



Procurement Strategy

Date: February 2019

Next Review Date: February 2022



Foreword

Auckland Transport's (AT's) purpose is to "enable everyone to get the most out of Auckland's transportation system". We will do so by working together to deliver safe, innovative and sustainable transport. Critical to enabling this outcome is AT's partnership and relationships with its suppliers.

Since the last revision of our Procurement Strategy in 2015, the Regional Land Transport Plan (RLTP) for Auckland has been updated and revised, outlining how AT intends to respond to growth and other challenges facing Auckland over the next 10 years.

The 2018-28 RLTP has committed Auckland to an unprecedented level of investment in its transport infrastructure and operation, creating significant challenges by its scale, complexity and timescale. This presents a number of opportunities and challenges for AT and its suppliers. A particular focus of the RLTP is to make safety central to everything we do.

Suppliers enable delivery of the infrastructure, operations, business technology, goods and services across all of AT's functions. AT's success and ability to deliver the RLTP will be to a large extent dependent on the quality of the relationships we have with our suppliers. We aim to position AT as "customer of choice" with our suppliers, to secure the very best capability, innovation and service from the market place, to deliver "Value for Money" outcomes for AT.

The purpose of this Procurement Strategy is to demonstrate how we will proactively and sustainably support the delivery of AT's business priorities, deliver safe outcomes, improve commercial discipline, manage procurement reputational risk, and improve the effectiveness and efficiency of the procurement process.

In executing this Strategy, all of AT's procurement activities will be considered with safety as a priority and increasingly we must use the levers of Sustainable Procurement (social, cultural, economic and environmental), as part of AT's broader Sustainability Framework, to enhance Value for Money outcomes – "doing well, by doing good". And in order to support the business to deliver its ambitious plans the procurement function will need to do so with increased agility and pace, whilst still delivering Value for Money, fostering fair competition and supplier innovation, and managing risk between AT and its suppliers.

This updated Strategy reflects an evolution to ensure we continue to effectively support the business to achieve its challenging goals in the years to come.

Andy Richards

Group Manager Procurement



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1 Strategic Overview

1.1 Who we are and What we do

Auckland Transport (AT) was established in 2010 to develop and operate a safe, efficient and effective Auckland land transport system. AT is a Council Controlled Organisation (CCO) of the Auckland Council (AC). We manage and control the Auckland transportation system on AC's behalf.

We provide transport services to Auckland's 1.6 million residents and visitors and we are guardians of publicly held transport assets worth, in 2018, \$19 billion. We manage and promote most of Auckland's public transport services, systems, facilities, customer apps, and the AT HOP card (our public transport ticketing system). Public transport patronage continues to grow strongly, reaching 92 million trips in 2017/18. HOP cards account for around 85% of all public transport trips.

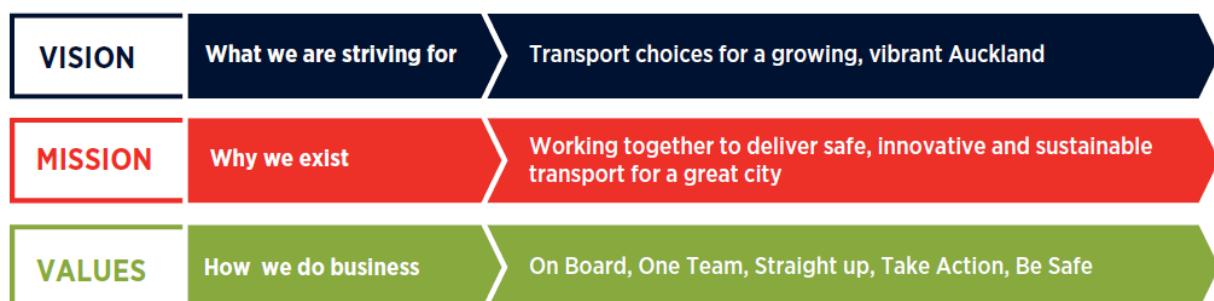
We manage Auckland's traffic flows together with the NZ Transport Agency (Transport Agency) and maintain 7,419 kms of arterial and local roads. In 2017/18, we spent \$580 million operating, maintaining and renewing road and public transport assets, and \$686 million in physical works and engineering professional services.

Key Activities:

- Construction and guardianship of transport assets including roads, road signs and footpaths, cycleways, bridges, street lights, bus shelters and busways, rail and bus stations, electric trains, ferry facilities and wharves, car parking buildings and on-street parking machines.
- Planning, funding and coordinating bus, rail and ferry services.
- Managing the road network as 'one system' in partnership with the Transport Agency and the New Zealand Police.
- Coordinating road safety and travel demand initiatives such as journey planning.
- Prioritising and preparing strategic transport programmes.

1.2 AT's Vision, Mission and Values

Our purpose is to "enable everyone to get the most out of Auckland's transportation system". We deliver this through our Vision, Mission and Values as an organisation:





1.3 How AT is Governed

1.3.1 The Auckland Transport Board of Directors

AT's activities are directed and guided at a strategic level by the Board of directors:

- Between six and eight voting directors are appointed by AC and will generally serve a term of one to three years and then may be re-appointed by AC for a further three years.
- Two of those directors may be members of AC.
- In addition, one non-voting member is nominated by the New Zealand Transport Agency.

