Procurement Strategy

July 2012 – June 2015

PR02-01 (Jul12)
Foreword

Auckland Transport (AT) was established in November 2010 as a result of the amalgamation of the transport-related functions of the previous Auckland local government organisations. The AT Procurement Support Team has been tasked with the function of transitioning the established procurement functions of the previous organisations into a standardised AT procurement function.

The AT Procurement Framework has been established to achieve this, and this Procurement Strategy forms a key part of the Framework. It should be acknowledged that this strategy has been developed at a stage where AT has been moving out of a challenging transition phase and whilst attempting to establish its own identity and culture.

We still have much to learn, but by developing this strategy in-house we have established a learning approach to procurement which will, despite the inevitable bumps in the road ahead, ultimately allow us to continue to refine our processes and extract better value for money for our customers, funders and stakeholders.

It is also important to note that although this strategy has been developed to coincide with the start of the new three year National Land Transport (NLTP) funding cycle, that many of the guiding documents mentioned within the strategy are yet to be approved and as such any forward procurement is subject to change.

Kelvin Stuart
Procurement Support Manager
Auckland Transport

Approvals

This Procurement Strategy has been reviewed and approved by the following authorisers:

- AT Executive Leadership Team in May 2012; and
- AT Board and Finance and Risk Committee in July 2012

The Procurement Strategy has also been endorsed by the New Zealand Transport Agency (NZTA) in August 2012. Approval of the specific advanced and customised procurement procedures highlighted within the strategy is ongoing.

David Foster
Chief Financial Officer (Procurement Panel Chair)
Auckland Transport
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1 Executive Summary

Procurements 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”

Strategic Overview:
Auckland Transport (AT) is a council Controlled Organisation (CCO) responsible for all of the Auckland region’s transport requirements, except state highways.

AT’s Purpose
AT’s Purpose is to contribute to the economic, environmental and cultural well-being of the Auckland region.

Procurement Operating Model:
AT has a centre-led procurement model. Accountability for procurement outcomes sit with the Procurement Panel (PP). This panel consists of the Chief Financial, Operations and Infrastructure Officers, and the Corporate Manager People & Service, supported by the Business Support and Procurement Support Managers. The PP will also approve/endorse procurement activities and thresholds, as detailed in the AT Procurement Manual, and approve variations to standard procurement procedures.

Procurement Framework:
AT has a centre led procurement model. Accountability for procurement outcomes sit with the Procurement Panel (PP). This panel consists of the Chief Financial, Operations and Infrastructure Officers, and the Corporate Manager People & Service, supported by the Business Support and Procurement Support Managers. The PP will also approve/endorse procurement activities and thresholds, as detailed in the AT Procurement Manual, and approve variations to standard procurement procedures.

Procurement Objectives:
The AT procurement house represents how the procurement function will support the realisation of sustainable procurement success.

Ultimately the role of procurement is to support the delivery of the AT strategic goals and objectives in particular:

- Drive value in all of AT procurement activities by taking a whole-life procurement approach.
- Drive best practice procurement processes ensuring they are consistent with best practice, relevant legislative, NZTA and probity requirements.
- The procurement team is passionate about achieving the best outcome for AT by using best practice and working as an integrated team.

Procurement Process:

- Supplier Selection:
The determination of which supplier selection method will be used will depend on the relative importance of price and quality as indicated below. When using PQM a sensitivity analysis should be carried out prior to tendering to determine the potential resultant SQP. QBM should be considered for ‘All of Business’ categories (PS, IT & GS) when high non-price weightings are used.

- Competitive competition will be AT’s default position when undertaking procurement activities. Depending on the value of the procurement and the presence of a willing and able supplier market AT will conduct a closed or open tender. In other cases direct appointment will be used.
2 Strategic Overview

Auckland Transport (AT) is a Council Controlled Organisation (CCO) responsible for managing the Auckland region’s transport functions and operations and associated infrastructure consistent with the overall strategic direction set by Auckland Council (AC). AT was established on 1 November 2010 as a result of the amalgamation of transport-related activities of the previous Auckland local government organisations. With the exception of state highways, AT is responsible for all of the Auckland region’s transport requirements. Approximately one-third of New Zealand’s population lives and works in the Auckland region which stretches from Pukekohe in the south to Wellsford in the north.

AT activities are overseen by a board of directors appointed by and accountable to AC to ensure robust decision making. The board includes two Councillors and one non-voting New Zealand Transport Agency (NZTA) representative.

AT’s vision is: “For Auckland to benefit from and be recognised for the efficient and timely movement of people and goods through the use of appropriate transport modes”\(^1\). This vision provides direction so we know where we are heading and what we are striving for.

AT’s mission is: “To deliver effective and innovative transport solutions to our customers”\(^1\). This mission describes why we exist, it is the reason why we are here.

AT has five key goals\(^1\):

- Deliver a properly connected arterial road network that is integrated with the state highway network and moves people and goods;
- Deliver an integrated and connected public transport network of rapid, quality and local connector services that is attractive to customers;
- Reduce car dependency and improve community health by providing infrastructure and services for walking, cycling and ride sharing;
- Deliver an effective and efficient transport system that enables Aucklanders to make smarter transport choices; and
- Ensure Auckland Transport is customer focused and delivers value for money.

AT will achieve its goals by\(^1\):

- Developing a culture that inspires, improves and empowers people;
- Delivering effective and innovative transport solutions to our customers;
- Demonstrating a cooperative and collaborative work programme with our stakeholders; and
- Operating within agreed financial targets.

AT’s purpose and objectives are, as detailed in the Local Government (Auckland Council) Act 2009: “To contribute to an effective and efficient land transport system to support Auckland’s social, economic, environmental and cultural well-being”. AT is responsible for all of the region’s transport planning and services (excluding state highways) – from public transport and parking to roads, footpaths and cycling. Its main tasks are:

- Design, build and maintain Auckland’s local and arterial roads, ferry wharves, cycleways and walkways;
- Plan, fund and coordinate bus, train and ferry services across Auckland;
- Upgrade public transport infrastructure such as rail stations and bus shelters;
- Coordinate road safety and community transport initiatives such as safe school travel plans; and
- Providing parking facilities and enforcement.

In summary AT is about ‘Keeping Auckland moving’ by focusing on a ‘One-network, One-customer approach’.

\(^1\) Source; AT Annual Report 2011
2.1 Legislative and Policy Context

In developing its Procurement Strategy, AT has ensured consistency with its internal Procurement Policy, and external requirements of:

- the Land Transport Management Act (LTMA) 2003;
- the Public Transport Management Act (PTMA) 2008;
- the Local Government Act (LGA) 2002;
- the NZTA Procurement Manual; and
- the Office of the Auditor General: Procurement guidance for public entities.

2.2 Guiding Documents

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

- The Auckland Plan (AP) – produced by AC. 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. Outlined as being critically important in the AP is a move to “outstanding public transport within one network”.

- The Integrated Transport Plan (ITP) – produced by AT. The ITP integrates key strategies, tactical plans, programmes and project packages developed by AT, NZTA, AC and KiwiRail to deliver an integrated one system approach to developing and operating Auckland’s transport system.

- The Long-Term Plan (LTP) – produced by AC. The LTP is a 10-year plan to build a better Auckland 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 LTP identifies the need for a “world-class transport system that allows Aucklanders to travel around the city”.

- The Regional Land Transport Programme (RLTP) – produced by AT. The RLTP lists the planned transport activities in Auckland for the next three years in a prioritised order. It also provides the basis for requests for government funding through the NZTA. It covers land transport activities (trains, trucks, cars, ferries, buses, walking and cycling) undertaken in the Auckland region by AT, NZTA and Regional Land Transport Strategy (RTLS) work undertaken by AC.
3 Procurement Service Model

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

The aim of AT Procurement is “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”\(^3\). This will be achieved by implementing a Procurement Framework that supports AT in achieving its business objectives.

Included in the Procurement Framework will be the:

- AT Procurement Policy;
- AT Procurement Strategy and Procurement Category Plans;
- AT Procurement Manual;
- AT Procurement Guidelines;
- AT Procurement Templates
- AT Procurement Forms; and
- AT Procurement Reports and KPI’s

The principle guiding all AT procurement activities is: “Sustainable ‘value for money’ through the ‘whole of life’ of an asset or service”\(^2\) by:

- Being customer and output focused;
- Supporting sustainable supplier markets;
- Where applicable, supporting innovative and collaborative relationships;
- Acting with integrity in an open, fair and transparent manner; and
- Minimising transaction costs.

**Value for money** – using resources effectively, economically, and without waste, with due regard for the total costs and benefits of a procurement arrangement, including its contribution to the outcomes which are trying to be achieved. The principle of value for money for procuring goods or services does not necessarily mean selecting the lowest price but rather the best possible outcome for the total cost of ownership (or whole-of-life cost).

