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April 2014

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# QUALITY CONTROL RECORD

## Revision Schedule

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FOREWORD

The NZ Transport Agency’s State highway procurement strategy is a proactive, future-oriented approach to implementing asset improvement and asset management projects on the state highway network.

Looking after New Zealand’s road network is a massive job. Procurement which extracts the maximum value for individual circumstances is key to ensuring value for money for taxpayers.

We are well underway with our programme of works associated with the Roads of National Significance, and industry is continuing to respond well to the challenge of delivering on this programme of work to date.

The introduction of the Network Outcomes Contracts is seeing changes in the asset management market and these changes will be closely watched over coming months.

We continually work hard on our approach to procurement and how we work with the industry - but acknowledge there are opportunities for us to improve together as a sector.

By driving world class, consistent performance and developing our commercial intelligence with respect to our procurement practices, we can be assured of delivering a safe and reliable service which represents good value for money for New Zealand.

Tommy Parker  
Group Manager – Highways and Network Operations  
NZ Transport Agency
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1 Background

1.1 Justification for the Update

In 2010 this Procurement Strategy replaced the Long Term Procurement Plan (LTPP), originally published by Transit New Zealand in December 2000. This Procurement Strategy update is being published because:

- The current Procurement Strategy has been in operation for over three years and input information such as the market situation requires updating.
- We need to satisfy the requirements of the Transport Agency's Procurement Manual.
- Delivery models have developed since the Procurement Strategy was first published and the Highways and Network Operations (HNO) group wish to signal developments which are planned for the coming years.
- Changes to our working practices (including more insourcing of work) associated with the planning and delivery of asset improvement projects and asset management activities.

1.2 Current Market Situation

The supplier market has stabilised somewhat since the previous Procurement Strategy with increased expenditure by HNO on asset improvement projects and activity on the Christchurch rebuild. Significant progress has been made in the delivery of the Roads of National Significance (RoNS) programme, with construction contracts awarded on all but one of the identified routes. However, some excess capacity exists within the industry and competition for contracts remains strong, particularly in the mid to large asset improvement projects range.

Previous experience has shown that the supply market conditions can change considerably within the three-year Procurement Strategy update cycle. We will continue to watch closely any changes that occur in the supply market, with the possibility that we will need to react with a revision to this strategy earlier than planned.

1.2.1 Asset Improvement Market

From our analysis of the supply market for asset improvement activities, overall we are satisfied that the market in this sector is relatively healthy throughout the range of activities, and in most centres throughout the country. The data collected shows a good level of competition for new works, as well as a good range of successful suppliers. The workforce we rely on for asset improvement projects tends to be highly mobile, with teams for the medium scale to large scale projects diverted from around the country. This approach utilises well the available skills and experience to aid the successful delivery of projects.
the smaller projects, which tend to source personnel more locally, there are reasonable levels of skill and ability throughout most areas of the country.

However, there are certainly more opportunities to grow our existing range of suppliers or encourage new suppliers into our market. For example, over recent years our programme has been punctuated by a number of high value projects, mixed with an extensive range of smaller value contracts. The medium size projects ($20 million to $100 million, say) have not been as frequent as is considered desirable.

Competition in the professional services market is particularly strong, with an increased number of suppliers tendering for contracts (typically seven to eight). As a result, the Transport Agency has recently utilised shortlisting on a number of contracts in order to reduce tendering and evaluation costs to industry. This has had the added benefit of increasing the breadth of our supplier market which has typically been dominated by two or three suppliers over recent years.

Over the past three years we have seen increased depth in the physical works market, with suppliers emerging from the small to mid size projects up to the mid to large project range, usurping the typically dominant suppliers.

We hypothesise that not only is there good value for money to be achieved through more targeted packaging of our works in this price range but our works programme needs to do more to aid emerging and growing suppliers with aspirations to develop their business. In order for such suppliers to compete at the large end of the scale, we need to provide them with the stepping stones (the medium size projects) they need to get there. With the continued progression of the RoNS projects, there will be a significant challenge for the Transport Agency to package projects so they provide for the full range of suppliers.

1.2.3 \textbf{Asset Management Market}

The supplier market for asset management activities has quite a different dynamic from that of its asset improvement counterpart. To a certain degree, this is a function of the nature of the works in this area and the overall limitations on the size of the asset management sector in New Zealand.

In such an environment, it is difficult to define what constitutes a healthy and sustainable supply market but it is important that the Transport Agency has a vision in this regard.

Under the Network Outcomes Contracts it is our desire to have four to six prime contractors competing in all parts of the country. This will be a significant change from our current risks of a monopoly consultancy / designer and a duopoly in the maintenance / contractor market and more closely models our capital works area where we have five prime contractors operating.
When the prime contractor market is working effectively and with a good level of competition, we consider this will enable the optimal mix of sub-contractors in the supply chain.

How we propose to promote and maintain a healthy market is outlined below.

- A minimum default percentage of 20% should be set for sub-suppliers, however, this may be adjusted up or down based on the current sub-supplier market in the region and/or other local authority activity i.e. the intent is to provide sub-suppliers with a reasonable opportunity to achieve in the new environment.

- Set a default that our suppliers must be pre-qualified to level A, in any one category, in order to lead a contract (on some networks, this threshold may be reduced to level B). Where a contractor is successful in winning a Network Outcomes Contract with a lower prequalification level, the contractor will strive to attain prequalification level A, as the threshold in the future will be set at level A.

- Consultants and contractors may be present in more than one bid per network contract, but can only be a lead supplier in one bid.

1.2.4 PROCUREMENT REVIEWS

There are currently a number of procurement reviews underway by external parties that could potentially impact on some aspects of our procurement processes. The findings have been finalised at the time of publishing this 2014 Strategy. The Transport Agency are currently reviewing these in order to develop a way forward. However, we are cognisant of the fact that this could require revision to our Procurement Strategy inside of the three year update cycle.

1.3 PURPOSE

The Procurement Strategy establishes how and why we intend to engage suppliers with a value for money focussed approach to procuring the outputs necessary to implement asset improvement projects and asset management activities on the state highway network over the next three years.

We are publishing the Procurement Strategy:

- To signal to the supply industry how we intend to procure suppliers for the operation, maintenance and improvement of the state highway network to contribute to safe and reliable journeys for our customers and maintain a healthy market.

- To help our staff and the supply industry understand the available procurement options, and the decision-making processes that are applied in various scenarios.

1.4 CONTEXT

HNO is one of six divisions in the Transport Agency. HNO’s purpose is to manage and improve the national state highway network and implement government priorities in order to provide safe, reliable and informed journeys for our customers. HNO is responsible for preparing a state highway programme and ensuring that planning, design, supervision, construction and maintenance activities to contribute to an effective, efficient, and safe land
transport system in the public interest in accordance with the Land Management Transport Act.

HNO is responsible for over $1 billion of expenditure on maintenance, operation and capital improvement of the state highway network each year. This represents a considerable investment in the roading infrastructure, which is vital to creating transport solutions for the thriving New Zealand.

As a result the Transport Agency is a leader and shaper of the supply industry. As such, we are very mindful of the impacts our actions have on the overall health and sustainability of the supply industry.

1.5 Since the Previous Procurement Strategy

Since the publishing of the previous Procurement Strategy in July 2010, the following key procurement initiatives and achievements have occurred, or are being progressed:

Business Case Approach

From 1 July 2013, the Transport Agency began the transition to a Business Case Approach for transport planning and activity development. It will become the basis for P&I’s investment decision making process for the National Land Transport Fund (NLTF).

The business case approach is a principles-based approach that clearly links the Transport Agency’s strategy to outcomes, and defines problems and their consequences thoroughly before solutions are considered. This principles-based approach ensures a shared view of problems and benefits early in the transport planning process without predetermining a particular solution.

It is intended that all new activities will be developed using this approach. Current activities i.e. those using the current project development process, will be assessed on a case by case basis to determine whether they adopt the Business Case approach. All activities will use this approach by 2015.

This requires HNO to remap our existing project development and delivery process and review the impacts to our contract proforma manuals and associated delivery models. The diagram overleaf provides an indication of how the current project development process “matches” to the business case approach.
It is anticipated that there will be little impact to the way in which we procure both professional services and physical work suppliers. However, there will be a step change in the current split between in and out sourcing work, particularly in the early stages of programme / activity development, with more ownership by the Transport Agency.

Projects and Contracts

- While two network Performance Specified Maintenance Contracts (PSMC) have been renewed, the new model for network maintenance and operations (the Network Outcomes Contract) has been developed and will supersede any further PSMC renewals. Several existing hybrid contracts have been renegotiated to the new contract model and a three year tendering round has commenced to roll out the new contract model across the strategic highway network.

- The alliance arrangement to manage and maintain Auckland’s motorway network has been renegotiated for a further three years through to September 2014.

- A number of Design Construct contracts have been awarded, including Tauranga Eastern Link, Waikato Expressway: Ngaruawahia and Tamahere-Cambridge Sections and Te Atatu. The Design and Construct tender process has been refined with increased involvement from HNO technical specialists and reviews of tender designs.
Further Alliances have commenced, including projects such as Waterview Connection Tunnels, Wellington Inner City Improvements and Puhoi to Warkworth Planning Alliance, as well as SH16 Causeway Upgrade which was procured using a Competitive Alliance delivery model.

Several Early Contractor Involvement (ECI) contracts have been implemented, including Lincoln Road Interchange, Waikato Expressway: Rangiriri Section, Caversham Corridor Improvements and the recently completed Atamuri Bridge Replacement.

The first roading Public Private Partnership (PPP) (for Transmission Gully in Wellington) has been tendered and has entered into Preferred Bidder negotiations.

Maintenance and Operation Reviews (HNO)

The Transport Agency’s 2012 review of maintenance, operations and renewals focused on state highways but with the overall objective of finding ways to improve efficiency and effectiveness of investment in road maintenance, operations and renewals. The main drivers for the review were to incorporate a one network strategy and cost effectiveness given the annual cap on expenditure for maintenance and renewals work.

Key work to date from the M&O review includes:

- retention of the alliance model as one of two asset management delivery models.
- making a conscious decision to establish a greater level of ownership and knowledge in more strategic asset management by way of a better performance framework and moving towards consistency in levels of service across the network.
- greater centralization of our asset management approach to really “stress test” the optimization of customer levels of service and funding.
- moving to a primary supplier model that brings professional services and physical works components into one contract, called the Network Outcomes Contract. Part of this has included boundary changes (moving from 37 to 23 contracts) and includes room for variability for each contract network as further collaboration opportunities are recognised, eg, the joint venture between the Transport Agency and Gisborne District Council.
- the Network Outcomes Contract requires greater ownership by the Client and a more direct relationship between client and supplier. This model will replace the existing Traditional, Hybrid and PSMC network maintenance and operation contracts as they expire.
- a targeted focus on how we ensure a healthy contractor market under our new primary supplier model.
- recognition that we have good capability within the Transport Agency and the need for frameworks to provide a stronger focus on consistency, i.e. the ‘way we do things around here’.
- restructuring of HNO to ensure the new focuses can be delivered.
- introducing principal advisor panel contracts to support the Transport Agency where specialist advice is needed (similar to the current Independent Principal Advisors contract).
Maintenance and Operation Reviews (Sector)

In July 2011, the Road Maintenance Task Force was set up by the government to identify opportunities for efficiencies and increased effectiveness in the delivery of operations, road maintenance and renewals, including through innovative services, products and methods of procurement. The task force identified four general areas for improvement:

- Adapting the business models currently used to deliver maintenance, renewals and operations.
- Improving procurement practices, which will also support the new business models.
- Improving prioritisation and optimisation of activities through level of service differentiation.
- Introducing consistent advanced asset management practices across the country amongst road controlling authorities.

The Road Efficiency Group was established in 2012. The Group was nominated by Local Government New Zealand and the Transport Agency to carry out the recommendations of the broader Road Maintenance Task Force. The three key areas that the group are focused on are:

- One network road classification to standardise data and create a classification system which identifies the level of service, function and use of road networks and state highways
- Asset management to guide best practice planning and advice to road controlling authorities
- Collaboration with the industry and between road controlling authorities to share information, staff and management practices.

1.6 Activity Categories

The management of the state highway network necessitates that the Transport Agency undertakes a variety of activities to ensure it provides a good level of service to its customers. For funding purposes, the activities undertaken are categorised into five main types: Renewals, Operations and Maintenance, Transport Planning, Administration and Capital Improvements. The current proportion of expenditure under each of these categories is shown below.
This document categorises activities by the two main types – asset improvements (Capital Improvements) and asset management (incorporates both the Renewals and the Operations and Maintenance categories).

1.7 Reference Documents

The key reference documents used to develop and document the PPS are:

- Land Transport Management Act 2003 (LTMA)
- Transport Agency’s Statement of Intent 2013-16
- HNO’s State Highway Plan
- HNO’s State Highway Asset Management Plan
2 Strategic Approach

2.1 Transport Agency’s Mission

The LTMA section 96 (b) requires the Transport Agency, in meeting its objective and undertaking its functions, to use its revenue in a manner that seeks value for money. The keywords are ‘value for money’. The Transport Agency has consistently developed, implemented and monitored its procurement practices to promote the efficient consumption of resources to generate the maximum functional performance. The Act reinforces the Transport Agency’s perspective on value for money, as we strive to continuously enhance our business outcomes.

