3.0  Value for money spent

3.1  Overview

Introduction This chapter provides an overview of how procurement ensures that approved organisations obtain best value for money spent when purchasing goods or services to deliver activities approved under s20 of the LTMA. It provides guidelines on:

• the steps that, if followed, will maintain or enhance value for money spent through the procurement process

• the financial and non-financial attributes that are appropriate to value during the procurement process.

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3.2 Defining value for money in relation to procurement

In the context of procurement, value for money has been defined as:

- ‘the best available outcome for the money spent in procuring the agency’s needs’ (Australia New Zealand Government Procurement Agreement)
- the ‘best possible outcome for the total cost of ownership’ (the guidance provided by the OAG)
- ‘the optimum combination of whole-of-life costs and quality (or fitness for purpose) of the good or service to meet the user’s requirement’ (HM Treasury, United Kingdom).

The above definitions are underpinned by a number of common concepts:

- Benefits derived from procurement-related activities can be maintained or enhanced through the procurement process.
- Cost alone is not a reliable indicator of value for money.
- Economic, social and environmental costs and benefits inform the procurement whole-of-life value assessment.

In the context of land transport procurement in New Zealand, obtaining best value for money spent means purchasing a good or service that delivers the output approved for funding under s20 in an efficient and economic manner. Efficiency and economy have both financial and non-financial attributes. Non-financial attributes may include:

- quality (eg of the supplier or product)
- impact on communities and the environment (eg positive or negative impacts on connectivity, disruption and pollution)
- design integrity (eg arising from capable and skilled suppliers)
- innovation (eg meeting LTMA outcomes via an agreed output variation from that originally specified)
- whole-of-life considerations (eg when considering the longevity of value against maintenance costs of different materials over the life of the asset)
- training and development opportunities (eg by valuing suppliers that invest in workforce capability)
- health and safety practices (eg by valuing suppliers that meet certain specified standards)
- capital invested.
3.3 Identifying value for money at the activity selection stage

Introduction

The requirements of the LTMA are critical to understanding value for money in the context of land transport expenditure:

- Section 20 addresses the funding approval for activities.
- Section 25 relates to the NZTA’s approval of procurement procedures designed to obtain the best value for money spent when used by approved organisations to purchase the outputs required to deliver the activity.

Value for money outcomes are initially identified through the evaluation of activities under the requirements of s20. Approved organisations seeking to undertake activities will, as part of the funding process, establish the benefits or ‘value’ they expect the activity to deliver, as well as an estimated cost for the activity.

Evaluation and approval procedures for funding approval under s20 are not covered in this manual. Refer to the NZTA’s Planning, programming and funding manual for further information on these procedures.

Procurement, through an approved procurement procedure under s25, delivers the activity approved for funding. The procurement process enables an approved organisation to maintain or enhance the ‘value’ identified through the s20 process. In this respect, the purpose of procurement is to:

- maintain the value for money outcomes identified by ensuring that the expected value is delivered, the expected quality is provided and the expected cost and time is not exceeded
- where possible, enhance the value for money outcomes identified by enabling the identification of a solution with more value (eg higher quality) or at a lower whole-of-life cost than anticipated in the initial value for money evaluation.

The following sections outline how optimal activity selection and taking a whole-of-life view helps obtain value for money spent. This understanding is important as it provides the context for the guidelines set out in this chapter.

Optimal activity selection under s20

Optimal activity selection is the critical first step to obtaining value for money and focuses on delivering longer-term outcomes sought from transport activities under the LTMA. Optimal activity selection is about deciding where to spend allocated land transport funding to yield the most value.

Value for money outcomes are identified through the selection of the activity that makes the largest contribution to achieving the objectives of the LTMA for the funds invested. The NZTA’s Planning, programming and funding manual sets out the process for evaluating and selecting activities for funding approval under s20.

