
Procurement manual

for activities funded through the
National Land Transport Programme



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This manual is intended to provide guidance and processes to assist approved organisations, under the Land Transport Management Act 2003 (the LTMA) obtain the best value for money spent, and to provide a general description of procurement and procurement procedures for land transport activities. All reasonable measures have been taken to ensure the quality and accuracy of that information. However, Waka Kotahi NZ Transport Agency may change, delete, add to or otherwise amend information contained in this manual. While Waka Kotahi NZ Transport Agency has taken care to provide accurate information, this manual is a general guide and is not a substitute for legal advice applicable to specific situations. Where there is a specific query concerning any of the processes or obligations contained in the LTMA, independent professional advice should be sought. This manual has been prepared carefully and in good faith, but Waka Kotahi NZ Transport Agency is not liable for any errors, costs or losses arising from use of this manual or the information contained within this manual.

More information

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GLOSSARY

Term	Definition
DEA	Data envelopment analysis
FIM	Financial incentive mechanism
GETS	Government Electronic Tenders Service
Government Procurement Rules	Government Procurement Rules (formerly Government Rules of Sourcing)
KPI	Key performance indicator
LGA	Local Government Act 2002
LTMA	Land Transport Management Act 2003
NLTF	National Land Transport Fund
NLTP	National Land Transport Programme
Waka Kotahi	Waka Kotahi NZ Transport Agency
OAG	Office of the Auditor-General
PPP	Public private partnership
PSMC	Performance specified maintenance contract
RFI	Request for information
RFP	Request for proposal
RLTP	Regional land transport plan
ROI	Registration of interest
RPTP	Regional public transport plan

1.0 INTRODUCTION

1.1 Overview

Introduction

This chapter sets out the purpose and structure of the manual, along with the legislative and strategic context within which Waka Kotahi undertakes its functions. It also introduces the guidelines and processes that will help approved organisations to obtain the best value for money spent. The chapter concludes with a general description of procurement and the procurement procedures for land transport activities.

In this chapter

This chapter contains the following sections:

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1.2 Purpose and structure of the manual

Purpose

This manual contains procurement procedures approved by Waka Kotahi under s25 of the Land Transport Management Act 2003 (LTMA). The approved procurement procedures in this manual are available for use by all approved organisations. Approved organisations may use the procurement procedures contained in this manual, subject to any conditions imposed by Waka Kotahi under the LTMA, to purchase the outputs (goods and services) required to deliver activities funded under s20.

The procurement procedures contained in this manual are equivalent to the Government Procurement Rules as they apply when NLTF monies are being invested.

Waka Kotahi requires all approved organisations to have a procurement strategy that documents an approved organisation's long-term integrated approach to the procurement of

transport sector activities funded under s20 of the LTMA. This will assist approved organisations to comply with the procurement procedures set out in this manual.

If approved organisations wish to use the advanced components specified in this manual, they must obtain written approval from Waka Kotahi under s25 of the LTMA.

In using the approved procurement procedures, all approved organisations must follow the rules set out in this manual, unless Waka Kotahi has approved specific variations.

This manual refers to Approved organisations and the same rules apply to Waka Kotahi.

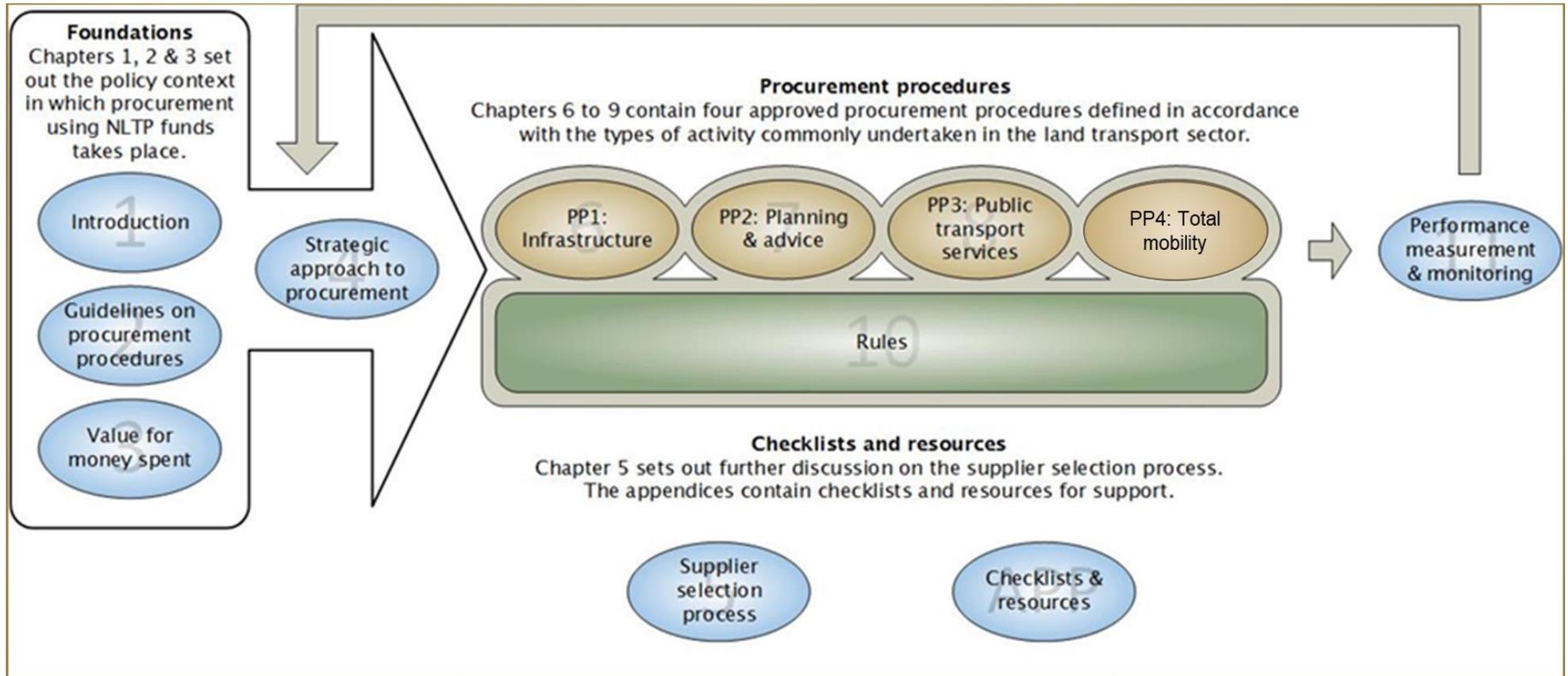
Manual structure

This manual is structured as follows:

- [Chapter 1](#) sets out the legislative and strategic context within which the Transport Agency allocates resources and undertakes its functions, the roles of the Transport Agency, approved organisations and other partners, and a general description of procurement and the procurement procedures for land transport activities.
- [Chapter 2](#) sets out general guidelines on the use of the procurement procedures contained in this manual, including the process for developing customised procurement procedures.
- [Chapter 3](#) defines the approach to best value for money spent and identifies the key elements that help obtain the best value for money spent.
- [Chapter 4](#) outlines how a strategic approach to procurement will enable approved organisations to obtain the best value for money spent and includes guidelines for developing a procurement strategy.
- [Chapter 5](#) discusses the supplier selection process.
- [Chapter 6](#) sets out the procurement procedure for infrastructure.
- [Chapter 7](#) sets out the procurement procedure for planning and advice.
- [Chapter 8](#) sets out the procurement procedure for public transport services.
- [Chapter 9](#) sets out the procurement procedure for public transport total mobility schemes.
- [Chapter 10](#) details the rules and policies that govern the use of the procurement procedures and enable procurement activity in the land transport sector.
- [Chapter 11](#) sets out what information the Transport Agency will collect from approved organisations in order to determine whether procurement procedures are obtaining the best value for money spent.
- [Appendix A](#) provides a checklist for a procurement strategy.
- [Appendix B](#) sets out the criteria for selecting a delivery model.
- [Appendix C](#) describes supplier selection methods.
- [Appendix D](#) provides decision trees for procurement procedures.
- [Appendix E](#) provides a checklist for data collection.
- [Appendix F](#) sets out a checklist for procedural audits.

- [Appendix G](#) defines terms used in this manual.
- [Appendix H](#) explains how to calculate public transport commerciality ratios.
- [Appendix I](#) provides guidance on contract negotiation processes for bus public transport units.
- [Appendix J](#) sets out the requirements and principles of public transport financial incentive mechanisms.
- [Appendix K](#) provides guidelines for compiling surveys to measure public transport customer satisfaction.
- [Appendix L](#) provides a list of public transport data definitions.
- [Appendix M](#) provides a list of 'standard documents', the modification of which is controlled by rules in [section 10.12A](#) *Use of standard documents*
- [Appendix N](#) lists documents and websites referred to in this manual.

This manual comprises the following three parts: foundations, procurement procedures, plus checklists and resources.



1.3 Legislative and policy framework

Introduction

Approved organisations must comply with the LTMA. Complying with the requirements and following the guidelines set out in this manual, will assist approved organisations to adhere to all relevant government policies and legislation in respect of their transport sector procurement activity.

The government provides leadership on procurement through this policy and legislative environment. Legislation, supporting policy and guidance spans several government agencies and is delivered through various channels, as set out below.

Land Transport Management Act 2003

The LTMA sets out the requirements for Waka Kotahi to approve activities for funding (s20) by Waka Kotahi from the National Land Transport Fund (NLTF). Approved organisations must account for the funds they receive through a land transport disbursement account (s24) operated by the approved organisation. All expenditure from the land transport disbursement account must be made with an approved procurement procedure (s25), unless exempt (by or under s26).

This manual is designed to assist approved organisations to comply with the requirements of the LTMA.

Section 25 requires that procurement procedures used by approved organisations be designed to obtain best value for money spent. The following provisions influence procurement from a best value for money perspective:

- Procurement procedures must be designed to obtain best value for money spent, having regard for the purpose of the LTMA, which is to 'contribute to an effective, efficient and safe land transport system in the public interest'.
- Waka Kotahi must approve procurement procedures designed to obtain the best value for money spent.
- When approving a procurement procedure, Waka Kotahi must also consider the desirability of enabling fair competition and encouraging competitive and efficient markets for the supply of outputs required for funded activities.
- Procurement procedures approved by Waka Kotahi must specify how the procurement is to be carried out.
- Outputs must be purchased from external providers, except for minor and ancillary works, which may be purchased from an internal business unit under certain conditions.
- To reinforce the point that the lowest price proposal received for the provision of any outputs does not always equate to the best value for money spent, s25 ends with a specific provision stating that an approved organisation is not compelled to accept the lowest price proposal. This has important implications when it comes to determining best value for money.

Procurement procedures for public transport services must also consider the principles set out under section 115. There are five principles:

- Regional councils and public transport operators should work in partnership and collaborate with territorial authorities to deliver the regional public transport services and infrastructure necessary to meet the needs of passengers
- The provision of public transport services should be coordinated to achieve integration, reliability, frequency and coverage necessary to encourage passenger growth
- Competitors should have access to regional public transport markets to increase confidence that public transport services are priced efficiently
- Incentives should exist to reduce reliance on public subsidies to cover the cost of providing public transport services
- The planning and procurement of public transport services should be transparent.

Certain expenditure does not have to be made in accordance with an approved procurement procedure and therefore does not have to meet the requirements of this manual. Exempt expenditure is defined in s26 and includes expenditure on administration activity, in-house professional services, emergency reinstatement and public transport services to temporarily replace a registered service that has been withdrawn.

Under s22H of the LTMA provides that KiwiRail must approve 1 or more procurement procedures that will apply to the delivery of rail activities and combination of rail activities funded under s 10(3)(aa).

Local Government Act 2002

Where the approved organisation is a local authority or a council-controlled organisation, the purchase of goods or services must be consistent with the principles of its enabling legislation, the Local Government Act 2002 (LGA). Requirements under s14 and ss77–81 of the LGA, that are relevant to obtaining best value for money through procurement, specify the approved organisation must:

- conduct its business in an open, transparent and democratically accountable manner
- give effect to its identified priorities and desired outcomes in an efficient and effective manner
- actively seek to collaborate and co-operate with others
- undertake commercial transactions in accordance with sound business practice
- resolve any conflicts in an open, transparent and democratically accountable manner
- comply with the requirements of part 6 of the LGA in respect of decision making and consultation.

Approved organisations must ensure all decisions are robust and defensible, and ethical and legal considerations are always taken into account.

Under s17A the LGA local authorities are required to conduct service delivery reviews. The service delivery mechanisms chosen by a local authority will be a key element of their programme-wide long-term procurement strategy and an important factor in determining the best value for money obtained through procurement.

Wider government procurement policy

The Chief Executive of the Ministry of Business, Innovation and Employment (MBIE) is the Procurement Functional Leader for government. The Procurement Functional Leader's role is to lift procurement performance across the state services through centre-led activities.

The government procurement policy framework, consisting of Principles, a Charter, Rules and good practice guidance, sets the Government's expectations for how government agencies should approach procurement activities. This broad framework supports accountability for spending, sound business practice and better results.

The Principles of Government procurement and the Government Procurement Charter

The Principles of Government procurement and the Government Procurement Charter should be considered in all procurement activities, even when the [Government Procurement Rules](#) do not apply.

The Principles are the general principles which all public sector entities should follow, such as compliance with legislation and meeting public law and ethical considerations and are:

1. Plan and manage for great results
2. Be fair to all suppliers
3. Get the right supplier
4. Get the best deal for everyone
5. Play by the rules

The Government Procurement Rules establishes a Government Procurement Charter which formally directs agencies to approach procurement in certain ways, including: seeking new and innovative solutions, avoiding the transfer of all risk to suppliers, and supporting greater collaboration across agencies and businesses. The directives are to:

- Seek opportunities to include New Zealand businesses
- Undertake initiatives to contribute to a low emissions economy and promote greater environmental responsibility
- Look for new and innovative solutions
- Engage with businesses with good employment practices
- Promote inclusive economic development within New Zealand
- Manage risk appropriately
- Encourage collaboration for collective impact

Consistency with the Government Procurement Rules

The [Government Procurement Rules](#) are the Government's standards of good practice for government procurement. They are a flexible framework designed to help agencies to make balanced procurement decisions and align with good international practice and New Zealand's Free Trade Agreements. The Government Procurement Rules are supported by guidance and training which is available to public sector staff.

The Waka Kotahi Procurement manual aligns with the Government Procurement Rules, so far as is applicable. By meeting the requirements of this manual when investing NLTF funds, approved organisations can be sure of also meeting the applicable requirements of the Government Procurement Rules. Some of the applicable Government Procurement Rules are referenced directly and a link is provided to the rule. Other Government Procurement Rules are not referred to directly because the requirements of the rule are otherwise covered in principle by this manual.

For the avoidance of doubt, compliance with the Procurement manual (and therefore compliance with applicable Government Procurement Rules) is required when approved organisations are investing NLTF funds. Some purchasers may find that under different circumstances, explicit compliance with all Government Procurement Rules may apply.

Broader Outcomes

Broader Outcomes (Government Procurement Rule 16) are the secondary benefits that are generated from the procurement activity. These outcomes can be social, environmental, cultural or economic benefits, and will deliver long-term public value for New Zealand. Broader outcomes require consideration not only of the whole-of-life cost of the procurement, but also the costs and benefits to society, the environment and the economy.

Approved organisations must consider how procurement activities can, where appropriate, contribute to the Government's Broader Outcomes including the priority outcomes identified by Cabinet.

More information on Broader Outcomes, including the Government framework for delivering Broader Outcomes, the priority areas, and frequently asked questions can be found on the Waka Kotahi website on the Broader Outcomes page NZ Government Procurement website.

Office of the Auditor-General

The Office of the Auditor-General (OAG) provides guidance on procurement through its publication *Procurement guidance for public entities*. It is designed for use by any public entity, as defined in the Public Audit Act 2001. The guidance refers to the OAG's 'overarching' guide *Public sector purchasers, grants and gifts: Managing funding arrangements with external parties*.

This second document describes the basic principles that the OAG expects to be reflected in the use of public funds. It discusses a range of factors that public entities can usefully consider when choosing what type of arrangement will best suit particular initiatives. They include the purpose or goal, risk, the overall relationship with particular external parties and the value of the funding arrangement.

The Waka Kotahi Procurement manual has been written to be consistent with these guides; however, approved organisations should refer directly to the guides for further detail or elaboration if needed.

Sustainability policy principles

Achieving ongoing reliability and quality in the goods and services delivered, as well as ensuring that the resources allocated are used effectively and efficiently, is the basis of sustainability.

Sustainability encompasses minimising the economic, social and environmental costs attributable over the whole-of-life of a procurement process.

Selected guidance on environmental sustainability can be found in the following documents:

- New Zealand Energy Efficiency and Conservation Strategy – the LTMA requires the NLTP and regional land transport programmes (RLTPs) to take this strategy into account
- Toitu Te Taiao – Our Sustainability Action Plan
- New Zealand Urban Design Protocol
- New Zealand Waste Strategy
- Climate Change Response (Zero Carbon) Amendment Act 2019.

Construction Sector Accord

The Government, in partnership with the construction industry signed an accord in April 2019, with the purpose of strengthening the partnership between Government and industry and providing a catalyst to transform the construction sector for the benefit of New Zealand.

The Accord establishes shared goals between Government and industry, in pursuit of which the Government has made a number of commitments. Waka Kotahi has specific responsibilities within the Accord and is jointly accountable for delivering on the government's commitments.

The Waka Kotahi specific commitments under the Accord include:

- better risk management and fairer risk allocation
- better procurement practices and improved pipeline management
- upholding a set of guiding principles and pledges enshrined in the accord
- streamline contractor health and safety prequalification processes
- refresh our infrastructure procurement strategy and publish a list of industry engagement activities to ensure all businesses have the opportunity to engage with the work programme
- demonstrate partnering with local government.

Waka Kotahi expects approved organisations to where possible contribute to the commitments outlined above.

Administrative law

Approved organisations must also comply with their administrative law obligations in procurement. This involves considerations such as acting fairly and reasonably and ensuring adequate consultation, where required.

1.4 Roles of Waka Kotahi and approved organisations

Introduction

The primary role of Waka Kotahi in relation to procurement, as required by the LTMA, is to approve procurement procedures that are designed to obtain the best value for money spent.

While the manual refers to approved organisations, the same procurement procedures and rules also apply to Waka Kotahi.

Approval process

The role of Waka Kotahi to approve procurement procedures is fulfilled in part by approving the use, by each individual approved organisation, of the procurement procedures contained in this manual, subject to any conditions imposed by Waka Kotahi. Any conditions imposed will be for the purpose of ensuring best value for money can be obtained in the circumstances in which the procurement procedure is used. This will include consideration of the approved organisation's strategic approach to procurement, in particular any capacity or capability considerations.

Use of the advanced components set out in this manual is subject to the written approval of Waka Kotahi under s25. Before Waka Kotahi will approve the use of any advanced components, the approved organisation must satisfy Waka Kotahi that it is capable of using such components to obtain the best value for money spent in the circumstances in which they will be applied.

The role of Waka Kotahi in approving procurement procedures is further fulfilled by its power to approve customised procurement procedures for situations not addressed in this manual, in response to specific requests from approved organisations. Customised procurement procedures are discussed in [section 1.7 Procurement procedures](#).

Detailed design of procurement procedures

Waka Kotahi has approved the procurement procedures contained in this manual on the basis they are designed to obtain best value for money. When using these procurement procedures, the first step is for an approved organisation to complete the detailed design of the selected procurement procedure (ie document the strategic context and select the delivery model and supplier selection method). This process is critical to obtaining the best value for money spent.

This manual contains guidelines and rules to assist approved organisations to make these detailed design decisions and Waka Kotahi will provide support and training towards this end. However, approved organisations must apply appropriate levels of capability and capacity to obtain the best value for money outcomes through use of the procurement procedures contained in this manual.

Assistance and advice

One of the functions of Waka Kotahi is to assist, advise and cooperate with approved organisations. This manual, with its guidelines, rules and tools, is one of the ways in which Waka Kotahi fulfils this role. In addition to this, Waka Kotahi works closely with approved organisations to ensure procurement decisions and activities can be managed in ways that maximise opportunities for obtaining best value for money.

1.5 Best value for money spent

Introduction

Activity selection, funding and procurement combine to contribute to the delivery of best value for money spent. This involves achieving desired land transport outcomes and quality at the lowest overall whole-of-life cost.

Approved organisations seeking to undertake activities will identify, through the evaluation of activities under s20, the base benefits or 'value' they expect the activities to deliver and what is to be valued.

Section 25 requires that procurement procedures used by approved organisations be designed to obtain best value for money spent. Procurement under s25 should therefore maintain or enhance the 'base' value for money outcomes identified through the evaluation of activities under s20.

The focus of this manual is on the contribution of procurement to obtaining the best value for money spent. When considering best value for money spent, the desirability of enabling fair competition and encouraging competitive and efficient markets for the supply of outputs is relevant under s25 of the LTMA.

Refer to [chapter 3 Best value for money spent](#) for further guidelines.

1.6 Strategic approach to procurement

Introduction

Best value for money spent cannot be obtained if individual procurement activities are managed in isolation. Approved organisations need to approach procurement strategically to ensure that they develop and document a long-term view. This manual offers guidelines on developing a long-term strategic approach to the procurement of an approved organisation's transport sector activities funded under s20 of the LTMA. This strategic approach will be documented in a fit-for-purpose strategy that considers the internal and external environments, including the scale of activities and the nature of competition.

Waka Kotahi considers that it is essential, to obtaining the best value for money, that all approved organisations have a strategic approach to procurement.

Waka Kotahi requires that the strategic context as it relates to each procurement activity be applied and documented as part of the design and use of a procurement procedure. Waka Kotahi considers that it is best practice for approved organisations to develop a robust understanding of the strategic context in which they purchase and to document this in a

strategy that covers a programme of transport sector procurement activity. This will assist approved organisations to comply with the procurement procedures set out in this manual.

Refer to [chapter 4 Strategic approach to procurement](#).

1.7 Procurement procedures

Definition

Procurement is broad in scope. In the LTMA sense, it is the actions, processes and conduct employed by an approved organisation when procuring the outputs required to deliver activities. The procurement procedures contained in this manual each deal with a broad range of activities and are expected to encompass the majority of activity across the land transport sector. They begin with the strategic context of a procurement activity, and include establishment of a contract for the required outputs and subsequent management of the relationship with the supplier.

Procurement procedures provide the guidelines, rules and tools that will direct the approved organisation through the actions, processes and conduct of procurement. A procurement procedure encompasses a number of components, each of which guides an approved organisation through the procurement process.

The primary objective of procurement under the LTMA is to obtain best value for money spent. In using a procurement procedure, an approved organisation must have regard to the broad economic, environmental and social purpose of the LTMA, and to the desirability of competition. Enabling fair competition and encouraging competitive and efficient markets are desirable where they serve best value for money.

Procurement procedures in this manual

This manual contains the following procurement procedures:

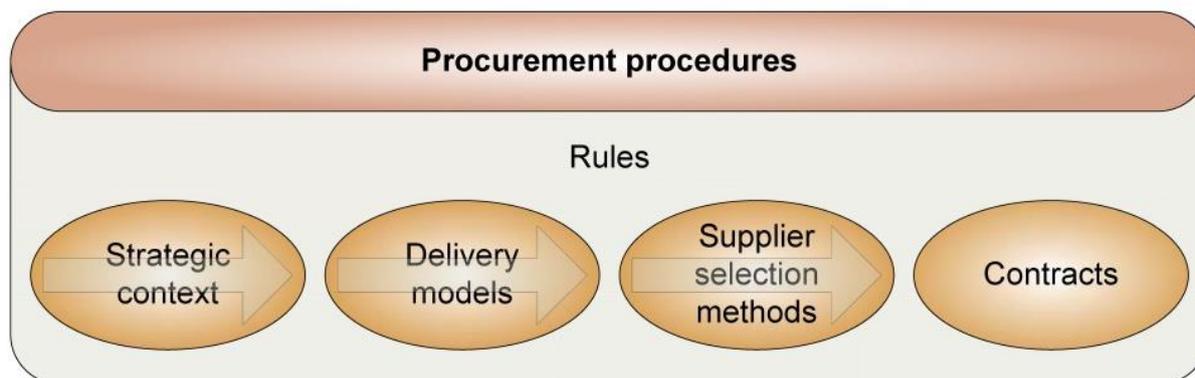
- infrastructure
- planning and advice
- public transport services
- public transport Total mobility scheme.

Each procurement procedure chapter presents:

- guidelines on assessing the strategic context
- possible delivery models
- possible supplier selection methods
- guidelines on the contractual relationship between the purchaser and supplier(s).

Each procurement procedure comprises components (including delivery models and supplier selection methods) that all approved organisations may use. These components are the guidelines, tools and methods that enable approved organisations to obtain best value for money outcomes from the procurement activity they undertake.

The relationship between these components is shown in the following diagram:



The order in which the components are placed represents the process that an approved organisation follows when completing the design of the procurement procedure to be applied to a particular situation. Rules encompass the whole process governing the use of the procurement procedures and relating to the various components.

First, approved organisations must assess the strategic context in which the procurement activity is to take place. The strategic context then informs the selection of the delivery model, which in turn informs the choice of a supplier selection method from which a contract is established to purchase the required outputs. Surrounding each of these components are rules that limit or restrict the choices that can be made.

Each component (eg delivery model or supplier selection method) contains options that allow approved organisations to tailor the procurement procedures. This ensures that the procurement procedure chosen to purchase the outputs is designed to obtain the best value for money spent. Each approved organisation must follow the guidelines and requirements in this manual to select the best options to deliver best value for money.

In addition, each procurement procedure contains a number of advanced components. Advanced components are those that in some circumstances will enable an approved organisation, with the necessary capability and capacity and strategic understanding, to obtain greater value for money spent than they would otherwise achieve. These components give the approved organisations that are authorised to use them, greater procurement flexibility.

Throughout the procurement process for each procurement activity, certain decisions and actions must be documented for audit and monitoring purposes. Refer to [section 1.8 Monitoring and auditing](#).

Additional procurement procedures, approved for use by Waka Kotahi, may also be developed and added to this manual in the future.

Advanced components

The procurement procedures contain advanced components that provide greater procurement flexibility to the approved organisations authorised to use them. The advanced components are:

Delivery models

- Shared risk
- Supplier panel.

Supplier selection method

- Quality-based (except where the output being purchased is professional services or a commercial unit)
- Price quality without disclosure of the estimate (except when used with Procurement procedure 3 – Public transport services and the partnering delivery model).

Approved organisations must seek the written approval of Waka Kotahi, under s25 of the LTMA, to use any of these advanced components. Waka Kotahi will grant such approval if it assesses that the approved organisation is able to obtain best value for money through the use of advanced components. This assessment may include consideration of the approved organisation's strategic understanding, and its capability and capacity. This strategic understanding, capability and capacity will usually be demonstrated through the approved organisation's procurement strategy.

Approval to use advanced components may be granted on a case-by-case basis or as a general approval.

Refer to [section 10.5 Procurement procedure advanced components](#).

Customised procurement procedures

A customised procurement procedure may be required where a procurement activity cannot be accommodated by the procurement procedures in this manual. One or more details of its design will go beyond what is provided for within the procurement procedures contained in this manual, including the advanced components.

The need for a customised procurement procedure will usually be identified by an approved organisation but may be required by Waka Kotahi as a condition of funding.

An approved organisation requires the written approval of Waka Kotahi under s25 of the LTMA before using a customised procurement procedure.

Refer to [section 2.8 Customised procurement procedures](#) for guidelines on the design and approval process for customised procurement procedures.

Managing payments when collaborating with other purchasers

Approved organisations are encouraged to collaborate and purchase together whenever this would deliver better value for money.

When purchasing together requires that one approved organisation make a 'transfer payment' to another approved organisation this needs to be appropriately managed to ensure compliance with legislative requirements. This may be necessary, for example, when one of the approved organisations takes responsibility for making payments to the supplier.

The LTMA, s24, demands that these 'transfer payments', when they involve money received from Waka Kotahi, be made in accordance with an approved procurement procedure. They

are acceptable and will be deemed to have been made in accordance with an approved procurement procedure providing:

- they are made to an approved organisation who is party to the joint purchasing arrangement
- they are made for no other purpose than to facilitate the joint purchasing in relation to an approved activity or combination of activities
- no goods or services are exchanged between the approved organisations in return for the transfer payment
- the procurement otherwise follows the requirements of this manual and the LTMA
- the procurement procedure has been designed by the approved organisations to obtain best value for money spent.

Payments made by one approved organisation to another for works or services delivered by the second approved organisation, are not ‘transfer payments’ in the above sense. When one approved organisation purchases works or services from another, an approved procurement procedure must be used, unless the payment is exempt from procurement procedure requirements by or under s26 of the LTMA.

1.8 Monitoring and auditing

Introduction

Through requirements in the LGA and via the development of plans like the long-term plans, local authorities already have considerable experience in developing performance measurement and monitoring systems. Waka Kotahi is responsible for ensuring that the procurement procedures it approves are designed to obtain the best value for money spent, keeping in mind the desirability of fair competition, and competitive and efficient markets.

[Chapter 11 *Performance measurement and monitoring*](#) sets out the information approved organisations must provide to Waka Kotahi in order to determine whether procurement procedures are obtaining the best value for money spent and the impact their use is having on fair, competitive and efficient markets.

This performance measurement and monitoring system will evolve over time. Initially, the focus is on a limited number of indicators that reflect the priorities of Waka Kotahi, which are based on the requirements of s25 of the LTMA.

Waka Kotahi will use the information it collects to monitor the effectiveness of the procurement procedures, and identify best practice and areas that can be improved. Waka Kotahi will share the information with approved organisations. A key objective of the performance measurement and monitoring framework is to improve decision making and help to continuously improve procurement practice and policy.

[Chapter 11](#) sets an expectation that approved organisations will establish their own performance measurement and monitoring frameworks, and sets out guidelines for what should be contained in such frameworks.

[Chapter 11](#) also contains key performance indicators for public transport services, which Waka Kotahi will use to monitor the effectiveness of public transport service delivery as well as assess whether procurement procedures are obtaining best value for money.

Refer to [chapter 11 Performance measurement and monitoring](#) for further information.

1.9 In-house professional services

Introduction

In-house professional services are professional services that are undertaken by an approved organisation's own staff, with the approval of Waka Kotahi under s26. These in-house professional services do not require the use of an approved procurement procedure.

An approved organisation's procurement strategy for a programme of work, funded from the NLTF, must address how professional services will be resourced, including whether to undertake these services in-house. Purchasing the right professional services at the right time, under a sound supply arrangement, is critical to obtaining the best value for money spent. An approved organisation's procurement strategy should provide the strategic context for the decision and support any application for approval sought from Waka Kotahi to undertake professional services in-house.

Refer to [chapter 4 Strategic approach to procurement](#) for further information on developing and maintaining a procurement strategy.

The detailed policy and processes for undertaking and managing professional services and for claiming financial assistance may be found in the [Planning and Investment Knowledge Base](#).

2.0 GUIDELINES FOR PROCUREMENT PROCEDURES

2.1 Overview

Introduction

This chapter sets out general guidelines on the use of the approved procurement procedures contained in this manual, including guidelines on the process for customising and seeking approval for the use of customised procurement procedures.

In this chapter

This chapter contains the following sections:

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2.5 Selecting a delivery model	24
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2.2 Introduction

Definition

Procurement is broad in scope. The OAG defines procurement as:

... all 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.

A procedure is broadly defined as encompassing the actions, processes and conduct that are systematically followed to give effect to something.

In the context of the LTMA, a procurement procedure governs the actions, processes and conduct, designed to obtain the best value for money spent, that an approved organisation follows when purchasing goods and services to deliver activities that Waka Kotahi has approved for funding.

Once an activity has been selected and funding approved, the procurement procedure provides the guidelines, rules and tools to enable the approved organisation to purchase the required outputs. The procurement procedures in this manual are designed to obtain best value for money spent with regard to the purpose of the LTMA, and to enable competition that is fair and encourage efficient and effective markets.

Procurement procedures in this manual

Section 25 of the LTMA requires that Waka Kotahi must approve one or more procurement procedures that are designed to obtain best value for money spent. Waka Kotahi has developed a number of procurement procedures to be used by approved organisations that meet this test. This manual contains these procurement procedures and they have been defined in accordance with the types of activity commonly undertaken in the land transport sector:

- infrastructure
- planning and advice
- public transport services.

The approved procurement procedures are set out in detail in chapters 6 to 9 of this manual. Each procurement procedure chapter presents:

- guidelines on assessing the strategic context
- possible delivery models
- possible supplier selection methods
- guidelines on the contractual relationship between the purchaser and supplier(s).

Each procurement procedure has a number of options attached to each component. Approved organisations must follow the rules and guidelines contained in this manual to select the right options that will deliver the best value for money outcome for their procurement activity.

Describing procurement procedures in this way links them directly to the type of activity that is being undertaken, thus providing a clear choice as to which procurement procedure should be used in any given situation. Clearly distinguishing between each of the components enables the process to be broken down into discrete pieces of work, while also allowing for ease of understanding when approved organisations design customised procurement procedures. Using the right components of a procurement procedure for a particular procurement event has a direct bearing on obtaining best value for money spent.

Relationship to other parts of this manual

Every purchasing decision made by an approved organisation must be made on the basis of how best value for money spent can be obtained. To ensure the procurement process works efficiently and effectively to support this objective, approved organisations must make a number of decisions. This manual contains guidelines on what must be considered:

- *Best value for money spent* – [Chapter 3](#) defines the approach to best value for money and identifies the elements that help obtain best value for money. In particular, it addresses how best value for money can be obtained by selecting the most appropriate procurement procedure components.

- *Strategic approach to procurement* – [Chapter 4](#) outlines how a strategic approach to procurement will enable approved organisations to use the procurement procedures in this manual to obtain the best value for money spent. Waka Kotahi considers that it is best practice for approved organisations to develop a robust understanding of the strategic context in which they purchase. This context should be documented in a procurement strategy that covers a programme of transport sector procurement activity.
- *Delivery models* – A properly selected and applied delivery model is the foundation of the procurement process. Each procurement procedure sets out the available delivery models and contains guidelines for selecting the most appropriate delivery model for the procurement activity. Refer to chapters 6 to 9 for the procurement procedures.
- *Supplier selection process* – [Chapter 5](#) sets out the process for selecting the supplier(s) for a procurement activity. The guidelines for selecting the method are in each procurement procedure. Refer to chapters 6 to 9 for the procurement procedures.
- *Rules* – [Chapter 10](#) describes in detail the Procurement manual rules that govern procurement.

In most cases, each component of a procurement procedure identified here must be considered when applying a procurement procedure to a particular procurement activity.

Relationship to funding approval

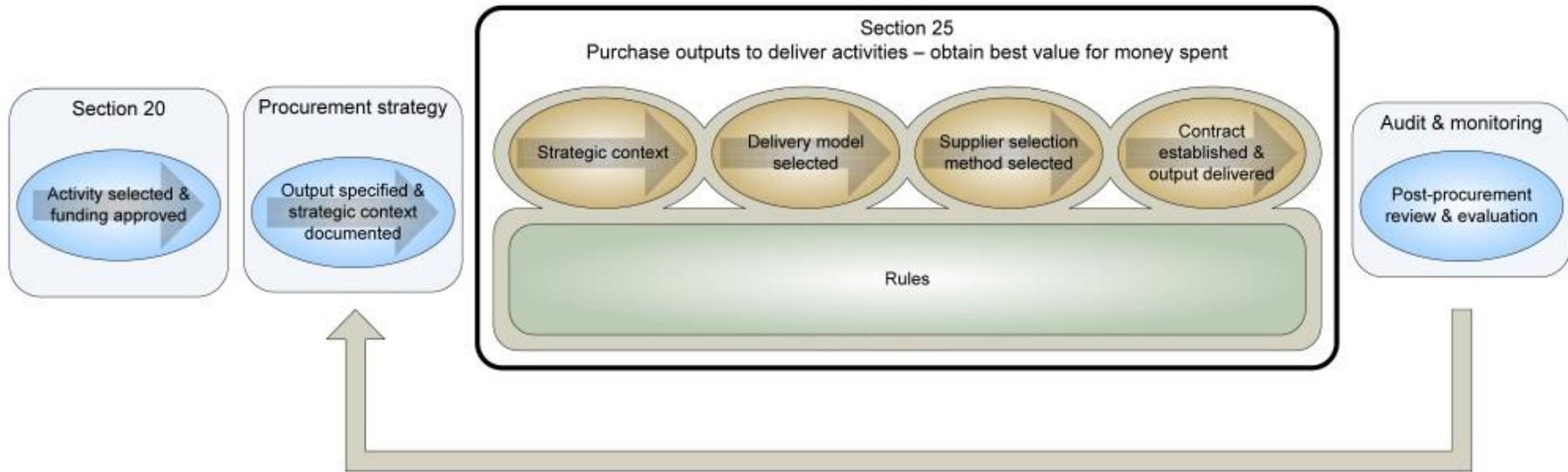
The process of activity selection and funding approval is determined by s20 of the LTMA and is set out in the Waka Kotahi [Planning and Investment Knowledge Base](#). In the process of formulating an activity, the evaluation process produces estimates of both the benefits or ‘value’ to be obtained from undertaking the activity as well as the estimated cost. This provides a ‘base’ value for money estimate from which to analyse the performance of the procurement activity.

When linking optimal activity selection with the procurement process to deliver that activity, and to improve the value for money from the procurement process, approved organisations should consider:

- What are the benefits or ‘value’ expected to be produced by the activity?
- When are the benefits or ‘value’ expected to accrue from the activity?
- Has a whole-of-life best value for money approach been taken into account?

The diagram below illustrates that procurement, through an approved procurement procedure under s25, delivers the activity approved for funding.

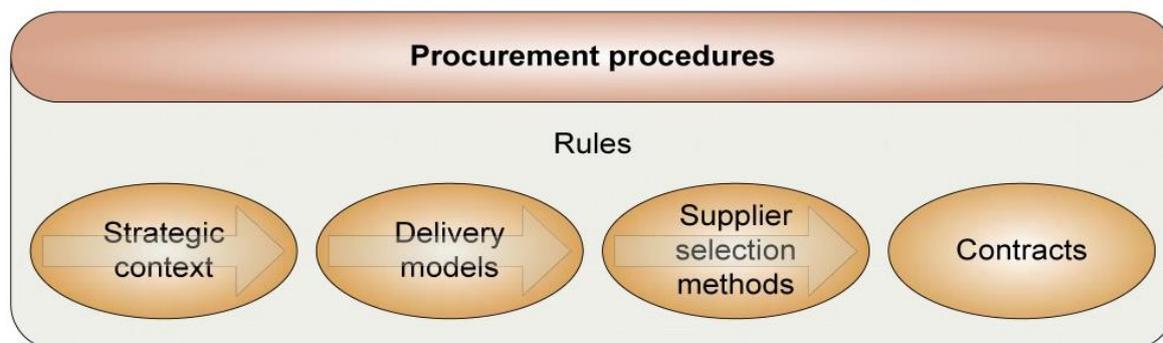
Overall procurement process - from activity selection to output delivery



2.3 Structure of procurement procedures

Introduction

The following diagram provides an overview of how the different components of a procurement procedure relate to one another.



Two important elements influence the detailed design of a procurement procedure:

- the strategic context in which the procurement is undertaken
- the rules that apply to the procurement activity and that vary according to the type of procurement procedure used.

The detailed design of a procurement procedure commences with an evaluation of the strategic context within which the planned procurement is proposed to be undertaken. This is completed by examining the proposed procurement activity with reference to the approved organisation's strategic intent as documented in their procurement strategy.

The rules for a procurement activity govern the operation of the delivery models and supplier selection methods as they are applied to a procurement event.

The strategic context influences the delivery model that is selected to undertake the procurement activity. It governs whether the delivery model is straightforward, such as a staged model, or whether the context warrants a more complex form of delivery model, such as a shared risk arrangement. The selection of the delivery model then has a bearing on which supplier selection method is the most appropriate.

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 best 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 best 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 best value for money evaluation.

Obtaining the best value for money spent is more likely to occur if a procurement procedure is applied in the systematic manner described above, including an evaluation of the process. Post-procurement review and evaluation is a critical part of following a rigorous process to determine if best value for money spent has been maintained or enhanced through the

procurement process. The evaluation process should examine the outcomes from the procurement activity against those initially identified during the funding approval process. There should also be a feedback mechanism into the procurement strategy to ensure that it continues to reflect and be consistent with the environment in which the approved organisation operates.

Procurement procedure definitions

The definition of each procurement procedure is linked to the primary output of the activity being undertaken. For instance, an activity with the primary output of construction of a bridge would primarily be an infrastructure activity, although it will also involve design and project management services. Therefore, in such a circumstance, the infrastructure procurement procedure must be used.

The following sections define each procurement procedure and the type of activity covered by it.

Procurement procedure 1 – Infrastructure

The infrastructure procurement procedure covers those activities involving expenditure of NLTP funds on the physical works and professional services for the operation, maintenance, renewal, improvement and construction of infrastructure.

Procurement procedure 2 – Planning and advice

The planning and advice procurement procedure covers the selection and engagement of supplier(s) to carry out professional services not directly related to immediate expenditure on physical infrastructure or public transport services.

Procurement procedure 3 – Public transport services

The public transport services procurement procedure covers those activities involving expenditure of NLTP funds on the purchase of public transport service operations for the carriage of passengers on buses.¹

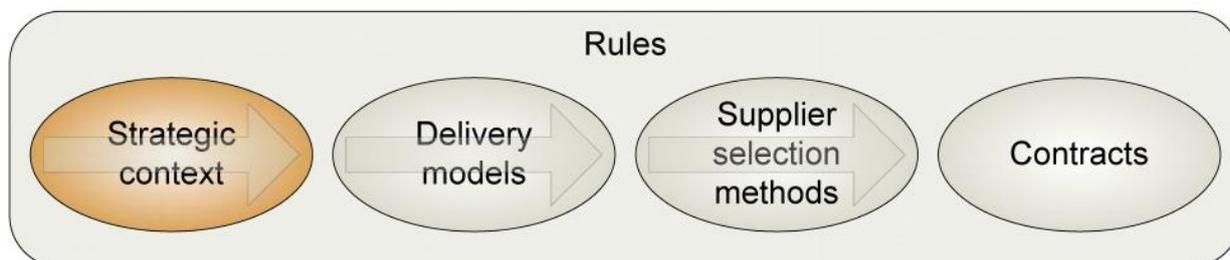
Procurement procedure 4 – Total Mobility scheme

The Total Mobility scheme procurement procedure covers those activities involving expenditure of NLTP funds on the purchase of access to fare subsidies.

¹ Approved organisations should develop customised procurement procedures for ferry and rail public transport services. There are no pre-approved procurement procedures for ferry and rail public transport services. Approved organisations procuring such services will need to prepare a customised procurement procedure. The process for developing a customised procurement procedure is set out in section 2.8. Contracts for ferry and rail services are still expected to be consistent with the partnering contract requirements as set out under section 8.6.

2.4 Strategic context

Summary



Before an approved organisation undertakes a procurement activity, it must consider the strategic context to ensure that the proposed approach to delivering the activity is consistent with its strategic intent as documented in its strategy. This is to ensure that the approach to purchasing the outputs is consistent with the approved organisation's strategic approach and that the right delivery models and supplier selection methods are used to maximise the opportunity to obtain the best value for money spent. The following actions should be considered when assessing the strategic context and are covered in more detail in [chapter 4 Strategic approach to procurement](#) for guidelines:

- Reference the application for funding approval under s20 of the LTMA and identify the factors that can influence the achievement of the approved organisation's strategic procurement objectives.
- Determine if the scope and objectives for the procurement activity, as set out in the funding application, remain relevant.
- Consider how the value identified through the s20 process can be maintained or enhanced.
- Consider activity-related issues, including:
 - What are the risks associated with the activity?
 - Is the activity straightforward or does it contain unusual or uncommon aspects that may increase its complexity?
 - Does the activity offer opportunities for innovation?
 - Can the activity be integrated or coordinated with other activities?
- Consider market circumstances, including:
 - Is there a competitive supplier market available to undertake the activity?
 - Can better value for money be obtained by further developing the supplier market or by undertaking professional services in-house?
 - Can better value for money be obtained by collaborating with other approved organisations and purchasing together?
 - Does the procurement activity involve a complex process, pose higher risk or require specialist equipment that limits the number of potential suppliers in the market?
 - How does the size of the activity affect the market's capacity to deliver?

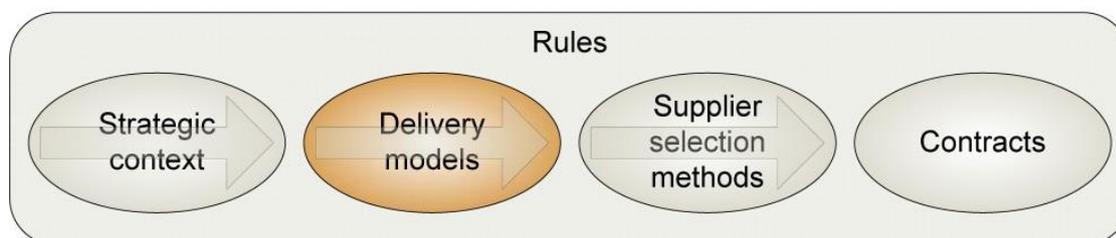
- How does the timing relate to the market situation (ie is the activity being programmed at a time when the market is at capacity)?
- Assess the capability and capacity of the approved organisation, including:
 - Does the approved organisation possess the skills, experience and capability to manage the procurement process?
 - Does the approved organisation have the necessary resources to deliver the procurement programme?
 - Are the risks associated with the procurement programme or activity understood and able to be managed?
 - Who is best placed to manage the risks?

The outcomes from evaluating the strategic context have a direct bearing on the selection of the delivery model. Approved organisations must therefore demonstrate a sound understanding of how each procurement activity fits within their overall procurement programme so that the procurement procedure to be used enables the approved organisation to obtain the best value for money spent.

See [chapter 4 Strategic approach to procurement](#) for guidelines on developing a strategic approach.

2.5 Selecting a delivery model

Summary



A delivery model is the form of the relationship established between the purchaser and the supplier(s) to purchase the outputs required to deliver an activity.

This relationship commences when the approved organisation first interacts with the supplier market and finishes when the activity is complete and all contractual arrangements are concluded. It is about defining and putting in place the appropriate structures that establish the relationship between the purchaser, the potential suppliers and the preferred supplier(s).

Different delivery models are available for the first three of the four procurement procedures in this manual.

While there are some overlaps between the procurement procedures, each has its own set of delivery models to be applied to particular activities. The choice of delivery model may change over time for a particular activity. For instance, during the early stages of investigation for a large construction project, a staged model will probably be followed. As the approved organisation moves through the delivery phases, the characteristics of the activity might be such that a design and build delivery becomes more appropriate.

The objective of this component of the procurement procedure design is to select a delivery model for carrying out the procurement and the delivery of the activity that maximises the potential for obtaining best value for money. Best value for money involves obtaining the maximum economic, social and environmental benefits possible from an activity for the lowest overall whole-of-life cost.

Selecting the most appropriate delivery model can reduce the costs associated with purchasing the required outputs. These costs may include the identification and selection of suppliers and contract management costs.

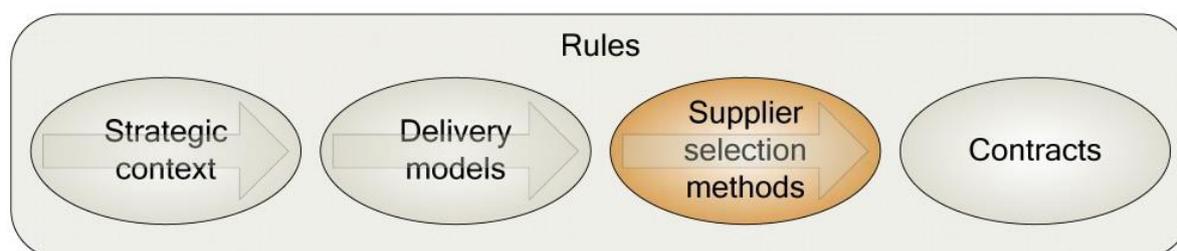
Delivery models help approved organisations obtain best value for money by:

- setting the terms under which the required outputs are to be delivered
- allocating risk and control to the most appropriate parties to manage and mitigate those risks.

The specification and choice of the right delivery model for the procurement activity is an important component of a procurement procedure. The specific delivery models available for each procurement activity are provided in the procurement procedures.

2.6 Supplier selection methods

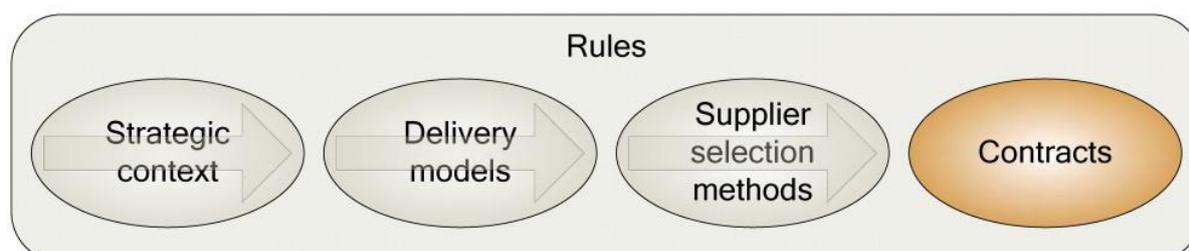
Summary



The supplier selection process is the means of obtaining the preferred supplier to deliver the outputs based on best value for money principles. The process is governed by a set of rules combined with a set of supplier selection methods, which enable an approved organisation to select the preferred supplier. Refer to [chapter 5 Supplier selection process](#) for guidelines on the process of supplier selection.

2.7 Contracts

Summary



The development of a contract integrates the previous stages and establishes the framework for the delivery of the activity. It also specifies the conditions assigned to the relationship between the purchaser and the supplier(s).

The scope and nature of the contracts used will vary in terms of the goods and services to be purchased and the scale and complexity of the activity.

The procurement procedures in this manual (chapters 6 to 9) contain general guidelines on the factors that influence the scope and nature of contracts.

The form the contract takes to manage and deliver an activity is highly individual to that activity, so the decision on contract form rests with the approved organisation.

This manual contains no specific guidelines on the contract form to be adopted under a procurement procedure. Approved organisations can adopt the form of contract that best suits their procurement circumstances at the time the procurement activity is undertaken

2.8 Customised procurement procedures

Introduction

A customised procurement procedure is a procurement procedure that includes one or more components (or design details) that cannot be accommodated by the approved procurement procedures in this manual, including any advanced components.

A customised procurement procedure will usually be a one-off procurement procedure.

An approved organisation may identify a need for a customised procurement procedure; Waka Kotahi may also identify this need and require the development of a customised procedure as a condition of funding. Prior approval for the use of the customised procedure is required from Waka Kotahi under s25 of the LTMA.

For example, a public private partnership would in most instances be treated as a customised procurement procedure.

To obtain approval for a customised procurement procedure, approved organisations should prepare a procurement procedure statement that:

- describes the proposed procedure
- explains how the proposed customised procurement procedure meets the requirements of s25
- identifies, where applicable, which approved procurement procedure it is based on
- identifies, where applicable, where the proposed procedure is inconsistent with the approved procurement procedure on which it is based
- identifies any relevant rules that will require a variation (refer to [chapter 10 Rules](#)).

The approved organisation seeking approval for a customised procurement procedure must set down in its application:

- how the procurement procedure is designed to obtain best value for money spent, with regard to the purpose of the LTMA
- whether two or more willing and able suppliers of the required outputs are available

- how fair competition will be enabled among the willing and able suppliers (if two or more exist)
- how the procurement procedure will encourage competitive and efficient markets for the supply of the outputs required.

Where the approved organisation proposes that competition will in some way be limited, then the best value for money justification for that decision must be documented.

Waka Kotahi will apply the following tests before approving a customised procurement procedure:

- Is the procurement procedure designed to obtain best value for money?
- Is fair competition among willing and able suppliers enabled?
- Are competition and efficiency in the affected supply markets encouraged?

A procurement procedure must always be designed to obtain best value for money under the requirements of s25 and, therefore, this test must be met in the affirmative. Waka Kotahi will consider the other two tests but may not require that each of these tests be met in the affirmative. A balance can be struck between best value for money and the impact on competitive markets. The best value for money benefits of a proposed customised procurement procedure may outweigh any negative impact on the competitive market.

An approved organisation's application for approval of a customised procurement procedure should refer to and, if necessary, include the approved organisation's endorsed procurement strategy. The application should refer to any relevant material changes to the strategic context that may adversely affect the competitiveness and efficiency of the supplier markets.

Waka Kotahi will consider applications for approval of a customised procurement procedure on a case-by-case basis. The approved organisation must outline the rationale for how a customised procurement procedure will deliver better value for money and how they intend to use the customised procurement procedure.

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

In this chapter

This chapter contains the following sections:

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3.3 Identifying best value for money at the activity selection stage	29
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3.5 The role of the Government policy statement on Land transport	35

3.2 Defining best value for money in relation to procurement

Definition

Within a procurement context, Waka Kotahi defines ‘best value for money’ as: ‘the most effective combination of cost, quality, benefit and risk to meet a requirement’

In this context:

- Cost: means all expenditure and resources required over the life of the asset or contract
- Quality: means the extent that a specification, performance level, or safety standard is met
- Benefit: means outcomes, results and impacts (and can include dis-benefits)
- Risk: means the degree of certainty (of cost, quality and benefit).

Alignment with other terms

The Government Policy Statement on land transport establishes 'value for money' as a strategic priority, primarily focussed on investment decisions but also in the context of the benefits expected to be realised through innovation in procurement.

The 2019 version of the Government procurement rules introduces the concept of 'public value', requiring government procurement activities to seek broader outcomes and benefits beyond the immediate contract requirement.

Waka Kotahi reconciles these terms by deferring to the LTMA and applying the above definition of 'best value for money', which is intended to align with Government procurement's concept of 'public value'.

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).

3.3 Identifying best value for money at the activity selection stage

Introduction

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

- Section 20 (s20) addresses the funding approval for activities

- Section 25 (s25) relates to the Waka Kotahi 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.

Best 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 Waka Kotahi [Planning and Investment Knowledge Base](#) 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 best 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 best 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 best value for money evaluation.

The following sections outline how optimal activity selection and taking a whole-of-life view help obtain best 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 best 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.

Best 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 Waka Kotahi [Planning and Investment Knowledge Base](#) sets out the process for evaluating and selecting activities for funding approval under s20.

Whole-of-life best value for money is first assessed at the funding approval stage. This requires taking a long-term view of the total best 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.