**Whole of life** – 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.

Procurement ultimately supports AT’s business in the delivery of efficient output focused operations through ‘smart buying’ decisions. As a ‘smart buyer’ AT will seek to leverage the procurement opportunities that can be obtained through economies of scale and innovation. However this will be balanced with the requirement to maintain a sustainable and competitive supplier market.

This strategy is also intended to assist suppliers by:

- Providing visibility of AT’s procurement model and how it will undertake its procurement activities;
- Making it easier for suppliers to do business with AT through smarter procurement practices; and
- Implementing alternative and innovative procurement models to enable AT to become a ‘client of choice’.

\(^2\) Source; Office of the Auditor General: Procurement guidance for public entities – Good practice guide June 2008

\(^3\) Source; AT Procurement Policy July 2012.
3.1 In-house Services

In-house professional service and administration activities will be undertaken across all AT business units delivering or supporting the delivery of AT’s outputs. AT applies the following definition in relation to 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 AT employing staff with the appropriate skill sets for the role they are employed. HR policies determine the remuneration, and limit the number, of employees that AT can employ and as such limit the in-house capacity available. Notwithstanding this AT will continually review its 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 out-source a particular activity will be made by management on the basis of resource and skills available at the time of requirement. When outsourcing core activities part of the focus of the engagement should 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, consultants and other service providers; and
- Risk is easier to manage in house.

3.1.1 NZTA Funded In-House Services

In-house services carried out against NZTA funded activities are subject to funding from the NZTA.⁴

At the time of writing this strategy AT acknowledges that there are differences in how the NZTA funding is applied, with respect to in-house services, between ‘regional activities’ (previously provided by ARTA) and ‘territorial activities’ (previously provided by councils), although not strictly a procurement issue it is worth noting that AT will continue to work with NZTA to develop a solution by which AT can claim funding for in-house services using a simple common-sense approach that is acceptable to NZTA.

Approval: Specific NZTA approval is sought to undertake in-house professional services and administration on activities funded by NZTA.

3.2 Procurement Capability and Capacity

AT has a Centre-Led Action Network (CLAN) procurement model. Governance and overall accountability for procurement outcomes sit with the Procurement Panel (PP). This panel consists of the Chief Financial, Operations and Infrastructure Officers, and the Corporate Manager People & Service, supported by the Business Support and Procurement Support Managers. The PP will also approve/endorse procurement activities above thresholds, as detailed in the AT Procurement Manual, and approve variations to standard procurement procedures.

The Procurement Support Team acts as a centre of excellence on procurement matters, and is accountable for the development and maintenance of the Procurement Framework, including setting of procurement policy and strategies, approval of procurement category plans and development of procurement processes and associated tools and templates. The Procurement Support team also

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⁴ In-house services are not subject to a procurement delivery model or supplier selection method.
provides specialist guidance to business departments on procurement policies and processes ensuring they are consistent with best practice, relevant legislative, NZTA and probity requirements.

A key success factor for a centre-led procurement model is creating the balance between leveraging organisational scale (centralised procurement) whilst retaining flexibility in providing customised support for individual business units (decentralised procurement).

The Procurement Support Team consists of seven FTE positions working under the Manager Business Support in the CFO Division. The team includes:

- The Procurement Support Manager;
- Two Procurement Strategy Specialists;
- One Procurement Advisor;
- Two Procurement Coordinators; and
- One Procurement Analyst.

AT’s business departments are responsible for the actual procurement of goods and services, in accordance with approved policy, strategies and category plans whilst following published procedures and internal procurement requirements. The Procurement Support Team will work closely with all business departments, in particular the Project Management Office (PMO) and Asset Management and Planning (AMP), to ensure that the Procurement Framework meets businesses procurement needs, and complements the AT Project Management and Asset Planning Frameworks.

With a forecast annual procurement spend of approximately $1.0b AT can be considered a significant procurement organisation in New Zealand terms. To ensure that best value is achieved, the Procurement Support Team and procurement staff located within the business are required to have an appropriate level of experience and expertise, and adequate resource levels. Management will ensure that AT has access to sufficient endorsed and qualified professionals to undertake key procurement tasks. This will include ensuring that sufficient numbers of qualified tender evaluators are available throughout AT, and that a qualified tender evaluator endorses the tender documents and is present for evaluation of all tenders with an estimated value of over $200,000.

AT will also encourage the appropriate development of its procurement staff through individual personal development plans (PDPs). In doing so, AT will seek to leverage off the Ministry of Economic Development (MED) procurement reform training and education programme which has identified the Chartered Institute of Purchasing and Supply (CIPS) as the leading international representative body for the procurement profession. As well as the professional networking opportunities that CIPS offers in the wider public and private sector procurement profession the AT Procurement Support Manager will also partake in regular meetings with AC and Watercare Procurement managers and participate in the wider management team of the Local Government Joint Procurement Group (JPG).
4 Procurement Category Management

AT has adopted a category management based approach to procurement which acknowledges a combination of organisational structure and the uniqueness of individual category requirements and supplier markets. This category approach will also aid in focusing AT into an ‘all of business’ cross functional approach to procurement rather than a traditional siloed approach.

The procurement categories described below will form the basis for the development of category sourcing strategies and the reporting of spend data.

### Indicative Annual AT Procurement Category Profile

<table>
<thead>
<tr>
<th>Maintenance, Renewals &amp; Operations</th>
<th>Construction</th>
<th>All of Business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category</strong></td>
<td><strong>Category</strong></td>
<td><strong>Category</strong></td>
</tr>
<tr>
<td>Public Transport Service Delivery (PT)</td>
<td>Major Construction (T1)</td>
<td>Professional Services (PS)</td>
</tr>
<tr>
<td>$300m (30%)</td>
<td>$150m (15%)</td>
<td>$80m (8%)</td>
</tr>
<tr>
<td>Road Corridor Maintenance (RM)</td>
<td>Minor Construction (T2)</td>
<td>Information Technology Systems (IT)</td>
</tr>
<tr>
<td>$270m (27%)</td>
<td>$130m (13%)</td>
<td>$10m (1%)</td>
</tr>
<tr>
<td>Facilities Maintenance (FM)</td>
<td></td>
<td>Corporate (Indirect) Goods and Services (GS)</td>
</tr>
<tr>
<td>$10m (1%)</td>
<td></td>
<td>$10m (1%)</td>
</tr>
<tr>
<td>Transport Operations (TO)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$50m (5%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Total</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>$630m (63%)</td>
<td>$280m (28%)</td>
<td>$100m (10%)</td>
</tr>
</tbody>
</table>

The indicative annual AT category spend is based on a combination of historical category spend and an average of the planned procurement spend listed in 5.3. It does not include EMU purchase and CRL costs.

The procurement category positioning matrix assesses the business impact and risk in delivery against relative cost. It is a useful tool to help inform the approach to take to market as well as the amount of time and resources used in procurement.

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5 The indicative annual AT category spend is based on a combination of historical category spend and an average of the planned procurement spend listed in 5.3. It does not include EMU purchase and CRL costs.
4.1 Maintenance, Renewals & Operations

Maintenance, Renewals & Operations procurement includes activities required to retain an asset as near as practical to its original condition or function (maintenance), activities to upgrade, refurbish or replace existing assets with assets of equivalent capacity or capability (renewals), and activities involved in either the operation of AT’s assets or delivery of AT’s operational activities (Operations).

Maintenance, Renewals & Operations procurement covers four categories of spend:

- Public Transport Service Delivery (PT)
- Corridor Maintenance (RM)
- Facilities Maintenance (FM)
- Transport Operations (TO)

4.1.1 Public Transport Service Delivery (PT)

<table>
<thead>
<tr>
<th>Indicative Annual Spend</th>
<th>Category Positioning</th>
<th>Strategic Critical</th>
</tr>
</thead>
<tbody>
<tr>
<td>$300m (30%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

AT Accountability
Operations Division – Public Transport Operations Department

Description
The PT category includes the provision of Bus, Rail 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)

Supplier market
The supplier market for public transport services is limited, with bus services limited to major cities and Wellington being the only other region with metropolitan rail and ferry services.

- **Bus**
  - The market is dominated by one major operator with a further four small-to-medium operators;
  - Two further operators provide airport-specific services;
  - There are significant barriers to entry due to the substantial capital outlay required.

- **Ferry**
  - The market is dominated by one major operator with several smaller operators;
  - There are significant barriers to entry due to the substantial capital outlay required;

- **Rail**
  - KiwiRail operates and maintains the Auckland metro rail network and provides access for passenger services;
  - AT owns the rolling stock, and contracts to a service provider to operate the metro services;
  - Further agreements exist with KiwiRail to lease diesel locomotives, provide locomotive drivers and driver training to the service provider, and provide for rolling stock maintenance.

