

# **Evaluation of the effectiveness of the NZ Transport Agency's procurement policy March 2017**

Paula White, Jessie Wilson and Paul Rogers  
Allen and Clarke

**NZ Transport Agency research report 591**

Contracted research organisation – Allen and Clarke, Wellington

ISBN 978-0-478-44552-7 (electronic)  
ISSN 1173-3764 (electronic)

NZ Transport Agency  
Private Bag 6995, Wellington 6141, New Zealand  
Telephone 64 4 894 5400; facsimile 64 4 894 6100  
research@nzta.govt.nz  
www.nzta.govt.nz

White, P, J Wilson and P Rogers (2017) Evaluation of the effectiveness of the NZ Transport Agency's procurement policy. *NZ Transport Agency research report 591*. 76pp.

Allen and Clarke was contracted by the NZ Transport Agency in 2015 to carry out this research.



This publication is copyright © NZ Transport Agency. This copyright work is licensed under the Creative Commons Attribution 4.0 International licence. You are free to copy, distribute and adapt this work, as long as you attribute the work to the NZ Transport Agency and abide by the other licence terms. To view a copy of this licence, visit <http://creativecommons.org/licenses/by/4.0/>. While you are free to copy, distribute and adapt this work, we would appreciate you notifying us that you have done so. Notifications and enquiries about this work should be made to the Manager National Programmes, Investment Team, NZ Transport Agency, at research@nzta.govt.nz.

**Keywords:** Evaluation, physical works procurement, procurement policy, professional services procurement, purchaser organisations, roading outcomes

## **An important note for the reader**

The NZ Transport Agency is a Crown entity established under the Land Transport Management Act 2003. The objective of the Agency is to undertake its functions in a way that contributes to an efficient, effective and safe land transport system in the public interest. Each year, the NZ Transport Agency funds innovative and relevant research that contributes to this objective.

The views expressed in research reports are the outcomes of the independent research, and should not be regarded as being the opinion or responsibility of the NZ Transport Agency. The material contained in the reports should not be construed in any way as policy adopted by the NZ Transport Agency or indeed any agency of the NZ Government. The reports may, however, be used by NZ Government agencies as a reference in the development of policy.

While research reports are believed to be correct at the time of their preparation, the NZ Transport Agency and agents involved in their preparation and publication do not accept any liability for use of the research. People using the research, whether directly or indirectly, should apply and rely on their own skill and judgement. They should not rely on the contents of the research reports in isolation from other sources of advice and information. If necessary, they should seek appropriate legal or other expert advice.

# Acknowledgements

Allen and Clarke is grateful to evaluation participants, particularly those who made themselves available for interviews in Wellington, Auckland, Dunedin, Central Otago, Ruapehu and other locations throughout the country. Your experiences and ideas shared were invaluable to the evaluation process. We would also like to thank Bernie Cuttance and the project Steering Group members representing the NZ Transport Agency, the Ministry of Transport, the Ministry of Business, Innovation and Employment, and Local Government New Zealand for their time, for enabling access to information and for their engagement in the evaluation discussions. Warm thanks to our team member Paul Rogers, whose strategic procurement advice helped frame the evaluation and informed the development of the evaluation framework. Lastly, we are thankful to our two independent peer reviewers, Julian King and Andrew McLean for their valuable feedback and advice during the report finalisation process.

# Contents

<b>Executive summary .....</b>	<b>7</b>
<b>Abstract .....</b>	<b>10</b>
<b>1 Introduction .....</b>	<b>11</b>
1.1 Evaluation purpose and objectives .....	11
1.2 Evaluation scope .....	11
1.3 Evaluation methodology .....	12
1.3.1 Key research and evaluation questions .....	12
1.3.2 Evaluation framework .....	12
1.3.3 Data collection .....	13
1.3.4 Limitations .....	14
1.4 Report structure .....	15
<b>2 Background .....</b>	<b>16</b>
2.1 The Transport Agency roading procurement policy context .....	16
2.1.1 About the Transport Agency .....	16
2.1.2 Transition from competitive pricing to the <i>Procurement manual</i> environment ....	16
<b>3 Findings .....</b>	<b>18</b>
3.1 Success factors enabling value for money procurement outcomes in roading .....	18
3.1.1 International value for money drivers, procurement governance trends and principles .....	18
3.1.2 Value for money drivers are holistic and encompass whole-of-life outlook .....	18
3.1.3 International value for money procurement principles .....	19
3.1.4 Procurement governance and processes as central enablers of value for money ..	19
3.1.5 New Zealand policy drivers, roading procurement themes and principles .....	20
3.1.6 The Transport Agency procurement policy drivers suggest a range of good practice enablers .....	21
3.1.7 National sector challenges underscore the need for procurement capability and capacity .....	22
3.1.8 National frameworks highlight the role of good governance in procurement .....	23
3.1.9 Conclusions .....	24
3.2 Effectiveness of the Transport Agency's policy framework to deliver policy outcomes ....	28
3.2.1 Policy framework is robust and generally aligned with MBIE regulations .....	28
3.2.2 Policy framework allows flexibility and fit-for-purpose procurement approaches ..	29
3.2.3 <i>Procurement manual</i> guidance for strategy development could be strengthened ..	30
3.2.4 Format of the <i>Procurement manual</i> has poor usability for many stakeholders ....	30
3.2.5 The Transport Agency takes a hands-off approach to procurement leadership for road controlling authorities .....	31
3.2.6 National roading procurement workforce development needs not being fully met .....	32
3.2.7 <i>Procurement manual</i> is insufficient to ensure quality road controlling authority process management .....	33
3.2.8 Tensions in the Transport Agency's role in maintaining sustainable markets nationally .....	34