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 Waka Kotahi evaluation methodology. The evaluation methodology is set out in the Waka Kotahi [Monetised benefits and costs manual](#) and [Planning and Investment Knowledge Base](#). For most activities, a result of the activity selection process through the s20 funding approval will be the determination of the 'base' best 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 best 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 best value for money outcomes that have been identified. The base best 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 best value for money is maintained or enhanced. The components of this process include:

- taking a strategic approach to procurement
- optimising whole-of-life best 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 best 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 best 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 best value for money

Whole-of-life best 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.

The Waka Kotahi *Monetised benefits and costs manual* and *Planning and Investment Knowledge Base* 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 Waka Kotahi *Monetised benefits and costs manual* and *Planning and Investment Knowledge Base*).

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 best 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 the identified best value for money outcomes is 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.

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 (not available for public transport)
- shared risk (not available for public transport)
- partnering (only available for public transport)
- 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 best 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 best 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 best 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.

Allocating and managing risk appropriately

Risk management involves the systematic and timely identification, analysis, treatment, management and mitigation of risks. To obtain best 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 relating to the use of procurement procedures
- contract and relationship – risks arising 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 best value for money in the procurement process.

Refer to [appendix B Criteria for selecting a delivery model](#) for further guidelines.

Proactively managing contract delivery

Best 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 best value for money spent is maintained or enhanced.

Monitoring performance

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 best value for money spent through the procurement process.

Waka Kotahi 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 best 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 (eg 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 The role of the Government policy statement on Land transport

The *Government policy statement on land transport* sets out the Government's strategic priorities relating to land transport. These priorities will contribute to the key transport outcomes the Government has identified through the Transport Outcomes Framework.

Those who are planning, assessing and making investment and procurement decisions should be guided by the strategic priorities, key outcomes and principles for investing as outlined in the *Government policy statement on land transport*.

The *Government policy statement on land transport* therefore plays a key role in establishing the financial and non-financial attributes that will be valued in both activity selection and procurement.

More information on the current *Government policy statement on land transport* can be found on the Waka Kotahi website.

4.0 STRATEGIC APPROACH TO PROCUREMENT

4.1 Overview

Introduction

This chapter sets out how a strategic approach to procurement will enable an approved organisation to better increase its chances of obtaining best value for money. The documentation of a strategic approach to long-term procurement must include a statement of the programme of activities and the initiatives and actions that the approved organisation intends to undertake to obtain best value for money spent from those procurement activities. A strategic approach will also address the delivery models proposed for the procurement activities and the approved organisation's approach to maintaining an efficient and effective supplier market.

This chapter describes:

- the importance of an approved organisation having a strategic approach to procurement
- the requirement for an approved organisation to understand the strategic context in which the procurement of activities funded under s20 of the LTMA takes place
- how the strategic context will inform the selection of procurement procedures and their components
- a step-by-step process to prepare a procurement strategy for an approved organisation's long-term integrated approach to the procurement of a programme of activities funded from the NLTP.

In this chapter

This chapter contains the following sections:

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4.2 A strategic approach

Introduction

Approved organisations must understand the strategic context in which the procurement of goods and services is to take place. Each procurement activity, irrespective of size or scope, impacts in some way on the environment in which the approved organisation operates. By developing a strategic approach to procuring the required outputs, an approved organisation can increase the likelihood of obtaining best value for money spent.

A strategy is a long-term plan of action designed to achieve a particular goal and is differentiated from immediate actions by its nature of being planned, reviewed and often consulted on. A strategy is about the choices that need to be made in order to affect outcomes. In this context, a procurement strategy documents an approved organisation's long-term integrated approach to the procurement of transport sector procurement activities funded under s20 of the LTMA.

To aid this understanding of the environment, the planning for all procurement activities should involve a process of identifying and understanding the objectives of the activity, the relevant supplier market, the associated risks and the nature and quality of the goods and services to be purchased. This understanding must then be documented in a strategy.

A procurement strategy will raise the profile of procurement practice within an approved organisation and with its stakeholders. It will explain an approved organisation's approach to the purchase of goods and services to suppliers, Waka Kotahi and other stakeholders.

Taking a longer-term view

A strategic approach to procurement allows an approved organisation to consider longer-term goals, such as maintaining competitive and efficient supply markets. It also assists an approved organisation to consider these goals in a structured and justifiable way when choosing the best procurement procedure for a particular procurement activity.

In some cases, however, the selection of a procurement procedure that delivers best value for money for a given activity may in fact be detrimental to a long-term competitive and efficient market. For example, bundling a range of activities together into a 'mega-contract' may obtain more service for less money for the given activities, but such a contract may create barriers to entry for smaller suppliers and lead to reduced competition in the supplier market.

Approved organisations must consider such factors when developing a procurement strategy to ensure they understand the long-term consequences of decisions and can plan for those consequences in a clear and consistent manner.

Encouraging improvement

A procurement strategy enables decision makers to understand longer-term goals, such as realising best value for money and encouraging supplier improvement, and to consider these goals when making procurement decisions. The strategy should describe how procurement procedures can provide incentives for the approved organisation and its suppliers to continually innovate and work to improve people, practices, goods and services.

Creating certainty through clear communication

A procurement strategy that outlines the context, objectives and performance measures for a programme of activities creates a level of certainty and predictability for the approved organisation. It also provides a channel for clear communication with potential suppliers and for other purchasers in the market, including other approved organisations.

An approved organisation will use its procurement strategy to document its procurement objectives and how it intends to achieve them. Suppliers will be interested in this strategy as it will contain information, they can use to plan investment and services to better meet the needs of the approved organisation. The strategy will also form the basis for sharing information about procurement programmes with other approved organisations; and it will provide good transparency to the public regarding each approved organisation's procurement intentions.

Identifying and managing risks

A procurement strategy describes the particular risks an approved organisation faces with regard to procurement. This means that each approved organisation can plan ahead to avoid and manage all risks.

Procurement strategies and Local Government Act service delivery reviews

Under s17A of the LGA, local authorities are required to conduct service delivery reviews. A review of part or all of a procurement strategy may overlap in some way with a LGA s17A service delivery review. A s17A review may have a broader purpose than a procurement strategy review but there should be no inconsistency between the objectives of the two.

4.3 Procurement strategy

Introduction

Approved organisations purchase a wide range of goods and services on behalf of their communities. To ensure cost-efficient and cost-effective service delivery, best practice suggests that better results are obtained when the purchase of goods and services is undertaken within a strategic context.

There are two aspects to this strategic consideration. The first and broadest is an approved organisation's business-wide approach to procurement for all of its purchasing, not just transport related. Waka Kotahi anticipates that most approved organisations will have a business-wide procurement strategy and it strongly encourages this approach.

The second and critical area of consideration for Waka Kotahi is an approved organisation's approach to its programme of transport sector procurement activities funded under s20 of the LTMA. This includes how to deliver a programme of activities, across different market segments, in a way that obtains the best value for money spent and how the approved organisation will address the requirements and considerations of s25. Such requirements and considerations include encouraging competitive and efficient markets, sustainability and the objectives of the LTMA. It must be dynamic and should be fully revisited as part of an approved organisation's strategic planning process.

Waka Kotahi requires that the strategic context in which each procurement activity is to take place be documented as part of the detailed design of a procurement procedure. To support approved organisations in the documentation process, Waka Kotahi requires approved organisations to develop a procurement strategy and submit this for endorsement.

If an approved organisation does not have an endorsed procurement strategy, it will be unable to comply with the strategic context component of each procurement procedure. All approved organisations are required to notify Waka Kotahi of any material changes to the strategic context that may adversely affect the competitiveness and efficiency of the supplier markets. Such material changes will require an approved organisation to review their procurement strategy and obtain a renewal of their existing endorsement, where appropriate.

This strategic analysis informs the approach that an approved organisation will take to a specific procurement activity to deliver the required outputs. This is the strategic context in which a particular procurement activity takes place and must be documented as part of using the procurement procedure.

Waka Kotahi strongly recommends that a strategy for the procurement of activities funded under s20 of the LTMA be aligned with an approved organisation's business-wide procurement strategy.

Business-wide procurement

The objectives of a business-wide procurement strategy include:

- alignment of purchasing objectives and outcomes with the approved organisation's vision
- a focus on best value for money being sought through purchasing activity
- robust probity and accountability for purchasing outcomes.

A coherent and well-supported business-wide procurement strategy will ensure that procurement practices:

- contribute to the approved organisation's vision and objectives
- help obtain best value for money from all purchasing activity
- help effectively manage supplier markets
- effectively manage risks associated with purchasing activity
- enable the best quality of goods and services to be obtained
- are undertaken in a way that ensures probity and accountability for outcomes.

A business-wide procurement strategy will raise the profile of procurement practice in an approved organisation. It should be documented, and it should cover all purchasing that is undertaken.

The procurement strategy should be aimed at those who are responsible for budgets, operations and service delivery, as well as the traditional audience of procurement professionals (such as contract officers and those involved in purchasing). This audience will include both executives and board members and, in the case of approved organisations, the elected members.

Such a procurement strategy will guide all business groups in the approved organisation when they are formulating their annual strategic procurement plans. The procurement strategy will help improve procurement efficiency across the approved organisation and align procurement practices with its broader objectives.

A business-wide strategy will also interest suppliers of goods and services to approved organisations. Knowing what approved organisations intend to purchase will enable suppliers to plan to better meet their requirements.

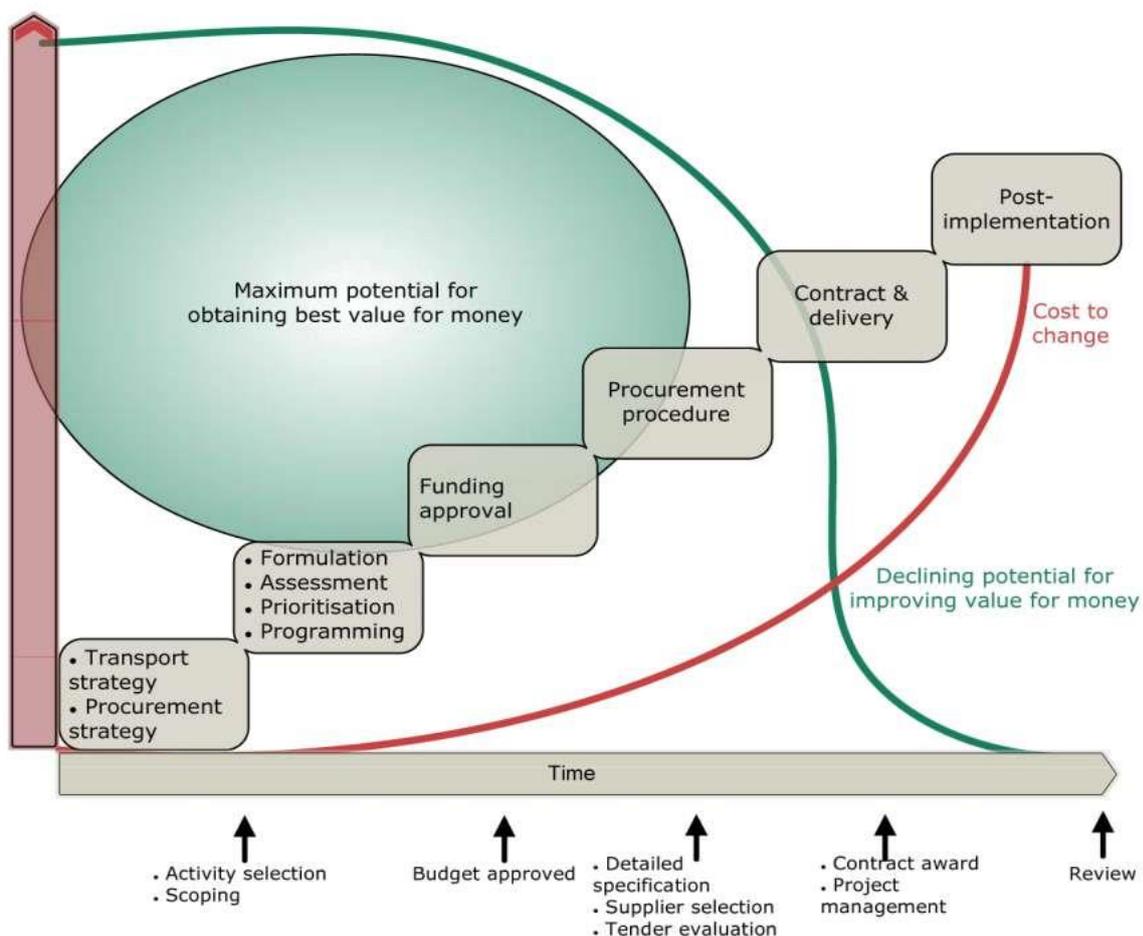
For an approved organisation, such an overarching strategy will provide guidance to those responsible for the procurement of outputs funded through the NLTP.

Transport sector procurement

Approved organisations must meet the requirements under s25 of the LTMA. To ensure best value for money spent can be obtained, approved organisations must satisfy Waka Kotahi that they understand which procurement procedures and actions are best suited to delivering best value for money and encouraging competitive and efficient markets.

The following diagram illustrates the importance of having a strategic approach to procurement. It illustrates how such an approach will inform the planning for the procurement activity, and the selection of the procurement procedure and delivery model, to increase the opportunity to obtain best value for money.

Maximum potential for obtaining best value for money



The diagram reinforces the view that having a strategic approach will significantly influence the approved organisation's ability to obtain better value for money. If procurement is undertaken without understanding the wider environmental context, the risk of not maintaining (or reducing) value during the procurement process increases significantly. This occurs because the options to improve value become increasingly limited as time passes.

An approved organisation's documentation of their strategic approach to transport sector procurement will enable it to take into account long-term considerations, such as encouraging competitive and efficient markets, sustainability requirements and the objectives of the LTMA. This in turn will allow an approved organisation to select the most appropriate procedure for a procurement activity. The procurement strategy is an important mechanism to gain flexibility and to seek innovation from suppliers. The context in which transport sector procurement is undertaken is also a platform for documenting and communicating:

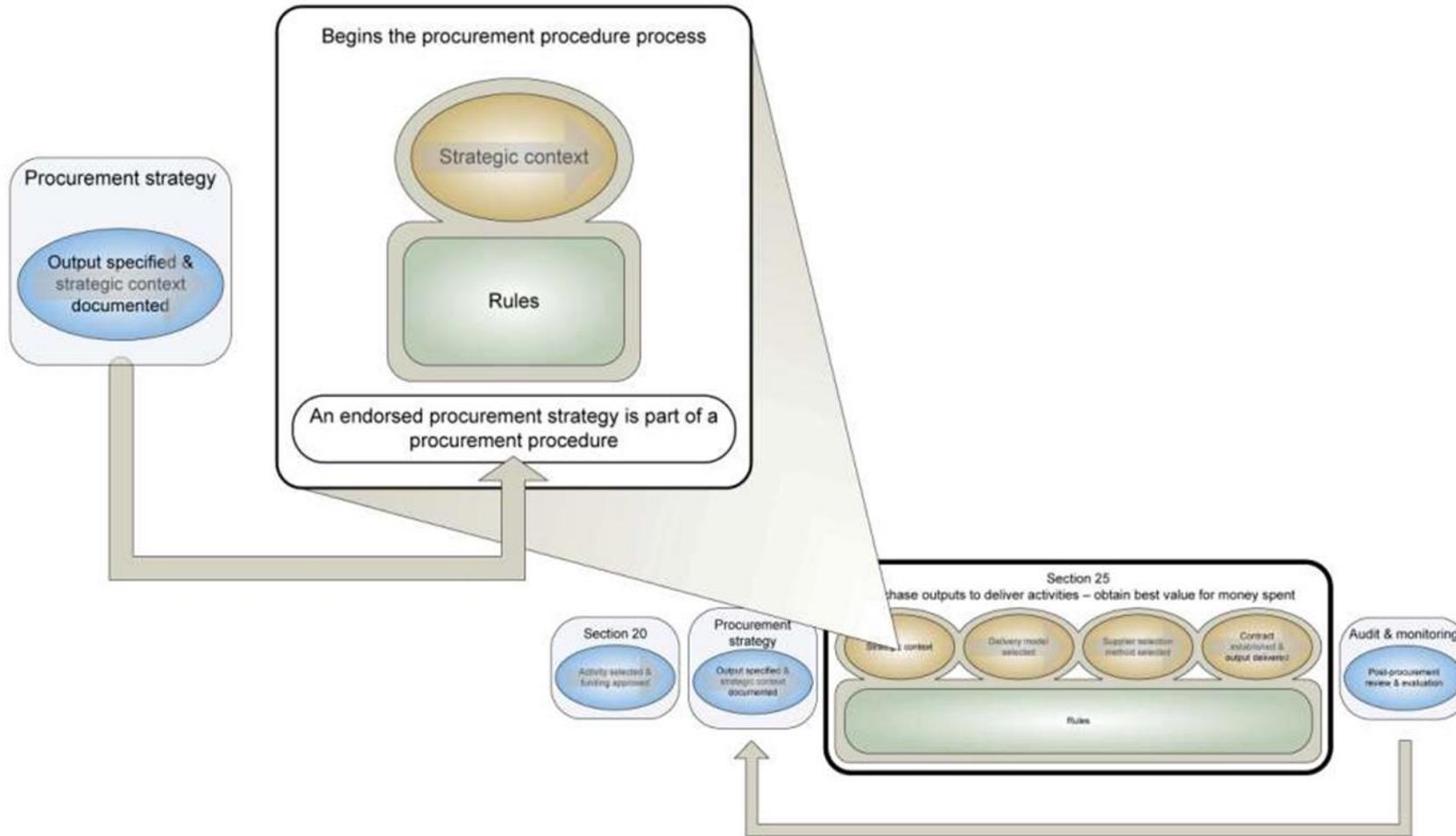
- how best value for money will be determined in respect of the procurement activities
- how procurement outcomes are aligned with an organisation's and government's overarching vision and goals
- the proposed approach to the selection and detailed design of procurement procedures and the selection of delivery models and supplier selection methods
- a framework for performance measurement and monitoring of procurement outcomes.

Each procurement strategy should clearly articulate how an approved organisation will avoid process-focused procurement in favour of a focus on best value for money. Where procurement has been treated simply as a series of discrete one-off tasks, the procurement strategy will need to document a shift to procurement that takes place within the strategic context of the approved organisation as a whole.

Internal procedures must ensure that an approved organisation can implement the strategy and operate an efficient procurement function.

Prior to commencing a procurement activity, the strategic context for that activity must be considered with reference to the procurement strategy. This is to ensure the approach to purchasing the outputs is consistent with the approved organisation's strategic approach and the right procurement procedure and associated tools are used to maximise obtaining the best of best value for money spent.

The following diagram shows the link between the approved organisation's procurement strategy and the application of a procurement procedure to a particular procurement event.



4.4 Writing a procurement strategy

Introduction

This section provides guidance to approved organisations on how to develop a procurement strategy that covers a long-term integrated approach to the procurement of a programme of activities funded from the NLTP.

To create a procurement strategy, approved organisations must gather, analyse and document information about their procurement programme and the environment in which they operate. Approved organisations should outline their procurement programme (ie what they intend to purchase and when) for the next three to five years, and indicate the category of delivery model that they intend to use for the groups of activities within the programme. The high-level decisions in the procurement strategy will inform the approved organisation's approach to procurement and provide direction when using procurement procedures.

An approved organisation's procurement strategy should be dynamic and updated at least every three years to ensure alignment with the Waka Kotahi activity funding cycle. As an approved organisation's procurement environment changes, it may require more frequent updates.

In summary, the areas that should be considered include:

- What is being purchased and why?
- What is the extent of competition in the market?
- What is the capacity and capability of the market to deliver the outputs?
- What is the capacity and capability of the approved organisation to manage the procurement activity?
- How is it to be purchased, including the selection of a procurement procedure and its components (ie delivery model and supplier selection method)?
- How procurement will consider and or contribute to Broader Outcomes
- What opportunities exist to collaborate and cooperate with other purchasers?

The analysis of these factors and the conclusions drawn will help specify the outputs to be purchased.

Step-by-step guide to writing a procurement strategy

The following step-by-step guide is designed to help approved organisations develop a procurement strategy. This guide sets out five steps:

Step 1 – Document the policy context.

Step 2 – Document the procurement programme.

Step 3 – Document the approved organisation's understanding of the procurement environment.

Step 4 – Develop an approach to delivering the work programme.

Step 5 – Implement the procurement strategy.

The level of detail required at each step should be balanced against the level of procurement activity the approved organisation intends to undertake.

The procurement strategy must be fit-for-purpose and sufficiently robust to achieve the desired outcomes, but not disproportionately complex in relation to the specific procurement needs and the procurement environment of the approved organisation. A checklist to assist approved organisations to develop a procurement strategy is contained in [appendix A Procurement strategy checklist](#).

If an approved organisation already has a procurement strategy, Waka Kotahi does not expect it to be rewritten in the structure and format proposed here. Waka Kotahi acknowledges that approved organisations may have their own approach, approved forms and templates.

However, Waka Kotahi expects that all approved organisations will use this step-by-step guide as a checklist to ensure all important considerations have been covered as they relate to the approved organisation's programme of procurement activities.

Step 1 – Document the policy context

Strategic objectives and outcomes

Questions for approved organisations

- How do your procurement goals support your organisation's objectives and desired outcomes?
- What are your objectives in respect of obtaining better value for money spent?
- What are your policies in respect of economic, environmental and social considerations as they relate to the purchase of goods and services?

Developing a procurement strategy should start with an approved organisation considering its strategic objectives and desired outcomes, and the role procurement can play to help achieve them. The intention is to align procurement objectives to the desired outcomes of the organisation and to s25 of the LTMA.

It is important that an approved organisation clearly understands what it is trying to achieve by developing a procurement strategy. The primary purpose is for the approved organisation to document how it intends to obtain best value for money spent through the use of the approved procurement procedures. However, it is also important that other considerations are taken into account to ensure the procurement strategy is complete and covers all relevant strategic issues, including procurement objectives and the outcomes to be obtained through the completion of the procurement programme. A range of these considerations are set out below to inform the approved organisation as it develops its procurement strategy for transport sector procurement.

Procurement objectives and outcomes

An approved organisation may consider the following examples of procurement objectives and desired outcomes when developing its procurement strategy.

- Ensure organisational alignment
 - Ensure that procurement planning reflects the approved organisation’s core values, corporate aims and objectives.
- Achieve corporate ownership
 - Secure commitment to improved procurement practices from elected members and officers at all levels throughout the organisation.
 - Provide a corporate focus to procurement and thereby help coordinate procurement activity and help achieve optimum resource allocation while avoiding duplication of effort.
- Enable continuous improvement
 - Produce a plan for ensuring the approved organisation’s procurement function engages in continuous improvement.
- Implement efficient and effective processes
 - Facilitate programming and assignment of budgets, tasks and targets to meet the key procurement objectives identified over the next three years.
 - Draw together, in one document, all the existing elements of a procurement strategy developed to obtain best value for money.
 - Use technology to reduce the transactional cost and improve the efficiency and effectiveness of all aspects of the procurement process for the approved organisation, its suppliers and contractors.
- Implement effective risk management practices
 - Ensure risk is appropriately managed and all procurement remains legal, ethical and transparent, and embodies the approved organisation’s vision and priorities.
- Enhance procurement capability
 - Ensure a structured approach to education, training and development for all individuals with procurement responsibilities or interests across the approved organisation.
- Ensure accountability for actions
 - Improve the accuracy, availability, appropriateness and accessibility of procurement-related management information.
- Meet established economic and sustainability targets
 - Reduce the cost of the procurement process and obtain best value for money on all purchased outputs.
 - Encourage the development of a range of suppliers and providers that will contribute to the economic growth of the local economy.
 - Identify the barriers to competition and the steps required to lower the barriers.
 - Plan the forward procurement programme so that there is a steady flow of work to the market.
 - Promote procurement practices and policies that contribute to government priorities on sustainable procurement.
- Establish effective performance monitoring processes

- Promote the development and use of performance measures.
- Establish cooperative behaviours
 - Manage the approved organisation’s supply chains, develop better relationships and promote cooperative and collaborative procurement arrangements both with suppliers and with other purchasers.

Compliance with other relevant policies

An approved organisation’s procurement strategy should ensure procurement activity complies with all relevant legislation, regulations and internal policies. For example, policies on managing conflicts of interest, site safety or better managing the number of suppliers will be relevant to all types of procurement.

Decision makers in public organisations must always make decisions in a way that is legal, fair and reasonable. The procurement strategy will identify these policies and reflect and support the requirements they place on the approved organisation.

Summary

At the completion of the analysis, the approved organisation will have a sound understanding of its long-term procurement goals and objectives and how these link to the requirements of s25 of the LTMA. The procurement strategy must detail how the approved organisation will monitor the outcome of the best value for money initiatives and continually evolve the approach to ensure that best value for money can be continually realised.

Step 2 – Document the procurement programme

Specification of the required outputs

Questions for approved organisations

- What is your procurement programme for the next three years?
- Have you considered both operational and capital expenditure?

An approved organisation must clearly understand its current and future procurement programme for a period of at least three years. This is about understanding what the approved organisation is going to purchase and why and how this aligns with the approved organisation’s strategic priorities. This includes the segmentation of the programme of work into groups that have similar attributes. These attributes help specify the activities and include:

- description and scope of the procurement activities
- an assessment of the risk
- understanding of the complexity
- the scale of the activity, including its value and duration
- potential for innovation.

For approved organisations, the long-term plan and related plans provide a clear overview of future procurement activities. In the case of public transport, the regional public transport

plan (RPTP) will provide this overview. Approved organisations should consider the types of physical works, professional services or public transport services that are required, recognising that some activities will require more specialised expertise than standard activities.

In order to create an appropriate procurement strategy, the approved organisation must plan its upcoming procurement programme. Understanding the volume, nature and timing of the goods and services it is likely to require, enables effective long-term planning of its procurement strategy. It will also increase certainty and make timeframes for each activity more predictable.

An approved organisation expecting to be involved in a number of new, complex activities over the upcoming period is likely to require a different strategy than an organisation planning a 'business as usual' operating environment. Complex activities, or activities where the scope is uncertain, may need an advanced delivery model or supplier selection method, for example.

Step 3 – Document the approved organisation's understanding of the procurement environment

Components of an environmental scan

An environmental scan will include analysis of the following three important areas:

- an approved organisation's supplier market
- an approved organisation's current spend and profile
- the impact of the procurement programmes of other approved organisations and businesses that use the same supplier market.

Analysing the supplier market

Questions for approved organisations

- What is the capability and capacity of the market to supply your requirements and how has this changed over the last five years?
- Are there any emerging trends that give rise to concern? What is your relationship with your suppliers? What are the lessons that have been learned? This should be assessed by output category (eg physical works, professional services and public transport services).
- Who do you currently buy from and who do you not buy from, and why? What other sectors and industries are purchasing in your region and how will they influence your ability to deliver best value for money over time?
- Are professional services currently undertaken in-house or outsourced, and why? Is the balance of in-house or outsourced professional services delivering best value for money? Does your current arrangement support the sustainability of the supplier market?

- How does the physical environment in your region affect the nature and extent of the supplier market? Consider physical remoteness or other impediments to the supply of services.
- How will your approach to procurement maintain or enhance efficient and competitive markets over the longer term?

Information about the state of the supplier market is an important input for creating an effective procurement strategy. An approved organisation's strategy will bring together details about its work programme and information about what the market can provide to allow the approved organisation to make fully informed decisions about the best approach to obtain best value for money. In doing this analysis, the approved organisation must take a long-term view on how it will achieve market sustainability, encourage efficient and competitive markets, remove barriers and foster supplier entry or growth.

Market conditions will change over time. The procurement strategy should address likely short-term and long-term trends and changes in the market. This will ensure the approved organisation is prepared to respond appropriately and, to the extent possible, influence the market to respond to its changing requirements.

An approved organisation will need to understand how the market for goods and services is structured in its area and the type of activities it is planning to undertake. For some activities, one supplier may be able to provide all the skills and services required. For others, or in some geographical areas, it may be necessary to bring together a number of smaller suppliers in order to deliver the required outputs.

An approved organisation will also need to consider market size and diversity. How many suppliers are there (locally or nationally) that might be able to supply what the organisation is going to need? Is there a substantial difference between what the different suppliers are likely to offer the organisation (eg are some suppliers likely to be more innovative, while others might be able to provide more experience and reliability)? The way contracts are packaged (eg the 'work content' of contracts) will have a large bearing on competition and best value for money.

Each of these situations presents different benefits and risks. A procurement strategy should discuss how an approved organisation will take advantage of the possible benefits and manage the possible risks created by the structure of the market in its area and the work programme. Issues to consider include:

- Are there sectors of the market where supply is limited (eg an area where the approved organisation has difficulty in finding the necessary expertise)?
- What information does the approved organisation have about the reliability and effectiveness of the suppliers in the market?
- What is the nature of the competition from other sectors for goods and services that the approved organisation is purchasing?
- Can better value for money be obtained by providing further work to the supplier market or by undertaking professional services in-house?

Approved organisations can gain information about the supplier market by:

- engaging with current and potential suppliers
- engaging with other approved organisations

- drawing on their past experience.

Waka Kotahi expects to see evidence that approved organisations have engaged with current and potential suppliers during the development of procurement strategies.

Understanding current procurement spend and supplier relationships

Questions for approved organisations

- How much do you spend?
- What do you spend it on?
- Who are your suppliers?
- What are the opportunities for efficiency gains?

An approved organisation should analyse its current procurement spend to determine how many suppliers it currently deals with and what its spending level and procurement arrangements are with each supplier. To assist the analysis, an approved organisation can segment its current suppliers by either size of annual spend or the type of goods or services purchased.

The results of the analysis may include a spend profile that will identify how the spend is skewed. For example, the results may show a:

- heavy skewing towards a small number of suppliers with significant spend
- long trail of smaller suppliers receiving a very small proportion of the spend.

The approved organisation should consider if the current spend profile is the most effective means of achieving the desired outcomes. For example, efficiency gains may be made by considering bundling or aggregating a number of smaller contracts or by aggregating works or services with those of other purchasers. Alternatively, smaller suppliers could be encouraged into the market by unbundling traditionally larger contracts.

The above analysis will provide insights into an approved organisation's current strategy for managing its supplier network and the strategy will outline where the opportunities are to manage this supplier portfolio more efficiently.

Understanding the procurement programmes of other approved organisations

Questions for approved organisations

- Identify the procurement programmes of other agencies using the same supplier market. What impact do they have on your plans?
- Have you discussed and shared your procurement strategy and planned activities with other approved organisations?
- What is the opportunity to collaborate? For example, could you shift the timing of proposed procurement to minimise any critical demand on suppliers, or work together to purchase inputs?

Part of creating an effective strategy is to communicate with other approved organisations so that approved organisations can learn from each other and work together, where

appropriate. An approved organisation should communicate with other approved organisations in its area early in the process of creating its procurement strategy to ensure that any opportunities to collaborate can be acted on. Waka Kotahi can facilitate such interactions and provide examples of success stories and case studies in other regions to help approved organisations identify possible opportunities, if requested.

Understanding the procurement programmes of other approved organisations in the area can help minimise unnecessary and inefficient competition if, for example, the timing of a procurement activity is changed. An approved organisation may also identify where collaborative procurement will result in better value for money. For example, two or more smaller approved organisations may find that collaborative procurement allows them to negotiate better terms with suppliers. The key is to either identify opportunities to collaborate and put a plan in place to make that happen or conclude there is little opportunity to provide best value for money through this initiative and focus on other areas.

Summary

An approved organisation's analysis of the procurement environment and its current interaction with the market will provide valuable insights into the lessons learned to date. Consider what has worked well and what areas an approved organisation could influence to provide better value for money outcomes.

The next step is about an approved organisation outlining its plans and documenting the detail of the activities required to sustain the value or benefit identified at the time funding was approved. It will also help an approved organisation consider what it is going to do differently in those areas that provide opportunities for enhancing best value for money.

Step 4 – Develop an approach to delivering the work programme

Introduction

Developing an approach to delivering a work programme has two components:

- Confirmation of an approved organisation's specific long-term objectives in relation to each segment of its work programme. These objectives will take into account the risk and complexity of the activities to be undertaken, how best value for money will be obtained and how the competitive health of the supplier market will be sustained.
- The indicative delivery models and supplier selection methods that will deliver the procurement activities as part of the work programme and achieve the approved organisation's objectives.

The primary purpose of an approved organisation's procurement strategy is to establish the best mix of approaches for the organisation to use to meet its best value for money objectives. At this point, the approved organisation should draw on all the information it has gathered about its desired outcomes, the characteristics of its procurement programme and the procurement environment.

During the analysis of this information, an approved organisation should group its procurement activities based on a series of criteria. The criteria could include the nature of the work (ie professional services, physical works) or its complexity, scale, timing, innovation potential, risk and an assessment of the supplier market.

To simplify the process for each of these groups, an approved organisation will need to document its strategy for obtaining the best value for money spent and how this will enable

fairness of competition and encourage competitive and efficient markets. In relation to each group of procurement activities, consideration should be given to the actions and activities the approved organisation can take to sustain the value it has created and enhance value in those areas that provide opportunities to do so.

Best value for money

Chapter 3 of this manual introduced best value for money and identified a number of actions in a procurement process that can help realise best value for money. An approved organisation's procurement strategy must consider each group of activities in its programme and identify where the best value for money opportunities are. This can include:

- taking a lowest whole-of-life cost approach, as opposed to the lowest cost
- reducing the number of suppliers to improve the efficiency of supplier selection
- assisting new entrants into the market to increase the number of suppliers and enhance competition
- identifying the optimal delivery option for professional services whether it is outsourced, in-house, sharing services with other approved organisations or a combination of these
- bundling or unbundling activities, as appropriate, to create better competition or to retain in-house capability
- deciding how to ensure best value for money from a package of activities to be delivered sequentially over time
- reducing the total costs incurred by the market to respond to tenders through shortlisting, supplier panels and direct appointment
- combining procurement activity with another approved organisation
- using procurement to encourage sustainable competition.

A sustainable, competitive supplier industry means that an appropriate number of suppliers are able to provide the full range of services an approved organisation requires. These services are provided on the basis of sound competition between the suppliers, enhancing an approved organisation's ability to obtain best value for money. Competition should not be on price only – ideally, suppliers will also be competing with each other by offering innovative services, for example, that increase the value of their offering to an approved organisation.

If an approved organisation's market analysis identifies a lack of sustainable competition in a segment of the market, its procurement strategy should consider how its approach to the use of procurement procedures can contribute to enhancing sustainability and competitiveness in that market. This situation occurs in particular in the public transport sector.

In some cases, a single supplier or limited market may be the most efficient market outcome, and it is unlikely that a competitive market could be sustainable. If this is the case for segments of the market that are important for an approved organisation's procurement programme, its strategy will need to address how it will use the procurement procedures to help obtain the best value for money spent from a limited number of supplier relationships.

In some markets, supplier competition may be excessive and potentially lead to suppliers investing too much time and money in procurement. This will eventually inflate costs throughout the market and damage an approved organisation's ability to obtain the best value for money

spent. In this case, a procurement strategy must address how the procurement procedures can be used to manage the costs of the proposal process, thereby achieving more efficient and sustainable market outcomes.

Purchasing the right professional services at the right time, under a sound contract, is critical to obtaining the best value for money spent. An approved organisation's procurement strategy must address how professional services will be resourced, including whether these services will be undertaken in-house or obtained by sharing in-house resource with other approved organisations.

An approved organisation must have approval from Waka Kotahi under s26 to use in-house professional services. An approved organisation's application for approval to use in-house professional services should refer to and if necessary include the approved organisation's endorsed procurement strategy, along with a rationale for how in-house professional services will deliver better value for money. The application should also refer to any relevant material changes to the strategic context that may adversely affect the competitiveness and efficiency of the supplier markets.

Waka Kotahi will consider applications for approval to use in-house professional services on a case-by-case basis.

The detailed policy and processes for undertaking and managing professional services and for claiming financial assistance is found in the Waka Kotahi [Planning and Investment Knowledge Base](#).

Delivery models and supplier selection methods

Questions for approved organisations

- For each of your activities, what delivery model is most appropriate? This may include consideration of advanced components.
- What supplier selection method is preferred for each activity and how do they contribute to delivering best value for money? This may include consideration of Procurement manual rules and limits for direct appointment.

For each aspect of a programme of activities, an approved organisation must consider:

- What is the nature of the activities within the work programme?
 - scope – is there clarity of scope?
 - scale – what is the size of the activities?
 - level of complexity – has bundling or aggregation been considered?
- What is the planned timing for the activities? Can this be changed to improve best value for money?
- Is there an intention to increase, maintain or reduce the number of suppliers for each segment and why?
- Is there an intention to increase the average value per activity through bundling? Could this be achieved through bundling activities or by working with other approved organisations?

- Could unbundling of activities assist new entrants into the market or reduce risk to more manageable levels with the objective of increasing the number of suppliers to enhance competition?
- Is there a risk of losing institutional knowledge and in-house capability if all professional services are outsourced? Could undertaking all professional services in-house, or sharing in-house resources with other approved organisations, undermine the sustainability of the supplier market?
- Has a lowest whole-of-life cost view been taken?
- What delivery models are appropriate for the work programme and for each activity? How will the choice of delivery model contribute to best value for money?

Chapters 6 to 9 describe the procurement procedures and provide general guidelines on selecting appropriate delivery models and supplier selection methods.

Approach to contract management

It is important that a procurement strategy considers the most effective approach to contract management throughout the life of the contract. Contract management means ongoing monitoring and management of a supplier's provision of services in line with the agreed terms and conditions. This means ensuring open and effective communication, making sure suppliers meet their commitments on time, and that the approved organisation, as the purchaser, has also performed and delivered in accordance with the contract.

Efficient contract management includes consideration at the start of the contract of how to manage anticipated and unanticipated changes to the contract over time. Overall, good contract management will ensure the anticipated best value for money outcomes are obtained.

Summary

The output from this section is an outline of an approved organisation's strategic approach and its intentions as to how the strategic approach will be implemented. This will include statements about how the approved organisation will:

- maintain the best value for money it is currently creating
- enhance value in those areas where there are opportunities to do so.

This process will be supported by actions around communications, building in-house capability (where required) and the process the approved organisation will use to ratify its procurement strategy.

Step 5 – Implement the procurement strategy

Implementation will involve:

- considering the approved organisation's capability and capacity to deliver its procurement programme consistent with the strategy
- considering the approved organisation's internal procurement processes
- implementing a performance measurement and monitoring framework
- establishing a communications plan

- obtaining an internal procurement strategy endorsement.

Capability and capacity

Questions for approved organisations

- What is your current procurement capability and capacity?
- Is this capability suitably experienced and confident that it can undertake the planned work programme? If not, where are the gaps and how is the necessary capability to be resourced?

An important driver to obtaining the best value for money spent is the capability and capacity of an approved organisation to successfully deliver the procurement programme. The primary area for analysis should be the activities that are new to an approved organisation's team and those activities that the approved organisation does not have past experience or a strong track record in. It is important that this assessment is fair because the ramifications of not having experienced staff to undertake what can be complex and lengthy assignments can be high in both financial and operational terms.

Any gaps should be identified and steps put in place to acquire the necessary resource.

The following questions should be used as a checklist to help an approved organisation to determine its current procurement capability and capacity:

- Does the approved organisation's procurement strategy cover all the relevant areas?
- Does the approved organisation understand and monitor the risks or problems currently experienced in regard to procurement?
- Do personnel within the approved organisation consider that the current procurement strategy and procurement practices are providing best value for money?
- Does the approved organisation have performance management measures and processes in place so that it can identify high-performing suppliers and address problems with those that are under-delivering?
- Does the approved organisation have in-house procurement capability? The approved organisation will need to assess the level of professional procurement expertise currently available to it and see if it is in a position to implement the procurement practices in its strategy. If the approved organisation does have skill gaps, it will need to consider how best to build capability through training or recruitment.

The following options are available to address these gaps:

- Build internal capability.
- Acquire the capability for the duration of the activity, including collaborating with another approved organisation, possibly by sharing in-house resources.
- Seek assistance and advice from Waka Kotahi.

Approved organisations must confirm they have the capability to undertake the procurement programme and, if not, how they plan to address this gap.

Internal procurement processes

Questions for approved organisations

- How do your internal procurement processes support efficiency, accountability and transparency?

An approved organisation may need to review its current internal procurement processes to successfully implement its transport sector procurement strategy. In doing so, it should consider:

- keeping tendering processes as simple as possible to minimise costs for both approved organisations and prospective suppliers
- using plain language in all documentation
- standardising proposal and contract documentation
- seeking feedback from suppliers on the quality of your processes
- reducing unnecessary administrative ‘churn’.

Performance measurement and monitoring

Questions for approved organisations

- How do you intend to monitor the benefits from your approach to delivering the activities?

The procurement strategy must detail how the approved organisation will monitor the outcome of the best value for money initiatives and continually evolve the approach to ensure that best value for money can always be realised (refer to [Chapter 11 Performance measurement and monitoring](#)).

Most, if not all, approved organisations will have included key performance indicators in their long-term plans, infrastructure management plans, RPTPs or contract documentation. Ideally, every procurement strategy will include an overview of the information that an approved organisation will collect and how it will use the information to drive continuous improvement in procurement practice across the business.

At a minimum, approved organisations must collect and assess the key performance indicator information required by the rules in this manual.

Communications plan

Questions for approved organisations

- How do you intend to share your procurement strategy with stakeholders and how will you manage and communicate changes?
- Who is your audience? What do they need to know and when do they need to know it?

Communication is an important component of delivering best value for money. Communication with stakeholder groups has to be planned and managed in a professional manner to be of value. Therefore, an approved organisation should identify all stakeholders as they relate to procurement and document:

- What is their relationship to the procurement programme? Determine why they are a stakeholder (eg supplier, rate payer, internal business groups, elected members).
- What are their information needs and why, and how can the approved organisation satisfy them?
- How should stakeholders be communicated with? What is the required timing and frequency of any communications?
- Who is going to be responsible for making this happen? Individuals should be assigned.

Ideally, this should be documented and agreed with the respective stakeholder groups. As the communications plan is more strategic in nature, it should not restrict 'business as usual' interactions.

Internal authorisation of procurement strategies

Finally, the organisation's governance structures should be addressed. As previously mentioned, a procurement strategy should be prepared and regularly reviewed as part of the organisation's business-wide strategic planning process.

Waka Kotahi expects, as with other strategic planning exercises, that approved organisations will have a documented process for the preparation, approval and adoption of their procurement strategy.

Waka Kotahi further expects that all procurement strategies will be signed off at the appropriate level within the approved organisations.

Transport Agency endorsement of procurement strategies

An approved organisation's procurement strategy should be submitted to the appropriate Transport Agency decision maker, as per the Waka Kotahi delegation rules, for endorsement once completed. The procurement strategy will also set out the strategic context to support any applications for approval to use advanced components, develop a customised procurement procedure, vary any rules or undertake professional services in-house. Such applications may be made at the time the procurement strategy is submitted for endorsement or subsequently.

Summary

Once each of these areas has been considered, the approved organisation will understand the strategic context in which procurement will take place. Some of these areas will need to be revisited at the time of the procurement activity to ensure nothing significant has changed. An outcome of this approach is that the approved organisation will identify a number of activities to complete in order to obtain the best value for money spent. Examples include:

- clear communication of plans to the supplier market
- dialogue with other approved organisations to explore the opportunities for collaboration
- consideration of bundling or unbundling contracts

- consideration of the timing of procurement activities
- reduction of the number of suppliers to ensure the total cost of procurement is reduced
- increase in the number of suppliers to improve competition.

The outcome will be a plan to enhance best value for money through procurement.

5.0 SUPPLIER SELECTION PROCESS

5.1 Overview

Introduction

This chapter sets out general guidelines on the supplier selection process. All of the supplier selection methods that are available for use by approved organisations are defined in [appendix C *Supplier selection methods*](#).

In this chapter

This chapter contains the following sections:

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5.2 Approach to supplier selection

Introduction

Once an approved organisation has selected an appropriate delivery model and decided how it will be used, it must design the supplier selection process. This chapter sets out general guidelines on the supplier selection process.

This manual describes five supplier selection methods and requires that approved organisations use one of these methods in the supplier selection process. Refer to [section 10.13 *Using an available supplier selection method*](#).

In some approaches to supplier selection, including where a supplier panel delivery model has been adopted, more than one supplier will be selected. This chapter assumes the more common situation, where a single supplier is appointed. However, it should be read to accommodate the plural, where appropriate.

The following sections describe the three approaches that approved organisations can take to competition in the supplier selection process. They are open, closed and direct.

Form of competition

Open

Section 25 of the LTMA establishes that competition is desirable. An open supplier selection process is the 'default' position taken in this manual.

In this manual, [section 10.8 Competition for supply](#) requires that every supplier selection process commences as an open competitive process in which all potential suppliers are invited to engage. The Procurement manual rule then establishes a limited number of exceptions, which are discussed below.

The Procurement manual rule only requires that the process commences as an open competitive process. Where appropriate, the process may be staged, with the initial open competitive process followed by, for example, a shortlisting process. In this situation, the number of potential suppliers remaining in the competition may be reduced to three or four.

Closed

Where the estimated value of the contract is below the prescribed limit for a closed contest, approved organisations can dispense with the requirement for open competition. Refer to [section 10.9 Direct appointment and closed contest for low dollar value contracts](#).

Where a closed contest is used, the approved organisation commences the supplier selection process by selecting a minimum of three willing and able suppliers to participate in the competition. The suppliers may be chosen through any appropriate means, although approved organisations are encouraged to use a form of register to identify suitable suppliers to approach. Once three or more suppliers have been selected, the supplier selection process proceeds in the same way as an open competitive process, using an available supplier selection method.

Direct

Approved organisations may directly appoint a supplier in the following situations:

1. The contract is a low dollar value contract (refer to [section 10.9 Direct appointment and closed contest for low dollar value contracts](#)).
2. The contract is a low dollar value contract and the supplier selection process commences as a closed contest, but only one potential supplier is identified (refer to [section 10.9 Direct appointment and closed contest for low dollar value contracts](#)).
3. The supplier selection process commences as an open competition, but only one potential supplier is identified (refer to [section 10.8 Competition for supply](#)).
4. A monopoly supplier situation exists (refer to [section 10.10 Direct appointment of a monopoly supplier](#)).
5. The requirements for direct appointment are met under [section 10.11 Direct appointment where competition will not help obtain best value for money](#).
6. The requirements for direct appointment are met under [section 10.27 Direct appointment of a supplier for a public transport services unit](#).

Where direct appointment is used, all contract terms and conditions, including price, will be negotiated with the selected supplier in accordance with the direct appointment supplier selection method.

Use of supplier registers

Approved organisations are encouraged to use a register as a source of names from which to identify a potential supplier(s) when the contract value is within the limits specified in [section 10.9 *Direct appointment and closed contest for low dollar value contracts*](#).

A number of registers are currently available, including ones maintained by industry associations.

A register gives all suppliers the opportunity to indicate their interest and availability to potential purchasers. This mitigates some of the negative effects that closed contests or direct appointments have on open and competitive markets

Prequalification systems

A prequalification system uses a form of supplier register owned and maintained by an approved organisation or group of approved organisations. Suppliers on a prequalification register must have met the criteria specified by the approved organisation. Suppliers on the register are prequalified for particular types of work or services and are not required to resubmit generic information with every proposal they submit in response to a Request for Proposal (RFP).

A well-designed and well-administered system that is used appropriately can reduce the costs incurred by suppliers and the approved organisation. The number of contracts being let under a prequalification system needs to be significant to justify the cost of establishing and maintaining it. Any approved organisation considering a prequalification system should think about collaborating with neighbouring or otherwise similar approved organisations.

Prequalification systems are usually only used for routine works and services. The supplier selection process for large or complex contracts will usually be managed outside of such a system.

The criteria for inclusion on a prequalification register for a particular class of work or service will usually include achieving a 'pass' on a number of the non-price attributes. When the approved organisation issues an RFP for works or services covered by a prequalification system, all prequalified suppliers will be invited to submit a proposal. Such a proposal will be limited to price plus non-price attribute information specific to the proposed engagement and not already assessed and 'passed' by the approved organisation when the supplier 'prequalified'. For example, the RFP may be limited to:

- supplementary resources required for the contract
- work-specific or service-specific methodology
- confirmation of ability to secure a bond if the bond is unique to the work or service
- price.

Using a prequalification system does not fundamentally change the supplier selection process. Rather, it divides the process into two stages. First, suppliers are assessed on limited, generic non-price attribute information and prequalified. Later, when the approved organisation wishes to receive proposals for a particular work or service, an RFP is issued seeking the remaining, engagement-specific, non-price information and price.

The requirement for supplier selection processes to begin as an open competitive process (refer to [section 10.8 *Competition for supply*](#)) will be met by publishing an Invitation to

Qualify on Government Electronic Tenders Service (GETS) and making that invitation continuously available. See Government Procurement Rules [Rule 56](#) – Pre-qualified Suppliers List, part 4a.

Where a prequalification system is used in a supplier selection process then the prequalification system and its use must comply with the requirements of Government Procurement Rules [Rule 56](#) – Pre-qualified Suppliers List.

Note that Government Procurement Rules [Rule 56](#) – Pre-qualified Suppliers List, parts 6 and 7, require that opportunities to supply be openly advertised on GETS and made available to all suppliers, and not limited to those who have previously completed prequalification.

Prequalification systems are typically used with the lowest price conforming supplier selection method and these guidelines have been written on this basis. However, it is possible to use other supplier selection methods with a prequalification system.

The Waka Kotahi highways physical works contracts prequalification system has been used to achieve benefits beyond process cost reduction, including simplifying the process, achieving more consistency in evaluations and improving supplier performance.

Establishing a prequalification system is a significant step for an approved organisation. The benefits and costs need to be carefully considered. Any approved organisation contemplating such an approach should treat the decision as a strategic procurement decision. As such, Waka Kotahi would expect the approved organisation to address the introduction of such a system in its procurement strategy.

Note that a supplier prequalification system and a supplier panel delivery model are sometimes confused. The fundamental difference relates to the way in which suppliers are placed on a panel as opposed to a prequalification register. To be on a panel, a supplier must compete against others and win a place; to be on a prequalification register, a supplier only has to meet the specified criteria.

5.3 Staged supplier selection processes

Introduction

Staged supplier selection processes separate the process into two or more stages.

Providing the process remains fair to all and transparent, adding stages can help deliver better value for money by reducing administration costs. Approved organisations should consider using a staged supplier selection process if it is likely to deliver better value for money.

Shortlisting is one example of a staged process (see further discussion below).

A Request for information (RFI) or a Registration of Interest (ROI) stage (or both) can be used to improve the supplier selection process.

A RFI stage may be used to gather information to help design the later stages of the supplier selection process. An RFI stage cannot be used to shortlist suppliers.

An ROI stage can be used to establish a shortlist of suppliers to participate in an RFP stage.

Shortlisting

Consider shortlisting if it will reduce the total cost of the supplier selection process.

However, before deciding to shortlist, take into account:

- cost to potential suppliers and the approved organisation
- time savings (urgency)
- the features of the output to be purchased and the supply market (ie consider differences in quality and in the price of the outputs between suppliers).

Reducing the total process cost to suppliers (by excluding some from the competition by shortlisting) is not a sufficient reason to shortlist. If the cost to the approved organisation of including another supplier on the shortlist is marginal, then that supplier should generally be included. The LTMA establishes that it is desirable to encourage competition and therefore exclusion (by shortlisting) must be justified. The interests of suppliers who are unlikely to meet the purchaser's criteria are best served by designing the supplier selection process to provide them with the information they need to decide whether or not to stay in the competition.

Notwithstanding the above, reducing the administrative cost to the approved organisation of evaluating more proposals is a sufficient reason to shortlist if the cost outweighs the anticipated benefit of receiving more proposals.

The number of potential suppliers to be shortlisted must be sufficient to maintain competitive tension. Good practice suggests that three is a sensible minimum for a shortlist, although sometimes (eg when using a competitive alliance) two adequately incentivised suppliers will be sufficient.

Non-price information only will be used to determine which suppliers should be included on the shortlist. The usual method employed to do this is in effect a partial use of the chosen supplier selection method.

The purchaser nominated price, price quality and quality-based supplier selection methods can all be used in combination with a shortlisting process. Information for some of the non-price attributes will be sought. Typically, methodology information will not be sought. These non-price attributes will be graded and a weighted sum of the non-price attribute grades determined from this partial evaluation process. The shortlist will be made up of those suppliers with the highest 'partial' weighted sum of the non-price attribute grades.

The shortlisted suppliers will then be asked to prepare a response to the RFP. Non-price information submitted would not normally duplicate what has already been supplied and on which the shortlisting was based. However, the approved organisation may decide to allow suppliers to elaborate on their initial submission. The approved organisation's evaluation team will then complete the evaluation process, only revisiting non-price attributes evaluated in the shortlisting stage if necessary. This second stage of the evaluation will give a final (complete) weighted sum of the non-price attribute grades on which to base selection of the preferred supplier.

Under some circumstances, having established a shortlist by using the early steps in the price quality supplier selection method, the purchaser may choose to complete supplier selection using the lowest price conforming method. Such an approach would need to be described in the RFP.

5.4 Supplier selection processes

Introduction

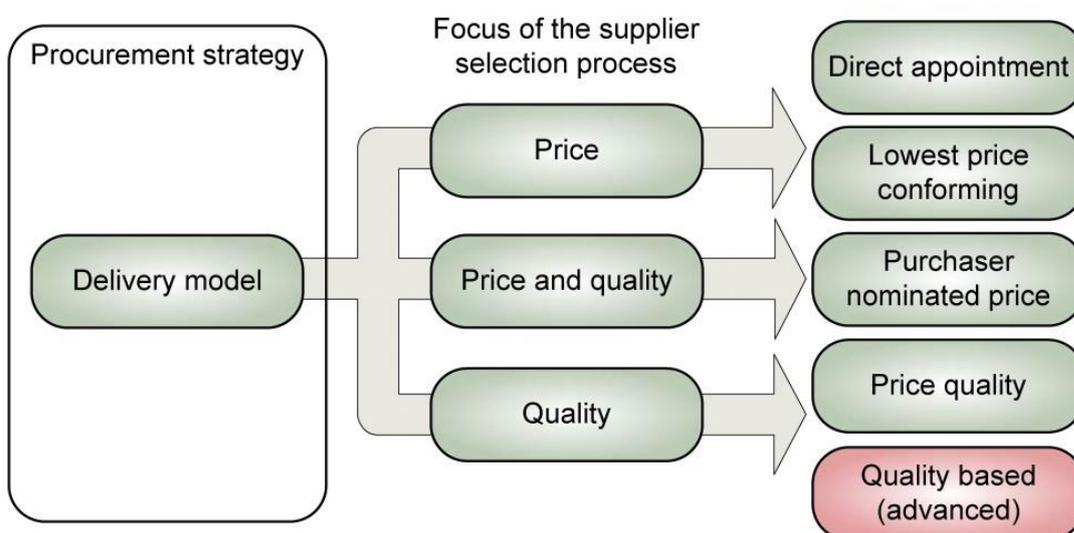
This manual contains the following supplier selection methods:

- direct appointment
- lowest price conforming
- purchaser nominated price
- price quality
- quality-based.