Whole-of-life value for money is first assessed at the funding approval stage. This requires taking a long-term view of the total value for money attributable to an activity and not simply the initial capital cost. A whole-of-life assessment will consider the social, environmental and economic impact of the outputs, any ongoing maintenance and operation costs of the asset or service, and costs associated with its disposal.
3.3 Identifying value for money at the activity selection stage

Optimal activity selection is the choice of activity that exhibits the best whole-of-life combination of benefits across the life of the good or service when evaluated using the NZTA’s evaluation methodology. The evaluation methodology is set out in the NZTA’s Economic evaluation manual and Planning, programming and funding manual. For most activities, a result of the activity selection process through the s20 funding approval will be the determination of the ‘base’ value for money outcomes to be achieved from the delivery of the activity. This base value will be expressed in the output specification. This then forms an important benchmark throughout the procurement process.
3.4 The process for maintaining or enhancing value for money through procurement

Introduction

Once the activity is approved for funding under s20, it is the role of procurement to maintain or enhance the base value for money outcomes that have been identified. The base value for money outcomes are then documented through clear output specification in a proposal and assessed through the evaluation process for the preferred supplier.

This section sets out a process that, if followed, will ensure that value for money is maintained or enhanced. The components of this process include:

- taking a strategic approach to procurement
- optimising whole-of-life value for money
- using an approved procurement procedure
- allocating and managing risk appropriately
- proactively managing contract delivery
- monitoring performance.

Together, these processes can maintain or enhance the ‘value’ of the specified output by delivering it on time, to budget and to the specified quality standard. Each of these is discussed in further detail below.

Taking a strategic approach to procurement

The value for money spent can be maintained or enhanced by working within a strategic approach to procurement that includes:

- understanding the role of procurement in realising value for money spent
- developing and maintaining knowledge of the supplier market
- encouraging a sustainable supplier market and minimising barriers to competition
- using a combination of procurement approaches and capabilities
- adopting performance and success measures for the procurement strategy.

Refer to chapter 4 Strategic approach to procurement for guidelines on the development of a procurement strategy.

Optimising whole-of-life value for money

Whole-of-life value for money will have initially been considered under the s20 funding approval process. The whole-of-life assessment within the procurement process requires:

- less focus on the upfront price and more recognition that best value is obtained by looking at the overall ‘value’ associated with the asset or service over its life
- looking closely at the ongoing costs attributable to the procurement process, such as maintenance and replacement schedules, and service level changes
- assessing how uncertainties (eg increases in input prices, fuel and wages) may adversely impact on the supplier’s ability to deliver the outputs on time, to budget and to the required quality standard.
3.4 The process for maintaining or enhancing value for money through procurement continued

Optimising whole-of-life value for money continued

The NZTA’s Economic evaluation manual and Planning, programming and funding manual provide assessment frameworks for handling current and future costs as well as benefits for the s20 funding approval. These frameworks may also be applied during the procurement process.

The following whole-of-life value issues may be considered during the procurement process (if they have not already been fully considered during the s20 funding process):

- upfront costs (including procurement process costs)
- firmness of cost estimates
- provision for cost containment
- installation and commissioning costs
- costs and benefits of acceleration or delay of delivery
- servicing and maintenance costs
- decommissioning and disposal costs
- value of non-monetised benefits and costs (refer to the NZTA’s Economic evaluation manual and Planning, programming and funding manual).

Using an approved procurement procedure

By using an approved procurement procedure and following the guidelines in this manual, an approved organisation will increase the likelihood of:

- achieving the appropriate level of competition in the procurement process, since competition is one of the best means of ensuring value for money
- ensuring efficiency by avoiding unnecessary process costs or the imposition of unwarranted compliance costs (eg by using shortlisting and prequalification mechanisms where appropriate, or by collaborating with other purchasers)
- encouraging competition by purchasing in a way that maintains the long-term sustainability and competitiveness of the supplier market and minimises barriers to competition (eg by considering unbundling or disaggregation where appropriate).

