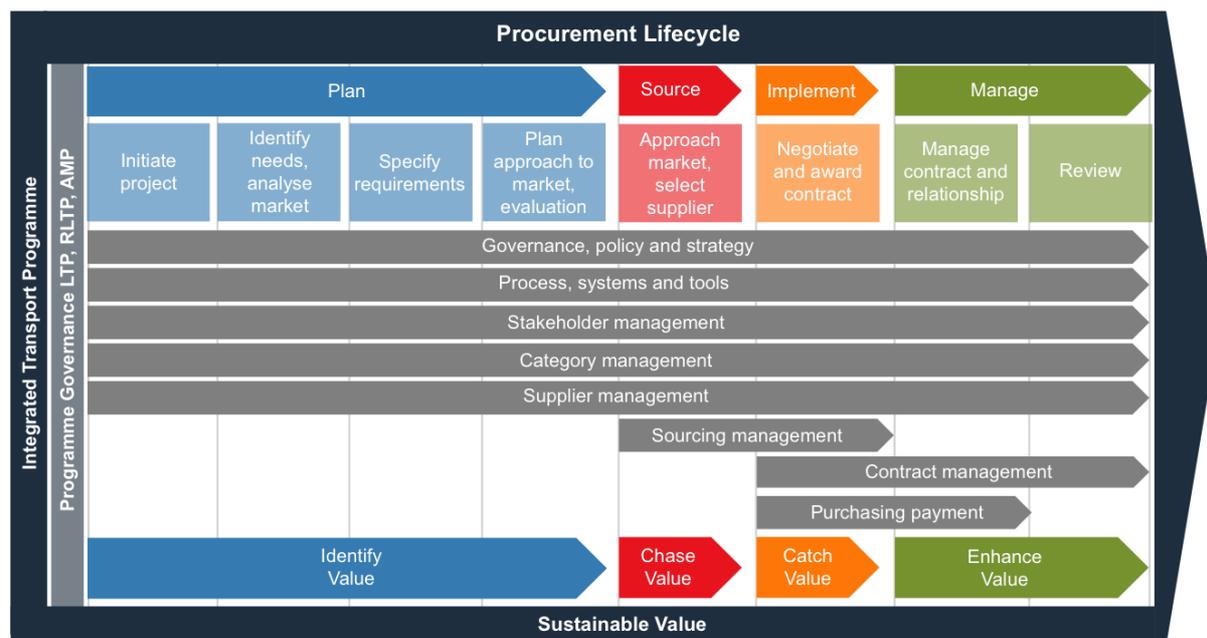
Internal professional services are recorded against the project and associated labour recoveries claimed.

From 1 July 2015, we will include the cost of providing administration support with the direct labour and materials costs of all approved transport activities. This is consistent with what has previously occurred in the case of Public Transport Services and RLTP planning activities.

3 Procurement Delivery

3.1 How we procure

Our Strategy is based on a staged strategic procurement process consistent with the MBIE Procurement Lifecycle, which divides our four key procurement processes into eight distinct, but interrelated sub-stages. These processes which are shown in the Procurement Lifecycle image below and described in our Procurement Manual, are underpinned by the four key procurement functions: **Category, Sourcing, Contract and Supplier Management** which are covered in the following sections of this Strategy.



Traditional vs. Strategic procurement

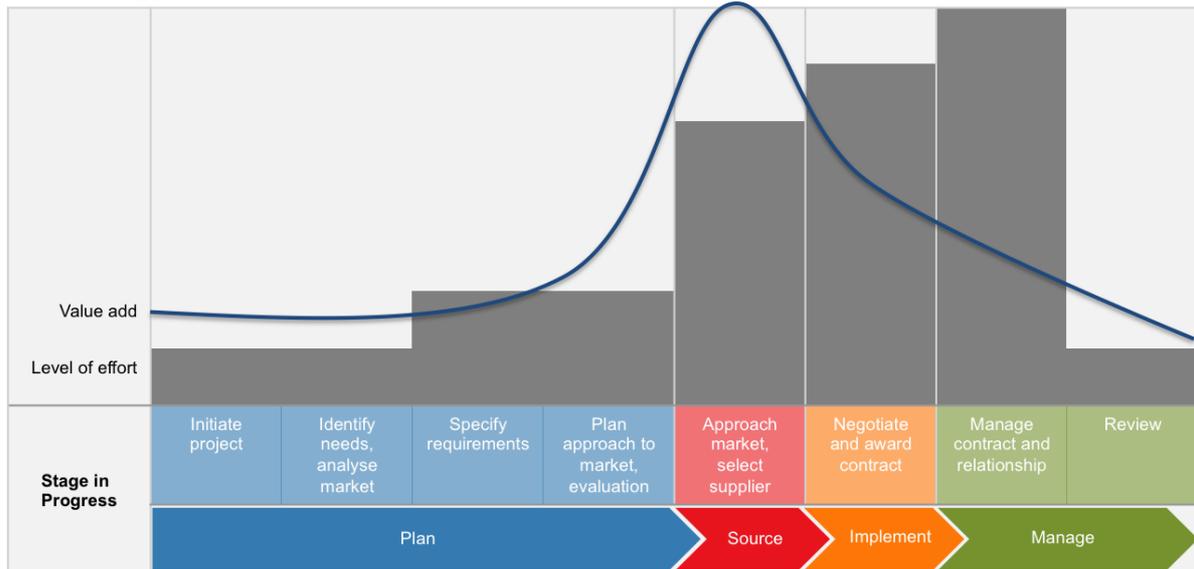
We are moving away from a traditional approach to procurement which focuses more on the sourcing phase of the lifecycle. By taking a more structured strategic approach, with a focus on planning, supported by robust and objective analysis that informs the best methodology to approach the market, optimal procurement outcomes, 'sustainable value', will be achieved.

There are several differences in the methodology and execution between the traditional and strategic approaches to procurement. A traditional approach views procurement as an administrative function for buying goods and services. A strategic approach involves understanding the importance of procurement to Auckland Transport achieving its strategic goals, by sourcing suppliers and managing relationships, to successfully deliver against organisational objectives and business needs, whilst delivering overall 'value for money'.

Whole of life thinking

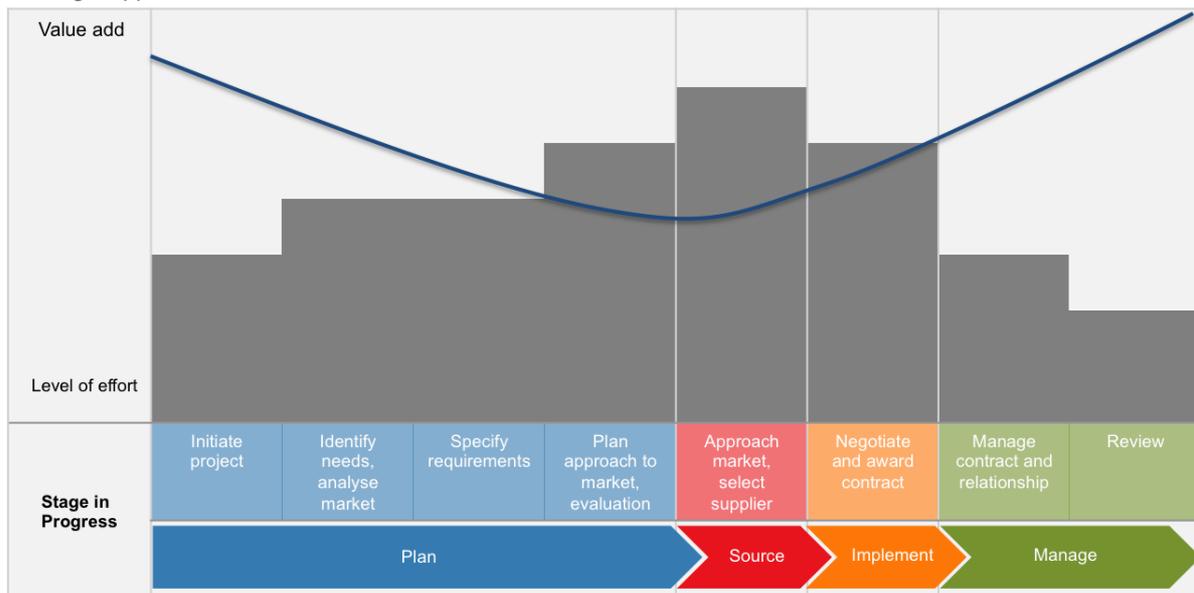
Whole of life thinking requires taking a long term view of the total cost attributable to an activity and not simply the initial purchase cost. A whole of life cost assessment will consider the social, environmental and economic impact of the outputs, any on-going maintenance and operation costs of the asset or service, and any costs associated with its disposal.

Traditional Approach to Procurement



This diagram illustrates a **traditional approach to procurement** where little time is spent on planning. Effort is generally brought to bear when it comes to approaching the market. As a consequence of insufficient analysis in the planning stages increasing levels of effort are required through contract and relationship management. If the procurement is not reviewed there is little opportunity to benefit from lessons learned.

Strategic Approach to Procurement



This diagram illustrates a **strategic approach to procurement**, which methodically works through each stage in the procurement process. The time taken to plan, research and analyse add significant value to identifying solutions that will meet the needs. A focus on relationship development and management means that less time is spent resolving issues and more time applied to assessing quality in delivery and identifying opportunities for cost savings and benefit gains. A strategic approach delivers greater value.



3.2 Our planned major projects

The LTP and RLTP outline the projects planned to be delivered in Auckland in the next ten years. The process by which the RLTP has been developed was based on a business case approach, which identifies the key problems to be addressed, the benefits that are expected to be delivered and the strategic responses that are required.

At the time of writing this strategy, the LTP and RLTP are both in the consultation phase of their cycle. The exact transport programme of works to be delivered during the period of this Strategy and the remainder of the ten years, is still to be determined.

Major Capital Projects expected to be detailed in the RLTP are shown in the table below:

City Rail Link	City Rail Link
Rail (exc. City Rail Link)	EMU Procurement completion South-west Multi-modal Airport Rapid Transit (SMART) Planning and route protection Pukekohe Station upgrade
Bus, Ferry, Multimodal	City Centre Bus improvements Manukau Bus Interchange Double Decker network mitigation works Otahuhu Bus Interchange Bus Lane improvement
Roads	Road Renewal programme Auckland Manukau Eastern Transport Initiative (AMET)I programme Albany Highway upgrade (north) Te Atatu Road improvements LED Streetlighting Intelligent Transport Systems infrastructure (JTOC, ATOC, CCTV, Incident Management Response)
Walking and Cycling	Auckland Transport's Walking and Cycling programme Footpath Renewal programme Local Board transport program
Safety	Safety initiatives including Safety and Minor Improvements, Safety Around Schools, Crash Reduction Implementation, and the Regional Safety and Safety Speed Management programmes
Transport Improvements (Growth & Intensification)	PC 12 Dury South transport implementation PC15 North-west Transformation, Massey North town centre

Auckland Transport and Auckland Council recognise that the transport programme set out in the RLTP may be constrained by funding. Auckland Transport has worked with Auckland Council and an Independent Advisory Group on Transport Funding to develop an investment plan which continues the momentum towards the transport outcomes set out in the AP. Further details of this plan are set out in the RLTP.



3.3 Our planned procurement spend

The following table shows the approximate spend per financial year by activity and procurement category. For more details of the programme, refer to the RLTP or the Procurement Forecast published on the Auckland Transport website www.at.govt.nz or www.at.govt.nz/about-us/procurement.

Activity	Procurement Category	2015 / 2016 \$m	2016 / 2017 \$m	2017 / 2018 \$m	3 Year Total \$m
City Rail Link	AC, PS	\$113.8*	\$156.5*	\$124.8*	\$395.1*
Light Rail Transit	PS	\$2.9	\$2.9	\$2.9	\$8.7
Rail (exc. City Rail Link)	PT, TO, AC, FM, PS, BT	\$174.8	\$162.6	\$160.4	\$497.9
Bus, Ferry, Multimodal	PT, TO, AC, FM, PS, BT	\$287.4*	\$411.0*	\$445.0	\$1,143.5*
Roads	AC, RM, PS, BT	\$366.6*	\$394.2*	\$380.8*	\$1,141.6*
Walking, Cycling, Travel Demand Management	AC, RM, PS	\$58.3*	\$70.3	\$91.4	\$220.0*
Safety	AC, PS, BT	\$29.5	\$29.5	\$29.5	\$88.5
Parking and Enforcement	TO, AC, FM, PS, BT	\$43.2	\$45.1	\$41.8	\$130.1
Transport Improvements (Growth & Intensification)	AC, PS	\$63.7*	\$92.4*	\$69.3	\$225.4*
Transport Planning (Basic Network)	PS	\$10.6	\$10.1	\$10.0	\$30.7
Total		\$1,150.9*	\$1,374.7*	\$1,355.9*	\$3,881.5*

Note: * indicates property spend included.