To derive the procurement Strategy’s mission, we look at the Transport Agency’s five strategic priorities:

- putting customers at the heart of our business;
- making the most of urban network capacity;
- moving more freight on fewer trucks;
- safe speeds to reduce deaths and serious injuries; and
- efficient road maintenance investment and delivery.

In addition, HNO has its own strategic priority to drive a customer-first approach to its business, and has developed three specific targets for how this can be achieved:

- Reduce deaths and trauma (safer journeys).
- Reduce the cost of doing business (efficient and reliable journeys).
- Be a good corporate citizen (social and environmental responsibility).

The adoption of the ‘one network’ perspective means we need to consider a balanced portfolio of regional and national projects, which represents best value for money.

To achieve these strategic priorities, the Transport Agency runs its business by procuring various services from external suppliers such as consultants for the provision of professional services and contractors for the provision of physical works. Procurement is a key activity in the Transport Agency’s business, and therefore the short-term and long-term implications and influences on the industry need to be recognised in the development of a sustainable strategy for procurement.

The LTMA s25 requires that procurement procedures be designed to obtain best value for money having regard to the impact of those procurement procedures on competitive markets. We need to consider the desirability of enabling fair competition and of encouraging competitive and efficient markets.
The Transport Agency’s ability to obtain value for money relies heavily on the sustainability of the land transport industry. The PPS mission can be stated as follows:

PROCUREMENT STRATEGY MISSION

To provide best value for money in the Transport Agency’s delivery of works and services on the transport network through a one network approach, to provide to safe and reliable journeys for our customers in the short, medium and long term.

2.2 SPECIFIC OBJECTIVES OF THE PROCUREMENT STRATEGY

Given the Procurement Strategy mission statement above, the following specific objectives of the Procurement Strategy have been identified:

- To identify a sustainable mix of asset improvement delivery models and outline where they are to be used.
- To ensure a healthy market under our new maintenance and operations primary supplier model.
- To encourage competitive and efficient markets which are sustainable.
- To provide a holistic overview of HNOs procurement portfolio in the context of a one network approach.
- To encourage supplier innovation.
- To aid the engagement of suppliers who can deliver quality and value for money, and meet the needs of our customers.
- To ensure appropriate whole-of-life considerations are made in the way procurement is undertaken.
- To further improve the management of risk and optimise its allocation to suppliers.
- To encourage suppliers to take a long-term view of their performance.
- To keep abreast of international best practice.
- Signal the Transport Agency’s commitment to promoting safe working across all activities.
- Monitor the impact of this Procurement Strategy on the above objectives and more generally on value for money, and the sustainability of competitive markets.

Many of these objectives are about continuing to do the things we are currently doing, and striving to make incremental improvements through our continuous improvement processes.
2.3  **Policy Context**

2.3.1  **Land Transport Management Act 2003**

The LTMA provides the long-term context in which studies and strategies should be considered.

The purpose of this Act is to contribute to an effective, efficient, and safe land transport system in the public interest by:

- Providing the Transport Agency with a land transport focus.
- Improving long-term planning and investment in land transport, along with planning and investment in coastal shipping and rail.
- Ensuring that land transport funding is allocated in an efficient and effective manner.
- Improving the flexibility of land transport funding by providing for alternative funding mechanisms.
- Providing an integrated approach to land transport funding and management.
- Improving the social and environmental responsibility in land transport funding, planning and management.

Programmes of work and individual activity business cases and procurement strategies need to consider the LTMA objectives, particularly the requirement to ensure best value for money is achieved. Where it is assessed that procurement decisions can contribute to the following specific objectives of the Act, then this should also be detailed in the individual activity business cases and procurement strategies:

- Assisting economic development.
- Assisting safety and personal security.
- Improving access and mobility.
- Protecting and promoting public health.
- Ensuring environmental sustainability.
- Ensuring a healthy and sustainable contracting market

2.3.2  **Government Policy Statement and the National Land Transport Plan**

The *Government policy statement on land transport funding* (GPS) is a key government document for influencing the planning and funding of land transport. The Transport Agency must give effect to the GPS in developing the National Land Transport Programme (NLTP)
and take account of the GPS when approving funding for activities. Accordingly, the Transport Agency’s strategic investment direction is developed from the GPS and ensures consistency with the LTMA. The Transport Agency’s Investment and Revenue Strategy directly links the GPS and the NLTP and will demonstrate how the NLTP gives effect to the GPS.

Under this framework, activities are given a high rating when:

- They extract maximum value from services and infrastructure.
- They improve road safety by using the Safe System approach.
- There is a high strategic fit under the activity classes that are likely to be outputs of the planning:
  - roads of national significance (RoNS)
  - Freight routes and tourism routes.
  - Urban arterials critical for maximising access to significant markets, areas of employment or economic growth.


### 2.3.3 Value for Money

The application of the value for money principle is aimed at achieving the best available outcome or functional performance from the resources consumed in delivering the client’s objectives. To place the value for money concept in a distinct perspective, we utilise the following equation:

\[
\text{Value for money} = \frac{\text{Functional performance}}{\text{Resources consumed}}
\]

In the context of transport activity procurement, obtaining best value for money means purchasing the outcome that has been approved for funding in an efficient and economic manner. Efficiency and economy have both financial and non-financial attributes, which may include:

- **Whole of life** – It is important to assess the proposed investment’s sustainability in terms of both short-term and long-term cost, as well as benefit implications. This also implies that there is sometimes direct benefit derived from the earlier delivery of a product or service.

- **Economic, social and environmental** – The whole-of-life economic, social and environmental impacts need to be assessed to ensure that the investment meets appropriate performance criteria. Some of these effects, many of which are difficult to
tangibly measure, may seem to have no direct cost impacts, but in reality, when examining the consequences of failing to deliver on these objectives, the cost impacts will flow through society and the economy in many modes.

- **Legalities** – Legislation, laws, consent requirements, processes and the like are intended to promote sustainability, but there are costs associated with meeting these requirements.

- **Expenditure of public funds** – Despite the need for efficiency in procurement processes to reduce the costs associated with tendering processes, maintaining equity and transparency is a priority.

- **Resource limitations** – Limitations on technology, skills, plant and materials exist within both the Transport Agency and the industry.

- **Supplier market sustainability** – Taking a long term and wider portfolio view of value for money and in doing so ensuring a healthy supplier market in the future which will be able to deliver the Transport Agency’s objectives in the years to come.
2.4 **DIRECTIONAL PLAN**

In order to achieve our aspirations through this Procurement Strategy, the following areas have been identified where we believe specific opportunities exist to refine and improve the approach we take to procurement. This is called our directional plan.

**THE GENERAL DIRECTIONAL PLAN IS TO:**

- Maintain a good balance between the delivery models employed and the degree to which works and services are aggregated and bundled to obtain best value for money and ensure healthy competition in the short medium and long term.
- Maintain a good balance between the use of Quality Based, Price Quality and Price Based Supplier selection methods whilst working to remove unnecessary tender process costs for everyone.
- Introduce further incentives into contract agreements so that supplier’s profit is more closely linked to performance and the overall quality of achieved outcomes.
- Seek out initiatives that promote the achievement of quality outcomes.
- Establish packages of professional services work, so that professional services suppliers get greater continuity of work if performance expectations are met.
- Enhance training opportunities in the land transport industry to help retain and develop a sustainable resource and steadily build its capacity.

**THE DIRECTIONAL PLAN SPECIFIC TO ASSET IMPROVEMENT PROJECTS IS TO:**

- Have a range of improvement delivery models in operation at any one time.
- Improve the measures for encouraging a whole-of-life approach in design and construction.
- To introduce measures that encourage quality workmanship (i.e. extended defects liability periods).
- Monitor the impact of our Procurement Strategy on markets.

**THE DIRECTIONAL PLAN SPECIFIC TO ASSET MANAGEMENT ACTIVITIES IS TO:**

- Establish the Network Outcomes Contract as the business-as-usual delivery model.
- Steadily build the overall abilities of the sector to behave in a way that maximises value creation.
- Optimise and align the level of service provided across different parts of the network. Develop and publish benchmarking information for contract and contractor performance.
- Implement transparent and timely processes to resolve performance issues.
- Undertake detailed reviews of how well the network Outcomes Contract has performed and close out the performance evaluation appropriately.
- Monitor the impact of our Procurement Strategy on markets.
2.5 **SPECIFIC PLAN**

The Transport Agency compiles and maintains separate forward works programmes for capital projects and maintenance contracts. These programmes are developed with the objectives of balancing cashflow and industry resource utilisation. The programmes are regularly communicated to the industry to provide the confidence required to invest in training and more advanced and/or efficient resources. In addition, the Transport Agency regularly publishes its State Highway Plan, which provides an oversight of the planned infrastructure investment in each area, with details on some of the key activities in the next three-year period. For the latest information on the State Highway Plan, forward works programmes and upcoming tenders, refer to the highways section of the Transport Agency’s website (http://www.nzta.govt.nz/network/tenders-contracts/contracts/projects-programme.html).

2.6 **PROCUREMENT STRATEGIES**

This Procurement Strategy documents the overall strategic approach to procurement for all activities undertaken by HNO, including the principles around which decision making for specific activities will be made.

All activities involving procurement will have specific procurement strategies developed that are consistent with this Procurement Strategy and consider the specific characteristics of the particular activity or group of activities alongside the strategic drivers of the Transport Agency. All considerations must be documented as part of the reporting requirements for the procurement procedures in this Procurement Strategy.

The detail of each procurement strategy will be commensurate with the level of cost and risk associated with each activity. For smaller, low-risk activities, this will comprise a simple document detailing the key attributes of the procurement procedures that have been selected. For the larger, high-risk activities, this will comprise a detailed assessment of the different approaches available, an assessment of the supply market and impacts on it, including a summary of any consultation undertaken, and an explanation of the rationale behind the approach to be adopted.

This requires that a strategic approach to procurement is adopted at a range of levels, and is designed to ensure tension is maintained between the specific short-term goals of any individual activity and the long-term objectives of the Transport Agency.

The hierarchy of procurement strategies and the approach adopted for each is shown in the diagram overleaf:
The hierarchy model introduces the concept of a two-stage process. The different focus of each stage is as follows:

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<tr>
<th>STAGE 1 PROCUREMENT STRATEGIES</th>
<th>STAGE 2 PROCUREMENT STRATEGIES</th>
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<td>Stage 1 procurement strategies are aimed at the high-level strategic direction. They should cover the big picture issues associated with procurement and should be communicated to the industry so as to signal our vision for how they can help us achieve our current and future needs. They will typically cover: the rationale for and the decision on delivery model(s) to be used; the packaging and number of individual contracts that will be required; and an overall assessment of the supplier market, including consideration of capability and capacity constraints. For the area asset management and Small Project procurement strategies, this will include consideration of the long-term health of the supplier market and interaction with other procurement activities.</td>
<td>Stage 2 procurement strategies or plans refer to the specific and detailed procurement plans associated with the procurement of an individual activity or several related procurement activities. They are finalised before the procurement process starts, and cover details such as: the supplier selection methods selected; details of the contract form and risk allocation to supplier; procurement timelines; and other key procurement parameters. They may be used to reconfirm the appropriateness of the delivery model selected in the stage 1 procurement strategy and should be consistent with the stage 1 strategies in all respects.</td>
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Specific delegations within the Transport Agency are assigned to the endorsement of procurement strategies developed for different activities, depending on the estimated contract values. In addition, templates to aid the development of appropriately detailed procurement strategies (as appropriate for the various types and stages of procurement, as noted above) have been developed. For more information on each of these, refer to the Transport Agency’s Contract Procedures Manual (available for download on the Transport Agency’s website [http://www.nzta.govt.nz/resources/contract-procedures-manual/contract-procedures-manual.html]).

2.7 COLLABORATIONS

The Transport Agency has several existing initiatives with territorial local authorities for the joint management and maintenance of state highways together with local roads, including Marlborough Roads and Bay Roads. The Transport Agency is currently progressing an agreement with Gisborne District Council and Western Bays District Council to utilise the new Network Outcomes Contract. With the introduction of the One Network approach, it is possible that other forms of collaboration with other territorial local authorities may eventuate. The One Network approach seeks to:

- Optimise existing networks as a single, integrated seamless system to serve economic growth and quality of life;
- Make the best traveller information available to customers using the market to deliver the best possible services;
- Provide customers with network choices and prices; and
- Take customers on a journey that shifts their views over time on whether, when and how to travel – based on good, real-time information and an understanding of the true costs of travelling.

All potential collaborations will be evaluated on the merits of the proposal and considered on a case-by-case basis. Each will need to demonstrate a sound value proposition.