Each of these supplier selection methods is defined in [appendix C Supplier selection methods](#). An approved organisation must use one of these supplier selection methods when purchasing outputs for activities funded under s20 of the LTMA.

As shown in the following diagram, these supplier selection methods have been grouped to assist approved organisations to assess the relative importance of price and quality:

- Focus on price – all participants must meet quality requirements and the supplier is then chosen on the basis of price.
- 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 the price being negotiated afterwards.



Note that the quality-based supplier selection method is an advanced component, except where the output being purchased is either professional services or a commercial unit. See [section 10.5 Procurement procedure advanced components](#).

Competition on price

The lowest price conforming and price quality supplier selection methods included competition on price. To ensure that price competition is fair, those outputs which suppliers are asked to price must be very well specified. The risk of claims for works or services that were arguably not required will be high if the outputs that are to be priced are not clearly described in the RFP.

Professional services are often very difficult to describe precisely and therefore any price competition has to be carefully managed. Waka Kotahi expects that use of the lowest price conforming supplier selection method to select a professional services supplier will be rare. The price quality method of supplier selection is better suited to the purchase of professional services because the purchaser can distinguish between suppliers on the basis of their quality attributes, including their experience, skills, track record and their understanding of what the purchaser requires, but again the outputs which suppliers must price have to be specified precisely.

Non-price attributes

[Section 10.14 Non-price proposal evaluation attributes](#) sets out how an approved organisation must use the defined non-price attributes to evaluate proposals.

Non-price attribute definitions

The non-price attributes defined in [section 10.14 Non-price proposal evaluation attributes](#) are:

- relevant experience – the supplier’s previous experience in technical areas relevant to the outputs being purchased
- relevant skills – the competence of the personnel that the supplier proposes to use, with particular regard to their skills and experience in areas relevant to the outputs being purchased
- methodology – the procedures the supplier proposes to use to achieve the specified end result
- track record – the supplier’s record of delivering works or services to the quality standards required, on time and within budget
- resources – the equipment, including facilities and intellectual property, that the supplier proposes to use to deliver the outputs
- financial viability – the supplier’s ability to access the financial resources required to deliver the outputs to be purchased.

Each of these is described in further detail below.

Relevant experience and track record

These two attributes should not be confused.

Track record does not have to be demonstrated in delivering the types of works or services similar to those for which proposals are sought – it is simply about the reputation of the supplier for ‘delivering’. Relevant experience on the other hand is about experience that is ‘relevant’ to the works or services.

There is also a difference in focus on who must have the experience and who must have the track record. For track record, it is the track record of the supplier that is important; with relevant experience, both the supplier and the personnel that will deliver the works or services should be considered. Whether the supplier's experience or the experience of the personnel is more important will depend on the type of works or services being purchased.

Track record is not one of the three required non-price attributes but, in many instances, it will be an essential attribute and a supplier's reputation for delivery will effectively be a prerequisite for selection.

Relevant skills

In some instances, the nature of the works or services to be delivered will suggest that relevant skills should be split into two – technical skills and management skills. Where this is done, the above definition for relevant skills will still apply but the descriptions of the two attributes in the RFP will reflect the purchaser's desire to consider these two skill areas separately.

Methodology

Unlike the other non-price attributes, methodology focuses primarily on the output to be supplied and on how the supplier proposes to deliver that output. Other attributes focus more on the characteristics of the supplier and on the resources (including the human resources) that are to be employed to deliver the output. Methodology can include the way in which the price is calculated.

Where the output is a durable asset (a physical work), methodology can significantly influence its delivered quality, including its whole-of-life cost. This is truer of some delivery models than others – the more room the supplier has to be innovative, the more influence they are likely to have on final output quality. Through the RFP, approved organisations can ask potential suppliers to demonstrate how their proposed methodology minimises whole-of-life costs over the output's life or contributes to value in some other way.

The distinction between the supplier and the output to be delivered is further discussed in [section 10.16 *Alternative proposals*](#) and [section 10.17 *Added value premium*](#).

When evaluating aspects of proposals that are related to output rather than a supplier, and an added value for money premium is to be applied, an approved organisation should not 'double count' by also awarding a grade that reflects the added value of the output.

Resources

Given the definition of resources, as the equipment that the supplier proposes to use, this non-price attribute is not usually included when proposals for professional services alone are being sought.

Financial viability

Approved organisations may seek information on the financial viability of potential suppliers and reject proposals that fail to meet criteria set out in an RFP.

An approved organisation may review the financial viability of potential suppliers to assess their ability (and the ability of any significant subcontractors) to remain viable through the contract period. The objective is to determine whether a supplier has the financial capability and capacity to establish and manage the contract, including any change requirements.

The first step in any financial viability review is to clearly identify who the contracting organisation will be. Any other organisations that will be involved in delivering services under the contract (eg major sub-contractors or other partners) will need to be identified and their financial viability will also need to be considered. The relationship between these organisations and the contracting organisation will need to be assessed, along with any resulting implications for the financial viability of the potential supplier. For example, if the contract is with one organisation, but the work will be performed by two organisations as a joint venture, both organisations should be evaluated, and a certain weighting assigned to their scores.

Complete assurance of longevity can never be obtained. There are external factors, such as macroeconomic and industry changes, that will be outside the supplier's control and the scope of the evaluation. Other areas such as strategic and managerial changes are however controllable to a large extent.

An evaluation of financial viability will primarily focus on historical information as a predictor of whether the potential supplier has the resources and funding capability (or borrowing capacity) to manage the contract as well as its current business. Such a financial viability review will concentrate on:

- the strength of the balance sheet
- the profitability of the potential supplier
- the liquidity of the potential supplier
- the gearing (debt to equity ratio) of the potential supplier
- the ability of the potential supplier to provide a bond if required (refer to [section 10.22 Supplier bonds](#)).

An approved organisation may request financial information from potential suppliers through the RFP, which may then be used to calculate several various financial ratios. Publicly available information may also be used where available.

Where a financial viability non-price attribute is included, it will normally be evaluated on a pass or fail basis against one or more specific criteria set out in the RFP.

The importance of relevance

When evaluating proposals, it is important to consider how a potential supplier's proposal is relevant to the nature of the output to be purchased. For example, where an output can be delivered by personnel with a relatively modest level of skills and experience, awarding a higher grade for a non-price attribute because a supplier is offering personnel whose skills significantly exceed the minimum required may not be justified.

Setting non-price attribute weights

Appropriate attention must be given to setting the weights for the non-price attributes. They impact on the outcome of the proposal evaluation process by establishing the relative importance of the non-price attributes that are to be graded. Weights must be advised through the RFP.

Price weight considerations

The price quality method

The price quality method of supplier selection is the one supplier selection method that uses a price weight. It balances (or trades off) price and quality by use of a formula. It enables the purchaser to pay more for a high-quality supplier, and clearly shows the process the purchaser goes through to decide how much more to pay. It is a sensible method to use when the quality of the supplier is important and a trading of price and quality is practically possible through the supplier selection process.

The influence of price weight on supplier quality premium

The formula for calculating the supplier quality premium value for each proposal when using the price quality method of supplier selection is:

$$\text{Supplier quality premium} = \text{estimate} * (\text{weighted sum margin/price weight})$$

The following table shows the relationship between price weight and supplier quality premium. The supplier quality premium (\$s) per grade point figures are based on an estimate of \$100. They are the amount by which the supplier quality premium value (for a particular proposal) will change when the non-price attribute grades, for every non-price attribute to be graded, is increased by 1 grade point.

Price weight	Supplier quality premium (\$s) per grade point
10	9.00
20	4.00
30	2.33
40	1.50
50	1.00
60	0.67
70	0.43

The impact of using a different price weight can be substantial. Supplier quality premium values when using a price weight of 10 are 21 times as large as those calculated when using a price weight of 70 (all other things being equal). Changing the price weight by just 10 (eg from 70 to 60) increases the supplier quality premium values by a factor of 1.55, while using 10 rather than 20 multiplies the values by 2.25.

To illustrate these points by way of example – if two proposals are received and the non-price attributes to be graded are each awarded 75 points for the superior supplier and 70 for the other supplier (a 5 point difference for all graded non-price attributes), the supplier quality premium for the superior supplier will be equal to 2.14% of the estimate when a weight of 70 is used, 20% when a price weight of 20 is used and 45% when a price weight of 10 is used.

The effect of price weight on a supplier's decision to enter a competition

A supplier's decision to enter (or not enter) a competition is likely to be strongly influenced by the price weight advised in the RFP. Suppliers who have a higher price structure but offer a higher quality of service will sometimes choose not to compete when the price weight is relatively high, recognising that their chances of winning against a supplier with a lower price structure are small. Conversely, when the price weight is high, suppliers who prefer to compete on price alone (rather than on quality) will be encouraged to enter the competition.

Alternative to a low price weight

If quality is a primary consideration and the proposed price weight is therefore less than 25, an approved organisation should consider using the quality-based supplier selection method. There is a risk with a low price weight that an approved organisation will pay more to engage a high-quality supplier than it would if the price were negotiated.

The quality-based supplier selection method also gives great flexibility through the negotiation process to tailor the contract, including the price methodology, between the purchaser and the supplier. The resulting contract is therefore more likely to enable the purchaser to obtain best value for money.

Alternatives to a high price weight

If the price is of paramount concern, and the proposed price weight is 60 or 70, an approved organisation should consider using the lowest price conforming supplier selection method. To ensure that the supplier engaged will deliver a quality output and meet the required quality standards, an approved organisation should clearly define in the RFP its minimum quality standards for the supplier and for the output to be delivered.

The purchaser nominated price supplier selection method may also be a suitable alternative to the price quality method in some circumstances. Under this method, price is controlled and quality can be given high importance.

Testing the chosen price weight

Options should be tested before confirming a price weight. This will help a purchaser to avoid an unanticipated range of supplier quality premium values. This can often arise when using the price quality method in unfamiliar circumstances or choosing a price weight with which the purchaser has had no previous experience.

Grades awarded for non-price attributes in previous evaluations (or mock grades for fictional suppliers) can be used to generate supplier quality premiums for the purpose of testing. The purchaser can then assess whether the premiums generated would be acceptable.

The [Attribute weight setting tool](#) is available to help set the weights for the price and non-price attributes. The [Price quality evaluation tool](#) will also assist with this testing.

5.5 Evaluation of proposals

Evaluation process integrity

Proposal evaluators must understand in detail the RFP and other related documents so that they know what the purchaser values and understand the desired outcome. They must also

understand and comply with all the obligations that a purchaser has in relation to proposal submitters (refer to [section 10.3 Compliance with general legal requirements](#)).

In the proposal evaluation context, these obligations include:

- acting fairly and reasonably
- using transparent evaluation criteria and processes
- employing fairness and consistency
- only taking into account all relevant factors and not taking into account any irrelevant factors
- clearly communicating with those who submit proposals about the conclusions of the evaluation process.

These obligations are relevant to the entire evaluation process and to the non-price attribute evaluation process in particular, including judging whether the requirements (or minimum standards) set out in the RFP have been met.

Approved organisations must ensure compliance with Government Procurement Rules [Rule 27](#) – Technical specifications, [Rule 28](#) – Pre-conditions, [Rule 43](#) – Treatment of responses, [Rule 44](#) – Reasons to exclude a supplier and [Rule 46](#) – Awarding the contract. These rules all relate to supplier selection process fairness.

Approved organisations must ensure compliance with Government Procurement Rules [Rule 3](#) Non-discrimination and offsets. These rules deal with aspects of fairness generally related to equality of opportunity for all suppliers, including suppliers from another country. **Similarly, all New Zealand suppliers must be given equal opportunity – where a supplier’s head office is located is an irrelevant consideration in the supplier selection process. Purchasers need to be generally careful not to favour one supplier over another on the basis of a factor that is not relevant to delivery of the required outputs or outcome or a specified Broader Outcome.**

Approved organisations must ensure compliance with Government Procurement Rules [Rule 4](#) – Protection of supplier information. This rule has implications beyond the supplier selection process. It is intended to protect confidential or commercially sensitive information unless there is a legally acceptable reason for disclosure.

The Official Information Act 1982 and the Local Government Official Information and Meetings Act 1987 require public bodies to provide reasons for their decisions, when asked. A proposal evaluation team may be called on to provide reasons, for example, for failing a proposal on a non-price attribute. A team may also be asked to provide reasons for judging a proposal inferior to the proposal submitted by the preferred supplier.

The Ombudsman has issued practice guidelines that state:

The effect of [the provisions in the official information Acts requiring public bodies to give reasons for decisions when asked is] to ensure that decision-makers avoid arbitrary procedures and make decisions which are fair and reasonable. It therefore serves both to enhance the quality of the decision-making process and to promote the accountability of decision-makers for their decisions... Statements of reasons protect the integrity of the process and enable persons affected to understand better the basis for the decision or recommendation, even though they may not like it.

Competent people must evaluate the proposals. Waka Kotahi requires that a proposal evaluation team includes at least one appropriately experienced and qualified person (see [section 10.19 Qualifications of proposal evaluators](#)). Where the chosen supplier selection method is complex or complex requirements are included in the RFP, greater levels of skill and experience will be required. Proposal evaluation teams must be encouraged to seek additional expert assistance whenever issues arise that require greater expertise to resolve.

Approved organisations are encouraged to use referees nominated by suppliers to independently verify the attributes of suppliers. To ensure fairness purchasers must detail, through the RFP, how referees will be used and then act consistently with the RFP.

Documenting the evaluation process

As stated above, public bodies are required to provide reasons for their decisions, when asked.

Preparing robust documentation as part of the procurement process will enable approved organisations to comply with these provisions and to give feedback to suppliers. Refer to [section 10.6 Documentation and publication requirements](#) and [section 10.6A Supplier selection process requirements](#).

Notification of evaluation outcome

Waka Kotahi requires approved organisations to follow best practice and give feedback to all who submit a proposal. Feedback allows suppliers to identify changes that they could make to their business to better align future proposals with an approved organisation's requirements.

All proposal submitters must be advised of the outcome of the evaluation of their proposal and given reasons for their appointment or non-appointment. [Section 10.6 Documentation and publication requirements](#) requires approved organisations to establish policies for this. An established policy will ensure consistency in the form and content of routine notification.

The following should be provided as a minimum:

- name of the successful supplier
- price of the successful proposal (where the supplier selection method was other than quality-based)
- the number of conforming proposals received
- range of grades for each non-price attribute (where attributes are graded) and, for each supplier, their individual non-price attribute grades
- when the price quality supplier selection method is used, the margin between the proposal submitter's supplier quality premium and the supplier quality premium for the preferred supplier.

An approved organisation must be ready, if asked, to make specific observations about an individual proposal and, with appropriate regard for preserving the interests of other suppliers, be able to provide an assessment of the relative merits of a proposal compared with the other proposals submitted.

Approved organisations must ensure compliance with Government Procurement Rules [Rule 49](#) – Debriefing suppliers.

Advice to those who submit proposals should not extend to disclosure of the opinions etc of individual evaluation team members but should be confined to discussion of the team’s collective conclusions.

5.6 Purchaser-supplied inputs

Summary

If an approved organisation wishes to supply inputs to a supplier, it must be fair to all potential suppliers. Refer to [section 10.3](#) *Compliance with general legal requirements*.

If an approved organisation wishes to offer inputs, it must advise suppliers through the RFP by outlining the terms, including price, on which the input is offered. There must be no compulsion on the supplier to use the input.

Where a supplier approaches the approved organisation and asks if a particular input will be supplied, either before or after the contract has been let, the input should only be made available on terms that are usual for a contract of that type and at a fair market price.

When a council business unit is to compete for the right to supply minor and ancillary works, and the approved organisation is offering inputs, it must be particularly careful to be fair to all potential suppliers. The approved organisation must manage the supplier selection process in a way that creates no bias in favour of the council business unit. Refer to [section 10.20](#) *Business units proposing to undertake minor and ancillary works*.

6.0 PROCUREMENT PROCEDURE 1 – INFRASTRUCTURE

6.1 Overview

Introduction

Procurement procedure 1 – Infrastructure consists of four parts:

- guidelines for understanding the strategic context for the procurement activity
- an outline of the delivery models available for use
- guidelines for the selection of a supplier selection method
- guidelines for contract forms to be used with the procurement procedure.

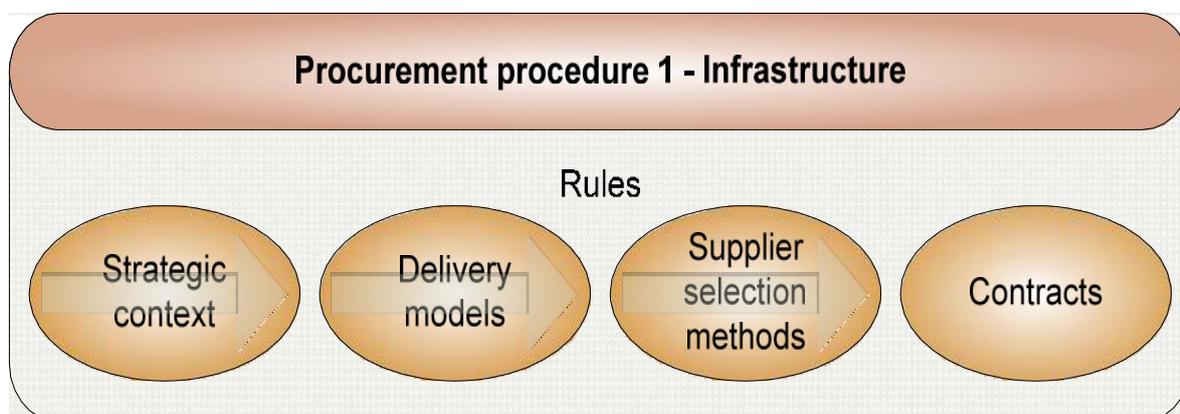
In this chapter

This chapter contains the following sections:

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6.2 Definition

Purpose



The infrastructure procurement procedure covers those activities involving the purchase of:

- new infrastructure or additions or improvements to existing infrastructure
- renewal of infrastructure assets
- the maintenance and repair of existing infrastructure assets to restore their functionality to original levels
- the operation of those assets in a way that optimises the benefits derived from them.

Typical infrastructure outputs include:

- new land transport infrastructure (eg roads and bridges)
- new public transport infrastructure (eg bus stations, park and ride facilities)
- new traffic management and passenger information systems
- additions or improvements to existing road infrastructure (eg passing lanes, curve realignments and on-ramps)
- alterations and additions to existing public transport infrastructure
- renewal of road pavements and resurfacing
- maintenance and repair of infrastructure assets (eg roads, bridges and passenger transport facilities), which are often routine in nature and delivered under a term service contract.

This procurement procedure covers both the physical works and professional services outputs required to deliver operation, maintenance, renewal and construction of infrastructure.

Professional services associated with infrastructure activities can also be purchased using *Procurement procedure 2 - Planning and advice*. This option allows the purchaser more flexibility and choice, where required, to better align the procurement procedure with the activity.

Note that this procurement procedure does not apply to the use of in-house professional services that have the prior approval of Waka Kotahi.

Summary of requirements

Approved organisations must follow the requirements below when using this procurement procedure.

Definition

The activity must fit within the definition for infrastructure procurement.

Strategic context

To use this procurement procedure, an approved organisation must understand the procurement activity's strategic context. This will enable the approved organisation to fully specify the outputs that are required and to understand the activity's complexity, scale, timing, innovation potential and risk, and assess the supplier market.

Delivery models

All approved organisations are permitted to use the staged and the design and build delivery models, as outlined in this procurement procedure.

The advanced delivery models (shared risk and supplier panel) can only be used with the prior written approval of Waka Kotahi under s25 of the LTMA.

Supplier selection methods

All approved organisations are permitted to use the supplier selection methods referred to in this procurement procedure.

The quality-based supplier selection method is an advanced component where the output being purchased is anything other than professional services. As an advanced component, an approved organisation must have the prior written approval of Waka Kotahi under s25 of the LTMA for its use.

Rules

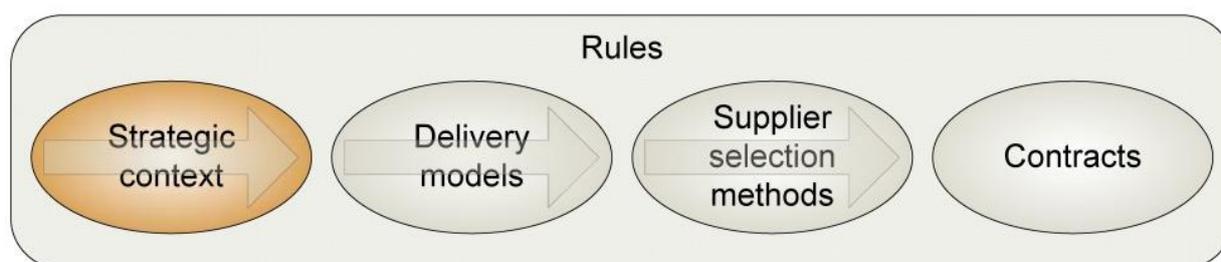
The rules set out in [chapter 10 Rules](#) must be followed.

Further assistance

Contact Waka Kotahi if you are not sure if the activity conforms to the requirements of the infrastructure procurement procedure, or if you wish to depart from the rules contained here.

6.3 Strategic context

Rule



An approved organisation must, as part of its assessment of the strategic context, assess all proposed procurement activity against the objectives set out in a procurement strategy, which has been endorsed by Waka Kotahi. At a minimum, the assessment must consider whether:

- the proposed procurement activity is consistent with the best value for money objectives in the procurement strategy
- the proposed procurement activity is consistent with the policies or constraints, where relevant, in the procurement strategy
- any changes in the procurement environment since the development of the procurement strategy have a material effect on the procurement decisions made.

Where an approved organisation's procurement activities, choices and decisions are inconsistent with its procurement strategy, the approved organisation must document the reasons for its decisions.

See [section 10.4 Procurement strategies](#) for further details.

Reference procurement strategy

The strategic analysis will typically be undertaken at the commencement of the funding cycle and as part of any regular refresh of a procurement strategy. Circumstances can change, and therefore changes to the original specification or approach to the procurement activity could deliver better value for money.

At the commencement of each procurement activity, it is important to reflect on the specific strategic context in which the procurement is to be undertaken and ensure that the specific best value for money objectives for that procurement activity can still be obtained. This assessment will involve looking at the assumptions documented in the procurement strategy and testing them against the current environment to check if they remain valid.

It is important to emphasise that at this point the approved organisation's strategic approach to procurement will already have had a significant influence on specifying the nature of the outputs to be purchased and their scale and complexity. The approved organisation will have considered:

- what is being purchased and why, and the timing
- the capacity, capability and competitiveness of the market to deliver the outputs
- the procurement capability of the approved organisation to manage the procurement activity
- the feasibility of collaborating with other purchasers
- the broad procurement options, including procurement procedures to be used and the delivery model.

The analysis and conclusions on the above factors will have enabled the approved organisation to specify the required outputs during activity formulation and the development of a procurement strategy. To ensure the specified outputs and the proposed approach to the procurement activity will obtain best value for money, the proposed approach must now be assessed to ensure consistency against the original objectives in light of the current situation.

The following checklist provides guidance on the matters that should be considered when undertaking this assessment. This process will ensure a full understanding of the strategic context for the particular procurement activity.

Strategic consideration	Questions for approved organisations
1. Is there a clear statement of the outputs to be purchased?	<ul style="list-style-type: none"> • Have all the elements of the output been clearly specified? • Do you have a good understanding of the expected price that you will have to pay for the outputs?
2. Is there clear alignment to the objectives as stated in the procurement strategy?	<ul style="list-style-type: none"> • Does your approach to this procurement activity still align with your strategic priorities? • Is your proposed approach to aggregation and bundling (where relevant) consistent with your procurement strategy? • Is there any reason why this procurement activity should no longer proceed? • Are the identified economic, environmental and social considerations still relevant?
3. Is there appropriate procurement capability (either internal or external) to undertake the activity?	<ul style="list-style-type: none"> • Do you have the capability to undertake the procurement activity? • If not, where are the gaps and how is the required capability to be resourced? • Do you have the necessary resources to deliver and monitor the contract? • Are the risks associated with the procurement activity understood and quantified? Who is best placed to manage this risk?
4. What is the status of the supplier market?	<ul style="list-style-type: none"> • Have there been any significant and relevant changes to the supplier market (ie number of suppliers, competitiveness of the market) that will affect your intended approach to the procurement activity? • Are any other approved organisations purchasing similar goods and services? • Is the proposed timing of your procurement activity able to be accommodated by the supplier market?
5. What are the risks and opportunities?	<ul style="list-style-type: none"> • Are the identified risks and opportunities still relevant?

At the end of this step, the approved organisation will determine if the original assumptions as documented in the procurement strategy and as they relate to this procurement activity, still hold true.

If circumstances have changed and better value for money can now be obtained by an alternative approach, consider what can be done differently while acknowledging that the options at this stage are limited.

Confirm strategic context

Where the particular circumstances in which the activity is to be undertaken have changed since the procurement strategy was prepared and there is potential to enhance best value for money through an alternative approach to the procurement activity, an approved organisation should take this into account. For example, there may now be opportunities to:

- collaborate with other approved organisations on the procurement activity
- aggregate or bundle a number of procurement activities into one larger procurement activity in order to obtain a pricing advantage through scale
- take advantage of innovation
- change the timing for the procurement activity.

In the event that an alternative approach is chosen as the most effective way to obtain better value for money, the purchaser should adopt this approach and fully specify the procurement activity in light of this changed assessment.

Document outputs

Having confirmed the strategic context of the specific procurement activity, the purchaser must document the link between the procurement strategy and the activity.

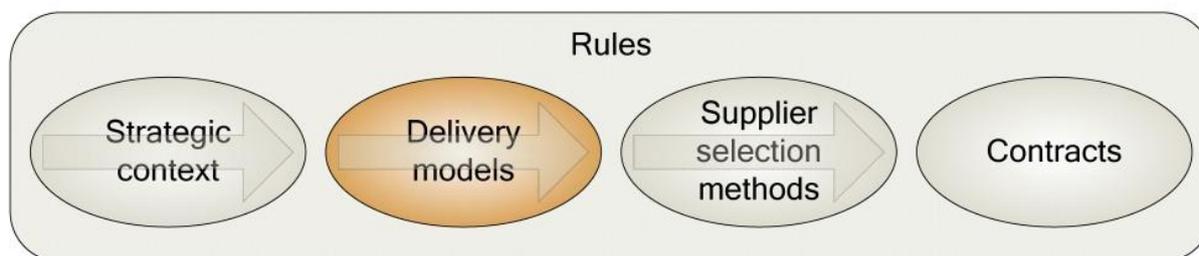
At the end of the strategic context assessment, the approved organisation will have fully specified and documented the outputs to be purchased. The approved organisation will clearly understand the factors associated with the delivery of the activity that need to be addressed during the procurement phase. This understanding is critical as it provides the information required to determine which delivery model and supplier selection method are likely to produce the best value for money outcomes.

Where there are any changes in approach from what is specified in the procurement strategy, it is especially important to document the reasons for an alternative approach. If this requires the procurement strategy to be varied, endorsement of this variation from Waka Kotahi should be sought at this stage.

The documentation process is likely to be ongoing as various decision points are reached. The approved organisation must meet the requirements set out in [section 10.6 *Documentation and publication requirements*](#), including recording all decisions in relation to the selection of a delivery model and a supplier selection method.

6.4 Delivery models

Rule



All approved organisations are permitted to use the staged and the design and build delivery models, as outlined in this procurement procedure.

The advanced delivery models (shared risk and supplier panel) can only be used where an approved organisation has the prior written approval of Waka Kotahi under s25 of the LTMA.

Introduction

The delivery models available for use with this procurement procedure are:

- staged
- design and build
- shared risk (advanced)
- supplier panel (advanced).

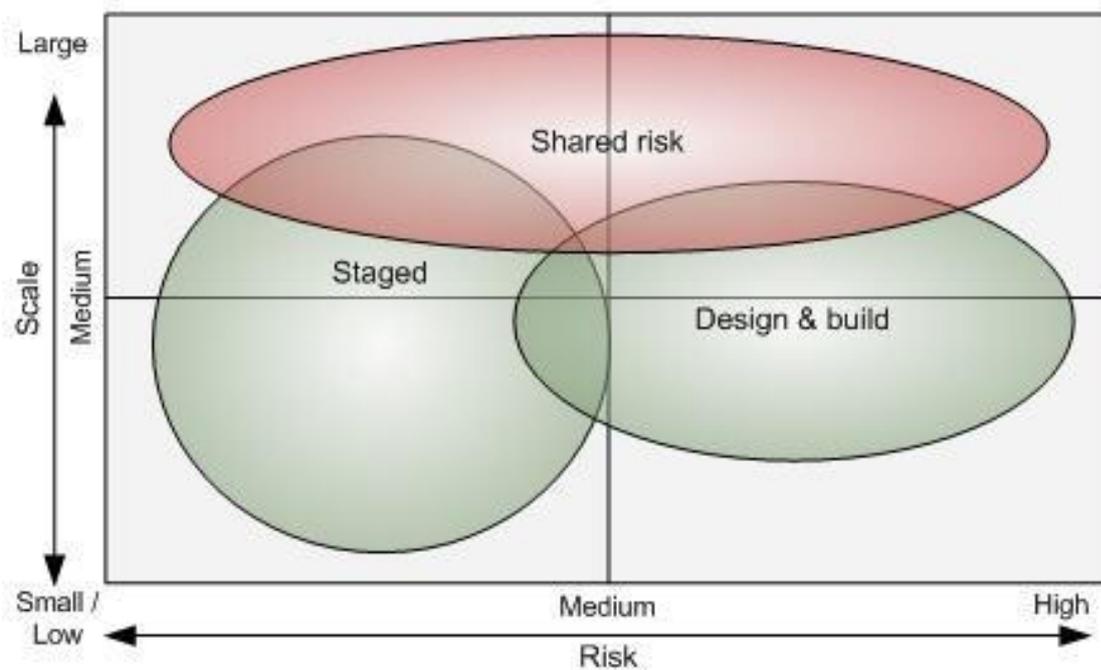
Note that performance specified maintenance contracts (PSMCs) are a commonly used contract option when the purchaser is seeking to establish a term service maintenance contract using the design and build delivery model. A PSMC is an example of the design and build delivery model but is described separately in this chapter.

Each delivery model has distinct characteristics that suit particular procurement events. In general, the main factors influencing which delivery model should be applied are determined through reference to:

- the approved organisation's procurement strategy
- the defining characteristics of the procurement activity.

The defining characteristics of a procurement activity are its complexity, scale, timing, innovation potential, risk and supplier market.

The following diagram illustrates the situations in which the staged, design and build, and shared risk delivery models may be used. Note that the supplier panel delivery model does not appear in the diagram because it gives purchasers complete flexibility as to the type of contractual arrangement that is established with the supplier. Therefore, an approved organisation may consider its use for any procurement activity.



Selecting a delivery model

The purchaser must consider the following factors (where relevant) when selecting a delivery model for a specific procurement activity:

- complexity and uncertainty
- scale
- timing and urgency
- innovation potential
- risk management
- supplier market.

Selecting a delivery model for an infrastructure procurement activity involves analysing the conditions that surround the procurement event. These conditions were identified in the strategic context analysis and specified in the activity description. All considerations must be documented as part of the reporting requirements attached to this procedure.

The capability and capacity of the purchaser play an important role in determining which delivery models can be used. If, after assessment, the delivery model selected proves to be outside the purchaser's capability and capacity, an alternative delivery model should be selected. The purchaser should consider investing in the development of capability and capacity where no reasonable alternative exists. For further guidelines, refer to [appendix B Criteria for selecting a delivery model](#).

The following table provides examples of when to consider each delivery model that best fits an infrastructure activity. It describes the circumstances under which it is advisable to use each of the models.

Delivery model	Consider when ...	May not be suitable for ...
Staged	<ul style="list-style-type: none"> • Scale is small to medium. • Complexity, uncertainty and risk are low. • The approved organisation wishes to maintain some form of involvement and control over the activity. • Scope is well defined and the opportunity for innovation is low. 	<ul style="list-style-type: none"> • Complex, large-scale activities. • Activities with high levels of risk. • Activities that require innovation and the capability to manage risk
Design and build	<ul style="list-style-type: none"> • Scale is medium to large. • Complexity, uncertainty and risk are correspondingly higher as well. • There is more opportunity for the supplier to innovate during delivery. • The approved organisation wishes to transfer some risk to the supplier. 	<ul style="list-style-type: none"> • Activities where the purchaser's requirements and required outcomes cannot be clearly described in the RFP. • Activities where a specific design provides more best value for money than any alternative design and construction process available in the marketplace.
Design and build – PSMC	<ul style="list-style-type: none"> • The purchaser requires a supplier to provide all goods and services to do with maintenance; accept risks; and base performance on self-compliance. • Risk allocation is an important factor in the project. • It is more advantageous to have one supplier with overall responsibility for both works and services. • Incentives can be employed to increase innovation. • The contract is larger in scale, over a longer timeframe and more complex. 	<ul style="list-style-type: none"> • Work that is best assigned to different suppliers (eg professional services and physical works, and for projects where the level and type of risk falls outside the supplier's ability to manage).

Delivery model	Consider when ...	May not be suitable for ...
Shared risk (advanced)	<ul style="list-style-type: none"> • Scale is medium to large • Complexity, uncertainty and risk are high. • A single supplier is unlikely to be able to undertake the contract alone. • Innovation potential is high. • The purchaser has the necessary capabilities and resources to organise and manage a shared risk model. 	<ul style="list-style-type: none"> • Activities that can be fully specified. • Activities with little scope for innovation. • When risk can be easily identified and managed by one of the parties.
Supplier panel (advanced)	<ul style="list-style-type: none"> • A succession of similar or related activities is included in the programme and supplier consistency would be valued. • There is value in establishing a longer-term relationship with suppliers. • The volume of work may be too large for one supplier to undertake. • Specialist skills or equipment are required. • There are a number of suppliers who can provide the required outputs. • There is an advantage in having a choice of suppliers to select from at reasonably short notice. 	<ul style="list-style-type: none"> • A modest sized programme of individual activities. • Situations where there is benefit (because of complexity, scale, risk, etc) in seeking proposals from a wide group of suppliers.

Staged delivery model

Under staged delivery, an activity is delivered through one or more separate contracts between the purchaser and supplier(s). These may include planning of maintenance or renewal, investigation, design or the works required to deliver the activity.

The staged delivery model includes the following examples:

- investigate, design or construct only
- single service delivery (eg routine pavement maintenance or bus shelter maintenance)
- sequential staged (full design completed before construction commences)

- accelerated staged (construction commences with design partially completed).

Price determination

A robust price estimate for each stage, based on the known scope of work, will often be available at the time the supplier is engaged for that stage. The contract price may be a lump sum or taken from a schedule of prices.

The scope of work required to complete earlier stages, typically for professional services, is often not well defined at the beginning of those stages. In this case, a contract based on a lump sum or a schedule of prices will not be conducive to obtaining the best value for money. It would be better to select the supplier using the quality-based supplier selection method and then negotiate the price or base it on a cost reimbursement model.

Relationship management

Under a staged model, once design is complete, the roles for all parties are typically well defined and it is possible to clearly specify the outputs with respect to scope, and technical and service details. The outputs are often well understood through past experience. Where the outputs are well defined, the purchaser can maintain more control over delivery and is more able to control scope. The purchaser is more likely to receive appropriate proposals aligned with initial cost estimates. Risk is largely managed by the purchaser.

Advantages

- A high level of purchaser control is possible.
- Greater certainty over the final outputs (and their cost) is possible.
- Contract management is simplified as decisions are made solely by the purchaser.
- Transaction costs for both supplier(s) and the purchaser are reduced.
- Competitiveness and market efficiency can be encouraged by breaking up larger packages of work to allow a broader range of suppliers to compete for contracts.

Disadvantages

- Separation of designer and builder may not encourage innovation, particularly the ability to design, plan or manage risk out of the delivery process.
- There will be ongoing and significant involvement of the purchaser in project management.
- Less coordination between the design and construction stages could lead to buildability issues and higher costs.
- Design errors may be costly to fix.

Design and build delivery model

A design and build delivery model uses a single supplier to complete all detailed design and construction. This usually involves a lump sum price arrangement and more risk accepted by the supplier.

Under a design and build model, the purchaser prepares a brief, which includes the output specification and quality requirements. A design and build contract is then awarded to carry out concept design, final design development and documentation, and construction of the

final output. The purchaser may at times complete part of the concept design under a separate contract (a separate stage).

The design and build delivery model includes the following examples:

- design and construct
- design, novate and construct
- design, construct and maintain; or design, construct and operate.

Price determination

The preferred supplier must be able to price the final outputs before a contract is entered into. An iterative process may be used to progressively refine the scope of the final output before the price is agreed.

The price is usually a lump sum arrangement and the purchaser pays one price to the supplier for the delivery of the outputs.

Relationship management

Under the design and build model, risk is transferred from the purchaser to the supplier, with the supplier assuming responsibility for delivery. With the transfer of risk, the purchaser has less need to be involved in the detailed design and construction – this is the responsibility of the supplier. The purchaser instead focuses on ensuring the desired outcomes can be achieved.

Advantages

- Some of the time and cost associated with a staged delivery model can be removed and may lead to quicker start times and potentially earlier construction.
- The purchaser can concentrate on the outcomes, through a concept design and performance criteria, and not get lost in minutiae.
- Providing the outputs can be clearly defined, technical and financial risk to the purchaser is reduced as the supplier is responsible for design and construction.
- The purchaser needs less design resource (design changes will generally be at the supplier's risk).
- Overlapping design and construction increases the potential for innovation and for obtaining the best value for money spent.
- Project completion time can be reduced if construction is started prior to the finalisation of detailed design (usually at the supplier's risk).

Disadvantages

- Proposal preparation costs for potential suppliers are increased, which may be reflected in the proposal price. This may be offset by efficiency savings.
- Risks may be increased around design quality, outcomes and costs.
- Minimum standard designs are encouraged. Standards must therefore be clear.
- Greater supplier exposure to risk may increase the price.
- Post-contract award variations may increase costs due to disruptions to the supplier's processes.

- May reduce flexibility.
- The number of potential suppliers may be reduced because of the requirement to accept greater risk.
- More purchaser resource may be required for contract management.

Design and build delivery model – PSMC

A PSMC is a form of term service maintenance contract under which the supplier is contracted to deliver maintenance outcomes (rather than outputs), inclusive of professional services. A PSMC manages the integrity of the assets using a cost-effective long-term maintenance strategy, which is based on identifying, programming, prioritising and delivering services to agreed performance criteria. It represents an integration of skills, expertise and knowledge of the road industry, which drives higher efficiency and improved best value for money, while meeting all performance standards.

This example of a design and build delivery model is used for outcome-based maintenance contracts that rely on performance measurement, reporting and self-auditing to ensure supplier performance. However, the tenure is usually longer (up to 10 years) and there is only one supplier to provide all goods and services.

Price determination

A lump sum price arrangement is used.

Monthly payments are independent of the actual works and services undertaken by the supplier. However, payments may vary subject to the supplier meeting the set of performance criteria specified in the contract.

Relationship management

A PSMC is a form of outcome-based contracting, relying on the supplier to report on and audit a set of performance measures agreed with the purchaser.

Under a PSMC, the supplier is responsible for all aspects of the asset in question, so most risk is transferred to the supplier. This approach makes the supplier responsible for management of the asset, including its day-to-day operation and its long-term performance.

Advantages

- Risk is allocated to the party that is most capable of managing it.
- Bundling of professional services and physical works functions may increase cost efficiencies and effectiveness.
- The lump sum and outcome-focused nature of the contract can encourage innovation.
- Longer-term contractual arrangements facilitate greater information sharing between purchaser and supplier. Self-monitoring by the supplier may reduce purchaser management resource requirements.

Disadvantages

- Premiums may be built into pricing to compensate for additional risk.
- Monitoring and enforcement costs may increase if poor performance becomes an issue.

Further issues

A PSMC requires long-term capability and commitment of resources, from both purchaser and supplier.

Shared risk delivery model (advanced)

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.

Price determination

The price is determined through negotiation involving all team members and is based on cost reimbursement with incentives to add value. A target price mechanism is often used with this model.

Relationship management

A shared risk model brings together an integrated team of purchaser and suppliers. This approach minimises the barriers to information sharing and reduces negotiation, management and enforcement costs over the contract life.

Using this model, the purchaser assumes all risk, but brings together a team to manage and mitigate it. The combined expertise of the team contributes to obtaining the best value for money; all parties work together to determine the best course of action.

Advantages

- The contract is collaborative.
- The team environment and aligned objectives, improve risk management, encourage innovation, leave flexibility to change and ensure a focus on outcome to obtain best value for money.
- Value can be added by involving the construction and costing experts in the planning and design phases.
- The team can draw on a wide variety of expertise.
- There is pricing transparency (including for contingencies).
- Projects can be more readily fast tracked.
- Improved coordination increases efficiency.
- Improved purchaser knowledge and skills.
- 'Tender' costs are reduced.

Disadvantages

- Direct price competition is removed.

- All parties are required to invest significant resource.
- Participants are liable for the performance of other team members.
- Senior management resource is required to manage relationships.
- The purchaser's ability to make unilateral decisions is restricted.
- Risk sharing may limit the number of suppliers willing to participate.

Supplier panel delivery model (advanced)

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.

Price determination

As noted above, the supplier panel delivery model uses a two-stage process.

Stage 1

In the first stage, suppliers are selected and appointed to the panel. Open competition is to be used to select suppliers.

When the suppliers are appointed to the panel, only the broad scope of the work to be undertaken is defined. The price of what will be supplied cannot be settled at the time of engagement. The purchaser and supplier(s) will agree at the time of engagement on a mechanism that will determine the price for the work that a supplier will be asked to deliver.

The contract between the purchaser and the suppliers on the supplier panel is usually referred to as a 'framework' contract.

Stage 2

In the second stage, work is allocated to panel members. This may or may not involve a competition between suppliers on the panel to win the right to deliver a particular part of the work. The allocation of work can be determined in a variety of ways. The following examples are typical means of allocating work:

- a non-competitive basis (eg obtaining a quote from any one panel member)
- a competitive basis (eg obtaining quotes from several panel members)
- an equal division of work basis
- a rotational basis
- a geographic basis

- a preferred supplier basis (eg some suppliers may be preferred for particular activities, or one supplier is given the opportunity to undertake the work, with other suppliers approached if necessary).

The precise mechanism for allocating work to the members of a supplier panel is a strategic consideration.

Approved organisations wishing to use a supplier panel will need to set out their expected means of allocating work when seeking approval from Waka Kotahi to use this advanced model.

The mechanism for allocating work must be agreed in the framework contract by all parties to the contract.

Relationship management

The supplier panel model provides for the establishment of collaborative relationships between the purchaser and the suppliers. It should also encourage panel members to have a high level of awareness of the purchaser's requirements.

Performance can be incentivised by making the allocation of tasks to panel members dependent on the quality of their performance on earlier panel tasks.

The flexibility of this model allows for risk to be managed in ways that best match specific tasks.

Advantages

- There is flexibility to move resources to urgent tasks and to fast-track activities as required.
- The skills and experience of more than one panel member can be used for the delivery of a specific task.
- The costs involved in supplier selection and engagement for a programme of many small and similar activities are reduced.
- Purchaser knowledge of supplier capability increases over time because of the ongoing relationship.
- Supplier knowledge of purchaser requirements increases over time because of the ongoing relationship.
- Competitive tension between suppliers is maintained over the contract duration.
- The purchaser can choose from a range of suppliers that, as a panel, offer the best combination of skills and experience required to deliver the outputs.
- Where more than one panel member has similar skills or experience, the risk of shortages is reduced.

Disadvantages

- The additional costs to both the purchaser and the suppliers of establishing the panel may outweigh any benefits.
- The opportunities for new suppliers to enter the market are reduced as long as the panel remains in place.
- The number of suppliers who can submit a proposal is limited to panel members.

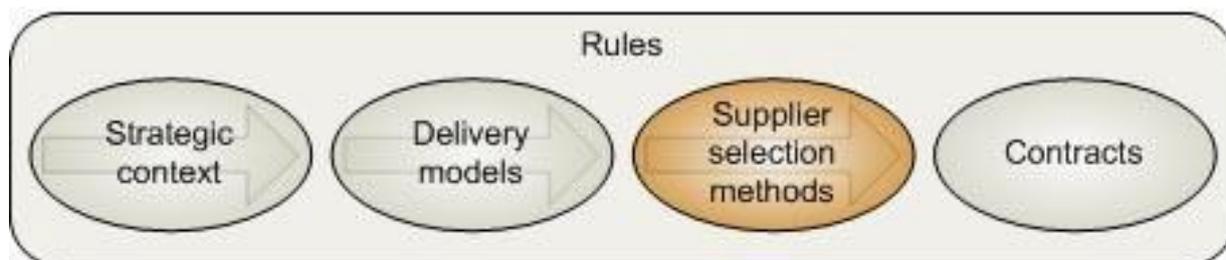
Supplier panel vs prequalification

Supplier panels are sometimes confused with prequalification systems. The following table sets out their important features.

Supplier panel	Prequalification
Staged process for appointment.	Staged process for appointment.
Advanced delivery model.	Stage in a supplier selection process.
A purchaser may have more than one supplier panel.	A purchaser may have more than one prequalification register.
Established once with a finite number of suppliers determined by the purchaser.	Any number of suppliers can apply to be on a prequalification register.
The supplier for a particular piece of work is determined by a process set out in the framework contract. This may or may not involve competition among panel members.	The supplier for a particular piece of work is determined by a competition among all prequalified suppliers.
Panel members enter into a contract with the purchaser for a particular project or for a term.	Prequalification registers are usually for particular types of work and are not confined by project or term. There is no contract between the purchaser and the prequalified suppliers.
Supplier panels, once formed, are not normally re-opened for new suppliers to join. Where this is permitted, it would need to be clearly set out in the framework contract.	Prequalification registers are updated or opened to new suppliers on a regular basis.

6.5 Supplier selection methods

Rule



All approved organisations are permitted to use the supplier selection methods referred to in this procurement procedure.

The quality-based supplier selection method is an advanced component except where the output being purchased is professional services alone. As an advanced component, an approved organisation must have the prior written approval of Waka Kotahi under s25 of the LTMA for its use.

Introduction

This section details the process for selecting the most suitable supplier selection method to use in combination with the chosen delivery model.

The following tables show the supplier selection methods that provide a good fit with the delivery models specified for this procurement procedure.

See [chapter 5 Supplier selection process](#) for detailed guidelines on the application of the supplier selection methods listed here. See [appendix D Procurement procedure decision trees](#) for a graphic which links strategic context, delivery models and supplier selection methods.

Note: Under staged delivery, an activity is delivered through one or more separate contracts. Different supplier selection methods may therefore be required for different contracts when using this model. It would be uncommon for the purchaser nominated price supplier selection method to be used to select a physical works supplier under a staged delivery model.

The following table sets out guidelines for selecting a supplier selection method.

Supplier type	Supplier selection method and rationale
Selecting the professional services supplier(s)	<p>Direct appointment</p> <p>Direct appointment must only be used in the circumstances described in appendix C Supplier selection methods and where it will deliver best value for money.</p> <p>Lowest price conforming</p> <p>Lowest price conforming should be used where the purchaser determines that best value for money can be obtained by selecting the supplier(s) that offer the lowest price and meet the requirements as set out in the RFP. This method should only be used where the output required is very well specified.</p> <p>Appendix C Supplier selection methods contains further details.</p> <p>Purchaser nominated price</p> <p>Purchaser nominated price should be used where the purchaser has predetermined the price that it is prepared to pay for the desired outputs. Best value for money is obtained by selecting the supplier that provides the best proposal for the price as set out in the RFP.</p> <p>This method is typically used for such activities as strategy studies, feasibility studies, transportation studies and investigations.</p> <p>Appendix C Supplier selection methods contains further details.</p>

Supplier type	Supplier selection method and rationale
	<p>Price quality</p> <p>Price quality should be used where the specified outputs can be priced by the supplier(s) and where the purchaser determines that best value for money will be obtained by selecting the supplier that offers the best combination of price and quality requirements as set out in the RFP.</p> <p>Quality-based</p> <p>Quality-based should be used where the purchaser determines that best value for money can be obtained by selecting the best quality supplier(s) and then negotiating the price with the supplier(s).</p> <p><i>Appendix C Supplier selection methods</i> contains further details.</p>
<p>Selecting the physical works supplier(s)</p>	<p>Direct appointment</p> <p>Direct appointment must only be used in the circumstances described in <i>appendix C Supplier selection methods</i> and where it will deliver best value for money.</p> <p>Lowest price conforming</p> <p>Lowest price conforming should be used where the purchaser determines that best value for money can be obtained by selecting the supplier(s) that offer the lowest price and meet the requirements as set out in the RFP. This method should only be used where the output required is very well specified.</p> <p><i>Appendix C Supplier selection methods</i> contains further details.</p> <p>Price quality</p> <p>Price quality should be used where the outputs can be priced by the supplier(s) and where the purchaser determines that best value for money will be obtained by selecting the supplier that offers the best combination of price and quality requirements as set out in the RFP.</p> <p><i>Appendix C Supplier selection methods</i> contains further details.</p> <p>Quality-based</p> <p>Quality-based should be used where the purchaser determines that best value for money can be obtained by selecting the best quality supplier(s) and then negotiating the price with the supplier(s).</p> <p>Note: This is an advanced component except when used for professional services alone.</p> <p><i>Appendix C Supplier selection methods</i> contains further details.</p>

Design and build delivery model

A design and build delivery model involves appointing a single supplier who assumes responsibility for the overall delivery of the activity and assumes a larger portion of the risk than the purchaser. This therefore requires the purchaser to place greater emphasis on quality when selecting a supplier.

It would be uncommon for the purchaser nominated price supplier selection method to be used to select the supplier under a design and build delivery model.

The following table sets out guidelines for selecting a supplier selection method.

Design and build delivery model

Supplier type	Supplier selection method and rationale
Selecting the supplier	<p>Direct appointment</p> <p>Direct appointment must only be used in the circumstances described in appendix C <i>Supplier selection methods</i> and where it will deliver best value for money.</p> <p>Lowest price conforming</p> <p>Lowest price conforming should be used where the purchaser determines that best value for money can be obtained by selecting the supplier that offers the lowest price and meets the requirements as set out in the RFP. This method should only be used where the output required is very well specified.</p> <p>Appendix C <i>Supplier selection methods</i> contains further details.</p> <p>Price quality</p> <p>Price quality should be used where the specified outputs can be priced by the supplier and where the purchaser determines that best value for money will be obtained by selecting the supplier that offers the best combination of price and quality requirements as set out in the RFP.</p> <p>Appendix C <i>Supplier selection methods</i> contains further details.</p> <p>Quality-based</p> <p>Quality-based should be used where the purchaser determines that best value for money can be obtained by selecting the best quality supplier and then negotiating the price with that supplier.</p> <p>Although it would be uncommon for this method to be used with the design and build delivery model, in some circumstances best value for money may be obtained by using this method to select the best supplier and then negotiate a price for the output(s).</p> <p>Note: This is an advanced component except when used for professional services alone.</p> <p>Appendix C <i>Supplier selection methods</i> contains further details.</p>

Design and build delivery model – PSMC

Under a PSMC, one supplier is engaged to undertake maintenance activity for a nominated term. This focus on long-term maintenance outcomes, along with the inclusion of professional services into an integrated management platform, and the performance-based lump sum nature of the price, means the quality of the supplier is very important. Therefore, price quality is the recommended supplier selection method.

It would be uncommon for the purchaser nominated price supplier selection method to be used to select the supplier under a design and build delivery model.

The following table sets out guidelines for selecting a supplier selection method.

Design and build delivery model – PSMC

Supplier type	Supplier selection method and rationale
Selecting the supplier	<p>Direct appointment</p> <p>Direct appointment must only be used in the circumstances described in appendix C <i>Supplier selection methods</i> and where it will deliver best value for money.</p> <p>Lowest price conforming</p> <p>Lowest price conforming should be used where the purchaser determines that best value for money can be obtained by selecting the supplier that offers the lowest price and meets the requirements as set out in the RFP. This method should only be used where the output required is very well specified.</p> <p>Appendix C <i>Supplier selection methods</i> contains further details.</p> <p>Price quality</p> <p>Price quality should be used where the specified outputs can be priced by the supplier and where the purchaser determines that best value for money will be obtained by selecting the supplier that offers the best combination of price and quality requirements as set out in the RFP.</p> <p>Appendix C <i>Supplier selection methods</i> contains further details.</p> <p>Quality-based</p> <p>Quality-based should be used where the purchaser determines that best value for money can be obtained by selecting the best quality supplier and then negotiating the price with that supplier.</p> <p>Although it would be uncommon for this method to be used with the design and build delivery model, in some circumstances best value for money may be obtained by using this method to select the best supplier and then negotiate a price for the output(s).</p> <p>Note: This is an advanced component except when used for professional services alone.</p> <p>Appendix C <i>Supplier selection methods</i> contains further details.</p>

Share risk delivery model (advanced)

A shared risk model should be used for activities that have high levels of uncertainty. The transfer of risk to the party best able to manage it and the potential for innovation are important features of this delivery model. These features, when combined with the scale and uncertainty of the activity, indicate that a focus on the quality of the supplier is of high importance.

Typically, only the price quality and quality-based supplier selection methods are used with a shared risk model. Direct appointment may sometimes be used.

The following table sets out guidelines for selecting a supplier selection method.

Shared risk delivery model

Supplier type	Supplier selection method and rationale
Selecting the supplier	<p>Direct appointment</p> <p>Direct appointment must only be used in the circumstances described in appendix C <i>Supplier selection methods</i> and where it will deliver best value for money.</p> <p>Price quality</p> <p>Price quality should be used where the specified outputs can be priced by the supplier(s) and where the purchaser determines that best value for money will be obtained by selecting the supplier(s) that offer the best combination of price and quality requirements as set out in the RFP.</p> <p>It is uncommon to use this method with a shared risk delivery model as the price is usually established by negotiation. However, respondents to a proposal may be asked to submit a management fee that would be used as the 'price' when applying this method. Alternatively, they may be asked to price a proxy schedule that would be used in the supplier selection process and later as the basis for negotiation of the actual price of the works and services. As an example, the 'competitive alliance' approach typically uses the price quality supplier selection method to select the preferred supplier from the two suppliers engaged to prepare and price competitive proposals.</p> <p>Appendix C <i>Supplier selection methods</i> contains further details.</p> <p>Quality-based</p> <p>Quality-based should be used where the purchaser determines that best value for money can be obtained by selecting the best quality supplier(s) and then negotiating the price with the supplier(s).</p> <p>Note: This is an advanced component except when used for professional services alone.</p> <p>Appendix C <i>Supplier selection methods</i> contains further details.</p>

Supplier panel delivery model (advanced)

The selection of the supplier panel should be undertaken as a staged process, with stage 1 focused on the appointment of suppliers to the panel and stage 2 allocating work to panel members.