3.4 Our procurement forecast

The purpose of our Procurement Forecast is to assist us in planning our future procurement activities, improve transparency and give suppliers an early heads-up of possible contract opportunities. It will allow us to predict spend, allocate resources and start procurement activities in sufficient time to deliver the required and expected results. It will also facilitate procurement planning across Auckland Council and its CCO's by identifying common activities.

Our Procurement Forecast will be published bi-annually in April and October and will list anticipated contract opportunities with an estimated total value of over \$1m, except Transport Professional Services expenditure where forecast should be for all engagements with a value of \$300k or more.

The Procurement Forecast is indicative only and does not create a legal or binding commitment for Auckland Transport to undertake the activity.



3.5 Delivery models we use

A delivery model is the relationship established between Auckland Transport and a supplier to enable the purchase of the output required to deliver an activity. In selecting the appropriate delivery model, we will assess the activity against the following criteria:

Complexity	Innovation potential	Scale
Risk profile	Timing and urgency	Supplier market
Stakeholder requirements	Uncertainty	Level of our involvement

We will utilise a range of delivery models to procure goods and services, these are described below.

Staged

Under a staged approach, activities are delivered through a staged series of separate contracts (e.g. investigation only, design only or construction only). This is a well understood and widely used approach to procurement and is often described as the 'Traditional' approach. It is best suited to small, simple and low risk projects.

Design and construct

A traditional design and construct delivery model uses a single contract to complete the detailed design and construction. This usually involves a lump sum price arrangement where more risk is accepted by the supplier. An Early Contractor Involvement (ECI) approach engages the contractor after the initial investigations and seeks to maximise the value that can be achieved from a design and construct model. Under design and construct individual stages are generally awarded as separable portions, conditional on the successful completion of the previous portion. The exact number or separable portions will be dependent on how far the project has been developed prior to the design and construct delivery model being implemented. These approaches are best suited for medium to large projects with innovation potential. Although we have not often used this delivery model in the past, it is anticipated that this model will be used more in the future.

Shared risk

A shared risk delivery model uses an integrated team comprising of the buyer, consultants and contractors and material suppliers. The team members are incentivised to work collaboratively and impartially to deliver what is best for the project and to achieve high performance standards. Successful collaboration demands that all parties commercial interests be aligned. Risk is shared by all parties with only two possible outcomes to working together: either all parties succeed, or all parties fail. No team member can win at the expense of another. An Alliance is an example of the shared risk delivery model and is best suited to large, complex and high risk projects.

Supplier panel

A supplier panel delivery model appoints a group of suppliers that, as a panel, offer the best combination of skills and experience required to deliver a specified group of outputs. The supplier panel model uses a two-stage process. In the first stage, suppliers are appointed to the panel through a competitive process. In the second stage, tasks are allocated to panel members. Tasks may be allocated to a preferred panel member by either direct appointment, or through a competitive process involving two or more panel members.

Public Transport Operating Model (PTOM) partnership

PTOM is a new delivery model created as a result of amendment to the Land Transport Management Act in 2013. The PTOM delivery model sets the framework for building more effective public private partnerships with public transport service operators that focus on customer needs. This will include a mix of collaborative planning, joint investment and risk and reward sharing.

Collaborative

Under a collaborative delivery model, activities are delivered by leveraging arrangements already put in place by other organisations, including MBIE and Auckland Council and its CCO's. Common

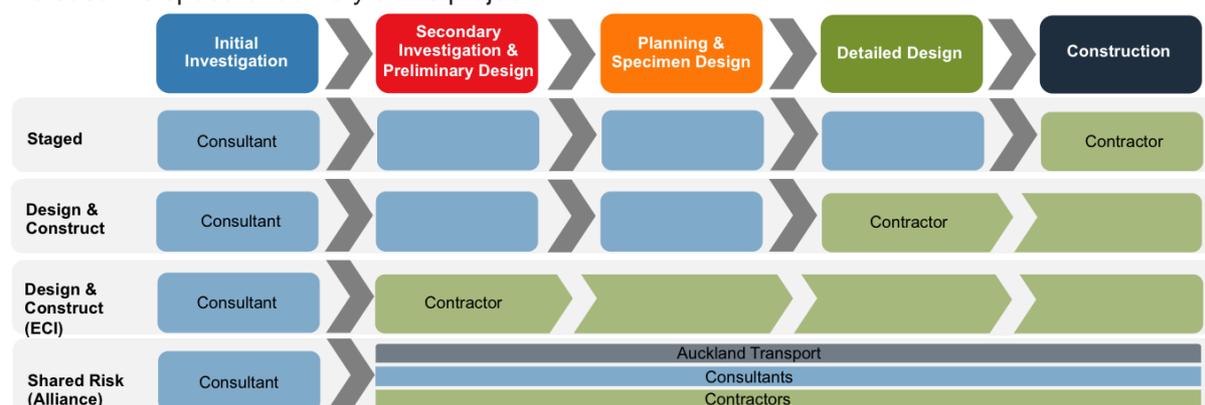
collaborative arrangements include All of Government (AoG) contracts, Syndicated and Common Capability contracts. We will look to utilise these contracts where appropriate as it is expected that these contracts will offer direct savings as well as a reduction in procurement overheads.

Note 1: Shared risk and Supplier panel are considered advanced delivery models by the Transport Agency. Use of these models for Transport Agency funded activities will require specific approval by the Transport Agency.

Note 2: A Public Private Partnership (PPP) financing model may be used where an Auckland Transport or private business venture is funded and operated through a partnership between Auckland Transport and one or more private sector companies.

A practical application of delivery models

The diagram below illustrates the main differences between the staged, design and construct and shared risk delivery models from a conceptual construction perspective. As the complexity of the delivery model increases the number of contracts decreases. This in turn creates an opportunity to increase the speed of delivery of the project.



3.6 Maximum contract terms

The term of a contract describes the length of time a particular contract is operational. This includes any allowable extensions after the initial term.

We will apply the following maximum contract terms to our contracts. Use of longer contract terms in exceptional circumstances will require specific approval by the Head of Procurement.

Contract Type	Maximum Term
Capital expenditure	The time to complete the works
Operational expenditure – with the exception of the below	5 years
Public Transport contracts not procured under PTOM	6 years
Regional road and streetlight maintenance and renewals, and technical support	8 years
Public Transport rail operator contract	15 years
PTOM like-for-like transitional contracts	12 years
PTOM commercial units and units procured through open tender	9 years
PTOM units procured through direct appointment	6 years
Operational leases	Based on ‘value for money’



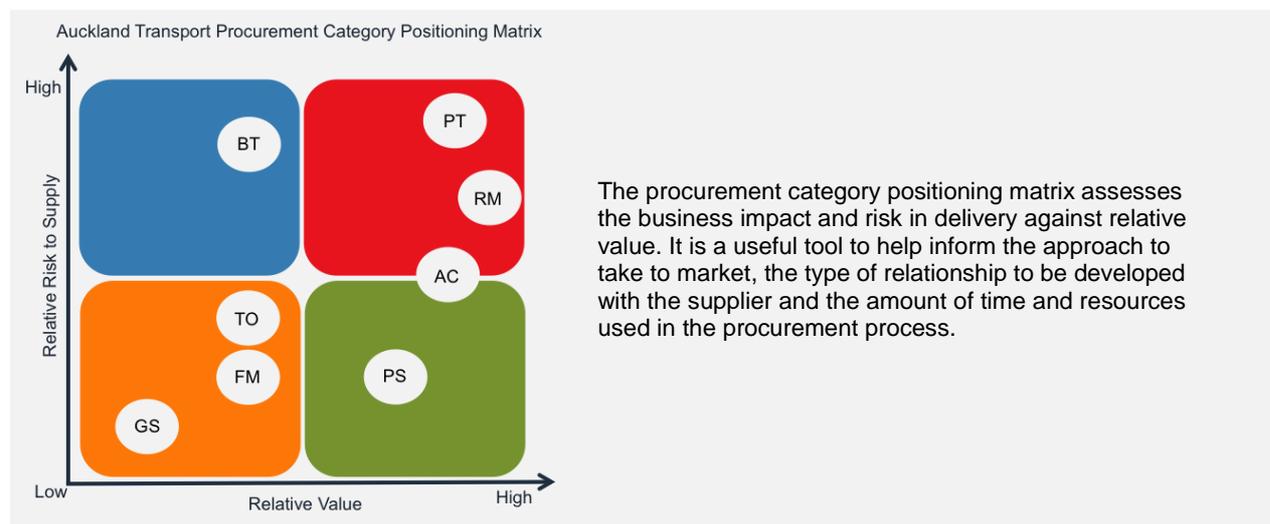
4 Category Management

4.1 Our category approach

We have adopted a category management based approach to procurement, which acknowledges a combination of organisational structure, the uniqueness of individual category requirements and supplier markets. This will also aid us in focusing on an 'all of business' cross functional approach to procurement rather than a siloed approach.

The procurement categories described below form the basis for the development of Procurement Category Plans and the reporting of spend data.

Indicative Annual Auckland Transport Category Profile			
Corporate (4%)		Technology (5%)	
Category	% of Spend	Category	% of Spend
Corporate Goods and Services (GS)	4%	Business Technology (BT)	5%
Infrastructure (59%)		Services (32%)	
Category	% of Spend	Category	% of Spend
Asset Construction (AC)	30%	Public Transport Service Delivery (PT)	30%
Road Corridor Maintenance (RM)	22%	Transport Operations (TO)	2%
Facilities Maintenance (FM)	1%		
Transport Professional Services (PS)	6%		



Supply Position	Description	Value / Risk	Approach	Arrangements
Strategic Critical (Strategic)	Specialist services / goods Limited number of suppliers	High / High	Manage suppliers	Medium to long term contracts Contingency planning
Strategic Security (Bottleneck)	Strategically important Shortage of reliable suppliers	Low / High	Ensure supply	Long term contracts Consider alternatives
Tactical Profit (Leverage)	Many potential suppliers	High / Low	Drive savings	Short term contracts On-going active sourcing for competition
Tactical Acquisition (Tactical)	Routine purchase Many potential suppliers	Low / Low	Minimal attention	One-off contracts / Purchase orders E-purchasing / Purchasing cards



4.2 Corporate categories

Corporate Goods and Services (GS)

Category Description	The GS category includes the provision of corporate goods and services which do not fit into any other category and are procured in order to support the entire Auckland Transport organisation. This category includes: corporate supplies, utilities, fleet vehicles, finance, procurement, legal, property, human resources, communications and marketing professional services.		
Sub Categories	Business Services	Finance	Human Resources
	Marketing and Advertising	Utilities	
Accountability	Finance Division – Procurement Department supported by applicable business departments		
Indicative Annual Spend	\$52m (4%)	Category Positioning	Tactical Acquisition (Tactical)
Delivery Models	Staged, Supplier Panel and Collaborative		
Supplier Market	<p>The GS category has an established market with multiple organisations competing on price and service.</p> <p>With the exception of some specialist category areas, the supplier market is generally unrestricted, with low barriers to entry and competition from both the public and private sector.</p>		
Procurement Approach	<p>'Value for money' will be achieved through the reduction of transaction costs and simplification of procurement activities. Generally shorter term agreements are better suited to this category so that flexibility can be maintained in a low risk competitive market.</p> <p>There remains good opportunity to utilise supplier panels and collaborative contracts where available and to leverage demand with Auckland Council and its other CCOs.</p>		

4.3 Infrastructure categories

Asset Construction (AC)