The Board has overall responsibility for delivering transport in Auckland; this includes managing and controlling public transport and local roads, as well as preparing the Auckland Regional Land Transport Programme. All decisions relating to the operation of AT are made by, or under, the authority of the Board in accordance with the relevant Local Government Acts.

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

The Board also convene a Finance, Capital and Risk Committee (FCRC). The FCRC assists the Board to fulfil its responsibilities for financial reporting, monitor the capital portfolio of projects, and provide audit and risk management. It provides assurance regarding compliance with internal controls, policies and procedures. Any updates or changes to the Procurement Strategy and Policy are also discussed and reviewed in this forum, prior to any approval at AT Board level.

1.3.2 AT's Relationship with Auckland Council and Local Boards

Auckland Council

Auckland Council, established on 1 November 2010, represents nearly 1.5 million people stretching from Wellsford in the north to Franklin in the south. While AC owns the local road network, AT manages and maintains it.

AC agrees a Statement of Intent (SOI) with AT, which contains performance measures for transport. AC also sets the overall strategic direction and develops a Long Term Plan (LTP), which sets out transport funding.

Land for new transport projects will be bought or sold by AC, based on Auckland Transport's recommendations.

Local Boards

Local Boards make decisions on local matters, provide local leadership and build strong communities. There are 21 boards with 149 members operating across Auckland.

AT works closely with Local Boards to deliver transport services throughout Auckland and boards have their say on the transport programme prepared by AT.

Every three years, boards develop a local plan that outlines the community's aspirations and priorities, desired projects and potential funding. Each board oversees local services and has a budget to meet the cost of providing these services.

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

Auckland Transport, along with Auckland Council, and other CCOs, such as Watercare, are also guided by The Auckland Council Group Procurement Policy.



1.3.3 AT's Relationship with the New Zealand Transport Agency

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

The Government's objectives include:

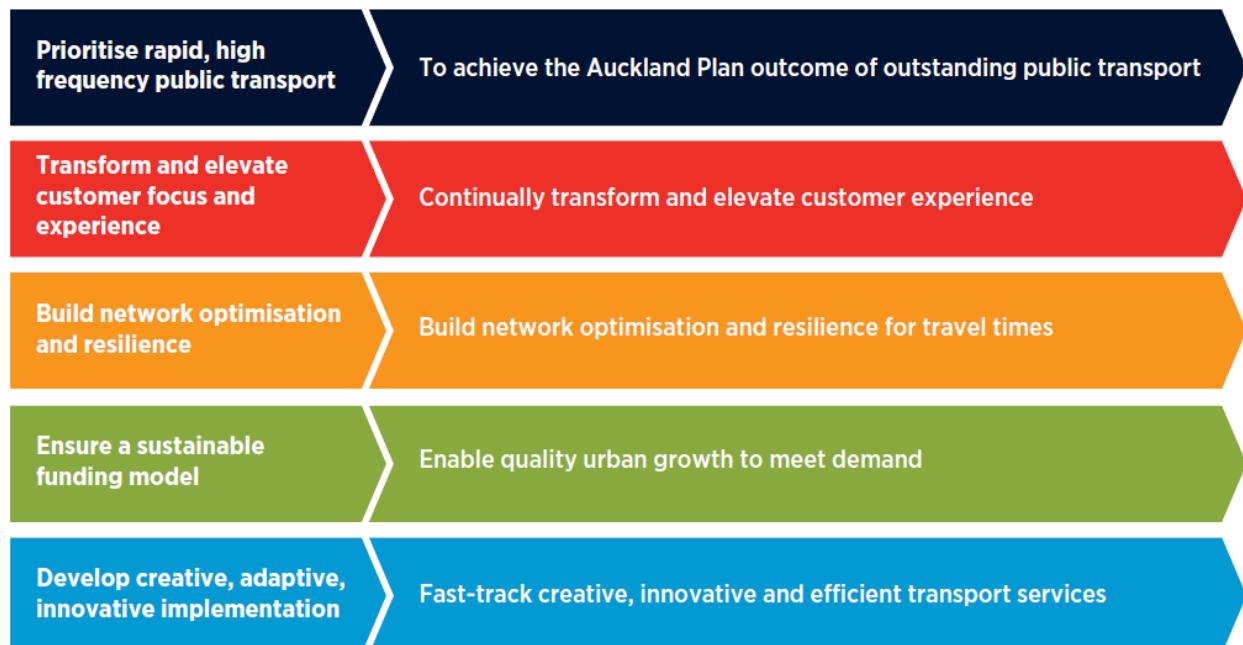
- Accelerating the development of Auckland's rapid transit network, with a particular focus on routes between the city and the airport, to unlock housing and urban development opportunities
- Increasing walking and cycling and making these active modes safer for Aucklanders
- Delivering improvements in health, safety, the environment and access, including access for people with disabilities
- Ensuring the indicative package delivers the best possible value for money, including broader non-monetary costs and benefits

A key focus is to work with AT to ensure funds from the NLTF are prioritised and that Auckland has efficient and effective transport infrastructure.

The Transport Agency requires AT to have a Procurement Strategy which is kept up to date with changes in strategic direction and best practice and it documents our long term integrated approach to the procurement of transport sector activities funded under Section 20 of the Land Transport Management Act and Amendment Act 2013. In addition, the Auditor General in its Guidance for Public Entities sets the expectation that a public sector organisation should develop a Procurement Strategy, if procurement is integral to achieving its overall business strategy.