Stage 1: Appointing suppliers to the panel

Panels can be appointed through the price quality or quality-based supplier selection methods.

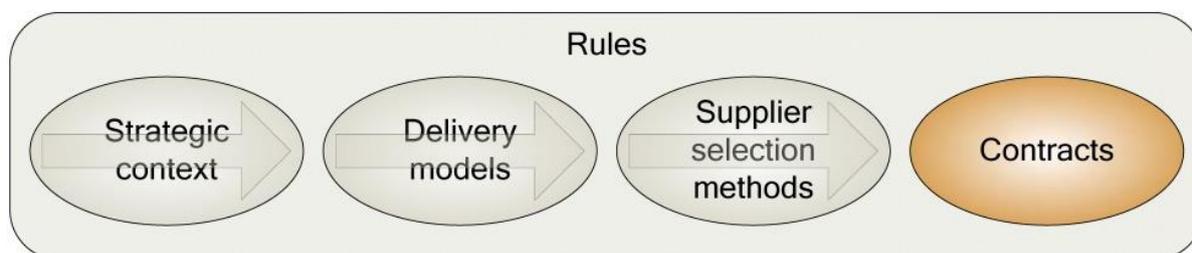
For the price quality supplier selection method, a proxy schedule is commonly used to determine price.

Note: The quality-based supplier selection method is an advanced component except when used for professional services alone.

Stage 2: Allocating work to panel members

This stage involves selecting a member of the supplier panel to carry out a particular activity. The specific process for allocating work will be part of the detail that requires approval by Waka Kotahi for use by the purchaser.

6.6 Contracts



Introduction

Once a preferred supplier is selected, an approved organisation will enter into a contract with that supplier. The contract establishes the form of the relationship between the parties and stipulates the terms and conditions for the purchase of the outputs.

Scope of contracts

The scope of contracts will vary according to the outputs to be purchased. Infrastructure contracts should cover:

- description of the outputs being purchased
- term of contract
- price and review mechanisms (where applicable)
- processes to remedy defects (including period allowed to remedy defects after the contract end date)

- standard terms and conditions (eg limitation of liability and insurance)
- health and safety requirements
- variations and time extensions
- disputes resolution
- contract default conditions and termination processes
- other issues that may be specific to the individual procurement.

In some situations, the full specification of the outputs may not be possible due to the scope and complexity of the activity. Activities that are well defined can be more fully specified in the contract than activities that are more broadly defined at the outset and then become better defined as the activity is undertaken. It may sometimes be difficult to specify every potential contingency that could arise during the contract period.

Form of contract

Contract form is individual to a particular activity. The decision on contract form rests with the approved organisation. However, approved organisations are encouraged to use standard form contracts, wherever possible. The efficiencies from using a standard form contract are easily lost when an individual purchaser chooses to modify the standard form.

A number of standard form contracts can be used. Factors that will assist an approved organisation to choose a standard form contract include:

- type and number of supplier(s)
- form of relationship
- type and volume of output(s)
- scale and complexity
- risk management strategy and incentives.

Standard form contracts used in New Zealand include:

- NZS 3910:2013 – Conditions of contract for building and civil engineering construction. This standard form is widely used for infrastructure physical works. Usually with this contract form, the contractor constructs the works in accordance with the design provided by the engineer. However, it may also be suitable for contract works for which the contractor, wholly or partly, has design responsibility. Published by [Standards New Zealand](#).
- NZS 3915:2005 – Conditions of contract for building and civil engineering construction (where no person is appointed to act as engineer to the contract). This standard form is used in situations where the purchaser administers the contract directly. The intent and content of this Standard is aligned with NZS 3910:2003. Published by [Standards New Zealand](#).
- NEC3. This international standard form includes a suite of standard contracts covering both construction and professional services. The NEC3 contracts are designed to support a more collaborative approach to procurement than is the case with more traditional standard forms. Published in the UK by [NEC](#).

- Conditions of Contract for Consultancy Services (2017). This standard form is widely used for engineering consultancy services. It was developed jointly by the Auckland Regional Contracts Group and the Association of Consulting Engineers New Zealand Inc (ACE New Zealand). Published by [ACE New Zealand](#).

This manual contains no specific guidance on the contract form to be adopted under this procurement procedure. Approved organisations can adopt the form of contract that best suits their requirements.

Purchasers must advise potential suppliers of the proposed contract terms and conditions, including the proposed form of contract. See [section 10.12 RFP contents and conformity](#).

Standard contract documents

Approved organisations are encouraged to maximise the use of standard form contracts and other standard contract documents including standard specifications for processes and materials.

The economic benefits of standardisation are well recognised including efficiency benefits accruing to the supplier selection and contract management processes when standard documents are used in contracts. However, these efficiencies are easily lost when a purchaser chooses to modify a standard document.

Approved organisations should therefore not only maximise the use of standard documents but use them without modification if at all possible. Whenever an approved organisation chooses to use a non-standard document or modify a standard document it must have a sound best value for money reason for doing so.

The benefits of standardisation referred to above are greater when the standard is widely used. Purchasers are therefore encouraged, wherever possible, to use standard documents that are in wide use in preference to developing their own standard documents.

The loss of efficiency, that can occur when a standard document is modified, is referred to above. This inefficiency is exacerbated when the approved organisation also fails to clearly communicate where and how the standard document has been modified. Approved organisations are therefore required to have an established and efficient way to communicate where and how a standard document has been modified when it is part of an RFP or contract (see [section 10.12A Use of standard documents](#)).

Where a standard document is modified, and the document is listed in the Waka Kotahi register of network standards and guidelines, approved organisations will need to refer to the [Register process manual for network standards and guidelines](#) to check whether the modification amounts to either a 'Document change' or 'Document variation' and if so comply with any applicable requirements.

Changes to contracts

This manual sets out guidelines for how contracts may be changed after they have been let. The rules for infrastructure contracts are:

- [section 10.11 Direct appointment where competition will not help obtain best value for money](#) (requires, in some circumstances, the approved organisation to make public significant increases in the outputs to be delivered under a contract)

- [section 10.21](#) *Maximum term of a term service contract for infrastructure or planning and advice* (restricts changes to the term of a term service contract).

This manual contains no other restrictions on changes that can be made to infrastructure contracts.

Approved organisations should note that there are no restrictions on the type of changes typically referred to as variations to the contract works (or services) within the scope of the contract. Neither are there restrictions on making changes to the contract terms to improve best value for money (eg by adding an incentive mechanism).

Changes to scope of outputs

Approved organisations should be cautious when making significant additions to the originally agreed scope of outputs. The options available to deliver the additional outputs need to be considered to ensure that best value for money is obtained. For example, if an RFP is issued for the construction of a bridge and, after receiving several proposals, the purchaser lets a contract for that bridge, best value for money would be unlikely to be served by changing the contract output scope to two bridges. Modest additions to output scope may represent good value for money but this becomes less likely as the scope change becomes larger.

Significant changes to the originally agreed scope of outputs are covered by the Procurement manual rule in [section 10.11](#) *Direct appointment where competition will not help obtain best value for money*. This rule does not prevent an approved organisation from adding scope to an existing contract. However, if the additional output was not foreseeable when the contract was let, it requires the approved organisation to undertake a best value for money assessment of the options and to publish the contract change.

This does not relate to the situation where a change to the scope of the works (or services) is needed to simply deliver the originally agreed scope of outputs; approved organisations are not required to publish such a contract change. For example, where a civil engineering construction project encounters unforeseen foundation conditions, the purchaser will typically work with the supplier in accordance with the contract who will deliver the added scope of work.

Approved organisations should ensure the required output is correctly described in the RFP. If the scope of the output could be increased, then the RFP should say so and the conditions should be described. Additional output can be added to a contract while continuing to deliver best value for money but the procurement process needs to be well managed. For example, best value for money could be obtained by letting a contract for a feasibility (investigation) phase of a project on condition that, if certain performance criteria are met, the purchaser will negotiate a price for delivery of the design phase.

Approved organisations should bear in mind that best value for money will be obtained if suppliers can see that these matters are managed reasonably, fairly, transparently and consistently.

Contract price adjustment for cost fluctuation

With best practice risk management, risks that cannot be managed by suppliers, such as inflation, should not be passed to suppliers. An approved organisation that does not apply

cost fluctuation adjustment to its contracts (and passes cost fluctuation risk on to the supplier) may pay more as a result.

Waka Kotahi publishes cost fluctuation indexes, plus a bitumen cost adjustment series, to facilitate contract price adjustment using either an index alone or the bitumen volume-based method. The most practical way to manage inflation risk long term is to allow for cost fluctuation in contracts using these tools.

Contract price adjustment for cost fluctuation: infrastructure contracts presents instructions for contract price adjustment using the above methods. It also explains how the [Adjuster](#) is used to perform contract price adjustment calculations for contracts.

Waka Kotahi does not require approved organisations to make provision in contracts for contract price adjustment for cost fluctuation, other than for public transport services contracts (see [section 10.25](#) *Contract price adjustment for input price variation public transport services*).

Note that Waka Kotahi limits funding assistance for contract price adjustment for cost fluctuation to the amount calculated using the appropriate Transport Agency index.

7.0 PROCUREMENT PROCEDURE 2 – PLANNING AND ADVICE

7.1 Overview

Introduction

Procurement procedure 2 – Planning and advice consists of four parts:

- guidelines for understanding the strategic context of the procurement activity
- an outline of the delivery models available for use
- guidelines for a supplier selection method
- guidelines for contract forms to be used with the procurement procedure.

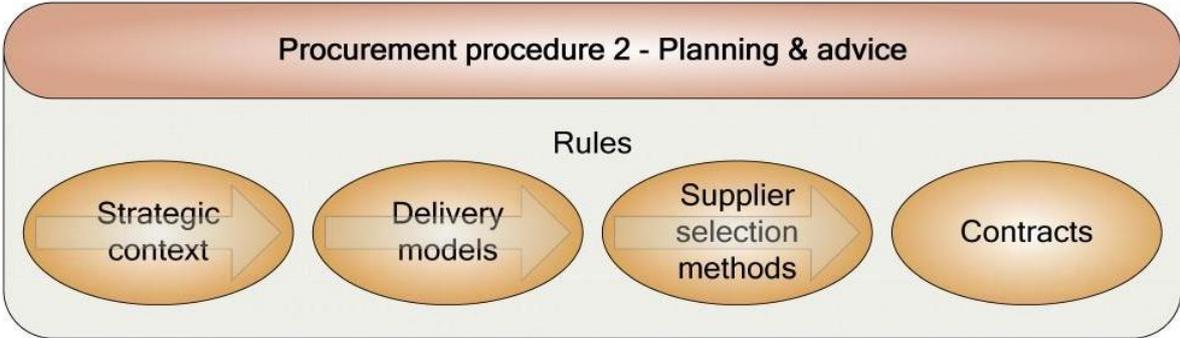
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7.2 Definition

Introduction



The planning and advice procurement procedure covers the selection and engagement of suppliers to carry out professional services that are not directly related to expenditure on physical infrastructure or public transport services. Professional services directly related to these works or services must be purchased using the appropriate procurement procedure. Examples of services covered by this procurement procedure include:

- travel behaviour change studies and strategies
- sea freight studies and strategies
- traffic count surveys
- initial investigations of infrastructure development proposals
- passenger transport studies and strategies.

As noted in procurement procedures 1 and 3, certain planning and advice activities in relation to infrastructure and public transport services can be purchased using this procurement procedure. This allows the purchaser more flexibility and choice to better align the procurement procedure with the activity.

Note that this procurement procedure does not apply to the use of in-house professional services that have the prior approval of Waka Kotahi.

Summary of requirements

Approved organisations must follow the requirements below when using this procurement procedure.

Definition

The activity must fit within the definition for planning and advice procurement.

Strategic context

To use this procurement procedure, an approved organisation must understand the procurement activity's strategic context. This will enable the approved organisation to fully specify the outputs that are required and to understand the activity's complexity, scale, timing, innovation potential and risk, and assess the supplier market.

Delivery models

All approved organisations are permitted to use the staged delivery model as outlined in this procurement procedure.

The advanced delivery model (supplier panel) can only be used with the prior written approval of Waka Kotahi under s25 of the LTMA.

Supplier selection methods

All approved organisations are permitted to use the supplier selection methods referred to in this procurement procedure.

The quality-based supplier selection method is a permitted method. Approval from Waka Kotahi to use the method is required in some circumstances but not when the output being purchased is professional services. Refer to [section 10.5 Procurement procedure advanced components](#).

Rules

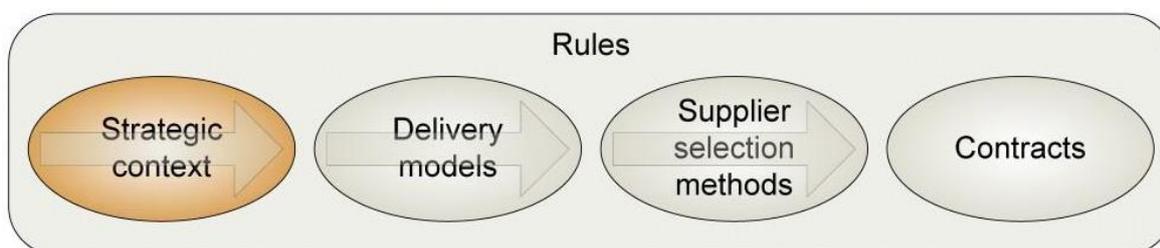
The rules set out in [chapter 10 Rules](#) must be followed.

Further assistance

Contact Waka Kotahi if you are not sure if the activity conforms to the requirements of the planning and advice procurement procedure, or if you wish to depart from the rules contained here.

7.3 Strategic context

Rule



An approved organisation must, as part of its assessment of the strategic context, assess all proposed procurement activity against the objectives set out in a procurement strategy, which has been endorsed by Waka Kotahi. At a minimum, the assessment must consider whether:

- the proposed procurement activity is consistent with the best value for money objectives in the procurement strategy
- the proposed procurement activity is consistent with the policies or constraints, where relevant, in the procurement strategy
- any changes in the procurement environment since the development of the procurement strategy have a material effect on the procurement decisions made.

Where an approved organisation's procurement activities, choices and decisions are inconsistent with its procurement strategy, the approved organisation must document the reasons for its decisions.

See [section 10.4 Procurement strategies](#) for further details.

Reference procurement strategy

The strategic analysis will typically be undertaken at the commencement of the funding cycle and as part of any regular refresh of a procurement strategy. Circumstances can change, and therefore changes to the original specification or approach to the procurement activity could deliver better value for money.

At the commencement of each procurement activity, it is important to reflect on the specific strategic context in which the procurement is to be undertaken and ensure the specific best value for money objectives for that procurement activity can still be obtained. This

assessment will involve looking at the assumptions documented in the procurement strategy and testing them against the current environment to check if they remain valid.

It is important to emphasise that, at this point, the approved organisation's strategic approach to procurement will already have had a significant influence on specifying the nature of the outputs to be purchased and their scale and complexity. The approved organisation will have considered:

- what is being purchased and why, and the timing
- the capacity, capability and competitiveness of the market to deliver the outputs
- the procurement capability of the approved organisation to manage the procurement activity
- the feasibility of collaborating with other purchasers
- the broad procurement options, including procurement procedures to be used and the delivery model.

The analysis and conclusions on the above factors will have enabled the approved organisation to specify the required outputs during activity formulation and the development of a procurement strategy. To ensure the specified outputs and the proposed approach to the procurement activity will obtain best value for money, the proposed approach must now be assessed to ensure consistency against the original objectives in light of the current situation.

The following checklist provides guidance on the matters that should be considered when undertaking this assessment. This process will ensure a full understanding of the strategic context for the particular procurement activity.

Strategic consideration	Questions for approved organisations
1. Is there a clear statement of the outputs to be purchased?	<ul style="list-style-type: none"> • Have all elements of the output been clearly specified? • Do you have a good understanding of the expected price that you will have to pay for the outputs?
6. Is there clear alignment to the objectives as stated in the procurement strategy?	<ul style="list-style-type: none"> • Does your approach to this procurement activity still align with your strategic priorities? • Is your proposed approach to aggregation and bundling (where relevant) consistent with your procurement strategy? • Is there any reason why this procurement activity should no longer proceed? • Are the identified economic, environmental and social considerations still relevant?
7. Is there appropriate procurement capability to undertake the activity?	<ul style="list-style-type: none"> • Do you have the capability to undertake the procurement activity? • If not, where are the gaps and how is the required capability to be resourced?

Strategic consideration	Questions for approved organisations
	<ul style="list-style-type: none"> Do you have the necessary resources to deliver and monitor the contract? Are the risks associated with the procurement activity understood and quantified? Who is best placed to manage this risk?
8. What is the status of the supplier market?	<ul style="list-style-type: none"> Have there been any significant and relevant changes to the supplier market (ie number of suppliers, competitiveness of the market) that will affect your intended approach to the procurement activity? Are any other approved organisations purchasing similar goods and services? Is the proposed timing of your procurement activity able to be accommodated by the supplier market?
9. What are the risks and opportunities?	<ul style="list-style-type: none"> Are the identified risks and opportunities still relevant?

At the end of this step, the approved organisation will determine if the original assumptions as documented in the procurement strategy, as they relate to this procurement activity, still hold true.

If circumstances have changed and better value for money can now be obtained by an alternative approach, consider what can be done differently while acknowledging that the options at this stage are limited

Confirm strategic context

Where the particular circumstances in which the activity is to be undertaken have changed since the procurement strategy was prepared and there is potential to enhance best value for money through an alternative approach to the procurement activity, an approved organisation should take this into account. For example, there may now be opportunities to:

- collaborate with other approved organisations on the procurement activity
- aggregate or bundle a number of procurement activities into one larger procurement activity in order to obtain a pricing advantage through scale
- take advantage of innovation
- change the timing for the procurement activity.

In the event that an alternative approach is chosen as the most effective way to obtain better value for money, the purchaser should adopt this approach and fully specify the procurement activity in light of this changed assessment.

Document outputs

Having confirmed the strategic context of the specific procurement activity, the purchaser must document the link between the procurement strategy and the activity.

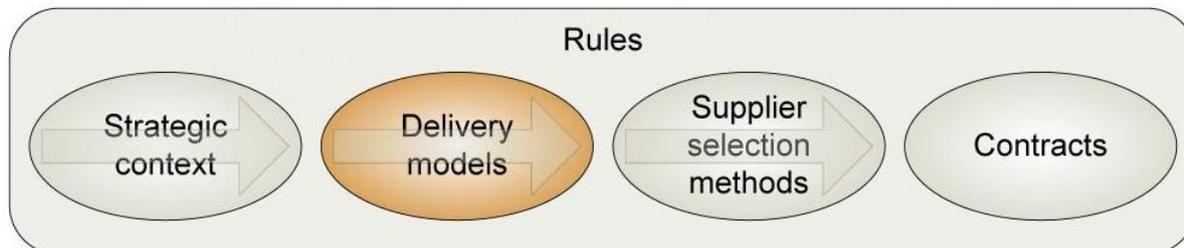
At the end of the strategic context assessment, the approved organisation will have fully specified and documented the outputs to be purchased. The approved organisation will clearly understand the factors associated with the delivery of the activity that need to be addressed during the procurement phase. This understanding is critical, as it provides the information required to determine which delivery model and supplier selection method are likely to produce the best value for money outcomes.

Where there are any changes in approach from what is specified in the procurement strategy, it is especially important to document the reasons for an alternative approach. If this requires the procurement strategy to be varied, the endorsement from Waka Kotahi of this variation should be sought at this stage.

The documentation process is likely to be an ongoing process as various decision points are reached. The approved organisation must meet the requirements set out in [section 10.6 Documentation and publication requirements](#), including recording all decisions in relation to the selection of a delivery model and a supplier selection method.

7.4 Delivery models

Rule



All approved organisations are permitted to use the staged delivery model as outlined in this procurement procedure.

The advanced delivery model (supplier panel) can only be used where an approved organisation has the prior written approval of Waka Kotahi under s25 of the LTMA.

Introduction

The delivery models available for use with this procurement procedure are:

- staged
- supplier panel (advanced).

Each delivery model has distinct characteristics that suit particular procurement events. In general, the main factors influencing which delivery model should be applied are determined through reference to:

- the approved organisation's procurement strategy
- the defining characteristics of the procurement activity.

The defining characteristics of a procurement activity are its complexity, scale, timing, innovation potential, risk and supplier market.

Selecting a delivery model

The purchaser must consider the following factors (where relevant) when selecting a delivery model for a specific procurement activity:

- complexity and uncertainty
- scale
- timing and urgency
- innovation potential
- risk management
- supplier market.

Selecting a delivery model for a planning and advice procurement activity involves analysing the conditions that surround the procurement event that were identified in the strategic context analysis and specified in the activity description. All considerations must be documented as part of the reporting requirements attached to this procedure.

The capability and capacity of the purchaser play an important role in determining which delivery models can be used. If, after assessment, the delivery model selected proves to be outside the purchaser's capability and capacity, an alternative delivery model should be selected. The purchaser should consider investing in the development of capability and capacity where no reasonable alternative exists. For further guidelines, refer to [appendix B Criteria for selecting a delivery model](#).

The following table provides examples of when to consider each delivery model that best fits a planning and advice activity. It describes the circumstances under which it is advisable to use each of the models.

Delivery model	Consider when ...	May not be suitable for...
Staged	<ul style="list-style-type: none"> • The programme consists of a modest number of individual activities. • There may be benefit (because of complexity, scale, risk, etc) in seeking proposals from a wide group of suppliers. 	<ul style="list-style-type: none"> • A succession of similar or related activities.
Supplier panel (advanced)	<ul style="list-style-type: none"> • A succession of similar or related activities is included in the programme and supplier consistency would be valued. 	<ul style="list-style-type: none"> • A modest-sized programme of individual activities.

Delivery model	Consider when ...	May not be suitable for...
	<ul style="list-style-type: none"> • There is value in establishing a longer-term relationship with suppliers. • The volume of work may be too large for one supplier to undertake. • Specialist skills or equipment are required. • There are a number of suppliers who can provide the required outputs. • There is an advantage in having a choice of suppliers to select from at reasonably short notice. 	<ul style="list-style-type: none"> • Situations where there is benefit (because of complexity, scale, risk, etc) in seeking proposals from a wide group of suppliers.

Staged delivery model

Under staged delivery, an activity is delivered through one or more separate contracts between the purchaser and supplier(s). These may include separate engagement of suppliers for functions that require different skills.

Price determination

The contract price may be a lump sum or taken from a schedule of prices where a robust price estimate for a stage, based on the known scope of work, is available at the time the supplier is engaged.

The scope of work required to complete specific stages is often not well defined at the beginning of those stages. In this case, a contract based on a lump sum or a schedule of prices will not be conducive to obtaining the best value for money. It would be better to select the supplier using the quality-based supplier selection method and then negotiate the price or base it on a cost reimbursement model.

Relationship management

Under a staged model, the roles for all parties are typically well defined and it is possible to clearly specify the outputs with respect to scope, and technical and service details. The outputs are often well understood through past experience. Where the outputs are well defined, the purchaser can maintain more control over delivery and is more able to control scope. The purchaser is more likely to receive appropriate proposals aligned with initial cost estimates. Risk is largely managed by the purchaser.

Advantages

- Transaction costs for both supplier(s) and purchaser are confined to each individual engagement (there are no panel establishment costs).
- Competitiveness can be encouraged by allowing all willing and able suppliers to compete for contracts.

- Any willing supplier can submit a proposal.

Disadvantages

- Significant transaction costs are incurred for every engagement.
- Competition occurs at supplier selection only.

Supplier panel delivery model (advanced)

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 using a staged delivery model.

The supplier panel 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.

This 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.

Price determination

As noted above, the supplier panel delivery model uses a two-stage process.

Stage 1

In the first stage, suppliers are selected and appointed to the panel. Open competition is to be used to select suppliers.

When the suppliers are appointed to the panel, only the broad scope of the work to be undertaken is defined. The price of what will be supplied cannot be settled at the time of engagement. The purchaser and supplier(s) will agree at the time of engagement on a mechanism that will determine the price for the work that a supplier will be asked to deliver.

The contract between the purchaser and the suppliers on the supplier panel is usually referred to as a 'framework' contract.

Stage 2

In the second stage, work is allocated to panel members. This may or may not involve a competition between suppliers on the panel to win the right to deliver a particular part of the work. The allocation of work can be determined in a variety of ways. The following examples are typical means of allocating work:

- a non-competitive basis (eg obtaining a quote from any one panel member)
- a competitive basis (eg obtaining quotes from several panel members)
- an equal division of work basis
- a rotational basis
- a geographic basis

- a preferred supplier basis (eg some suppliers may be preferred for particular activities, or one supplier is given the opportunity to undertake the work, with other suppliers approached if necessary).

The precise mechanism for allocating work to the members of a supplier panel is a strategic consideration.

Approved organisations wishing to use a supplier panel will need to set out their expected means of allocating work when seeking approval from Waka Kotahi to use this advanced model.

The mechanism for allocating work must be agreed in the framework contract by all parties to the contract.

Relationship management

The supplier panel model provides for the establishment of collaborative relationships between the purchaser and the suppliers. It should also encourage panel members to have a high level of awareness of the purchaser's requirements.

Performance can be incentivised by making the allocation of tasks to panel members dependent on the quality of their performance on earlier panel tasks.

The flexibility of this model allows for risk to be managed in ways that best match specific tasks.

Advantages

- There is flexibility to move resources to urgent tasks and to fast-track activities as required.
- The skills and experience of more than one panel member can be used for the delivery of a specific task.
- The costs involved in supplier selection and engagement for a programme of many small and similar activities are reduced.
- Purchaser knowledge of supplier capability increases over time because of the ongoing relationship.
- Supplier knowledge of purchaser requirements increases over time because of the ongoing relationship.
- Competitive tension between suppliers is maintained over the contract duration.
- The purchaser can choose from a range of suppliers that, as a panel, offer the best combination of skills and experience required to deliver the outputs.
- Where more than one panel member has similar skills or experience, the risk of shortages is reduced.

Disadvantages

- The additional costs to both the purchaser and the suppliers of establishing the panel may outweigh any benefits.
- The opportunities for new suppliers to enter the market are reduced as long as the panel remains in place.
- The number of suppliers who can submit a proposal is limited to panel members.

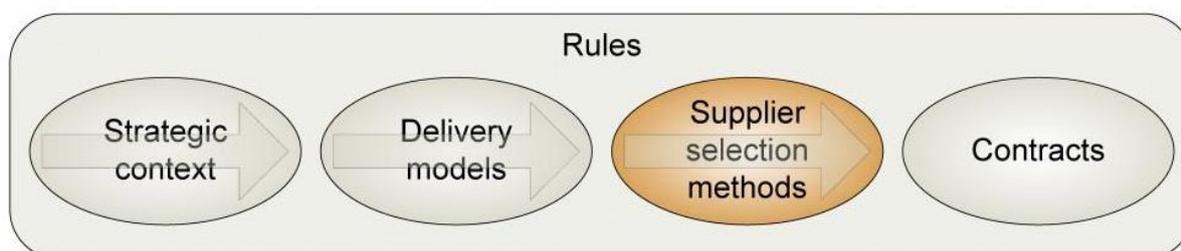
Supplier panel vs prequalification

Supplier panels are sometimes confused with prequalification systems. The table below sets out their important features.

Supplier panel	Prequalification
Staged process for appointment.	Staged process for appointment.
Advanced delivery model.	Stage in a supplier selection process.
A purchaser may have more than one supplier.	A purchaser may have more than one prequalification register.
Established once with a finite number of suppliers determined by the purchaser.	Any number of suppliers can apply to be on a prequalification register.
The supplier for a particular piece of work is determined by a process set out in the framework contract. This may or may not involve competition among panel members.	The supplier for a particular piece of work is determined by a competition among all prequalified suppliers.
Panel members enter into a contract with the purchaser for a particular project or for a term.	Prequalification registers are usually for particular types of work and are not confined by project or term. There is no contract between the purchaser and the prequalified suppliers.
Supplier panels, once formed, are not normally reopened for new suppliers to join. Where this is permitted, it would need to be clearly set out in the framework contract.	Prequalification registers are updated or opened to new suppliers on a regular basis.

7.5 Supplier selection methods

Rule



All approved organisations are permitted to use the supplier selection methods referred to in this procurement procedure.

The quality-based supplier selection method is a permitted method. Approval from Waka Kotahi to use the method is required in some circumstances but not when the output being purchased is professional services, Refer to [section 10.5 Procurement procedure advanced components](#).

Introduction

This section details the process for selecting the most suitable supplier selection method to use in combination with the chosen delivery model.

The following tables show the supplier selection methods that provide a good fit with the delivery models specified for this procurement procedure.

See [chapter 5 Supplier selection process](#) for detailed guidelines on the application of the supplier selection methods listed here. See [appendix D Procurement procedure decision trees](#) for a graphic which links strategic context, delivery models and supplier selection methods.

Staged delivery model

Note: Under staged delivery, an activity is delivered through one or more separate contracts. Different supplier selection methods may therefore be required for different contracts when using this model.

The following table sets out guidelines for choosing a supplier selection method.

Supplier type	Supplier selection method and rationale
Selecting the supplier(s)	<p>Direct appointment</p> <p>Direct appointment must only be used in the circumstances described in appendix C Supplier selection methods and where it will deliver best value for money.</p> <p>Lowest price conforming</p>

Supplier type	Supplier selection method and rationale
	<p>Lowest price conforming should be used where the purchaser determines that best value for money can be obtained by selecting the supplier(s) that offer the lowest price and meet the requirements as set out in the RFP. This method should only be used where the output required is very well specified.</p> <p>Appendix C Supplier selection methods contains further details.</p> <p>Purchaser nominated price</p> <p>Purchaser nominated price should be used where the purchaser has predetermined the price that it is prepared to pay for the desired outputs. Best value for money is obtained by selecting the supplier(s) that provide the best proposal for the price as set out in the RFP.</p> <p>This method is typically used for such activities as strategy studies, feasibility studies, transportation studies and investigations.</p> <p>Appendix C Supplier selection methods contains further details.</p> <p>Price quality</p> <p>Price quality should be used where the specified outputs can be priced by the supplier and where the purchaser determines that best value for money will be obtained by selecting the supplier that offers the best combination of price and quality requirements as set out in the RFP.</p> <p>Appendix C Supplier selection methods contains further details.</p> <p>Quality-based</p> <p>Quality-based should be used where the purchaser determines that best value for money can be obtained by selecting the best quality supplier(s) and then negotiating the price with that supplier(s).</p> <p>Appendix C Supplier selection methods contains further details.</p>

Supplier panel delivery model (advanced)

The selection of the supplier panel should be undertaken as a staged process, with stage 1 focused on the appointment of suppliers to the panel and stage 2 allocating work to panel members.

Stage 1: Appointing suppliers to the panel

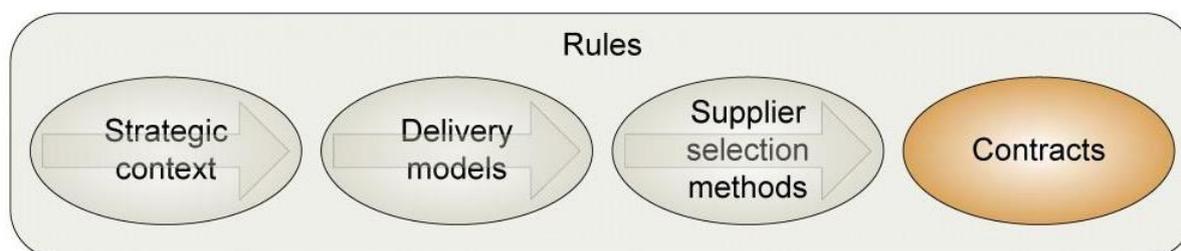
Panels can be appointed through the price quality or quality-based methods. For the price quality supplier selection method, a proxy schedule is commonly used to determine price.

Stage 2: Allocating work to panel members

This stage involves selecting a member of the supplier panel to carry out a particular activity. The specific process for allocating work will be part of the detail that requires approval by Waka Kotahi for use by the purchaser.

7.6 Contracts

Introduction



Once a preferred supplier is selected, an approved organisation will enter into a contract with that supplier. The contract establishes the form of the relationship between the parties and stipulates the terms and conditions for the purchase of the outputs.

Scope of contracts

The scope of contracts will vary according to the outputs to be purchased. Planning and advice contracts should cover:

- description of the outputs being purchased
- term of contract
- price and review mechanisms (where applicable)
- standard terms and conditions (eg limitation of liability and insurance)
- health and safety requirements
- variations and time extensions
- disputes resolution
- contract default conditions and termination processes
- other issues that may be specific to the individual procurement.

In some situations, the full specification of the outputs may not be possible due to the scope and complexity of the activity. Activities that are well defined can be more fully specified in the contract than activities that are more broadly defined at the outset and then become better defined as the activity is undertaken. It may sometimes be difficult to specify every potential contingency that could arise during the contract period.

Form of contract

A contract form is individual to a particular activity. The decision on which form of contract to adopt rests with the approved organisation. However, approved organisations are encouraged to use standard form contracts, wherever possible. The efficiencies from using a standard form contract are easily lost when an individual purchaser chooses to modify the standard form.

A number of standard form contracts can be used. Factors that will assist an approved organisation to choose a standard form contract include:

- type and number of supplier(s)
- form of relationship
- type and volume of output(s)
- scale and complexity
- risk management strategy and incentives.

Standard form contracts used in New Zealand include:

- Conditions of Contract for Consultancy Services (2017) – (CCCS). This standard form is widely used for engineering consultancy services. It was developed jointly by the Auckland Regional Contracts Group and the Association of Consulting Engineers New Zealand Inc (ACE New Zealand). Published by [ACE New Zealand](#).
- NEC3. This international standard form includes a suite of standard contracts covering both construction and professional services. The NEC3 contracts are designed to support a more collaborative approach to procurement than is the case with more traditional standard forms. Published in the UK by [NEC](#).

This manual contains no specific guidance on the contract form to be adopted under this procurement procedure. Approved organisations can adopt the form of contract that best suits their requirements.

Purchasers must advise potential suppliers of the proposed contract terms and conditions, including the proposed form of contract. See [section 10.12 RFP contents and conformity](#).

Standard contract documents

Approved organisations are encouraged to maximise the use of standard form contracts and other standard contract documents including standard specifications for processes and materials.

The economic benefits of standardisation are well recognised including efficiency benefits accruing to the supplier selection and contract management processes when standard documents are used in contracts. However, these efficiencies are easily lost when a purchaser chooses to modify a standard document.

Approved organisations should therefore not only maximise the use of standard documents but use them without modification if at all possible. Whenever an approved organisation chooses to use a non-standard document or modify a standard document it must have a sound best value for money reason for doing so.

The benefits of standardisation referred to above are greater when the standard is widely used. Purchasers are therefore encouraged, wherever possible, to use standard documents that are in wide use in preference to developing their own standard documents.

The loss of efficiency that can occur when a standard document is modified is referred to above. This inefficiency is exacerbated when the approved organisation also fails to clearly communicate where and how the standard document has been modified. Approved organisations are therefore required to have an established and efficient way to communicate where and how a standard document has been modified when it is part of an RFP or contract (see [section 10.12A Use of standard documents](#)).

Where a standard document is modified, and the document is listed in the Waka Kotahi Register of network standards and guidelines, approved organisations will need to refer to the Register's process manual for network standards and guidelines to check whether the modification amounts to either a 'Document change' or 'Document variation' and if so comply with any applicable requirements.

Changes to contracts

This manual sets out guidelines for how contracts may be changed after they have been let. The rules for planning and advice contracts are:

- [section 10.11](#) *Direct appointment where competition will not help obtain best value for money* (requires, in some circumstances, the approved organisation to make public significant increases in the outputs to be delivered under a contract)
- [section 10.21](#) *Maximum term of a term service contract for infrastructure or planning and advice* (restricts changes to the term of a term service contract).

This manual contains no other restrictions on changes that can be made to planning and advice contracts.

Approved organisations should note that there are no restrictions on the type of changes typically referred to as variations to the contract works (or services) within the scope of the contract. Neither are there restrictions on making changes to the contract terms to improve best value for money (eg by adding an incentive mechanism).

Changes to scope of outputs

Approved organisations should be cautious when making significant additions to the originally agreed scope of outputs. The options available to deliver the additional outputs need to be considered to ensure that best value for money is obtained. For example, if an RFP is issued for a route study and, after receiving several proposals, the purchaser lets a contract for that study, best value for money may not be served by changing the contract output scope to two or three similar studies. Modest additions to output scope may represent best value for money but this becomes less likely as the scope change becomes larger.

Significant changes to the originally agreed scope of outputs are covered by the rule in [section 10.11](#) *Direct appointment where competition will not help obtain best value for money*. This rule does not prevent an approved organisation from adding scope to an existing contract. However, if the additional output was not foreseeable when the contract was let, it requires the approved organisation to undertake a best value for money assessment of the options and to publish the contract change.

This does not relate to the situation where a change to the scope of the works (or services) is needed to simply deliver the originally agreed scope of outputs; approved organisations are not required to publish such a contract change. For example, where a civil engineering construction project encounters unforeseen foundation conditions the purchaser will typically work with the supplier in accordance with the contract who will deliver the added scope of work.

Approved organisations should ensure that the required output is correctly described in the RFP. If the scope of the output could be added to, then the RFP should say so and the

conditions should be described. Additional output can be added to a contract while continuing to deliver best value for money but the procurement process needs to be well managed. For example, best value for money could be obtained by letting a contract for a feasibility (investigation) phase of a project on condition that, if certain performance criteria are met, the purchaser will negotiate a price for delivery of the design phase.

Approved organisations should bear in mind that best value for money will be obtained if suppliers can see that these matters are managed reasonably, fairly, transparently and consistently.

Contract price adjustment for cost fluctuation

With best practice risk management, risks that cannot be managed by suppliers, such as inflation, should not be passed to suppliers. An approved organisation that does not apply cost fluctuation adjustment to its contracts (and passes cost fluctuation risk on to the supplier) may pay more as a result.

Waka Kotahi publishes cost fluctuation indexes to facilitate contract price adjustment. The most practical way to manage inflation risk long-term is to allow for cost fluctuation in contracts using these tools.

[Contract price adjustment for cost fluctuation: Infrastructure contracts](#) presents instructions for contract price adjustment using the above method. It also explains how the [Adjuster](#) is used to perform contract price adjustment calculations for contracts.

Waka Kotahi does not require approved organisations to make provision in contracts for contract price adjustment for cost fluctuation, other than for public transport services contracts (see [section 10.25 Contract price adjustment for input price variation public transport services](#)).

Note that Waka Kotahi limits funding assistance for contract price adjustment for cost fluctuation to the amount calculated using the appropriate Transport Agency index.

8.0 PROCUREMENT PROCEDURE 3 – PUBLIC TRANSPORT SERVICES

8.1 Overview

Introduction

Procurement procedure 3 – Public transport services consists of four parts:

- guidelines for understanding the strategic context for the procurement activity
- an outline of the delivery models available for use
- guidelines for the selection of a supplier selection method
- guidelines for contract forms to be used with the procurement procedure.

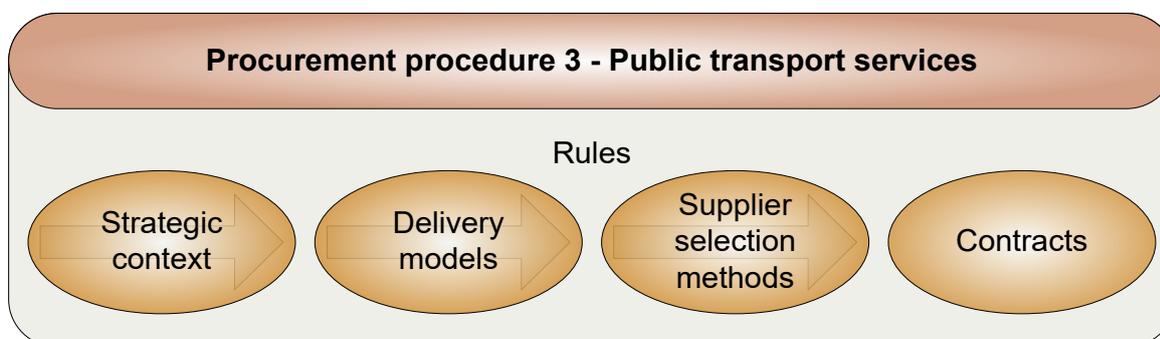
In this chapter

This chapter contains the following sections:

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8.2 Definition

Purpose



This procurement procedure covers the outputs required for the carriage of passengers on buses. Approved organisations should develop customised procurement procedures for ferry

and rail services. However, rail and ferry procedures should have regard to the partnering delivery model and include elements of partnering contracts like principles for collaborative relationships, annual business planning, and financial incentive mechanism.

Professional services associated with public transport services activities should be purchased using *Procurement procedure 2 – Planning and advice*, unless these form an integral part of the public transport services outputs being procured or managed. This option allows the purchaser more flexibility and choice where required to better align the procurement procedure with the activity.

Note that this procurement procedure does not apply to the use of in-house professional services that have the prior approval of Waka Kotahi.

Summary of requirements

Approved organisations must follow the requirements below when using this procurement procedure.

Definition

The activity must fit within the definition for public transport services in the LTMA, and be identified in the regional public transport plan of an approved organisation.

Strategic context

To use this procurement procedure, an approved organisation must understand the procurement activity's strategic context. This will enable the approved organisation to fully specify the outputs that are required and to understand the activity's complexity, scale, timing, innovation potential and risk, and assess the supplier market.

Delivery models

All approved organisations are permitted to use the partnering and staged delivery models as outlined in this procurement procedure.

The supplier panel delivery model is an advanced component and can only be used with the Waka Kotahi prior written approval under s25 of the LTMA. The rationale should be included in the procurement strategy and the necessary s25 approval sought in conjunction with seeking endorsement of the strategy.

Supplier selection methods

All approved organisations are permitted to use the supplier selection methods referred to in this procurement procedure.

The quality-based supplier selection method is an advanced component except where the output being purchased is either a commercial unit or professional services. As an advanced component, an approved organisation must have the prior written approval of Waka Kotahi under s25 of the LTMA for its use. The rationale should be included in the procurement strategy and the necessary s25 approval sought in conjunction with seeking endorsement of the strategy.

Rules

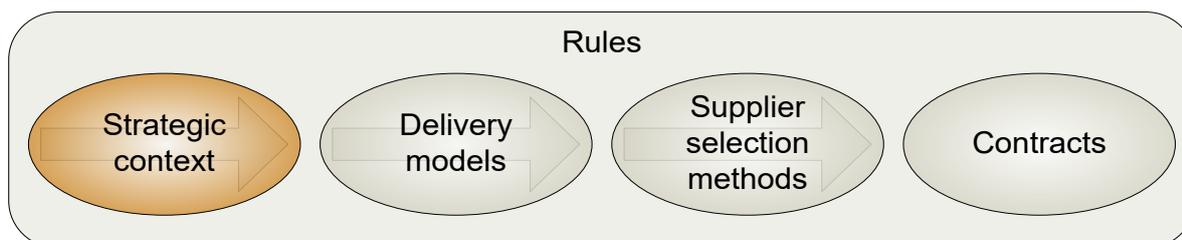
The rules set out in [chapter 10 Rules](#) must be followed.

Further assistance

Contact Waka Kotahi if you are not sure if the activity conforms to the requirements of the public transport services procurement procedure, or if you wish to depart from the rules contained here.

8.3 Strategic context

Rule



An approved organisation must, as part of its assessment of the strategic context, assess all proposed procurement activity against the objectives set out in a procurement strategy which has been endorsed by Waka Kotahi. At a minimum, the assessment must consider:

- whether the proposed procurement activity is consistent with the best value for money objectives in the procurement strategy
- whether the proposed procurement activity is consistent with the policies or constraints, where relevant, in the procurement strategy
- whether there have been any changes in the procurement environment since the development of the procurement strategy which have a material effect on the procurement decisions made
- the linkage to the regional public transport plan.

Where an approved organisation's procurement activities, choices and decisions are inconsistent with its procurement strategy, the approved organisation must document the reasons for its decisions.

See [section 10.4 Procurement strategies](#) for further details.

Reference procurement strategy

The strategic analysis will typically be undertaken at the commencement of the funding cycle and as part of any regular refresh of a procurement strategy. Circumstances can change, and therefore changes to the original specification or approach to the procurement activity could deliver better value for money.

At the commencement of each procurement activity, it is important to reflect on the specific strategic context in which the procurement is to be undertaken and ensure that the specific best value for money objectives for that procurement activity can still be obtained. This assessment will involve looking at the assumptions documented in the procurement strategy and testing them against the current environment to check if they remain valid.

It is important to emphasise that, at this point, the approved organisation's strategic approach to procurement will already have had a significant influence on specifying the

nature of the outputs to be purchased and their scale and complexity. The approved organisation will have considered:

- what is being purchased, why, and the timing
- the capacity, capability and competitiveness of the market to deliver the outputs
- the procurement capability of the approved organisation to manage the procurement activity
- the feasibility of collaborating with other purchasers
- the broad procurement options, including procurement procedures to be used and the delivery model.

The analysis and conclusions on the above factors will have enabled the approved organisation to specify the required outputs during activity formulation and the development of a procurement strategy. To ensure the specified outputs and the proposed approach to the procurement activity will obtain best value for money, the proposed approach must now be assessed to ensure consistency against the original objectives in light of the current situation.

The following checklist provides guidance on the matters that should be considered when undertaking this assessment. This process will ensure a full understanding of the strategic context for the particular procurement activity.

Strategic consideration	Questions for approved organisations
<p>1. With reference to the RPTP, is there a clear statement of the outputs to be purchased?</p>	<ul style="list-style-type: none"> • Have all services considered part of the public transport network been identified and organised into units in the RPTP? • Have the services in each unit been clearly specified? • Have the key variables most relevant to the services, namely those that will impact on delivery of the services, including peak vehicle requirement and desired frequency, been identified? • Do you have a good understanding of the expected price that you will have to pay for the services?
<p>2. Is there clear alignment to the objectives as stated in the procurement strategy?</p>	<ul style="list-style-type: none"> • Does your approach to this procurement activity still align with your strategic priorities? • Is your proposed approach to timing and grouping of unit RFPs, including the approach to group tenders, (where relevant) consistent with your procurement strategy? • Is there any reason why this procurement activity should no longer proceed? • Are the identified economic, environmental and social considerations still relevant?

Strategic consideration	Questions for approved organisations
3. Is there appropriate procurement capability (either internal or external) to undertake the activity?	<ul style="list-style-type: none"> • Do you have the capability to undertake the procurement activity? • If not, where are the gaps and how is the required capability to be resourced? • Do you have the necessary resources to manage and monitor the contract? • Are the risks associated with the procurement activity understood and quantified? Who is best placed to manage this risk?
4. What is the status of the supplier market (including potential new suppliers)?	<ul style="list-style-type: none"> • Have there been any significant and relevant changes to the supplier market (ie number of suppliers, competitiveness of the market) that will affect your intended approach to the procurement activity? • Are any others, including other approved organisations and the Ministry of Education, purchasing similar goods and services? • Is the proposed timing of your procurement activity able to be accommodated by the supplier market? • What activity will you undertake to attract the maximum number of tenderers, including potential new suppliers? • Is it appropriate to directly appoint some suppliers, and is there sufficient market tender data to support the negotiation?
5. What are the risks and opportunities?	<ul style="list-style-type: none"> • Are the identified risks and opportunities still relevant?
6. What is the current status of the public transport network and market?	<ul style="list-style-type: none"> • Are major services reviews or changes to the network identified in the RPTP proposed? • Is patronage growing, stable or declining?

At the end of this step, the approved organisation will determine if the original assumptions as documented in the procurement strategy and as they relate to this procurement activity, still hold true.

If circumstances have changed and better value for money can now be obtained by an alternative approach, consider what can be done differently while acknowledging that the options at this stage are limited.

Confirm strategic context

Where the particular circumstances in which the activity is to be undertaken have changed since the procurement strategy was prepared and there is potential to enhance best value for money through an alternative approach to the procurement activity, an approved organisation should take this into account. For example, there may now be opportunities to:

- collaborate with other approved organisations or align with the Ministry of Education on the procurement activity
- take advantage of innovation
- change the timing for the procurement activity.

In the event that an alternative approach is chosen as the most effective way to obtain best value for money, the purchaser should adopt this approach and fully specify the procurement activity in light of this changed assessment.

Document outputs

Having confirmed the strategic context of the specific procurement activity, the purchaser must document the link between the procurement strategy, the RPTP and the procurement activity.

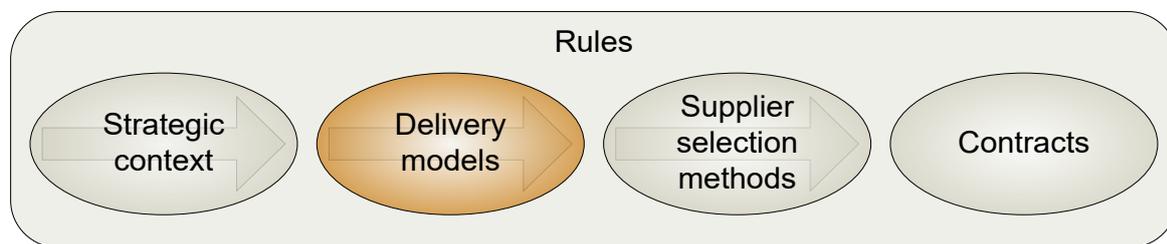
At the end of the strategic context assessment, the approved organisation will have fully specified and documented the outputs to be purchased. The approved organisation will clearly understand the factors associated with the delivery of the activity that need to be addressed during the procurement phase. This understanding is critical, as it provides the information required to determine which delivery model and supplier selection method are likely to produce the best value for money outcomes. Under this procurement procedure most services will be procured using the partnering delivery model.

Where there are any changes in approach from what is specified in the procurement strategy, it is especially important to document the reasons for an alternative approach. If this requires the procurement strategy to be varied, the Waka Kotahi endorsement of this variation should be sought at this stage. If there is any uncertainty about whether a change in approach requires a variation of the strategy please contact Waka Kotahi for advice.

The documentation process is likely to be ongoing as various decision points are reached. The approved organisation must meet the requirements set out in [section 10.6 *Documentation and publication requirements*](#), including recording all decisions in relation to the selection of a delivery model and a supplier selection method.

8.4 Delivery models

Rule



All approved organisations are permitted to use the partnering and staged delivery models as outlined in this procurement procedure.

The supplier panel delivery model is an advanced component and can only be used where an approved organisation has the Waka Kotahi prior written approval under s25 of the LTMA.

Introduction

The delivery models available for use with this procurement procedure are:

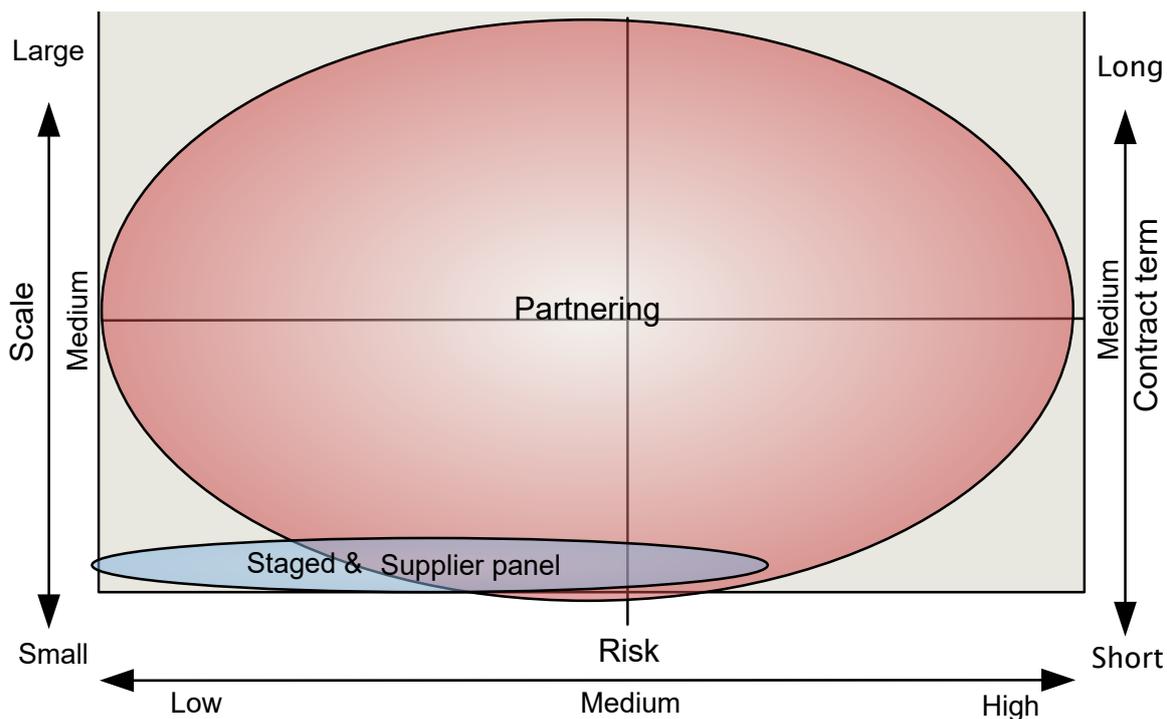
- partnering
- staged
- supplier panel (advanced).

Each delivery model has distinct characteristics that suit particular procurement events. In general, the main factors influencing which delivery model should be applied are determined through reference to:

- the defining characteristics of the procurement activity
- the approved organisation's procurement strategy

The majority of scheduled public transport services should be procured under the partnering delivery model.

The defining characteristics of a procurement activity are its complexity, scale, timing, contract term (of a term service contract), innovation potential, risk and supplier market. The following diagram illustrates that in most situations the partnering delivery model should be used.



Selecting a delivery model

The purchaser must consider the following factors (where relevant) when selecting a delivery model for a specific procurement activity:

- type of services
- complexity and uncertainty
- scale
- contract term
- whether any public transport unit contracts will be directly appointed
- timing and urgency
- innovation potential
- risk management
- supplier market
- the demand for public transport
- the public transport network in the region, or sub-region, including proposed frequency and anticipated patronage.