Category Description	The AC category includes construction projects or programmes of work necessary to bring new transport assets or transport facilities into service.		
Sub Categories	Major Asset Construction	Minor Asset Construction	
Accountability	Infrastructure Division – Construction, Investment & Development and Roothing Groups		
Indicative Annual Spend	\$390m (30%)	Category Positioning	Strategic Critical (Strategic) & Tactical Profit (Leverage)
Delivery Models	Staged, Design & Construct, Shared Risk and Supplier Panel		
Supplier Market	<p>The AC category has a mature well established supplier market with multiple organisations competing strongly on price and service.</p> <p>There are several large, highly resourced suppliers competing for large projects, however high entry cost can be a barrier to the entry for new suppliers wanting to compete for such projects. A number of suppliers are available for smaller projects or to act as subcontractors to the larger suppliers.</p> <p>The supplier market is generally unrestricted with market competition from other central and local government organisations as well as private industry.</p>		



Procurement Approach	<p>'Value for money' will be achieved through the use of collaborative contracting, reduction in administrative overheads, focus on delivery and the selection of the most appropriate delivery model.</p> <p>We have implemented a prequalification system for this category and will be looking at further improvements to this system. The use of an annual supplier panel, supported by the prequalification system, for minor works (<\$300k) has proven successful, as has leveraging the regional road maintenance contracts when appropriate.</p> <p>We expect to make greater use of the design and construct delivery model, including ECI in the future.</p>
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Road Corridor Maintenance (RM)

Category Description	The RM category includes maintenance and renewal activities within the road corridor and town centres. Includes: local roads, footpaths, at grade carparks, cycle ways, bridges, retaining walls, guardrails, signs, street lights. Excludes: excludes bulk storm water systems.		
Sub Categories	Road Maintenance	Street Light Maintenance	
Accountability	Infrastructure Division – Road Corridor Group		
Indicative Annual Spend	\$286m (22%)	Category Positioning	Strategic Critical (Strategic)
Delivery Models	Staged, Design & Construct, Shared Risk and Collaborative		
Supplier Market	<p>The RM category has a mature well established supplier market with multiple organisations competing strongly on price and service, including some interest from off-shore firms.</p> <p>Despite high entry costs the supplier market is generally unrestricted with several large, highly resourced suppliers. Street lighting contractors are required to be approved by the network owner and must employ technicians with approved work type competencies.</p> <p>Market competition exists from other central and local government organisation as well as private industry.</p>		
Procurement Approach	<p>'Value for money' will be achieved through a consistent regional approach to contracting using collaboration and a focus on delivery.</p> <p>We have successfully implemented ten regional road maintenance and renewal and five regional street light maintenance and renewal contracts on a longer 4+2+2 or 4+1+1 terms. Competition has been maintained by limiting the number of contracts any one supplier can hold.</p> <p>Cross organisational collaboration also occurs between Auckland Council, Watercare and utility providers to ensure coordination of activities in the road corridor. The maintenance providers may also be called upon to carry out minor construction activities in the road corridor.</p> <p>This procurement approach is consistent with the recommendations of the 2011 Road Maintenance Task Force and 2012 Road Efficiency Group.</p>		

Facilities Maintenance (FM)

Category Description	The FM category includes maintenance and renewal of all Auckland Transport facilities not covered under the RM category. It includes: public transport facilities (bus stations and stops, rail stations, ferry terminals and wharfs), parking buildings and equipment and other Auckland Transport owned buildings and property.		
Sub Categories	Building Maintenance	Cleaning	Property Maintenance
Accountability	Auckland Transport Metro Division – Rail, Bus, Ferry Departments and Transport Services Division – Parking Services Department supported by Property Operations Department and Procurement Department (corporate accommodation)		



Indicative Annual Spend	\$13m (1%)	Category Positioning	Tactical Acquisition (Tactical)
Delivery Models	Staged, Supplier Panel and Collaborative		
Supplier Market	<p>The FM category has an established market with multiple organisations competing on price and service.</p> <p>With the exception of some specialist category areas, the supplier market is generally unrestricted, with low barriers to entry and competition from both the public and private sector.</p>		
Procurement Approach	<p>'Value for money' will be achieved through the reduction of transaction costs through business wide regional based maintenance and renewal contracts. Generally, shorter term agreements will be better suited to this category so that flexibility can be maintained in a low risk competitive market, however in specialist areas longer term contracts will be established.</p> <p>There remains good opportunity to utilise supplier panels and collaborative contracts where available and to leverage demand with Auckland Council and its other CCOs.</p>		

Transport Professional Services (PS)

Category Description	The PS category includes all engineering and transport related professional services typically provided by consulting engineers to the Infrastructure, ATMetro, Transport Services, and Strategy and Planning divisions. This includes transport strategy or policy development, planning, investigation and design services.		
Sub Categories	Design	Engineering	Management
	Planning	Research	Review
Accountability	Finance Division – Procurement function supported by applicable business departments		
Indicative Annual Spend	\$78m (6%)	Category Positioning	Tactical Profit (Leverage)
Delivery Models	Staged, Supplier Panel and Collaborative		
Supplier Market	<p>The PS category has an active well established supplier market with multiple organisations competing strongly on price and service.</p> <p>There are several large, highly resourced suppliers who deliver across multiple disciplines and many smaller to medium sized suppliers who specialise in specific services.</p> <p>Except for some specialist areas, the supplier market is generally unrestricted with low barriers to entry and has market competition from both public and private sector.</p>		
Procurement Approach	<p>'Value for money' will be achieved by developing and maintaining competitive tension in the supplier market and reducing transaction costs through business wide regional based contracts.</p> <p>We have successfully implemented three regional road corridor technical support service supplier panels with longer 4+2+2 terms and a traffic engineering supplier panel. As these panels come to the end of their terms it is expected that some rationalisation of these panels will occur, allowing a more business wide approach to procurement to occur.</p> <p>We have also established a supplier register for this category to gain a greater understanding of the supplier market and its capabilities. Access to join this register is available to all suppliers through our website.</p> <p>There remains opportunity to utilise supplier panels and collaborative contracts where available and to leverage demand with Auckland Council and its other CCOs.</p>		



4.4 Technology categories

Business Technology (BT)

Category Description	The BT category includes provision and support of all business technology and communication network systems, equipment and services. It includes: technology hardware and software, communication network systems, CCTV, traffic signals, electronic information signs, ticketing and pay and display equipment and intelligent transport systems (route scheduling, real-time and ticketing) and associated professional services.		
Sub Categories	Hardware	Software & Applications	Technology Operations
	Technology Professional Services		
Accountability	Business Technology Division		
Indicative Annual Spend	\$65m (5%)	Category Positioning	Strategic Security (Bottleneck)
Delivery Models	Staged, Design & Construct, Supplier Panel and Collaborative		
Supplier Market	<p>The BT category market is relatively constrained within NZ, with a limited number of key players who are able to provide the level of support required by our business. These suppliers are comprised of both global powerhouses and small niche service providers.</p> <p>As technology becomes more embedded in the daily operation of our business, the supply base will expand to incorporate an increased number of less traditional technology providers.</p>		
Procurement Approach	<p>'Value for money' will be achieved by taking a flexible approach to procurement which recognises the increasing impact of technology across our business and the rapidly changing nature of the market.</p> <p>Commodity based and common technology requirements will be procured through traditional means, but more complex and specialised systems will need careful planning as price tension may be limited and the cost of changing suppliers will be prohibitive.</p> <p>Within the common technology market there remains good opportunity to utilise supplier panels and collaborative contracts where available, and to leverage demand with Auckland Council and its other CCOs.</p>		

4.5 Services categories

Public Transport Service Delivery (PT)

Category Description	The PT category includes the provision and operation of rail, light rail, bus and ferry public transport services including concessionary fare subsidy schemes such as total mobility, super gold and general fare subsidies (senior, child and tertiary fares discounts). Also includes associated access agreements and maintenance of Auckland Transport owned rolling stock, vehicles and ferries.		
Sub Categories	Bus	Fare Subsidies	Ferry
	Light Rail	Rail	
Accountability	Auckland Transport Metro Division – Rail, Bus, Ferry Departments supported by the Auckland Transport Metro Commercial Department		
Indicative Annual Spend	\$390m (30%)	Category Positioning	Strategic Critical (Strategic)
Delivery Models	Staged and PTOM Partnership		



Supplier Market	<p>The supplier market for the PT category is constrained, with bus services limited to major cities and Wellington being the only other region with metropolitan rail and ferry services.</p> <p>The markets are dominated by a few, or in some cases one, major operator with a number of small-to-medium sized operators. There are significant barriers to entry due to the substantial capital outlay required to enter the market.</p>
Procurement Approach	<p>'Value for money' will be obtained by implementing contracts under the PTOM partnership delivery model, which aims to reduce the per passenger subsidy by growing the commerciality of public transport services.</p> <p>This collaborative approach recognises that we and our suppliers, are reliant on each other for delivering affordable public transport services that our customers want to use.</p>

Transport Operations (TO)

Category Description	The TO category includes operational services at all Auckland Transport facilities. Includes: security services, parking enforcement and HOP retail services.		
Sub Categories	Harbourmaster	HOP Retail	Parking
	Security	Walking and Cycling	
Accountability	Auckland Transport Metro Division – Rail, Bus, Ferry Departments, Transport Services Division – Parking Services, Network Operations & Safety and ATOC Departments and Finance Division – Auckland Transport HOP Department		
Indicative Annual Spend	\$26m (2%)	Category Positioning	Tactical Acquisition (Tactical)
Delivery Models	Staged and Collaborative		
Supplier Market	<p>The TO category has an established market with multiple organisations competing on price and service.</p> <p>With the exception of some specialist category areas, the supplier market is generally unrestricted, with low barriers to entry and competition from both the public and private sector.</p>		
Procurement Approach	<p>'Value for money' will be achieved through the reduction of transaction costs through business wide regional based contracts. Generally shorter term agreements will be better suited to this category so that flexibility can be maintained in a low risk competitive market, however in specialist areas longer term contracts will be established.</p> <p>There may be opportunity to utilise collaborative contracts where available and to leverage demand with Auckland Council and its other CCOs.</p>		



5 Sourcing Management

5.1 Sourcing principles

Every procurement opportunity must be commenced from a default position of an open competitive competition, in which all potential suppliers have a fair opportunity to compete. This encourages competition which leads to better 'value for money' and stimulates innovative ideas and solutions.

Notwithstanding this, there are occasions where 'value for money' will best be achieved through a closed contest or direct appointment selection, this is discussed later in this section.

In all instances the process and methodology to be followed, a statement outlining the 'value for money' context, and the impact on the supplier market will be required to be documented in the Procurement Plan or Supplier Selection Recommendation.

Value for money

The principle of 'value for money' is about getting the best possible outcome over the whole of life of the goods, services or works. Selecting the most appropriate procurement process that is proportionate to the value, risk and complexity of the procurement will help achieve 'value for money'. Good procurement is about being risk aware, not necessarily risk averse.

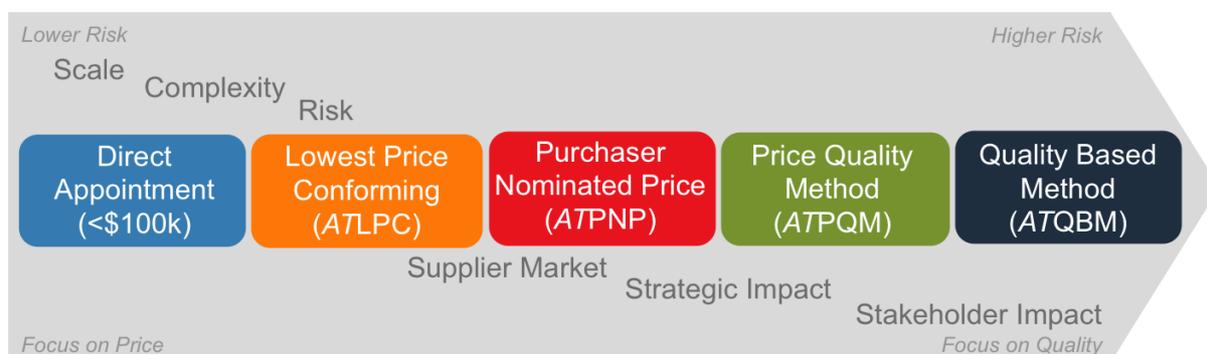
5.2 Supplier selection methods

The determination of which supplier selection method will be used will depend on the relative importance of price and quality:

- Focus on price – the suppliers are ranked by price. The preferred supplier will be the supplier with the lowest price that meets all the quality requirements.
- Focus on both price and quality – the quality attributes of the suppliers are graded and the preferred supplier is selected by balancing price and quality.
- Focus on quality – the preferred supplier is selected on the basis of quality, with price being negotiated afterwards.