1.4 Strategic Themes

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





1.5 Strategic Planning Framework

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

- The Government Policy Statement (GPS) – produced by Central Government, the GPS sets out the Government's priorities, objectives and funding levels for land transport. It establishes funding ranges for land transport activity classes and identifies the results expected from this investment.
- The National Land Transport Programme (NLTP) – produced by Central Government, the NLTP contains all the land transport activities, such as public transport services, road construction and maintenance, that the Transport Agency anticipates funding over the next three years.
- The Auckland Plan (AP) – The long term spatial plan for Auckland looks ahead to 2050. It considers how to address the key challenges of high population growth, shared prosperity, and environmental degradation.
- The Integrated Transport Programme (ITP) – produced by AT, the ITP integrates key strategies, technical plans, programmes and project packages developed by AT, AC the Transport Agency and KiwiRail to deliver an integrated 'one system' approach for developing and operating Auckland's transport system.
- The AT Alignment Project (ATAP) – ATAP is the aligned, strategic approach of AC and the Government and makes recommendations on transport investment priorities.
- The Regional Land Transport Plan (RLTP) – the RLTP is a plan of how transport delivery agencies intend to respond to growth and other challenges facing Auckland over the next 10 years.
- The Regional Public Transport Plan (RPTP) – produced by AT, the RPTP specifies the public transport policies and services that AT proposes for Auckland. A service must be included in the plan in order for AT to contract for its provision.
- The Statement of Intent (SOI) – AT's Statement of Intent sets out the strategic approach and priorities for the next three years.
- The Enterprise Business Plan (EBP) – AT's three year objectives and deliverables, outlining how we will achieve the RLTP and SOI.
- The Māori Engagement Framework – AT's Treaty of Waitangi obligations are given effect through our Māori Engagement Framework.

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

- Official Information Act 1982
- The Local Government Official Information and Meetings Act 1987
- The Local Government Act 2002
- The Local Government (Auckland Council) Act 2009
- The Land Transport Management Act 2003
- The Commerce Act 1986
- Fair Trading Act 1986
- Contract and Commercial Law Act 2017
- The Electronic Transactions Act 2002
- The Public Records Act 2005
- The Health and Safety at Work Act 2015
- Employment Relations Amendment Act 2018
- The Office of the Auditor General: Procurement Guidance for Public Entities (2008)
- The Transport Agency Procurement Manual (2014 update)
- The NZ Government Rules of Sourcing (third edition 2015)
- The Ministry of Business, Innovation and Employment (MBIE) Mastering Procurement Guide (2011)
- The Auckland Council Group Procurement Policy



2 Procurement Operating Model

2.1 What AT Procurement is trying to achieve

“Procurement is all of the business processes associated with purchasing, spanning the whole cycle from the identification of needs to the end of a service contract, or the end of the useful life and subsequent disposal of an asset”¹.

Our aim

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

We will achieve this aim by implementing a Procurement Operating Model that supports AT in achieving its mission of “working together to deliver safe, innovative and sustainable transport for a great city” by:

- Proactively supporting the delivery of critical and important business priorities
- Improving commercial discipline and value for money
- Managing procurement supply chain and mitigating reputational risk
- Identifying and addressing systemic procurement process issues and opportunities
- Improving the effectiveness and efficiency of the procurement process

Procurement supports AT’s business in the delivery of efficient output focused solutions underpinned by best practice procurement principles. We will seek to leverage the procurement opportunities to obtain economies of scale through the use and development of innovative and robust procurement solutions. Such principles will however be balanced with the requirement to maintain a sustainable, fair and competitive supplier market.

AT Procurement’s Operating Model is also intended to assist suppliers by:

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

AT Procurement’s Operating Model has been developed to support our programme of work in the upcoming years. It acknowledges that the successful delivery of our programme will require a highly effective procurement function that partners with the business, understands its supplier markets, implements strategies for engaging with those markets, and manages risk and supplier performance.

The Procurement Operating Model is detailed below and outlines the key building blocks that make up an effective and efficient procurement process:

¹Source: Office of the Auditor General: Procurement guidance for public entities – Good practice guide June 2008



2.2 Procurement Governance and Organisation

Our Procurement Governance Framework follows the hierarchy of Strategy, Policy, Standards, Procedures and Guidelines.



The above governance diagram highlights how the Procurement Model is delivered. This Strategy outlines our overall aim, while the Policy, Standards, Procedures, and Guidelines are separate documents that will be continuously managed and revised as required. While the policy is also approved by the AT Board, the Standards and procedures will have a formal internal AT change control process that will allow flexibility to continuously improve.

Strategy – our Procurement Strategy provides a high-level outline of who we are, what we want to achieve, and how we will achieve it. It is our approach to procurement, designed to achieve AT's objectives.



Policy – the purpose of our Procurement Policy is to ensure that a consistent procurement practice is applied across all AT procurement activities. It outlines the approach AT will take to planning, sourcing and managing its procurements.

Standards – these are our mandatory actions or rules that give our Procurement Strategy and Policy support and direction. These Standards will also assign quantifiable measures. AT will have Standards for each of the Plan, Source, and Manage phases of procurement, and for the Value for Money drivers, which are Commercial Performance, Sustainable Sourcing, Supplier-Enabled Innovation, and Operational Excellence.

Procedures – these are the detailed step-by-step instructions to achieve the desired outcomes of our Standards. They are created for internal AT use, and will adhere to change control processes.