Selecting a delivery model for a public transport services procurement activity involves analysing the conditions surrounding the procurement event that were identified in the strategic context analysis and specified in the activity description. All considerations must be documented under the reporting requirements in [section 10.6 Documentation and publication requirements](#).

It is expected that the majority of scheduled public transport services identified in the RPTP will be delivered under the partnering model. If this delivery model proves to be outside the

purchaser's capability and capacity, the purchaser should consider investing in the development of capability and capacity or where no reasonable alternative exists bringing in additional capacity or capability. For procurement activity related to small scale, infrequent (eg a fortnightly service provided for community access) or unscheduled public transport (eg special event services) an alternative delivery model may be selected.

The following table provides examples of when to consider each delivery model that best fits a public transport services activity. It describes the circumstances under which it is advisable to use each of the models.

Delivery model	Consider when ...	May not be suitable for ...
Partnering	<p>The partnering delivery model should be used:</p> <ul style="list-style-type: none"> • for scheduled public transport services identified as units in the RTP • where there is value in the purchaser and suppliers collaborating closely • where there is scope for risk to be shared between approved organisations and suppliers to incentivise both parties to work together to innovate • for negotiated units that will be directly appointed. <p>The partnering delivery model can be used for procurement activity of any scale.</p>	
Staged	<p>The staged delivery model may be used for:</p> <ul style="list-style-type: none"> • small and low value contracts, eg a once a week 'shopper' service • emergency services • special event services • trial services. 	<p>This delivery model is not suitable for:</p> <ul style="list-style-type: none"> • scheduled urban public transport services.
Supplier panel (advanced)	<p>This delivery model may be used:</p> <ul style="list-style-type: none"> • if it is included in an endorsed procurement strategy • where there are a number of small activities where supplier consistency would be valued • where the volume of service activity may be too large for one supplier to undertake, eg a large special event 	<p>This delivery model is not suitable for:</p> <ul style="list-style-type: none"> • scheduled urban public transport services.

- where the procurement requirement cannot be adequately predicted, eg emergency services.

Partnering delivery model

The partnering delivery model recognises the investment, different skills and ability to manage risk, of the purchaser and supplier participants. It is built on trust, innovation, sharing of data and mutual long-term goals. It encompasses all stages of planning, procurement and delivery, without detracting from the basic contractual management and obligations of each party. The partnering model is not a formal partnership, but recognises the importance of collaboration between purchasers and suppliers to the provision of quality public transport services and leverages investment from both parties.

The purchaser and supplier are incentivised to work collaboratively to achieve high performance standards and grow the commerciality of the unit. Successful collaboration demands that all parties share a common commitment to achieving the mutual goal of growing patronage with less reliance on subsidy. Risk is shared, to ensure that risks are placed with the party best able to manage them.

This is achieved through the inclusion in contracts of key partnering tools, such as principals for collaborative relationships, financial incentive mechanisms, key performance indicators and annual business planning.

The partnering delivery model is the main delivery model for the procurement of scheduled public transport services identified as units in the regional public transport plan, including partnering for commercial units.

Under the partnering delivery model, contracts will be partnering contracts. Contract terms for partnering contracts are specified in [section 10.24 Contract term of public transport units](#) and must include key partnering tools.

Price determination

The contract price for a partnering contract will be based on the annual gross price of operating the service and will either be set through a competitive process or where the supplier is directly appointed, by negotiation.

Where direct appointment is used, benchmark information will be used to obtain an estimate of the efficient market price, to inform the contract negotiation process. Waka Kotahi must be notified of all proposals for direct appointments under [section 10.27 Direct appointment of a supplier for a public transport unit](#) and may at its discretion require its representative to be present at any negotiation meetings.

Contract payments will be based on the annual gross price adjusted by indexation. The application of the financial incentive mechanism and any performance incentives will be separate.

In the case of commercial units, the supplier retains the farebox revenue and no subsidy is paid by the approved organisation. Note that the supplier may still receive payment from the approved organisation for the SuperGold Card free off-peak public transport scheme.

The annual gross price for contracts let through a competitive process will be reset at year six of the contract using benchmark data to ensure ongoing confidence in costs.

Relationship management

It is expected that the parties will commit to working together to assist in achieving best value for money from investment in public transport services and achieving the goal of growing patronage with less reliance on subsidy.

A partnering model relies on the purchaser and supplier maintaining an open approach to information sharing and innovation. Working collaboratively and actively managing tensions and disputes to resolve them before they become intractable will avoid these undermining the ability of the parties to work together.

Advantages

- The contract contains partnering tools to facilitate collaborative relationships.
- Revenue is shared through financial incentive mechanisms.
- Both parties work together to plan, procure and deliver high-quality services and obtain best value for money.
- The parties are motivated to proactively manage risk by placing risks with the party best placed to manage them.
- The parties are motivated to proactively identify opportunities to improve services.
- Both parties have ongoing and significant involvement in service delivery.
- The parties can draw on each other's expertise.
- There is opportunity for innovation.
- There is revenue and patronage transparency.
- Improved coordination increases efficiency.

Annual business planning allows a collaborative dialogue about customer feedback and any initiatives to improve service delivery.

Disadvantages

- Both parties are required to invest resources in managing the relationship and annual business planning.
- Parties are exposed to a broad range of risks.
- Parties' ability to make unilateral decisions on operational issues is restricted.

Staged delivery model

Under staged delivery, a small-scale or short-duration activity is delivered through one or more separate contracts between the purchaser and supplier(s). This could be a unit of services, but may include some services outside units, such as emergency services.

The use of partnering tools is optional for contracts procured under the staged delivery model.

Price determination

The contract price may be based on the full cost of delivering the services or on retention of fare revenue by the supplier.

Relationship management

Under a staged model, roles for parties and outputs are often well understood through past experience. Risk is largely managed by the purchaser.

Advantages

- Simplified contract terms can be used for small-scale services.
- The purchaser can control service design and delivery.
- Greater certainty over the final outputs is possible.
- Design of the final output is likely to be well aligned with the purchaser's requirements.
- Contract management is simplified, as decisions are made solely by the purchaser.
- Transaction costs for both supplier(s) and the purchaser are reduced.

Disadvantages

- The detailed prescription of routes, timetables, capacity and minimum vehicle quality requirements may restrict innovation.
- There is ongoing and significant involvement of the purchaser.

Supplier panel delivery model (advanced)

The supplier panel delivery model establishes a relationship with a group of suppliers that will be used to deliver services at short notice or of a short duration such as emergency or special event services. 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, resources 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.

A supplier panel may be appropriate in the following circumstances:

- There are a number of suppliers who can provide the required services.
- The procurement requirement may not always be able to be adequately predicted.
- Where the volume of service activity may be too large for one supplier to undertake, eg a large special event.
- Where the procurement requirement cannot be adequately predicted, eg emergency services

Price determination

As noted above, the supplier panel delivery model uses a two-stage process.

Stage 1

In the first stage, suppliers are selected and appointed to the panel. Open competition is to be used to select suppliers.

When the suppliers are appointed to the panel, only the broad scope of services to be delivered is defined. The price of what will be supplied cannot be settled at the time of engagement. The purchaser and supplier(s) will agree at the time of engagement on a mechanism that will determine the price for the services that a supplier will be asked to deliver.

The contract between the purchaser and the suppliers on the supplier panel is usually referred to as a 'framework' contract.

Stage 2

In the second stage, service activity is allocated to panel members. This may or may not involve a competition between suppliers on the panel to win the right to deliver a particular service. Allocation can be determined in a variety of ways. The following examples are typical means of allocation:

- a non-competitive basis (eg obtaining a quote from any one panel member)
- a competitive basis (eg obtaining quotes from several panel members)
- an equal division of activity basis
- a rotational basis
- a geographic basis.

The precise mechanism for allocating service activity to the members of a supplier panel is a strategic consideration. Approved organisations wishing to use this advanced delivery model will need to set out their expected means of allocating activity when seeking approval from Waka Kotahi to use this advanced model.

The mechanism for allocating service activity must be agreed in the framework contract by all parties to the contract.

Relationship management

The supplier panel model provides for the establishment of collaborative relationships between the purchaser and the suppliers. It should also encourage panel members to have a high level of awareness of the purchaser's requirements.

Performance can be incentivised by making the allocation of tasks to panel members dependent on the quality of their performance on earlier panel tasks.

The flexibility of this model allows for risk to be managed in ways that best match specific tasks.

Advantages

- There is flexibility to move resources to urgent tasks.

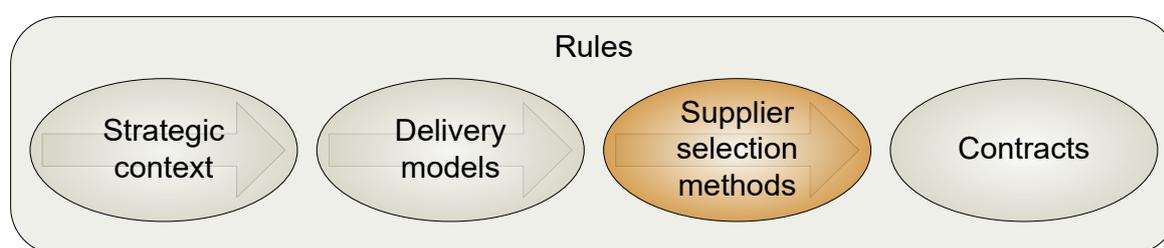
- The costs involved in supplier selection and engagement for a programme of many small and similar activities are reduced.

Disadvantages

- The additional costs to both the purchaser and the suppliers of establishing the panel may outweigh any benefits.
- The opportunities for new suppliers to enter the market are reduced as long as the panel remains in place.

8.5 Supplier selection methods

Rule



All approved organisations are permitted to use the supplier selection methods referred to in this procurement procedure.

The quality-based supplier selection method is an advanced component except where the output being purchased is either a commercial unit or professional services. As an advanced component, an approved organisation must have the Waka Kotahi prior written approval under s25 of the LTMA for its use.

Introduction

The following tables show the supplier selection methods that provide a good fit with the delivery models specified for this procurement procedure.

Under the partnering delivery model, suppliers for competitively tendered units should be selected using the price quality method or where disclosure of the estimate may cause significant issues, price quality – without disclosure of the estimate – method (see [appendix C Supplier selection methods](#)). Suppliers for negotiated units should be selected by direct appointment. Suppliers for new commercial units may be selected using the quality-based method – where there is no contract price method.

See [chapter 5 Supplier selection process](#) for detailed guidelines on the application of the supplier selection methods listed here. See [appendix D Procurement procedure decision trees](#) for a graphic which links strategic context, delivery models and supplier selection methods.

Partnering delivery model

The transfer of risk to the party best able to manage it and the potential for innovation are important features of this delivery model. These features indicate that a focus on the quality of the supplier is of high importance.

Under the partnering delivery model:

- The price quality, or price quality – without disclosure of the estimate, and direct appointment supplier selection methods are used for subsidised services.
- The direct appointment or quality-based – where there is no contract price – supplier selection method is preferred for commercial units.

The following table sets out guidelines on selecting a supplier selection method.

Supplier type	Supplier selection method and rationale
<p>Selecting the suppliers</p>	<p>Price quality</p> <p>Price quality should be used for all tendered units under the partnering delivery model where the specified outputs can be priced by the supplier(s) and where the purchaser determines that best value for money will be obtained by selecting the supplier that offers the best combination of price and quality requirements as set out in the RFP.</p> <p>Price quality – without disclosure of the estimate</p> <p>The price quality – without disclosure of the estimate method – may be used where, in addition to the above, the purchaser considers that disclosure of the estimate will significantly influence prices tendered or the purchaser is not confident of the accuracy of the estimate and wishes to mitigate the risk that it will distort supplier quality premium values by being significantly different from the lowest price tendered.</p> <p><i>Appendix C Supplier selection methods</i> has further details.</p> <p>Direct appointment</p> <p>Direct appointment under section 10.27 <i>Direct appointment of a supplier for a public transport unit</i> should be used for negotiated units procured through the partnering delivery model and may be used for non-subsided units. The process for direct appointments under this section is set out in appendix I <i>Contract negotiation processes for public transport unit contracts</i>.</p> <p>Quality-based – where there is no contract price</p> <p>Quality-based should be used where there is a new commercial unit.</p> <p>Note: this is an advanced component except when used for a commercial unit or professional services.</p> <p><i>Appendix C Supplier selection methods</i> has further details.</p>

Staged delivery model

The following table sets out guidelines on selecting a supplier selection method.

Supplier type	Supplier selection method and rationale
Selecting the supplier(s)	<p>Price quality</p> <p>Price quality should be used where the outputs can be priced by the supplier(s) and where the purchaser determines that best value for money will be obtained by selecting the supplier that offers the best combination of price and quality requirements as set out in the RFP.</p> <p>Price quality – without disclosure of the estimate</p> <p>The price quality – without disclosure of the estimate method – may be used where, in addition to the above, the purchaser considers that disclosure of the estimate will significantly influence prices tendered or the purchaser is not confident of the accuracy of the estimate and wishes to mitigate the risk that it will distort supplier quality premium values by being significantly different from the lowest price tendered. Appendix C Supplier selection methods has further details.</p>
	<p>Direct appointment</p> <p>Direct appointment must only be used in the circumstances described in appendix C Supplier selection methods and where it will deliver best value for money. Direct appointment under section 10.27 Direct appointment of a supplier for a public transport unit is not permitted under the staged delivery model.</p> <p>Lowest price conforming</p> <p>Lowest price conforming should be used where the purchaser determines that best value for money can be obtained by selecting the service delivery supplier that offers the lowest price and meets the requirements as set out in the RFP. This method should only be used where the output required is very well specified.</p> <p>Appendix C Supplier selection methods has further details.</p>

Supplier panel delivery model (advanced)

The selection of the supplier panel should be undertaken as a staged process, with stage 1 focused on the appointment of suppliers to the panel and stage 2 allocating service provision to panel members.

Stage 1: Appointing suppliers to the panel

Panels can be appointed through the price quality or quality-based supplier selection methods.

For the price quality supplier selection method, a proxy schedule is commonly used to determine price.

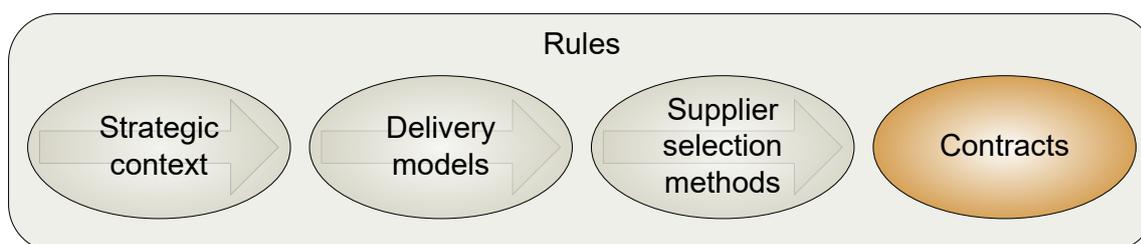
Note: the quality-based supplier selection method is an advanced component except when used for a commercial unit or professional services.

Stage 2: Allocating activity to panel members

This stage involves selecting a member of the supplier panel to carry out a particular activity. The specific process for allocating activity will be part of the detail that requires approval by Waka Kotahi for use by the purchaser.

8.6 Contracts

Introduction



Once a preferred supplier is selected, an approved organisation will enter into a contract with that supplier. The contract establishes the form of the relationship between the parties and stipulates the terms and conditions for the purchase of the outputs.

Under a partnering delivery model where a tiered contract structure is adopted an approved organisation may enter into a high-level memorandum of understanding, a ‘regional agreement’ common to all suppliers and potential suppliers of bus-based public transport units prior to commencing the supplier selection process. This regional agreement will form part of all public transport unit contracts and will set out principles around how the participants will work together.

Scope of contracts

All public transport services contracts should cover:

- description of the outputs being purchased
- term of contract
- mechanisms for negotiating service level variations
- standard terms and conditions (eg limitation of liability and insurance)
- health and safety requirements
- disputes resolution
- contract default conditions and termination processes
- other issues that may be specific to the individual procurement.

Contracts procured under the partnering delivery model must also include:

- principles for collaborative relationships
- annual business planning provisions

- a financial incentive mechanism (see [appendix J *Financial incentive mechanism*](#))
- key performance indicators and monitoring provisions
- provision of patronage and revenue information by the supplier
- fare revenue protection measures.

Form of contract

For public transport service units procured under the partnering delivery model it is expected that contracts will be partnering contracts where the supplier and purchaser work collaboratively and leverage off both parties' investment to achieve mutual outcomes through joint business planning, financial incentive mechanisms and other initiatives.

Partnering contracts are a shift away from traditional net or gross cost contracts where all the revenue risk sits with one of the parties.

There is no standard contract form for public transport services in use in New Zealand. Individual approved organisations have their own contract forms. Factors that will assist an approved organisation to establish the form of contract include:

- type and number of supplier(s)
- nature of relationship
- type and volume of output(s)
- scale and complexity
- risk management strategy and incentives.

Purchasers must advise potential suppliers of the proposed contract terms and conditions, including the proposed form of contract. See [section 10.12 *RFP contents and conformity*](#).

Changes to contracts

This manual sets out guidelines for how contracts may be changed after they have been let. The rules for public transport services contracts are:

- [section 10.24 *Contract term of public transport units*](#) (restricts changes to the term of a public transport unit contract)
- [section 10.28 *Gross cost resets for public transport units*](#) (requires a reset of the contract price at year 6).

This manual contains no other restrictions on changes that can be made to public transport services contracts.

Contract price adjustment for cost fluctuation

Waka Kotahi requires approved organisations to make provision in contracts for contract price adjustment for cost fluctuation (see [section 10.25 *Contract price adjustment for input price variation public transport services*](#)).

Note that Waka Kotahi limits funding assistance for contract price adjustment for cost fluctuation to the amount calculated using the appropriate Transport Agency index.

Bus contract key performance indicators

Waka Kotahi requires approved organisations to include key performance indicators in bus contracts (see [section 10.26](#) *Key performance indicators for public transport (bus) contracts* and [chapter 11](#) *Performance management and monitoring*). Key performance indicators can be used to assess service delivery performance.

9.0 PROCUREMENT PROCEDURE 4 – TOTAL MOBILITY SCHEME

9.1 Overview

Introduction

Procurement procedure 4 – Total Mobility scheme consists of three parts:

- guidelines for understanding the strategic context for the procurement activity
- selecting the supplier(s)
- guidelines for contract forms to be used with the procurement procedure.

In this chapter

This chapter contains the following sections:

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9.2 Definition

Purpose

The Total Mobility scheme's procurement procedure covers those activities involving the expenditure of NLTP funds on services delivered through the Scheme. Such activities include:

- discounted fare for the transport disadvantaged who qualify for assistance under the Total Mobility scheme
- the selection and oversight of the operations of transportation service providers under the Total Mobility scheme
- the maintenance and operation of Total Mobility facilities and equipment associated with the scheme, including the purchase and installation of new or replacement wheelchair hoists or ramps.

9.3 Requirements

Requirements

Approved organisations must follow the requirements below when using this procurement procedure.

Definition

Services procured under this procurement procedure must fit within the guidelines for Total Mobility as set out in *Total Mobility Scheme: a guide for local authorities*.

Strategic context

To use this procurement procedure, an approved organisation must understand the procurement activity's strategic context so the organisation can specify the outputs that are required to deliver the activity.

The detail of the Total Mobility scheme, including areas and hours of operation and service delivery features will be determined through the development of the RPTP and procurement strategy. The implications of what is outlined in the RPTP must be addressed in a procurement strategy which has been endorsed by Waka Kotahi.

Selecting the supplier(s)

All approved organisations must use this procurement procedure when seeking funding under the Total Mobility scheme. Note that the delivery models and supplier selection methods outlined in the other procurement procedures in this manual do not apply to this procedure.

Selecting suppliers under this procurement procedure does not involve a competition between suppliers for the right to supply. All suppliers that meet the approved organisation's criteria set out in their procurement strategy for joining the Total Mobility scheme must be allowed to join the scheme.

An approved organisation should have regular discussions with suppliers and community groups to continually improve the provision of the Total Mobility scheme and maximise the best value for money outcomes from the scheme.

Approved organisations must engage with the community through the RPTP consultation process to make decisions about investments in new or replacement wheelchair hoists and/or ramps for Total Mobility services.

Rules

The rules set out in [chapter 10 Rules](#) must be followed.

Contracts

Contracts will be between approved organisations and:

- Total Mobility suppliers for services and equipment
- assessment agencies for the provision of disability assessment services

Approved organisations should refer to Waka Kotahi publication *Total Mobility Scheme: a guide for local authorities* for contract principles, minimum standards and general guidance for Total Mobility scheme contracts with service operators and assessment agencies

Further assistance

Please contact Waka Kotahi if you are unsure whether the activity conforms to the requirements of the Total Mobility scheme procurement procedure, or if you wish to depart from the rules contained here.

10.0 RULES

10.1 Overview

Introduction

This chapter lists the rules that are part of and govern the use of the procurement procedures contained in this manual. The rules can be varied by an approved organisation with the approval of Waka Kotahi.

In this chapter

This chapter contains the following sections:

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10.2 Definitions

Introduction

In this chapter, the following terms are used:

Rule – a mandatory requirement that must be complied with unless prior approval is obtained for a variation.

Guidelines – advice on how the rules should be applied and what actions should be taken in particular circumstances.

10.3 Compliance with general legal requirements

Rule

An approved organisation must ensure that, in addition to requirements under the LTMA, its procurement practices comply with all other relevant legal obligations.

Guidelines

While this manual cannot and does not attempt to remind approved organisations of their obligations under administrative law, contract law and other legislation, Waka Kotahi requires approved organisations to comply with the wider legal framework to ensure that best value for money outcomes are obtained.

10.4 Procurement strategies

Rule

1. An approved organisation must have a procurement strategy that has been endorsed by Waka Kotahi to assist it to comply with the procurement procedures set out in this manual.
2. An approved organisation must assess and document the strategic context as it relates to each procurement activity as part of the design of a procurement procedure. At a minimum, the assessment must consider whether:
 - a. the proposed procurement activity is consistent with best value for money objectives
 - b. the proposed procurement activity is consistent with any policies or constraints (where applicable) documented in the procurement strategy
 - c. any changes in the procurement environment since the development of the procurement strategy will have a material effect on the procurement decisions to be made.
3. An approved organisation must develop, maintain, use and regularly review its procurement strategy to ensure that as circumstances change it continues to make the maximum possible contribution to obtaining best value for money.
4. When an approved organisation reviews its procurement strategy it must seek renewal of its endorsement from Waka Kotahi. Review and renewal of endorsement must occur at a minimum once every three years or as otherwise agreed between the approved organisation and Waka Kotahi.
5. Where an approved organisation's procurement activities, choices and decisions are inconsistent with its strategic intent, the approved organisation must document the reasons for its decisions.
6. Where an approved organisation amends its Transport Agency endorsed procurement strategy in a material, significant and permanent way then it must seek Transport Agency endorsement of the amendment as soon as is practicable.

Guidelines

Managing the strategy writing, review and endorsement process

[Chapter 4 Strategic approach to procurement](#) outlines how a strategic approach to procurement will enable approved organisations to obtain the best value for money spent and includes guidelines for developing a procurement strategy. [Appendix A Procurement strategy checklist](#) is similarly intended to assist approved organisations to develop a procurement strategy.

When writing a strategy, remember that its purpose is to succinctly document an approved organisation's long-term approach to purchasing outputs. The strategy does not have to include the complete rationale for the strategic position taken, but there must be a sound documented rationale for the strategic decisions made. Remember too that a procurement strategy should be written for its primary audience – those who need to know what outputs are to be procured plus how and when they will be procured. That primary audience is therefore the supplier community and those who must implement the strategy.

Agreeing to extend the term of endorsement of an existing strategy

Transport Agency staff can provide advice on the circumstances under which Waka Kotahi may agree to extend the term of endorsement of a procurement strategy in terms of part 4 of the above rule.

Managing departures from Waka Kotahi endorsed procurement strategy

The requirement in part 6 of the above rule is for approved organisations to seek endorsement of a material, significant and permanent change to a procurement strategy. This requirement is not intended to impede the ability to act strategically when making individual procurement decisions, even when acting strategically results in departure from the approved organisation's currently endorsed procurement strategy.

If a departure from the endorsed strategy is a 'one-off', not a 'permanent' change, then endorsement of the change by Waka Kotahi under part 6 of the above rule is not required. For example, an approved organisation may have signalled through its procurement strategy that improvement works will be procured using a staged delivery model, but for one particular project a strategic best value for money decision is made to treat the design already procured as a 'specimen' design and seek proposals on a design and build basis. In this example part 5 of the above rule will require that the decision to depart from the strategy be documented but no action is required under part 6.

A change to the term of a term service contract should be treated as a 'permanent' change to a procurement strategy. Whether or not such a change needs to be formally endorsed by Waka Kotahi will depend on the material significance of the change.

To determine whether a change to a procurement strategy is 'materially significant', referring to part 6 of the above rule, will require consideration of the impact of the change on the supplier community. The scale of the change is relevant. Engaging with the affected supplier community, when considering a significant change, is recommended.

Regular departures for an endorsed strategy, either on-off or permanent departures, could indicate that the strategy needs a comprehensive review.

Withdrawing strategy endorsement

If circumstances arise, which render an approved organisation's procurement strategy no longer fit for purpose, and the approved organisation does not change its procurement strategy in response, then Waka Kotahi can, as a last resort, withdraw its endorsement of the strategy. When endorsement is withdrawn the approved organisation must seek specific Transport Agency procurement procedure approval under LTMA s25 for every procurement event.

Publication of a procurement strategy

Procurement manual [section 10.6](#) *Documentation and publication requirements* requires that approved organisations make their current endorsed procurement strategy publicly available and accessible through their web site.

10.5 Procurement procedure advanced components

Rule

- An approved organisation must have the Waka Kotahi approval to use an advanced delivery model or advanced supplier selection method.
- The delivery models and supplier selection method listed below are advanced components:
 - *shared risk* delivery model
 - *supplier panel* delivery model
 - *quality-based* supplier selection method (except where the output being purchased is either professional services or a commercial unit).
 - *price quality without disclosure of the estimate* supplier selection method except when used with Procurement procedure 3 – Public transport services and the partnering delivery model.

Guidelines

Approval will be made under s25 of the LTMA. In assessing an application, Waka Kotahi will consider best value for money implications, including the impact on competition and on competitive markets.

10.6 Documentation and publication requirements

Rule

Procurement policies and procedures

1. An approved organisation must develop, maintain, document and follow procurement policies and procedures that, at a minimum:
 - a. address delegating authority, duties and responsibilities related to the use of the procurement procedures contained in this manual
 - b. ensure compliance with Government Procurement Rules [Rule 1](#) – Principles and the Charter
 - c. ensure compliance with Government Procurement Rules [Rule 2](#) – Integrity
 - d. set out how advice of contracts let will be published and how both successful suppliers and unsuccessful suppliers will be advised of the reasons for their appointment or non-appointment and detail the information to be provided to each.
 - e. set out how supplier complaints will be managed so as to, at a minimum, ensure compliance with Government Procurement Rules [Rule 50](#) – Supplier complaints.
2. An approved organisation must ensure that its procurement policies and procedures are publicly available and current at all times.

Publication of procurement strategies

1. An approved organisation must ensure that its current procurement strategy, endorsed by Waka Kotahi, is publicly available and accessible through its web site. See [section 10.4 Procurement strategies](#)

Publication of public transport commerciality ratios

1. An approved organisation that procures public transport units must publish annually the regional commerciality ratio and a league table for each public transport mode (bus, rail, ferry, other) using the commerciality ratios of all public transport units within the region (see [appendix H Calculating public transport commerciality ratios](#) for the commerciality ratio formula).

Documentation of procurement activity

1. An approved organisation must maintain records of its procurement activity. Records must contain, at a minimum:
 - a. sufficient detail to demonstrate that procurement procedures approved under s25 of the LTMA have been used
 - b. sufficient detail to permit review and meet the Waka Kotahi audit requirements
 - c. the reasons for decisions made, including, for each contract, the rationale for selecting a particular delivery model and supplier selection method.
 - d. record keeping must also be sufficient to ensure compliance with Government Procurement Rules [Rule 52 – Maintaining records](#)

Guidelines

Approved organisations can satisfy some of the above requirements to ‘publish’ by publishing information on their website.

10.6A Supplier selection process requirements

Rules

Publication of opportunities to supply

1. An approved organisation must openly advertise all opportunities to supply, which are required to commence as an open competitive process, on the Government Electronic Tenders Service ([GETS](#)).
2. Where an ROI is used, and precedes the preparation of an RFP, the above requirement to openly advertise on [GETS](#) will be satisfied by openly advertising on [GETS](#) the first stage and then working only with those suppliers that respond, providing this intent is made clear in the Notice of Procurement published on [GETS](#).
3. Where a prequalification system is used, the above requirement to openly advertise on [GETS](#) will be satisfied by openly advertising on [GETS](#) the existence of the system and inviting suppliers to apply for prequalification. See [section 5.2 Approach to supplier selection](#).
4. The above requirements to openly advertise on [GETS](#) do not apply to a closed contest, see [section 10.9 Direct appointment and closed contest for low dollar value contracts](#), or

a direct appointment made under any of the situations listed in [section 5.2 Approach to supplier selection](#).

Allowing sufficient time for supplier response

1. An approved organisation must allow sufficient time for suppliers to respond to an RFP by ensuring compliance with Government Procurement Rules:
 - a. [Rule 29](#) – Sufficient time
 - b. [Rule 30](#) – Minimum time periods
 - c. [Rule 31](#) – Allowable reductions
 - d. [Rule 32](#) – Business day
 - e. [Rule 33](#) – Fair application of time
 - f. [Rule 34](#) – Minimum time periods by process

Managing the supplier response process

1. Where the opportunity to supply must be openly advertised, the approved organisation must ensure compliance with Government Procurement Rules:
 - a. [Rule 35](#) – Open advertising part 2
 - b. [Rule 36](#) – GETS listing
 - c. [Rule 37](#) – Notice of Procurement
 - d. [Rule 38](#) – Content of Notice of Procurement
 - e. [Rule 39](#) – Other tender documents
 - f. [Rule 40](#) – Responding to queries
 - g. [Rule 41](#) – Additional information
 - h. [Rule 42](#) – Changes to process or requirements
2. More generally, approved organisations must manage relationships with all suppliers appropriately, especially during the formal supplier selection process. See [section 5.5 Evaluation of proposals](#).

Reporting the engagement of suppliers

1. Approved organisations must report the engagement of suppliers as set in [section 5.5 Evaluation of proposals](#).
2. Approved organisations must ensure compliance with Government Procurement Rules:
 - a. [Rule 47](#) – Informing suppliers of the decision
 - b. [Rule 48](#) – Contract Award Notice
3. The above supplier engagement reporting requirements apply to all engagements that are valued at \$50,000 or more and includes appointment following a closed contest, see [section 10.9 direct appointment and closed contest for low dollar value contracts](#), or a direct appointment made under any of the situations listed in [section 5.2 Approach to supplier selection](#).

Guidelines

Other parts of the Procurement manual which include rules and guidelines related to the supplier selection process include:

- In each of the procurement procedure chapters, chapters 6 to 9, there is a section which deals with supplier selection.
- [Chapter 5 Supplier selection process](#) is devoted to this matter.
- [Section 10.13 Using an available supplier selection method.](#)
- [Section 10.14 Non-price proposal evaluation attributes.](#)
- [Section 10.15 Price and price weight](#)
- [Section 10.16 Alternative proposals](#)
- [Section 10.17 Added value premium](#)
- [Section 10.18 Use of negotiation in a supplier selection process](#)

Reporting the engagement of suppliers

Part 2(h) of the Government Procurement Rules [Rule 48 – Contract Award Notice](#), requires that when an opportunity to supply is not required to be openly advertised, the reason for the exemption is given. Normally the reason will either be that a closed contest was run in accordance with [section 10.9 Direct appointment and closed contest for low dollar value contracts](#), or a direct appointment was made under one of the permitted situations listed in [section 5.2 Approach to supplier selection](#).

10.7 Emergency reinstatement

Rule

Approved organisations must use a procurement procedure in this manual to purchase the outputs required to permanently reinstate infrastructure following the completion of immediate response works.

Guidelines

To obtain the best value for money spent in all emergency reinstatement related activity (both immediate response and permanent reinstatement), Waka Kotahi encourages approved organisations to make appropriate provisions within contracts for asset management and maintenance to deliver the works and services required to respond to emergencies. These contract provisions should also allow the approved organisation to purchase additional resources (additional to those provided through established contracts for asset management and maintenance) to respond to an emergency event where necessary.

Whenever the scale of permanent reinstatement work is significant, Waka Kotahi expects the approved organisation to consider the options available to it. Typically, the option of completing the work within established contracts for asset management and maintenance will exist. However, that option needs to be compared with the option of going to the market and seeking competitive proposals.

Immediate response work is defined in the Waka Kotahi [Planning and Investment Knowledge Base](#) and is exempt from procurement procedure requirements.

10.8 Competition for supply

Rule

1. Every supplier selection process must commence as an open competitive process in which all potential suppliers are invited to engage.
2. Notwithstanding the above, procurement activity that meets the requirements for closed contest supplier selection or direct appointment is exempt from this requirement. Refer to:
 - a. [section 10.9](#) *Direct appointment and closed contest for low dollar value contracts*
 - b. [section 10.10](#) *Direct appointment of a monopoly supplier*
 - c. [section 10.11](#) *Direct appointment where competition will not help obtain best value for money*
 - d. [section 10.27](#) *Direct appointment of a supplier for a public transport unit*
3. Approved organisations must make provision, in all RFPs, for potential suppliers who accept the invitation to engage in a supplier selection process to withdraw from the process.

Guidelines

Any supplier selection process that is required, by this rule, to commence as an open competitive process may use a staged supplier selection process, which may involve shortlisting. Refer to [section 5.3](#) *Staged supplier selection process*.

Where a supplier prequalification system is used, this rule is satisfied by inviting suppliers to become prequalified through [GETS](#). Refer to [section 5.2](#) *Approach to supplier selection*.

Where a supplier panel delivery model is used, this rule is satisfied by an open contest to gain appointment to the panel.

If a point is reached in a supplier selection process where only one supplier remains both willing and able to supply the output(s) sought, the approved organisation may choose to negotiate the terms, including price, of a contract with that supplier using the direct appointment supplier selection method. Refer to [appendix C](#) *Supplier selection methods*.

10.9 Direct appointment and closed contest for low dollar value contracts

Rule

1. Direct appointment of a single willing and able supplier is permitted where the contract cost estimate is less than or equal to the limits set out in the table below.

2. Where appointment is direct, the terms of the contract, including price, must be negotiated in accordance with the direct appointment supplier selection method. Refer to [appendix C Supplier selection methods](#).
3. A closed contest using a minimum of three willing and able suppliers is permitted where the contract cost estimate is less than or equal to the limits set out in the table below.
4. Where a closed contest is used, the preferred supplier must be selected using one of the supplier selection methods available in this manual. Refer to [appendix C Supplier selection methods](#).

Contract for	Physical works	Professional services	Public transport services (gross contract price per year)
Direct appointment	\$100,000	\$100,000	\$100,000
Closed contest	\$200,000	\$200,000	\$200,000

Note: These dollar limits will be periodically reviewed and updated.

Guidelines

Where a closed contest identifies only two willing and able suppliers, despite reasonable efforts to identify a minimum of three, the supplier selection process may proceed with the two that have been identified using one of the available supplier selection methods.

If only one supplier is identified, then the approved organisation may negotiate the terms, including price, of a contract with that supplier using the direct appointment supplier selection method.

Approved organisations are encouraged to use registers to identify potential suppliers when a closed contest is used or the supplier is directly appointed. Refer *Use of supplier registers* in [section 5.2 Approach to supplier selection](#).

10.10 Direct appointment of a monopoly supplier

Rule

1. In a monopoly supplier situation an approved organisation may negotiate the contract terms, including price, with the monopoly supplier in accordance with the direct appointment supplier selection method (refer to [appendix C Supplier selection methods](#)).
2. Where contract terms, including price, are negotiated with a monopoly supplier, the approved organisation must ensure as far as possible that best value for money is obtained.

Guidelines

A monopoly supplier situation exists where there is only one possible supplier of an output. Monopoly suppliers are therefore either a natural monopoly (such as the owner of land required to allow transport infrastructure development) or an entity that is in effect a monopoly for some structural reason (eg a service utility owner in a situation where a utility must be relocated to allow transport infrastructure development).

An approved organisation should have mechanisms in place to ensure as far as possible that it obtains best value for money from a monopoly supplier. Mechanisms may include:

- using data from similar contracts so that price, terms and conditions can be compared and benchmarked
- limiting the term of the contract or incorporating break points in the contract to permit the approved organisation to tender the contract in the event a competitive market is established
- using an independent expert to assess whether best value for money is being obtained.

Monopoly supplier examples

The following are examples of monopoly supplier situations:

- Lines companies for:
 - lines charges
 - maintenance of street lights where fittings are owned by the lines company
- Owners of existing street lighting infrastructure for:
 - (sale of) existing street lighting infrastructure
- Utility service operators for:
 - relocation of services for infrastructure, maintenance or construction projects
- Kiwi Rail's Infrastructure and Engineering Team for:
 - level crossing works
 - road/rail bridge works
 - rail network management, control, maintenance or upgrade services
 - rail incident response
- Property owners for:
 - property for an infrastructure project – purchase of either the freehold or a lease.

10.11 Direct appointment where competition will not help obtain best value for money

Rule

1. Direct appointment of a supplier, using the direct appointment supplier selection method (see [appendix C Supplier selection methods](#)), is permitted where the approved

organisation has determined that a competition between potential suppliers will not help obtain best value for money.

2. The reasons for the direct appointment of a supplier must be documented. Refer to [section 10.6 Documentation and publication requirements](#).
3. The approved organisation must publish the direct appointment of a supplier where the estimated value of the work is greater than \$50,000. Refer to [section 10.6A Supplier selection process requirements](#).

Guidelines

This rule must not be interpreted as allowing direct appointment to protect New Zealand suppliers from competition from international suppliers, or to discriminate against any domestic or international supplier.

Before choosing to apply this rule and make a direct appointment of a supplier, purchasers must identify how their decision aligns with the Government Procurement Rules – refer Government Procurement Rules [Rule 14 Exemption from open advertising](#), in particular.

Examples of where this rule could apply include:

1. An approved organisation determines that there is only one practical supplier for an output and any competition will not help obtain best value for money. This can occur when the output sought requires a proprietary product that is only available from one supplier. Refer Government Procurement Rules [Rule 27 – Technical specifications](#). This Rule effectively warns against opting for a proprietary solution when an economically feasible ‘equivalent’ may be available. The approved organisation may need to test the availability of an alternative, equivalent product through open engagement, before concluding that the proprietary product offers the best value for money and negotiating the terms of the direct appointment. The rationale for the decision would be fully documented including, in this example, how Government Procurement Rules [Rule 14 part 9.c.i](#) applies.
2. An approved organisation requires outputs that a supplier contracted by another purchaser can deliver at a significantly lower cost than in any alternative way. The supplier contracted by the other purchaser has an advantage over all other potential suppliers and best value for money will be obtained by negotiating with that supplier to deliver the outputs. The approved organisation could negotiate for a variation to the contract with the other purchaser to purchase the outputs on their behalf. This situation can occur when a property developer has engaged a contractor to cut material that has to be disposed of and an approved organisation requires fill a short distance from the development. This provides the approved organisation with an opportunity to purchase the fill at the lowest cost through a variation to the developer’s contract with the supplier. The rationale for the decision to direct appoint would be fully documented including, in this example, how Government Procurement Rules [Rule 14 part 9.g](#) applies.
3. An approved organisation has a contract with a supplier for defined outputs. The approved organisation determines that it requires additional outputs once the contract has been let and the additional outputs are outside the scope of the original contract. The wider supplier community could view the addition of these outputs to the original contract as depriving them of the opportunity to compete for work that they could reasonably expect to be able to compete for. However, the approved organisation determines that best value for money will be obtained by including the additional

outputs in the original contract. The rationale for the decision to direct appoint would be fully documented including, in this example, how Government Procurement Rules [Rule 14](#) part 9.d. applies.

Direct appointment under this rule must not be used as a routine way of purchasing, as it can deprive suppliers of the opportunity to compete.

10.12 RFP contents and conformity

Rule

1. In addition to meeting the requirements of Government Procurement Rules [Rule 38](#) Content of Notice of Procurement, an approved organisation must ensure that every RFP contains, as a minimum:
 - a. a clear statement of the scope of the procurement activity and intended outcome
 - b. a description of the delivery model to be used
 - c. the supplier selection method to be used
 - d. the attributes against which proposals will be assessed, including (where applicable) the weights for price and non-price attributes
 - e. a description of how price will be used in the proposal evaluation process (where applicable), including a description of how any proposal price may be modified
 - f. whether alternative proposals are permitted and, if not, why
 - g. whether a conforming proposal is required when an alternative proposal is submitted
 - h. a statement about how variations to the contract will be managed
 - i. proposed contract terms and conditions, including (where applicable) the proposed standard form of contract
 - j. a statement that personnel listed in any proposal must be available to provide the services
 - k. a statement about the quality assurance system requirements
 - l. any proposed arrangements for bonds and retentions and for testing the financial viability of participants in a supplier selection process
 - m. a statement about the proposed limit on the liability of the supplier(s) (only where professional services are being sought)
 - n. a statement about the process to be followed in the event of errors or omissions in proposal documents
 - o. the approved organisation's policy on late proposals
 - p. a proposed schedule for the process, including contract award and contract commencement dates
 - q. a description of the method (if any) for contract price adjustment for cost fluctuations.
2. An approved organisation must ensure that every RFP for a public transport unit also contains:

- a. a description of the financial incentive mechanism(s) to be included in the contract(s) (see [appendix J *Public transport financial incentive mechanisms*](#) for the requirements and principles for selecting financial incentive mechanisms)
 - b. a description of the annual business planning process that will be followed
 - c. principles for collaborative relationships
 - d. the process to be followed for registered tenderers to obtain revenue and patronage information, if available (see [section 10.29 *Information for tenderers for public transport units*](#))
 - e. mechanisms for negotiating service-level variations
 - f. whether group tenders are allowed and how these will be evaluated
 - g. a method of testing the cost implications of service growth scenarios, using the contract variation rates proposed by an operator
 - h. mechanism for cost reset of the annual gross price at six years of the nine year term (see [section 10.28 *Gross cost resets for public transport units*](#))
 - i. a description of the approach to fare revenue protection.
3. An approved organisation must not, during a supplier selection process, act in a manner that is materially inconsistent with the process set out in the RFP.
 4. An approved organisation must not let a contract that is materially different from that described in the RFP.

Guidelines

Every RFP must set out in sufficient detail:

- what the approved organisation wishes to purchase (the output)
- how price will be determined
- what will be valued in the anticipated relationship
- how proposals will be evaluated
- what the proposed contract terms and conditions will be (the proposed form of the contract).

Having set out these details in the RFP, the approved organisation must then select the supplier and let the contract in accordance with the process described in the RFP.

To encourage competition and innovation, the RFP should generally avoid specifying the methods to be used to achieve the outcomes. Specifying outcomes sets the non-negotiable boundaries, such as resource consent conditions, client-imposed conditions and conditions related to land, and allows room for alternative proposals within these boundaries.

Specifying outcomes allows RFP respondents to decide how the outcomes will be achieved. For example, an RFP may specify 'No potholes to remain unfilled for more than x hours', but would not specify how the contractor should go about achieving that outcome.

Deterring bid rigging

An RFP should include provisions to combat the risk of collusion. The Commerce Commission has published various guidelines, including guidelines on anti-competitive practices.

The Commission's *Guidelines for procurers – how to recognise and deter bid rigging* includes suggested anti-collusion tender clauses.

Meeting statutory requirements

The RFP content lists above are not exhaustive. For example the RFP will typically need to refer to legal obligations, like those under health and safety legislation, that one or more of the contracting parties will need to comply with.

10.12A Use of standard documents

Rule

1. For the purposes of this rule a standard document is any document listed in [appendix M Standard documents](#).
2. Where an approved organisation includes a 'standard document' in either a RFP or a contract the approved organisation must show whether or not the document has been modified.
3. Where an approved organisation includes a standard document in either a RFP or a contract, and modifies that document, the following conditions must be met:
 - a. the modification(s) must be shown in such a way that it is immediately apparent to a reader where, and how, it has been modified
 - b. the best value for money rationale for making the modification must be documented
 - c. the approved organisation must, on request, provide any potential supplier with reasons for making the modification.

Guidelines

The use of standard documents is discussed in procurement procedures 1 and 2 (refer Chapter 6.0 *Procurement procedure 1 – Infrastructure* and Chapter 7.0 *Procurement procedure 2 – Planning and advice* – [section 6.6](#) and [section 7.6](#) respectively).

Approved organisations are encouraged to maximise the use of standard form contracts and other standard contract documents including standard specifications for processes and materials. They are also warned that the benefits from using standard documents are easily lost when they are modified.

Identifying modifications

There are many ways to ensure that the reader of a request for proposals or contract will immediately recognise a modification to a standard document. The chosen method must be described in the RFP or contract.

When a contract includes the Standards New Zealand *Conditions of contract for building and civil engineering construction* (NZS 3910), or one of the related standards, the recognised

way to include contract specific information, and any modifications to the standard, is through the special conditions of contract.

If an approved organisation fails to make a modification to a standard document immediately apparent to readers, then given the above rules, readers will likely assume that the document is unmodified.

Modifying a Transport Agency standard or guideline

[Appendix M Standard documents](#) states that all Transport Agency standards, guidelines and reference documents listed in its register of network standards and guidelines are ‘standard documents’ in terms of the above rules.

When a document, listed in the Waka Kotahi [Register of network standards and guidelines](#), is ‘modified’ in some way approved organisations need to be aware of the requirements found in the [Register process manual for network standards and guidelines](#) that relate to ‘variations’ and ‘changes’.

A ‘modification’ in terms of the above rules will almost certainly be either a ‘document variation’ or a ‘document change’ in terms of the register process manual.

Non-standard documents that have been based on ‘standard documents’

Many approved organisations use ‘standard documents’, typically from Waka Kotahi register of network standards, as a base, extensively modifying them to suit their own purposes. These documents are sometimes significantly different from their parent and should be treated as non-standard documents. Because experienced readers will, nevertheless, recognise the parent standard documents on which they are based, approved organisations are encouraged to assist readers by making it clear that these documents are non-standard documents.

Approved organisations will need to exercise judgement to determine whether a document is a ‘modified’ standard document, and identify the modifications, or a non-standard document and identify it as such.

Following the principles outlined in Procurement manual [section 6.6](#) and [section 7.6](#) it is more efficient to use standard documents without modification wherever possible.

Giving reasons for a modification

Part 2 of the above rule also requires that the approved organisation must, on request, provide any potential supplier with reasons for making the modification. The reasons given can have, but do not have to have, contractual effect. As a matter of good practice any statement of reasons should be provided to all potential suppliers.

10.13 Using an available supplier selection method

Rule

1. An approved organisation must use an available supplier selection method and follow the proposal evaluation procedure set out in each supplier selection method. Refer to [appendix C Supplier selection methods](#).
2. An approved organisation must only enter into a contract with the preferred supplier identified by the chosen supplier selection method.

Guidelines

In the event that an approved organisation wishes to contract with a supplier other than the preferred supplier identified by the chosen supplier selection method and the conditions of tendering allow this, it must first obtain the approval of Waka Kotahi. This event is only likely to occur in exceptional circumstances.

Before approving such a variation to the above rule, Waka Kotahi must be satisfied that the proposed approach is both legally acceptable and will enable the approved organisation to obtain best value for money.

10.14 Non-price proposal evaluation attributes

Rule

1. For any supplier selection method, an approved organisation must evaluate proposals using the following three non-price attributes as a minimum:
 - a. relevant experience
 - b. relevant skills
 - c. methodology.
2. An approved organisation may use additional non-price attributes to evaluate proposals, including:
 - a. track record
 - b. resources
 - c. financial viability.
3. An approved organisation must reject all proposals that fail on the evaluation of any non-price attribute or score below a nominated grade for any non-price attribute.
4. The RFP must describe the non-price attributes to be used in the proposal evaluation. The descriptions must be specific to the outputs for which proposals are sought, must explain what the purchaser values in each attribute, and must be consistent with the attribute definitions in this manual. See [section 10.12 RFP contents and conformity](#).
5. The RFP must explain how each non-price attribute will be evaluated, including stating which attributes will be evaluated on a pass or fail basis alone and which (where the supplier selection method allows) will also be graded (given a points score between 0 and 100).
6. The RFP must explain when an approved organisation will reject a proposal for either failing on the evaluation of any non-price attribute or scoring below a nominated grade for any non-price attribute.
7. The RFP must give the numerical weight to be applied to each of the non-price attributes that are to be graded.
8. When the supplier selection method used requires that any attribute (non-price or price) be given a weight, the sum of all weights (non-price and price) must be 100.

Guidelines

Non-price attribute definitions

Relevant experience – The supplier’s previous experience in areas relevant to the outputs being purchased.

Relevant skills – The competence of the personnel that the supplier proposes to use, with particular regard to their skills and experience in areas relevant to the outputs being purchased.

Methodology – The procedures the supplier proposes to use to achieve the specified end result.

Track record – The supplier’s record of delivering works or services to the quality standards required, on time and within budget.

Resources – The equipment, including facilities and intellectual property that the supplier proposes to use to deliver the outputs.

Financial viability – The supplier’s ability to access the financial resources required to deliver the outputs to be purchased.

Rejecting a proposal through a ‘fail’ on a non-price attribute

It is standard practice to establish through the RFP that any proposal may be rejected at the sole discretion of the purchaser. In addition, the above rule refers to the need to establish, through the RFP, that a ‘fail’ on a non-price attribute will be a sufficient reason to reject a proposal.

Historically, under the *Competitive pricing procedures manual* rules, when the supplier selection method required that a non-price attribute be graded, a score of 35 or less was a ‘fail’ score for that attribute. Approved organisations should not depart from this well-established practice without good reason. They must also make their intentions clear through the RFP.

Rejecting a proposal through failure to meet a minimum required standard

It is also important to clearly establish in the RFP what features of a proposal will make it unacceptable or ‘non-conforming’ and result in its rejection. Where a proposal must meet certain minimum standards (eg where a supplier must be certified as meeting a particular quality standard) or an input must meet a particular standard specification, then this must be made clear to prevent potential suppliers from investing effort in preparing a proposal when that supplier cannot meet the required minimum standard.

Selecting non-price attributes

Part 1 of the above rule requires that three attributes (relevant experience, relevant skills and methodology) be used as a minimum. These three attributes are mandatory because best value for money spent is more likely to be obtained if the selected supplier has the relevant skills and experience, combined with a well thought through methodology. Note that these three non-price attributes are the ones focused most directly on the works or services to be delivered and on the skills and experience required to deliver, and are therefore an absolute minimum.

However, these attributes alone will often be insufficient to ensure that the supplier who will deliver the best value for money will be selected.

Purchasers are free to choose as many additional attributes from among those listed in part 2 of the above rule or to add other attributes. Attributes (beyond the minimum three) should only be added when they will enhance the supplier selection process and help to obtain better value for money.

Where the supplier selection method allows grading of the non-price attributes, the purchaser must decide whether each attribute should be evaluated on the basis of pass or fail alone or whether they should also be graded.

Adding relevant non-price attributes that are to be evaluated on a pass or fail basis alone is sensible where the purchaser simply wishes to ensure that a potential supplier meets a given minimum standard. Adding attributes that are also to be graded must be considered more carefully.

A large number of attributes (or sub-attributes) that are to be graded tends to lead to a reduced range of the weighted sums of the non-price attribute grades and a reduced degree of 'separation' of proposals.

Setting non-price attribute weights

Appropriate attention must be given to setting the weights for the non-price attributes. They impact on the outcome of the proposal evaluation process by establishing the relative importance of the non-price attributes that are to be graded. Weights must be advised through the RFP.

See [section 5.4 Supplier selection processes](#) for guidelines on setting weights.

Grading scale for non-price attributes

A scale of 0 to 100 is used when grading non-price attributes. To help achieve consistency of practice, Waka Kotahi recommends that grades be awarded in steps of five and that the following grading scale be used.

90, 95 or 100	Demonstrates exceptional compliance or ability to convey exceptional provision of the requirement
75, 80 or 85	Requirements are fully covered in all material aspects
60, 65 or 70	Requirements are adequately covered
50 or 55	Adequate, with some deficiencies that are not likely to have any adverse effect
40 or 45	Barely adequate and would need considerable improvement in this attribute, if selected
35 or less	Total non-compliance or inability to convey provision of the requirement

10.15 Price and price weight

Rule

1. The price to be used in the supplier selection process must be defined in the RFP. See [section 10.12 RFP contents and conformity](#).
2. When using the price quality supplier selection method, the price weight must be set within the range of 10 to 70.
3. When using the price quality supplier selection method, the RFP must give the weight to be applied to price. See [section 10.12 RFP contents and conformity](#).
4. When the supplier selection method used requires that any attribute (non-price or price) be given a weight, the sum of all weights (non-price and price) must be 100.

Guidelines

Defining price

Typically, the price used in the supplier selection process is the unmodified price taken from each proposal. However, in some situations the proposed price will be modified before it is used in the supplier selection process. For example, where the supplier is to be paid an initial sum and over a period of years further amounts (eg for the maintenance or operation of an asset), then it may be appropriate to discount the later payments to give a net present value to be used in the supplier selection process.

When the price quality supplier selection method is used, a supplier quality premium value will 'modify' the proposal price (see [appendix C Supplier selection methods](#)).

Where alternative proposals are permitted, any added value premium will modify the proposal price (see [section 10.16 Alternative proposals](#) and [section 10.17 Added value premium](#)).

Whenever proposal prices may be modified in some way by the supplier selection process, a description of that modification process must be included in the RFP.

For some contract types, the price sought through the RFP, and used in the supplier selection process, may only be indirectly related to the final price. For example, it may be the total of a proxy schedule that is to be used to calculate the actual price to be paid, or a margin, where the supplier is to be paid in the basis of actual cost plus a margin. Again, the RFP must describe how this will be done.

Choosing the price and non-price attribute weights

When using the price quality supplier selection method, the weights assigned to the price attribute and to those non-price attributes to be graded in the evaluation process are set at the discretion of the approved organisation, within the limits noted above.

See [section 5.4 Supplier selection processes](#) for guidelines on selecting weights.