Once the most appropriate procurement procedure has been selected for the delivery of the specified outputs, a number of decisions must be made to ensure that the identified value for money outcomes are maintained or enhanced for that procurement activity. These decisions include choosing the best delivery model and supplier selection method, and then selecting the optimal supplier of the outputs.
3.4 The process for maintaining or enhancing value for money through procurement continued

Using an approved procurement procedure continued

**Delivery models**

The procurement process requires that the activities are purchased through the most appropriate delivery model. The delivery models are:

- staged
- design and build (design and implement for public transport)
- shared risk
- supplier panel.

The selection of a delivery model will depend on the scale and complexity of the activity and the risk profile generated by these factors. Approved organisations should also consider the value to be gained from aggregating or bundling activities versus the use of multiple, discrete contracts. Refer to chapters 6 to 9 for further guidelines.

**Choice of supplier selection method**

The supplier selection method must be aligned with the chosen delivery model. Approved organisations should also consider the overall procurement costs, including costs imposed on suppliers.

Maintaining or enhancing the identified value for money outcomes through the procurement process depends on realising the right combination of price and quality. This relies on effectively using competition and encouraging innovation through procurement, while identifying and managing the risks associated with the process. Refer to chapter 5 Supplier selection process for further guidelines.

**Optimal supplier selection**

Choosing the right supplier is critical to obtaining value for money spent. This includes a mechanism to determine whether or not the lowest price proposal should be accepted. Additional price could be justified on the grounds that the proposer is a proven superior supplier and, for example, brings less risk of late delivery or can provide a higher-quality good or service. In such a situation, better value for money would be obtained. A robust supplier selection method will encourage suppliers to compete against each other across a broad spectrum of price or value combinations.

The ability to improve value for money by offering different goods or services is also important in some circumstances, but assessing differences in the value of the outputs proposed by different suppliers is not relevant or necessary in all instances. For example, some physical works activities may have very little scope for a supplier to innovate and provide a different design or delivery process. Any differences in these instances would be best captured in the evaluation of the supplier characteristics. Refer to chapter 5 Supplier selection process for further guidelines.
3.4 The process for maintaining or enhancing value for money through procurement continued

Allocating and managing risk appropriately

Risk management involves the systematic and timely identification, analysis, treatment, management and mitigation of risks. To obtain value for money, an approved organisation must be able to proactively identify, evaluate and manage any risks, opportunities and issues arising out of the procurement process.

Risk management should be built into an approved organisation’s procurement process. The extent of risk management will vary from following routine procurement processes to significant undertakings involving high levels of additional planning, analysis and documentation.

Risk can arise at any stage of the procurement process and can be broadly identified as:

- activity – risks surrounding scope and scale
- process – risks that relate to the use of procurement procedures
- contract and relationship – risks that arise as the activity is delivered
- termination and transition – risks as the contract nears completion.

To manage risk, approved organisations should consider:

- establishing effective dialogue between the purchaser and supplier(s) to best understand the risks for the activity
- allocating risk in an optimal manner to the parties who are best placed to manage and mitigate the risk over the life of the activity (the supplier is not always the best party to manage or mitigate certain types of risk)
- using appropriate risk transfer and enforcement mechanisms so that the cost of risk is borne by the parties as initially agreed
- employing an active risk management programme to protect and preserve value for money in the procurement process.

Refer to appendix B Criteria for selecting a delivery model for further guidelines.

Proactively managing contract delivery

Value for money spent is maintained or enhanced through the contract delivery process by:

- granting sufficient flexibility in the contract to capitalise on any favourable changes that may arise in the marketplace (eg having mechanisms in place to adjust the price and scope of term contracts to account for changes in demand)
- using performance monitoring to actively manage the contract for time, cost and quality
- creating sufficient incentives within the contract to encourage innovation and efficiency in delivering the outputs
- encouraging collaborative processes between suppliers and purchasers
- setting the contract term to account for changes in technology and the requirement to refurbish or maintain any assets or resources put in place
- developing contract management skills and expertise to ensure that value for money spent is maintained or enhanced.
3.4 The process for maintaining or enhancing value for money through procurement continued

Performance monitoring aims to provide inputs in support of improved decision making, and to facilitate continuous improvement in procurement practice and, ultimately, contribute to the maintenance or enhancement of value for money spent through the procurement process.