Guidelines – where they add value, these are recommendations to users, designed to streamline processes according to what the best practices are. They provide additional recommended guidance to the Procedures.

Governance, accountability and performance of procurement outcomes sit with the Group Manager, Procurement. The Procurement Department is organisationally located in the Finance Division and is structured into Category, Market Engagement and Procurement Excellence teams, to deliver the Plan, Source and Manage procurement lifecycle phases detailed in Section 3 (Procurement Delivery Model).

2.3 Value for Money Drivers

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

AT defines Value for Money in the following four key areas:

2.3.1 Commercial Performance \$

Commercial performance continues to be at the heart of driving Value for Money, and we endeavour to take a whole of life or Total Cost of Ownership (TCO) approach to commercial outcomes. In order to develop strong commercially-driven business partnerships, our focus is on developing and applying Business Acumen and Commercial Awareness to everything we do.

Business Acumen will be delivered by:

- Ensuring procurement strategies and desired outcomes are clearly aligned with AT's goals and objectives
- Ensuring decisions are based on the benefits to the business and required outcomes
- Gaining a deep understanding of how the different parts of the organisation work together
- Delivering results which bring the clearest commercial benefit, including year-on-year savings in operational expenditure

Commercial Awareness will be focussed on:

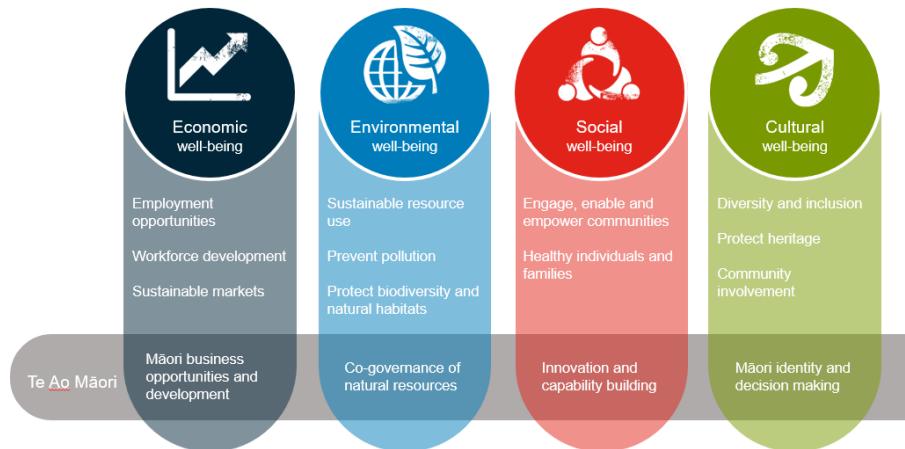
- Using sound financial logic to influence business direction
- Optimising commercial outcomes through sourcing and strategic negotiation skills
- Keeping up to date with commercial developments within the industry

2.3.2 Sustainable Sourcing

Sustainable Sourcing is an area that Procurement can deliver significant benefit to achieve social, economic, cultural and environmental benefits that go beyond the immediate aim of purchasing goods and services.

Our approach to sustainable sourcing is already well developed, and a number of significant social and economic procurement outcomes have already been achieved. Our aim is to establish AT as a leader in this field, as we believe that Procurement can help leverage a more productive, sustainable and inclusive economy.

Sustainable Procurement Outcomes



In addition to the legal commitments through our contracts, we are committed to working with our suppliers, their parents, affiliates, subsidiaries, and subcontractors, to deliver a safe, fair sustainable and responsible approach to business.

There is a requirement for all suppliers to acknowledge and comply with the AT Supplier Code of Conduct² (SCoC) as part of their relationship with AT. This code sets out the minimum expectations from our suppliers, and their extended supply chain, in order for us to deliver our sustainable sourcing outcomes.

2.3.3 Supplier-Enabled Innovation

Supplier-Enabled Innovation (SEI) is an area where there is significant scope for procurement to deliver additional value. SEI can be defined as: “*collaborations between organisations and suppliers, with the aim of achieving a result that one of the parties cannot (easily or rapidly) achieve alone. To engage in long-term, cross-business collaboration involving joint business development, research and development, and innovation resources.*”³

Our suppliers and stakeholders identify innovation, in the form of new products or services but also new ways of working, as being a key opportunity to help deliver the ambitions of the RLTP.

SEI forms part of our Supplier Relationship Management (SRM) programme with our key suppliers, and works with the business to identify, mobilise and deliver the best outcomes from our suppliers’ innovation capability.

2.3.4 Operational Excellence

The Operational Excellence value driver covers a broad spectrum of deliverables across safety, quality, service performance and programme delivery. Most of the value from this activity is delivered through the day-to-day contract management e.g. project milestones, service level delivery, performance review, etc.

² Currently under development in 2019

³ Procurement Leaders Limited. (2018). Supplier-Enabled Innovation



Procurement's role is to ensure we work closely with the business to ensure operational excellence outcomes are clearly defined, sourced and managed.

AT has a particular focus on safety and our Strategy will focus on this critical area of delivery, ensuring that Health & Safety requirements and targets are robustly addressed through our procurement process. Safety will be addressed as a priority throughout AT's Policy, Standards, Procedures and Guidelines, in order to target safe outcomes for our customers, communities, employees, partners and suppliers.