Documentation of the rationale for choice of price weight

The rationale for the choice of price weight must be documented. Refer to [section 10.6 Documentation and publication requirements](#).

Choosing a price weight for a professional services contract

Under the above rule, weights up to 70 are allowed. An approved organisation proposing to use a weight over 20 for a contract for professional services needs to have tested that proposal before use. See [section 5.4 Supplier selection processes](#).

Choosing a price weight for contracts other than professional services contracts

Under the above rule, weights as low as 10 are allowed. An approved organisation proposing to use a weight less than 70 for a contract other than professional services needs to have tested that proposal before use. See [section 5.4 Supplier selection processes](#).

10.16 Alternative proposals

Rule

1. Approved organisations must clearly specify in all RFPs whether alternative proposals:
 - a. are permitted
 - b. must be accompanied by a conforming proposal.
2. Approved organisations must clearly justify and document their reasons for not permitting alternative proposals.
3. Approved organisations must request the submitters of alternative proposals (where alternative proposals are permitted) to specify how their alternative proposal differs from the outputs specified in detail in the RFP, and demonstrate how better value for money can be obtained through the alternative.
4. Approved organisations must not consider alternative proposals that:
 - a. are outside the scope or requirements of the RFP
 - b. vary the term, start date or end date of a contract, unless the approved organisation has stated in the RFP that it will consider alternative proposals that relate to these matters
 - c. vary the term of a term service contract – refer: [section 10.21 Maximum term of a term service contract for infrastructure or planning and advice](#) and [section 10.24 Contract term of public transport units](#).
5. Approved organisations must document decisions in relation to the evaluation of alternative proposals. See [section 5.5 Evaluation of proposals](#).

Guidelines

An approved organisation should exercise care when specifying the scope and requirements of an RFP and the level of detail used to describe the outputs. Where the outputs are narrowly specified, consider the benefits of broadening the scope of the RFP to encourage innovation through alternative proposals. For example, if an RFP specifies that the output is a retaining wall and provides detailed drawings and specifications, then the submission of alternatives will be encouraged by broadly specifying the desired outcome in the RFP and deliberately stating that alternative proposals will be considered.

Where the scope and requirements of an RFP and the outputs are all broadly specified, then it will generally not be necessary to allow alternative proposals. All proposals submitted are

effectively alternative ways to deliver the broadly defined outcome. Where the output is a professional service, it will typically be specified in the RFP in broad terms and an alternative proposal is therefore unlikely to add further value.

Approved organisations may reserve the right (through the RFP) to reject any alternative proposal, regardless of the outcome of the evaluation.

When an alternative proposal is outside the scope of the RFP but offers a better outcome, the approved organisation should consider declining all proposals and issuing a revised RFP that will accommodate the alternative. To be fair to the supplier offering the alternative, the approved organisation should not reveal the detail of any innovative idea used in the alternative proposal. Approved organisations should exercise caution when declining all proposals and requesting new proposals, and specific legal advice should always be obtained.

Approved organisations are not required to request an accompanying 'non-alternative' proposal with any alternative proposal. Where an approved organisation requests two proposals, careful consideration must be given to the purpose of the request to ensure that unnecessary costs are not placed on potential suppliers.

10.17 Added value premium

Rule

Approved organisations must calculate any added value premium consistently with the Waka Kotahi funding policy, as outlined in the Waka Kotahi [Planning and investment knowledge base](#).

Guidelines

An added value premium is defined in this manual (see [appendix G Definition of terms](#)) as the amount more that the approved organisation is prepared to pay for the output offered by an alternative proposal.

Where the approved organisation receives an alternative proposal and considers that it may significantly improve whole-of-life best value for money, then it should consider whether an added value premium should be determined.

An alternative proposal may have both a supplier quality premium and an added value premium associated with it if the price quality supplier selection method is used. The supplier quality premium relates to the characteristics of the supplier and the added value premium relates to the output offered by the alternative proposal. The supplier quality premium is defined (see [appendix G Definition of terms](#)) as the amount more that the approved organisation is prepared to pay for a higher-quality supplier.

Being aware of the distinction between the supplier quality premium and the added value premium helps an approved organisation to avoid paying a premium twice for the same potential to enhance best value for money.

Where an alternative proposal affects the cost to the purchaser, the added value premium should be based on the discounted difference in whole-of-life cost for the alternative. Where it would affect the benefits to be obtained, the added value premium should be based on the

discounted difference in benefits for the alternative. The benefit value would be divided by the incremental benefit to cost ratio to determine the added value premium figure.

Determining an added value premium is a comparative exercise. The added value premium is the difference in the amount that the approved organisation is prepared to pay to purchase the output offered by an alternative proposal, rather than the minimum standard output specified in the RFP. If the alternative proposal offers more than the minimum standard output, the added value premium will be positive. If it offers less, the premium will be negative.

10.18 Use of negotiation in a supplier selection process

Rule

1. Approved organisations are permitted to negotiate with the preferred supplier on contract terms, including price, before a contract is let provided the right to do so has been reserved in the RFP.
2. Any negotiation between the approved organisation and the preferred supplier must be consistent with the negotiation process outlined in the RFP.
3. Where more than one proposal meets the requirement of an RFP, any negotiated change in price with the preferred supplier must be accompanied by a proportionate change in the outputs to be delivered.

Guidelines

Best value for money is not likely to be obtained if suppliers expect that negotiation will be used to reduce their price when a competitive process has already been used to encourage suppliers to offer their best price.

This rule applies to negotiation with the preferred supplier prior to a contract being let. It does not apply to negotiation when using the quality-based or direct appointment supplier selection methods or the negotiation or consultation processes that are part of an early dialogue or interactive tendering process.

10.19 Qualifications of proposal evaluators

Rule

1. For contracts with an estimated total value exceeding \$200,000, approved organisations must ensure that at least one member of the proposal evaluation team:
 - a. holds one of following: the National Certificate in Civil Engineering – Asset Management (Competitive Pricing Procedures), the National Certificate in Transport Agency Procurement Procedures or the New Zealand Certificate In Infrastructure Procurement Procedures, or
 - b. holds another relevant qualification approved by Waka Kotahi, or
 - c. is approved by Waka Kotahi as a proposal evaluator.

2. The competence of the proposal evaluation team member who meets the requirements of part 1 of this rule must be current to the satisfaction of Waka Kotahi.

Guidelines

Section 5.5 *Evaluation of proposals* discusses the integrity of supplier selection processes, including the need for the proposal evaluation team to understand both technical issues and more general legal obligations that the purchaser has to proposal submitters.

10.20 Business units proposing to undertake minor and ancillary works

Rule

1. Where an approved organisation receives a proposal from its business unit for minor and ancillary works, it must ensure that any person(s) involved in the evaluation of the proposals is not involved in the management or operation of the business unit.
2. An approved organisation must ensure that all processes for managing proposals from its business units do not disadvantage any other proposal submitter(s).

Guidelines

Before an approved organisation accepts a proposal from its 'business units' to undertake 'minor and ancillary works', refer LTMA s25(5), it must obtain Transport Agency agreement that the activities can be classified as such and that the business unit(s) will be structured and managed in a manner acceptable to Waka Kotahi.

Approved organisations must be fair in all their dealings with proposal submitters. This is especially important when an approved organisation's business unit is involved, either as a potential supplier or as a sub-contractor to one or more of the other proposal submitters. The approved organisation must always ensure that it acts in a fair and transparent manner.

10.21 Maximum term of a term service contract for infrastructure or planning and advice

Rule

1. An approved organisation must not let a term service contract for a term greater than five years, including any initial term plus any optional term extension(s).
2. An approved organisation must not:
 - a. let a term service contract with term arrangements (initial term plus any optional term extension(s)) different from that set out in the RFP
 - b. vary the term arrangements of a term service contract once it has been let.
3. Notwithstanding the above, the term of a term service contract may be extended within the following limits and circumstances:

- a. up to three months, where the approved organisation has experienced unexpected difficulties in re-tendering
- b. up to two years, to bring together or stagger contract expiry dates when a significant restructure of services is required under a procurement strategy that has been endorsed by Waka Kotahi.

Guidelines

The term of term service contracts should be chosen with care. For large-value term service contracts, the term and the termination dates should be determined in the approved organisation's procurement strategy.

The following matters should be considered when deciding the term of each of these contracts (and the degree of aggregation and bundling of services within each contract):

- the impact of these decisions on the competitive nature of the affected markets
- the capability and capacity of the supply market (and of the purchaser)
- the life of assets to be used by the supplier in delivering the service
- economies of scale.

Term service contracts can be let under a simple fixed-term arrangement (eg two or four years). Approved organisations should consider the advantages (and disadvantages) of letting a contract for an initial term with optional term extensions as an alternative to a simple fixed term. Under such an arrangement, a term extension is normally conditional on supplier performance and can, therefore, provide an incentive to perform well. However, it can also inflate the proposal price to cover the risk of early termination.

Longer-term contracts

Waka Kotahi will consider applications to vary this rule to allow a contract term longer than five years (eg where the purchaser wishes to establish a 10-year performance based contract).

An approved organisation must document in its procurement strategy the rationale for seeking approval of a contract term longer than the five-year maximum term.

Non-tendered renewal of term service contracts

Waka Kotahi will consider applications to vary this rule to allow a contract term extension to take the total term beyond the term advised through the RFP (non-tendered renewal).

An approved organisation must document its rationale for seeking approval to extend a contract beyond the term advised through the RFP in its procurement strategy.

When applying for a contract term extension, the purchaser must show that they have considered all options, including the option of re-tendering the work in an open competition. Waka Kotahi expects that any application to approve a contract term extension beyond the term advised through the RFP will include:

- a review of how the supplier market(s) will be affected by the contract extension

- evidence that the contractual arrangement has been reviewed to identify ways to improve best value for money and to ensure that performance under the contract will continue to improve
- evidence that the supplier market(s) has been advised of the proposal to extend the contract and that it may not be re-tendered at the end of the original contract term.

The approved organisation should advise potential suppliers that a contract may be extended as soon as possible and update these suppliers on the status of its plans to extend at least annually.

If the purchaser considers that a contract may be extended beyond the term advised in the RFP when it is issued, they should indicate this at the time.

10.22 Supplier bonds

Rule

1. Approved organisations must not require a bond payable by the supplier that is greater than the reasonably expected loss to the approved organisation in the event the supplier defaults on the contract.
2. Bonds in relation to professional services contracts are not permitted.

Guidelines

Under some circumstances, approved organisations can protect themselves from the risks associated with supplier performance by specifying a bond payable if the supplier defaults.

Approved organisations should exercise caution when requiring bonds, as they can act as a barrier to competition and deter capable suppliers from participating in the supplier selection process.

10.23 Lead-in times for public transport unit contracts

Rule

The time between contract award and commencement of services must be sufficient to allow a successful tenderer to acquire the resources necessary to deliver the services.

Guidelines

A sufficient time between contract award and commencement will depend on several factors including the supplier market, the peak vehicle requirement of the public transport services contract and the type of vehicle(s) required.

A contract with a small peak vehicle requirement, where several suppliers can supply the vehicles could have a comparatively short lead-in time.

Larger contracts where providers may need to obtain new vehicles will generally need a lead-in time no less than nine months. A longer lead-in time could also encourage new market entrants, who may need to establish depots and hire staff.

10.24 Contract term of public transport units

Rule

1. The term for a bus public transport unit procured under the partnering delivery model will be:
 - a. 12 years for like-for-like transitional contracts
 - a. nine years for bus units procured through an open supplier selection process
 - b. nine years for bus units which are commercial units
 - c. six years for bus units where the supplier is selected using direct appointment.
2. For services procured under other delivery models the maximum term of a bus public transport contract is six years.
3. An approved organisation must not:
 - a. let a public transport unit contract with term arrangements (initial term plus any optional term extension(s)) different from those set out in the RFP
 - b. vary the term arrangements of a public transport unit contract once it has been awarded.
4. Notwithstanding the above, the term of a public transport unit contract may be:
 - a. extended by up to three months, where the approved organisation has experienced unexpected difficulties in re-tendering
 - b. extended by up to two years to a maximum of 12 years, to bring together or stagger contract expiry dates when a significant restructure of services is required to implement a service review set out in an operative RPTP or contained in a procurement strategy endorsed by Waka Kotahi.

Guidelines

The terms for bus public transport unit contracts procured under the partnering delivery model are fixed; not a maximum or minimum term.

The 12-year term for like-for-like units was a one-off term available to suppliers who previously held commercial service registrations under the Public Transport Management Act 2008 (now repealed).

Bus units procured through an open supplier selection process will have a term of nine years with a gross price reset at six years, see [section 10.28 Gross price resets for public transport units](#) (note that this is different from a six-year contract with an optional three-year extension, commonly described as a 6+3). The reset is on price only and is not intended to be an opportunity to end the contract.

Commercial units will have a term of nine years. This is to provide an incentive for suppliers with units with a high commerciality ratio to operate the unit without a subsidy as a commercial unit.

Units that are directly appointed, other than commercial units, will have a six-year term.

The term of emergency contracts, established without using an approved procurement procedure in terms of s26 of the LTMA, is limited to 12 months.

10.25 Contract price adjustment for input price variation public transport services

Rule

1. All public transport unit contracts procured under the partnering delivery model (excluding commercial units) and all other public transport services contracts longer than 12 months, must provide for price adjustment on the annual gross price to compensate for input cost fluctuation (inflation and deflation) using an appropriate index approved by Waka Kotahi:
 - a. Price adjustments must be paid on a quarterly basis in arrears from the commencement of the service operation.
 - b. Price adjustments must reflect movements in the index, from the quarter in which tenders closed or negotiations were concluded.
 - c. The most recent version of the indices will always apply, including any changes to the composition or weighting of index components.

Guidelines

Indexation on the gross cost transfers input risk from suppliers to the purchaser, reducing the risk premium suppliers would otherwise incorporate into tender prices. Price adjustment should be calculated and paid in arrears as soon as practicable after the publication of the index for the related quarter (eg the index for the March quarter that is published in late May should be paid in June).

These provisions transfer input price risk from suppliers to the purchasers.

Waka Kotahi has developed an indexation methodology for bus and ferry services. Waka Kotahi will use survey information from suppliers on cost structures to review the index formula approximately every five years. The latest version of the indices will apply to contracts, including any changes to the composition and weighting of the index (ie the version of the indices that existed when the contract was let will not necessarily apply for the term of the contract, if it changes as a result of the review by Waka Kotahi).

Contract price adjustment is intended to cover all inflation (or deflation) that occurs from the quarter that tenders close, including the interval between the close of tenders and the commencement of the service (ie the adjustment reflects the fluctuation in input prices between the quarter in which services are priced and each quarter in which services are delivered).

Suppliers do not need to forecast inflation for the period leading up to the commencement of the contract, nor for any initial contract period.

The latest index values, a description of their derivation and advice on how to use them are published on the [Procurement manual tools](#) page under the heading 'Infrastructure and public transport contract price adjustment'.

10.26 Key performance indicators for public transport (bus) contracts

Rule

All bus contracts must include, as a minimum, the key performance indicators specified in the performance measurement and monitoring chapter of this manual (refer to [chapter 11 Performance measurement and monitoring](#)).

10.27 Direct appointment of a supplier for a public transport unit

Rule

1. Approved organisations may directly appoint suppliers for a unit of bus public transport services where those services are commercial units.
2. Approved organisations may directly appoint a supplier of bus public transport units where direct appointment has been identified as a supplier selection method in an endorsed procurement strategy or approved procurement procedure.
3. Where a direct appointment is to be made under this section negotiation of contract price must follow the process set out in [appendix I Contract negotiation processes for bus public transport units](#).
4. Waka Kotahi must be notified of all proposals for direct appointments under this section and may at its discretion require its representative to be present at any negotiations.

Guidelines

There are two circumstances where suppliers for public transport units can be directly appointed without going through a competitive process.

1. Where the unit is identified as a unit in the RPTP, but has been determined to be a commercial unit.
2. In larger bus markets where not all units need to be tendered to achieve an efficient price, a proportion of units may be negotiated to provide an incentive for operators to grow commerciality and patronage, and to recognise their contribution to reducing reliance on public subsidy. These units will be those that have a high commerciality ratio and a high ranking on an approved organisation's league table. Approved organisations wishing to direct appoint units for this reason must set out in their procurement strategy the method they will use to determine which units will be directly appointed.

When selecting the supplier of public transport services contracts using direct appointment the process set out in [appendix I Contract negotiation processes for bus public transport units](#) must be followed.

Waka Kotahi in its role as an investor in public transport services may at its discretion require a Waka Kotahi representative to be present at direct appointment negotiations to provide Waka Kotahi and the Crown assurance that the agreed price achieved in negotiations is efficient.

10.28 Gross cost resets for public transport units

Rule

1. Bus public transport unit contracts procured through an open supplier selection process will have a cost reset of the annual gross price informed by benchmarked price data (see [appendix I Contract negotiation processes for bus public transport units](#)) at six years of the nine-year term.
2. This section does not apply to contracts for commercial units.
3. Approved organisations with small or medium-sized bus markets and where suitable price benchmark information is not or is unlikely to be available, can reconfirm the contract price at the current contract price when undertaking a gross cost reset.

Guidelines

Bus public transport unit contracts longer than six years, will have the annual gross price reset at year six of the contract to ensure confidence in costs. This is a reset of the price only. It is not a review of the contract terms, or an opportunity to end the contract early.

The reset price will apply for the start of year seven of the contract, and if necessary will be paid in arrears.

The price reset is intended to recognise that agreements need to ensure best value for money is being achieved in the longer term, and a reasonable balance is being maintained between operator profit and the expenditure of public funds.

Over time, indexation payments, changes in farebox recovery and financial incentive mechanisms may shift the balance between best value for money and sustainable revenue. The reset process is designed to restore the balance.

This reset may result in the annual gross price increasing or decreasing.

10.29 Information for tenderers for public transport units

Rule

1. As part of the RFP process the approved organisation must make available to tenderers the three most recent years' patronage and revenue information for the unit, where known. Where some or all of this information has been collected under sections 127 and 128 of the LTMA and the operator who has provided this information has identified it as commercially sensitive, the release of this information is subject to the tenderers placing a refundable deposit and signing a confidentiality agreement.
2. In the case of tenders for individual public transport unit contracts, the amount of the deposit required is to be 10% of the estimated annual gross price to provide the services within the unit or \$20,000, whichever is the lesser.
3. In the case of group tenders, the amount of the deposit required is to be 10% of the estimated annual gross price to provide the services within the units or \$40,000, whichever is the lesser.

4. The approved organisation must refund the deposit to all tenderers after the contract has been awarded, or the tender process has been terminated for any reason.

Guidelines

Where reliable information is not available the contract is to be awarded as a gross price contract for the first full year of operation, transitioning to a partnering contract, incorporating a financial incentive mechanism, at end of the first year once baseline data is available.

10.30 One-off transition for like-for-like public transport units

Rule

1. This rule has been superseded.

10.31 Vehicle quality requirements for bus public transport units

Rule

1. All urban bus public transport unit contracts must incorporate the vehicle standards contained in the *Requirements for urban buses in New Zealand: New Zealand's common standard for urban bus quality* (RUB)
2. If an approved organisation wishes to vary a vehicle standard, from those set out in the RUB, it must have written approval from Waka Kotahi. The process for applying for approval, and the criteria that the variation will be assessed against, are described in the RUB.

Guidelines

The RUB has been developed in collaboration with regional councils, the Bus and Coach Association, operators, bus builders and suppliers. User groups were also consulted as part of its development.

The intention is that the RUB is the standard for urban buses in New Zealand and that the dimensions and features in the RUB are accepted by all regional councils as a prerequisite for receiving Transport Agency investment.

The RUB may be amended from time-to-time (but typically every three to five years), the most recent update should always be used in tenders and this can be found at *Requirements for urban buses in New Zealand: New Zealand's common standard for urban bus quality* (RUB)

In addition, all urban bus public transport units should consider the additional matters and good practice as set out in the RUB.

10.32 Total Mobility scheme

Rule

1. Details for the provision of the Total Mobility scheme must be determined through the preparation of the RPTP.
2. An approved organisation must allow all suppliers who meet the criteria to join the Total Mobility scheme. These criteria must be made publicly available.
3. The detail of the procurement procedure for Total Mobility services must be reviewed at least once every three years or sooner if a materially significant change is made to one or more of the factors that determines the detail of the procurement procedure.

Guidelines

Contracts for the Total Mobility scheme should allow for modifications to the scheme that result from amendments to the RPTP.

Investment in wheelchair hoists and/or ramps may be made if the transport operator investment application meets the authorised organisation's investment criteria.

The approved organisation is responsible for determining the maximum subsidised fare for the Total Mobility scheme that it subsidised by 50%.

Approved organisations should be satisfied that their contribution to the total reimbursement for Total Mobility services does not exceed the average fare being charged by the transport provider in the area covered by the service.

Where Total Mobility services are provided by private hire and voluntary service providers, the sum of the contribution paid by the user and subsidy received from the approved organisation should be less than published fare schedules.

11.0 PERFORMANCE MEASUREMENT AND MONITORING

11.1 Overview

Introduction

This chapter sets out the information Waka Kotahi will collect from approved organisations to assess whether the procurement procedures are enabling approved organisations to obtain the best value for money spent. The information will also help Waka Kotahi to assess the impact of the procurement procedures on the supplier market including fairness, competition and efficiency considerations.

The requirements relating to assessing the performance of public transport services are also covered in this chapter.

Waka Kotahi expects approved organisations to establish their own performance measurement and monitoring frameworks. This chapter sets out guidelines for what should be contained in those frameworks.

In this chapter

This chapter contains the following sections:

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11.2 Performance measurement and monitoring framework

Introduction

Approved organisations will already have considerable experience in developing performance measurement and monitoring systems because of the requirements in the Local Government Act 2002 and via the development of plans like long-term plans. This chapter draws on the skills and experience derived from other local authority functions and applies them to procurement.

Waka Kotahi is responsible to government for ensuring that the approved procurement procedures are designed to obtain the best value for money spent, keeping in mind the desirability of fair competition and competitive and efficient markets.

A primary objective of the performance measurement and monitoring framework is to improve decision making and facilitate continuous improvement in procurement practice and policy. Waka Kotahi will use the information it collects to monitor how well the framework is working and to identify best practice and the areas that can be improved, and it will share its findings with approved organisations.

The performance measurement and monitoring system will evolve over time. Initially, the focus is on a few indicators that reflect the key priorities of Waka Kotahi, which are based on the requirements of s25 of the LTMA.

Purpose

The measurement and monitoring framework has three purposes:

1. Provide evidence of how well the approved procurement procedures are meeting the requirements of s25:
 - a. obtaining the best value for money spent
 - b. enabling fair competition
 - c. encouraging competitive and efficient markets.
2. Improve decision making and facilitate continuous improvement in procurement practice and procurement policy.
3. Determine how well the procurement procedures are being followed.

The data collected by Waka Kotahi is quantitative and qualitative in nature and it will continue to include the information on outcomes and outputs already provided by approved organisations, such as safety measures and cost per kilometre for road works.

The aim of collecting, analysing and evaluating the data is to allow Waka Kotahi to measure the performance of the procurement procedures against the requirements of the LTMA.

The measurement and monitoring framework is not an accountability or 'policing' framework, although there is a compliance component in the form of regular audit undertaken by Waka Kotahi. This audit function is discussed in more detail in [section 11.4 Audit and compliance](#).

Benefits of monitoring and measuring

The performance measurement and monitoring framework is used to:

- provide evidence of best value for money in procurement
- provide measures other than price to support procurement decisions
- monitor the competitiveness of the supplier markets
- benchmark and monitor the effectiveness of procurement across the sector
- bring continuous improvement through:
 - improving capability and capacity in approved organisations

- providing a health check as part of a continuous improvement programme
- aiding improvement in the efficiency and effectiveness of procurement procedure design and deployment
- sharing best practice information (as well as information about what does not work well) across the sector
- identifying champions across approved organisations and Waka Kotahi who can be contacted to assist with procurement advice.

Limitations

The focus of the measurement and monitoring framework is confined to the procurement component of the best value for money equation, except in the case of public transport service performance measures which also cover effectiveness measures. The wider assessment of best value for money against activity selection and funding approval is not part of this framework, but belongs to the wider monitoring and reporting requirements of Waka Kotahi.

This framework seeks to identify and measure what variation, if any, there is between the base estimated costs and benefits (value) established at the time of funding approval and the actual costs and benefits of the activity (or activities), and whether any of that variation can be attributed to the procurement process.

External factors outside the control of an approved organisation may also contribute to any variations. Caution needs to be taken when analysing and evaluating data to make sure that, as far as possible, the framework measures the impact of the selected procurement procedure itself on obtaining the best value for money spent.

The ability to assess and analyse the information will develop over time.

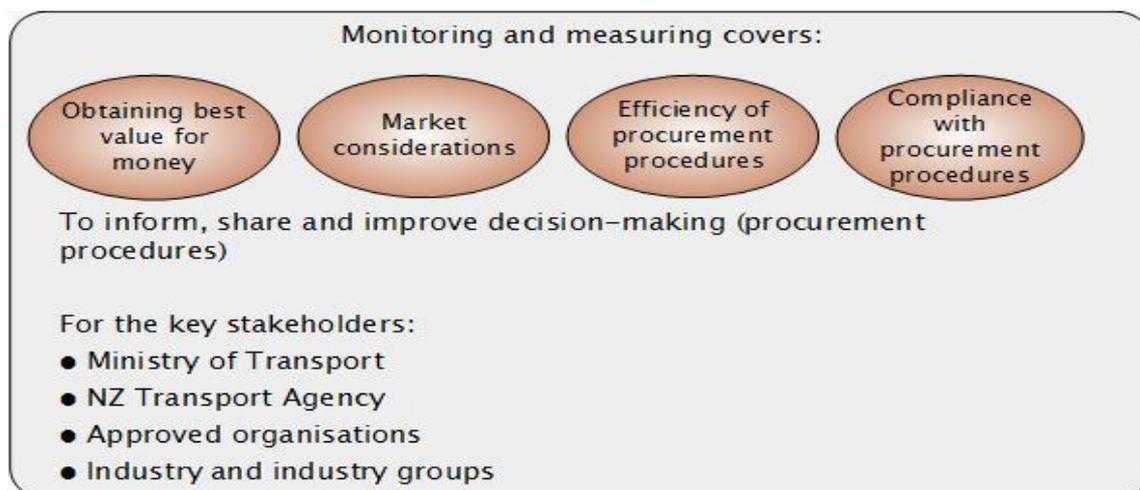
The scope of the framework includes:

- decisions made in the procurement process (eg choice of supplier selection method and why)
- assessments of the best value for money spent in the procurement process (time, cost and quality)
- fairness of the procurement process and market competition and efficiency
- efficiency of the procedures in terms of cost to the approved organisation of its procurement function and cost to the supply market through participating in the process
- audits.

The scope excludes:

- indicators to aid contract management – this is the responsibility of approved organisations
- evaluation of activity selection (ie did we buy the right thing in the first place?).

The diagram below highlights the main components of the monitoring framework.



11.3 Information to be provided

Introduction

The information to be collected from approved organisations is both quantitative and qualitative in nature and it focuses on:

- best value for money – time, cost and quality
- supplier markets – fairness and competition, and innovation
- efficiency of procurement procedures.

In addition, in the case of public transport services the information will also be used to assess their effectiveness.

Much of the information to be provided is on a contract basis for every contract over the level of direct appointment (see [section 10.9](#) *Direct appointment and closed contest for low dollar value contracts*). Other information will be required on an annual or aggregated basis. Key indicators are discussed in more detail below.

Waka Kotahi will continue to collect and review information and documentation during its audit process.

Generic procurement information

Waka Kotahi will require approved organisations to provide generic procurement data on contracts let, including:

- activity class/work category
- delivery model selected
- supplier selection method chosen
- preferred supplier.

[Appendix E Data collection checklist](#) contains a checklist to assist approved organisations collect and document the procurement data required by Waka Kotahi.

Best value for money

While activity selection is the primary driver for an approved organisation to obtain best value for money spent, procurement has a significant role to play. The purpose of procurement is to:

- preserve the best value for money obtained by ensuring the expected value is delivered and the expected budget is not exceeded
- where possible, improve the best value for money obtained by enabling the procurement process to identify a solution with more value, or at a lower whole-of-life cost than anticipated in the initial best value for money calculation.

The information required by Waka Kotahi focuses on any variations between estimated and actual best value for money in terms of time, cost and quality – these are the three main attributes by which best value for money in procurement is measured:

- time – estimated duration of contract and actual duration of contract
- cost – estimated cost of contract and actual cost of contract
- quality – approved organisation's satisfaction with the goods or services purchased.

Regard to markets

Initially, the quantitative data collected will concentrate on three attributes of the market:

- fairness – whether or not the supplier selection process was an open or a closed contest and the reasons for this decision
- competitiveness – the number of bids received and whether alternative bids were permitted or received
- innovation – whether alternative bids that add best value for money were permitted; whether alternative bids were received and accepted or rejected; what added value alternative bids brought and their associated cost.

Any complaints lodged with Waka Kotahi will continue to be used as a further indicator of fairness and market conditions.

Efficiency and effectiveness

This area of monitoring aims to measure whether the procurement procedures are cost effective and simple to use. This will be broadly measured by comparing the overall cost of an approved organisation's procurement function with the total cost of contracts let.

11.4 Audit and compliance

Introduction

One of the functions of Waka Kotahi is to audit the performance of approved organisations in relation to the activities approved by Waka Kotahi. While audit has a broader role, this section focuses solely on its relevance to procurement. An important part of any audit is the review of documentation, in this case clear documentation of procurement decisions. Waka Kotahi expects approved organisations to record data and decisions accurately, including

data required by this manual, as well as regular business and contract information that should be recorded as a matter of good practice.

Audit types

The following audits may take place.

Type of audit	Type of contract	Procurement focus
Technical review	Maintenance	<ul style="list-style-type: none"> To identify the approved organisation's procurement choices and any associated measurable or perceived impact on delivery.
Post-implementation review	All excluding maintenance	<ul style="list-style-type: none"> To identify the approved organisation's procurement choices and any associated measurable or perceived impact. To identify that the benefits assessed at the time funds were allocated were obtained or enhanced through the procurement of the activity.
Procedural	All	<ul style="list-style-type: none"> To identify if the approved organisation has a procurement strategy and has applied it. To identify if the approved organisation has relevant procurement procedures in place and has complied with this manual. To identify if the approved organisation has appropriate measuring and monitoring mechanisms in place. To ensure that approved organisations supply reliable contract data to Waka Kotahi.
Themed audits	All, across approved organisations	<ul style="list-style-type: none"> To review procurement's role in achieving objectives in an efficient and effective manner. To assess the relative merits of the different supplier selection methods and procurement choices when adopted for the same class of activity. To identify how the approved organisation ensures that it has sufficient capability to deliver on its procurement strategy and objectives.

Approved organisations are subject to procedural audits and technical reviews, although themed audits will become increasingly important.

[Appendix F Procedural audits checklist](#) has a checklist of the areas that will be reviewed at the time of an audit. Approved organisations should ensure that, as a minimum, they have documentation for the areas contained within the checklist.

11.5 Role of approved organisations

Introduction

As noted above, approved organisations already have considerable experience developing performance measurement and monitoring systems. Waka Kotahi does not prescribe how an approved organisation should monitor its own activities and it does not oversee individual contracts. However, Waka Kotahi expects each approved organisation to establish and maintain its own procurement performance measurement and monitoring framework. At a minimum, each approved organisation must ensure it has sufficient systems and processes in place to enable it to provide the data that Waka Kotahi requires.

Each approved organisation must consider the following processes when developing a performance measurement and monitoring system:

- Clearly define what must be measured and monitored.
- Ensure the right information is collected.
- Aggregate and analyse the information.
- Evaluate the information – are all the impacts attributable to procurement, or are other factors at work?
- Act on the findings – amend policies or practices.

What should be included

The monitoring and measuring framework should include:

- monitoring of individual contracts
- market data
- performance against individual strategic objectives
- conditions of funding and audit requirements.

Monitoring of contracts should be appropriate to the work being undertaken and judgement will be needed to decide what is required. At a minimum, it should include:

- relevant documentation, including evidence of procurement decisions and their rationale (eg what particular supplier selection method or delivery model was selected and why)
- identification of key procurement risks and how they are monitored and managed throughout the life of the contract
- performance of the contract against original expectations throughout its life to ensure value is maintained or improved (in terms of output and any other evaluation criteria when selecting a supplier).

Details required by Waka Kotahi are set out in [appendix F Procedural audits checklist](#).

Waka Kotahi expects approved organisations to collect and analyse relevant market data in order to fully understand the supplier markets they work within. This may include identifying gaps in supply, understanding supplier capabilities, whether there are any potential suppliers, and what effect the procurement activity of other organisations may have on the supplier market.

Approved organisations should evaluate their performance in terms of their own strategic objectives. Potential areas for monitoring and measuring include:

- objectives in the approved organisation's procurement strategy (for example, if the procurement strategy includes the goal 'to enhance competition in the professional services market in x locality', the monitoring framework could include an indicator that considers the number of suppliers in the professional services market in that locality. This number should be reviewed when assessing the performance against the strategy. Analysis should take place to understand the impact of procurement processes on this outcome and then appropriate actions taken).
- objectives set out in the long-term plan and other relevant plans.

For the purpose of this section, measuring and monitoring should be restricted to those areas where procurement can have an impact. See the discussion on 'limitations' in [section 11.2 Performance measurement and monitoring framework](#).

Benefits

Developing a procurement performance measurement and monitoring framework will allow approved organisations to realise the following benefits:

- improved understanding of procurement, including efficiency and effectiveness
- improved relationships with suppliers through increased knowledge of markets and performance
- better performance from contracts - monitoring timely delivery and cost performance, as well as risks and the ability to use performance-based incentives
- measuring performance and the appropriateness of certain procedures in certain situations.

11.6 Role of the NZ Transport Agency

Introduction

One of the roles of Waka Kotahi is to assist and advise approved organisations. Through its collection, analysis and evaluation of data, Waka Kotahi is able to identify best practice and share its findings with the sector.

Analysis

The collection and analysis of data over time will enable Waka Kotahi to identify the effect that particular procurement decisions have on best value for money and the broad requirements of s25 of the LTMA. For example, it may be that over time particular supplier selection methods or delivery models demonstrate better value for money than others in

relation to particular types of activity. Where this appears to consistently be the case, it will be shared with the sector and inform any amendments to this manual as appropriate.

The data gathered will also facilitate benchmarking across different categories of activities and procurement procedures or against external benchmarks, such as the Centre for Advanced Engineering key performance indicators, or data from relevant international bodies. Benchmarking and trend analysis can take place at various levels, including but not limited to:

- individual approved organisations
- regions
- activity types
- delivery models
- supplier selection methods.

Attributing effects or outcomes to procurement is not always clear or simple. For example, an indicator from a particular project that sits above or below a particular benchmark does not necessarily indicate that incorrect procedures were used. Rather, such information can prompt further investigation about what happened and whether or not anything could or should have been done differently. In this regard, quantitative data will not be looked at in isolation, but will be informed by qualitative data such as audits or surveys.

Advice

A key purpose of gathering and analysing selected data is to identify what is working well and to share it with approved organisations. It will facilitate evidence-based solutions to procurement issues, inform changes to this manual, provide relevant and consistent information for approved organisations and begin to make visible and available much that is currently informal or held only as institutional knowledge.

Feedback and reporting

Waka Kotahi will share its findings in a variety of forms and with different audiences. In addition, current reports such as regional summaries and briefing notes will contain a focus on procurement.

11.7 Public transport service key performance measures

Introduction

This section is wider in scope than the rest of chapter 11. It covers the performance measures Waka Kotahi will use to monitor public transport service delivery at a public transport unit and region level, as well as assess whether procurement procedures are obtaining best value for money.

Approved organisations are expected to be able collect this information and provide it to Waka Kotahi in the manner specified.

The information requirements are a mix of general performance measures (for example patronage growth) and contract performance measures (for example service trip reliability).

General performance measures may be included in public transport service contracts if an approved organisation is reliant on a supplier of a public transport service to collect this information on its behalf. However, this is not a requirement if an approved organisation has another mechanism for collecting such information. For example, approved organisations with integrated ticketing will receive patronage and revenue information directly and therefore do not need to include this in a public transport service contract if the approved organisation does not consider it necessary.

Contract performance measures must be included in all partnering contracts as part of the required performance and monitoring provisions for partnering contracts. Approved organisations should also consider including them in public transport service contracts procured using the staged delivery model.

When considering what is required under this section, approved organisations should also make use of:

- [Appendix E - Data collection checklist](#) which also includes data that does not need to be provided to Waka Kotahi on a regular basis but may be requested
- [Appendix K - Measuring public transport customer satisfaction](#)
- [Appendix L - Public transport data definitions](#).

General performance measures

Approved organisations must collect the following information and provide it to Waka Kotahi at the frequencies specified.

The information will principally be used to assess overall public transport effectiveness at a national, regional and public transport unit level. Performance measure (4) has been specifically included to inform monitoring of procurement outcomes.

	Attribute	Key performance measure	Parameters
Transactional data requiring a monthly breakdown by unit (can be reported either monthly or quarterly).			
1	Patronage	Number of passenger boardings per service trip operated	Disaggregated by: <ul style="list-style-type: none"> mode (bus, ferry, train, on-demand?) passenger type (adult, SuperGold, [child concession where applicable]) time period (peak, off-peak) service level breakdown (unit, sub-region, region).
		Average trip length	Disaggregated by route/unit (to allow calculation of passenger kilometres at unit and regional levels for each mode)
2	Revenue	Fare box revenue	(Note: Monthly fare box revenue should be reconciled with monthly patronage reports by unit)
3	Fleet information		(Note: Fleet information should include: <ul style="list-style-type: none"> fleet size (bus and ferry) percentage of bus fleet compliant with requirements for urban buses in New Zealand (RUB) average age of the bus fleet (number of Euro 3 or higher buses).
Procurement outcomes (to be reported annually)			
4	Tenders	Average number of qualifying bids per tender	The average number of qualifying bids, including bids with one tender
		Percentage of tenders with only one qualifying bid	Percentage of tenders with only one qualifying bid
		Final agreed price with successful tenderer	The final price agreed between the approved organisation and the successful supplier of services within a public transport unit.

Contract performance measure requirements to be included in partnering contracts

All partnering contracts are expected to contain a performance monitoring agreement to support the delivery of quality public transport services. Performance measures provide a mechanism for:

- identifying ‘what matters’ (for instance what is critical to encourage people to use public transport services)
- measuring progress toward desired objectives (for instance, national public transport objectives or regional public transport objectives)
- good contract management including assessing what is impacting on performance and forward planning through the annual business planning process.

In developing a performance monitoring agreement approved organisations should give consideration to:

- relevance of performance measure to providing a quality public transport service
- availability and reliability of data required to measure performance
- ease and cost of collecting data required to measure performance
- how external factors that can impact on performance, but cannot be controlled, will be accounted for in assessing performance
- reciprocal performance measures on the approved organisation that is critical to good contract performance (for instance, service trip times should be feasible to meet under average conditions for the service).

Waka Kotahi has identified a set of performance measures that it considers critical to measuring public transport effectiveness and support assessment of procurement outcomes. At a minimum, performance monitoring agreements will include the following performance measures. This information needs to be supplied to Waka Kotahi at the frequency specified in the following table.

	Attribute	Key performance measure	Parameters
Performance data to be reported quarterly by unit			
1	Service performance (service reliability and punctuality)	Service trip reliability (bus, ferry and train)	Disaggregated by peak and off-peak Percentage of scheduled service trips completed in full (Note that a service trip leaving the origin stop >59 seconds early or >9 minutes and 59 seconds late is deemed not to have operated)
		Cancelled service trips (bus, ferry, train)	Disaggregated by peak and off-peak

	Attribute	Key performance measure	Parameters
			Percentage of timetabled service trips that were cancelled
		Service trip punctuality: a. trip start b. at destination (or en route if required) (bus, ferry, train)	Disaggregated by peak and off-peak a. Percentage of scheduled service trips leaving origin stop between 59 seconds before and four minutes and 59 seconds after the scheduled departure time. b. Percentage of scheduled service trips between 59 seconds before and four minutes and 59 seconds after the scheduled departure time at the selected points.
Performance data to be reported annually			
2	Safety and security	Number of incidents	The maintenance of an up-to-date incident register, disaggregated by: <ul style="list-style-type: none"> nature (eg criminal, anti-social) severity (eg resulting in serious injury, nuisance) (Note: Including the requirements of the health and safety sections of the Health and Safety at Work Act 2015 and the Operator Rating System).
3	Complaints	Number of complaints received	Disaggregated by service attributes (eg punctuality, vehicle cleanliness, comfort).
		Percentage of complaints responded to within 10 working days	
Performance data to be reported at least once every three years			
4	Customer satisfaction	Customer satisfaction with the quality of PT services	Appendix K <i>Measuring public transport customer satisfaction</i> contains a customer satisfaction survey that approved organisations must use when undertaking a survey of customer satisfaction to ensure results are comparable across operators, mode and regions.

Appendix A Procurement strategy checklist

Overview

This appendix contains checklists to assist approved organisations to develop a procurement strategy. Checklist list 1 is a generic checklist that can be used for most procurement strategy development. Checklist 2 is specific to the procurement of bus public transport units.

The checklist is a series of headings against which the approved organisation can assess its existing procurement strategy or develop one in accordance with the guidelines in this manual.

Checklist 1

1. Executive summary
 - 1.1 Summary statements of key issues and opportunities to obtain best value for money.
 - 1.2 Recommendations (where relevant) that Waka Kotahi:
 - endorses the procurement strategy
 - approves the use of advanced components
 - approves a customised procurement procedure
 - approves a variation or an exemption to a procurement rule
 - approves the use of in-house professional services.
 - 1.3 Evidence of corporate ownership or internal endorsement of the procurement strategy.
2. Policy context of the approved organisation
 - 2.1 Strategic objectives and outcomes.
 - 2.2 Objectives and outcomes for the procurement strategy.
 - 2.3 Waka Kotahi procurement requirements and what they mean for the approved organisation:
 - best value for money
 - competitive and efficient markets
 - fair competition among suppliers.
 - 2.4 Other relevant factors, such as organisational policies, wider organisational procurement plans or the regulatory environment.
3. Procurement programme
 - 3.1 Procurement programme, segmented by:
 - size, type or duration
 - complexity, scale, timing, innovation potential, risk and an assessment of the supplier market
 - need for specialised skills.

- 3.2 Identification (where relevant) of any pending high-risk or unusual procurement activities.
4. Procurement environment
 - 4.1 Analysis of supplier market.
 - 4.2 Analysis of the approved organisation's current procurement spend and profile.
 - 4.3 Analysis of the impact of the procurement programmes of other approved organisations and other entities.
5. Approach to delivering the work programme
 - 5.1 Confirmation of specific strategic objectives.
 - 5.2 The procurement approach. For each segment of the work programme, the procurement strategy should identify the optimal procurement options as they relate to the strategic objectives. Consider:
 - key attributes and best value for money strategy
 - the nature of the activities for each segment of work (eg complexity, scale, timing, innovation potential, risk and an assessment of the supplier market)
 - aggregation, bundling and the term of term service contracts
 - proposed delivery model(s) and supplier selection method(s)
 - impact of the preferred approach on best value for money, fair competition, and competitive and efficient markets
 - risk identification and management
 - approach to contract management.
 - 5.3 Analysis of whether advanced components, customised procurement procedures or variations to procurement rules are required and why.
6. Implementation
 - 6.1 Capability and capacity:
 - description of the current and desired state, including current structure, and roles and responsibilities within the wider organisational structure
 - identification of any capability or capacity gaps
 - plan to fill the gaps.
 - 6.2 Internal procurement processes.
 - 6.3 Performance measurement and monitoring:
 - Transport Agency KPIs
 - additional KPIs
 - internal reporting, review and feedback process.
 - 6.4 Communication plan:
 - internal stakeholders
 - other approved organisations and entities
 - supplier market

- Waka Kotahi.
- 6.5 Implementation plan.
- 6.6 Corporate ownership and internal endorsement.

Checklist 2 (Bus public transport units procurement)

1. Executive summary
 - 1.1 Summary statements of key issues and opportunities to obtain best value for money.
 - 1.2 Recommendations (where relevant) that Waka Kotahi:
 - endorses the procurement strategy
 - approves the use of advanced components
 - approves a customised procurement procedure
 - approves a variation or an exemption to a procurement rule
 - approves the use of in-house professional services.
 - 1.3 Evidence of corporate ownership or internal endorsement of the procurement strategy.
2. Policy context of the approved organisation.
 - 2.1 Summary of strategic objectives and outcomes from the RPTP.
 - 2.2 Objectives and outcomes for the procurement strategy.
 - 2.3 Any transitional considerations resulting from changes in government policy.
 - 2.4 Waka Kotahi procurement requirements and what they mean for the approved organisation:
 - best value for money
 - competitive and efficient markets
 - fair competition among suppliers.
 - 2.5 Other relevant factors, such as organisational policies, wider organisational procurement plans or the regulatory environment.
3. Procurement programme
 - 3.1 Unit procurement considering:
 - whether the network identified in the RPTP is still fit for purpose
 - whether the allocation in the RPTP of all services, including school services into units, impacts on the procurement programme
 - whether there were any commercially registered public transport services under the PTMA that need to be transitioned into units or exempt services
 - the number of units, the size of units and the need to align or phase the procurement of units
 - complexity, scale, timing, innovation potential, risk and an assessment of the supplier market

- need for specialised skills.
- 3.2 Identification (where relevant) of any pending high-risk or unusual procurement activities:
- whether there will be any directly appointed units and the implications for tendering activity for other units to ensure the use of price benchmarks for directly appointed units are robust
 - consideration of what process will be used to appoint an arbitrator or adjudicator should negotiations for direct appointments fail.
4. Procurement environment
- 4.1 Analysis of supplier market including any barriers to market entry and the communication plan.
- 4.2 Analysis of the approved organisation's current public transport services contract expiry dates, any early termination clauses and whether contract extensions may be required.
- 4.3 Analysis of the impact of the procurement programmes of other approved organisations and other entities.
5. Approach to delivering the work programme
- 5.1 Confirmation of specific strategic objectives.
- 5.2 The procurement approach. For each segment of the work programme, the procurement strategy should identify the optimal procurement options as they relate to the strategic objectives. Objectives against which Waka Kotahi will evaluate procurement strategies include:
- key attributes and best value for money strategy
 - the nature of the activities for each segment of work (eg complexity, scale, timing, innovation potential, risk and an assessment of the supplier market)
 - identification of which public transport units will be tendered and whether any units will be directly appointed
 - calculation of commerciality ratio for each public transport unit and for the region and establish league table
 - setting out of principles for collaborative relationships for public transport services that will inform the partnering relationship and contract management with operators
 - phasing of tender rounds, and what units will be tendered together, considering the impact on benchmarking
 - identification of any public transport services units that will be negotiated
 - the financial incentive mechanism to be included in public transport services contracts
 - description of the circumstances under which group tenders will be considered for public transport services contracts, any strategy or policies that may limit groups and the broad approach to evaluating such tenders. If group tenders not permitted state why
 - proposed delivery model(s) and supplier selection method(s):

- o Identify the delivery model(s) that will be used, noting that the majority of services will be procured through the partnering delivery model
 - o Identify which supplier selection methods will be used
 - o Describe the tender evaluation methodology
 - o Describe the contract and pricing model to be used
 - impact of the preferred approach on best value for money, fair competition, and competitive and efficient markets
 - risk identification and management
 - approach to contract management.
 - o Develop an annual business planning process for public transport services contracts
 - o Establish a process for managing and pricing service-level variations to partnering contracts
 - o Establish a mechanism for gross price resets for partnering contracts.
- 5.3 Analysis of whether advanced components, customised procurement procedures or variations to procurement rules are required and why.
- where there are ferry or rail-based public transport units work with Waka Kotahi to develop the customised procedures.

6. Implementation

6.1 Capability and capacity:

- description of the current and desired state, including current structure, roles and responsibilities within the wider organisational structure
- identification of any capability or capacity gaps
- plan to fill the gaps.

6.2 Internal procurement processes.

6.3 Performance measurement and monitoring:

- Transport Agency KPIs
- additional KPIs
- internal reporting, review and feedback process, including reporting on annual business planning.

6.4 Communication plan:

- internal stakeholders
- other approved organisations and entities
- supplier market
- Waka Kotahi.

6.5 Implementation plan.

6.6 Corporate ownership and internal endorsement.

Appendix B Criteria for selecting a delivery model

Selection criteria

To select the appropriate delivery model, approved organisations should assess the activity against the following criteria:

- complexity and uncertainty
- scale
- timing and urgency
- innovation potential
- risk management
- supplier market.

To select the delivery model for an infrastructure procurement activity, approved organisations should analyse the conditions that surround the procurement event that the organisation identified in the strategic context analysis and specified in the activity description. All considerations must be documented as part of the reporting requirements for the procurement procedures in this manual.

The capability and capacity of the purchaser influences what delivery models can be used. If, after assessment, the delivery model selected proves to be outside the purchaser's capability and capacity, an alternative delivery model should be selected. The purchaser should consider investing in the development of capability and capacity where no reasonable alternative exists. Alternatively the capability and capacity required could be outsourced for a one off event.

The sections below discuss how to select a delivery model and define the criteria listed above. Note that this is general guidance only and that detailed guidelines on the specific application of each delivery model are contained in the procurement procedures in this manual.

Complexity and uncertainty

What levels of complexity are involved in the activity, as described by the scope definition and with an understanding of the breadth of the activity (eg a narrow, clearly defined scope versus one that is wider and more general in nature)?

The level of complexity relates to structural and technical complexity:

- Structural complexity is the number of varied components and the interdependence of these components.
- Technical complexity is the extent to which untested or new technical issues need to be addressed in delivering the activity.

Uncertainty is present when it is impossible to exactly describe the existing state or future outcome, or assess the probability of a future outcome occurring.

When assessing the activity's complexity and uncertainty, approved organisations should consider the following questions:

- What level of uncertainty exists in the methodology and expected outcomes? Complexity will increase with uncertainty.
- How many separate components exist in the activity?
- Are these components interdependent? Complexity will increase as the number of interdependent components increases.

Scale

Will contract size have an impact on the type of supplier or groups of suppliers sought to deliver the activity?

Contract size has a bearing on procurement in terms of the scale of the supplier and the resources required to complete the job (ie more than one supplier may be needed for particular aspects of an activity).

Timing and urgency

Does the activity have an urgent deadline (eg emergency works, or would the activity be enhanced by an early completion date)?

Some delivery models involve longer processes than others due to the different mix of supplier and purchaser involvement and responsibilities.

The type of delivery model used to purchase an activity can affect the expected delivery date for the outputs, so selection of the delivery model can change timing.

When selecting a delivery model, approved organisations should consider which model is most likely to optimise activity delivery time.

Innovation potential

Would the introduction of incentives into the delivery model substantially increase best value for money through innovation aimed at minimising risk, bringing forward completion and increasing the quality of the outputs purchased?

Incentives are used to encourage a supplier to be innovative in their business solutions and capital technology in order to deliver high-quality outputs, minimise programme delays and increase efficiency.

When selecting a delivery model, approved organisations should assess the potential of the supplier(s) to introduce innovation into the delivery process that will positively affect the quality and, if applicable, quantity of outputs, minimise risks and deliver benefits earlier (enhance best value for money). Incentives for supplier innovation will affect the quality of outputs, risks and delivery times.

This question is related to issues of risk, complexity and contract size. The possibility, or capacity, to innovate is potentially greater in large activities with a less well-defined scope at the start and numerous risks, compared with a small-value activity with a well-defined scope.

Risk management

Where does the majority of the control and therefore risk sit in the delivery model – with the purchaser or the supplier(s)?

Risk can be defined as a situation that could occur during the lifetime of a good or service that has the potential for negative impact in terms of human injury, capital damage or economic loss. The level of risk depends on the probability of such a situation arising and the potential negative effects the situation may cause.

Risk and uncertainty are separate issues:

- Risk in general can have a probability of occurrence attached to an event and can be assigned to a party in the contract.
- Uncertainty is unknowable and unquantifiable, and cannot be assigned. There is always some uncertainty associated with the delivery of an activity.

Common risks in procurement can be grouped into:

- cost risks – situations that have the potential to result in costs being above the budget
- time risks – situations that have the potential to result in time delays and undesirable completion dates
- quality risks – situations that have the potential to result in a completed good or service that does not meet the requirements of the purchaser
- technical risks – those risks associated with the activity that cannot be carried by the supplier (eg geotechnical risks)
- scope risks – those situations where the scope has the potential to change during delivery, or the supplier(s) fall short of the scope specified for delivering the activity (in these cases, obtaining best value for money, based on the activity specified during the funding allocation process, is jeopardised)
- third party risks – those situations where third parties may be directly affected by coming into contact with the activity during its delivery phase (those affected can include customers, motorists, asset or service users, and the public in general); such risks can include health and safety issues, time delays, denial of service and environmental impacts.

Note that risk is not always negative. Positive outcomes to the delivery of activities can include early completion and less third party impact than anticipated.

Allocation and management of risk is intended to keep risk under control, prevent the occurrence of a situation that may result in large negative impacts and mitigate the negative impacts should such a situation eventuate. Risks should be allocated to a party based on their ability to:

- control the arrangements or actions required to minimise the potential for situations arising that may negatively impact on the activity
- influence any effects that result from such a situation arising
- benefit from the activity and the minimisation of risks.

An important factor in the selection of a delivery model is how risk should be allocated and which party can best manage the risk. Note it is unlikely that all risk can, or should, be managed away through the contract.

Supplier market

Is it anticipated that there will be a highly competitive market of potential suppliers for this activity, or does the activity profile suggest that the supplier market will be lacking in competition?

Whether an approved organisation is able to obtain best value for money directly relates to the state of the supplier market. Selecting a supplier who will minimise whole-of-life costs, while providing the required quality of output, will typically arise from a competitive bidding environment and an effective supplier market.

The number of possible suppliers in the market who can deliver the activity to the required quality standard will be a factor to consider in selecting the most appropriate delivery model and determining how the activity will be specified. The number of suppliers will depend on the scope, complexity, contract size and expected output of the activity. Smaller, well-defined activities may have a larger supplier market to access than larger, more broadly defined activities, or activities requiring specialist knowledge or equipment.

Appendix C Supplier selection methods

C.1 Overview

Introduction

This appendix describes the available supplier selection methods referred to in [section 10.13 Using an available supplier selection method](#). It includes the procedure for each method plus guidelines to assist with their application.

In this appendix

This appendix contains the following sections:

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C.2 Direct appointment

Direct appointment is a supplier selection method in which the purchaser selects a single supplier and negotiates the contract terms, including price.