The NZTA requires that approved organisations collect information on the time, cost and quality of the delivery of the outputs. In the context of procurement, these measures will indicate whether the outputs are being delivered in an efficient, cost-effective way to the agreed quality standard, thereby maintaining or enhancing value for money spent.

To successfully monitor performance, approved organisations should also engage in ongoing dialogue with their suppliers. Such dialogue contributes to a shared understanding of objectives and scope, and to the timely identification of risks that might undermine the efficient, cost-effective delivery of outputs.

Performance monitoring will help approved organisations to identify the reasons for any losses or gains (e.g., supplier selection, project scope, contract management, or matters beyond the control of either the approved organisation or the supplier(s)).

Over time, information gathered can be used to benchmark the performance of both approved organisations and suppliers, indicate where training and capability improvements are required, and contribute to the development of best practice procurement processes.

Refer to chapter 11 Performance measurement and monitoring for further guidelines.
3.5 Attributes to be valued

Introduction

The LTMA and the Government Policy Statement on land transport funding establish what the government values and will therefore fund. These ‘values’ inform the initial activity selection under s20. Approved organisations will have identified the factors that they value and want to promote or protect through their infrastructure management plans, LTCCPs and other strategic and policy documents. Some of these values will be relevant to procurement and will be included in an approved organisation’s procurement strategy.

Approved organisations should inform potential suppliers what inputs will be valued and how they will be evaluated in the procurement process. The remainder of this chapter provides some examples of what can be valued in the context of procurement. These examples are not exhaustive.

Economic development

Procurement can be used to support economic growth and productivity outcomes by valuing particular inputs and cost-effective processes throughout the procurement process. For example, the procurement process can help:

- establish the likely lowest whole-of-life costs and ensure value for money is obtained, allowing ‘saved’ resources to be deployed elsewhere
- define and manage the risks surrounding the activities to ensure that they are delivered on time, on budget and to the required quality
- minimise the time taken to complete the activities and therefore realise net economic benefits earlier, including productivity enhancements
- optimise public transport route and frequency provisions to ensure the greatest potential patronage and access to employment
- facilitate access to services and the efficient movement of goods and people.

Safety and personal security

Procurement can be used to support safety and personal security outcomes. For example, the procurement process can help:

- minimise the time taken to complete the activities and therefore realise the safety and security benefits of reduced likelihood of accidents
- manage the work programme to produce safe and secure work sites, and to ensure the safety and security of transport network users
- ensure the specified safety standards are met
- ensure that vehicle and driver compliance with safety rules and legislation is achieved.
3.5 **Attributes to be valued** continued

### Access and mobility

Procurement can be used to support access and mobility outcomes. For example, the procurement process can help:

- minimise network downtime and disruption through effective contractual arrangements
- minimise the time taken to deliver the outputs and realise reliability and time-saving benefits
- minimise the duration of delivery to reduce the impact of community severance
- improve access to public transport services through service design, vehicle standards and fare structures
- ensure connectivity between different transport modes.

### Public health

The procurement process can be used to support public health outcomes. For example, the procurement process can help:

- minimise nuisance value to the public (eg noise, vibration) through better site management or improved public transport vehicle standards
- reduce accidents through better site management or through enforcing minimum safety standards.

### Environmental sustainability

The procurement process can be used to support environmental sustainability outcomes and mitigate environmental impacts. For example, the procurement process can help:

- manage the containment of site run-off to minimise external impacts through contractual arrangements
- require the use of recycling options for materials (eg pavement)
- ensure safe and effective containment of hazardous materials on the work site
- ensure the use of fuel-efficient or resource-efficient techniques in delivering the outputs
- ensure the specified standards are met (eg ISO 14000).