2.4 Capability, Information and Performance Management

AT Procurement endeavours to continually review and improve its capability, maintaining a 'simple as possible, complex as necessary' approach. Our capability encompasses the data, tools, systems and processes by which we enable our procurement model to operate effectively and efficiently.

AT aims to use one source of accurate and up to date data, leveraging AT's analytics resources, to inform decisions that will drive improvements within AT, and provide benefit to suppliers and customers.

We aim to provide relevant, timely and accurate information to our business and suppliers, and executing a Digital Roadmap to align functional capability with procurement enabling technology. The Digital Roadmap allows AT Procurement to continuously improve its digital capability, which assists with process effectiveness and efficiency, and releases resources to focus on value add rather than transactional activities.

To ensure desired outcomes are achieved, Procurement uses a performance management framework⁴ and balanced scorecard that is supported with key measures, and which enables us to effectively manage and communicate the results of our procurement activity. We will follow a principle of "what gets measured, gets done" and share the progress we are making with both our internal stakeholders and suppliers.

2.5 People – Attract, Develop and Retain the very best

With an annual procurement spend of over \$1.4 billion, we are a significant procurement organisation in New Zealand. To ensure that Value for Money is achieved, AT Procurement requires optimal resource levels with appropriate levels of skill, competency and experience. To attract the very best procurement talent, we offer compelling and purposeful roles that provide for professional development and career advancement.

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

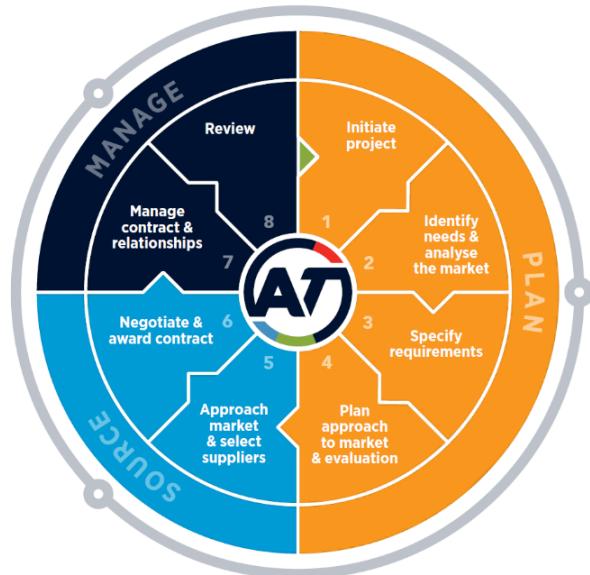
- The Ministry of Business, Innovation and Employment (MBIE) as the lead agency for procurement capability development in the public sector in New Zealand
- The Chartered Institute of Procurement and Supply (CIPS) who lead global excellence in procurement and supply
- Auckland Council and its other CCO's
- The Transport Agency as a key funder of our activities
- New Zealand and international procurement best practice in both public and private sectors

Human Resources policies determine the remuneration and our operating budgets define the number of employees that we can employ. We will continually review our in-house capability and capacity and, where and when appropriate, evolve our procurement structure to ensure we deliver the best return on procurement resources invested. This may include outsourcing a particular activity or role if justified.

⁴ Performance Management Framework under development.

3 Procurement Delivery Model

3.1 Procurement Lifecycle

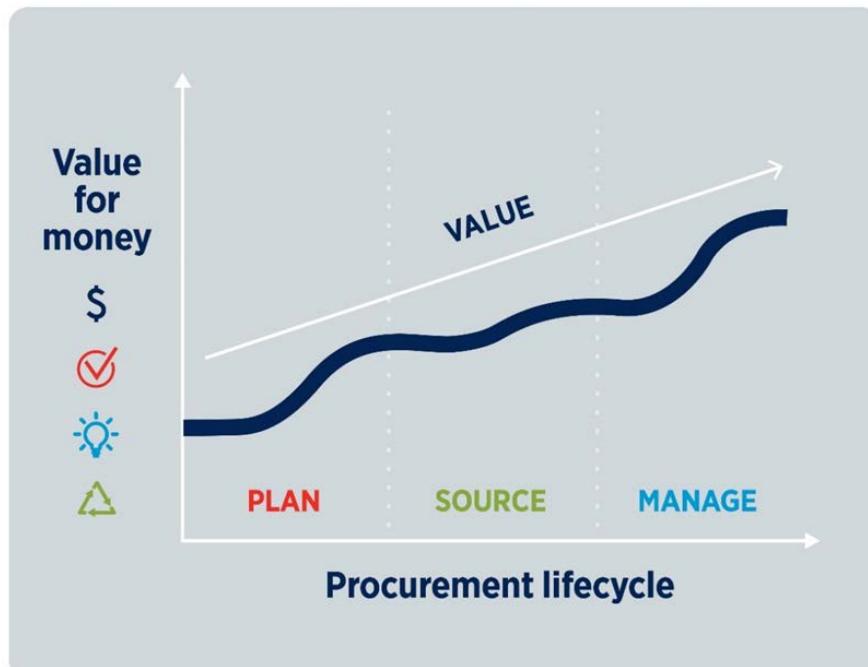


The three phases of the procurement lifecycle involve:

- identifying needs and planning the best way to meet them (Plan – identify the value),
- conducting market engagement, negotiating and contracting (Source – secure the value), and
- contract and supplier relationship management (Manage – enhance the value).