Using direct appointment

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

1. The contract is a low dollar value contract (refer to [section 10.9 Direct appointment and closed contest for low dollar value contracts](#)), or
2. The contract is a low dollar value contract and the supplier selection process commences as a closed contest, but only one potential supplier is identified (refer to [section 10.9 Direct appointment and closed contest for low dollar value contracts](#)), or
3. The supplier selection process commences as an open competition, but only one potential supplier is identified (refer to [section 10.8 Competition for supply](#)), or
4. A monopoly supplier situation exists (refer to [section 10.10 Direct appointment of a monopoly supplier](#)), or
5. The requirements for direct appointment are met under [section 10.11 Direct appointment where competition will not help obtain best value for money](#)
6. The requirements for direct appointment are met under [section 10.27 Direct appointment of a supplier for a public transport unit](#).

Proposal 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 and establish a contract that is designed to obtain the best value for money.

For all negotiations under [section 10.27 Direct appointment of a supplier for a public transport unit](#), see [appendix I Contract negotiation processes for bus public transport units](#) for the proposal evaluation procedure.

Steps 1 and 2 are only relevant when [section 10.9 Direct appointment and closed contest for low dollar value contracts](#) applies, and the estimated contract value is within the limit that allows use of the direct appointment method.

Alternative proposals

The negotiation process can accommodate any alternative proposals offered by the preferred supplier.

C.3 Lowest price conforming

Lowest price conforming is a supplier selection method in which the preferred supplier meets all the requirements set out in the RFP and offers the lowest-priced proposal, after deducting any added value premium.

Using lowest price conforming

Lowest price conforming should be used where the approved organisation determines that best value for money will be obtained by having suppliers compete on price alone and the approved organisation is not prepared to pay a premium for additional quality. The preferred supplier is the supplier that offers the lowest price and meets all the minimum requirements, including quality, as set out in the RFP. **Minimum requirements should have a clear pass / fail basis. In instances where an approved organisation requires a lengthy and nuanced response to evaluate quality, such as a comprehensive methodology, project description and full CVs, consideration should be given to using Price Quality Method as the supplier selection method.**

Proposal evaluation procedure

When selecting a supplier using the lowest price conforming method, approved organisations must use the proposal evaluation procedure below.

Step 1 Rank proposals in ascending order based on price.

Step 2 Evaluate the proposal/s (except for alternative proposals).

- Commence with the lowest-priced proposal.
- Determine that the proposal is within the RFP's scope and requirements.
- Evaluate each non-price attribute on a pass or fail basis.
- Reject (exclude from further consideration) any proposal that fails against an attribute.

- Cease evaluating proposals when the first conforming proposal is identified (see Guidelines section below which explains when it may be appropriate to evaluate all proposals).

Step 3 Evaluate alternative proposals.

- Evaluate all alternative proposals (regardless of price) in accordance with the second, third and fourth bullets under step 2.
- Evaluate in accordance with the relevant rules contained in [section 10.16 Alternative proposals](#).
- Determine any added value premium in accordance with [section 10.17 Added value premium](#).
- Deduct any added value premium from the price of the alternative proposal.

Step 4 Identify the preferred supplier.

- The preferred supplier is the supplier that presents the proposal that is within the RFP's scope and requirements, passes on all non-price attributes and has the lowest price after deducting any added value premium.

Guidelines for proposal evaluation

Rules and guidelines on the selection and evaluation of non-price attributes are set out in [section 10.14 Non-price proposal evaluation attributes](#). [Section 10.15 Price and price weight](#) sets out the relevant requirements for price.

The RFP must establish the criteria that may lead to a non-price attribute being evaluated as a fail and any other criteria that may lead to the rejection of a proposal.

Under certain circumstances, for example, where a market is immature and suppliers do not understand the conformance standards and this leads to multiple non-conforming bids, approved organisations can choose to evaluate the non-price attributes of each proposal before opening the price envelopes. The intent of this is to enable approved organisations to provide meaningful feedback to bidders to help them submit future conforming bids in order to lift the maturity of the market. It is up to approved organisations to assess before undertaking this approach if the extra time and effort required will be beneficial.

Alternative proposals

Lowest price conforming can accommodate alternative proposals. Alternative proposals must be evaluated in accordance with the proposal evaluation procedure described above.

Negotiation

The approved organisation may negotiate with the preferred supplier, providing any negotiations are carried out in accordance with the RFP's requirements. See [section 10.12 RFP contents and conformity](#) and [section 10.18 Use of negotiation in a supplier selection process](#).

C.4 Purchaser nominated price

Purchaser nominated price is a supplier selection method where the approved organisation fixes the price to be paid and advises this through the RFP. Proposals must meet the requirements of the RFP and are evaluated on the basis of quality only.

Using purchaser nominated price

Purchaser nominated price should be used where the approved organisation requires outputs that are difficult to specify but it has determined a price that it is prepared to pay for those outputs and described the desired outcome (in the RFP). Best value for money is then obtained by selecting the supplier that provides the best proposal for the price set out in the RFP.

The best proposal will be determined on the basis of the non-price attributes of the supplier and any differences that the competing suppliers offer in terms of quality or quantity of output.

This method is typically used for such activities as strategy studies, feasibility studies, transportation studies and investigations.

Proposal evaluation procedure

When selecting a supplier using the purchaser nominated price method, approved organisations must use the following proposal evaluation procedure.

Step 1 Evaluate proposals.

- Determine that the proposal is within the RFP's scope and requirements.
- Grade each non-price attribute for each proposal from zero to 100.
- Reject (exclude from further consideration) any proposal that fails against an attribute.
- Multiply the weight (specified in the RFP) by the grade for each non-price attribute and divide by 100. The result is the index for each non-price attribute.
- Add all the indices for each proposal. The result is the weighted sum of the non-price attribute grades.

Step 2 Identify the preferred supplier.

- The preferred supplier is the supplier that presents the proposal that is within the RFP's scope and requirements, passes on all non-price attributes and has the highest weighted sum of the non-price attribute grades.

Guidelines for proposal evaluation

Rules and guidelines on the selection, weighting and evaluation of non-price attributes are set out in [section 10.14 Non-price proposal evaluation attributes](#).

The RFP must establish the criteria that may lead to a non-price attribute being evaluated as a fail and any other criteria that may lead to the rejection of a proposal.

The purchaser nominated price method is not recommended for physical works or public transport services contracts, as, with these contracts, both the outputs required to deliver the desired outcome and the outcome itself are usually well understood. Wherever more than one willing and able supplier exists, a competition that includes price competition will generally be appropriate.

The purchaser nominated price method is also not recommended for routine professional services engagements. As stated above, it may be suited to strategy studies, feasibility studies, transportation studies and investigations where the desired outcome is known but the required outputs are not as well understood. Depending on whether price competition is

appropriate, either the quality-based or price quality methods will normally be used to find the preferred professional services supplier.

Alternative proposals

When the purchaser nominated price method is used, all proposals are in effect alternative proposals. However, their evaluation will be based on grading the non-price attributes described in the RFP alone, and the requirements and permissions set out in [section 10.16 Alternative proposals](#) and [section 10.17 Added value premium](#) will not apply.

Negotiation

The approved organisation may negotiate with the preferred supplier, providing any negotiations are carried out in accordance with the RFP's requirements. See [section 10.12 RFP contents and conformity](#) and [section 10.18 Use of negotiation in a supplier selection process](#).

Any negotiations that led to a decision to let a contract for a price other than the price nominated in the RFP would destroy the integrity of this method and would be determined by Waka Kotahi as being inconsistent with the RFP. See [section 10.12 RFP contents and conformity](#).

C.5 Price quality

Price quality is a supplier selection method where the quality attributes of suppliers whose proposals meet the RFP's requirements are graded, and the preferred supplier is selected by balancing price and quality through the use of a formula.

Using price quality

Price quality should be used where the approved organisation 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 an approved organisation goes through to decide how much more to pay for additional quality is clearly shown.

Proposal evaluation procedure

When selecting a supplier using the price quality method, approved organisations must use the following proposal evaluation procedure.

Separation of non-price and price information

- Proposals must be submitted in two separate envelopes. Envelope 1 must contain all proposal information, other than the price. Envelope 2 must contain the price information.
- Approved organisations must complete steps 1–5 before opening envelope 2.

Step 1 Grade the non-price attributes.

- Open envelope 1.
- Determine that the proposal is within the RFP's scope and requirements.
- Grade each non-price attribute for each proposal from zero to 100.

- Reject (exclude from further consideration) any proposal that fails against an attribute.

Step 2 Calculate the weighted sum margin.

- Multiply the weight (specified in the RFP) by the grade for each non-price attribute and divide by 100. The result is the index for each non-price attribute.
- Add all the indices for each proposal. The result is the weighted sum of the non-price attribute grades.
- Deduct the lowest weighted sum from each proposal's weighted sum. The result is the weighted sum margin for each proposal.

Step 3 Calculate the supplier quality premium.

- Calculate the supplier quality premium for each proposal using the following formula:
*Supplier quality premium = estimate * (weighted sum margin/price weight)*
- The estimate used in the formula must exclude any amount fixed by the approved organisation, such as any provisional sums contained within the schedule of quantities.

Step 4 Confirm the supplier quality premium.

- Review the supplier quality premium calculated for each proposal.
- Confirm that the supplier quality premium for each proposal represents the amount more that the approved organisation is prepared to pay for a higher-quality supplier.
- Replace any supplier quality premium with an acceptable figure if the review shows that any supplier quality premium does not represent the extra amount that the approved organisation is prepared to pay.
- Confirm the new figure with those responsible for determining the preferred supplier.

Step 5 Calculate the added value premium.

- Calculate the supplier quality premium for alternative proposals by following steps 1–4 above.
- Calculate the added value premium for each alternative proposal by following the method set out in [section 10.17 Added value premium](#).

Complete steps 1–5 before opening envelope 2.

Step 6 Identify the preferred supplier.

- Open envelope 2.
- Deduct each proposal's supplier quality premium and each alternative proposal's added value premium from the price.

The preferred supplier is the supplier that presents the proposal that is within the RFP's scope and requirements, passes on all non-price attributes and has the lowest price less supplier quality premium and less any added value premium.

Guidelines for proposal evaluation

Rules and guidelines on the selection, weighting and evaluation of non-price attributes are set out in [section 10.14 Non-price proposal evaluation attributes](#). [Section 10.15 Price and price weight](#) sets out the relevant requirements for price and price weight.

The RFP must establish the criteria that may lead to a non-price attribute being evaluated as a fail and any other criteria that may lead to the rejection of a proposal.

Testing the price quality method

Before using the price quality method, an approved organisation must fully understand how the method works. The choices made will influence the proposal evaluation outcome because of their impact on the supplier quality premium values – the amount more that the purchaser is prepared to pay for a higher-quality proposal. Supplier quality premiums are influenced by:

- the price estimate
- chosen non-price attributes
- how the non-price attributes are graded (the spread of grades)
- weights given to the non-price attributes
- weight given to price.

All impact on the supplier quality premiums, but the most significant impact typically arises from the weight given to price.

The [attribute weight setting tool](#) is available to help set the weights for the price and non-price attributes. The [Price quality evaluation tool](#) will also assist with this testing.

Grading the non-price attributes for alternative and non-alternative proposals

Grade the non-price attributes of all proposals, including alternative proposals at step 1. Added value premiums should not be evaluated until step 5.

This separation will help ensure that the evaluation of the supplier (the main focus of the non-price attribute evaluation) is separated from the evaluation of differences in the output offered under an alternative proposal (usually the main focus of the alternative proposal evaluation). The distinctions between the two – the supplier and the output offered – are then more easily drawn. See [section 10.17 Added value premium](#).

Information and guidelines on how to grade non-price attributes are in [section 10.14 Non-price proposal evaluation attributes](#).

The estimate used in the supplier quality premium formula

The estimate used in the supplier quality premium formula must be included in the RFP to ensure that the process is transparent.

As noted in step 3 above, any amount fixed by the approved organisation must be excluded from the estimate. These amounts are usually a provisional sum, a prime cost sum or a contingency sum.

Any provisional, prime or contingency sum priced by a supplier when preparing a proposal and not fixed by the approved organisation must be included in the estimate. The estimate is for the part of the output that the supplier is required to price.

Confirming the supplier quality premium

The review of each proposal's supplier quality premium (step 4) is intended to confirm that no supplier quality premium is too high or too low. If the review concludes that one or more supplier quality premium values should be replaced, then the conclusion and its reasons must be recorded.

Waka Kotahi expects that use of the permission (in step 4) to replace one or more of the supplier quality premium values will only be rarely used and its use will be limited to those exceptional occasions when the proposal evaluation process reveals something that could not have been anticipated by a capable purchaser. Before using this permission, the purchaser should consider seeking specific legal advice.

Approved organisations should be mindful of the heightened possibility of a hostile response from proposal submitters if they choose to use this permission in a way that could not have been foreseen by those submitting proposals.

Supplier quality premium values must not be replaced for an arbitrary or irrelevant reason. Replacement will in most instances be viewed by suppliers as an admission by the purchaser that some aspect of the procurement procedure design was wrong. For example, when a decision is made to change all values by a fixed percentage, this will be seen as an admission that the chosen price weight was wrong.

Approved organisations should state in the RFP that the supplier quality premium values calculated by the price quality method formula at step 3 may be replaced in certain circumstances. Where the approved organisation can identify the circumstances under which replacement may occur, then, in the interests of transparency, it should outline those circumstances in the RFP.

Disclosing the results of the evaluation process

Approved organisations should advise each proposal submitter of the value of their supplier quality premium, and how it differed from the preferred supplier's supplier quality premium.

Alternative proposals

Price quality can accommodate alternative proposals. Alternative proposals must be evaluated in accordance with the proposal evaluation procedure described above.

When using price quality for professional services, true alternative proposals are unlikely to be received. In most cases, professional services proposals are in effect all alternatives. This issue is further discussed in [section 10.16 Alternative proposals](#).

Negotiation

The approved organisation may negotiate with the preferred supplier, providing any negotiations are carried out in accordance with the RFP's requirements. See [section 10.12 RFP contents and conformity](#) and [section 10.18 Use of negotiation in a supplier selection process](#).

C.6 Price quality – without disclosure of the estimate

Price quality – without disclosure of the estimate, is a variant of the price quality method that may be used when procuring using *Procurement procedure 3 – Public transport services* and the partnering delivery model.

Price quality – without disclosure of the estimate, is an advanced procurement procedure component when used under any other circumstances, refer [section 10.5 Procurement procedure advanced components](#).

Price quality – without disclosure of the estimate, is a supplier selection method where the quality attributes of suppliers whose proposals meet the RFP's requirements are graded, and the preferred supplier is selected by balancing price and quality through the use of a formula.

The approved organisation may choose this variant of the price quality method if it considers that either:

- disclosure of the estimate will significantly influence prices tendered, or
- the approved organisation is not confident of the accuracy of its estimate and wishes to mitigate the risk that it will distort supplier quality premium values by being significantly different from the lowest price tendered.

Using price quality – without disclosure of the estimate

Price quality – without disclosure of the estimate should be used where the above criteria are met and the approved organisation 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 an approved organisation goes through to decide how much more to pay for additional quality is clearly shown.

Proposal evaluation procedure

When selecting a supplier using the price quality method – without disclosure of the estimate, approved organisations must use the following proposal evaluation procedure.

Separation of non-price and price information

- Proposals must be submitted in two separate envelopes. Envelope 1 must contain all proposal information, other than the price. Envelope 2 must contain the price information.
- Approved organisations must complete steps 1–5 before opening envelope 2.

Step 1 Grade the non-price attributes.

- Open envelope 1.
- Determine that the proposal is within the RFP's scope and requirements.
- Grade each non-price attribute for each proposal from zero to 100.
- Reject (exclude from further consideration) any proposal that fails against an attribute.

Step 2 Calculate the weighted sum margin.

- Multiply the weight (specified in the RFP) by the grade for each non-price attribute and divide by 100. The result is the index for each non-price attribute.
- Add all the indices for each proposal. The result is the weighted sum of the non-price attribute grades.
- Deduct the lowest weighted sum from each proposal's weighted sum. The result is the weighted sum margin for each proposal.

Step 3 Calculate the initial estimate of the supplier quality premium.

- Calculate the initial estimate of the supplier quality premium for each proposal using the following formula:

$$\text{Supplier quality premium} = \text{estimate} * (\text{weighted sum margin/price weight})$$

- The estimate used in the formula must exclude any amount fixed by the approved organisation, such as any provisional sums contained within the schedule of quantities.

Step 4 Confirm the supplier quality premium.

- Review the initial estimate of the supplier quality premium calculated for each proposal.
- Confirm that the initial estimate of the supplier quality premium for each proposal represents the amount more that the approved organisation is prepared to pay for a higher-quality supplier.
- Replace any initial estimate of the supplier quality premium with an acceptable figure if the review shows that any initial estimate of the supplier quality premium does not represent the extra amount that the approved organisation is prepared to pay.
- Confirm the new figure with those responsible for determining the preferred supplier.
- Note that if a proposal's initial estimate of the supplier quality premium value is replaced at this step 4 then the confirmed new figure must be used in step 6.

Step 5 Calculate the added value premium.

- Calculate the initial estimate of the supplier quality premium for alternative proposals by following steps 1–4 above.
- Calculate the added value premium for each alternative proposal by following the method set out in [section 10.17 Added value premium](#).
- Complete steps 1–5 before opening envelope 2.

Step 6 Identify the preferred supplier.

- Open envelope 2 for each proposal.
- Reject (exclude from further consideration) any proposal that, on examining the content of envelope 2, does not meet all proposal requirements.
- From amongst the remaining proposals identify the proposal that has the lowest price.
- Using this lowest price tendered, excluding any amount fixed by the approved organisation, in place of the estimate used at step 3, recalculate the supplier quality premium values previously calculated at step 3.
- Deduct each proposal's recalculated supplier quality premium from the price EXCEPT that if the initial estimate of a proposal's supplier quality premium was replaced at step

4 then the confirmed new figure from step 4 must be deducted, not the recalculated supplier quality premium value.

- Deduct each alternative proposal's added value premium from the price.

The preferred supplier is the supplier that presents the proposal that is within the RFP's scope and requirements, passes on all non-price attributes and has the lowest price less supplier quality premium and less any added value premium.

Guidelines for proposal evaluation

Rules and guidelines on the selection, weighting and evaluation of non-price attributes are set out in [section 10.14 Non-price proposal evaluation attributes](#). [Section 10.15 Price and price weight](#) sets out the relevant requirements for price and price weight.

The RFP must establish the criteria that may lead to a non-price attribute being evaluated as a fail and any other criteria that may lead to the rejection of a proposal.

Using a second independent price envelope evaluation team

Using the price quality – without disclosure of the estimate method is significantly simplified by establishing a second independent price evaluation team, whose sole task is to open and evaluate all envelopes 2, the price information envelopes, before step 3.

Once steps 1 and 2 have been completed the primary evaluation team will inform the price evaluation team of any proposals that have been rejected. The price information envelopes for any rejected proposals will be put aside. The price evaluation team will then evaluate all the remaining envelopes 2, identify the proposal that has the lowest price, confirm that there is nothing in envelope 2 which makes the lowest price proposal unacceptable and advise the primary evaluation team of the lowest acceptable price received. They will do this without disclosing the name of the supplier that has tendered that price or any other proposal details. The price evaluation team will then reseal all envelopes 2.

The 'estimate' used at step 3 will then be the lowest price. This simplifies subsequent steps and avoids the need to recalculate the supplier quality premium values at step 6.

The detail of how this second price evaluation team will function will need to be set out in the RFP. The process must not breach the fundamental integrity of the two envelope system.

At step 6 the primary evaluation team will need to evaluate the preferred supplier's price information from envelope 2 to ensure it meets all requirements.

Testing the price quality – without disclosure of the estimate method

Before using the price quality – without disclosure of the estimate method, an approved organisation must fully understand how the method works. The choices made will influence the proposal evaluation outcome because of their impact on the supplier quality premium values – the amount more that the purchaser is prepared to pay for a higher-quality proposal. Supplier quality premiums are influenced by:

- the lowest price tendered
- chosen non-price attributes
- how the non-price attributes are graded (the spread of grades)
- weights given to the non-price attributes

- weight given to price.

All impact on the supplier quality premiums, but the most significant impact typically arises from the weight given to price.

The [Attribute weight setting tool](#) is available to help set the weights for the price and non-price attributes. The [Price quality evaluation tool](#) will also assist with this testing.

Grading the non-price attributes for alternative and non-alternative proposals

Grade the non-price attributes of all proposals, including alternative proposals at step 1. Added value premiums should not be calculated until step 5.

This separation will help ensure the evaluation of the supplier (the main focus of the non-price attribute evaluation) is separated from the evaluation of differences in the output offered under an alternative proposal (usually the main focus of the alternative proposal evaluation). The distinctions between the two – the supplier and the output offered – are then more easily drawn. See [section 10.17 Added value premium](#).

Information and guidelines on how to grade non-price attributes are in [section 10.14 Non-price proposal evaluation attributes](#).

The estimate and the lowest price tendered used in the supplier quality premium formula

The estimate used in the supplier quality premium formula at step 3 will be the approved organisation's estimate of the lowest price expected to be tendered.

As noted in step 3 above, any amount fixed by the approved organisation must be excluded from the estimate. These amounts are usually a provisional sum, a prime cost sum or a contingency sum. As noted at step 6 the same requirement to deduct these amounts applies to the lowest price tendered.

Any provisional, prime or contingency sum priced by a supplier when preparing a proposal and not fixed by the approved organisation must be included. The estimate used at step 3 and the lowest price tendered used at step 6 to calculate supplier quality premium values cover the part of the output that the supplier is required to price.

Confirming the supplier quality premium

The review of each proposal's supplier quality premium (step 4) is intended to confirm that no supplier quality premium is too high or too low. If the review concludes that one or more supplier quality premium values should be replaced, then the conclusion and its reasons must be recorded.

Waka Kotahi expects that use of the permission (in step 4) to replace one or more of the supplier quality premium values will only be rarely used and its use will be limited to those exceptional occasions when the proposal evaluation process reveals something that could not have been anticipated by a capable purchaser. Before using this permission, the purchaser approved organisation should consider seeking specific legal advice.

Approved organisations should be mindful of the heightened possibility of a hostile response from proposal submitters if they choose to use this permission in a way that could not have been foreseen by those submitting proposals.

Supplier quality premium values must not be replaced for an arbitrary or irrelevant reason. Replacement will in most instances be viewed by suppliers as an admission by the purchaser

that some aspect of the procurement procedure design was wrong. For example, when a decision is made to change all values by a fixed percentage, this will be seen as an admission that the chosen price weight was wrong.

Approved organisations should state in the RFP that the supplier quality premium values calculated by the price quality method formula at step 3 may be replaced in certain circumstances. Where the approved organisation can identify the circumstances under which replacement may occur, then, in the interests of transparency, it should outline those circumstances in the RFP.

Disclosing the results of the evaluation process

Approved organisations should advise each proposal submitter of the value of their supplier quality premium used at step 6 to determine the preferred supplier, and how it differed from the preferred supplier's supplier quality premium.

Alternative proposals

Price quality can accommodate alternative proposals. Alternative proposals must be evaluated in accordance with the proposal evaluation procedure described above.

Alternative proposals are further discussed in [section 10.16 Alternative proposals](#).

Negotiation

The approved organisation may negotiate with the preferred supplier, providing any negotiations are carried out in accordance with the RFP's requirements. See [section 10.12 RFP contents and conformity](#) and [section 10.18 Use of negotiation in a supplier selection process](#).

C.7 Quality-based

Quality-based is a supplier selection method where the quality attributes of suppliers whose proposals meet the requirements of the RFP are graded and the preferred supplier is selected solely on that basis. A price is then negotiated with the preferred supplier, based on their price proposal.

Under *Procurement procedure 3: Public transport services* the quality-based supplier selection method is used to select a supplier for a new public transport unit where there is no price – a commercial unit that does not receive a subsidy. The parts of this section that refer to price determination do not apply when using the quality-based supplier selection for non-subsidised public transport units.

Using quality-based

Where the scope of the outputs (works or services) cannot be fully described, competition on price may not help to obtain best value for money. The quality-based method should be used where the approved organisation determines that best value for money will be obtained by selecting the supplier on the basis of supplier quality alone. There is no competition on price.

The quality-based method is an advanced component except where the output being purchased is either professional services or a commercial unit. As an advanced component, an approved organisation must have the prior written approval of Waka Kotahi under s25 of the LTMA for its use.

Proposal evaluation procedure

When selecting a supplier using the quality-based method, approved organisations must use the following proposal evaluation procedure.

Separation of non-price and price information

- Proposals must be submitted in two separate envelopes. Envelope 1 must contain all proposal information, other than the price. Envelope 2 must contain the price information.
- Approved organisations must complete steps 1–3 before opening envelope 2.

Step 1 Grade the non-price attributes.

- Open envelope 1.
- Determine that the proposal is within the RFP's scope and requirements.
- Grade each non-price attribute for each proposal from zero to 100.
- Reject (exclude from further consideration) any proposal that fails against an attribute.

Step 2 Calculate the weighted sum.

- Multiply the weight (specified in the RFP) by the grade for each non-price attribute and divide by 100. The result is the index for each non-price attribute.
- Add all the indices for each proposal. The result is the weighted sum of the non-price attribute grades.

Step 3 Identify the preferred supplier.

- The preferred supplier is the supplier that has the highest weighted sum of the non-price attribute grades.

Step 4 Negotiate with the preferred supplier.

- Open the preferred supplier's envelope 2 and enter into price negotiations.
- Negotiation must be conducted in accordance with the RFP and any contract let must be within the scope of the RFP.
- If agreement cannot be reached with the preferred supplier, that proposal must be rejected. The supplier that has the next highest weighted sum of the non-price attribute grades is then the preferred supplier. Begin step 4 again with the new preferred supplier.
- When a contract is awarded, the unopened envelope 2 from each supplier that did not take part in the final negotiation process must be returned.

Guidelines for proposal evaluation

Rules and guidelines on the selection, weighting and evaluation of non-price attributes are set out in [section 10.14 Non-price proposal evaluation attributes](#).

The RFP must establish the criteria that may lead to a non-price attribute being evaluated as a fail and any other criteria that may lead to rejection of a proposal.

Because price is not a factor in the selection of the preferred supplier (it is negotiated), purchasers are able to adopt a wider variety of price structures than with other methods.

Establishing the scope of the required output(s) and the price

Under this method, price is typically negotiated with the preferred supplier before a contract is let. This method can also be used to establish a price mechanism, rather than a price.

Prior to determining a price, it is necessary to establish an agreed scope of output. This must be communicated to all suppliers before the suppliers responding to the RFP present their price proposals (envelope 2). If the agreed scope of the outputs is not communicated there is a risk that the purchaser and suppliers will form different views of what is required.

The suppliers may view the scope as being more expansive than can be purchased for the price envisaged by the purchaser. The purchaser may respond by negotiating a lower price with the preferred supplier, and reduce the scope and quality of the outputs in the process. Use of the quality-based method in this way is unlikely to deliver best value for money.

To address this issue, each RFP must include a statement of the expected scope of the required outputs and estimated price. Suppliers responding to the RFP should be encouraged to comment on the accuracy of the scope and price statement prior to the closing date for RFP submission so that refinements can be made if necessary.

It is recommended that approved organisations consider using a staged approach to supplier selection with this method. The purchaser would establish a short list of at least three suppliers and then enter into a formal dialogue with those suppliers (individually or collectively or both) to refine the scope and price statement before the price proposals (envelope 2) are submitted.

The price agreed with the preferred supplier could be a lump sum if the output can be adequately defined and identified risks can be managed. Alternatively, the price may be based on a schedule of intermediate outputs, or on input rates and agreed quantities.

Price negotiation

The negotiation process should not result in a large change in the quality or scope of the outputs, or in the proposed price.

Using the method to establish a price mechanism

This method can be used to select a preferred supplier and negotiate a contract that includes a mechanism to establish the price, rather than the price itself.

For example, under an alliance (a shared risk delivery model) a price mechanism rather than a price is agreed at the time the contract is let. A supplier panel or a framework contract is often established on a similar basis.

Seeking assurance that the price is reasonable

When there is competition on price, the purchaser will have some assurance that the price is a reasonable market price. The purchaser should use other means to obtain that assurance when using the quality-based method.

A well-prepared expected scope of the outputs and estimated price statement, along with benchmarking against similar engagements will increase the approved organisation's confidence that the price is reasonable. Open book accounting can also be used to achieve

price confidence when this method is used to establish a price mechanism (rather than a price).

Alternative proposals

Alternative proposals cannot be accommodated with the quality-based method. All proposals are in effect alternative proposals.

Negotiation

Negotiation plays a major role in obtaining value for money under the quality-based method. Approved organisations using this method need to be clear about their requirements and know what a reasonable price should be so that they can negotiate on an informed basis. Approved organisations should also consider whole-of-life costs for the activity when negotiating on price.

C.8 Quality-based – where there is no contract price

Quality-based – where there is no contract price is a variant of the price quality method that may be used when procuring commercial units *Procurement procedure 3 – Public transport services* (Chapter 8) and the partnering delivery model.

Quality-based – where there is no contract price, is a supplier selection method where the quality attributes of suppliers whose proposals meet the requirements of the RFP are graded and the preferred supplier is selected solely on that basis. There is no contract price. However, negotiation may occur with the preferred supplier regarding revenue sharing through a financial incentive mechanism (see [appendix J Financial incentive mechanisms](#)) or other investment by the supplier that contributes to the performance of the unit.

Using quality-based

The quality-based method should be used for new public transport units where the approved organisation determines that the unit can be provided without a subsidy. The supplier will be selected on the basis of supplier quality alone.

Proposal evaluation procedure

When selecting a supplier using the quality-based method, approved organisations must use the following proposal evaluation procedure.

Step 1 Grade the non-price attributes.

- Open envelope 1.
- Determine that the proposal is within the RFP's scope and requirements.
- Grade each non-price attribute for each proposal from zero to 100.
- Reject (exclude from further consideration) any proposal that fails against an attribute.

Step 2 Calculate the weighted sum.

- Multiply the weight (specified in the RFP) by the grade for each non-price attribute and divide by 100. The result is the index for each non-price attribute.
- Add all the indices for each proposal. The result is the weighted sum of the non-price attribute grades.

Step 3 Identify the preferred supplier.

- The preferred supplier is the supplier that has the highest weighted sum of the non-price attribute grades.

Step 4 Negotiate with the preferred supplier.

- Negotiation must be conducted in accordance with the RFP and any contract let must be within the scope of the RFP.
- The scope of negotiations with the preferred supplier may cover revenue sharing through a financial incentive mechanism (see [appendix J Financial incentive mechanisms](#)) or investment by the supplier designed to improve unit performance.
- If agreement cannot be reached with the preferred supplier, that proposal must be rejected. The supplier that has the next highest weighted sum of the non-price attribute grades is then the preferred supplier. Begin step 4 again with the new preferred supplier.

Guidelines for proposal evaluation

Rules and guidelines on the selection, weighting and evaluation of non-price attributes are set out in [section 10.14 Non-price proposal evaluation attributes](#).

The RFP must establish the criteria that may lead to a non-price attribute being evaluated as a fail and any other criteria that may lead to rejection of a proposal.

Establishing the scope of the required output(s)

It is necessary to establish an agreed scope of output. This must be communicated to all suppliers responding to the RFP. If the agreed scope of the outputs is not communicated there is a risk that the purchaser and suppliers will form different views of what is required.

To address this issue, each RFP must include a statement of the expected scope of the required outputs. Suppliers responding to the RFP should be encouraged to comment on the accuracy of the scope prior to the closing date for RFP submission so that refinements can be made if necessary.

It is recommended that approved organisations consider using a staged approach to supplier selection with this method. The purchaser would establish a short list of at least three suppliers and then enter into a formal dialogue with those suppliers (individually or collectively or both) to refine the scope.

Negotiation

The negotiation process should not result in a large change in the quality or scope of the outputs.

Negotiation can be used to determine whether fare revenue will be shared through a financial incentive mechanism, and the settings of the financial incentive mechanism for that unit. Negotiation can also be used where the supplier wishes to make an investment, such as investment in supporting infrastructure that may improve the performance of the unit.

A well-prepared expected scope of the outputs and benchmarking the unit on the league table using the blended commerciality ratio will increase the approved organisation's confidence that the unit is performing as expected.

Alternative proposals

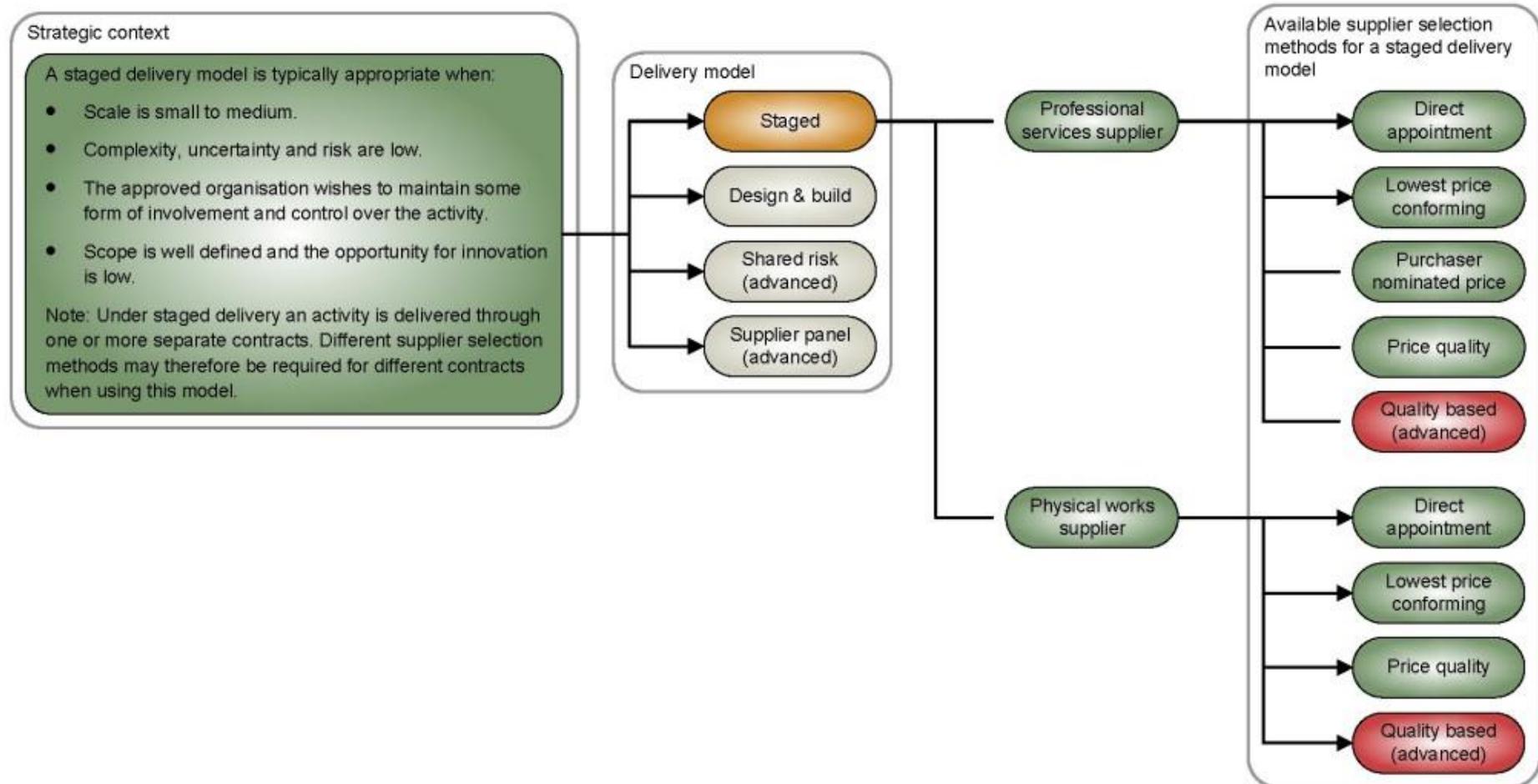
Alternative proposals cannot be accommodated with the quality-based – where there is no contract price method. All proposals are in effect alternative proposals.

Negotiation

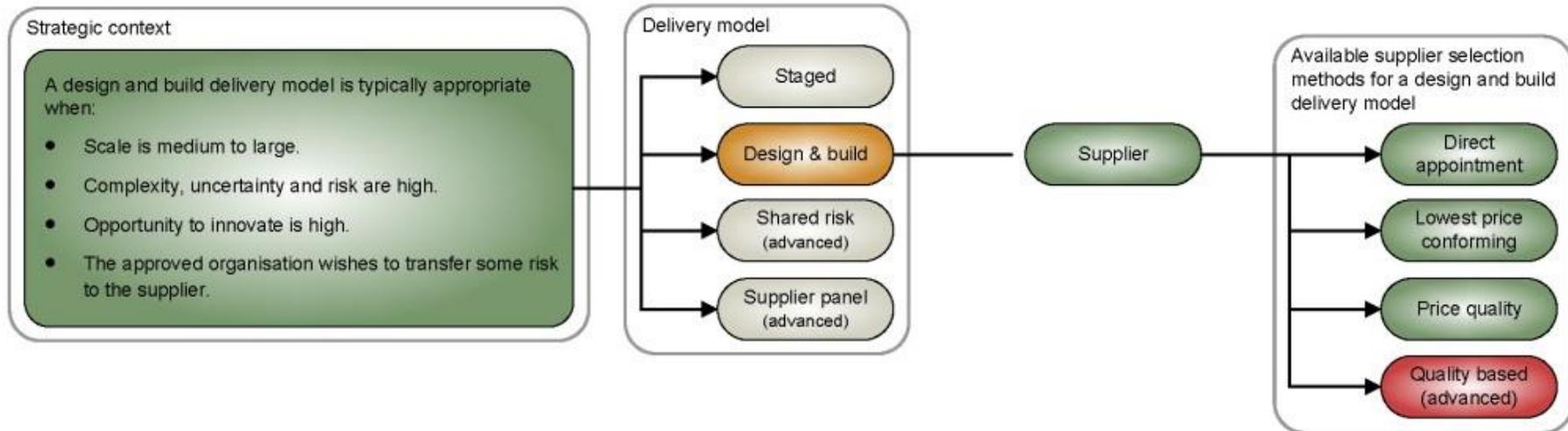
Negotiation plays a major role in obtaining value for money under the quality-based method – where there is no contract price. Approved organisations using this method need to be clear about their requirements so that they can negotiate on an informed basis.

Appendix D Procurement procedure decision trees

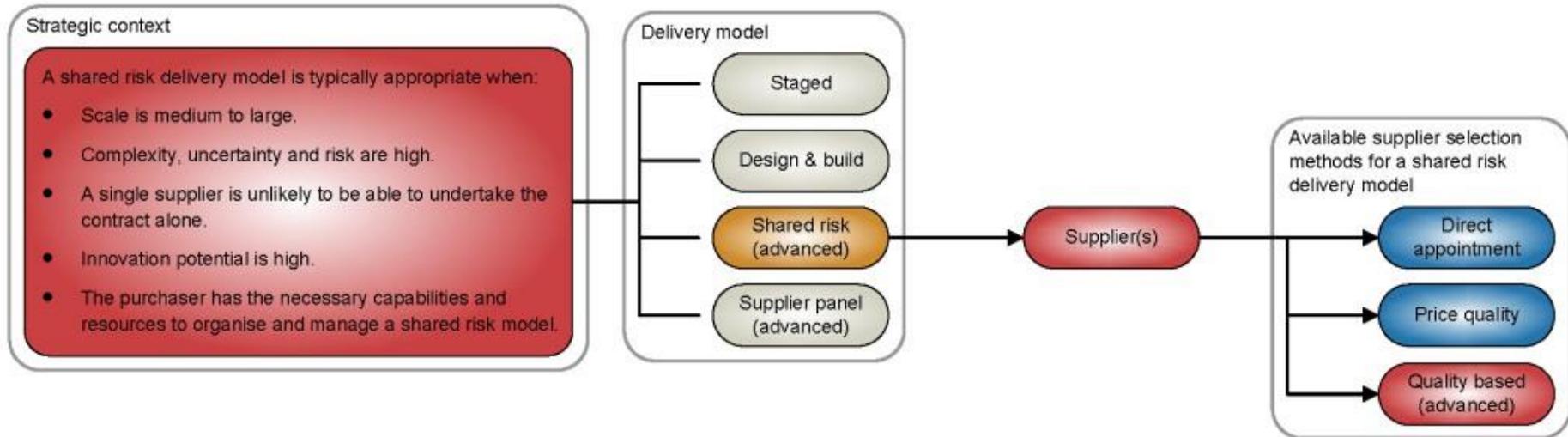
Procurement procedure 1 – Infrastructure: Staged delivery model



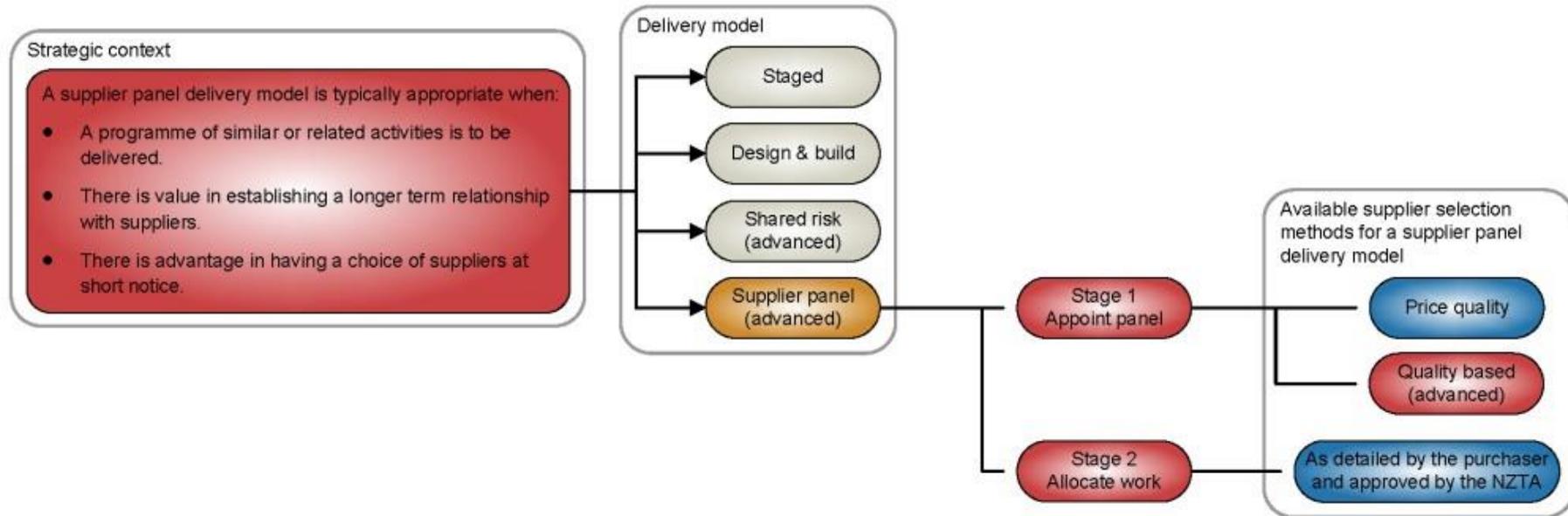
Procurement procedure 1 – Infrastructure: Design and build delivery model



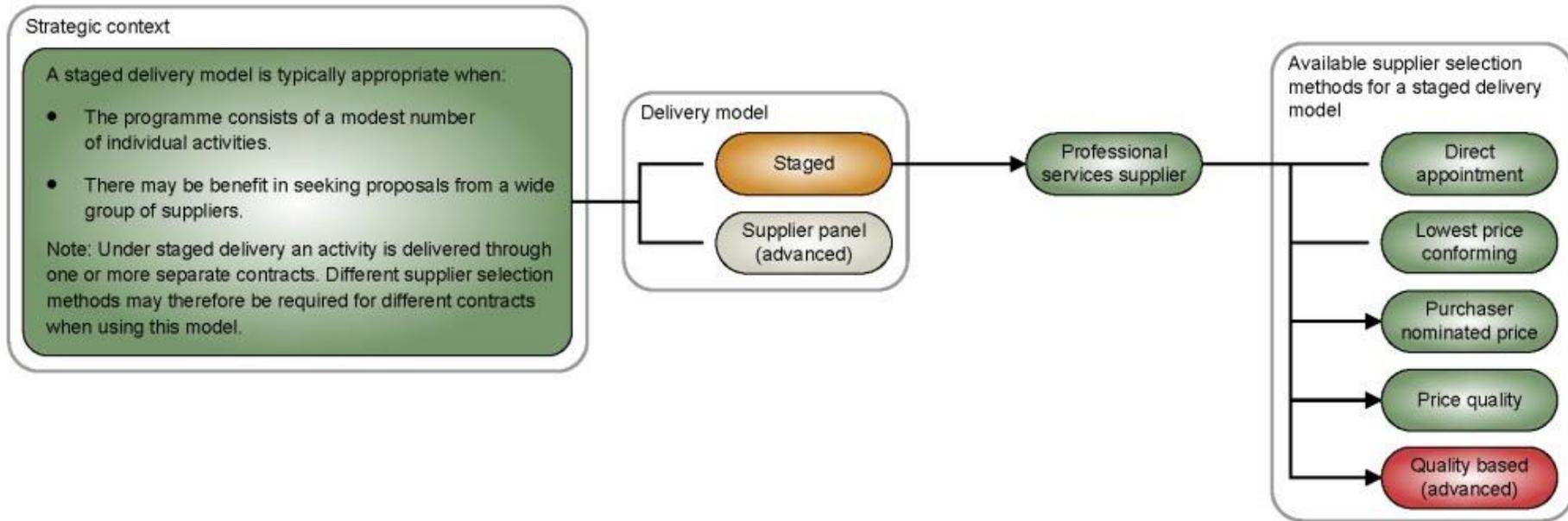
Procurement procedure 1 – Infrastructure: Shared risk delivery model (advanced)



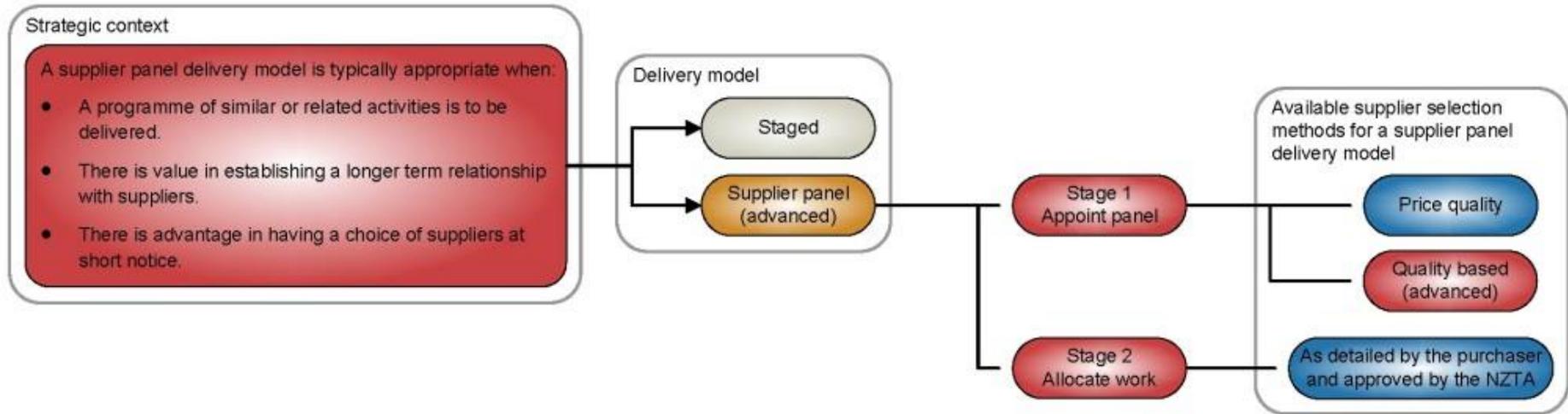
Procurement procedure 1 – Infrastructure: Supplier panel delivery model (advanced)



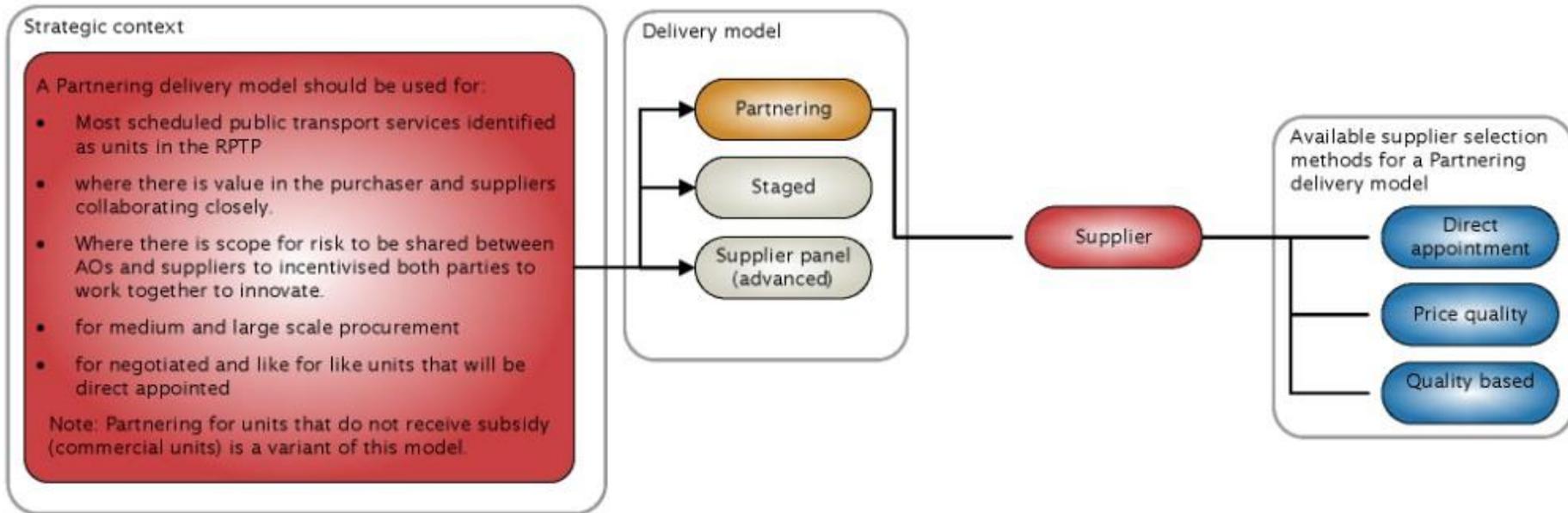
Procurement procedure 2 – Planning and advice: Staged delivery model



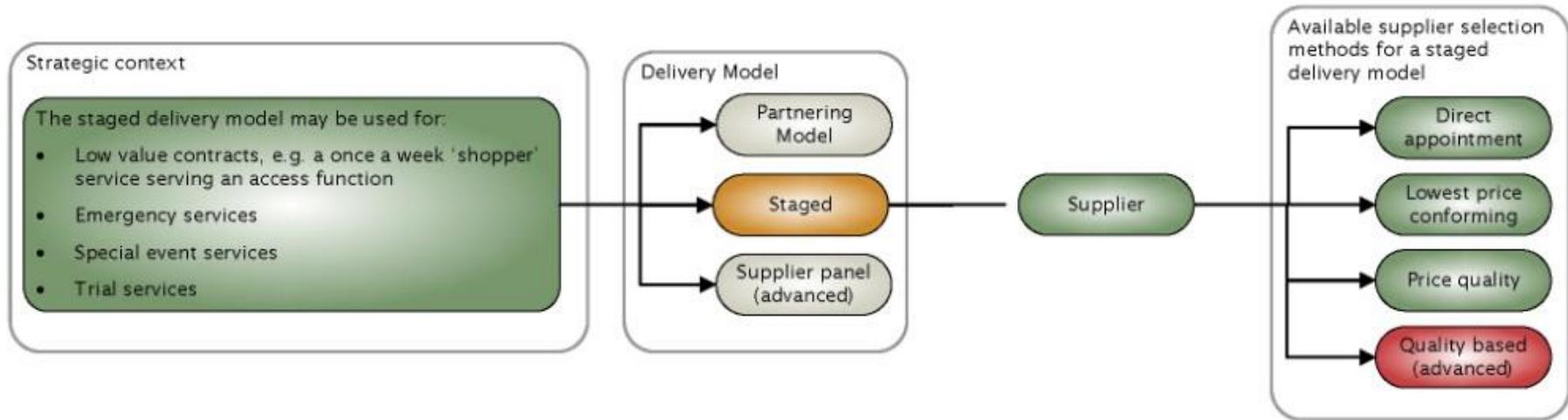
Procurement procedure 2 – Planning and advice: Supplier panel delivery model (advanced)



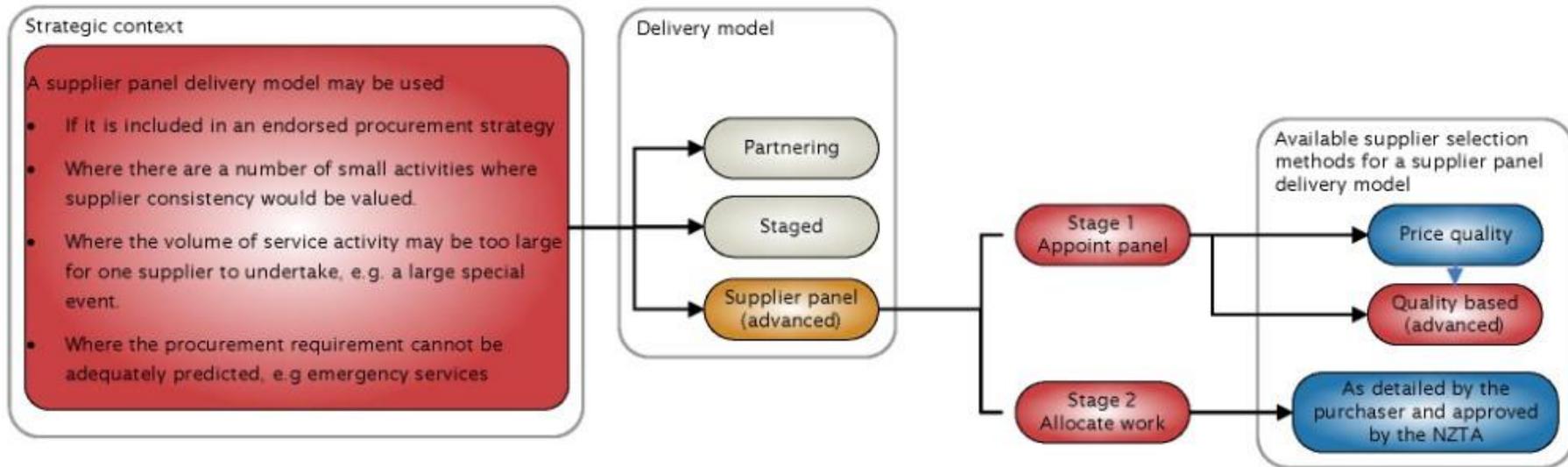
Procurement procedure 3 – Public transport services: Partnering delivery model



Procurement procedure 3 – Public transport services: Staged delivery model



Procurement procedure 3 – Public transport services: Supplier panel delivery model (advanced)



Appendix E Data collection checklist

Overview

This appendix contains a checklist to assist approved organisations to collect and document the procurement data required by Waka Kotahi. The checklist is a series of headings against which the approved organisation can assess the information that it must retain in accordance with the guidelines in this manual or for audit purposes.