The PT Operations team have developed individual strategies for each mode of transport. Strategies for Bus and Ferry have previously been endorsed all be it conditional on the impact of future delivery models. The PT Operations team have also worked with the Greater Wellington Regional Council (GWRC) NZTA, industry bodies and operators to develop the new Public Transport Operation Model (PTOM), which has been endorsed by government, and will form the basis of new contracts for bus and ferry services to be implementation during the 2012/13 financial year.

The existing rail service contract expires in 2016 at which time transition to new electric trains will have occurred. Government has approved continuance for the model where AT owns the rolling stock, pays access charges to the network provider and contracts the operation of services.

The focus of this category will be to obtain benefits through collaborative long term contracting, reduction in overheads and focus on delivery. Competitive tension will be maintained by strong contract management supported by key performance measures and benchmarking.
### 4.1.2 Road Corridor Maintenance (RM)

<table>
<thead>
<tr>
<th>Indicative Annual Spend</th>
<th>$270m (27%)</th>
<th>Category Positioning</th>
<th>Strategic Critical</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AT Accountability</strong></td>
<td>Operations Division, Road Corridor Maintenance Department</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Description</strong></td>
<td>RCM includes maintenance and renewal of all local roads and footpaths, including town centres, street lighting and street cleaning but excluding bulk storm water systems within the road corridor.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| **Supplier market**     | • A mature supplier market exists with multiple organisations competing on price and service, including interest from off-shore firms;  
                          • Despite high entry costs in road maintenance the supplier market is generally unrestricted except for street lighting where, due to streetlights being connected to electricity distribution assets, the contractor needs to be approved by the network owner;  
                          • Competition from other sectors, including NZTA, AC, Watercare, Utility firms and Private developers. |

AT believe there is considerable scope for improvement in this category, and has focused resources and effort in this large spend area. A category plan has been developed which will see a regional contracting model adopted with each area managed by a single head contractor and agreed subcontractors, providing a single point of contact for boundary-to-boundary maintenance and renewal of the road corridor and streetlighting infrastructure.

The focus of this category will be to obtain benefits through collaborative long term contracting, reduction in overheads and focus on delivery. Competitive tension will be maintained by the area approach and limiting the number of contracts a supplier can be awarded.

### 4.1.3 Facilities Maintenance (FM)

<table>
<thead>
<tr>
<th>Indicative Annual Spend</th>
<th>$10m (1.0%)</th>
<th>Category Positioning</th>
<th>Tactical Acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AT Accountability</strong></td>
<td>Operations Division – Public Transport, Road Corridor and Parking Operations Departments supported by the Finance Division - Property Department</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Description</strong></td>
<td>FM includes maintenance and renewal of all AT facilities not covered under the RM category including public transport facilities (bus and rail stations, ferry terminals and wharfs, bus stops) and passenger information systems, parking facilities and systems, pay and display equipment, traffic signals and traffic management systems, CCTV equipment, property and AT owned buildings.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| **Supplier market**     | • Active supplier market with multiple organisations competing on price and service;  
                          • Low barriers to entry with market competition available across both public and private sectors;  
                          • Generally unrestricted supplier market except for more specialist technical areas (e.g. traffic signals, parking pay and display machines);  
                          • Specialist prequalification requirements exist for areas where health and safety considerations are necessary (in particular rail corridor, over water at ferry terminals and wharfs). |

Although a specific category plan is yet to be developed it is expected that a business-wide approach to contracting will deliver benefits over current adhoc, siloed contracting models. There is also potential to benefit through joint contracting within the AC group to leverage greater economies of scale.
The focus in this category is to simplify procurement processes and reduce transactional costs.

## 4.1.4 Transport Operations (TO)

<table>
<thead>
<tr>
<th>Indicative Annual Spend</th>
<th>$50m (5%)</th>
<th>Category Positioning</th>
<th>Strategic Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT Accountability</td>
<td>Operations Division – Public Transport, Road Corridor Parking Operations Departments supported by Finance Division - Property Department</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>The TO category includes operational services at all AT facilities including public transport facilities (bus and rail stations, ferry terminals and wharfs, bus stops) and passenger information systems, parking facilities and systems, pay and display equipment, traffic signals and traffic management systems, CCTV equipment, security services and parking enforcement.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Supplier market         | • Active supplier market with multiple organisations competing on price and service;  
                          • Low barriers to new entry suppliers with market competition from across both public and private sectors;  
                          • Supplier market is generally unrestricted except for more specialist technical areas such as traffic signals and parking pay and display machines. |

Although a specific category plan is yet to be developed it is expected that a business-wide approach to contracting will deliver benefits over current adhoc, siloed contracting models. There is also potential to benefit through joint contracting within the AC group to leverage greater economies of scale.

The focus of this category particularly in the more specialist technical areas is security of supply and the development of relationships with key suppliers.

## 4.2 Construction

Construction (Infrastructure) procurement includes distinct procurement activities that create new assets which did not previously exist, and works which upgrade or improve an existing asset beyond its existing capacity. These works may result from growth, community or environmental needs and include property acquisition costs.\(^6\)

Construction procurement covers two categories of spend:

- Major Construction Projects (T1)
- Minor Construction Projects (T2)

---

\(^6\) Although property acquisitions are included within the construction categories spend the purchase of property is not subject to a procurement delivery model or supplier selection method as described in the strategy.
4.2.1 Major Construction (T1)

<table>
<thead>
<tr>
<th>Indicative Annual Spend</th>
<th>$150m (15%)</th>
<th>Category Positioning</th>
<th>Strategic Critical</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT Accountability</td>
<td>Infrastructure Division – Major Projects Department</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>The T1 category includes construction projects or programmes of work being delivered over two or more years that have an estimated total value (for all project phases) equal to, or greater than $10 million, or that are of high strategic importance or public profile.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Supplier market         | - Mature well established supplier market, however high entry costs exist for new entrants;  
                          - Several major competing suppliers in core infrastructure projects;  
                          - International suppliers interested in market for specialist technology-based projects;  
                          - Supplier market is generally unrestricted with market competition from other sectors, including NZTA, AC, Watercare, Utility firms and Private developers. |

The size and duration of T1 projects and programmes of work will mean individual category plans will be developed for each project or programme. It is expected that advanced or hybrid delivery approaches such as Early Contractor Involvement, Alliances or even Public Private Partnerships will be considered as appropriate for this category.

The focus of this category will be to deliver best value through innovative procurement delivery and close commercial relationships with contracted suppliers.

4.2.2 Minor Construction (T2)

<table>
<thead>
<tr>
<th>Spend (FY12)</th>
<th>$130m (13%)</th>
<th>Category Positioning</th>
<th>Tactical Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT Accountability</td>
<td>Infrastructure Division – Infrastructure Development Department</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>The T2 category includes all other construction projects necessary to bring new facilities or assets into service.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Supplier market | - Mature well established supplier market;  
                          - Several large, highly resourced suppliers competing for larger projects;  
                          - Large number of smaller suppliers available for smaller projects, or as subcontractor to the larger suppliers;  
                          - Supplier market is generally unrestricted with market competition from other sectors, including NZTA, AC, Watercare, Utility firms and Private developers. |

Although a specific category plan is yet to be developed, it is expected that a business-wide approach to contracting will deliver benefits over the current project-to-project-based approach. It is also seen as a category where procurement could be simplified by the introduction of a pre-qualification system. Synergies in the supplier market will potentially see low-value construction works in the road corridor delivered by regional maintenance providers.

The focus of this category is to leverage the competitive supplier market to deliver savings whilst maintaining appropriate levels of service.
4.3 All of Business

All of Business procurement includes procurement activities which span all areas of AT’s business. These activities generally support AT’s core outputs. All of Business covers three categories of spend:

- Professional Services (PS);
- Information Technology Systems (IT); and
- Corporate (Indirect) Goods and Services (GS).

4.3.1 Professional Services (PS)

<table>
<thead>
<tr>
<th>Indicative Annual Spend</th>
<th>$80m (8%)</th>
<th>Category Positioning</th>
<th>Tactical Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT Accountability</td>
<td>Finance Division – Procurement Support Team supported by applicable business units</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>The PS category includes all professional services typically provided by consulting engineers, planners, surveyors and other professionals including finance, legal property, human resource and marketing services. Can include strategy or policy development, planning and advice, investigation and design services and the supervision of contracts.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Supplier market         | • Active supplier market with multiple organisations competing strongly on price and service;  
                          • Several large, highly resourced suppliers who deliver across disciplines;  
                          • A mix of smaller providers that specialise in particular services;  
                          • Low barriers to entry with market competition from both public and private sectors;  
                          • Supplier market is generally unrestricted except in some specialised areas. |

AT believe there is considerable scope for improvement in this category, and will focus resources and effort in this area. Although a specific category plan is yet to be developed it is expected that a business-wide approach to contracting, utilising where appropriate, supplier panels to reduce procurement costs will deliver benefits over current adhoc, siloed contracting models.