Most value is created in the Plan and Manage phases of any procurement activity, and while critically important, the Source phase of the process is primarily there to secure the identified value and provide the foundation for future supply relationships to deliver and enhance that value through the life of the contract.

The historical focus on Source activity by the organisation has meant limited time or effort has been spent on developing capability in the areas of Plan and Manage. With the significant pipeline of market activity to be delivered each year, and increasingly so in the years to come, it will be key to enhance our capability in these areas. This will also ensure that the other key Value for Money drivers, such as supplier enabled innovation and sustainable sourcing, are given adequate focus and resource to fully develop and execute across the business.





Under the Health and Safety at Work Act 2015, AT, along with our suppliers, must proactively manage purchased services to ensure workers, AT personnel, members of the public and customers are not put at risk from work carried out under or associated with AT's contracts.

We ensure that Health and Safety is prioritised in all stages of our procurement lifecycle.

Throughout the Procurement Lifecycle, ensuring probity of action is everyone's responsibility when conducting procurement activities. We apply the following basic principles of good practice, across our procurement processes, when procuring goods and services:

- Accountability
- Openness
- Value for Money
- Lawfulness
- Fairness
- Integrity

By applying these principles sensibly, we can demonstrate that we are spending public money carefully and properly managing the purchasing process. We consider probity of process of utmost importance. All tenders will state a specific contact should suppliers have a probity concern with regard to a particular procurement activity. We will also appoint a Probity Auditor for all procurements valued above \$5 million, or that are considered high risk.

For a procurement to be successful, it is important to consider each of the eight stages of the procurement lifecycle within Plan, Source and Manage.

3.2 Plan – Define the Value

Category strategy development and how we plan procurement activities are the initial building blocks of any procurement process. Developing a category management approach to spend areas is the first step in understanding the value for money of a particular sourcing opportunity, and by listening, sharing, and simplifying we will enable AT to become a customer of choice.

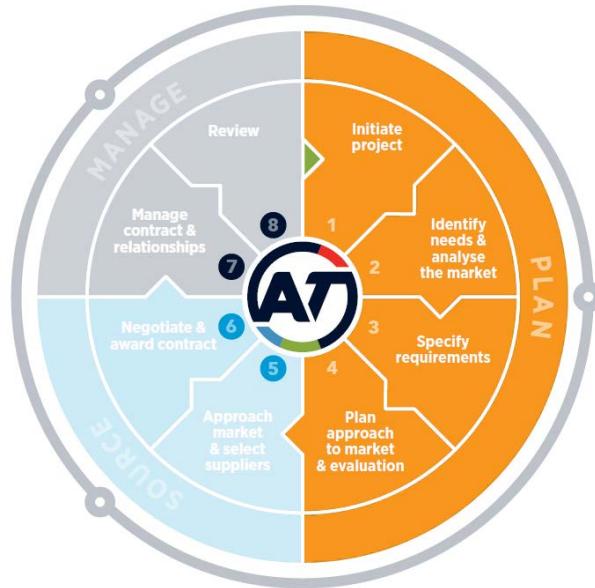
We have adopted a category management based approach to procurement, which acknowledges a combination of organisational structure, the uniqueness of individual category requirements and supplier markets. This will also aid us in focusing on an 'all of business' cross functional approach to procurement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

We categorise the value of spend areas against the business impact and risk in delivery. This categorisation helps inform the approach to take to market, the type of relationship to be developed with the supplier and the amount of time and resources used in the procurement process.

A rolling twelve-month list of planned contract opportunities are reviewed and updated every three months. The purpose of this list is to help AT plan future procurement activities, and to give suppliers advance notice of possible opportunities. This also enables AT to give confidence to funders and stakeholders that our procurement activities are adequately planned and resourced.

The following outlines the key steps to the Plan phase of the Procurement Lifecycle.

3.2.1 Stage 1 – Initiate Project



The early stages of planning for a procurement activity are critical to its success. In this stage, it is important that we:

- take a strategic approach – ensure any proposed procurement aligns with the organisation's priorities and business objectives,
- ensure appropriate governance arrangements are put in place, and
- have people with the appropriate skills and experience, and that any conflicts of interest are addressed.

3.2.2 Stage 2 – Identify Needs and Analyse the Market

Procurement decisions should be based on the best information available, speaking to stakeholders and understanding the supplier market and our role within it. It is vital that we clearly outline the problem we are trying to solve for the customers, communities and stakeholders and we will do this by working closely with the relevant project teams. It is important that we:

- Consult internal stakeholders and project teams at an early stage,
- Use the best possible information,
- Understand the extended supply chain and any risks associated with potential sub-contracting,
- Understand any key issues for communities affected by the works or services to be procured, and ensure suppliers understand expectations of them in managing those issues appropriately,
- Involve suppliers early in the process to explain our needs, learn about their capability and explore opportunities for new solutions and innovations before going to market, and
- Agree with our contracted suppliers our expectations relating to the management of suppliers down the extended supply chain (including sub-contractors).

3.2.3 Stage 3 – Specify Requirements

Understanding the requirements of a procurement activity allows us to determine whether the process was successful. It is important that we:

- Have a clear understanding of what we want to purchase
- Have a plan of how we will measure the outcomes of a procurement

In most cases we will develop a Procurement Strategy for a specific set of requirements.