1. Aggregate contract information

1.1 Total number and value of contracts awarded:

- total number of all NLTP contracts awarded (all contracts, not just those above \$50,000)
- total value of contracts awarded
- total number of contracts awarded by direct appointment
- total value of contracts let by direct appointment
- total number of contracts awarded by closed contest
- total value of contracts let by closed contest.

1.2 Cost of procurement:

- cost of the procurement function as a percentage of organisational running costs (expenditure)²
- total cost of all contracts awarded.

2. Individual contract information – for contracts let for \$50,000 or more (excluding GST)

2.1 General detail:

- project/activity name
- contract number/name
- supplier
- term (for term service contracts)
- NLTP activity class
- NLTP work category.

2.2 Procurement procedure detail:

- procurement procedure used
- delivery model used
- supplier selection method used
- contract type.

2.3 Open/fair competition and innovation:

² For staff spending 50% or more time on procurement and third party payments for devolved procurement functions.

- number of bids received
 - were alternative bids permitted, received or accepted
 - reason for accepting or rejecting an alternative bid.
3. Assessing best value for money spent in the procurement process
- 3.1 Time (includes forecasts in the RFP, the contract, at start of work and actual):
- estimated contract duration (when contract was let)
 - date of contract award
 - date work(s) commence
 - date of completion
 - actual contract duration
 - variation and reason for variation (where applicable).
- 3.2 Cost (planned and actual):
- firm estimate of cost (prior to issue of RFP)
 - contract (when contract was let)
 - out-turn final
 - variation and reason for variation (where applicable).
- 3.3 Quality (scale of 1 – 5: 1 = dissatisfied – 5 = very satisfied):
- approved organisation satisfaction with output
 - contractor performance
 - quality of interactions.

Appendix F Procedural audits checklist

Overview

Approved organisations must ensure they have established an adequate process to review the following areas of focus for procedural audits:

- clear, relevant evidence of a strategic approach to procurement, as documented in a current procurement strategy
- procurement procedures that are appropriate and approved, where necessary
- a monitoring and measuring framework in place that at a minimum captures the data required by Waka Kotahi
- reliable and accurate contract data
- sufficient capability and capacity processes to ensure procurement can be carried out.

The checklist below sets out guidelines for approved organisations to consider and can be used as a basis for self-assessment. This checklist is not exhaustive and should not be considered a complete register of all areas that an approved organisation should consider.

Checklist

1. Strategy

- 1.1 Is there a current, documented procurement strategy or other evidence of strategic thinking about procurement?
- 1.2 If yes:
 - does the procurement strategy meet the guidance and standards set out in this manual?
 - are there mechanisms to review and, as necessary, update the strategy periodically?
- 1.3 If not:
 - have you documented a rationale for not determining a procurement strategy?

2. Processes

- 2.1 Are there documented procurement processes?
- 2.2 Have the processes been recently reviewed? If so, when?
- 2.3 Have all procurement events used approved procurement procedures (or been exempt)?
- 2.4 Have all customised procurement procedures received approval?
- 2.5 Have all Waka Kotahi audit recommendations related to procurement been implemented?
- 2.6 Have all decisions made in the procurement process been adequately documented, including reasons to support the decisions?

3. Contract data

3.1 Has all relevant contract data been collected and submitted to Waka Kotahi (as per templates in this manual or Transport Investment Online)?

3.2 Are there processes in place to ensure the reliability of the data submitted?

4. Monitoring and measuring

4.1 Is there a monitoring and measuring framework in place that captures more than the minimum data required by Waka Kotahi?

4.2 Does the monitoring and measurement include measures for:

- assessing the performance of the procurement strategy?
- key risks and benefits expected, and performance of the contracts throughout their terms?
- ensuring funding conditions are met?
- ensuring audit recommendations are implemented?

4.3 Do the measuring and monitoring mechanisms specifically capture data in relation to:

- best value for money?
- fairness and efficiency of markets?
- efficiency of procedures?

4.4 Has measurement information been collected for all contracts entered into in the period?

4.5 Are there mechanisms in place to review the data collected for the period and identify any trends?

4.6 Has information been aggregated for all contracts awarded in the period, which meet as a minimum the Waka Kotahi reporting requirements?

5. Capability

5.1 Is there appropriate capability to ensure the effective application of procurement procedures?

5.2 Is there an ongoing plan to ensure capability is developed and sustained?

Appendix G Definition of terms

The term ...	Is defined as ...
Aggregation	This term can apply to coordination of demand or aggregation of supply. 'Aggregating demand' means a purchaser (or group of purchasers) coordinating their procurement of the same or similar goods and services.
Added value premium	The amount more that the approved organisation is prepared to pay for the output offered by an alternative proposal.
Alternative proposal	An alternative proposal offers an output that is different to that specified in detail within the RFP. However, the output offered is within the scope and meets the requirements of the RFP.
Approved organisation	Approved organisation means a regional council, a territorial authority, the Department of Conservation, the Waitangi National Trust Board, Auckland Transport and any other approved public organisation within the scope of the Land Transport Management Act 2003.
Bundling	The grouping together of different but related goods or services. Bundling, as a concept, is related to aggregation.
Commercial unit	A commercial unit is a public transport services unit that a region has identified in its RPTP as part of its public transport network operated with exclusive rights under contract, but without direct subsidy from an approved organisation or Waka Kotahi through the National Land Transport Fund.
Conforming proposal	A conforming proposal is one that is within the scope of the RFP and meets the requirements of the RFP.
Data envelopment analysis	The technique that utilises linear programming techniques to analyse the tradeoffs between efficiency on multiple outputs, which is used to determine the benchmark price range that informs the contract negotiation process in large bus markets.
Delivery model	The form of the relationship established between the purchaser and the supplier(s) to purchase the outputs required to deliver an activity.
Indexation	A method used to adjust contract payments for input price fluctuations.

The term ...	Is defined as ...
Financial incentive mechanism	The formula in a public transport partnering contract that specifies the parties' share of the change in fare revenue
Novation	The substitution of a new contract for one already existing. This can occur under a design and build delivery model where the contract between the designer and the purchaser is handed over to the constructor once design has reached a certain stage. The designer then completes the detailed design for the constructor.
Partnering contract	<p>A contract for public transport services designed to encourage greater collaboration between approved organisations and suppliers of services.</p> <p>Suppliers bid on the basis of the gross price of providing a unit of public transport services, and fare revenue risk is shared between the approved organisation and supplier through an agreed financial incentive mechanism.</p>
Physical works	Maintenance, operation, renewal, improvement and construction of new land transport infrastructure.
Professional services	<p>Professional services include services typically provided by consulting engineers, planners, public transport planners, surveyors and other professionals. Professional services contribute to the delivery of approved activities and include strategy or policy development, planning, investigation and design services, and the supervision of works or services contracts.</p> <p>The Waka Kotahi Planning and Investment Knowledge Base includes this shorter definition of professional services – <i>technical inputs to an activity undertaken by persons skilled in fields relevant to that activity</i>. This definition is particularly intended to distinguish professional services from 'administration' which is exempt from procurement procedure requirement by s26 of the LTMA.</p>
Public transport services	Has the same meaning as in section 5 of the LTMA.

The term ...	Is defined as ...
Registration of interest (ROI)	<p>The following definition is taken from Mastering procurement A structured approach to strategic procurement.</p> <p>The purpose of an ROI is to enable an agency to identify and short list potential suppliers. The request for ROI seeks basic information from interested suppliers to allow an initial evaluation of their suitability. An ROI is the first stage of a multi-stage tender process. Shortlisted suppliers are asked to submit full proposals/tenders through an RFP/RFT. The responses provide more detailed information on capacity, capability, technical knowledge, experience and organisational and financial standing. This allows a full evaluation and selection of the preferred supplier. An ROI can be used where there are potentially very large numbers of suppliers and it is not sensible to invite all to submit full proposals/tenders. An ROI is sometimes referred to as an EOI.</p>
Request for information (RFI)	<p>The following definition is taken from Mastering procurement A structured approach to strategic procurement.</p> <p>The purpose of an RFI is to get more information on and gain a better understanding of the suppliers in the market and their goods/services. It helps identify the range of possible solutions available. It is not a request for offers and must not be used as a mechanism from which to directly select suppliers.</p>
Request for proposal (RFP)	<p>The following definition is taken from Mastering procurement A structured approach to strategic procurement.</p> <p>An RFP is used if you want to receive proposals for goods/services. Typically, the agency is open to innovation in the type of product or how the services are delivered. The outputs and outcomes are important, rather than the process that the supplier follows to deliver them. Interested suppliers are invited to submit proposals, giving details of how their goods or services will deliver the outputs and outcomes, along with the proposed prices.</p>
Request for quotation (RFQ)	<p>Note that the Request for quotation / RFQ is not used in the Procurement manual. RFP is used throughout, acknowledging that purchasers will sometimes adopt an approach that may be better described as an RFQ than an RFP.</p> <p>The following definition is taken from Mastering procurement A structured approach to strategic procurement.</p> <p>The purpose of an RFQ is to seek quotes from suppliers for specified goods/services. It is usually used in low-risk procurement where price is the main factor and the goods/services are easy to describe, 'stock standard' or 'off the shelf'.</p>

The term ...	Is defined as ...
Request for tender (RFT)	<p>Note that the Request for tender / RFT is not used in the Procurement manual. RFP is used throughout, acknowledging that purchasers will sometimes adopt an approach that may be better described as an RFT than an RFP.</p> <p>The following definition is taken from <u>Mastering procurement A structured approach to strategic procurement</u>.</p> <p>An RFT is used if you want to receive tenders for goods/services. Typically, the goods or services are easy to define and there is little room for flexibility or innovation in delivery. RFTs are used mostly for goods and services with highly technical requirements. The agency invites interested suppliers to submit tenders, giving detailed information on how their goods or services meet the specific requirements, along with their proposed prices.</p>
Requirements for urban buses (RUB)s	The requirements for urban buses are a collaboratively developed common standard for urban bus quality to improve the accessibility, comfort and usability of buses used in urban services,
Public transport fare subsidy schemes	Public transport fare subsidy schemes include any schemes where eligible passengers pay a fare that is less than that paid by non-eligible passengers. The concessionary fare schemes, the Total Mobility scheme and the SuperGold Card's free off-peak travel are examples of subsidised fare schemes.
Supplier selection method	The process by which proposals from supplier(s) are evaluated and a preferred supplier(s) selected.
Supplier quality premium	The amount more that the approved organisation is prepared to pay for a higher-quality supplier.
Term service contract	A contract for the provision of goods or services for a defined period of time.

Appendix H Calculating public transport commerciality ratios

Overview

The commerciality ratio is a financial calculation that measures performance by assessing the proportion of revenue generated by public transport users against the cost of providing the services.

Approved organisations providing public transport services must calculate a commerciality ratio for:

- the region as a whole, and
- each unit of public transport services identified in the RPTP and separated by mode.

The unit commerciality ratios should be published as part of a league table. Where an approved organisation has an endorsed procurement strategy enabling direct appointment of units other than commercial units or like-for-like units, a league table, which employs 'blended' commerciality ratios, will be used to determine which units should be directly appointed.

Calculating commerciality ratios

The formula for commerciality ratio is:

$$\text{Commerciality ratio} = \text{fare revenue} / \text{cost}$$

For the purpose of the commerciality ratio calculation:

- **Fare revenue** is defined as including all farebox revenue generated by a service, including the farebox revenue to be applied to financial incentive mechanism payments plus SuperGold and fare substitute payments³. It excludes revenue generated through charter work using vehicles that are also used for public transport services, and other revenue like advertising.
- **Cost** is defined as including the annual gross price of a service; and payments, both positive or negative, related to indexation, the financial incentive mechanism and KPIs⁴. The cost reflects the price paid to deliver services by fare-paying passengers and regions. Concessionary fare payments, whether separately identified or not, are treated as a cost.

³ A fare substitute is a payment made to an approved organisation by a business or organisation to cover fares that would normally be paid by the passenger. For example, an arrangement between a university and an approved organisation to provide free travel to university students.

⁴ Financial incentive mechanism and KPI payments are excluded from the calculation of the blended commerciality ratio. This point is discussed further below.

Regional commerciality ratio

The regional commerciality ratio is calculated using the same data as for the unit commerciality ratio, summed across all units both subsidised and commercial. The regional commerciality ratio is not an average of the individual unit commerciality ratios.

Regional commerciality ratios need to be calculated for each mode – bus, ferry and rail.

In regions where there is only one unit, the regional commerciality ratio is also the unit commerciality ratio.

Unit commerciality ratio

Unit commerciality ratios are to be calculated for each unit in a region at least annually.

The commerciality ratio of a public transport unit that does not receive a subsidy has a default ratio of 100%.

Blended commerciality ratio

Approved organisations that intend to directly appoint suppliers (excluding like-for-like direct appointments) for public transport unit contracts must produce a blended commerciality ratio for each unit in the regions to help determine which public transport units should be directly appointed and which subject to open competition.

A separate league table based on the blended commerciality ratio will need to be produced to rank units from highest to lowest in commerciality.

The blended commerciality ratio will initially be calculated using the following two components :

- unit commerciality ratio – for the previous year – but calculated **excluding** any financial incentive mechanism and KPI payments
- change in this commerciality ratio of a unit in comparison to the change of other units within the league table.

When the approved organisation has confidence that all data is accurate and reliable, a third component may be added:

- change in passenger kilometres relative to other units.

The blended commerciality ratio is the weighted sum of its components and like its component parts is expressed as a percentage. Weights to be given to each component are as follows .

When the first two components only are available

Component	Weight
Unit commerciality ratio	0.8
Relative change in commerciality ratio	0.2

When all three components are available

Component	Weight
Unit commerciality ratio	0.8
Relative change in commerciality ratio	0.1
Relative change in passenger km	0.1

For example, if the unit commerciality ratio was 60%, the relative change in commerciality ratio 80% and the relative change in passenger km 70%, the blended commerciality ratio would be:

$$(60 \times 0.8) + (80 \times 0.1) + (70 \times 0.1) = 63\%$$

Measuring relative change

The relative change value for a unit, in either commerciality ratio or passenger kilometres, is calculated as follows:

Relative change value for a unit = (change value for the unit - change value for the unit with the lowest value) / range of change values for all units in the region.

Both change values and relative change values are to be expressed as percentages. The unit that shows the greatest positive change will have a relative change value of 100% and the unit with the least change (possibly the greatest decline) will have a relative change value of 0%.

For example, if the relative change in unit X was 10%, unit Y was 2% (the unit with the lowest increase) and unit Z was 15% (the unit with the highest increase) the relative change in commerciality (passenger km) for unit X would be:

$$(10 - 2) / (15 - 2) = 62\%$$

Unit Y would have a relative change value of 0% as the lowest performing unit and unit Z would have a relative change of 100% as the highest performing unit.

Financial incentive mechanism and KPI payments are excluded when calculating blended commerciality ratios to avoid creating a perverse incentive. Inclusion of a significant positive financial incentive payment, made in recognition of the supplier's efforts to grow patronage and commerciality, lowers the commerciality ratio and dampens the impact of the supplier's high performance, which could lower the unit's ranking in the league table. Inclusion of KPI payments, applied in terms of the contract, would also distort the outcome. The 'bottom line' of the blended commerciality ratio calculation is therefore equal to the annual gross price adjusted by indexation.

Appendix I Contract negotiation processes for bus public transport units

Overview

Under the partnering delivery model, negotiation is used to determine the price in the following circumstances:

- The direct appointment of a supplier for a public transport unit contract, as specified in [section 10.27 Direct appointment of a supplier for a public transport unit](#)
- Gross price resets for public transport unit contracts procured through an open supplier selection process with a contract term of more than six years, as specified in [section 10.28 Gross price resets for public transport units](#).

This appendix describes the processes that are to be used to support public transport contract negotiations for bus public transport units under [section 10.27 Direct appointment of a supplier for a public transport unit](#) and [section 10.28 Gross price resets for public transport units](#).

Where an approved organisation is considering directly appointing a supplier for a ferry or rail public transport unit contract, the approved organisation will develop a negotiation process for inclusion in its procurement procedure for the service.

Benchmarking to support negotiation

Benchmark information will be used to obtain an estimate of the efficient market price, to inform the contract negotiation process. The benchmark price is the value that the contract would be expected to receive if it was procured under a competitive market process (ie tendering). The selection of a benchmarking method will depend on the scale of the market.

Large bus markets

In large bus markets, benchmarking will be based on a benchmark price range derived from winning tender contract prices using data envelopment analysis (DEA). It is assumed that large bus markets will have sufficient winning tender contract price information to use DEA.

DEA utilises linear programming techniques to analyse the tradeoffs between efficiency on multiple outputs. In this context, DEA will use winning tender contract price inputs, and peak vehicle, service kilometre and service hour outputs, to assess the estimated maximum of each output that can be produced for a given level of price input. This identifies a benchmark 'most efficient' market price that can deliver the negotiated unit outputs.

The benchmark price range extends from:

- a lower bound: the 'most efficient' market price that can deliver the negotiated unit outputs, as identified by DEA to
- an upper bound: the 'least efficient' market price, which is based on the efficiency level of the least efficient contract in the benchmarking set.

DEA will be used for direct appointments under [section 10.27 Direct appointment of a supplier for a public transport unit](#) and to reset the gross price of tendered contracts after six years under [section 10.28 Gross price resets for public transport units](#).

Approved organisations are to use the following process to set up and use benchmarking:

- Design units, procurement strategy and procurement procedures for tendered units to ensure that an appropriate mix of tendered units (eg size, growth and commerciality) will be available for benchmarking when required.
- Select a representative set of contract data for benchmarking when preparing to directly appoint a supplier (the benchmarking set). The benchmarking set will include contracts that have been competitively tendered during the previous six years in accordance with the LTMA (as amended in 2013). Tendered contracts that do not meet the above criteria may be included in the benchmarking set where agreed between the approved organisation and Waka Kotahi, where they are determined to be generally consistent with the contract to be negotiated. Group tender contracts may be included in the benchmarking set, but will be clearly identified as such.
- Provide the benchmarking set to a benchmarking advisor, who will be appointed and funded by Waka Kotahi and carry out the DEA. The benchmarking advisor will:
 - Undertake DEA to define the benchmark price range, utilising the peak vehicle, service kilometre and service hour requirements for the contract to be negotiated and each of the contracts in the benchmarking set, and the winning tender contract prices (adjusted for inflation) for each of the contracts in the benchmarking set.
 - Supply the benchmark price range to the approved organisation, noting the likely impact of any group tenders that are larger than the individual units in the benchmarking set. The benchmark range will not be disclosed to the potential supplier by either the benchmarking advisor or the approved organisation unless negotiation commences, as noted in the negotiation sections of this appendix.

Supplementary information may be used to provide additional benchmarking information to the negotiating parties if the price offered by the supplier falls outside the range and negotiation commences. Supplementary information might include component price ranges, the outputs of regional cost models and details of variables that may affect the price of the individual unit in question, such as dead-running, topography, congestion or location near other units contracted to the same operator.

Other bus markets

Where it is not possible to use DEA, benchmarking will be based on an alternative approach, to be determined in discussions with Waka Kotahi and set out in the procurement strategy. Potential alternatives include unit rates, cost model outputs or cost indexation.

Negotiation for the direct appointment of a supplier

The following process must be used when selecting the supplier of bus public transport unit contracts using direct appointment under [section 10.27](#) *Direct appointment of a supplier for a public transport unit*.

Note: A Transport Agency representative will be present at direct appointment negotiations at the discretion of Waka Kotahi to provide Waka Kotahi and the Crown with the assurance that the agreed price achieved in negotiations is efficient (best value for money in the circumstances).

The following stages will apply to the process:

- The approved organisation will advise Waka Kotahi of the intention to commence negotiation, with sufficient notice to allow a representative to participate in the negotiation process.
- The approved organisation will identify a benchmark price range for a public transport unit contract to be directly negotiated using the process specified in the benchmarking section of this appendix.
- The supplier will submit a best and final price offer for that public transport unit contract to the approved organisation.
- The approved organisation will consider the offered contract price in light of the market price range, and will generally accept the offer if it is within the range.
- Where the offered contract price is below the market price range, the approved organisation will advise the supplier and the price will be checked to ensure that it is sustainable. If it is considered to be unsustainable, negotiation will commence.
- Where the offered contract price is above the market price range, the approved organisation will advise the supplier and negotiation will commence.
- The approved organisation may reveal the market price range to the supplier once negotiation commences. This information should be used along with other supplementary information, as identified in the benchmarking section of this appendix, to inform the negotiation process.
- Negotiation, and any processes to provide resolution where agreement cannot be reached, should be concluded within a reasonable time frame. The procurement strategy should take account of the time implications of the process.

Where agreement cannot be reached and the contract is for a directly appointed unit, the parties will jointly appoint a mediator. If agreement cannot be reached through the mediation process, then the approved organisation may choose to proceed to arbitration, using the process noted above, or to competitively tender the contract, as specified in the procurement strategy.

Negotiation for gross cost resets

The following processes must be used when resetting the gross price of a tendered contract at the end of the sixth year, under [section 10.28](#) *Gross cost resets for public transport units*.

Large bus markets:

- The approved organisation will identify a benchmark price range for a unit contract using the process specified in the benchmarking section of this appendix.
- The approved organisation will compare the inflation-adjusted gross price of the contract against the benchmark price range. No change will be made to the inflation-adjusted gross price where it is within the benchmark range.
- Where the inflation adjusted gross price is outside the benchmark price range, the parties will enter into a negotiation process following the direct appointment process specified in the preceding section of this appendix.
- The reset price will apply for the start of year seven of the contract, and if necessary paid in arrears.

Other bus markets:

- Where the size of the bus market prevents the use of the methodology in the price benchmarking section of this appendix, approved organisations are encouraged to try and identify alternative benchmarking methods that they may be able to use to undertake a gross cost reset.
- Where approved organisations decide to proceed with benchmarking, they will need to determine their own approach for testing the current contract price (inclusive of the indexed winning tender contract price plus the indexed price of variations) at the time of the gross cost reset. The approach will need to be consistent with the following principles:
 - Be simple to apply and administer
 - Give confidence that the output of the approach reflects appropriate market prices
 - Contribute to best value for money.
- The benchmarking approach will be set out in the regional Procurement Strategy, and be assessed by Waka Kotahi against these principles. Approved organisations are advised to work with Waka Kotahi throughout the Procurement Strategy development process to ensure that the approach is appropriate.
- Approved organisations that do not have, or are unlikely to have, suitable benchmark information to reset the gross price, will reconfirm the current contract price when undertaking the gross cost reset.

The current contract price is defined as the original winning tender contract price (ie the initial contract price) plus the price of any contract variations (for service level adjustments) made during the first six years of the contract, each adjusted for input price variation using an index approved by Waka Kotahi in accordance with [section 10.25 Contract price adjustment for input price variation public transport services](#).

Further assistance

Contact Waka Kotahi for further guidance on contract negotiation processes for bus services.

Appendix J Public transport financial incentive mechanisms

Overview

The financial incentive mechanism (FIM) is the formula that specifies the parties' share of the change in fare revenue. It ensures that the purchaser and supplier have a mutual financial interest in the positive performance of a public transport service unit, to incentivise them to collaborate to improve performance by growing patronage with less reliance on public subsidy.

All partnering contracts are required to include a FIM, with the exception of partnering contracts for commercial units, which can include a FIM by mutual agreement.

The FIM must comply with the requirements and principles outlined below, to be approved by Waka Kotahi as a component of the procurement strategy.

Requirements

FIMs must comply with the following requirements:

- apply to all subsidised partnering contracts; may apply to non-subsidised (commercial) partnering contracts by agreement
- be separate from cost indexation and KPI processes and payments.

Principles

FIMs must be consistent with the following principles:

- incentivise both parties to collaborate to grow patronage and revenue
- take account of unit and regional market characteristics
- be simple to apply and administer
- contribute to best value for money.

Options

Each FIM will share changes in farebox revenue (and service cost if incorporated into the FIM formula) compared to a baseline, using one of two broad approaches:

- patronage-based sharing, which links the incentive directly to patronage change through a 'per passenger' payment
- revenue-based sharing, which allocates a share of revenue change, and cost change if desired, on a proportional basis.

Further assistance

Contact Waka Kotahi for further guidance on the development and application of the FIM.

Appendix K Measuring public transport customer satisfaction

For customer satisfaction survey results to be comparable across different operators, modes and regions, the questions, sampling methods and rating scales must be the same.

Waka Kotahi has developed a list of common questions that will form the core of individual public transport customer satisfaction surveys for scheduled services.⁵ The questions will allow national statistics to be developed for the purpose of accountability reporting to government and allow benchmarking between approved organisations and between operators.

The table below sets out the question wording, and the rest of this appendix sets out the required rating scale and sampling method and provides a guideline for carrying out surveys.

Customer satisfaction	National questions
<p>Surveys must include at least:</p> <ul style="list-style-type: none"> The 19 questions shown opposite an on-board survey method that conforms with the principles set out in the guidelines (see pages K-5 to K-9) The rating scale set out on pages K-2 to K-4. Regional survey reports broken down by mode <p>(Note: This minimum set of questions is necessary to ensure a core customer satisfaction dataset that is nationally consistent)</p>	<p>Section A</p> <ol style="list-style-type: none"> The bus/train/ferry being on time (keeping to the timetable) How often the services run The value for money of the fare Having enough seats available Ease of getting on and off the [bus/train/ferry] Comfort of the inside temperature The helpfulness and attitude of the driver [train staff/ferry staff] Personal security during this trip Overall satisfaction with this trip <p>Section B</p> <ol style="list-style-type: none"> The ease of getting information about public transport routes and timetables Information about service delays/disruptions (if applicable) The travel time (considering the distance you travel) How convenient it is to pay for public transport? The public transport system overall How likely is it that you would recommend using public transport here to a friend or a colleague?

⁵ The customer satisfaction survey changes set out in this general circular relate to schedule (bus, train, ferry) services. For Total Mobility services, the Transport Agency is contemplating moving to a nationally coordinated survey undertaken periodically (probably every three years). This policy decision is still under consideration, but in the meantime, the Transport Agency is removing any requirement for regional authorities to undertake Total Mobility surveys and report the results to the Transport Agency through regional Transport Investment Online annual achievement returns.

Customer satisfaction	National questions
	Section C 21. Was the trip free because you are a SuperGold cardholder? 22. Are you: male/female? 23. Which age group do you fall into (15-17; 18-24; 25-34; 35-44; 45-59; 60-64; 65+)? 2. What is the ONE thing you could suggest to improve the region's public transport services?
Rating scale	A scale of 0 to 10 where 0 = extremely dissatisfied and 10 = extremely satisfied. A 'not applicable' option should also be included for questions where this is a valid response option.

Public transport customer satisfaction surveys – national questionnaire wording

Introduction

This sets out in survey format the questions and rating scale for the core questions required at a national level. Final regional surveys may include additional questions and be formatted by survey specialists to meet the needs of individual approved organisations. In laying out the questions as shown below, Waka Kotahi does not intend to dictate the format of the final questionnaire, only the question wording and rating scale.

Section A

Please indicate your level of satisfaction with the following service features for **this [bus/train/ferry] trip**.

Please circle one number for each question.

1. The [bus/train/ferry] being on time (keeping to the timetable)

	Extremely dissatisfied						Extremely satisfied					
N/A	0	1	2	3	4	5	6	7	8	9	10	

2. How often services run

	Extremely dissatisfied						Extremely satisfied					
N/A	0	1	2	3	4	5	6	7	8	9	10	

3. The value for money of the fare

	Extremely dissatisfied						Extremely satisfied					
N/A	0	1	2	3	4	5	6	7	8	9	10	

4. Having enough seats available

	Extremely dissatisfied						Extremely satisfied					
N/A	0	1	2	3	4	5	6	7	8	9	10	

5. Ease of getting on and off the [bus/train/ferry]

	Extremely dissatisfied						Extremely satisfied					
N/A	0	1	2	3	4	5	6	7	8	9	10	

6. Comfort of the inside temperature

	Extremely dissatisfied						Extremely satisfied					
N/A	0	1	2	3	4	5	6	7	8	9	10	

7. The helpfulness and attitude of the driver [train staff/ferry staff]

	Extremely dissatisfied						Extremely satisfied					
N/A	0	1	2	3	4	5	6	7	8	9	10	

8. Personal security during this trip

	Extremely dissatisfied						Extremely satisfied					
N/A	0	1	2	3	4	5	6	7	8	9	10	

9. Overall satisfaction with this trip

	Extremely dissatisfied						Extremely satisfied					
N/A	0	1	2	3	4	5	6	7	8	9	10	

Section B

Now thinking about your experience of public transport in this region over the last three months, please indicate your level of satisfaction with the following:

Please circle one number for each question.

10. The ease of getting information about public transport routes and timetables

	Extremely dissatisfied						Extremely satisfied					
N/A	0	1	2	3	4	5	6	7	8	9	10	

11. Information about service delays/disruptions (if applicable)

	Extremely dissatisfied						Extremely satisfied					
N/A	0	1	2	3	4	5	6	7	8	9	10	

12. The travel time (considering the distance you travel)

	Extremely dissatisfied						Extremely satisfied					
N/A	0	1	2	3	4	5	6	7	8	9	10	

13. How convenient it is to pay for public transport

	Extremely dissatisfied						Extremely satisfied					
N/A	0	1	2	3	4	5	6	7	8	9	10	

14. The public transport system overall

	Extremely dissatisfied						Extremely satisfied					
N/A	0	1	2	3	4	5	6	7	8	9	10	

15. How likely is it that you would recommend using public transport here to a friend or a colleague?

Very likely to recommend

Likely to recommend

Neither likely to recommend nor to recommend against

Likely to recommend against

Very likely to recommend against

Section C**16. Was your trip free because you are a SuperGold cardholder?**

Yes	No
-----	----

17. Are you:

Male	Female
------	--------

18. Which age group do you fall into?

15-17	18-24	25-34	35-44	45-59	60-64	65+
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19. What is ONE thing you could suggest to improve the region's public transport services

Public transport user sampling guidelines

Context

Surveys of user perceptions of public transport are carried out by approved organisations receiving central government funding, as part of monitoring requirements. Results are summarised at a national level by Waka Kotahi (eg for performance measures in the annual report). To improve consistency between data collected in different regions, identical wording and a consistent format for questions across regions is mandatory.

Survey frequency

Given the resourcing requirements of this type of comprehensive survey (on-board sampling across a representative sample of service routes and times), Waka Kotahi recognises that many approved organisations might find it difficult to resource an annual public transport customer satisfaction survey. It is at the discretion of each approved organisation to determine the frequency of surveying, but Waka Kotahi would expect that even small approved organisations should undertake a customer satisfaction survey at least every three years.

Objectives

These guidelines aim:

- to make sampling processes reasonably consistent (consistent between approved organisations and consistent over different years)
- to encourage good quality sampling methods.

These guidelines do **not** aim to be a complete step-by-step handbook providing all details of how to sample and how to instruct staff how to carry out such surveys. That would be very difficult to do in a single document (and require much greater length) because of the substantial differences between regions in services and available resources. Rather, these guidelines aim to promote consistency and good practice, yet be flexible enough to be adapted to the level of services and resources available in each region.

Basic requirements

Requirement	Explanation
Use onboard/intercept sampling	Onboard/intercept sampling means selecting users either onboard buses/trains/ferries or intercepting them at arrival/departure points (eg ferry wharfs, rail stations). Other options such as telephone surveys and online surveys were considered by Waka Kotahi in 2011 but onboard/intercept methods preferred (and already in use by the majority of approved organisations).
Include a good number of different trips (routes, services, times)	Margins of error for such surveys do not depend just on the total number of users responding. The number of different services (ie bus trips, train trips) covered may have a strong impact too. For example, consider a trip that leaves half an hour late – most users on that trip are likely to give it lower ratings for punctuality and overall satisfaction than users on other trips. Hence, getting 400 responses from only two overcrowded peak-hour train services would tell us relatively little about satisfaction with all train services.
Selection of trips and passengers should approximate random samples	Letting passengers self-select (eg by picking up questionnaires from a station) is not acceptable. Nor is selecting a set of trips because they seem convenient. Note that a (simple) random sample is not haphazardly chosen, rather each unit sampled has an equal probability of selection. Hence the guidelines below suggest more defined methods that better approximate random samples of trips and passengers.
Correct large imbalances in samples by statistical weighting when reporting total results	If peak trips account for about 80% of patronage in a region, Waka Kotahi needs responses from peak trips to account for about 80% of the overall rating reported. So if only 40% of users sampled are from peak trips, then use statistical weighting to correct such a large sample imbalance (such weighting is routine for experienced survey researchers).
Supply a brief description of sampling methods and ‘response rate’ to Waka Kotahi	Such a written description is useful to: <ul style="list-style-type: none"> • Check that Waka Kotahi can validly combine results from different approved organisations into a national total • Check that there really is consistency in methods between approved organisations • Ensure that approved organisations have a written description that can be used to efficiently maintain consistent methods in future years (this is important because smaller approved organisations are not now required to carry out annual surveys).

Guidelines

Topic	Guideline
Selecting trips/services	<p>Approximate a random sample. Acceptable methods include:</p> <ul style="list-style-type: none"> • using a spreadsheet to randomly sort a list of trips then using the top 200 trips; eg use =RAND() in Excel • selecting every 13th service/trip from a list (where there is no reason to suspect any recurring patterns every 13th trip). <p>It is fine to exclude a relatively small number of early morning or late night trips because of concerns about interviewer safety and/or excessive extra costs. But such exclusions should be written down so that they can be applied consistently in future years (and communicated to Waka Kotahi).</p> <p>Coverage of trips across the entire year is not required. Surveying over at least a fortnight judged 'typical' is acceptable (eg not during major holidays).</p>
Selecting passengers on trips/services	<p>Approximate a random sample (of those aged 15 or more) on the selected trip.</p> <ul style="list-style-type: none"> • Allowing passengers to self-select (eg by picking up a questionnaire or not at a station) is not acceptable • Allowing staff to select the people they feel most comfortable about approaching is not acceptable. • To approximate a random sample, we need survey staff with explicit written instructions (eg select every fourth person entering the bus, excluding those who clearly appear younger than 15 years). If fourth person methods are used, the count of people should continue across different trips (eg if an interviewer selecting every fourth person has counted to 2 and the trip finishes, then they select the second person on the next trip they work on). <p>You do not need to select every passenger on a sampled trip. Selecting every second or every fifth passenger can help:</p> <ul style="list-style-type: none"> • Keep sampling manageable at peak times (so workload is not too much for survey staff, and delays to those boarding buses are minimised) • Improve margins of error—because money saved on processing questionnaires from extra users on the same trip can broaden coverage to more trips. <p>Waka Kotahi only requires surveying of passengers aged 15 years or more.</p>

Topic	Guideline
	<ul style="list-style-type: none"> The Market Research Society <i>Code of Practice</i> requires the informed consent of a parent or responsible adult before interviewing children aged under 15 years.
Numbers of trips and users; margins of error	<p>Consider both the number of trips and the number of responses from users; both affect accuracy of results.</p> <ul style="list-style-type: none"> Exactly how the number of trips and number of passengers affect margins of error is complicated to calculate and differs depending on services and sampling processes in each region. To check on the number of trips and the spread of users over trips, record the trip from which each passenger response was obtained (eg by having route, time, day on questionnaire; or by having interviewers separately record this information for each numbered questionnaire given out). <p>For tolerable coverage of trips/services, sampling (in years when surveys are done) should exceed these minimum numbers of trips/services:</p> <ul style="list-style-type: none"> 100 each for bus and 80 for train (where relevant) in Auckland, Wellington and Christchurch. 50 each for Waikato, Otago and the Bay of Plenty. <p>Other approved organisations should provide lists of their service timetables to Waka Kotahi for advice on sampling.</p> <p>When providing margin of error estimates for such user surveys, some allowance for the extent to which users are similar/clustered by being on the same service/trip must be made.</p> <ul style="list-style-type: none"> If the usual margin of error approximations are being used (which ignore the effect of clustering by assuming ‘simple random sampling’), Waka Kotahi requires that these simple adjustments to the approximations be made (unless the approved organisation has its own statistical evidence for the effects of clustering): <p>With bus surveys, halve the actual sample size before using it in such margin of error estimates (ie, if the actual sample size is 1200, then the calculations should assume an effective sample size of only 600).⁶</p> <p>With train surveys, multiply the actual sample size by 2/3 before using it in such margin of error estimates (that is, if the actual</p>

⁶ This recommendation of halving is based on statistical analysis of clustering with 2012 Auckland user survey data. If average cluster size is markedly more or less than the average of 78 in the Auckland data, then statistical advice for an alternative to the halving is desirable.

Topic	Guideline
	sample size is 1200, then the calculations should assume an effective sample size of only 800). ⁷
Weighting to correct sample imbalances	<p>Small imbalances in samples in terms of day of week, peak versus off-peak etc. will inevitably occur even when the plan is to cover such trips equally. Waka Kotahi does not require weighting to counteract such small accidental imbalances.</p> <p>Particularly in larger centres, there will often be practical reasons to target more users from a particular service type or operator than justified by the proportion they make up of total patronage. For example, it's fine to devote ½ of your sample to a selection of routes/services that only account for 1/6 of patronage if you particularly want to get accurate results separately for that group of routes/services. But when reporting to Waka Kotahi, use statistical weighting to correct for the oversampling of that group of routes/services. Approved organisations using weighting should also get statistical advice on the increases to margin of error calculations such weights are likely to cause (beyond those required for clustering as mentioned above).</p> <p>Waka Kotahi recognises that smaller approved organisations will wish to avoid the complexity of weighting if possible; hence we only require it for large imbalances like the example above.</p>
Good practice hints	<p>This section is less about requirements, and more about practical hints that will keep up quality.</p> <p>A 'control sheet' for survey staff who recruit passengers is useful:</p> <ul style="list-style-type: none"> • To list the trips/services they should be sampling • To remind staff of major instructions/procedures. • To provide somewhere for staff to record the number of refusals and number of questionnaires accepted (needed to calculate the response rate). Other useful counts for good response analysis are: language/communication difficulty; Under 15; Already answered questionnaire; PT staff (ineligible) • To provide staff somewhere to record discrepancies (eg cancelled services). <p>Options to consider include:</p> <ul style="list-style-type: none"> • Having questionnaires printed with unique sequential serial numbers (so that interviewers can then record on the control sheet the first and last number of questionnaires given out on

⁷ This recommendation of 2/3 is based on statistical analysis of clustering with 2012 Auckland user survey data. If average cluster size is markedly more or less than the average of 7.8 in the Auckland data, then statistical advice for an alternative to the 2/3 is desirable.

Topic	Guideline
	<p>each trip/service); this can save several users on each trip needing to record things like day, time of day, or operator if that information is wanted for analysis</p> <ul style="list-style-type: none"> • Different coloured questionnaires for different service types (eg train vs bus vs ferry). This helps prevent accidentally giving out the wrong questionnaire.
Description of methods	<p>The description must cover:</p> <ul style="list-style-type: none"> • Sampling of trips: how many selected (reported separately for bus, train, ferry where relevant)? How were these selected? How many trips were excluded as out of scope and which were they (eg late night services starting after 8pm)? • Sampling of passengers: how many selected? How were these selected on each trip (eg every second passenger for buses; every fourth passenger on every second carriage for trains)? • Response rate: the proportion of passengers selected for the survey who provided usable responses (rather than refusing to accept the questionnaire, or not returning the questionnaire, etc). • Approved organisations will also find it helpful to have clear written instructions for survey staff. This ensures consistency between years and enables practical lessons learned to be incorporated to refine processes over time (rather than forgotten).

Appendix L Public transport data definitions

Measure	Rationale	Definition
Use		
Patronage (boardings)	Core measure of public transport effectiveness	<ul style="list-style-type: none"> Number of passenger boardings per trip operated. Number of passenger boardings by concessionary fare type (eg child, SuperGold).
Trip		<ul style="list-style-type: none"> A trip is travel that involves a single public transport boarding.
Journey		<ul style="list-style-type: none"> A journey is from origin to final destination, and may involve more than one public transport boarding (as well as travel by other modes to originating public transport stop and from final public transport stop to final destination).
Average trip length	Required to understand passenger loadings by locale and calculate average number of passengers per kilometre	<ul style="list-style-type: none"> Average length (kilometres) of a passenger trip for each separate fare. One of the three alternate methods below should be used for calculating average trip length: <ul style="list-style-type: none"> determined from a physical survey of all routes operated (these surveys should be undertaken relatively regularly (five years maximum) or after significant service configuration changes calculated directly from a tag-on/tag-off ticketing system calculated from a destination logging ticketing system.
Passenger kilometres	Key measure of public transport use and loadings on specific route segments	<ul style="list-style-type: none"> Average trip length multiplied by total boardings over a specified time period. Passenger kilometres should be calculated monthly by route and for the whole region as this is one of the key output measures of public transport performance.
Service performance		
Service trip reliability (completed trips)	Measures combined provide an overview of	<ul style="list-style-type: none"> The proportion of services that were completed in full during a time period (month/year etc). An increase in services completed represents an improvement in reliability performance.

Measure	Rationale	Definition
	service reliability and on-time running (key customer satisfaction attribute)	<ul style="list-style-type: none"> A trip leaving the origin stop >59 seconds early or >four minutes 59 seconds late is deemed not to have operated. Presented as % of scheduled services. May require real-time information or could be based on driver/operator logs.
Service trip punctuality		<ul style="list-style-type: none"> Percentage of scheduled trips leaving origin stop between 59 seconds before and four minutes 59 seconds after the scheduled departure time. Percentage of scheduled trips between 59 seconds before and four minutes 59 seconds after the scheduled departure time at the selected timing points. Likely requires real-time information.
Cancelled service trips		<ul style="list-style-type: none"> The proportion of timetabled services that were cancelled during a time period (month/year etc).
Service levels		
Service kilometres	Overall extent of a regional or local service	<ul style="list-style-type: none"> The distance travelled by buses, trains and ferries while in-service (available to passengers). Service-kilometres will be different from total vehicle kilometres, which include passenger vehicle travel while not in service on a scheduled route.
Service hours	Overall extent of a regional or local service and service capacity	<ul style="list-style-type: none"> Service hours are the hours that a public transport vehicle is providing service per annum (excludes dead running and lay over time). Service hours are a prime determinant of the total direct cost of resources expended and are often the baseline for determining productivity (passengers per service hour) and marginal service cost (cost per service hour).
Service hours (peak vs off-peak)		<ul style="list-style-type: none"> For the purposes of national monitoring, off-peak hours will be defined as those pertaining to the operation of the SuperGold card scheme. Off-peak hours are defined as: <ul style="list-style-type: none"> 9am to 3pm Monday to Friday, excluding public holidays 6.30pm to the end of scheduled services, Monday to Friday, excluding public holidays

Measure	Rationale	Definition
		<ul style="list-style-type: none"> – Saturdays, Sundays and public holidays.
Hours (span) of service		<ul style="list-style-type: none"> • The number of hours during a day that service is provided. • Hours of services can vary by day of the week, by route and even by stop.
Service coverage		<ul style="list-style-type: none"> • Assesses how much area has access to public transport and can be calculated as a number or a percentage. • A standard method of calculating this measure would use 500 metres from bus stops and one kilometre distance from rail and bus rapid transit stations as the service area.
Financial performance		
Investment level (approved organisation share)	Level and efficiency of investment	<ul style="list-style-type: none"> • Amount of ratepayer funds set out in the regional public transport plan invested in providing public transport services (including the approved organisation authority share of the cost of managing and administering the services).
Fare revenue		<p>Fares paid for the use of a public transport system, comprising:</p> <ul style="list-style-type: none"> • cash fares paid on board • non-electronic passes (revenue recorded at point of sale) • fares paid using electronic cards (after reconciliation by the ticket processing back office).

Appendix M Standard documents

For the purposes of application of the rules in [section 10.12A Use of standard documents](#) the following must be treated as 'Standard documents'.

Where a standard document is incorporated by reference, into a request for proposals or contract, and there is more than one version of the document, make sure that the required version is named.

Standards New Zealand documents

All New Zealand Standards and other guidelines codes of practice and industry standards published by Standards New Zealand are 'Standard documents'. The various conditions of contract for building and civil engineering standards, including NZS 3910:2013, NZS 3916:2013 etc plus the numerous New Zealand standards for materials and products are therefore to be treated as 'standard documents'.

Waka Kotahi documents

All Waka Kotahi published standards, guidelines and reference documents listed in its [Register of network standards and guidelines](#) are 'Standard documents':

The materials and specifications etc published by Waka Kotahi including the standard state highway maintenance and operations contract documents (referred to as the SM032 contract documents) are amongst the documents listed in the register.

Appendix N References

Overview

This appendix contains a list of documents and websites referred to in this manual.

Acts

- Health and Safety at Work Act 2015
<http://www.legislation.govt.nz/act/public/2015/0070/latest/DLM5976660.html>
- Land Transport Management Act 2003
www.legislation.govt.nz/act/public/2003/0118/latest/DLM226230.html
- Local Government Act 2002
www.legislation.govt.nz/act/public/2002/0084/latest/DLM170873.html
- Local Government Official Information and Meetings Act 1987
www.legislation.govt.nz/act/public/1987/0174/latest/DLM122242.html
- Official Information Act 1982
www.legislation.govt.nz/act/public/1982/0156/latest/DLM64785.html
- Public Audit Act 2001
www.legislation.govt.nz/act/public/2001/0010/latest/DLM88541.html

Documents

- *Achieving public sector outcomes with private sector partners (2006)*
www.oag.govt.nz/2006/public-private/docs/partnerships.pdf
- *Government rules of sourcing 3rd edition (2015)*
Superseded by Government Procurement Rules
- *Government Procurement Rules 4th edition (2019)*
<https://www.procurement.govt.nz/assets/procurement-property/documents/government-procurement-rules.pdf>
- *Government Policy Statement on Land Transport*
https://www.transport.govt.nz/area-of-interest/strategy-and-direction/government-policy-statement-on-land-transport-2021/National_Land_Transport_Programme
- *National Land Transport Programme*
<https://www.nzta.govt.nz/planning-and-investment/national-land-transport-programme/>
- *Procurement guidance for public entities (2008)*
www.oag.govt.nz/2008/procurement-guide/
- *Requirements for urban buses in New Zealand (2021)*
www.nzta.govt.nz/resources/requirements-for-urban-buses/
- *Toitu Te Taiao – Our Sustainability Action Plan*
<https://www.nzta.govt.nz/about-us/about-waka-kotahi-nz-transport-agency/environmental-and-social-responsibility/toitu-te-taiao-our-sustainability-action-plan/>

- *Total Mobility scheme: a guide for local authorities* (2008)
www.nzta.govt.nz/resources/total-mobility-council-guide/docs/total-mobility-council-guide.pdf

Manuals

- *Monetised benefits and costs manual* (2020)
<https://www.nzta.govt.nz/resources/monetised-benefits-and-costs-manual/>
- *Planning and investment knowledge base*
www.nzta.govt.nz/resources/planning-and-investment-knowledge-base/

Standard contract forms

- Conditions of contract for consultancy services
https://www.acenz.org.nz/conditions_of_contract_for_consultancy_services_cccs
- NEC3
www.neccontract.com
- NZS 3910:2013 – Conditions of contract for building and civil engineering construction
www.standards.co.nz
- NZS 3915:2005 – Conditions of contract for building and civil engineering construction (where no person is appointed to act as engineer to the contract)
www.standards.co.nz

Strategies and protocols

- New Zealand Energy Efficiency and Conservation Strategy
<https://www.mbie.govt.nz/assets/346278aab2/nzeecs-2017-2022.pdf>
- New Zealand Urban Design Protocol (2005)
<https://environment.govt.nz/assets/Publications/Files/urban-design-protocol-colour.pdf>
- New Zealand Waste Strategy
<https://environment.govt.nz/what-government-is-doing/areas-of-work/waste/waste-legislation-review/>
- Operator Rating System (2008)
www.nzta.govt.nz/commercial/assistance/ors/index.html

Websites

- Association of Consulting Engineers New Zealand Inc (ACE New Zealand)
www.acenz.org.nz
- Commerce Commission New Zealand
www.comcom.govt.nz/
- Government Electronic Tenders Service
www.gets.govt.nz
- KPI Engine (Centre for Construction Innovation)
<http://burrlist.com/wp-content/uploads/2012/09/KPIEngineCaseStudy.pdf>

- LGTenders New Zealand
www.lgtenders.co.nz
- Ministry of Business Innovation and Employment
www.mbie.govt.nz/
- Ministry of Transport
www.transport.govt.nz
- NEC
www.neccontract.com
- Waka Kotahi
www.nzta.govt.nz
- Office of the Auditor-General
www.oag.govt.nz
- Procurement.govt.nz
www.business.govt.nz/procurement
- Standards New Zealand
www.standards.co.nz

Appendix O Record of Procurement manual amendments

Amendment number	Description of change	Effective date	Updated by
1	Added links to tools on pages 5-12, 6-27, 7-16, 10-36 and C-6. Also, miscellaneous errata.	November 2009	Investment, Revenue & Strategy
2	Added new text to 10.19	March 2011	Steve Winter Senior Advisor, Procurement
3	<p>Chapters 8, 10 and 11 and appendices A, C, D amended.</p> <p>Existing Appendix G (Monopoly suppliers) removed and details incorporated under Procurement manual rule 10.10. Appendix G now Definition of Terms (previously appendix H).</p> <p>New appendices H, I, J, K and L inserted.</p> <p>Procurement manual rules 10.25, 10.26 and 10.28 removed.</p> <p>Procurement manual rules 10.6, 10.8, 10.12, 10.23, 10.24, 10.27, 10.29, 10.30 amended.</p> <p>New Procurement manual rules 10.27, 10.28, 10.29 and 10.30 inserted.</p> <p>These changes have been made to give effect to new public transport procurement policy. See General Circular Investment 13/08 for more detail.</p>	November 2013	Ian Stuart Principal Advisor, PT Investment
4	<p>Removal of miscellaneous errata and out-of-date information plus various minor additions and amendments to update information.</p> <p>Updates to section 1.3 include reference to LGA s17A and to collaborating with other purchasers plus specific reference to Government Rules of Sourcing.</p> <p>Various minor additions referring to collaboration with other purchasers.</p> <p>Section 3.2 definitions of value for money updated.</p>	March 2018	Ian Stuart Principal Advisor, PT Investment Bernard Cuttance Principal Procurement & Evaluation Advisor

Amendment number	Description of change	Effective date	Updated by
	<p>Section 4.2 reference added to link between procurement strategies and LGA s17A reviews.</p> <p>Section 5.2 <i>Prequalification systems</i> and section 5.5 <i>Evaluation of proposals</i> amended to align with Government Rules of Sourcing.</p> <p>Guidelines, and reference to new section 10.12A <i>Use of standard documents</i>, added to sections 6.6 and 7.6 <i>Contracts</i>.</p> <p>Chapter 9 <i>Procurement procedure 4</i> amended and title changed from <i>Public transport fare subsidy schemes</i> to <i>Total mobility scheme</i>. Amendments reflect its narrower scope and clarify policy.</p> <p>New section 10.3A <i>Compliance with Government Rules of Sourcing</i> added.</p> <p>Section 10.4 <i>Procurement strategies</i> rules amended and guidelines added.</p> <p>Section 10.6 <i>Documentation and publication requirements</i> amended to align with Government Rules of Sourcing.</p> <p>New section 10.6A <i>Supplier selection process requirements</i> added - parts of section 10.6 moved to 10.6A.</p> <p>Section 10.11 <i>Direct appointment where competition will not help obtain best value for money</i> guidelines amended, and aligned with Government Rules of Sourcing.</p> <p>Section 10.12 <i>RFP contents and conformity</i> amended to ensure alignment with Government Rule of Sourcing – guidelines on deterring bid rigging added.</p> <p>New section 10.12A <i>Use of standard documents</i> added.</p> <p>Section 10.32 <i>Total Mobility scheme</i> amended to align with changes to Chapter 9.</p> <p>Appendix C evaluation procedure description and guidelines amended for <i>Price quality without disclosure of the estimate</i> to clarify intended process.</p> <p>Appendix I amended to reflect change in policy.</p>		

Amendment number	Description of change	Effective date	Updated by
	<p>Additional text included in appendix H to illustrate how policy works.</p> <p>Appendix M added.</p>		
5	<p>Please note that significant Amendment 5 changes are identified by a vertical line in the left margin.</p> <p>Throughout this document there have been updates to the specific Rule numbers referenced to align with updated Government Procurement Rules numbering – these have not been identified with a vertical line.</p> <p>Chapter 1 updates</p> <p>Updates to reflect the changes to Government Procurement Rules:</p> <ul style="list-style-type: none"> • Addition of the Government Procurement Charter and a requirement to comply • The need to consider how procurement activities can, where appropriate, contribute to the Government’s Broader Outcomes. <p>Other updates</p> <p>Inclusion of information about the Transport Agency’s involvement in the Construction Sector Accord, and that the Transport Agency requires approved organisations to where appropriate contribute to the Transport Agency’s specific commitments under the Accord.</p> <p>Chapter 3</p> <ul style="list-style-type: none"> • Redefinition of ‘value for money’ to ‘best value for money’ which aligns with Government procurement’s concept of ‘public value’ and update of term to ‘best value for money’ throughout the document • An update to the Health & Safety Expectations, to strengthen the Transport Agency’s expectations to require approved organisations to consistently embed health and safety controls and standards within the procurement lifecycle and that health and safety forms a key consideration in every procurement decision. 	1 October 2019	<p>Bernard Cuttance</p> <p>Principal Procurement & Evaluation Advisor</p> <p>Tania Cleary</p> <p>Senior Procurement Advisor – Procurement Excellence</p>

Amendment number	Description of change	Effective date	Updated by
6	Manual revised to first edition, amendment 6. Full details of amendments are provided on the Waka Kotahi website. Refer General Circular 22/01		Bernard Cuttance Principal Procurement & Evaluation Advisor