

<b>Subject</b>	<b>Public transport procurement – policy changes to gross cost resets for public transport units</b>
<b>Circulation</b>	Regional councils, Auckland Transport, unitary authorities and territorial authorities with responsibility for public transport  NZTA Regional Managers Planning and Investment  Local Government New Zealand
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### **Purpose**

This general circular outlines changes to the Transport Agency's Procurement Manual concerning the reset of gross costs for public transport contracts with a 9 year term. The policy clarifications and changes will amend the following sections of the Transport Agency's Procurement Manual.

1. **Rule 10:28 (Gross cost reset for public transport units)** – to add that approved organisations with small or medium sized bus markets that do not have access to suitable price benchmark information can reconfirm the current contract price at year 6 of a 9 year contract term as the gross price.
2. **Appendix I (Contract negotiation processes for bus public transport units)** – to clarify procurement strategy requirements for the selection of a price benchmarking methodology to undertake a gross cost reset if not using Data Envelopment Analysis, and to describe what is meant by 'current contract price' for the change to Rule 10.28.

### **Background**

Rule 10.28 of the Procurement Manual requires the use of price benchmarking to inform the gross cost reset of the annual gross price at year six of a nine-year term of a public transport contract. The use of price benchmarking is intended to grow confidence that public transport services are priced efficiently and meet the 'best value for money' requirements of section 25 of the Land Transport Management Act 2003. Price benchmarking does this by providing an estimate of what the current annual gross price for a contract might be based on recent tender outcomes for public transport contracts.

### **Policy change**

Rule 10.28 has been amended such that approved organisations with small or medium sized bus markets that do not have, or are unlikely to have, access to suitable price benchmark information to enable them to establish a current market price for an existing public transport contract can reconfirm the contract price as 'the current contract price' when undertaking a gross cost reset at year 6 of a 9 year contract term.

The current contract price is defined as the original winning tender contract price (i.e. the initial contract price) plus the price of any contract variations (for service level adjustments) made during the first six years of the contract, each adjusted for input price variation using an index approved by the Transport Agency in accordance with Rule 10.25 of the Procurement Manual.

Approved organisations with small and medium sized bus markets are still encouraged to try and identify how they can undertake price benchmarking to inform a gross cost reset.

## **Policy clarifications**

Where approved organisations with small or medium sized bus markets decide to proceed with price benchmarking but not to perform Data Envelopment Analysis, they will need to determine their own approaches for testing the current contract price (inclusive of the indexed winning tender contract price plus the indexed price of variations) at the time of the gross cost reset. The approach will need to be consistent with the following principles:

- i. Be simple to apply and administer
- ii. Give confidence that the output of the approach reflects appropriate market prices
- iii. Contribute to value for money.

The approach will be assessed by the Transport Agency against these principles and needs to be set out in approved organisations' procurement strategies. Approved organisations are advised to work with the Transport Agency as they develop their approach to ensure there is alignment in thinking between the approved organisation and Transport Agency.

## **Changes to the Procurement Manual**

Amendments to rule 10:28 and Appendix I will be amended to give effect to the policy change and the clarification and are attached to this general circular in draft form.

## **Further information**

For further information or assistance in the first instance please contact your Transport Agency regional representative. Alternatively you can contact: Ian Stuart, DDI 64 4 890 4747, email [ian.stuart@nzta.govt.nz](mailto:ian.stuart@nzta.govt.nz) for more information.