Key to the Strategy is the delivery model to be employed for the procurement activity. A delivery model is the relationship established between AT and a supplier to enable the purchase of the output required to deliver an activity. In selecting the appropriate delivery model, we will assess the activity against, but not limited to, the following criteria:

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

We will utilise a range of delivery models to procure goods, services and works, such as but not limited to the Staged Approach, Design and Construct, Shared Risk, Supplier Panels, Public Transport Operating Model (PTOM) Partnerships, Unsolicited Proposals, and Collaborative Delivery Models. These are outlined in more detail within AT's Standards, Procedures, and Guidelines.

3.2.4 Stage 4 – Plan an Approach to the Market and Evaluation

There are various options for approaching the market, depending on the nature and complexity of the service, the value and term of the contract, and the size of the market or supplier community. The main output of this stage of the process is a Procurement Plan.

The term of a contract describes the length of time a particular contract is operational. This includes any allowable extensions after the initial term. Under the AT Delegated Authority Policy, any contract term over five years requires AT Board approval.

3.3 Source – Secure the Value

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

There are occasions however, where Value for Money will best be achieved through a closed contest or direct appointment selection.

In all instances the process and methodology to be followed, a statement outlining the Value for Money context, and the impact on the supplier market will be required to be documented in the Procurement Plan.

The following outlines the key steps to the Source phase of the Procurement Lifecycle:

3.3.1 Stage 5 – Approach the Market and Select Suppliers



This stage involves initiating the procurement process in the supplier market, guided by the Procurement Plan, providing information to potential suppliers, answering any questions they might have, and selecting a preferred supplier. It is important that we:

- plan the whole market engagement process, and
- ensure that good process and practice are followed in implementing the process (ensuring fairness and probity), including evaluating tender responses and making contract award decisions.

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

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



- *Focus on quality* – the preferred supplier is selected on the basis of quality, with price being negotiated afterwards.

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

Based on these factors we will evaluate and select suppliers using one of the supplier selection methods outlined in AT's sourcing Standards, Procedures, and Guidelines. We will continuously develop and implement selection methods which best meet our needs in order to deliver value for money outcomes, and increasingly address the pace and agility that will be required to deliver the significant programme of work defined in AT's strategy.

3.3.2 Stage 6 – Negotiate and Award Contracts

This stage in the procurement life cycle is negotiating the terms and conditions of a contract, establishing and agreeing to levels of service with the supplier, and providing feedback to both successful and unsuccessful suppliers. AT will aim for a fair and sustainable agreement that improves both parties' relationship.

Where necessary, we will establish a clear negotiating mandate, plan how to negotiate the contract's terms and conditions, and understand what we can 'trade' and what the 'non-negotiable' items are. Negotiations should also meet standards of fairness; for example, not negotiating a contract that is substantially different from what was tendered.

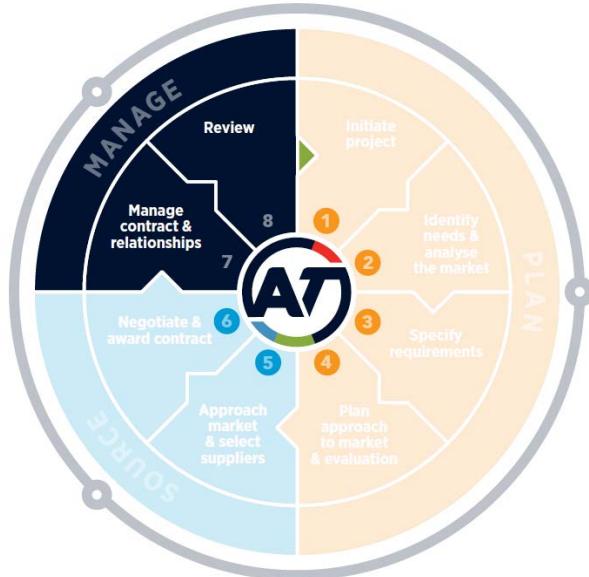
A well-run negotiation will result in a shared understanding of what the procurement will deliver. This will allow AT to effectively award and mobilise contracts.

3.4 Manage – Enhance the Value

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

In collaborative relationships we aim to develop a long-term relationship with the supplier, one in which we seek ways to add value for the ultimate benefit for AT, the supplier and our key stakeholders. It's a proactive relationship underpinned by continuous improvements.

3.4.1 Stage 7 – Manage Contract and Relationships



Knowing which contracts are critical to service delivery is vital. It is important that we:

- put safety at the core of the delivery of all contracts and supplier relationships,
- actively manage supplier performance, including contract management planning and supplier relationship management,
- involve senior management in overseeing strategic or high risk contracts, and
- ensure that risks are managed.

3.4.1a Supplier Relationship Management (SRM)

SRM provides a holistic view of supplier management, looking at the management and performance of individual contracts, through to strategic alignment and collaboration in achieving one or more of the AT Value for Money drivers. The value ultimately realised by organisations from any supplier relationship is determined not by one single standalone contract or event, but from a series of highly inter-dependent, sequential activities which require close co-ordination.

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

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

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

Tier 1 – Alliance

Suppliers with highly complementary business strategies, with whom there is a high level of inter-dependency, and who have both the capability and desire to jointly invest in new opportunities to deliver aligned outcomes for both organisations.

Tier 2 – Strategic

Providers of goods and services which:

- Are directly associated with the delivery of one or more existing Transport Services, and whose performance can have a measurable impact on both customer experience levels and, brand equity, or
- Are of critical importance to AT in the effective running of day-to-day operations and support of front line services, and would require significant time, cost and/or resource to switch from.