The focus of this category is to leverage the competitive supplier market to deliver savings whilst maintaining appropriate levels of service.

4.3.2 Information Technology Systems (IT)

<table>
<thead>
<tr>
<th>Indicative Annual Spend</th>
<th>$10m (1%)</th>
<th>Category Positioning</th>
<th>Strategic Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT Accountability</td>
<td>Finance Division – Information Technology Systems Department</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>The IT category includes provision and support of all information technology and communication network systems and equipment. This includes all computer hardware and software, telephony equipment and communication network systems and equipment.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Supplier market         | • Large national and global IT companies including specialist transport system providers;  
                          • Small niche technology companies providing specialist services;  
                          • Supplier market is generally unrestricted for general IT services but subject to competition from both public and private sectors;  
                          • AT often the only procurer or lead procurer of specialist public transport system and equipment. |
This category is wide ranging, in many cases IT will be delivered as a component of a larger core Operations or Infrastructure project. In such projects IT will need to be consulted throughout the procurement process to ensure that any IT components will be compatible with existing systems and complement the AT IT strategy. Due to its complex nature, potential restricted supply market after procurement, and high cost of changing suppliers, this category presents a disproportionately high risk compared to spend.

The focus of this category is security of supply and the development of relationships with key suppliers.

### 4.3.3 Corporate (Indirect) Goods and Services (GS)

<table>
<thead>
<tr>
<th>Spend (FY12)</th>
<th>$10m (1%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category Positioning</strong></td>
<td>Tactical Acquisition</td>
</tr>
<tr>
<td><strong>AT Accountability</strong></td>
<td>Finance Division – Procurement Support Team</td>
</tr>
<tr>
<td><strong>Description</strong></td>
<td>The GS category includes the provision of corporate (indirect) goods and services which do not fit into any other category, and which are procured in order to support the entire AT organisation. It includes corporate supplies, utilities and fleet vehicles.</td>
</tr>
</tbody>
</table>
| **Supplier market** | - Active suppliers with multiple organisations competing on price and service;  
- Low barriers to entry with market competition from both public and private sectors;  
- With the exception of specialist category areas, the supplier market is generally unrestricted. |

Although a specific category plan is yet to be developed, it is expected that a business-wide approach to contracting will deliver benefits over current adhoc contracting models. There is also potential to benefit through joint contracting within the AC group, and adopting syndicated or all-of-government contracts. The focus in this category is to simplify procurement processes and reduce transactional costs.
5 Procurement Delivery

5.1 Delivery Models

A delivery model is the form of relationship established between AT and the supplier to enable purchase the output required to deliver an activity. AT will utilise a range of delivery models to procure goods and services, this are described below. When selecting an appropriate delivery model AT will consider a range of factors including; complexity, scale, urgency, potential for innovation, risk profile and the nature of supplier market.

<table>
<thead>
<tr>
<th>Delivery Model</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staged (Traditional)</td>
<td>Under a Staged approach, activities are delivered through a single or staged series of separate contracts (e.g. investigation, design only, construction only). This is a well understood and widely used approach to procurement, and is often described as the “Traditional” approach.</td>
</tr>
<tr>
<td>Design and Build/Implement</td>
<td>A design and build/implement delivery model uses a single supplier to complete all detailed design and construction/operation. This usually involves a lump sum price arrangement and more risk accepted by the supplier. Under a design and build/implement, the purchaser prepares a brief, which includes the output/service specification and quality requirements. A design and build/implement contract is then awarded to carry out design, and construction/operation of the final output/service. Can also include a combination of Design/Build/Operate and Maintain.</td>
</tr>
<tr>
<td>Shared Risk</td>
<td>A shared risk delivery model uses an integrated team comprising purchaser and supplier participants, which may include designers, builders and material suppliers. 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 and there are 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. The shared risk delivery model includes alliances and competitive alliances.</td>
</tr>
<tr>
<td>Supplier Panel</td>
<td>The supplier panel delivery model establishes a relationship with a group of suppliers that will be used to deliver a bundle of outputs for a group of activities. This does not imply an exclusive arrangement between the purchaser and the panel. Occasionally, the purchaser may engage suppliers that are not panel members to deliver similar outputs. This model enables the purchaser to appoint a range of suppliers that, as a panel, offer the best combination of skills and experience required to deliver the outputs. The supplier panel model uses a two-stage process. In the first stage, suppliers are appointed to the panel. In the second stage, tasks are allocated to panel members. Tasks may be allocated to a preferred panel member by direct appointment or through a competitive process involving two or more panel members.</td>
</tr>
<tr>
<td>Public Transport Operating Model (PTOM)</td>
<td>PTOM is a new framework for building effective and co-operative long-term PT Public-Private partnerships between regional Councils (AT in Auckland) and public transport operators. This will be achieved through collaborative planning, joint investment and risk and reward sharing. Service agreements will be secured through a mix of competitive tendering and negotiation (where appropriate). Under PTOM, both parties have a stake in, and are reliant on each other, for delivering affordable urban bus and ferry services that the public want to use. The PTOM framework has come about after a review of the Public Transport Management Act 2008 (PTMA) led by the Ministry of Transport and involving AT, NZTA, GWRC and industry representatives.</td>
</tr>
<tr>
<td>All of Government (AOG)</td>
<td>The Ministry of Economic Development (MED) is leading the NZ government procurement reform project which includes AOG contracts (single supply agreements between the crown and contracted suppliers for common services and goods). These contracts are available to Local Government organisations and AT will look to utilise these contracts where appropriate. It is expected that these contracts will offer direct savings as well as a reduction in procurement overheads in non-core (indirect) spend areas.</td>
</tr>
</tbody>
</table>
Note; Shared Risk and Supplier Panel are considered advanced delivery models by NZTA and use of these models for NZTA funded activities will require specific approval by NZTA.

Approvals: Specific NZTA approval is sought for AT to use the PTOM Delivery Model as appropriate for the procurement of bus and ferry public transport services funded by NZTA.

Approvals: Specific NZTA approval is sought for AT to use the AoG Delivery Model as appropriate for the procurement of activities funded by NZTA.

5.2 Planned Major Projects

The LTP and RLTP outline the major transport projects planned to be delivered in Auckland in the next 10 years. The AT share of these projects will see AT procure goods and services to the value of approximately $1.0b annually over this period. Major AT projects identified in the RLTP include;

- Purchase of Electric Trains (EMU’s)
- City Rail Link (CRL)
- Auckland-Manukau Eastern Transport Initiative (AMETI)
- Other arterial road upgrades
  - Dominion Road
  - Tiverton/Wolverton Street
  - Albany Highway
  - Redoubt/Mill Road
- Hobsonville/Massey North Transport Integration (NORSGA).

5.3 Planned Procurement Spend

The RLTP lists and prioritises the Auckland land transport programme that will be carried out in the next three financial years (2012/15). The table below shows the approximate AT spend per financial year by activity and procurement category. For more detail of the programme readers should refer to the RLTP or the forward workplan published on the procurement page of the AT website.

(www.aucklandtransport.govt.nz/about-us/procurement)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Category</th>
<th>2012/13 Costs ($m)</th>
<th>2013/14 Costs ($m)</th>
<th>2014/2015 Costs ($m)</th>
<th>3 year Total ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Road Infrastructure</td>
<td>T1, T2, TO, PS, IT</td>
<td>$240m</td>
<td>$231m</td>
<td>$235m</td>
<td>$706m</td>
</tr>
<tr>
<td>Public Transport Infrastructure</td>
<td>T1, T2, TO, PS, FM, IT</td>
<td>$247m</td>
<td>$393m</td>
<td>$372m</td>
<td>$1,012m</td>
</tr>
<tr>
<td>Walking and Cycling</td>
<td>T2</td>
<td>$11m</td>
<td>$13m</td>
<td>$13m</td>
<td>$37m</td>
</tr>
<tr>
<td>Transport Planning</td>
<td>PS</td>
<td>$11m</td>
<td>$10m</td>
<td>$13m</td>
<td>$26m</td>
</tr>
<tr>
<td>Road Safety Promotions</td>
<td>PS</td>
<td>$16m</td>
<td>$16m</td>
<td>$17m</td>
<td>$49m</td>
</tr>
<tr>
<td>Public Transport Services</td>
<td>PT</td>
<td>$305m</td>
<td>$325m</td>
<td>$316m</td>
<td>$946m</td>
</tr>
<tr>
<td>Renewal of Local Roads</td>
<td>RM</td>
<td>$141m</td>
<td>$142m</td>
<td>$146m</td>
<td>$429m</td>
</tr>
<tr>
<td>Maintenance of Local Roads</td>
<td>RM</td>
<td>$113m</td>
<td>$118m</td>
<td>$123m</td>
<td>$354m</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$1,084m</strong></td>
<td><strong>$1,248m</strong></td>
<td><strong>$1,235m</strong></td>
<td><strong>$3,567m</strong></td>
</tr>
</tbody>
</table>

7 Includes EMU rolling stock purchase, and CRL costs.
8 Includes finance cost for EMU’s.
## 5.4 Maintenance, Renewals & Operations

### 5.4.1 Public Transport Service Delivery (PT)

<table>
<thead>
<tr>
<th>Delivery model</th>
<th>PTOM, Staged</th>
</tr>
</thead>
</table>

**Procurement approach**

The PT team have produced category plans for each mode of transport. For Bus and Ferry services future contracts will be awarded under PTOM. The rail service contract has been extended to 2016 to allow transition to the new electric trains. Total Mobility contracts are awarded under a standard contract based on demand.