In addition to the more formal joint arrangements noted above, the Transport Agency recognises the mutual benefits that can be achieved through coordination of activities with other major clients (including territorial local authorities), particularly where we are competing for resource in the same sector. We have a set approach to aligning client objectives through our processes for developing Heads of Agreement, Memoranda of Understanding and Multi Party Funding Agreement. In addition to these approaches, we recognise that there are many other levels at which coordination can be beneficial. Two approaches that have been tested with reasonable results are: the establishment of client programme coordination methods to avoid critical programme clashes; and joint client contracts for specific activities, which often yield direct mutual benefits through design and construction cost efficiencies.
2.8 **BUSINESS IMPROVEMENTS**

We have identified a number of business processes that we feel need to be investigated, developed and/or improved. These include:

- Enhancing the national supplier performance evaluation system (PACE) and the way it is used by Tender Evaluators.
- Developing a new supplier performance evaluation tool for the Networks Outcomes Contracts.
- Refining the Health and Safety certification requirements under the prequalification system for physical works.
- Refining supplier performance measures and linking them to road user surveys or other customer satisfaction indicators.
- Seeking further efficiencies through a progression towards the adoption of smart electronic systems and processes, particularly associated with tendering.
- Working with other road controlling authorities on the consideration of a national prequalification system for physical works.
- Working closely with industry to develop improved approaches to asset management decision making, and better ways of specifying works for both asset improvement and asset management contracts.
- Enriching our capability in contract management and strategic asset management decisions.
- Benchmarking of contracts and supplier performance.
- Monitoring and managing the distribution of the number of contracts contractors have to ensure a healthy supplier market, particularly in relation to the Network Outcomes Contracts.
- Monitoring the impact of the Procurement Strategy on competitive markets including on the creation / maintenance of barriers to entry or growth and investigate further ways to influence this through supply chain management and other means.
- Identifying ways of reducing supplier selection costs while maintaining a competitive process.
- Implementing some of the more advanced alliance practises into existing contracts to get better clarity and transparency of pricing and pricing strategies (smart buyer).
- Improving our risk management practices.
- Creation of a Principal Advisors panel to provide technical guidance for contract managers under the Network Outcomes Contracts.
- Development of contract proforma to deliver the Business case approach.
3 Delivery Models

3.1 General

A delivery model as defined in the Transport Agency’s Procurement Manual is the form of the relationship established between the purchaser and the supplier(s) to purchase the outputs required to deliver an activity. Each delivery model has a differing approach to contracting, work methods and risk allocation to suppliers.

There are three broad categories of delivery models currently available for use by HNO for both asset improvement and asset management.

<table>
<thead>
<tr>
<th>Asset Improvement</th>
<th>Asset Management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staged</strong></td>
<td>Traditional</td>
</tr>
<tr>
<td><strong>Design Construct</strong></td>
<td>• Design Construct</td>
</tr>
<tr>
<td></td>
<td>• Public Private Partnerships (PPP)</td>
</tr>
<tr>
<td></td>
<td>• Early Contractor Involvement (ECI)</td>
</tr>
<tr>
<td><strong>Shared Risk</strong></td>
<td>• Performance Specified Maintenance Contracts (PSMC)¹</td>
</tr>
<tr>
<td></td>
<td>• Hybrid²</td>
</tr>
<tr>
<td></td>
<td>• Network Outcomes Contract¹⁴</td>
</tr>
<tr>
<td></td>
<td>• Supplier Panels (Principal Advisors)</td>
</tr>
<tr>
<td></td>
<td>• Pure Alliance</td>
</tr>
</tbody>
</table>

1 To be utilised for specialist maintenance works outside of the scope of the Network Outcomes Contract
2 To be progressively phased out as existing contracts come up for renewal
3 To be progressively phased in as existing contracts come up for renewal
4 Could be classified as either a Staged or Design Construct delivery model

3.2 Asset Improvement

3.2.1 General

Asset improvement projects (commonly referred to as capital projects) are new construction projects that involve the procurement of services for various consulting and construction activities to complete projects. These services can range from investigation and design through to completion of construction.

The Transport Agency is responsible for the construction and delivery of various asset improvement projects of varying objectives, scale, risk and complexity, ranging from $250,000 passing lanes to $1 billion urban tunnelling projects.
Industry practices worldwide have resulted in the development of various models to deliver such capital projects. The Transport Agency has actively sought to follow industry best practice to apply the most appropriate delivery model and constantly review and improve the delivery models used based on experience and advancements.

The diagram below shows conceptually a typical project timeline and the differences between phase durations and overall time to delivery for each of the three main delivery model types.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Project Phases</th>
<th>Indicative Business Case</th>
<th>Detailed Business Case</th>
<th>Pre-Implementation</th>
<th>Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staged</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Design &amp; Construct</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shared Risk</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

The proportion in which these delivery models are currently being used by the Transport Agency is shown on the following:
Overall, these results show we have achieved our goal to maintain a good mix of delivery models, with the exception of ECIs, which is discussed in section 3.2.7. Our approach is always to independently assess each activity on merit whilst being cognisant of the wider programme and market conditions. After reviewing the mix of projects currently in the forward capital works programme we do not anticipate a significant shift in the proportion of delivery models used in the medium term.

3.2.2 Delivery Model Selection

The Transport Agency adopts a strategic, structured approach to the selection of delivery models. A matrix based on an established set of criteria, taking into account the characteristics of the individual project or activity is used to identify a shortlist of appropriate delivery models from the available options. The knowledge gained from previous activities is used to influence the selection matrix for future activities. The involvement of a range of Transport Agency personnel in the decision making process ensures it is well balanced and facilitates the spread of knowledge from different parts of the business. The project procurement strategy is then used to compare the appropriateness of the delivery models and justify the final selection.

For asset improvement projects the Transport Agency does not currently prefer any one delivery model over the others. It is considered that maintaining a mix of delivery models, and applying each under appropriate conditions and circumstances, will achieve best value for money and a sustainable and competitive industry.

The key to selecting the appropriate delivery model is the model’s ability to deliver best value for money outcomes for that specific activity. This has a vital impact on the achievement of the Transport Agency’s and HNO’s strategic priorities.

The process used by the Transport Agency in selecting a delivery model for any activity compares the inherent characteristics of each delivery model with the external characteristics of the individual activity.

The following 11 generic criteria relating to any specific activity have been established as critical to the delivery model selection process:

- **Scale**: the overall scale or value of the activity.
- **Complexity**: consideration of the overall complexity of the activity, including the number of components within the activity and how they may interact, and the level of complexity of technical issues.
- **Innovation potential**: the ability to enhance the outcomes sought through supplier innovation. Value for money may be increased through minimising risk, bringing forward completion, increasing efficiency and increasing the quality of the activity outcome.
- **Timing and urgency of the activity**: consideration of programme constraints or hold points and the overall benefits of early completion or achievement of intermediate milestones.
- **Supplier market conditions**: consideration of the current supplier market conditions, including the number and depth of possible suppliers in the market. Consideration should include economic drivers, supplier resource availability, supply chain development potential and the level of interest for competition.
- **Risk profile**: consideration of the overall quantum and nature of risks and opportunities for the activity, and who is best placed to manage them – maximising opportunities and minimising the impact of risks.

- **Stakeholder involvement and customer requirements**: this recognises the variability of the number and nature of stakeholders, and the level of influence they might have on achieving the desired activity outcomes.

- **Level of client involvement**: consideration of the demands on the Transport Agency personnel throughout the delivery phase. This will include an assessment of the level of Transport Agency control required, the experience and capability of available staff and the internal skills legacy following completion of the project.

- **Focus on non-cost areas**: the extent to which incentivisation of performance is required in non-cost areas such as environmental, social, sustainability, communications and public relations.

- **Tangible demonstration of value for money**: this includes an assessment of the prevailing political environment and the ability to tangibly demonstrate how well value for money will be achieved.

- **Flexibility to deal with change**: consideration of the potential for scope changes or unresolved issues that will have significant effects during the course of the activity and the varying degree to which each of the available delivery options will handle such changes.

For any specific activity, the relative importance of the criteria will vary and factors beyond these generic criteria may also influence this decision making.

For each of these characteristics, we have established a view on the relative performance of the available delivery model options. This has been based on theoretical drivers and controls under each delivery model, modified by actual experience on a range of contracts using each of the available delivery models. Using this empirical approach to modify our thinking, we expect that the quantum of work undertaken for each of the delivery models will vary, depending on both the nature of new activities and how well delivery models have performed for us in the past.

The following figure is a conceptual depiction, comparing scale complexity and risk versus a combination of innovation, flexibility requirements, market forces and programme drivers to illustrate some of the key considerations in selecting a delivery model.
### 3.2.3 Supplier Panels

Supplier panels are discussed in section 3.4.

### 3.2.4 Traditional

Currently asset improvement activities are delivered through a single or staged series of separate contracts – for example, for asset improvement projects, there may be separate contracts for investigation, design only (or Business Case phases) or construction only. This approach remains the most widely understood and established approach to procurement. It is widely known as, and still often referred to by the Transport Agency as, the ‘Traditional’ approach.

The advantages and disadvantages of ‘Traditional’ delivery models are as follows:

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is well understood by the supply market.</td>
<td>Has the potential to create adversarial relations.</td>
</tr>
<tr>
<td>Has relatively simple contractual terms and a clear</td>
<td>Has few inherent incentives to optimise the design.</td>
</tr>
<tr>
<td>allocation of responsibilities.</td>
<td></td>
</tr>
<tr>
<td>Provides for greater client control.</td>
<td>Has limited scope or incentive for constructor and</td>
</tr>
<tr>
<td></td>
<td>designer collaboration.</td>
</tr>
</tbody>
</table>

The majority of asset improvement activities by number are still delivered using the Traditional delivery model, as can be seen in the graphs in 3.2.1 above. However, the current trend is to use other delivery models for larger or more complex projects.
Professional services suppliers are likely to be engaged under separate contracts for the indicative and detailed business cases, pre-implementation and the subsequent implementation (physical works surveillance). In some instances, these suppliers may get involved in the programme business case phase. Professional services contracts for the pre-implementation and implementation could be combined, as is the current practice. A physical works contractor is engaged under a separate contract to undertake the physical works.

**Small projects**

Projects with an estimated construction cost of less than $5 million are referred to by the Transport Agency as 'Small' projects (previously referred to as Block projects). The funding process for these smaller projects differs from that of their larger counterparts, as does the complexity of the decision making around procurement. However, we recognise the important role projects of this scale have to play in sustaining the wider supplier market.

Procurement for Small projects remains dominated by the use of the Traditional delivery model.

Over recent years, we have made enhancements to how the programme of Small projects is managed within the Transport Agency. In addition, we have trialled different ways to package projects to encourage more efficiency in their delivery. This includes more targeted packaging of both professional services and physical works contracts and term contracts for professional services. We also continue to look at the possibility of establishing supplier panels or framework contracts for Small project work, however this is currently constrained by limited funding for small project work.

In the consideration of the packaging of projects for procurement, four key characteristics needing careful consideration are noted:

- **Market dynamics** – includes consideration of both short and long-term market health.
- **Geographical spread** – packaging activities based on their geographical location to help reduce overheads from separate establishment for each individual activity.
- **Commonality of activity type** – packaging of like activities to seek greater productivity through repeat performance.
- **Funding availability** – how likely is it that the works will be funded as planned to give the required continuity of work for suppliers.

Our internal processes now include the development of Area Small Project Procurement Strategies, which assess the above and other characteristics of the programme of Small
activities, and make decisions around the optimal approach to procurement for Small activities in any one area.

3.2.5 **Design Construct**

The Design Construct delivery model uses a consortium of suppliers to complete all detailed design and construction. The Design Construct model is suitable for projects where the complexity of the project warrants the transfer of risks to suppliers who are best able to manage it effectively. Under a Design Construct delivery model, the Transport Agency prepares a brief/RFT, which includes the output specification and quality requirements. Following a tender process, a Design Construct contract is awarded to carry out final design development and documentation and construction of the final output. The Transport Agency may at times complete part of the concept design under a separate contract (a separate stage).

The Design Construct delivery model includes the following variants:

- Design, refine and construct
- Design, novate and construct
- Design, construct and maintain and/or operate
- Design and construct
- Early contractor involvement (ECI)

The Design Construct delivery model integrates the detailed design and physical works phases, ensuring that the cost effectiveness of the design is optimised by matching the specific construction resources available, and harnessing the innovative capabilities of both consultant and contractor. During implementation, the Lump Sum arrangement provides incentive for the contractor to optimise and seek innovation in design and constructability issues to reduce construction costs.

We have noted through the contracts completed to date using the Design Construct delivery model the high importance in having very strong client/principal’s requirements. We are continually looking at ways we can strengthen these for our asset improvement Design Construct contracts. Recently the Transport Agency has made the decision that certain risk elements, for example pavement design / bridge joints will be clearly spelled out in future to reduce risk to tenderers and the Transport Agency, as applicable.

Following the detailed business case, during the initial stages of pre-implementation, a Specimen Design is developed to support statutory applications and ascertain land requirements. Technical requirements, including any constraints introduced through statutory approvals, are then developed for tender. Tenderers submit conceptual designs developed on the basis of these technical elements. The key difference between the Design Construct and Staged models is that a single Lump Sum contract is awarded for the project’s
detailed design and construction phases. The detailed design is developed from the conceptual design submitted with the supplier’s tender.

Two main contracts are usually procured: a professional services contract for a specimen design, the project development (pre-implementation) and partial implementation (Management, Surveillance and Quality Assurance (MSQA)); and a separate Design Construct contract, for the pre-implementation (detailed design), partial implementation (MSQA) and physical works.

This delivery model is best used on projects where:

- There is good potential for innovation (particularly where there is geometric, constructability or structural complexity).
- The scope can be well defined at the commencement of the physical works tender process.
- The estimated cost is >$50 million.

Tenderers for these contracts develop and submit a conceptual design as part of their tender. The Transport Agency purchases the intellectual property inherent in the conceptual designs of the unsuccessful tenderers for a fixed amount specified in the tender documents. All conceptual designs are made available for the successful tenderer to use in developing the final design (any cost savings from changes to the tendered scheme design are shared). This ensures that the project benefits from the best ideas of three independent design teams. The level of payment to unsuccessful tenderers has historically been around 50 percent of the assessed cost to prepare a bona fide tender submission.