In addition to effective contract compliance and risk management, the focus here turns to continually improving performance against existing contracts and seeking out new opportunities between both parties.



Tier 3 – Operational

Suppliers of goods and services which contribute towards the effective day-to-day running of operations within AT, but which make little, or no traceable contribution to the performance of frontline Transport Services or brand equity. The main focus with all but a small percentage of suppliers in this Tier is purely to ensure that all pre-negotiated contractual negotiations are fully complied with and, all risks which could potentially disrupt ongoing supply are effectively dealt with.

Tier 4 – Tactical

Suppliers of goods and services which make an indirect contribution to AT's organisational performance. Overriding focus with these suppliers is to minimise the amount of AT time, human effort and cost required to engage with them.

3.4.1 b Contract Management

A key part of SRM is the process that enables us and our suppliers to meet the objectives required from our contracts.

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

We manage suppliers based on where they sit within the “tier system”, as outlined in the Supplier Relationship Management section above.

Contract management activities such as contract administration, transition management, contract variations and the appropriate use of insurances, bonds and retentions will be covered in separate procurement standards, procedures and guidelines.

Health and Safety – AT recognises its obligations as a principal under the Health and Safety in Employment Act 2015. As such we will take all practical steps to ensure safe work practices are employed by our suppliers. We require all suppliers we engage with to comply with these requirements and actively explore ways of promoting best practice Health and Safety through the procurement lifecycle and across their extended supply chain, including sub-contractors

Contract Performance Assessments – monitoring and evaluating the performance of supplier engagements is an important element to contract management, as it ensures that safe outcomes are delivered, risks are managed and value for money is achieved. It also enables poorly performing suppliers to be avoided in future engagements.

The aim of contract performance assessments is to:

- Work with suppliers collaboratively, on the premise that a mutually beneficial relationship will create better outcomes for both parties
- Provide a means of systematically monitoring performance of AT's contracts
- Facilitate performance related discussions that can focus on specific performance issues or barriers to improving performance
- Provide a record of historical evaluation scores for future reference and analysis
- Provide a historical database to assist in and provide consistency in, the assessment of the track record non-price attribute in future tender evaluations
- Use incentives/ disincentives in supplier panels, term maintenance contracts and PTOM contracts, where awarding future contracts may be based on supplier performance. Suppliers that fall below an acceptable standard might be excluded from sourcing activity.

Contract Reviews – these are an important part of the overall procurement process. An effective review process can improve procurement management and demonstrate public accountability by providing an honest appraisal of the procurement, the delivery of the contract and the outcomes achieved. We expect to undertake formal contract reviews on all contracts valued over \$5 million.



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

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

3.4.2 Stage 8 – Review

Assessing whether the intended benefits from a procurement activity have been realised and whether any lessons can be learnt from the process.

Benefits management starts earlier in the life cycle when AT defines what procurement and business outcomes are needed. Benefits should be aligned to AT's strategic goals. The delivery of the intended benefits needs effective project management and active monitoring of progress and the benefits to be realised. AT Procurement's Performance Management Framework will track progress and will feed back into the Plan phases to drive continuous improvement in delivering Value for Money.



4 Implementation and Improvement

4.1 Implementation of the Procurement Strategy

While the ultimate ownership of the Procurement Strategy rests with the Group Manager Procurement, the Procurement Excellence team are responsible for ensuring that the specific methods and improvement initiatives included within the Strategy are implemented and monitored, working in close collaboration with the Category and Market Engagement teams.

4.2 Monitoring

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

As part of our ongoing monitoring we will continually review and make changes to our strategy where appropriate, and ensure we use a Performance Management Framework to track and report results. We see this as a natural process as our business continues to evolve to meet the demands of our customers and stakeholders.

4.3 Consultation

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

4.4 Improvement

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

We will identify and address recurring systemic issues and opportunities through a structured continuous improvement programme.

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

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



5 Glossary and References

Glossary

AP	Auckland Plan
CCO	Council Controlled Organisation
CIPS	Chartered Institute of Procurement and Supply
GPS	Government Policy Statement
Guideline	A recommendation to users, designed to streamline processes according to what the best practices are
ITP	Integrated Transport Plan
KPI	Key Performance Indicators
LTP	Long Term Plan
MBIE	Ministry of Business, Innovation and Employment
NLTF	National Land Transport Fund
NLTP	National Land Transport Programme
Performance Management Framework	A structure for performance monitoring, reporting and accountability. This includes (but is not limited to) templates, reports and key performance indicators (KPIs)
Policy	A formal statement produced and supported by senior management, reflecting business objectives
Procedure	Detailed step-by-step instructions to achieve a given goal or mandate
PTOM	Public Transport Operating Model
RLTP	Regional Land Transport Plan
RPTP	Regional Public Transport Plan
SEI	Supplier Enabled Innovation
SRM	Supplier Relationship Management
Standards	Mandatory actions or rules that give formal policies support and direction
Strategy	A plan of action designed to achieve a long term or overall aim



Reference

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

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

Key references used in creating our Strategy as follows:

- The Office of the Auditor General: Procurement Guidance for Public Entities (2008)
- The Transport Agency Procurement Manual (2014 update)
- The NZ Government Rules of Sourcing (third edition 2015)
- MBIE Mastering Procurement Guide (2011)