The appropriate price and quality weightings in supplier selection will be determined by the need to obtain best 'value for money'. Where the scope of work is well defined, the resources available in the market place are well matched and an accurate estimate of cost can be provided, price may be sufficient to distinguish suppliers. As the complexity of the activities or the level of risk transferred to the supplier increases, or where achievement of standards becomes more important, the emphasis on quality over price will become more pronounced.

Factors which influence the supplier selection method and resulting attribute weightings used are included in the diagram below:



Based on these factors we will evaluate and select suppliers using one of the supplier selection methods outlined in the above diagram and outlined in the following paragraphs.



Direct Appointment

Direct appointment is the simplest of all the supplier selection methods. It involves the selection of a single supplier and the negotiation of commercial terms directly with that supplier for an agreed scope of works or services.

This supplier selection method is normally reserved for contracts with low value and low risk contracts, where there is a limited supplier market or level of expertise, or where there is significant 'value for money' benefit in direct appointing.

In all cases, the rationale behind selection of the supplier will be documented through individual Supplier Selection Recommendations or Procurement Plans. When selecting a supplier using direct appointment, we will use the following evaluation procedure:

Step 1 - Undertake market research	<ul style="list-style-type: none"> To determine potential suppliers with capability and skills in activities of the same or similar nature
Step 2 - Identify preferred supplier	<ul style="list-style-type: none"> Select on the basis of the supplier's price and ability to deliver the scopes and requirements (if the contract value >\$50k obtain multiple quotes to verify value for money)
Step 3 - Negotiate contract terms	<ul style="list-style-type: none"> With the preferred supplier and establish an agreement that is designed to obtain the best value for money

Note: Where a supplier register, prequalification register or supplier panel has been established for a particular discipline, step 1 will not be required, as selection will be made from the register or panel.

Lowest Price Conforming (ATLPC)

ATLPC will be used where it is determined that best 'value for money' will be obtained by having suppliers compete on price alone and there is no desire to pay a premium for additional quality. The preferred supplier is the one that offers the lowest price and meets all the minimum requirements, including quality, as set out in the tender.

This supplier selection method should only be used for contracts with low value, low risk that are fully specified. When selecting a supplier using ATLPC, we will use the following evaluation procedure:

Step 1 - Procurement open tender box	<ul style="list-style-type: none"> Compliance check undertaken Responses ranked in ascending order based on price Procurement provide TEP with responses
Step 2 - TEP evaluate all proposals (except for alternative responses)	<ul style="list-style-type: none"> Commence with the lowest priced response Determine that the response conforms to the RFP's scope and requirements Evaluate each non-price attribute on a pass/fail basis against established criteria Reject any response that fails against an attribute Cease evaluating responses when the first conforming response is identified
Step 3 - TEP evaluate alternative responses	<ul style="list-style-type: none"> Evaluate all alternative responses (regardless of price) in accordance with the second, third, fourth bullets in Step 2 Evaluate in accordance with the relevant rules Determine any added value premium Deduct any added value premium from the price of the alternative response
Step 4 - TEP identify successful supplier	<ul style="list-style-type: none"> The successful supplier will be the one that presents the response that is within the RFP's scope and requirements, passes on all non-price attributes and has the lowest price after deducting any added value premium Tender Evaluation Report completed and approved Advise and debrief successful and unsuccessful suppliers

Purchaser Nominated Price (ATPNP)

ATPNP will be used where the outputs required are difficult to specify or may be completed to a varying degree and where the price to be paid has already been determined.

'Value for money' will be obtained by selecting the supplier that provides the best proposal for the price set out in the tender. The best proposal will be determined on the basis of the non-price attributes and any differences that the competing suppliers offer in terms of quantum of output.

ATPNP will typically be used for activities such as strategies, studies and investigations. When selecting a supplier using ATPNP, we will use the following evaluation procedure:



Step 1 - Procurement open tender box	<ul style="list-style-type: none"> Compliance check undertaken Procurement provide TEP with responses
Step 2 - TEP grade the non-price attributes	<ul style="list-style-type: none"> Conformance check to determine response is within RFP scope and requirements Evaluate any pre-conditions TEP grade non-price attributes for each response from 0 to 100 or pass/fail Reject any response that fails against a precondition or graded attribute
Step 3 (optional) - TEP shortlist based on non-price attributes	<ul style="list-style-type: none"> Shortlist to be undertaken in accordance with tender conditions
Step 4 (optional) - Presentations by suppliers	<ul style="list-style-type: none"> Re-grade non-price attributes where appropriate Resubmission of price by supplier if needed
Step 5 - TEP finalise the non-price attribute grades	<ul style="list-style-type: none"> Enter grades into ATPNP evaluation sheet Calculate the non-price attribute weighted sum
Step 6 - TEP identify preferred supplier(s) and negotiate	<ul style="list-style-type: none"> Produce weighted sum rank Select supplier(s) to be involved in negotiation process (preferred supplier(s)) Negotiation to be undertaken in accordance with tender conditions
Step 7 - TEP identify successful supplier	<ul style="list-style-type: none"> The successful supplier will be the one that presents the response that is within the RFP's scope and requirements, passes on all non-price attributes and has the highest weighted sum of the non-price attribute grades, and/or offers the best value for money outcome after negotiation Tender Evaluation Report completed and approved Advise and debrief successful and unsuccessful suppliers

Price Quality Method (ATPQM)

ATPQM is a supplier selection method where the quality attributes of suppliers who meet the tenders requirements are graded and the preferred supplier is selected by balancing price and quality through the use of a formula.

ATPQM will be used where it is determined that best 'value for money' will be obtained by having suppliers compete on both price and quality and selecting the supplier that offers the best combination of the two. The process that we use to determine how additional quality is to be valued (i.e. the attribute weightings) will be clearly stated in each tender. When selecting a supplier using ATPQM, we will use the following evaluation procedure:

Step 1 - Procurement open tender box	<ul style="list-style-type: none"> Compliance check undertaken Procurement provide TEP with non-price responses Procurement provide TEP with price range of compliant responses
Step 2 - TEP grade the non-price attributes	<ul style="list-style-type: none"> Conformance check to determine response is within RFP scope and requirements Evaluate any pre-conditions TEP grade non-price attributes for each response from 0 to 100 or pass/fail Reject any response that fails against a precondition or graded attribute
Step 3 (optional) - TEP shortlist based on non-price attributes	<ul style="list-style-type: none"> Shortlist to be undertaken in accordance with tender conditions
Step 4 (optional) - Presentations by suppliers	<ul style="list-style-type: none"> Re-grade non-price attributes where appropriate Resubmission of price by supplier if needed
Step 5 - TEP finalise the non-price attribute grades	<ul style="list-style-type: none"> Enter grades into ATPQM evaluation sheet Procurement to provide TEP with lowest conforming price Lowest conforming price used as estimate for Supplier Quality Premium (SQP) calculation Review SQP (consider scaling)
Step 6 - TEP calculate the added value premium	<ul style="list-style-type: none"> Calculate the added value premium for any alternative tender Calculate any added value premium applicable to the alternative response TEP confirm (lock-in) SQP including any added value premium
Step 7 - TEP undertake price evaluation and due diligence	<ul style="list-style-type: none"> Procurement provides price responses to TEP Conformance check to determine response is within RFP scope and requirements TEP performs price evaluation (if lowest price changes TEP recalculate SQP)
Step 8 (optional) - Refine scope and seek Best and Final Offer	<ul style="list-style-type: none"> Non price attribute scores may be adjusted if impacted by the scope (if lowest price changes TEP recalculate SQP)
Step 9 - TEP identify preferred supplier(s) and negotiate	<ul style="list-style-type: none"> Produce combined price quality rank Select supplier(s) to be involved in negotiation process (preferred supplier(s)) Negotiation to be undertaken in accordance with tender conditions
Step 10 - TEP identify successful supplier	<ul style="list-style-type: none"> The successful supplier will be the one that presents the response that is within the RFP's scope and requirements, passes on all non-price attributes and has the lowest price after deducting the SQP and any added value premium and/or offers the best value for money outcome after negotiation Tender Evaluation Report completed and approved Advise and debrief successful and unsuccessful suppliers

Steps 1-6 will be completed prior to the TEP receiving price responses



Quality Based Method (ATQBM)

ATQBM is a supplier selection method where the quality attributes of suppliers whose proposals meet the tenders' requirements are graded and the preferred supplier is selected solely on that basis. Under this approach, suppliers usually provide a price with their tender, which forms the starting point for subsequent price negotiations.

ATQBM will be used where it is determined that best 'value for money' will be obtained by selecting the supplier on the basis of quality alone. There is no competition on price.

Traditionally, this approach has been limited to professional services contracts, but this approach may also be used on some technology contracts or construction, ECI and Alliance contracts where the scope of the outputs cannot be fully described or would be difficult to price. When selecting a supplier using ATQBM, we will use the following evaluation procedure:

Step 1 - Procurement open tender box	<ul style="list-style-type: none"> • Compliance check undertaken • Procurement provide TEP with non-price responses • Procurement provide TEP with price range of compliant responses
Step 2 - TEP grade the non-price attributes	<ul style="list-style-type: none"> • Conformance check to determine response is within RFP scope and requirements • Evaluate any pre-conditions • TEP grade non-price attributes for each response from 0 to 100 or pass/fail • Reject any response that fails against a precondition or graded attribute
Step 3 (optional) - TEP shortlist based on non-price attributes	<ul style="list-style-type: none"> • Shortlist to be undertaken in accordance with tender conditions
Step 4 (optional) - Presentations by suppliers	<ul style="list-style-type: none"> • Re-grade non-price attributes where appropriate • Resubmission of price by supplier if needed
Step 5 - TEP finalise the non-price attribute grades	<ul style="list-style-type: none"> • Enter grades into ATQBM evaluation sheet • Calculate the non-price attribute weighted sum • Produce weighted sum rank
Step 6 (optional) - Refine scope and seek Best and Final Offer	<ul style="list-style-type: none"> • Non price attribute scores may be adjusted if impacted by the scope
Step 7 - TEP identify preferred supplier(s) and negotiate	<ul style="list-style-type: none"> • Select supplier(s) to be involved in negotiation process (preferred supplier(s)) • Procurement provides price responses for preferred suppliers • Negotiation to be undertaken in accordance with tender conditions
Step 8 - TEP identify successful supplier	<ul style="list-style-type: none"> • The successful supplier will be the one that presents the response that is within the RFP's scope and requirements, passes on all non-price attributes and has the highest weighted sum of the non price attribute grades, and an acceptable price, and/or offers the best value for money outcome after negotiation • Tender Evaluation Report completed and approved • Advise and debrief successful and unsuccessful suppliers

Steps 1-5 will be completed prior to the TEP receiving price responses

5.3 Preconditions and non-price attributes

Preconditions

Preconditions, sometimes called prequalifying criteria, are prerequisite requirements that must be met. The purpose of preconditions is to eliminate suppliers who do not have the minimum capacity or capability to deliver the contract, not to limit market competition.

Preconditions will be stated in such a way that it can be easily determined whether the supplier meets or does not meet the precondition. Failure to fully meet any precondition will result in the suppliers' offer being rejected and removed from any further evaluation.



Non-price attributes

We will evaluate proposals using the following non-price attributes for all supplier selection methods:

Mandatory	Capability	The supplier's capability in areas relevant to the outputs being purchased.
	Skills	The competence of the personnel that the supplier proposes to use in areas relevant to the outputs being purchased.
	Methodology	The procedures the supplier proposes to use to achieve the specified end result.
Optional	Track Record	The supplier's record of delivering works or services to the quality standards required, on time and within budget.
	Resources	The equipment, including facilities and intellectual property that the supplier proposes to use to deliver the outputs.
	Functional Requirements	The ability of the supplier's solution to meet the functional or technical specifications required.
	Health and Safety*	The ability of the supplier to meet the required Health and Safety standards.
	Financial Viability*	The supplier's ability to access the financial resources required to deliver the outputs to be purchased.