The advantages and disadvantages of Design Construct delivery model are as follows:

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allows a more collaborative approach between designer and constructor.</td>
<td>Increased tendering costs for both principal and suppliers.</td>
</tr>
<tr>
<td>Provides good incentives for optimisation of design and construct practices.</td>
<td>Where the scope is varied post-award, the consequences can be magnified and costs difficult to maintain.</td>
</tr>
<tr>
<td>Provides the client with a single point of responsibility.</td>
<td>Reduces flexibility and ability for client to influence the detailed design post award.</td>
</tr>
<tr>
<td>Reduces the effects of the traditionally adversarial relationship between designer and constructor.</td>
<td>Encourages design to minimum standards, which requires outcomes to be well defined.</td>
</tr>
<tr>
<td>Facilitates a greater transfer of risk to the constructor.</td>
<td>Places demands on suppliers in accepting and making adequate allowances for managing risks.</td>
</tr>
<tr>
<td></td>
<td>Can be difficult to administer to ensure best outcomes are always achieved.</td>
</tr>
</tbody>
</table>
3.2.6 **Public Private Partnerships**

Public Private Partnerships (PPPs) are a form of Design Build Operate Maintain contract, involving a financial contribution from the private sector. Similar to a Design Construct contract, a specimen design is completed, and a contract let for the completion of design and construction. However, they differ from a Design Construct contract in that they include a private finance requirement as well as ongoing maintenance and operation responsibilities. Part or all of the progress payments usually made to a supplier during the construction phase are withheld until the opening of the project, and thereafter spread over the period of operation and maintenance. PPPs use predominantly outcome based specifications in order to preserve the opportunity for innovation and whole-of-life initiatives.

There are many variants of the PPP delivery model, each with a different set of contractual drivers, and each can be used to suit different situations, for example:

- **Maintenance and operation periods:** 20–35 year periods are common for PPP contracts, although some have been known to be let for periods of up to 100 years.

- **Financing:** The level of public funding during the construction phase of the project can vary from 80% to 0%, with the remainder paid during the maintenance and operation phase through either public funds or revenue generated from the project (such as direct revenue generated through road tolls).

- **Traffic risk:** For roading projects where toll revenue generated from the project covers repayment of financing costs, a key risk to this revenue stream is fluctuations in the volume of traffic using the new road. This is normally a critical risk for tolled PPP projects with quite different approaches available to clients for managing it.

There are four key benefits that can be derived from PPP contracts:

- They can produce excellent contractual incentives for the early completion of construction of a project.

- They provide excellent opportunities for innovation in both the construction, and maintenance and operation phases of the project.

- They ensure a whole-of-life focus is taken by the supplier, readily allowing for capital and operation expenditure trade-offs in the design process, aiding the achievement of best value for money.

- If other benefits are also available, they can be used to advance projects that might otherwise have been deferred, delivering the benefits to road users much earlier.

This form of delivery model is suited for larger projects, with a significant or complex operational or maintenance requirement, and where there is plenty of scope for innovation.

The Transport Agency is currently implementing the first use of this delivery model on the Transmission Gully project (part of the Wellington RoNS). Other projects within the RoNS programme have been evaluated for potential delivery under a PPP model and may be bought forward at a later date.
3.2.7 EARLY CONTRACTOR INVOLVEMENT

Under an Early Contractor Involvement (ECI) approach, the contractor is used to scrutinise the preferred option(s) from the early stages of their development, adding expertise in the constructability and practicality of solutions as they emerge, as well as other specialised disciplines such as programming and cost estimation. The ECI approach creates more opportunities to complete activities in parallel, with the potential to expedite the overall project development timeframes considerably by staging physical work activities.

<table>
<thead>
<tr>
<th>Project Phases</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicative Business Case</td>
<td>Detailed Business Case Development Contract</td>
</tr>
<tr>
<td>Detailed Business Case</td>
<td>Pre-Implementation</td>
</tr>
</tbody>
</table>

### Contractual Framework

- **Detailed Business Case Development Contract**
  - This is a professional services contract for the development of the Detailed Business Case and should allow for liaison with the ECI prior to finalising the Business Case if SP1 will be used.

- **Separable Portion 1**
  - This is an optional portion where the ECI contractor is engaged to provide initial constructability review and comments on the preferred option prior to approval of the Detailed Business Case and funding application.

- **Separable Portion 2**
  - The ECI contractor further develops the design to the specimen stage, undertakes planning and assists in property acquisition. The ECI contractor also prepares the design and construct contract documentation in this phase.

- **Separable Portion 3**
  - The ECI contractor undertakes the detailed design and construction for an agreed lump sum similar to the Design and Construct model.

Under an ECI, the client engages the contractor before the Detailed Business Case (and statutory applications), introducing their skills during the project development phases. The role of the constructor in these earlier phases typically includes: seeking additional innovation and challenging design assumptions; testing the constructability; adding specialist estimating and programming skills; and increasing ability in the delivery team to manage the risks. Following a competitive tender process, a single contract, consisting of two or three separable portions (dependent on what state the project has been developed to), is let for both the completion of the Detailed Business Case, Pre-Implementation and Implementation phases.

The consultant can be engaged with the contractor under a single contract or engaged separately and novated to the contractor at the commencement of any separable portion. This enables the Transport Agency to retain the services of the investigation consultant if desired, where their specific specialist skills are essential to the project. The preferred approach however is to allow teams to form of their own volition rather than by forcing them together.
Under this delivery model, the Transport Agency does not commit to continued work beyond the current separable portion, which provides maximum flexibility as the project develops.

While similar in many respects to an Alliance, there are fundamental differences between ECI and Alliance, including:

- The client retains all risk associated with the cost of physical works during the project development phases under an ECI (until SP3 has been awarded).
- The approach effectively converts to a more commercial Design Construct contract in the construction phase.

Lessons learnt from the initial eight ECI contracts have been collated and the model modified accordingly. The table below contains summaries of the modifications and lessons learnt which necessitated the change.

<table>
<thead>
<tr>
<th>ECI Model Modification</th>
<th>Reason for Modification</th>
</tr>
</thead>
</table>
| The point at which the ECI supplier is contracted has been delayed until the latter stages of the Detailed Business Case development. This allows for Contractors input and review prior to finalising the design of the preferred option and statutory applications. | • Experience has shown that the Contractors input is of most value after the initial project development has been undertaken and preferred options are known.  
• Consultants understand the cyclic nature of the initial project development and are best placed to manage this.  
• Involvement of the Contractor in the initial project development adds additional costs. |
| The commercial model of the ECI contract has been changed to either a negotiated or competitively tendered Guaranteed Maximum Cost (GMC) for the Design and Construction (SP3) phase with a pain/gain share mechanism prior to SP3 award. The method of tender will be selected based on how developed the project is and the ECI supplier’s ability to price SP3. | • Physical works costs have been higher than the market price.  
• The commercial model does not drive the design to be optimised.  
• The commercial model does not drive the scope of the project to be robustly challenged. |

Alterations to the ECI commercial model will allow its’ use on future projects to be optimised.

This form of project delivery is seen as operating best on projects with a physical works estimate below $70m (project cost could be greater if construction work is phased) and where one or more of the following elements are inherent in a project:

- There is a desire to speed up project delivery;
- There are considerable constructability issues;
- The project involves complex programming and pre-construction planning;
- There is potential for innovative design and construction techniques to be deployed;
- Where there are a large number of stakeholder interactions and communications.

3.2.8 **Shared Risk Models**

Shared risk models are discussed in section 3.5.

3.3 **Asset Management**

3.3.1 **General**

Asset management activities involve the procurement of various professional services and physical works to operate and maintain the Transport Agency’s existing, newly constructed, acquired or allocated assets and services.

The Transport Agency is responsible for the management of 11,000 kilometres of state highway network, which is about 12 percent of New Zealand’s total roading network but carries around 50 percent of the total vehicle kilometres travelled. The network has a depreciated replacement value of around $25 billion. The national network is currently divided into 23 network areas distributed throughout four zones. Each network area has its own complexities and demands.

Common risks on a typical network include asset consumption, extreme weather events, delays to road users, traffic incidents, traffic composition balancing freight and vulnerable road users’ needs, changes to level of service, asset management policy changes, poor quality workmanship, and design and quantity errors.

3.3.2 **Delivery Model Selection**

The need for delivery model selection will be eliminated as the Network Outcomes Contract delivery model will supersede the existing Traditional, Hybrid and PSMC delivery models.

One of the benefits of the Network Outcomes Contract is the ability to transparently benchmark supplier performance and network condition across the state highway network. This is considered to outweigh any benefits that arose from selection of a delivery model to suit the specific characteristics of an individual network area.

A number of parameters may be changed within the Network Outcomes Contract delivery model to provide some flexibility to allow for regional variances i.e. tunnel management, cycleways. However ideally we are ideally trying to minimise changes to levels of service in order to get consistency across the country.
3.3.3 **Supplier Panels**

Supplier panels are discussed in section 3.4.

3.3.4 **Traditional**

The Transport Agency intends to utilise Traditional delivery models to deliver some specialist asset management activities. This may utilise packaging of physical work activities into one contract or separately tender each activity.

Risk transfer to suppliers in the Traditional model is in general relatively low, with the Transport Agency retaining much of the risk.

The Traditional model contracts are predominantly output based with some input specification. They allow greater flexibility around funding and reprioritising work programmes.

3.3.5 **Design and Construct**

The Design Construct delivery model uses a consortium of suppliers to complete all detailed design and construction. The Design Construct model is suitable for projects where the complexity of the project warrants the transfer of risks to suppliers who are best able to manage it effectively.

The Design Construct delivery model includes the following variants:

- Performance Specified Maintenance Contracts (PSMC) (to be phased out)
- Hybrid (to be phased out)
- Network Outcomes Contract

Only the Hybrid and PSMC variants are currently used by the Transport Agency to any significant degree. Implementation of the Network Outcomes Contract delivery model from late 2013 will progressively supersede the Hybrid and PSMC variants.

The Network Outcomes Contract delivery model represents an improvement in specification of principal’s requirements for asset management activities, and has taken into account lessons learnt and developments from the Hybrid and PSMC delivery models.

Under the Network Outcomes Contract, the Transport Agency engages a primary supplier to provide substantially all network management and maintenance activities. The primary supplier engages consultants and subcontractors as necessary to deliver the required services. The Transport Agency will continue to engage separate suppliers to deliver some specialist asset management activities, including bridge management, traffic counting and traffic operations centres via traditional contracts.
The Network Outcomes Contract is a combination of inputs, outputs and outcomes. As the Transport Agency signalled its intent to be more involved in the decisions affecting the network, this required the Agency to have influence over the timing and type of some works. This is the input driven element of the contract. The outputs are the performance measures, which are very much aligned with a PSMC and Hybrid form of contracting and these reflect the Agency’s customer service level tolerance. The difference between our existing performance based contracts and the Network Outcomes Contract is that the key result areas (KRA) are the outcomes being sought by the Agency at the strategic level and they ensure that the contractor aligns with our values.

The KRAs have been developed to align with our statement of intent, government directions and priorities, our legislative duties and the demonstration of value creation. In a true outcome based contract, we would only define the outcomes we seek and not prescribe the method by which the outcomes are achieved. However we are not convinced the industry is mature enough to take this large step just yet.

The Network Outcomes Contract has tried to encapsulate some of the key elements of outcome based contracting with a provision for flexibility, this however in part compromises the true essence of outcome based contracting.

Key themes of outcome based contracting that have been included in the Network Outcomes Contract are:

- More equitable alignment of risk and incentives between the Agency and the Contractor,
- Buying direct progress toward achieving the Agency’s goals and business results,
- Aligning the interests of the contractor with the Agency,
- Building a flexible engagement with the Contractor that rewards everyone involved in achieving the Agency’s goals.

Overall, an outcome based approach aims to shift the emphasis from what services a contractor will offer to what outcomes they will achieve. It is this approach that we have taken into the tendering process to shift the contractors focus to the outcomes we as an organisation are endeavouring to achieve.

In summary, taken on their own, the Contract Outcomes defined in the maintenance specification truly reflect an outcome based contract approach. Having set some clear performance criteria for the KRAs allows us to measure the contractor’s ability to achieve the outcomes. The KRAs shift the focus from activities to results, from how the contract operates to the good it accomplishes. For this reason we believe the Network Outcomes Contract is an outcome based contract but not pure in its form.

The contracts have both lump sum and measure and value elements. The lump sum elements are intended to encourage Contractor ownership, innovation and to provide the freedom necessary to determine how best to meet the performance criteria. Measure and value elements are intended to provide for changes in service delivery, funding constraints and the contract risk allocation.
Universal application of a single delivery model across the state highway network will allow performance benchmarking between networks and suppliers, facilitating a fair and transparent environment.

The Network Outcomes Contract delivery model aims to minimise barriers to market entry and encourage a greater range of suppliers through the following means:

- The use of a two stage process being stage 1 a statement of interest ability which considers a company’s Track Record non-price attribute and the requirement for prequalification;
- Stage 2 being a price quality supplier selection process with 45% non-price weighting in the supplier selection process;
- Potential for a 7 or 9 year contract tenure (subject to performance) providing suppliers with the certainty required for long term investment in resources and skill development;
- Clear specification of contractual requirements and processes to aid a level playing field for all tenderers;
- Consistent implementation of the delivery model across the state highway network to reward excellent performance and enforce fairness and transparency within the industry;
- Associated rationalisation of network area boundaries.

3.3.6 SHARED RISK

Shared risk models are discussed in section 3.5.