**Rationale**

Under PTOM value for money will be achieved through the use of collaborative planning, joint investment, risk and reward sharing, a reduction in administrative overheads and a focus on delivery. Performance of services will be incentivised under the new contracts through the reward of contract term extensions for the highest performing services against a set of pre-determined criteria of patronage growth and subsidy value for money, while ensuring quality and performance of services are delivered.

The method of award of contract will be based on a commerciality ratio with the highest performing units being negotiated and the others tendered. For suppliers that perform there will be greater certainty and give them confidence to invest in the service through higher return on investment.

The 52 units identified for bus PTOM are a mix of small, medium and large areas (measured by the number of peak vehicles required) this is expected to enhance competition in the Auckland region with opportunities of new operators and scope for incumbent operators to grow. Competition will also be generated through benchmarking between units.

Under PTOM the existing commercial registered services will be removed.

**Workplan**

The transition to PTOM will commence in the 2012/13 financial year. Under this transition operators with existing commercial registered services will receive equivalent units under a like for like obligation. Initial terms of unit contract will be either six, nine or twelve years.

**Approvals:** No Specific NZTA approval is sought for the PT category. However the PTOM delivery model is subject to approval in 5.1. Prior to tendering commencing NZTA will separately approve the PTOM RFP document.
5.4.2 Road Corridor Maintenance (RM)

<table>
<thead>
<tr>
<th>Delivery model</th>
<th>Staged.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement approach</td>
<td>The RM team have developed a category plan which will see a regional contracting model adopted. Road maintenance and renewals will be carried out in nine contract areas with each area managed by a single head contractor with agreed subcontractors. This will provide a single point of contact for boundary-to-boundary maintenance of the road corridor. Streetlight maintenance and renewals will be carried out in two contract areas.</td>
</tr>
<tr>
<td>Rationale</td>
<td>Value for money will be achieved by implementing a consistent approach across the region, developing collaborative contracts, reducing administrative overheads through a reduction in total number of contracts and a greater focus on delivery. Competitive price tension will be retained in the regional area approach, and suppliers will benefit from longer term contracts (4+2+2) which will offer greater security and return on investment. AT will also limit the number of contracts any one supplier can hold. Cross organisational collaboration will be required between AC and Watercare to ensure coordination of activities in the road corridor. It is also anticipated that maintenance providers will also carry out minor construction activities within the road corridor. Due to restrictions in the market imposed by the network provider, streetlight maintenance will be managed under separate regional contracts. For consistency with the maintenance contracts and acknowledging the limited supplier market longer term (4+2+2) streetlight maintenance contracts will also be implemented.</td>
</tr>
<tr>
<td>Workplan</td>
<td>Roll out of the new road maintenance and renewal contract has started in the south with three contracts commencing 01 Jul 12. The four central/west contract will commence from 01 Jul 13 and the two north contracts will commence 01 Jul 14. The two regional streetlight maintenance and renewal contracts will commence 01 Jul 14.</td>
</tr>
</tbody>
</table>

Approvals: NZTA approval is already been obtained for the three extended term (4+2+2) southern region road maintenance and renewal contracts. Further NZTA approval is sought for the remaining six extended term (4+2+2) road maintenance and renewal contracts for the central/west and northern regions.

Approvals: NZTA approval is sought for the two extended term (4+2+2) regional streetlight maintenance and renewal contracts.

5.4.3 Facilities Maintenance (FM)

<table>
<thead>
<tr>
<th>Delivery model</th>
<th>Staged with Supplier Panels considered in the future.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement approach</td>
<td>Although a specific category plan is still to be developed it is expected that a business-wide approach to procurement will deliver benefits over current adhoc, siloed contracting models. There is also potential to benefit through joint procurement within the AC group to leverage greater economies of scale.</td>
</tr>
<tr>
<td>Rationale</td>
<td>Value for money will be achieved by developing and/or maintaining competitive tension within the supplier market, and where applicable, by reducing administrative overheads via implementing business-wide AC group procurement. Where supply risk remains, higher value-for-money will be obtained by increasing the relative value of contracts through longer terms or a greater scope of services. Supplier panels will be considered in the future for like services such as electricians or plumbers, however the benefits will need to be weighed up against panel overhead costs.</td>
</tr>
<tr>
<td>Workplan</td>
<td>Priority areas identified for procurement in the immediate future focus on business wide services such as security, cleaning services, lift maintenance and building certification. More specialist services will be address as resources allow.</td>
</tr>
</tbody>
</table>
Approvals: No specific NZTA approval is sought for the FM category. Any approvals for future supplier panels will be requested as and when required.

5.4.4 Transport Operations (TO)

<table>
<thead>
<tr>
<th>Delivery model</th>
<th>Staged.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement approach</td>
<td>Although a specific category plan is still to be developed it is expected that a business-wide approach to procurement will deliver benefits over current adhoc, siloed contracting models. There is also potential to benefit through joint procurement within the AC group to leverage greater economies of scale.</td>
</tr>
<tr>
<td>Rationale</td>
<td>Value for money will be achieved by developing and/or maintaining competitive tension within the supplier market, and where applicable, by reducing administrative overheads via implementing business-wide AC group procurement. Where supply risk remains, higher value-for-money will be obtained by increasing the relative value of contracts through longer terms or a greater scope of services.</td>
</tr>
<tr>
<td>Workplan</td>
<td>Still to be established but a key area identified and for which work has commenced is the procurement of pay and display equipment.</td>
</tr>
</tbody>
</table>

Approvals: No specific NZTA approval is sought for the TO category.

5.5 Construction

5.5.1 Major Construction (T1)

<table>
<thead>
<tr>
<th>Delivery model</th>
<th>Staged, Design and Build with Shared Risk models considered in the future.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement approach</td>
<td>The size and duration of T1 category projects mean that individual projects will be developed with individual procurement strategies. Advanced delivery approaches such as Early Contractor Involvement (ECI), Alliances and Public Private Partnerships will be considered on future projects. The RLTP has estimated a transport funding gap of approximately $2.8b over the next 10 years because of this it is expected that alternative funding models will need to be considered to enable the delivery of some major projects. This is has the potential to impact the methods of procurement for these activities.</td>
</tr>
<tr>
<td>Rationale</td>
<td>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 approach for each particular project. It is expected that procurement could be further simplified in the future by the implementation of a pre-qualification system supported by an appropriate performance measurement system.</td>
</tr>
<tr>
<td>Workplan</td>
<td>The T1 workplan will largely be governed by RLTP prioritisation. Major projects listed in the RLTP are noted in 5.2 above. Work has commenced on the development of a pre-qualifications system.</td>
</tr>
</tbody>
</table>

Approvals: No specific NZTA approval is sought for the T1 category. Any approvals for future advanced models will be requested as and when required.
5.5.2 Minor Construction (T2)

<table>
<thead>
<tr>
<th>Delivery model</th>
<th>Staged and Design and Build.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement approach</td>
<td>Although a specific category plan is still to be developed it is expected that a business-wide and programme approach to procurement will deliver benefits over the current adhoc contracting models. There is also potential to benefit through joint procurement within the AC group to leverage greater economies of scale.</td>
</tr>
<tr>
<td>Rationale</td>
<td>Value for money will be achieved by developing and maintaining competitive tension in the supplier market and reducing administrative overheads by implementing business-wide contracts, and where applicable AC group wide contracts. Minor value works contracts in the road corridor are expected to be delivered by the area maintenance provider and subcontractors. It is expected that procurement could be further simplified in the future by the implementation of a pre-qualification system supported by and appropriate performance measurement system.</td>
</tr>
<tr>
<td>Workplan</td>
<td>The T2 workplan will largely be governed by RLTP prioritisation. Work has commenced on the development of a pre-qualifications system.</td>
</tr>
</tbody>
</table>