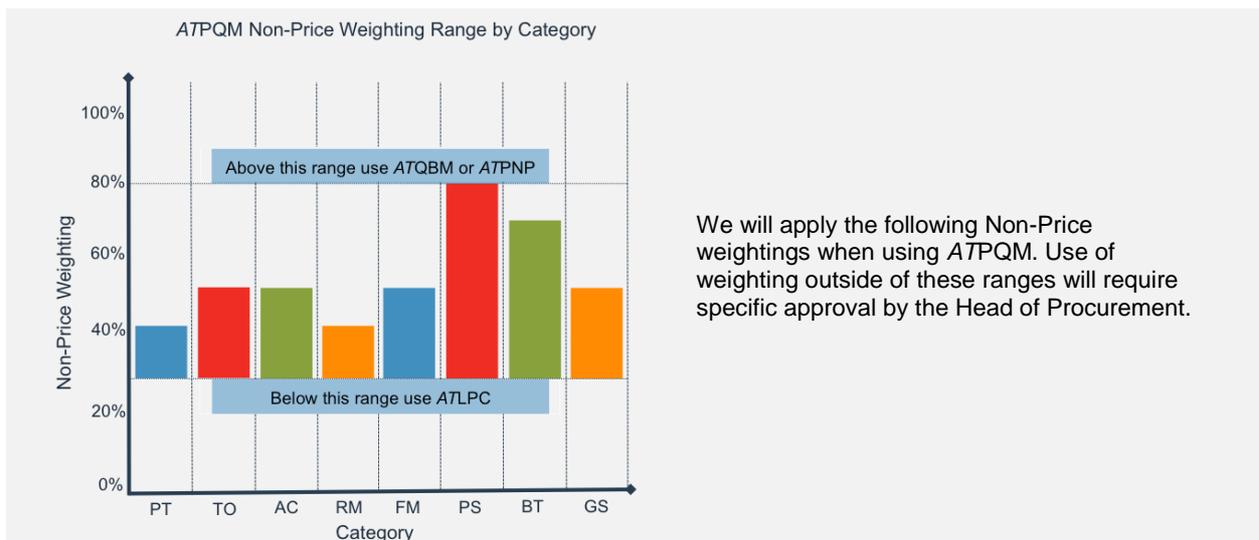
Note*: Health and Safety and Financial Viability will be assessed on a pass/fail basis only.

We will ensure that the evaluation of tenders is structured, robust and transparent by describing in the tender documents which attributes will be evaluated, the weighting to be applied to each attribute, or whether the attribute will be assessed as a pass/fail.

Non-price weighting for ATPQM tenders

We allow a combined non-price weighting of between 30% and 80% to be applied to the non-price attributes under ATPQM. When using ATPQM we will:

- Undertake a sensitivity analysis to ensure the weightings set will result in a realistic Supplier Quality Premium (SQP).
- Ensure there is an awareness of potential resultant SQP prior to the outset of the tender process.
- Consider the use of LPC when low price non-price weightings (less than 40%) are planned to be used.
- Consider the use of Quality Based Method (QBM) to remove the potential price risk of a resultant high SQP, when high non-price weightings (greater than 70%) are planned to be used.
- Consider scaling the resultant SQP's where a non-price evaluation results in what is considered an unrealistic SQP. This should only be undertaken in exceptional circumstances and reasons will be fully documented in the Tender Evaluation Report.



5.4 Systems supporting supplier selection

Supplier registers

A supplier register gives potential suppliers the opportunity to indicate their interest and capability in particular work categories. The use of a supplier register also mitigates some of the negative perceptions that closed contests and direct appointment can create in an open and competitive market and provides business units with an indication of the market within a particular work category.

Where a particular work category is covered by a supplier register it is mandatory to select suppliers from the register when undertaking a procurement using direct appointment or a closed contest tender.

We have implemented a supplier register for Transport Professional Service providers. We also see potential for other registers in categories located in the Tactical Profit (Leverage) and Tactical Acquisition (Tactical) quadrants of the category positioning matrix.

Supplier and Prequalification Registers

The presence of a Supplier or Prequalification Register does not:

- Create a contractual or legal relationship with the supplier.
- Remove the need to follow normal procurement processes.
- Guarantee the award of any work to the supplier.

Prequalification registers

Prequalification is a joint buyer and supplier 'value for money' initiative aimed at simplifying the tender process, reducing tendering costs and encouraging on-going supplier performance.

Prequalification involves suppliers being assessed over a range of quality criteria and then being registered for specific types and sizes of work. Tenders covered by prequalification would then specify the minimum prequalification level required as a precondition for a supplier to submit a tender.

Generally a supplier would not be required to resubmit information assessed as part of the prequalification as part of their tender response.

Suppliers will be monitored for compliance against their prequalification level as part of our supplier performance management system. Supplier prequalification levels may rise, fall or remain unchanged depending on performance.

Where a particular work category is covered by a prequalification system it is mandatory to select suppliers from the system when undertaking a procurement using the direct appointment or closed contest tender.

We have implemented a prequalification register for Asset Construction works and currently have multiple suppliers prequalified on the system. It is also expected that a standalone Health and Safety prequalification register will be in place in the first quarter of the 2015/16 financial year.



Supplier panels

Supplier Panels are put in place when a buyer wants to establish a relationship with a group of suppliers to deliver a series of like activities for a specified period of time. In all cases supplier panels will be put in place through an open competitive process.

Where a particular procurement is covered by the scope of an established supplier panel, the panel should be used to deliver that work in all cases.

We have established several supplier panels including traffic engineering, technical support services, legal services and probity services.

5.5 Staged supplier selection

Staged supplier selection involves breaking the procurement process into two or more stages. Undertaking a staged process can deliver better 'value for money' by reducing administration costs, however this needs to be balanced against the additional time required to undertake.

Market research

When there is limited knowledge of the supplier market, or products and solutions in the market, a Request for Information (RFI) can be a useful tool to formally seek information from suppliers as to the types of goods and services currently available. It should be noted that a RFI is a market research tool and will not be used to select or shortlist a supplier. If it is decided to proceed with the procurement the RFI will be followed with a tender.

Shortlisting

Where appropriate, we will shortlist by undertaking a two stage tender process by conducting a Registration of Interest (ROI) followed by a Request for Proposal (RFP). At the end of the ROI evaluation suppliers will be advised whether or not they have been shortlisted. Suppliers who fail to make the shortlist will be offered feedback at the conclusion of the second stage RFP evaluation.

For guidance when shortlisting is used, we will:

- Shortlist to three to four suppliers for contracts valued up to \$5m.
- Shortlist three suppliers for contracts above \$5m.
- Include an indicative methodology attribute at the ROI stage, to encourage innovation.

In all cases the ROI will detail the parameters used for shortlisting and how attributes evaluated in the shortlisting process will be carried forward, if applicable, into the RFP evaluation.

Shortlisting prospective suppliers has the ability to promote 'value for money' by:

- Reducing the costs of tendering by reducing the number of full submissions called for.
- Ensuring only high quality suppliers are selected to tender for the work.
- Reducing the administrative burden of evaluating tenders.

However, we recognise that overuse of a shortlisting processes could have potential disadvantages, including; decreasing overall market sustainability and competitiveness, creating a barrier to entry for some suppliers, or increasing the time and cost associated with the procurement process. As such, appropriate market considerations will be undertaken before deciding to use a shortlisting process.

5.6 Use of direct appointment

Direct appointment may only be used to select a supplier and establish a contract when:

- The contract is of low value (<\$100k), or

Note 1: Where a Supplier Panel is in place the value limit for direct appointment of a panel member will be detailed in the Supplier Panel contract (this value will not exceed \$300k).

Note 2: Where the contract value is greater than \$50k 'value for money' will need to be supported by obtaining multiple quotes through a Request for Quotation (RFQ) process, unless one of the following conditions apply.



- The supplier selection process commenced as a competitive tender, but only one conforming tender was received, or
- A monopoly supplier situation exists, or
- The contract is for an emergency reinstatement or to address a serious Health and Safety issue, or
- It is determined that there is only one practical supplier, or
- It is determined that competition will not deliver 'value for money', or
- When under the PTOM delivery model, the Regional Commerciality Ratio determines that the award of operating unit will be determined by negotiation.

5.7 Competitive tendering

Competitive tendering is the default method under which we will source goods and services above the value of \$100k. Depending on the value of the procurement we will conduct either a closed or open tender process as detailed below:

Contest Type	Procurement Value	Tender Available to
Closed	\$100k to \$300k	Minimum three willing and able suppliers
Open	>\$300k	All willing suppliers

Note: Where a supplier register or prequalification register has been established for a particular discipline, selection of suppliers to participate in a closed contest will be made from the register.

In addition to the value of the procurement we will also consider the following when planning to undertake a competitive tender process:

- The scope must be clear to all parties and suppliers must know their costs of delivery.
- There must be an adequate number of suppliers.
- The suppliers must be technically competent and must actually want the work.
- There must be sufficient time for tendering.

If all of these considerations are not met then tendering may not deliver a 'value for money' solution and direct appointment may be considered.

Electronic tendering

We are committed to leveraging the efficiencies and cost benefits, both to us and our suppliers, of electronic tendering. We will by default utilise:

- The Government Electronic Tendering Service (GETS) to publish all tenders and subsequent addenda and receive responses to tenders.
- The GETS question and answer functionality to receive and respond to tender queries.



In all cases the tender documents will detail a point of contact for the tender process and detail the method for submitting queries and tender responses. In all cases non-price and price responses will be required to be submitted in separate files.



Minimum time periods for tenders

We acknowledge that responding to a tender takes time and that if sufficient time is not given to suppliers that this can impact the quality of responses and add risk to the evaluation process. We will apply the following minimum time periods for responding to tenders.

Contest Type	Tender Type	Minimum Time Period
One Stage Process	Request for Quotation (RFQ)	8 working days
	Request for Proposal (RFP) <\$300k using ATLPC	8 working days
	Request for Proposal (RFP)	15 working days
Two Stage Process	Registration of Interest (ROI)	10 working days
	Request for Proposal (RFP)	15 working days

Note: The minimum time periods are minimums and should not be considered normal. The actual time in market will be dependent on size and complexity of the procurement.

Supplier questions

We encourage questions during the tender process. Questions should be made on and will be responded to using the GETS question and answer functionality. Unless the question contains information that the supplier identifies as commercially sensitive the questions and answers will be made available to all potential suppliers.

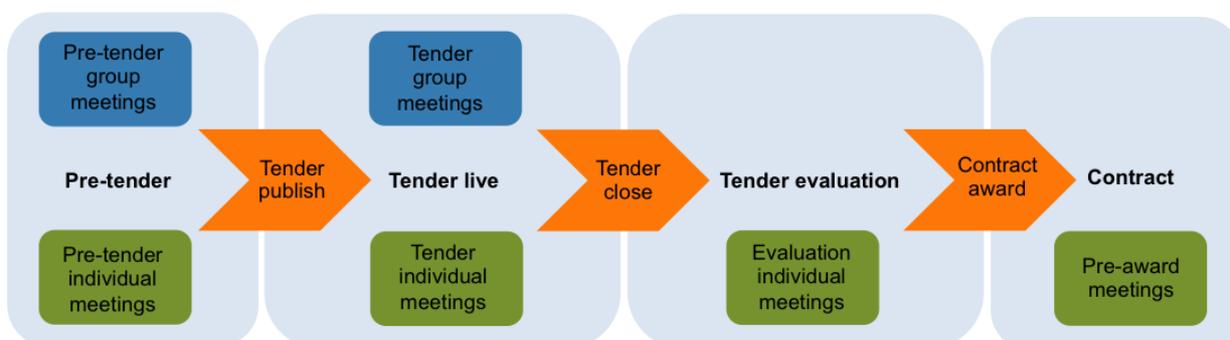
When, as a result of a question, there is a requirement to make a change or an addition to the published tender documents a GETS tender addendum will be issued.

If we are unable to promptly respond to a question or the change or addition to the tender documents is material to the supplier's response, we will consider extending the deadline for responses.