3.4 SUPPLIER PANELS

Supplier Panels are where the client establishes a relationship with a group of suppliers to deliver a package, bundle or series of like activities. Supplier Panels cross the typical boundaries between delivery models and supplier selection methods; it is feasible that a range of delivery models and supplier selection methods could be used for works and services completed as part of the Supplier Panel arrangement.

Supplier Panel models are typically used when:

- A number of similar activities are required across a programme and consistency is valued.
- A long-term relationship with supplier(s) is desired.
- Specialist skills are required.
- There is a large volume of work involving a number of activities.
- A choice of suppliers is required for selection at short notice.
• There are opportunities for a panel of suppliers to work together to provide increased value for money to the client.

The selection of a Supplier Panel approach involves analysing the unique aspects of an activity or programme as well as the conditions surrounding procurement, such as skill and availability of internal resources and the supplier market. Long term market considerations are an important aspect of considerations before using a Supplier Panel approach. Such considerations also affect the extent to which individual activities are assigned to the panel or separately procured.

The Transport Agency currently engages panels of consultants under term contracts to provide specialist professional services inputs to a range of activities. This approach allows the Transport Agency to take advantage of the best skills the industry can offer on an as-required basis. Existing Supplier Panels operated by the Transport Agency include property acquisition and disposal, legal services and an independent specialist advisors panel for a range of disciplines (e.g. geotechnical, structural, financial). We intend to utilise a supplier panel for Principal Advisors for the Network Outcomes Contract.

The engagement of suppliers under term contracts to provide professional services for Small projects has also been trialled, with some encouraging results. The Transport Agency will look to further utilise this in the future but its use requires a high degree of confidence in the Small projects programme.

It is expected that further opportunities exist within the business to expand the use of this approach to engaging suppliers.

### 3.5 Shared Risk Models

Shared Risk delivery models use an integrated delivery team, involving a constructor earlier in a project development phase than other delivery models. Alliancing is the main variant of the Shared Risk delivery model currently used by the Transport Agency for both asset improvement and asset management activities.

The advantages and disadvantages of Shared Risk delivery models are as follows:

<table>
<thead>
<tr>
<th><strong>ADVANTAGES</strong></th>
<th><strong>DISADVANTAGES</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Allows collaboration between designer, constructor and client</td>
<td>Can place a large demand on senior client resources</td>
</tr>
<tr>
<td>Allows more tasks to be completed in parallel, expediting the time to delivery</td>
<td>Can increase costs during project development phases</td>
</tr>
<tr>
<td>Incorporates the constructor’s skills earlier, and provides all parties with a better overall understanding of project risks and opportunities</td>
<td>Not suitable for all client personnel – it can be a highly challenging and demanding work environment</td>
</tr>
<tr>
<td>Commercial arrangements provide for good flexibility where changes occur</td>
<td>Difficult to demonstrate the value for money aspect</td>
</tr>
</tbody>
</table>
Shared Risk delivery models are best used on projects where:

- There is good potential for innovation from early contractor involvement.
- There are significant benefits in earlier delivery.
- There is a need for a high degree of flexibility during the life of the contract.

Due to the overheads associated with establishing and operating an Alliance, this model is typically reserved for asset improvement projects >$100 million.

3.5.1 **ALLIANCE**

In an Alliance, the owner(s), contractor(s) and consultant(s) work as an integrated team to deliver specific activities under a contractual framework where their commercial interests are aligned with actual project outcomes. This delivery model can be applied to both asset improvement and asset management.

The key principle is that the Alliance assumes collective responsibility and takes collective ownership of all risks and opportunities, with an equitable share of the ‘pain’ or ‘gain’ of the project outcomes in comparison with the pre-agreed target outturn cost. The Alliance uses a specific type of Cost Reimbursement method that seeks to drive the required best for project behaviours.

Alliances make it possible to gain contractor input from the earliest development and planning stages to optimally solve difficult issues, ensuring maximum effort is put into risk management.

The model seeks to maximise efficiency in the delivery of asset management through collective ownership and responsibility, alignment of commercial interests, the internalisation of risk and the empowerment of a high performance team.

Under the Alliance delivery model, substantially all risk (other than major changes in scope) is transferred to the Alliance. The Alliance participants, including the Transport Agency, jointly manage risk and share in any resulting financial gain or pain.

Alliances can be resource hungry and require careful consideration before committing to them. A large, multi-discipline company or a combination of specific-discipline companies may be required to meet the demands of this delivery model.

The Alliance delivery model requires a more diverse skill set and demands greater commitment from Transport Agency staff than other delivery models. An Alliance requires the full time commitment of a number of key Transport Agency personnel, co-located with other participants in a project-specific office. Attitude of personnel and their ability to help build a positive culture within the Alliance is of critical importance. All staff must be prepared to commit to the principles of the Alliance model, working closely and collaboratively with their counterparts and developing strong peer relationships.

Somewhat paradoxically, the Alliance delivery model may also be suitable in a resource-constrained area in certain circumstances. In a situation where there is only one practical supplier, the open book environment of the Alliance delivery model may provide greater
assurance of value for money than other delivery models that rely on competition to drive value for money.

Alliance contracts are outcome based. A number of key result areas are defined around the client’s objectives.

There are two variants to the way suppliers are selected for an Alliance. The full Quality Based approach (also known as a ‘Project’ or ‘Pure’ Alliance) as originally trialled remains largely unchanged from the delivery model. Since then, HNO has also delivered a cost-competitive approach (‘Competitive’ or ‘Dual TOC’ Alliance). While there are differences in the characteristics of these two selection approaches, the basic Alliance concept and approach to delivery is the same for both.

3.6 **OTHER ATTRIBUTES OF DELIVERY MODELS**

Each delivery model can be described by a number of attributes. Many of these are explained in section 3.2. Each contract within a delivery model can also be described by a number of attributes. This section defines other attributes not already described and some of the associated differences between delivery models.

### 3.6.1 CONTRACTS

HNO is primarily a project management client. All physical works and the majority of the professional services that HNO requires to meet its obligations are outsourced.

Contracts within the delivery models used can be for professional services alone, a mixture of professional services and physical works, or physical works alone. For example, a Traditional delivery model is made up of a number of contracts that are either professional services or physical works. The Design Construct delivery models have a mixed contract including both professional services and physical works, and may have separate professional services contracts. Alliance delivery models usually consist of a single combined (professional services and physical works) contract.

### 3.6.2 INCENTIVES

Incentives are used to encourage a supplier to deliver high quality outputs, minimise programme delays and increase efficiency.

With the Traditional model measure and value type contracts, where the Transport Agency retains the risk of quantity and design, it is recognised that there are limited inherent contractual incentives to improve cost efficiency.
Lump Sum contracts, where the supplier takes on more risk, create an incentive for the supplier to manage and undertake the works in the most efficient manner (given appropriate historical records and supplier skills). This risk transfer can lead to innovative ways to reduce costs that eventually become best practice and create even more value to the client in the future. Where this risk transfer is not well managed, it can lead to suppliers seeking efficiency gains for their own benefit, and drive behaviours not aligned with client objectives for an activity.

The Network Outcomes Contract includes a combination of tenure and financial incentives and disincentives for delivering the contract outcomes through the key result area performance framework. Contractor incentives for delivering Principal savings on annual renewal investment levels and disincentives for not meeting operational performance measures imposed through the potential loss of some part of the contractor's monthly lump sum payment in line with the monthly at risk payment mechanism.

Alliance contracts provide incentives to meet and exceed agreed outcomes through a direct financial gain/pain link. All Alliance participants share in any financial gain or pain, ensuring good alignment of objectives and behaviours.

3.6.3 RELATIONSHIP

A relationship between contracted parties is the way they work together to achieve the contract objectives. Increasingly strong working relationships or partnerships are maximising the chances of successful contracts.

The full relationship spectrum ranges from 'purely contractual' to a joint decision making environment, with varying degrees of partnering in between.

The Traditional model was originally run on a purely contractual basis, but working relationships were naturally established between the Transport Agency and suppliers. When the Design Construct delivery model was introduced, partnering between the various contracted parties was recognised as a valuable mechanism in understanding each other's objectives and the benefits of working as a team. The Alliance model is based on peer relationships between the participants, with each participant having an equal say and all decisions made by consensus.

Informal partnering may also be beneficial. It may involve regular meetings between parties, maintaining open lines of communication and identification of joint goals and objectives. Many Traditional and Design Construct contracts now include informal ‘partnering’ principles.

Formal partnering involves parties signing up to a Partnering Charter or Agreement. This is developed through facilitated workshops that bring together contracted parties and sometimes other stakeholders, to agree direction and joint objectives. The Partnering
Charter then becomes part of everyday business, reinforced by regular meetings, reconvening partnering workshops and social interaction.

The Network Outcomes Contract aims to develop a more cohesive Principal and Contractor relationship in order to deliver a step change in providing value to the Network condition and integrity. The Principal intends to form a working relationship that shares ideas and information to initiate advanced asset management, providing great customer service, real innovation, and successful business outcomes for all parties.

Alliances are true partnerships, where the participants put the interests of the Alliance ahead of those of their own organisation. This approach is underpinned by the alignment of commercial interests. A ‘no blame’ culture of open and honest communication is instilled at all levels of the Alliance by selection of suitable personnel and co-location in a project specific office and nurtured throughout the contract by participation in facilitated workshops.

3.6.4 **Scope**

Scope describes the work activities to be undertaken or end results to be achieved by a contract.

The Scope spectrum ranges from single activity contracts (fully divided scope) to all asset management activities plus asset improvement works combined into one contract for a set period.

3.6.5 **Flexibility**

A significant risk to successful contracting is a change at a policy, funding or political level. The degree of flexibility to deal with such changes varies with delivery models.

In terms of the Transport Agency’s current delivery models, the Traditional and Alliance model allow more flexibility than the Design Construct models.

In letting a long term, lump sum contract, there is a contractual expectation that the level of funding required will be maintained throughout the contract period. Any drop in the funding received by the Transport Agency may result in a reduction of the level of service and a need to significantly vary the contract. The measure and value elements of Network Outcomes Contract offer some ability for the Transport Agency to vary service delivery and/or change the risk profile to suit funding constraints and/or value changes to the network asset register.

The payment mechanism and open book environment of the Alliance model means that service levels can be readily adjusted to accommodate funding pressures within practical limits required to retain adequate resource levels and expertise.
3.6.6 CONTRACT TENURE

Tenure describes the length of time a particular contract is operational.

The individual activity procurement strategies are used to recommend the appropriate tenure for each network.

Asset improvement

The contract tenure or period should be based on the assessed optimal time to complete the works. This assessment should include consideration of criteria such as optimising plant utilisation and reducing mobilisation costs, availability of market resources, seasonal productivity variations, and the Transport Agency’s own drivers for completion of the works.

Asset management

The tenure spectrum ranges from 3 to 10 years for the main network contracts. In recognition of the commitment required of suppliers by each model, the following ranges are recommended:

<table>
<thead>
<tr>
<th>DELIVERY MODEL</th>
<th>TENURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional</td>
<td>3–5 years</td>
</tr>
<tr>
<td>Hybrid</td>
<td>5–7 years</td>
</tr>
<tr>
<td>PSMC</td>
<td>7–10 years</td>
</tr>
<tr>
<td>Alliance</td>
<td>7–10 years</td>
</tr>
<tr>
<td>Network Outcomes Contract</td>
<td>7–9 years</td>
</tr>
</tbody>
</table>

For asset management activities, Network Outcomes Contracts will have an initial tenure of five or seven years (dependant on the approved contract procurement strategy). Extensions to the contract tenure are available to be won or lost in one year increments, based on supplier performance. The minimum tenure of any contract, regardless of supplier performance, is three years. The maximum tenure or any contract is seven or nine years (but again may be modified dependant on the approved contract procurement strategy).

3.7 DELIVERY MODELS DIFFERENTIATORS

The following table summarises some of the key differentiators and how each delivery model has its own characteristics that influence value for money outcomes:
<table>
<thead>
<tr>
<th>DIFFERENTIATOR</th>
<th>STAGED</th>
<th>DESIGN CONSTRUCT</th>
<th>SHARED RISK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract compensation structure</td>
<td>Measure and value Lump sum</td>
<td>Lump sum</td>
<td>Cost reimbursement with incentive scheme</td>
</tr>
<tr>
<td>Risk transfer</td>
<td>Client retains majority</td>
<td>Contractor retains majority, but not all</td>
<td>Alliance retains the majority</td>
</tr>
<tr>
<td>Type of project suitable for delivery</td>
<td>Small to medium scale, low risk or low innovation</td>
<td>Medium to high scale, high risk, high innovation potential</td>
<td>High scale, high risk, high innovation potential</td>
</tr>
<tr>
<td>Competitive price tendering</td>
<td>High</td>
<td>High to medium</td>
<td>Varies (independent estimator or dual TOC process)</td>
</tr>
<tr>
<td>Design/ construction interface</td>
<td>Low, detailed design completed in separate phase</td>
<td>High, but initial design completed prior to appointing constructor</td>
<td>Very high</td>
</tr>
<tr>
<td>Procurement costs and complexity</td>
<td>Low to medium</td>
<td>High</td>
<td>Medium to high</td>
</tr>
<tr>
<td>Onsite overheads</td>
<td>Low, simple site office</td>
<td>Medium to high</td>
<td>High, full site office with full design and construction resources under one roof</td>
</tr>
<tr>
<td>Scope change</td>
<td>Medium cost – variations based on schedule of rates</td>
<td>High cost – no schedule of rates to base variation on</td>
<td>Medium to low – based on pre-agreed compensation structure</td>
</tr>
<tr>
<td>Alignment of goals</td>
<td>Low, contractor and consultant protecting own commercial interests</td>
<td>Low, contractor protecting own commercial interests</td>
<td>High, Alliance is very aligned, no resources wasted protecting competing commercial interests</td>
</tr>
<tr>
<td>Whole-of-life focus</td>
<td>Low to medium, client to specify</td>
<td>Low to medium</td>
<td>High, Alliance’s own initiative, and client able to have more input</td>
</tr>
<tr>
<td>Delivery time performance</td>
<td>Reasonable time performance</td>
<td>Good time performance</td>
<td>Excellent time performance</td>
</tr>
<tr>
<td>Procurement duration</td>
<td>Moderate</td>
<td>Long</td>
<td>Short – moderate</td>
</tr>
<tr>
<td>Stakeholder management</td>
<td>Moderate – reliant on client management</td>
<td>Moderate</td>
<td>Excellent</td>
</tr>
<tr>
<td>Social and environmental performance</td>
<td>Moderate – client to specify</td>
<td>Moderate – client to specify</td>
<td>High to very high – can incorporate incentive scheme</td>
</tr>
</tbody>
</table>
4 Supplier Selection Methods

4.1 INTRODUCTION

The Transport Agency uses the full range of supplier selection methods available within its Procurement Manual.