Approvals: No specific NZTA approval is sought for the T2 category. Any approvals for future advanced models will be requested as and when required.
# 5.6 All of Business

## 5.6.1 Professional Services (PS)

<table>
<thead>
<tr>
<th>Delivery model</th>
<th>Staged and Supplier Panels. AoG where available and considered appropriate.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement approach</td>
<td>Although a specific category plan is still to be developed it is expected that a business-wide approach to contracting, utilising where appropriate, supplier panels to reduce procurement costs will deliver benefits over current adhoc, siloed contracting models. Where available benefits may be obtained from AoG contracts.</td>
</tr>
<tr>
<td>Rationale</td>
<td>Value for money will be achieved by developing and maintaining competitive tension in the supplier market and reducing administrative overheads by implementing business-wide contracts, and where applicable, supplier panel contracts. The RCM Technical Support Services (TSS) will be provided by three regional supplier panels to support maintenance and renewal providers. These contracts are currently out for tender with awards expected to take place to allow the south region panel to commence alongside the maintenance and renewal contracts on 01Jul12. The central/west and north panels will be awarded at the same time as the south panel but will start from 01Jul13 and 01Jul14 respectively. Due to the interaction with the maintenance and renewal providers and collaborative nature of these contracts it has been determined that best value will be gained from longer term 4+2+2 contracts. Asset Management and Planning (AMP) PS contacts will follow a staged approach with Roading, Structures and Traffic Counting contracts following a regional approach, and specialist Wharf and Rail and Bus facilities contracts delivered on individual contracts. These contracts will follow a 2+3 term. In both RCM TSS and AMP PS contracts AT has limited the number of contracts an individual supplier can hold to ensure market sustainability. A Traffic Engineering Professional Services supplier panel of 6 providers has also been established with a 3+1+1 term starting 01Oct11. This panel will provide PS for minor safety work up to a value of $200k which will be able to be allocated by direct appointment AT has also established a PS Supplier Register which will be used to gain a greater understanding of the PS market and capabilities. This register will be maintained on the AT website and suppliers will be selected from the register when the direct appointment and invited tender supplier selection methods are used. Initially the register lists 44 PS disciplines covering infrastructure and capital work but is planned to be extended to cover a full range of infrastructure and operations PS.</td>
</tr>
<tr>
<td>Workplan</td>
<td>It is intended that the PS category will continue to be a category where benefits and value can be gained. Focus will be on further developing the PS supplier register and continuing to focus on a business wide approach to procurement. Other areas to be reviewed are marketing services, probity and legal services. Where it is considered appropriate AoG contracts will be utilised.</td>
</tr>
</tbody>
</table>

Approvals: NZTA approval has already been obtained for the Traffic Engineering PS supplier panel for works up to the value of $200k which will be able to be allocated by direct appointment, and approval for the extended term (4+2+2) contract for the RM TSS supplier panel in the south region. Further NZTA approval is sought for the extended term (4+2+2) contracts for the RM TSS supplier panels for the central/west and north regions. Any further approvals will be requested as required.
5.6.2 Information Technology Systems (IT)

**Delivery model**
Staged and Design Build. AoG where available and considered appropriate.

**Procurement approach**
Although this category is wide-ranging, in most cases IT will be delivered as a component of a larger core MRO or Construction category project (i.e. a T1 rail station upgrade will require real-time signage and CCTV equipment, or, a TO category parking pay and display upgrade will have an ICT component). In such projects IT will need to be consulted throughout the procurement process to ensure that any IT components will be compatible with existing systems and complement the Business IT strategy. For commodity based IT requirements (e.g. Desktop computers and MFD’s) benefits may be obtained from syndicated or AoG contracts when available.

**Rationale**
Value for money will be achieved through the use of collaborative contracting, reduction in administrative overheads and a focus on delivery. It is also considered that in many cases it will be difficult to specify and price technical IT solutions. In such occasions benefits will be obtained from, and price risks reduced by undertaking quality based evaluations. Competitive price tension will be limited as the cost of changing suppliers will often be prohibitive. Suppliers will benefit from longer term contracts which will offer greater returns on investment.

**Workplan**
Still to be established.

**Approvals:** Due to the complexity and difficulty to scope and price some technical IT solutions NZTA approval is sought for AT to use the quality based method for IT category contracts funded by NZTA where it is determined best value for money will be obtained by using this method.

5.6.3 Corporate (Indirect) Goods and Services (GS)

**Delivery model**
Staged with Supplier Panels considered in the future. AoG where available and considered appropriate.

**Procurement approach**
Although a specific category plan is still to be established it is expected that a business-wide and programmed approach to procurement will deliver benefits over current adhoc contracting models. There is also potential to benefit through joint procurement within the AC group to leverage greater economies of scale or utilise AoG contracts. This has already been undertaken in the supply of electricity where both methods have been utilised to deliver both process and cost savings.

**Rationale**
Value for money will be achieved through the reduction of transaction costs, simplification of procurement activities, and where possible, utilising benefits from shared service agreements or leveraging benefits from AC group, syndicated and AoG contracts. Generally shorter term agreements will be better suited to this category so that flexibility can be maintained in a low risk competitive market.

**Workplan**
Still to be established but priority areas include fleet vehicles, energy efficiencies and office consumables.

**Approvals:** No specific NZTA approval is sought for the GS category. Any approvals for future supplier panels will be requested as and when required.
6 Supplier Selection

Once the most appropriate delivery model has been selected, Auckland Transport will select suppliers using one of the selection methods outlined below. Every supplier selection process must be commenced from the default position of an open competitive competition, in which all potential suppliers have the opportunity to compete. Notwithstanding this there are occasions where best value for money will be achieved through a closed contest or direct appointment selection, this is discussed further in this section. In all instances a statement outlining the value for money context and impact on the supplier market will be required to be documented in the Procurement Plan or Supplier Selection Plan.

6.1 Supplier Selection Methods

The supplier selection methods available are as follows:

<table>
<thead>
<tr>
<th>Method</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct Appointment (&lt;$100k)</strong></td>
<td>Used for low dollar value contracts, contracts where there is a limited or monopolistic supplier market, emergency reinstatement, or where value for money would be compromised by a competitive process. In this case a single supplier will be selected based on experience and skill. All contract terms, including price, would be determined by negotiation.</td>
</tr>
<tr>
<td><strong>Lowest Price Conforming (LPC)</strong></td>
<td>Where AT determines that best value for money will be obtained by suppliers competing on price alone. Of the suppliers that meet the requirements of the tender (conforming), the one with the lowest price will be awarded the contract. This method is most suited to lower cost, low risk contracts.</td>
</tr>
<tr>
<td><strong>Purchaser Nominated Price (PNP)</strong></td>
<td>Where AT requires outputs which are difficult to specify or may be completed to a varying degree, and the price that it is prepared to pay has already been determined. Best value for money is obtained by selecting a supplier that provides the best proposal for the price set in the tender.</td>
</tr>
<tr>
<td><strong>Price Quality Method (PQM)</strong></td>
<td>PQM is a supplier selection method where the preferred supplier is selected by balancing price and quality through the use of a formula. PQM should be used where AT determines 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 AT uses to determine how additional quality is to be valued must be clearly described in each tender.</td>
</tr>
<tr>
<td><strong>Quality Based Method (QBM)</strong> 9</td>
<td>QBM is a method where quality attributes of suppliers who meet the requirements of the tender are graded and the preferred supplier is selected solely on that basis. Price is then negotiated with the preferred supplier, based on their price proposal. This method should be used where it is determined that the best value for money will be obtained by selecting a supplier on the basis of quality alone. There is no competition on price.</td>
</tr>
</tbody>
</table>

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

- Focus on price – all participants must meet quality requirements with the supplier then chosen on the basis of price; or
- 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; or
- 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 informed by the need to attain best value for money. Where the scope of work is well defined, the resources available in the

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9 QBM is considered an advanced supplier selection method by NZTA when used for anything other than professional services. Use of QBM for NZTA funded activities other than Professional Services will require specific approval by NZTA. (Note: approval to use QBM for IT category procurement has been requested in 5.6.2)
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 transfer to the supplier increases, or where achievement of standards becomes more important, the emphasis on quality over price will become more pronounced.

Other factors which will also influence the supplier selection method and resulting attribute weightings used include:

- Scale – What is the overall scale or value of the procurement
- Complexity – What is the level of complexity involved in the technical and commercial aspects of the procurement and what are the opportunities for the supplier to deliver innovation
- Risk – What is the overall level and nature of the risks in the procurement and who is best placed to manage them
- Market – What is the current supplier market and expected level of market interest in the procurement given resource availability and economic drivers
- Impact – What is impact of the procurement on the transport network
- Stakeholders – What is the impact of the procurement on AT’s customers, and level of influence of wider stakeholder groups.