In addition to the GETS functionality all tenders will specify a Tender Information Contact Person, this person is the only person authorised to discuss the tender once published until the award of the contract.

Interactive tendering

Interactive tender meetings provide a useful means of assuring that expected project outcomes will be delivered. The meetings will be commercial in confidence and non-contractual in nature. We will use an interactive tender process for high value (>\$5m), high risk procurement activities, or where it is determined that best 'value for money' will be obtained by using the process. Where an interactive process is to be used, the process will be documented in the tender documents. An interactive tender process may consist of one or more of the meetings shown in the following diagram:





The key purpose of the interactive tender process is to:

- Clarify the intent and improve the standard of the tender by ensuring all parties are aligned on the specified requirements.
- Provide a forum for an open exchange of information and ideas.
- Allow additional information transfer to more clearly identify risk, so it can be better managed.
- Allow the supplier to put forward conceptual ideas, or alternate proposals and for Auckland Transport to provide feedback on the acceptability of these.

In all cases when interactive tendering is used we will ensure that the process is conducted fairly and no supplier receives an unfair advantage over another. We have used the interactive tender process for a number of years and it has proved to be an invaluable process with clear benefits for our organisation and our suppliers.

Tender receipt

The electronic tender box will be opened centrally within the Procurement Strategy and Systems team. As part of the opening process all responses will be checked for compliance with the requirements of the tender.

Any compliance issues will be dealt with prior to any evaluation commencing. This may involve the requesting of additional information omitted from the initial response. In such cases the omitted information will be requested to be submitted in such time that the supplier obtains no unfair advantage over the other suppliers.

All tender documents will be held securely until they are required for evaluation.

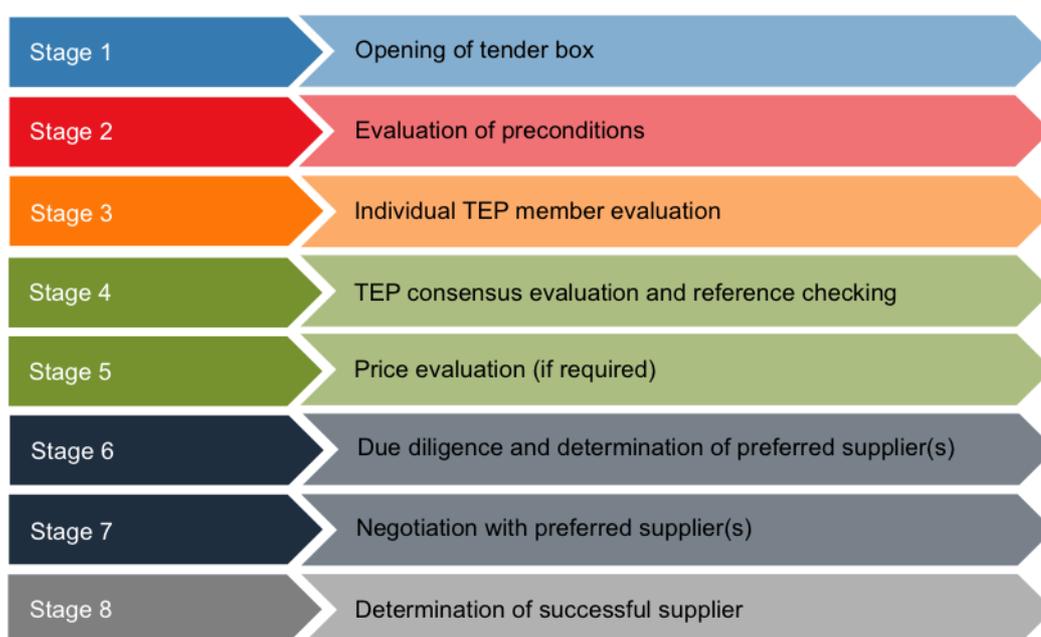
Record keeping

Under the Public Records Act 2005, all public organisations are required to create and maintain full and accurate records in accordance with normal, prudent business practice. This includes activities carried out by contractors on our behalf. For procurement this means that all records relating to the planning, approach to market, supplier selection, negotiation, award of contract, contract management and review must be retained.

5.8 Evaluation of tenders

Tender evaluation is the process that enables the selection of the most appropriate tender that achieves the best 'value for money'. The method of evaluation will be documented in both the Procurement Plan and the tender documents. A separate Evaluation Plan will be used for all procurements valued above \$5m, or that are considered high risk. A good evaluation will result in the objectives of the procurement being achieved.

Generally evaluation will be carried out by the following eight stage process:





Tender Evaluation Panels (TEPs)

The make-up of the TEP will be dependent on the value, complexity and risk of the procurement and will include a Transport Agency qualified evaluator if the procurement is subject to Transport Agency funding and valued over \$200k. The TEP will be managed by a suitability qualified and experienced TEP Chair and may be supplemented by Subject Matter Experts (SMEs). SMEs will not participate in evaluation meetings but will be available to answer questions of the TEP via the TEP Chair.

For high value or complex procurements the TEP Chair will not score and will generally be a member of the procurement function, who understands the rules of the evaluation and ensures that the evaluation process is managed in a fair, robust and defensible manner. In addition to this a separate commercial evaluation panel may be utilised to evaluate complex price schedules, undertake financial viability and due diligence checks and assist with commercial negotiations if required.

The TEP will not be named in the tender documents to ensure TEP members cannot be influenced by potential suppliers. The table below describes the minimum requirements of a TEP:

Procurement Value	Non-Scoring Chair	Scoring Evaluators (minimum)	External Evaluators (Maximum)
<\$300k ATLPC	No	Two	Nil
<\$500k or <\$300k (PS)	No	Three	One
>\$500k or >\$300k (PS)	Yes	Three	One (Two if more than five scoring evaluators)

Note 1: When using the collaborative delivery model staff of the other organisation(s) will not be considered external evaluators.

Note 2: On high value high risk procurement a separate price/commercial evaluation team may be used to evaluate price responses.

Note 3: Variation to the above will require specific approval by the Head of Procurement on the Procurement Plan.

Role of the TEP Chair

The TEP will be led by the TEP Chair who is responsible for:

- Reviewing the Procurement Plan and tender documentation.
- Ensuring all evaluators understand their obligations as an evaluator, in particular with respect to confidentiality and probity.
- Ensuring all evaluators and SMEs sign a Conflict of Interest and Confidentiality Form prior to evaluation. Where an evaluator or SME indicates a conflict or potential conflict ensuring the appropriate mitigation is undertaken.
- Acting as the single point of contact for the TEP, including managing all questions from and to the TEP.
- Ensuring all evaluators individually score each response in full prior to meeting as a group.
- Ensuring all TEP discussions are appropriate and relevant and the TEP agree on a final group consensus score.
- Ensuring no individual supplier is advantaged or disadvantaged.
- Ensuring the correct process is followed for the supplier selection method being used and that at the end of the evaluation a Tender Evaluation Report is completed and approved.
- Ensuring that all suppliers are advised of the outcome of the tender, and are offered the opportunity for a debrief.

Probity

Ensuring probity of action is everyone's responsibility when conducting procurement activities. We apply the following basic principles of good practice when buying goods and services:

- Accountability.
- Openness.
- Value for money.
- Lawfulness.
- Fairness.
- Integrity.

By applying these principles sensibly we can demonstrate that we are spending public money carefully and properly managing the process for spending it.



Grading scale for non-price attributes

We will use the following 0 to 100 grading system when evaluating tenders:

85, 90, 95, 100	Excellent (significantly exceeds the criterion)	Exceeds the criterion. Exceptional demonstration by the Supplier of the relevant ability, understanding, experience, skills, resource and quality measures required to meet the criterion. The response identifies factors that will offer significant potential added value, with supporting evidence.
65, 70, 75, 80	Very Good (exceeds the criterion in some aspects)	Satisfies the criterion with minor additional benefits. Above average demonstration by the Supplier of the relevant ability, understanding, experience, skills, resource and quality measures required to meet the criterion. The proposal identifies factors that will offer potential added value, with supporting evidence.
45, 50, 55, 60	Good (meets the criterion in full)	Satisfies the criterion in full. Demonstration by the Supplier of the relevant ability, understanding, experience, skills, resource and quality measures required to meet the criterion, with supporting evidence.
25, 30, 35, 40	Minor Reservations (marginally deficient)	Satisfies the criterion with minor reservations. Some minor reservations of the Supplier's relevant ability, understanding, experience, skills, resource and quality measures required to meet the criterion, with little or no supporting evidence.
5, 10, 15, 20	Serious Reservations (significant issues that can't be addressed)	Only partially satisfies the criterion with major reservations. Considerable reservations of the Supplier's relevant ability, understanding, experience, skills, resource and quality measures required to meet the criterion, with little or no supporting evidence.
0	Unacceptable (significant issues not capable of being resolved)	Does not meet the criterion. Does not comply and/or insufficient information provided to demonstrate that the Supplier has the ability, understanding, experience, skills, resource and quality measures required to meet the criterion, with little or no supporting evidence.

Note: Failing to fully meet any precondition, scoring a fail on any attribute assessed on a pass/fail basis, or failing to score above 20 on any weighted attribute, will result in the supplier's offer being rejected and removed from any further evaluation.

Alternative responses and added value premiums

We are keen to encourage innovation from the supplier market and encourage the submission of alternative responses. As we move towards true RFPs effectively all responses will be treated as an alternative and will be considered for an added value premium. The added value premium may be a positive value (if the response adds value) or a negative value (if the response adds cost). When submitting an alternative response, suppliers should clearly quantify the added value they believe their alternative response provides.

Reference checking

We will carry out reference checking to assist in determining whether the supplier can deliver the output described in their tender response. Reference checking will be carried out following ATPACE methodology after the tender has been evaluated on its own merit. Reference checking will include:

- Checking with referees provided in the response.
- Internal checking of prior performance on our projects.

Reference checking responses will inform the TEP and may result in adjusted scores for non-price attributes.



Negotiation with preferred suppliers

Where appropriate we will negotiate with the preferred supplier(s) prior to tender acceptance or contract award. We view negotiation as an effective risk management tool which, when used correctly and fairly, can add value to the procurement process. The primary objectives of negotiation are to:

- Test the understandings and underlying assumptions that have influenced the supplier(s) in preparing their response(s).
- Achieve a reduction in costs or an increase in value, where appropriate.

When negotiation is to be undertaken we will prepare a Negotiation Plan that will ensure:

- All negotiations are conducted ethically and we do not use our position in a manner that might be considered unfair.
- That the negotiation does not solely focus on reducing bottom line prices.
- That the negotiation does not disadvantage other suppliers by forming an agreement that is materially different in scope from what was described in the tender.
- That the negotiation and the results of the negotiation are fully documented.
- That the negotiated agreement is sustainable and does not inappropriately compromise quality.
- That when negotiating with multiple preferred suppliers, particular care is taken to ensure they remain fair and individual suppliers are not played off against each other (Dutch auction).

Probity concerns

We consider probity of process of utmost importance. All tenders will state a specific contact should suppliers have a probity concern with regard to a particular procurement activity.

We will also appoint an independent Probity Auditor for all procurements valued above \$5m, or that are considered high risk.

An independent hotline has been established for both staff and the public to report issues of concern. Calls are reviewed by Auckland Transport and all complaints and allegations passed on to the Independent Reviewer. If you have a probity concern you can call the hotline on 0800 287-376 or e-mail AT.report@nz.pwc.com

Due diligence

Due diligence is about independently verifying the ability of the supplier to fully deliver and over the term of the contract. It is an opportunity for both parties to test their expectations and understanding of the deliverables and the contract. During this phase assumptions will be checked and roles and obligations clarified. If serious issues arise during due diligence that cannot be resolved the supplier will be removed from further consideration and the next ranked supplier promoted to preferred status.

We will undertake independent due diligence of the preferred supplier(s) in procurements valued above \$5m, or that are considered high risk. Where particular financial records are requested for this purpose we will request that these be provided in a separate file in the tender response.