The rationale for choosing a supplier selection method is determined as part of the procurement plan for any individual activity.

4.2 METHODS AVAILABLE

There are various supplier selection methods from the Transport Agency’s Procurement Manual available for use:

- Direct Appointment.
- Lowest Price Conforming
- Purchaser Nominated Price (formerly Target Price)
- Price Quality
- Quality Based.

4.2.1 DIRECT APPOINTMENT

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

In each case, the considerations made in selecting and negotiating with the supplier for direct appointment are documented through individual procurement strategies.

This supplier selection method is normally reserved for smaller-value contracts, contracts where there is a limited supplier market of level of expertise, or where there is significant value for money benefit to the Transport Agency in directly appointing.

Direct Appointment is a type of closed selection process. Further details on closed selection processes are documented in section 4.3. Direct appointments within HNO are limited to contracts with an estimated value of less than $200,000, or where the exceptional circumstances explained in section 4.3 apply. The ability to use Direct Appointment up to a value of $200,000 differs from that routinely permitted in the Transport Agency’s Procurement Manual. This increased dollar limit reflects the scale of the business undertaken by the Transport Agency, and is a realistic figure for HNO to manage, given the wide mix of scale of activities it undertakes. HNO will manage any competitive market concerns arising from use of this higher limit.
4.2.2 **LOWEST PRICE CONFORMING**

Lowest Price Conforming should be used where the Transport Agency determines that best value for money will be obtained by having suppliers compete on price alone and the Transport Agency 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 RFT.

Lowest Price Conforming is a supplier selection method in which the preferred supplier meets all the requirements set out in the RFT and offers the lowest-priced proposal, after deducting any added value premium. The supplier selection method is used more often for physical works contracts than professional services contracts, where it is limited to small-value or low-risk contracts only.

4.2.3 **PURCHASER NOMINATED PRICE / TARGET PRICE**

Purchaser Nominated Price or Target Price should be used where the Transport Agency requires outputs that are difficult to specify or may be completed to a varying degree, and where a price that it is prepared to pay has already been determined.

Best value for money is then obtained by selecting the supplier that provides the best proposal for the price set out in the RFT. 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 quantum of output. This method is typically used for such activities as strategy studies, feasibility studies, transportation studies and investigations.

4.2.4 **PRICE QUALITY METHOD**

Price Quality Method (PQM) is a supplier selection method where the quality attributes of suppliers whose proposals meet the RFT’s requirements are graded, and the preferred supplier is selected by balancing price and quality through the use of a formula. PQM should be used where the Transport Agency 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 the Transport Agency uses to determine how additional quality is to be valued must be clearly described in each RFT.

The Transport Agency’s *Procurement Manual* allows a weighting of between 30 percent and 90 percent to be applied to the non-price attributes under the PQM. An emphasis on quality over price is usually reserved for more complex, higher risk projects with significant programme constraints, or for professional services where the impact of poor performance could be significantly magnified in the construction phase.

The majority of the Transport Agency tenders using PQM will have a quality weighting in the following range, as illustrated in the graph below:

- professional services: 80–70 percent
- physical works: 50–30 percent.
Specific approval steps are in place where it is determined that there is a value for money benefit in varying from the specified ranges.

As part of the process of determining appropriate weightings under PQM, a sensitivity analysis is often undertaken to ensure the weightings set are realistic in terms of the relative risks between suppliers, and to ensure there is a good awareness of the potential resultant supplier quality premiums at the outset of the tender evaluation process.

4.2.5 QUALITY BASED

Quality Based is a type of supplier selection method where the quality attributes of suppliers whose proposals meet the requirements of the RFT 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 this approach, suppliers usually provide a price with their tender, which forms the starting point for subsequent negotiations. The main Quality Based method used by the Transport Agency is known as Brook’s Law.

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 it is determined 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.

Traditionally, this approach has been limited to professional services contracts. The Transport Agency now uses this approach on some physical works contracts established through ECI and Alliance delivery models.
4.3 Form of Competition

Closed Contest

Under certain circumstances, the optimal strategy for approaching the supply market, in order to secure best value for money, will not be through an open tender process, but through a closed or selected process.

A closed selection process may be used to select a single supplier using the Direct Appointment supplier selection method, or it may be used to select a limited range of suppliers (also referred to as 'limited invitation to tender') and utilise any of the other supplier selection methods available as described above. When selecting the range of suppliers under this closed approach, considerations should be made as to the availability of suppliers and their ability to complete the activity to the required standard and achieve best value for money. Such considerations will be clearly documented within the individual procurement strategy developed for the activity. This will include as a priority consideration of suppliers on current supplier registers, such as the Prequalification System for Physical Works or the National Register of Consultants.

The circumstances envisaged where a closed approach to procurement may be beneficial are listed as follows:

- The cost of the activity is disproportionately low compared with the overall cost of an open tender process. As guidance, any procurement process assessed as costing greater than 8 percent of the estimated contract value, or where the contract value is less than $400,000, could consider the use of a closed tender under this provision.

- There is either a significant time or cost advantage of a closed process that does not compromise quality considerations, nor have an adverse long-term impact on the supply market.

- The anticipated level of interest from the supply market is low, or the range of suppliers able to complete the activity to the required standard is limited.

For activities procured using a closed tender process, the standard contract procedures and documentation will be adapted to suit the scale of the activity and the approach used in the closed tender process.

The ability to use a closed tender process up to a value of $400,000 differs from that routinely permitted in the Transport Agency’s Procurement Manual. This increased dollar limit reflects the scale of the business undertaken by the Transport Agency, and is a realistic figure for HNO to manage, given the wide mix of scale of activities it undertakes. HNO has the ability to leverage off the skills and knowledge gained on a range of other contracts, and has many established tools that can be used to ensure value is achieved through a closed tender process. Nonetheless, there will be times where an open contest process is preferred despite the estimated contract value being below the $400,000 threshold.

4.4 Enable Suppliers to Compete Fairly

The Transport Agency has the responsibility of using public funds efficiently and equitably to develop New Zealand’s transport system. Procedures and systems have been in place for many years, and are continuously reviewed and improved to ensure that tendering
processes meet legal and ethical requirements by demonstrating equity, transparency and efficiency.

The requirement for those designing and using procurement procedures to have regard to the desirability of enabling fair competition is established through LTMA section 25(2)(a).

The shift to PQM (from the weighted attribute method) has further increased transparency, by having a more structured evaluation method and clearly identifying a Supplier Quality Premium (SQP).

### 4.5 Choosing a Supplier Selection Method

Price sits at one end of the supplier selection spectrum and quality at the other. The determination as to whether price and/or quality should be given greater focus in supplier selection is dominated by the need to attain best value for money. Where the scope of work is well defined, the resources available in the market are evenly matched and an accurate estimate of cost can be provided, price may be sufficient to distinguish suppliers. As the complexity of the activities or the level of risk transfer to the supplier increases, or where achievement of standards becomes more important, the emphasis on quality increases and price becomes a less influential attribute.

The following depicts the concept of quality based selection versus the level of risk and complexity of the project and the requirement to achieve a certain level of value for money outcome. It indicates the supplier selection methods available to the relevant level of project quantum.
For relatively straightforward and simple projects, the client is able to select suppliers based on lowest price, as long as the supplier meets the minimum required quality threshold in order to deliver the desired value for money outcome.

In the reverse scenario, a client is willing to pay more for higher quality suppliers to manage a high risk project, as the eventual outturn of the project will still deliver the desired value for money outcome.

It is important to note that a fundamental value for money concept is that it is reflected and derived from the entire project lifecycle, from development to completion, operation and maintenance.

Higher expenditure to achieve quality outputs during the investigation and design phase, which usually only involves 3–6 percent of the total project cost, can easily contribute to significant savings during the construction phase and then throughout operation and maintenance.

4.6 Supplier Selection Methods by Project Phase

There are four distinct phases in a project’s lifecycle:

- **Project development**: development of overall detailed programme from a strategic level into individual activities for detailed analysis of the costs, risks and benefits to determine if an activity is suitable for detailed design (includes point of entry, strategic case, programme, indicative and detailed business cases).

- **Project delivery**: detailed design, property acquisition, consenting and construction (Pre-implementation and Implementation)

- **Maintain and operate**: inclusion of the project area back into the management and physical maintenance regime of the overall network.

- **Monitoring**: post implementation review of a completed project to identify lessons learnt that can be applied to future projects.

4.6.1 Project Development

One of the preferred supplier selection methods for procuring a quality supplier is Brook’s Law. This method is used for high risk development projects where the Transport Agency seeks the best quality consultant available, at current market rates.

Another supplier selection method that can be useful is Target Price. This supplier selection method is used where the extent of the contract outputs can be easily varied depending on the level of budget held for the contract. This approach aims to maximise the level of service provided in a fixed budget environment. It effectively reverses the value equation in that it requires tenderers to nominate the level of service for a given price rather than tender a price for a specified level of service.

For a large range of activities, PQM is used for selecting quality tenderers at a competitive price. It enables the Transport Agency to clearly identify a dollar value that it is prepared to pay to secure a higher-quality tender relative to the lowest quality tender.
For small scale projects with low risk, closed contest may be used, with a Direct Appointment selection process used in some cases.

4.6.2 PROJECT DELIVERY: PRE-IMPLEMENTATION AND IMPLEMENTATION

The supplier selection methods for the professional services pre implementation and implementation (detailed design and MSQA) contracts are discussed separately from those for the construction contracts.

Pre-implementation and Implementation

Pre-implementation and implementation are generally easy to scope but both quality and value for money are still emphasised. A quality design output will help the construction phase to proceed more smoothly with less rework.

However, to achieve value for money, a balance needs to be achieved between obtaining quality outputs and the cost to achieve that quality. Consideration should be given from a whole-of-life perspective too, with the impact of these phases on operation and maintenance costs.

PQM is the most commonly used selection method for medium scale to large scale/risk projects. Used less frequently is Brook’s Law for high risk projects, Lowest Price Conforming and closed tender procedures which are used for low scale/risk projects.

Construct Only Contracts

Construct only contracts can vary in scale and complexity, and have many inherent risks attached to them. The selection of contractors is usually more price orientated, but depending on the project risks the focus of the evaluation can easily shift to non-price attributes to select quality suppliers.

The Lowest Price Conforming (with or without prequalification) tender method is typically not used on projects of a value of >$4 million. For medium scale to high scale/risk projects, PQM is used when the Transport Agency is prepared to pay more to secure a higher quality tender.

Competitive Alliance and Design Construct Contracts

Competitively procured Alliance and Design Construct contracts are inherently large contracts with significant scope and price risk and the Transport Agency would usually use PQM.

Early Contractor Involvement Contracts

Early Contractor Involvement Contracts may utilise either the Quality Based (Brook’s Law) or PQM supplier selection methods depending on the point at which the contract is tendered and the ability of the contractor to price the cost of the project. It is the Transport Agency’s preference to include price competition in the supplier selection processes for ECI contracts.
When using Quality Based, the price for the first separable portion is agreed by negotiation with the preferred tenderer before awarding the contract. The cost of subsequent separable portions are then negotiated prior to proceeding with that portion of the contract.

When the PQM supplier selection method is used the contractors tendered guaranteed maximum cost will be used as part of the selection process. However the emphasis will remain on quality with a lower price weighting than used for traditional construct only contracts.

**Conventional Alliance Contracts**

Conventionally procured Alliance contracts are inherently large contracts with significant scope and price risk. These contracts are usually procured using the Quality Based method.

For conventionally procured Alliance contracts, the target outturn cost is developed under an interim Alliance agreement prior to formation of the Alliance.

**4.6.3 Maintain and Operate**

Network Outcomes Contracts will be procured using PQM, to reflect the level of complexity and risk in these contracts.

**Network Maintenance (Physical Works)**

A variety of smaller or more specialised contracts will continue to be let in addition to the Network Outcomes Contracts. These contracts may cover, for example, Principal’s Advisor services, bridge management and structural maintenance, emergency works, traffic counting and network operations. The full range of supplier selection methods apply to these contracts, depending on the nature of activity, its complexity and risk level.