### 6.2 Non-price Attributes

For all supplier selection methods AT will evaluate proposals using the following non-price attributes:

<table>
<thead>
<tr>
<th>Mandatory</th>
<th>Relevant Experience</th>
<th>The supplier’s previous experience in areas relevant to the outputs being purchased.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevant Skills</td>
<td>Relevant Skills</td>
<td>The competence of the personnel that the supplier proposes to use, with particular regard to the skills and experience in areas relevant to the outputs being purchased.</td>
</tr>
<tr>
<td>Methodology</td>
<td>Methodology</td>
<td>The procedures the supplier proposes to use to achieve the specified end result.</td>
</tr>
<tr>
<td>Optional</td>
<td>Track Record</td>
<td>The supplier’s record of delivering works or services to the quality standards required, on time and within budget.</td>
</tr>
<tr>
<td>Resources</td>
<td>Resources</td>
<td>The equipment, including facilities and intellectual property that the supplier proposes to use to deliver the outputs.</td>
</tr>
<tr>
<td>Functional Requirements</td>
<td>Functional Requirements</td>
<td>The ability of the supplier’s solution to meet the functional or technical specifications required.</td>
</tr>
<tr>
<td>Financial Viability</td>
<td>Financial Viability</td>
<td>The supplier’s ability to access the financial resources required to deliver the outputs to be purchased.</td>
</tr>
<tr>
<td>Health and Safety</td>
<td>Health and Safety</td>
<td>The ability of the supplier to meet the required Health and Safety standards.</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Sustainability (Environmental/Social/Economic)</td>
<td>The ability of the supplier to meet AT’s values and expectations with regarding to sustainability (Environmental, Social &amp; Economic).</td>
</tr>
</tbody>
</table>

In all cases the Registration of Interest (ROI) or Request for Proposal (RFP) will describe, which attributes will be evaluated, the weighting to be applied to each attribute, or whether the attribute will be assessed as a pass/fail.
6.2.1 Non-price weighting for PQM tenders

AT allows a combined non-price weighting of between 30% and 90% to be applied to the non-price attributes under PQM. When using PQM AT 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 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; and
- 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.

6.3 Shortlisting

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

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

However it is recognised that shortlisting could have potential disadvantages including decreasing overall market sustainability and competitiveness, and creating barriers for entry to new suppliers. Used incorrectly, shortlisting could increase the time and cost associated with the procurement process.

As a result, appropriate actions should be carried out prior to the implementation of a shortlisting process. For example, a simple RFI process could be used to gauge the level of market interest, thereby ascertaining if a shortlisting process is required.

When appropriate AT will shortlist by undertaking a two-step tender process (ROI followed by a RFP). At the end of the ROI evaluation participants will be advised whether or not they have been shortlisted. Participants 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, AT will:

- Shortlist to four to five participants for contracts valued up to $10m
- Shortlist to three to four participants for contracts between $10m and $25m
- Shortlist to three participants for contracts valued over $25m
- Include an indicative methodology attribute at the ROI stage, to encourage innovation and open entry to new suppliers, if methodology is not to be evaluated until the RFP.

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.

6.4 Supplier Registers

A supplier register gives any 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.

AT has implemented a supplier register for professional service suppliers that is currently limited to infrastructure and capital works categories. The intent is that this will be expanded to cover professional service categories across all of the infrastructure and operations divisions.

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

### 6.5 Prequalification

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 would involve contractors being assessed over a range of quality criteria and then being registered for specific types and sizes of work. Tenders would then specify the minimum prequalification level required to enable a supplier to submit a tender and the tenderer would not be required to resubmit information assessed as part of the prequalification.

Suppliers are monitored for compliance against their prequalification level as part of supplier performance management. Supplier prequalification levels can rise, fall, or remain unchanged depending on performance.

AT has commenced work to implement a prequalification system to cover construction categories (physical works) and is undertaking this work in conjunction with the development of a performance management system.

### 6.6 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
- The supplier selection process commenced as a competitive tender, but only one confirmable tender was received; or
- A monopoly supplier situation exists; or
- A 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
- Under the PTOM delivery model The Regional Commerciality Ratio determines that the award of operating unit will be determined by negotiation.

When selecting a supplier using the direct appointment method AT will use the following evaluation procedure:

- **Step 1** – Undertake market research to determine potential suppliers
- **Step 2** – Identify the preferred supplier and select on the basis of the supplier’s experience and skills with activities of the same or similar nature
- **Step 3** – Negotiate contract terms with the preferred supplier.

Where a Supplier Register has been established for a particular discipline, step one will not be required, as selection will be made from the register.

### 6.7 Competitive Tendering

Competitive Tendering is the default method by which AT will source goods and services above the value of $100k. AT has established an e-Tendering portal hosted by Tenderlink which can be accessed from the page of the AT website. ([www.aucklandtransport.govt.nz/about-us/procurement](http://www.aucklandtransport.govt.nz/about-us/procurement)). Suppliers can register on the e-Tendering portal free of charge.

Depending on the value of the procurement AT will conduct either a closed or open tender process as detailed below:

<table>
<thead>
<tr>
<th>Contest Type</th>
<th>Procurement Value</th>
<th>Tender Available to</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closed</td>
<td>$100k to $250k</td>
<td>Minimum three willing and able suppliers</td>
</tr>
<tr>
<td>Open</td>
<td>&gt;$250k</td>
<td>All willing suppliers</td>
</tr>
</tbody>
</table>
Where a Supplier 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 procurement AT will also consider the following when planning to undertake a competitive tender process:

- Specifications 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; and
- There must be sufficient time for tendering to be used.

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

AT is keen to leverage the efficiencies and cost benefits, both to AT and suppliers, of electronic tendering and will by default utilise;

- The electronic tender boxes provided for in the e-Tendering portal; and
- The electronic tender forum to receive and respond to tender queries.

In all cases the tender documents will detail the AT point of contact for the tender process, and detail the method for submitting queries and tender responses.

**Approvals:** Specific NZTA approval is sought to allow for closed contest tenders for procurement of activities funded by NZTA up to the value of $250k.

### 6.7.1 Interactive Tendering

AT will use an interactive tender process for high value (>=$10m), high risk procurement activities, or where it is determined that best value 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 following;

- A combined pre-tender release meeting;
- A combined post-tender release meeting; and
- Individual participant meetings.

The key purpose of the interactive tender process is to;

- Clarify the intent and improve the standard of the tender to ensure 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;
- Align AT and suppliers’ objectives; and
- Allow the supplier to put forward conceptual ideas, or alternate proposals and for AT to provide feedback on the acceptability of these.

In all cases when interactive tendering is used AT will ensure that the process is conducted fairly and no participant receives an unfair advantage over another.

### 6.8 Evaluation of Tenders

#### 6.8.1 Probity

AT considers probity of process of utmost importance. All tenders will state a contact should suppliers have a probity concern with regard to a particular procurement activity. AT will also appoint an independent Probity Auditor for all procurements valued above $10m, or that are considered high risk. Quarterly probity reviews of all other procurements will also be undertaken.

#### 6.8.2 Tender Evaluation Panels

Tender Evaluation Panels (TEPs) are responsible for the evaluation of tender responses. The TEP will be led by the TEP Chairperson 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 sign a Conflict of Interest and Confidentiality Form prior to evaluation, and where an evaluator indicates a conflict or potential conflict ensuring the appropriate mitigation is undertaken; and
- Ensuring that after each individual evaluator completes their own scoring, and that the TEP meet and agree on a final consensus evaluation score.

The TEP will be made-up of at least three evaluators (two when LPC is used under $250k), one of which will be required to be a NZTA qualified evaluator if the procurement is NZTA funded and valued over $200k.

Generally evaluation will be carried out by the TEP through a five stage process:

- **Stage 1** - Evaluation of proposal received
- **Stage 2** - Reference checking (external and internal)
- **Stage 3** - Determination of preferred participant(s)
- **Stage 4** - Negotiation with preferred participant(s)
- **Stage 5** - Acceptance of proposal

### 6.8.3 Grading scale for non-price attributes

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

<table>
<thead>
<tr>
<th>Grade</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>90 to 100</td>
<td>Excellent</td>
</tr>
<tr>
<td></td>
<td>Demonstrates exceptional compliance or ability to convey exceptional</td>
</tr>
<tr>
<td></td>
<td>provision of the requirement</td>
</tr>
<tr>
<td>75 to 89</td>
<td>Very Good</td>
</tr>
<tr>
<td></td>
<td>Requirements are fully covered in all material respects</td>
</tr>
<tr>
<td>60 to 74</td>
<td>Good</td>
</tr>
<tr>
<td></td>
<td>Requirements are adequately covered</td>
</tr>
<tr>
<td>50 to 59</td>
<td>Average</td>
</tr>
<tr>
<td></td>
<td>Adequate, with some deficiencies that are not likely to have any adverse</td>
</tr>
<tr>
<td></td>
<td>effect</td>
</tr>
<tr>
<td>36 to 49</td>
<td>Poor</td>
</tr>
<tr>
<td></td>
<td>Barely adequate and would need considerable improvement in this attribute,</td>
</tr>
<tr>
<td></td>
<td>if selected</td>
</tr>
<tr>
<td>35 or less</td>
<td>Unacceptable</td>
</tr>
<tr>
<td></td>
<td>Non – compliance or inability to convey provision of the requirement</td>
</tr>
</tbody>
</table>

### 6.8.4 Alternative proposals

To encourage innovation from the supplier market AT will generally allow alternative proposals. Generally AT will require a conforming proposal to be submitted with an alternate tender to show the additional value the alternative proposal provides. When submitted, alternative proposals will be evaluated after conforming proposals.