Notification of tender results

We will notify all suppliers in writing of the tender outcome and offer all suppliers the opportunity for a debriefing. This is seen as an important part of the evaluation process as it helps ensure future market competition. No details of any suppliers scores will be provided until the end of the evaluation process (after tender acceptance or contract award has occurred), however suppliers will be notified during the evaluation process if:

- Their response has been excluded from evaluation due to non-conformance, failing to meet any prequalification, failing a pass/fail attribute or failing to score above 20 in any non-price attribute.
- They have been shortlisted (or not) after the first stage of a two stage (ROI/RFP) tender.
- They are a preferred (or not a preferred) supplier.

Our tender debriefings will focus on the strengths and weaknesses of the supplier's response against the evaluation criteria, rather than a comparison to other responses received. Commercially sensitive information relating to other supplier proposals will not be disclosed as part of the debrief process.



5.9 Unsolicited proposals

From time to time, suppliers may wish to approach us with a proposal to meet a perceived need, without being asked to do so. This is considered an unsolicited proposal. We want to encourage suppliers to put forward good ideas and will treat all unsolicited proposals in a way that is transparent and fair to everyone.

For an unsolicited proposal to be considered it will typically need to have one or more of the following attributes:

- Unique elements.
- Demonstrate innovation.
- Provide a solution to a need that is not otherwise available in the market.
- Support the long term market development and needs of Auckland Transport.
- Align with Auckland Transport's plans, objectives and strategic direction.

Open competition

The opportunity to put forward unsolicited proposals must not be used as an opportunity to get around the requirement for open competition.

If there is doubt about the uniqueness of a proposal an RFI should be issued to the market to verify the uniqueness of the proposal.

Details on how to submit an unsolicited proposal and the process by which we evaluate a unsolicited proposal as contained on the procurement page of our website www.at.govt.nz/about-us/procurement.

5.10 Publishing of contract awards

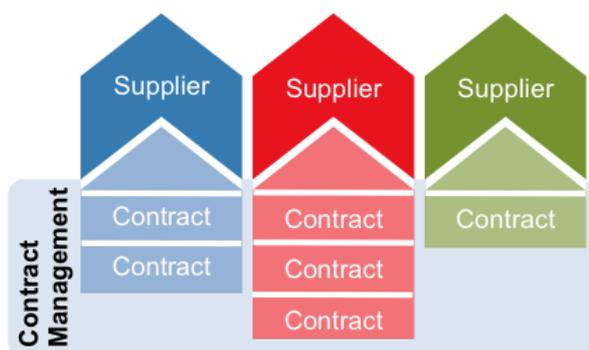
We will publically publish contract awards, for the previous six months over the value of \$50k on the procurement page of our website www.at.govt.nz/about-us/procurement. This list will be updated on a monthly basis. In addition, award notices will also be published on GETS for all tenders advertised on GETS.

6 Contract Management

6.1 Contract management principles

Contract management is the process that enables us and our suppliers, to meet the objectives required from our contracts: on time, to the quality and specification required and within budget.

This means ongoing tracking and monitoring of delivery and costs, managing risks and actively managing the relationships between us, the supplier and key stakeholders. This process continues throughout the life of a contract and involves managing proactively to anticipate future needs as well as reacting to situations that may arise.



Key activities

Contract management activities can be broadly grouped into three areas:

- **Performance management** ensures that the service is being delivered as agreed, to the required level of performance and quality.
- **Relationship management** keeps the relationship between the two parties open and constructive, aiming to resolve or ease tensions and identify problems early.
- **Contract administration** handles the formal governance of the contract and changes to the contract documentation.

All three areas must be managed successfully if the arrangement is to succeed.

Health and Safety

Auckland Transport recognises its obligations as a Principal under the Health and Safety in Employment Act. As such we are required to take all practical steps to ensure safe work practices are employed by all of our suppliers. We require all suppliers we engage with to comply with these requirements and actively explore ways of promoting best practice Health and Safety throughout the procurement lifecycle.

Insurances, Bonds and Retentions

The use of Insurances, Bonds and Retentions are all methods that we use to protect ourselves from the risks associated with supplier performance. The level of protection will be determined by assessing the risks involved in delivering the services. We are mindful of the need to exercise caution when setting limits, as excessive limits will deter from the objective of obtaining 'value for money'.

6.2 Contract templates

Our Procurement Framework contains a range of standardised contract templates for use by our staff. These templates will be wherever possible based on standard form contracts and will have been through a legal review by the Auckland Transport Legal Department. Where a standard contract template exists the expectation is that it will be used when engaging with suppliers. Standard contract templates that we use include:

- NZS3910:2013 – Conditions of contract for building and civil engineering – Construction.
- NZS3916:2013 – Conditions of contract for building and civil engineering – Design and Construct.
- NZS3917:2013 – Conditions of contract for building and civil engineering – Fixed Term.
- NZS3915:2005 – Conditions of contract for building and civil engineering – Construction (where no person is appointed to act as engineer to contract).
- CCCS:Aug 2009 – Conditions of contract for consultancy services.
- ACENZ/IPENZ: Mar 2012 – Short form agreement for consultant engagement.



- PTOM (Participation, Regional Partnering and Unit) agreements.
- Auckland Transport specific contract templates.

Recent years have seen a drive toward collaborative ways of contracting. Our general conditions of contract play a role in encouraging this collaborative behaviour and we will continue to review these with this in mind. We will also look at other contracting models, for example NEC3 to ensure that the models we use are current and reflective of best practice in the market.

6.3 Contract performance and review

Contract performance assessments

We are implementing a formal contract performance evaluation system called *ATPACE* (Performance Assessment by Coordinated Evaluation). *ATPACE* is seen as a joint initiative with our suppliers and is intended to be implemented across all of our contracts during the term of this strategy. The key purposes of *ATPACE* are:

- To provide a means of systematically monitoring the performance of our suppliers against contract objectives.
- To enable continuous and collaborative dialogue with our suppliers that encourages high levels of performance by challenging them to exceed the key contract objectives.
- To provide a historical database to assist in and provide consistency in, the assessment of the Track Record non-price attribute in future tender evaluations.

To ensure ongoing collaborative contract relationships between our suppliers, performance evaluations will be subject to monthly interim evaluations over the duration of the contract if the contract term is greater than two months. The final evaluation will be completed at contract completion and it will be the final evaluation grade that will be recorded in the *ATPACE* database.

To ensure transparency in the *ATPACE* evaluation, suppliers will be required to acknowledge each *ATPACE* evaluation and will be provided with an opportunity to challenge the evaluation scores.

Detailed information about *ATPACE* can be found on the procurement page of our website www.at.govt.nz/about-us/procurement.

Contract performance incentives/disincentives

Where appropriate, we will include performance based incentives/disincentives into contracts. This will be particularly visible in strategic relationship based collaborative contracts. Examples of where this is being implemented are:

- PTOM Contracts – where a risk/reward model has been adopted to share revenue risk. In this example it provides for the revenue growth achieved over a twelve month period to offset inflation payments made by us to the supplier over the same period. Any surplus revenue growth will be shared between Auckland Transport and the supplier on a 50/50 basis. In the case of revenue losses, the supplier would bear all losses to the equivalent value of any inflation payment. All further losses will be shared between Auckland Transport and the supplier on a 50/50 basis.
- Road Corridor maintenance and renewal contracts – where 40% of renewal work will be provided through the contract as of right, 40% will be awarded based on performance and the remaining 20% will be tendered in the open market.

Contract reviews

Contract reviews are an important part of the overall procurement process. An effective review process can improve procurement management and demonstrate public accountability by providing

ATPACE performance criteria

The four main *ATPACE* performance criteria are:

- **Management:** Skill levels and competency, risk management, creating a 'no surprises' environment, responsiveness, creating innovation and proactiveness.
- **Production:** Ability to meet programme, timely outputs, achieve the specified standard, accurate outputs to required standards and defect management systems.
- **Health and Safety:** Safe work practices and traffic management control.
- **Administration:** QA documentation, monthly reporting, financial and handling of variations.



an honest appraisal of the procurement, the delivery of the contract and the outcomes achieved. We expect to undertake formal contract reviews on all contracts valued over \$5m.

Key questions to be considered in any contract review process include:

- Have the anticipated benefits been received?
- Does the initiative represent value for money?
- Are there opportunities for further improvements?
- What lessons can be learned and how can these be implemented?

7 Supplier Management

7.1 Supplier Relationship Management (SRM) principles

SRM is the process of strategically planning for and managing, interactions with our suppliers in order to maximise the value of those interactions. In practice SRM involves creating closer, more collaborative relationships with our key suppliers in order to uncover and realise new value, innovation and reduce risk.

In collaborative relationships we aim to develop a long term relationship with the supplier, one in which we seek ways to add value for the ultimate benefit for us, the supplier and our key stakeholders. It's a proactive relationship focused on looking for continuous improvements, not a 'cosy buyer-supplier' relationship in which the status quo is allowed to prevail.

These collaborative relationships typically involve:

- Shared objectives.
- A mutual search for greater efficiency.
- Joint planning for the future.
- Each party understanding the expectations of the other and seeking to meet them.

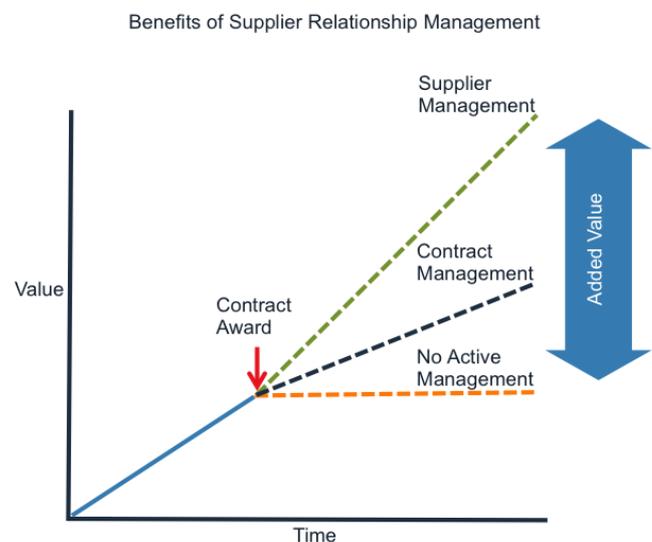
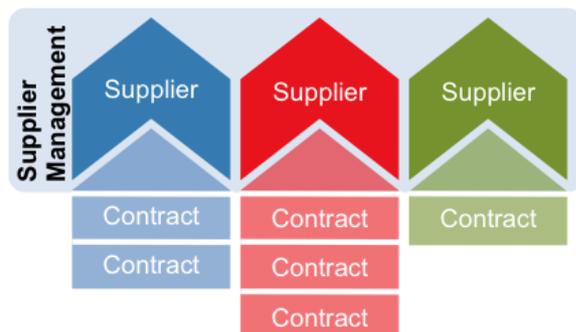
Key factors for successful collaborative relationships are:

- Clear, open and honest communication.
- Mutual trust, respect and understanding.
- Collaboration and joint problem solving.

Benefits of SRM

Commercial success often comes down to the relationship between the buyer and supplier. Our SRM Framework aims to benefit this relationship by providing:

- Allocated resources focused to ensure suppliers deliver as expected.
- Clearly defined roles on both the buyer and supplier side.
- Regular governance meetings that drive access to new innovative approaches to business.
- Improved visibility of supplier risks and development of appropriate risk mitigation strategies and controls.



7.2 Our SRM framework

The aim of our SRM framework is to focus on our key suppliers and the relationship we have with them. Within the SRM Framework suppliers will be segmented into four tiers as described below:

Tier 1 'Alliance suppliers' – Our critical suppliers who offer us significant, long-term sustainable value to us. These suppliers have the ability to deliver a significant step-change in our overall business performance and the delivery of our objectives.

Tier 2 'Strategic suppliers' – Our key suppliers who provide high value, specialised or unique, goods and services that are core to the delivery of our objectives. It is expected that these suppliers will be able to generate additional value to our organisation from both current and future business.

Tier 3 'Tactical suppliers' – These are our important suppliers who provide high value, but standardised, goods and services to our organisation. It is expected that these suppliers will be able to generate additional value from current business.