**4.7 Prequalification**

Prequalification is a joint Transport Agency and industry value for money initiative aimed at simplifying the tendering process, reducing tendering costs and encouraging ongoing supplier performance. There are currently over 100 suppliers registered with the prequalification system.

The prequalification process consists of contractors being assessed over a range of performance criteria and then being registered for specific types and sizes of work. Transport Agency prequalification based tenders specify a minimum prequalification level, with only contractors prequalified to at least the specified level able to submit a tender. Used in conjunction with the lowest price conforming supplier selection method prequalification can reduce tendering costs for lower value contracts.

Successful tenderers will be monitored for compliance against their prequalification level and depending on performance, a contractor may retain their existing level, be promoted to a higher level or have their prequalification status demoted or even removed.
4.8 SHORT LISTING

Short listing prospective suppliers carries out two important functions to promote value for money:

- It may reduce the cost of tendering for the industry by reducing the number of full submissions called for.
- It ensures only high-quality suppliers are selected to tender for the work.

However, it is recognised that overuse of short-listing processes could have potential disadvantages, including decreasing overall market sustainability and competitiveness, creating a barrier to entry for some suppliers or where used incorrectly, even increasing the time and cost associated with the procurement process. As such, appropriate market considerations are to be made before deciding to use a short listing process.

Short listing will generally only be required for contracts with an expected output cost estimate of over $20 million or where the anticipated number of tenderers is above the number ideally sought (typically 2–4 tenderers). The Transport Agency Project Managers and Network Managers must take the cost of tendering, complexity of tender process and project complexity into account before deciding to use the short-listing process.

Prior to calls for Statements of Interest and Ability, a Registration of Interest process is often used. In addition to signalling to suppliers the pending tender commencement, the Registration of Interest is used to gauge the level of interest in order to ascertain if it is necessary to proceed with a short-listing process.

4.9 INTERACTIVE TENDERING

Interactive tender meetings provide a useful means of assuring clients that the expected project quality will be delivered and project outcomes will be as specified. The meetings are commercial in confidence and non-contractual in nature.

Generally combined or group interactive tender meetings are used for most asset improvement and asset management projects that are being competitively tendered. Further individual interactive tender meetings are also used on projects valued over $4 million when utilising PQM.

The key purpose of the meetings is to:

- ensure the client’s objectives are well understood by all tenderers
- clarify the intent and improve the standard of the contract documentation to ensure both parties are comfortable with the specified requirements
- provide an open forum for an exchange of information to improve the quality of tender submissions received
- allow additional investigations to more clearly identify risk, so it can be better managed and where necessary reallocated to the party best able to manage it
- allow the tenderer to put forward an outline of their concept designs and/or alternative designs, and for the client to provide feedback on the designs’ acceptability.

The interactive tender process has been used now for a number of years. It has proved to be an extremely valuable process with clear benefits.

4.10 TENDER DEBRIEFS

After the tender process is complete and the contract awarded, it is important that all tenderers are provided with the opportunity to discuss their tenders with the evaluation team. This has mutual benefits to both tenderers and the Transport Agency, providing opportunities for everyone to improve their approach. The opportunity for a debrief should be offered to all tenderers for Transport Agency contracts, regardless of contract type or value.

4.11 NON-PRICE ATTRIBUTES

The Transport Agency’s Procurement Manual defines three mandatory non price attributes (Relevant Experience, Relevant Skills and Methodology) and three further non-price attributes (Track Record, Resources and Financial Viability) that may be used to evaluate tenders.

All of these attributes are frequently used by the Transport Agency, with the exception of the Financial Viability non-price attribute. Specific internal HNO approval is required before applying this non-price attribute. It is anticipated that approval to apply this is likely to only be given for large-scale asset improvement projects where the financial viability of tenderers is unknown to the Transport Agency or presents a significant risk in respect of cost, programme and/or reputation. However, if the financial capacity of suppliers does prove to be problematic, the Transport Agency may act to introduce the financial viability attribute as an added protection measure.

4.12 COMPETITIVE AND EFFICIENT MARKETS

The key driver in this respect is industry sustainability. A sustainable equilibrium is established as the client delivers a high level of service to the public using various suppliers, while the suppliers are able to enjoy sustainable profit levels to develop and grow their business. The Transport Agency recognises that the sustainability of the industry relies on retention of a good range of small, medium and large companies. Opportunities for large construction and consulting companies abound in the current environment, particularly in the major centres. The Transport Agency’s challenge, in conjunction with the industry itself, will be to ensure smaller companies retain a profitable position in the market and are able to grow and challenge their larger competitors.

The Transport Agency has many delivery models to match the scale and complexity of the project being procured, and this helps to keep tendering costs to an efficient level, and yet enables the Transport Agency to select quality suppliers to deliver the desired outcomes. The Transport Agency is aware of the industry’s concerns about the cost of the supplier selection process, particularly in relation to the Design Construct delivery model, and are
actively looking for ways to minimise these costs without compromising the procurement processes.

The market has its own mechanism of competitive bidding and maintaining sustainability and the Transport Agency's selection of supplier selection methods should avoid constraining or forcing the market to bid unsustainable prices or even discourage them from bidding altogether, as the long term consequences will be adverse.
5 Contract Form and Processes

5.1 INTRODUCTION

The term ‘contract form’ is used to describe the:

- contract type
- contract documents
- General Conditions of Contract.

5.2 CONTRACT TYPES

The selection of an appropriate contract type often largely depends on the delivery model selected. There are three basic contract types or payment mechanisms, namely:

- Measure and Value (M&V) – based on a schedule of unit rates with payment based on a measure of actual quantity of works or services completed.
- Lump Sum – agreed fixed price sum for a defined scope of works or services.
- Cost Reimbursement – payment based on actual costs incurred and an agreed margin or compensation structure. Compensation structures are often based on target costs.

Each contract type has its own advantages in certain circumstances and transfers a varying degree of risk to a supplier. These payment mechanisms are an integral part of any contract. It determines how a supplier is going to be paid and reflects the risk transfer.

Physical works contracts let under a Staged delivery model are predominantly Measure and Value. However, over recent years, more Lump Sum based Staged delivery contracts have been used, and a separate contract proforma has been developed by the Transport Agency specifically for this contract type.

A Lump Sum approach effectively transfers the measurement risk to suppliers, which is otherwise predominantly a client risk. For projects with an otherwise complicated approach to measurement or highly detailed Schedule of Prices, a Lump Sum contract may offer some advantages. The transference of the measurement risk to suppliers in the right circumstances delivers better value for money. We have had recent success in the use of Lump Sum contracts under a Staged delivery model, particularly for the completion of large earthworks operations or the construction of complex structural elements. ECI and Design Construct delivery models use a Lump Sum contract type.

The Network Outcomes Contract delivery model uses a combination of Lump Sum and Measure and Value elements, designed to transfer appropriate risk to suppliers while retaining some flexibility to accommodate funding constraints.

The Alliance delivery model uses a relatively complex three limb payment mechanism cost reimbursement approach designed to incentivise the right supplier behaviours.
5.3 Contract Documents

Proforma contract documents have been developed for most professional services and physical works projects used by the Transport Agency. The use of standard professional services and construction contract proforma is mandatory in all projects. The contract proforma documents are located in the following manuals:

- **SM030 – State Highway Professional Services Contract Proforma Manual**: contains the proforma contract documents to suit all professional services contracts.
- **SM031 – State Highway Construction Contract Proforma Manual**: contains the asset improvement proforma contract documents for all of the Transport Agency’s delivery models, and includes various other proformas and guidelines.
- **SM032 – State Highway Maintenance Contract Proforma Manual**: contains the maintenance proforma contract documents for all of the current models. This manual has been updated to include the Network Outcomes Contract Proforma.

All our proforma manuals are updated annually, with feedback and input from all users, including the supply industry, proactively requested to continuously develop robust and effective contract documentation.

5.4 General Conditions of Contract

The General Conditions of Contract currently used by the Transport Agency are as follows:

- **NZS 3910: 2003 Conditions of Contract for Building and Civil Engineering Construction** *(physical works contracts)*
- **Conditions of Contract for Consultancy Services – November 2010** *(professional services contracts)*
- bespoke conditions of contract have been developed to suit our Alliance contracts.

For most Transport Agency contracts these General Conditions of Contract have been adopted largely unaltered by Special Conditions of Contract.

However late 2013, Standards New Zealand published the following three standards to replace NZS 3910: 2003:

- **NZS 3910: 2013 Conditions of Contract for Building and Civil Engineering** - Construction
- **NZS 3916: 2013 Conditions of Contract for Building and Civil Engineering – Design and Construction**
- **NZS 3917: 2013 Conditions of Contract for Building and Civil Engineering – Term Maintenance**
The Transport Agency is currently reviewing the changes made to these standards and their effects on our standard forms of contract in order to determine whether they will be adopted into our proforma contract documents.

The past few years have seen a further drive toward collaborative ways of working. To a certain extent, the General Conditions of Contract do have a role to play in encouraging such collaborative behaviour. With the lessons from our experiences in collaborative contract forms such as Alliancing, the further potential for this is recognised and is something that we will look to further promote.

Other specific concerns around the identification of contractual variations and the sophistication of the contractual programming requirements have been noted as areas for improvement within the General Conditions of Contract.

Some of the newer delivery models now being used, such as the Early Contractor Involvement model, and some delivery models likely to be used in the near future, such as Public Private Partnerships, will further challenge the status quo.

5.5 **Best Practice Documentation and Procedures**

The Transport Agency will continue to develop consistent best practice documentation and procedures to support the development and delivery of both asset improvement projects and asset management activities. In this way, project managers will be well briefed and trained in the subtleties of project and asset management.

The Transport Agency will concentrate on:

- managing **tender processes** to ensure the client’s requirements are well defined and the risk of scope change is minimised during any contract term

- encouraging our staff and consultants to **proactively manage contracts** to minimise surprises. Forecasting time to completion and subsequent costs of phases is also seen as a high priority

- ensuring all parties establish a **cooperative environment** through either formal or informal partnering, where completing the project is seen as a team result

- ensuring the Transport Agency Project Managers or Contract Managers and the supplier(s) clearly understand their respective **roles, responsibilities and accountabilities**

- ensuring the Transport Agency Project Managers and Contract Managers seek help from people who have been involved in similar activities so that **previous experience** is put to the best effect

- ensuring the Transport Agency Project Managers and Contract Managers use carefully **documented project plans** that permit careful and systematic investigation and planning for the next project phase.
5.6 PERFORMANCE EVALUATION

The Transport Agency utilises a formal supplier performance evaluation system called PACE (Performance Assessment by Coordinated Evaluations). Separate performance evaluations are conducted for professional services and physical works providers.

There are two key goals of the system:

- To facilitate performance related conversations between client and supplier during the life of a contract so as to encourage performance improvement on a specific contract.
- To raise the importance, objectivity and consistency applied to the Track Record non-price attribute in tender evaluation, in order to encourage good performance and give suppliers the incentive to improve their project delivery performance across a range of contracts.

Where the Transport Agency has traditionally focused on price, time and quality in evaluating performance, it now includes attributes such as cooperation, innovation, health and safety and management of risks.

To ensure cooperative contract relationships between all suppliers, performance evaluations are subject to interim appraisals during the term of the contract and a final appraisal at the end. All parties (client, consultant and contractor) have equal input into the final performance evaluation. The client project manager mediates between the consultant and the contractor, ensuring the free flow of information and fair and reasonable final performance evaluations.

5.7 RISK MANAGEMENT

Risk and therefore risk management is an inherent and fundamental aspect of the Transport Agency’s and HNO’s business. The Transport Agency applies an Enterprise Risk Management (ERM) approach as an integral part of its management philosophy. Within the Transport Agency our framework is aligned to AS/NZS ISO 31000:2009 Risk Management Principles and Guidelines. HNO supports the Transport Agency’s strategic objectives through the delivery of asset improvement or asset management contracts.

Determining the appropriate model for contract delivery is a key risk mitigation exercise, as discussed earlier in section 3.6. In so doing it is envisaged that best value for money outcomes are delivered and that Transport Agency’s and HNO’s strategic priorities are met. Understanding the most suitable allocation for risk ownership, between client and supplier, aids in forming the stage 2 procurement strategy.

The size and complexity of contract risks can have a significant impact on procurement decisions. The risk assessments drive the way we seek to allocate risk, decision criteria in setting up tender processes and how we approach the evaluation of tenders.
5.7.1 **Contract Execution Risk Management**

 Appropriately applied risk management within the execution of HNO contracts plays a vital role in their successful delivery. Effective risk management provides a structured approach to identifying, assessing and controlling risks. Its purpose is to support better decision making through understanding the risks and their likely impact.

 It is envisaged that the application of proactive risk management will provide the following benefits:

- Aid decision making
- Promote comparison of solution alternatives
- Increase communication
- Generate common understanding
- Promote justification of contingency
- Promote credibility of solution

Transport Agency’s *Minimum Standard Z/44 – Risk Management* has been developed to promote a consistent and uniform approach to the provision of risk management services from suppliers delivering HNO’s contracts. Use of the minimum standard is mandatory for:

- Asset improvement projects with an estimated cost of $2 million or greater.
- Asset management activities with an estimated annual cost of $2 million or greater.

Aspects of the minimum standard may be used for other asset improvement or asset management activities, as deemed appropriate by the Transport Agency.