### 6.8.5 Reference Checking

AT will carry out reference checking to assist in determining whether the supplier can deliver the output described in their tender submission. Reference checking will be carried out after the tender has been evaluated on its own merits and will include:

- Reference checking with referees provided in the proposal
- Internal reference checking of prior performance on AT projects

### 6.8.6 Negotiation with Preferred Participants

Where appropriate AT will negotiate with the preferred participant(s) prior to tender acceptance. AT
sees negotiation as an effective risk management tool which if 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 participant(s) in preparing their proposal(s); and
- Achieve a reduction in costs or an increase in value, where appropriate.

**Approvals:** Specific NZTA approval is sought to allow where appropriate for AT to negotiate with multiple preferred participants after evaluation of tenders for procurement of activities funded by NZTA.

### 6.8.7 Due-diligence

AT will undertake independent due diligence of the preferred participant(s) in procurements valued above $10m, or that are considered high risk. Where particular financial records are requested for this purpose AT may request that these be provided in a separate tender envelope.

### 6.8.8 Notification of Tender Results

AT will notify all participants in writing of the tender outcome and offer all participants 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 participants scores will be provided until the end of the evaluation process (after tender acceptance has occurred), however participants will be notified during the evaluation process if:

- Their proposal has been excluded from evaluation due to non-conformance, failing a pass/fail attribute or failing to score above 35 in any non-price attribute;
- They have been shortlisted (or not) after the first stage of a two stage (ROI/RFP) tender; or
- They are a preferred (or not a preferred) participant.

Tender debriefings will focus on the strengths and weaknesses of the participants proposal against the evaluation criteria, rather than a comparison to other responses received. Commercially sensitive information relating to other participants proposals will not be disclosed as part of the debrief process.

### 6.9 Publishing of contract awards

AT will publically publish contract awards, in the previous six months over the value of $50k on the procurement page of the AT website ([www.aucklandtransport.govt.nz/about-us/procurement](http://www.aucklandtransport.govt.nz/about-us/procurement)). This list will be updated on a monthly basis. In addition award notices will also be published on the AT e-Tendering portal for all tenders advertised on the e-Tendering Portal.
7 Contract Models

7.1 Contract types

The AT Procurement Framework will contain a range of contract templates for use by AT staff. These contracts will be wherever possible, standard form contracts, and will have been through a legal review by an AT legal provider. Standard contract forms in use by AT will include:

- NZS3910:2003 – Conditions of contract for building and civil engineering;
- CCCS: Aug 2009 – Conditions of contract for consultancy services;
- ACENZ/IPENZ: Jul 2011 – Short form agreement for consultant engagement;
- FIDIC: - Conditions of contract;
- NZIA: - Standard conditions of contract;
- PTOM Agreements;
  - Tier 1 – Regional agreement;
  - Tier 2 – Partnering agreement;
  - Tier 3 – Operating unit agreement; and
- Hybrid Auckland Transport approved contracts.

AT will operate a Contract Control Change Group (CCCG) which will include representatives from key business groups. The CCCG will be responsible for recommending to the Procurement Support Team changes to the standard AT contract templates.

AT will continue to review its contract templates, and in particular, look to adopt more collaborative contracting models such as NEC3.

7.2 Performance Management

7.2.1 Supplier Performance Management

AT Transport will adopt a performance measuring and reporting systems as appropriate for the type of contract. Supplier performance management will:

- Promote best practice and incentivise positive supplier behaviour that aligns with AT’s objectives;
- Set benchmarks and performance targets to communicate expectations on performance;
- Provide AT’s suppliers with feedback on their performance;
- Provide period health checks on projects and vendors to be used as a management tool to identify issues and improvement opportunities; and
- Provide AT with measures other than price to support procurement decisions.

Supplier performance management will be conducted at three discreet levels:

- Contract Performance – carried out by AT business unit contract managers will measure the performance of the supplier against contract performance targets;
- Vendor Management – carried out by the Procurement Support Team will leverage contract performance measures and measure supplier performance across AT business units; and
- Benefit Realisation – Carried out by AT project managers to ascertain whether the project delivers the anticipated benefits detailed in the business case.

7.2.2 Supplier Performance Incentives/Disincentives

AT will, where appropriate, include performance based incentives/disincentives into its contracts. This will particularly be the case in strategic relationship based collaborative contracts. Examples of this are being implemented in:

- 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 AT to the service provider over the same period. Any surplus revenue growth will be shared between AT and the provider on a 50/50 basis. In the case of revenue losses, the service provider would bear all losses to the equivalent value of any
inflation payment. All further losses will be shared between AT and the provider 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.

### 7.2.3 Procurement Performance Management

Due to the large and complex nature of AT’s procurement activities, it is appropriate that the procurement of key projects and programmes will be externally reviewed to assess their efficiency, effectiveness, value for money and benefit realisation. It is expected that all high risk procurements and a selection of lower risk procurements will be externally assessed by an independent probity advisor.

AT’s procurement performance will also be benchmarked against similar organisations to demonstrate to external parties that AT’s procurement processes:

- Are customer and output focussed;
- Support sustainable supplier markets;
- Where applicable, support innovative and collaborative relationships;
- Operate in an open, fair and transparent manner; and
- Minimise transaction costs.

The procurement function itself will also be the subject of periodic internal and external reviews to ensure that it continually improves and adjusts to changing market conditions. Lessons learned will be used to improve future procurement activities and initiate changes to the Procurement Framework.

Performance of AT’s procurement function will be reported quarterly to the AT Finance and Risk Committee. Reporting will include:

- Activity reporting – Tenders published, contracts awarded, supplier and purchasing data.
- Category reporting – Category spend, forecasted activity, risks and opportunities.
- Efficiency reporting – Savings made through procurement i.e. procurement estimate versus award value versus contract outturn or savings made through ‘smarter buying’ or innovation.

Over the first year of this strategy AT will target a 1% savings target. This target will be reviewed on an annual basis based on overall organisational goals.
8 Improvement Plan

Acknowledging the importance of procurement across the AT organisation and the fact that sufficient time has occurred since the establishment of AT to understand the working of the organisation, AT has undertaken to conduct a review of the procurement function in the AT organisation in the 2012/13 financial year as part of an overall review of procurement, purchasing and contract management. This strategic procurement programme will build on the assumptions that;

- Procurement is a core function in AT and as such capability needs to be maintained in-house; and
- The Centre-Led Action Network (CLAN) procurement model is the appropriate procurement model to be used in an organisation the size of AT.

The strategic procurement programme will focus on three key work streams;

- Review of the CLAN structure;
  - Confirm the roles of the Procurement Support Team, versus procurement roles in the AT business units;
  - Confirm the FTE establishment of the Procurement Support Team is appropriate for the roles undertaken;
  - Confirm the procurement capability and potential procurement capability gaps in both the Procurement Support Team and AT business units;
- Review of AT’s procurement policies, strategies and processes;
  - Confirm AT’s procurement policies, strategies and processes are appropriate and aligned with what is considered ‘best practice’ in the wider procurement community;
  - Confirm sufficient processes are in place to ensure compliance, and as a result reduce the risks involved in procurement to acceptable levels; and
- Investigate and implement system improvements (including SAP and SharePoint)
  - Implement enhanced procurement reporting systems to monitor procurement activities and performance, and realisation of organisational benefits through effective procurement.

Key expected outcomes for the strategic programme will be;

- A confirmed and mandated roadmap for change and a plan to achieve this;
- A capability development plan to address any capability gaps which can be incorporated into personal development plans;
- The establishment of a procurement benchmarking club, with organisations with similar procurement profiles (both public and private) so that AT’s procurement can be benchmarked against them;
- The establishment of a standardised and integrated contract and supplier management system, which will allow for management of supplier performance and risk, and focus on procurement category and contract benefit realisation; and
- The ability to manage procurement data in a more robust and efficient way to ensure compliance to business and audit needs.