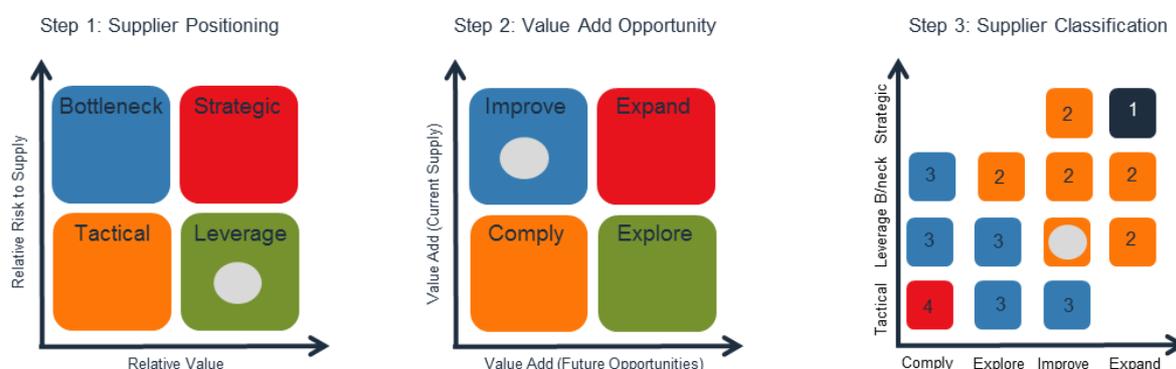
Tier 4 'Operational suppliers' – All other suppliers not classified above.

Supplier segmentation

Supplier segmentation will be undertaken on an annual basis in the four key category areas of Corporate, Technology, Infrastructure and Services and will involve evaluating suppliers whose historical or expected spend exceeds \$1m per annum, or that are in the top ten suppliers within an individual procurement category. The purpose of supplier segmentation is to:

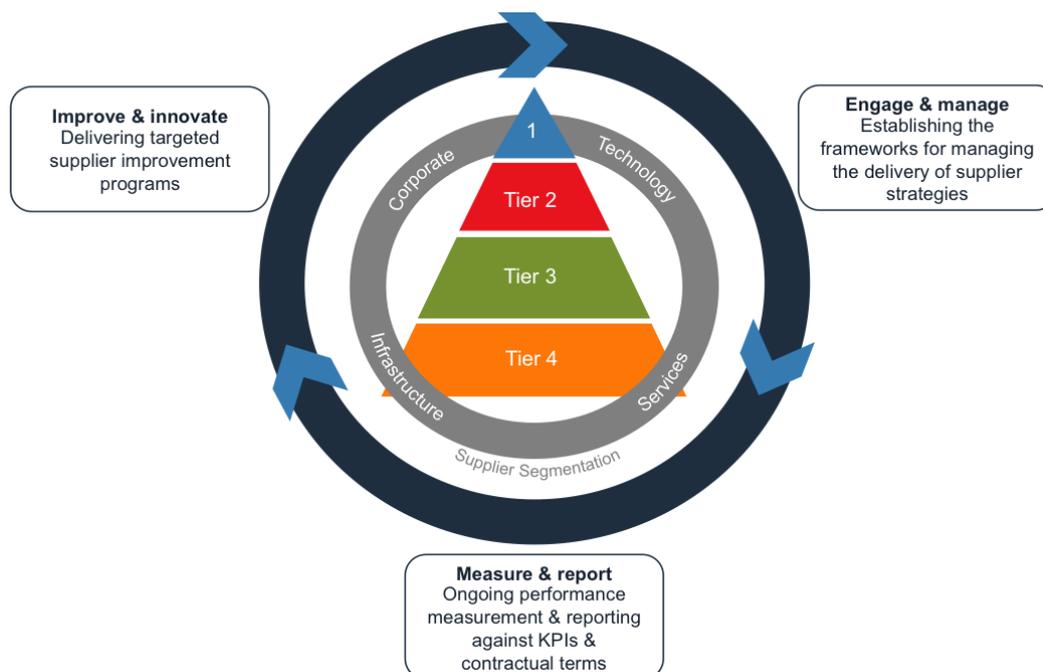
- Provide us with a preliminary risk assessment of our suppliers, based on their criticality to our business performance.
- Help us allocate scarce time and resource most effectively with suppliers, based on their value-add potential.

An example of the three steps undertaken to segment a supplier are shown below:



Supplier engagement

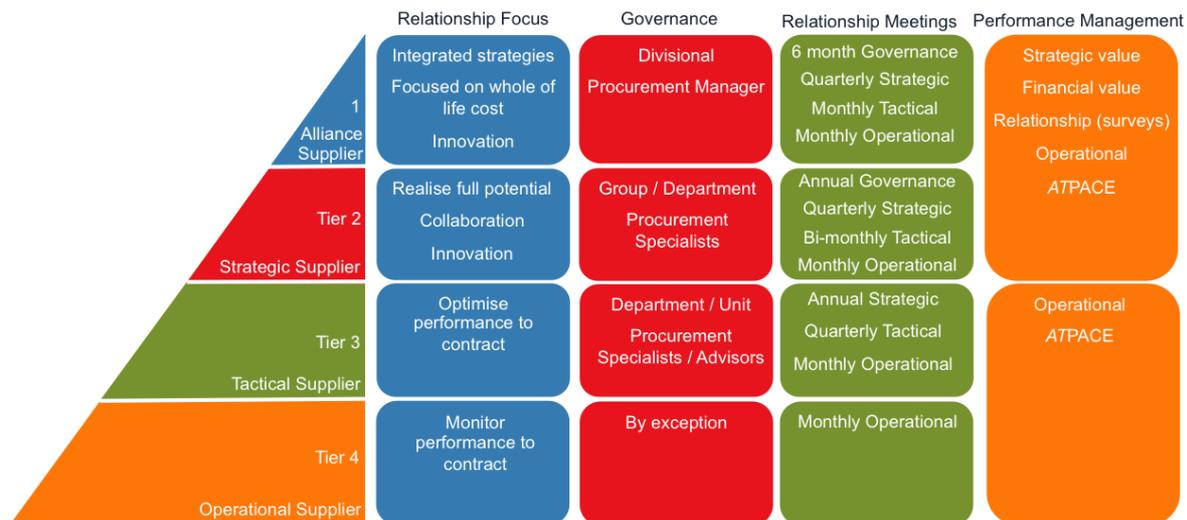
Tier 1 to Tier 3 suppliers will be actively managed within our SRM Framework under an agreed Supplier Relationship Management Plan (SRMP) which will capture the relationship objectives and scope of interaction with the supplier. The SRMP will help both us and our suppliers, understand the current state and establish a plan to visualise what success looks like. It will cover three phases as shown in the diagram below:





SRM governance

The governance aspect of the relationship will also be covered in the SRMP and will vary depending on the tier of the supplier as shown in the diagram below:





8 Implementation and Improvement

8.1 Implementation

Ownership of the Procurement Strategy

While the ultimate ownership of the Procurement Strategy rests with the Head of Procurement, effectively the Procurement Strategy and Systems team are accountable for ensuring that the specific methods and improvement initiatives included within the Strategy are implemented and monitored.

Monitoring

Monitoring is key to implementation, ensuring the objectives of the Procurement Strategy are achieved through the way in which we procure, as well as guaranteeing all improvement initiatives are developed in the right areas and align with the overall Procurement Strategy intentions. The purpose of all monitoring is to gauge the value for money received and continually look for further efficiency gains.

As part of our ongoing monitoring we will continually review and make changes to our strategy where appropriate. We see this as a natural process as our business continues to evolve to meet the demands of our customers and stakeholders.

Consultation

We are committed to obtaining supplier feedback into our Strategy and wider procurement framework. We value transparency in our procurement process and are open to listening and discussing with suppliers any concerns they have or envisage with relation to our supplier engagement and procurement practices.

8.2 Improvement

Due to the large and complex nature of our procurement function, it is appropriate that we will be subject to periodic internal and external reviews. Lessons learnt will be used to improve future procurement activities and initiate changes to the Procurement Framework.

Our procurement performance will also be benchmarked against similar organisations to demonstrate that our processes:

- Proactively support the delivery of critical and important business priorities.
- Improve commercial discipline and add 'value for money'.
- Manage procurement supply chain and reputational risk.
- Improve the efficiency and effectiveness of the procurement process.

At time of writing we have identified a number of different areas that we feel need to be investigated, developed and improved during the term of the strategy. These include:

- Increasing our understanding of our procurement pipeline so we can more effectively plan our procurement activities.
- Increasing our understanding of our supplier market and the impact that our different delivery models have on the market.
- Reviewing our existing prequalification system.
- Identifying ways of reducing supplier selection costs while maintaining a competitive process.
- Enriching our capability in contract management.
- Implementation of ATPACE system and our SRM Framework.
- Improving our reporting, both internally and externally, including how we debrief tenders.
- An increasing focus on sustainable procurement.



9 Glossary, References and Specific Approvals

9.1 Glossary

AoG means All of Government

AP means the Auckland Plan

AR means the Auckland Report

ATLPC means the Lowest Price Conforming

ATPACE means the Performance Assessment by Coordinated Evaluation

ATPNP means the Purchaser Nominated Price

ATPQM means the Price Quality Method

ATQBM means the Quality Based Method

CCO means Council Controlled Organisation

CIPS means the Chartered Institute of Procurement and Supply

GETS means the Government Electronic Tendering Service

GPS means the Government Policy Statement

ITP means Integrated Transport Plan

KPI means Key Performance Indicators

LTP means the Long Term Plan

MBIE means the Ministry of Business, Innovation and Employment

NLTF means the National Land Transport Fund

NLTP means the National Land Transport Programme

PAUP means the Proposed Auckland Unitary Plan

PTOM means the Public Transport Operating Model

RFI means Request for Information

RFP means Request for Proposal

RFQ means Request for Quotation

RLTP means the Regional Land Transport Plan

ROI means Registration of Interest

RPTP means the Regional Public Transport Plan

SME means Subject Matter Expert

SQP means the Supplier Quality Premium

SRM means Supplier Relationship Management

SRMP means Supplier Relationship Management Plan

TEP means the Tender Evaluation Panel

9.2 References

For more information about our procurement activities, refer to our website www.at.govt.nz/about-us/procurement

If you have further queries please contact Procurement@aucklandtransport.govt.nz



Key references used in creating our strategy as follows:

- The Office of the Auditor General: Procurement Guidance for Public Entities (2008).
<http://www.oag.govt.nz/2008/procurement-guide>
- The Transport Agency Procurement Manual (2014 update).
<http://www.nzta.govt.nz/resources/procurement-manual/>
- The NZ Government Rules of Sourcing (third edition 2015).
<http://www.business.govt.nz/procurement/pdf-library/agencies/rules-of-sourcing/procurement-government-rules-of-sourcing-v3.pdf>
- MBIE Mastering Procurement Guide (2011).
<http://www.business.govt.nz/procurement/pdf-library/agencies/GUIDEMasteringProcurement.pdf>

9.3 Transport Agency specific approvals

The following specific approvals have been obtained or are in the process of being obtained with respect to the procurement of activities funded by The Transport Agency.

Section 2 approvals: Specific Transport Agency approval is sought to:

- Undertake in-house professional services and administration activities.

Section 3 approvals: Specific Transport Agency approval is sought to:

- Use the PTOM partnership delivery model for public transport service delivery procurement. In obtaining this approval we will continue to work closely with the Transport Agency during the implementation of this model.
- Use the collaborative delivery model as appropriate. In doing so we will ensure that the procurement activity undertaken by the other organisation is consistent with our values and the requirements of the Auditor General with respect to public procurement.
- Use the supplier panel delivery model as appropriate, for all procurement categories. In doing so we will ensure that use of the supplier panel delivery model will require Procurement Manager level approval on the Procurement Plan.
- Approve the maximum contract terms indicated in this strategy including continuing to use the extended eight year maximum contract term for our regional road and street light maintenance and associated technical support service contracts.

Section 5 approvals: Specific Transport Agency approval is sought to:

- Use our customised versions of our supplier selection methods as detailed in 5.2 of this strategy.
- Use the ATQBM supplier selection method as appropriate for all procurement categories.
- Use amended mandatory non-price attributes, capability and skills in place of relevant experience and relevant skills.
- Use closed contest tenders for procurement of activities up to the value of \$300k.
- When appropriate and documented in an approved Negotiation Plan, negotiate with multiple preferred suppliers after evaluation of tenders.