5.8 **Health and Safety**

 The Transport Agency recognises its obligations as a principal under the Health and Safety in Employment Act. As such the Transport Agency is required to take all practical steps to ensure safe work practices are employed by all suppliers. As an outsourcing organisation, procurement has a key part to play in ensuring the appropriate obligations are placed on suppliers and demonstrate the Transport Agency’s commitment to health and safety.

 We have worked closely with the industry to agree detailed requirements and best practice approaches that will promote the right culture in the industry with respect to Health and Safety, and satisfy the Transport Agency’s legal obligations under the Act.

 The Transport Agency requires all suppliers it engages to comply with these requirements and HNO are actively exploring ways of promoting best practice Health and Safety though procurement.
5.9 Insurances

In November 2010, the Transport Agency commenced with a new coverage called Principal Arranged Insurance (PAI) which provided the facility to cover all projects with a cost estimate of less than $50 million. The objective is to have all such projects properly insured on a known basis with secure insurers and at a competitive price. In 2012, the PAI scheme became a mandatory requirement for contractors to opt into for projects with a cost estimate of less than $50 million.

5.10 Tools for Project Delivery

Significant improvements have been achieved in non-traditional physical works delivery models which we have now used successfully on a range of other delivery models. This cross-fertilisation approach allows us to continue to make incremental improvement on all our delivery models.

5.10.1 Partnering

This has been used successfully on many construction projects. Partnering encourages the contracted parties to work together more closely to seek opportunities for improvement and to resolve disputes as quickly as possible.

In a partnering environment, the common objectives and goals of the various parties are aligned as much as possible to increase the project’s likelihood of success.

5.10.2 Value Management

The purpose of Value Management is to ensure project efficiency and systematic value for money through the clear understanding of the project objectives by all those involved in the project. Value Management is a continuous process from project conception to completion.

At least one Value Management workshop is mandatory on all projects over $5 million. Beyond this, the larger and more complex the activity, the more workshops are recommended. The workshops seek to ensure that the project brief and benefit-cost ratio is tested and that roading and non-roading alternatives are considered in an environment of enhanced stakeholder communication.

Value Management is also used to clarify strategic direction, risk management and problem solving/dispute resolution.

Through value engineering, the consultant or contractor will be able to promote new ideas and innovative ways of managing risk. In appropriate circumstances, it is possible to motivate the consultant or contractor to do this by accepting a proportion of the savings as additional profit on the job.
6 Implementation

This section describes the ownership of the Procurement Strategy, as well as the associated monitoring, review and consultation.

6.1 Ownership of the Procurement Strategy

While final endorsement of the Procurement Strategy rests with the Transport Agency’s Board, HNO’s Value Adding Teams (VATs) for both Project Management and Asset Management are charged with ownership of the Procurement Strategy. They are accountable for ensuring that the specific plan and business improvement initiatives included within the Procurement Strategy are implemented and monitored.

Completed business improvement initiatives will be incorporated in the following year’s Business Plans, prioritised by the VATs, and implemented.

6.2 Monitoring

Monitoring is an essential aspect of the implementation process to ensure the objectives of the Procurement Strategy are consistently achieved through the way we procure, as well as ensuring that all business improvement projects are developed in the right areas and align well with the overarching Procurement Strategy mission and objectives. The goal of all monitoring is to reflect upon the value for money received, and continually strive for more efficiency gains. Some key monitoring activities to be performed as required are discussed below.

As part of the monitoring aspect, it is our intention to intervene and change this strategy if necessary to ensure that the markets are functioning well and that there are limited barriers to entry or exit or to grow within the market.

We acknowledge that there will be an impact on competitive markets as the new Networks Outcomes Contracts are introduced. The contracts include features designed to manage this impact. In particular we do not want these larger long-term contracts to impact critically on the ability of suppliers (small to medium enterprises in particular) to enter, exit or grow within the market.

The Network Outcomes Contract’s implementation plan includes a “monitor and intervene” approach, allowing the market to operate in the first instance. We know from experience that monitoring the market behaviour and being prepared to adjust the plan following implementation of a new procurement model is critical for success.

6.2.1 Transport Agency’s In-house Capability and Capacity

The Transport Agency is comfortable that with the internal skills it has available and the programme of work for the implementation of the new Network Outcomes Model, it will be able to achieve the objectives of this Procurement Strategy. As a procurer, the Transport Agency has a depth of experience in the delivery of projects and in particular the delivery of projects using more advanced or complex approaches to procurement.
Nonetheless, the Transport Agency is very conscious of the demands that sustained high levels of expenditure places on its own personnel. To assist internal personnel, support structures are in place through HNO’s Network Outcomes and Network Directions and Performance teams to assist in the required planning processes and to provide specialised expertise across a range of disciplines, including procurement.

The sharing and dissemination of lessons learnt is provided through a range of Value Adding Teams (VATs). Their role is to keep an eye on business developments and practices, and to give traction to identified improvement opportunities.

The Transport Agency has a number of qualified tender evaluators, and mandates the use of qualified tender evaluators in the evaluation of all tenders greater than $200,000.

Under the Network Outcomes Contracts we will be in-sourcing the contract management and strategic asset management functions that were typically undertaken by an external supplier under the Hybrid and Traditional delivery models. A supplier panel will be established to provide Technical Specialist Advice to support Transport Agency staff as required.

6.2.2 INDUSTRY CAPABILITY AND CAPACITY

The aggressive delivery of the new asset management contracts in a short timeframe will place a strain on the industry’s capability and capacity to supply the resources. The Transport Agency has a role to monitor these effects by consulting with the industry and potentially adjusting the delivery programme or the approach to the procurement of the programme of works, as required.

The Transport Agency requires greater visibility of skills shortages, and may need to take a bigger role in ensuring the skills of the industry are increased to match demand. Consequently we will investigate whether there are appropriate mechanisms to do this through our procurement processes.

6.2.3 PERFORMANCE OF MODELS

The Transport Agency will monitor the performance of its delivery models to ensure that optimal value for money is achieved. This may take form as a qualitative or quantitative review at periodic timeframes or as required. The outputs of these reviews are fed back into the delivery model selection processes, as well as being used to continuously improve contract documentation and the like.

6.2.4 PERFORMANCE OF SUPPORT SYSTEMS

Value for money cannot be achieved, whichever delivery model is engaged, without effective systems within the Transport Agency to support the implementation of the Procurement Strategy. Monitoring of the performance of support systems will be continued through:

- established feedback processes for all procurement-critical manuals and publications
- delivery model audits
- tender office audits
- Contract Management Reviews.
6.3 REVIEW AND CONSULTATION

The Transport Agency is committed to obtaining supplier input into and ownership of its:

- Procurement Strategy
- contract documentation
- project-by-project selection processes.

6.3.1 PROCUREMENT STRATEGY

The entire strategy is subject to a thorough review on a three yearly basis, with more frequent updates undertaken as required.

In addition, consultation on Stage 1 procurement strategies may be undertaken by the Transport Agency. Such consultation will consider the more specific concerns of their market, including consideration of the views of other stakeholders such as territorial local authorities in relevance to that specific procurement strategy.

6.3.2 DOCUMENTATION SUPPORTING THE PLAN

The Transport Agency will consult with the industry about new documentation and processes. It will also seek industry input where we materially change the focus of the documentation it uses to contract with suppliers.

6.3.3 PROJECT BY PROJECT TENDER EVALUATION

Through established processes, Interactive Tendering and tender debriefs, there will be ongoing consultation with suppliers. This will focus on the application of contract type, delivery models, supplier selection methods and management processes for each project. This is a valuable process as, over time, the suppliers bidding for work help to strengthen the documentation and processes.

6.4 SUPPLIER LIAISON

The Transport Agency has developed a detailed stakeholder liaison strategy that documents the various types and levels of engagement planned with key stakeholders on a range of issues.

The Transport Agency meets regularly with key representatives from the supply industry to discuss the upcoming programme of work and the proposed approach to procurement. It provides a good environment to listen to and discuss with suppliers any concerns they have or stress points they can see in relation to any aspect of the Transport Agency’s supplier engagement and procurement practices. This forum has proved successful to date, and is planned to continue.
7 Glossary

Alliance

One of the Shared Risk delivery models used for capital projects and one of the four delivery models used for maintenance contracts. Contractor(s) and consultant(s) are selected to work together with the client from project development and take the entire project through to completion.

Competitive Alliance

A type of Shared Risk delivery model where the selection of suppliers to form an Alliance is on the basis of quality and price.

Project or Pure Alliance

A type of Shared Risk delivery model where the selection of suppliers to form an Alliance is on the basis of quality only.

Alternative Tender

Alternative tenders propose alternative methods, forms or materials that might produce different quality or durability but fall within the scope specified in the RFT.

Business Case Approach

HNOs project development process that will replace our traditional project delivery method and will apply to how HNO undertakes transport planning and project development, and it will become the basis for P&I’s investment decision-making process for the National Land Transport Fund (NLTF).

It is a principles-based approach that clearly links the Transport Agency’s strategy to outcomes, and defines problems and their consequences thoroughly before solutions are considered. This principles-based approach ensures a shared view of problems and benefits early in the transport planning process without requiring that the work has to be done in a particular way.

Cost Reimbursement

A payment mechanism under which suppliers receive their costs incurred for the completed work and a certain pre-agreed amount or percentage as their profit.

Design Construct

One of the three types of delivery model used in New Zealand for capital projects. The project’s design and construct elements are combined into a single contract.
Delivery

Overall title given to the second phase in the project lifecycle. Includes detailed design, property acquisition, consenting and construction (Pre-implementation and Implementation).

Development

Overall title given to the initial phase in the project lifecycle, including point of entry, strategic case, and programme, indicative and detailed business cases. Includes the identification of programmes of work and or activities that deliver on a strategic case and the detailed analysis of the costs, risks and benefits to determine if an activity is suitable for delivery.

Early Contractor Involvement (ECI)

One of the Design Construct delivery models used for capital projects. A contractor is engaged early in project development and may be retained to continue through to project delivery.

Highways and Network Operations (HNO)

The operating group of the Transport Agency responsible for the management and operation of New Zealand’s state highways.

Hybrid

One of the four delivery models currently used in New Zealand for maintenance contracts. Incorporates features of Staged and PSMC maintenance delivery models. The Hybrid delivery model will be replaced by the Network Outcomes Contract delivery model as existing network maintenance management and maintenance contracts come up for renewal.

Implementation

The construction phase in a project’s lifecycle. Formerly referred to as Management, Surveillance and Quality Assurance (MSQA).

Lowest Price Conforming (LPC)

Supplier selection method where tenders are first sorted on the basis of price. The lowest priced tender is evaluated on whether it conforms to certain attributes and is judged to pass or fail. A fail results in the tender being rejected and the next lowest tender being considered. A pass results in the tender being successful.

LTMA

Land Transport Management Act 2003 and all subsequent amendments.

Long Term Procurement Plan (LTPP)

The predecessor to this PPS, first issued in 2000 and updated in 2005.
Lump Sum

A payment mechanism under which work activities are lumped together under one heading and one price. The risk sits with the supplier to provide the service or output within the agreed lump sum amount.

Measure and Value (M&V)

A payment mechanism under which the supplier is paid for the actual work performed based on a schedule of unit rates.

Network Outcomes Contract

The delivery model to be used to deliver network management and maintenance services across the state highway network. The Network Outcomes Contract delivery model will be implemented as existing network maintenance management and maintenance contracts come up for renewal.

Partnering

The process of bringing organisations together through strategic and informed cooperation to achieve the different but complementary goals of each.

Performance Assessment by Coordinated Evaluation (PACE)

The Transport Agency’s national supplier performance evaluation system for both professional services and physical works.

Performance Specified Maintenance Contract (PSMC)

One of the delivery models used in New Zealand for maintenance contracts. The PSMC delivery model will be replaced by the Network Outcomes Contract delivery model as existing network maintenance management and maintenance contracts come up for renewal.

Procurement Strategy

This document.

Pre-implementation

The detailed design, consenting (if required) and property acquisition (if required) phase of a project’s lifecycle.

Price Quality Method (PQM)

Supplier selection method where tenders are first graded in terms of quality by assessing their non-price attributes. The quality difference is then converted into a dollar value – the Supplier Quality Premium (SQP) – which is then deducted from the submitted tender price to identify the preferred tender.
Purchaser Nominated Price

Also known as Target Price. A supplier selection method where a target price is specified in the RFT and the best quality tender is selected.

Quality Based

A supplier selection method where tenders are selected on quality alone and a tender price is negotiated with the tenderer providing the best quality.

Request for Tender (RFT)

A document issued by the Transport Agency inviting tenders to provide professional services and/or physical works.

Roads of National Significance (RoNS)

Seven essential state highways identified by the Government as being linked to New Zealand’s economic prosperity.

Scope

The project’s principal purpose(s) and service(s) to users as specified in the RFT.

Shared Risk

A delivery model. Types of Shared Risk models include Alliances.

Short Listing

Short listing involves reducing the number of tenderers for the RFT/RFP phase. It reduces the cost of tendering and the administrative burden of evaluating tenders, while ensuring only high-quality suppliers are selected for the work.

Staged (Model)

Also known as ‘Traditional’. This remains the main delivery model used in New Zealand for asset improvement activities.

Supplier Quality Premium (SQP)

The amount that the Transport Agency is prepared to pay to secure a higher quality supplier.

Value engineering

The process where value is created following the contract award by improving design or construction methods not contemplated at the time of the award. Value management is a similar concept referring to value creation at any stage of the project. Examples include I&R and design.