3.2.9	Unmet potential for innovation in roading procurement among road controlling authorities.....	36
3.2.10	The Transport Agency value for money outcomes articulation for road controlling authorities is broad and emergent.....	36
3.2.11	Value for money guidance for road controlling authorities needs clarification and strengthening.....	37
3.2.12	Tendering costs are a challenge to the sector in delivering value for money .....	37
3.2.13	Stakeholder perspectives on enablers and barriers to value for money .....	38
3.2.14	The Transport Agency needs to strengthen its outcomes measurement and review processes .....	39
3.2.15	Conclusions .....	39
3.3	Effectiveness of road controlling authority implementation to deliver policy outcomes....	41
3.3.1	Road controlling authorities use the flexibility in the <i>Procurement manual</i> to lead with new approaches to procurement .....	42
3.3.2	Road controlling authority procurement strategies focused on context of local needs.....	43
3.3.3	Road controlling authority procurement strategies lacked national sector context and scenario-planning .....	44
3.3.4	Strategies address sustainability though supplier analyses had narrow outlook ..	45
3.3.5	Road controlling authority procurement strategies linked their approaches with value for money in diverse ways .....	46
3.3.6	Road controlling authority strategies are not living documents for ‘strategy-led’ procurement .....	47
3.3.7	Inconsistent road controlling authority approaches to workforce capability, capacity and development .....	47
3.3.8	Road controlling authorities demonstrated inconsistent choice and use of supplier selection processes .....	49
3.3.9	Some road controlling authorities were weak on internal feedback loops and organisational learning.....	51
3.3.10	Scope for improving road controlling authority practices to increase value for money and its measurement .....	52
3.3.11	Conclusions .....	54
<b>4</b>	<b>Recommendations.....</b>	<b>56</b>
4.1	Strengthen procurement policy alignment with MBIE regulations.....	56
4.2	Revise and reformat the <i>Procurement manual</i> to enhance usability.....	56
4.3	Increase support for procurement strategy development and review.....	57
4.4	Extend procurement training and workforce development as a priority .....	58
4.5	Drive systems and processes for innovative value for money results .....	59
4.6	Increase monitoring of supplier markets with a focus on local roading .....	60
4.7	Develop and apply outcomes measurement and reporting processes.....	61
4.8	Further research to inform policy development.....	61
<b>5</b>	<b>References.....</b>	<b>62</b>
	<b>Appendix A: Terminology brief on research and evaluation.....</b>	<b>64</b>
	<b>Appendix B: Evaluation methodology .....</b>	<b>66</b>
	<b>Appendix C: The Transport Agency roading procurement process .....</b>	<b>74</b>
	<b>Appendix D: Glossary .....</b>	<b>75</b>

# Executive summary

## Purpose

This report presents findings from an independent formative evaluation of the effectiveness of the NZ Transport Agency (the Transport Agency) procurement policy framework that seeks long-term, strategy-led and value for money (VFM) roading outcomes, including its implementation by approved purchaser organisations for physical works and professional services procurement. The policy framework spans the Land Transport Management Act 2003, the *Procurement manual* and associated governance structures and processes.

The evaluation sought to provide evidence to inform decisions on the future design and delivery of the Transport Agency policy for best VFM procurement outcomes through purchaser organisations and identify any learnings for continuous improvement of the Transport Agency procurement policy and delivery. It also sought to account to the Transport Agency and other roading stakeholders for the effectiveness of the Transport Agency's current policy and practice.

## Key questions

The project addressed the following three evaluation questions:

- 1 What key success factors enable best VFM results in transport procurement policy and implementation, both internationally and in the New Zealand context?
- 2 How effectively is the Transport Agency's procurement framework supporting national delivery of strategy-led, long-term and VFM roading procurement outcomes?
- 3 How effectively are RCAs implementing the policy to deliver strategy-led, long-term and VFM procurement outcomes?

## Methodology

A review of procurement good practice literature was undertaken to address the first evaluation question. The review also informed the development of an evaluation framework, which was used to answer the two remaining questions. Four RCA site visit locations were agreed with the Transport Agency (Auckland, Ruapehu, Dunedin and Central Otago). Fifty-four stakeholders were interviewed through 42 interviews between May and June 2015, including the Transport Agency Wellington and regional staff, territorial local authority staff and suppliers involved in local roading procurement in the four sites, as well as representatives from national industry associations.

## Key findings and conclusions

New Zealand's devolved procurement policy context makes innovative and efficient good practice procurement approaches important. A review of international and national literature highlighted numerous key success factors for good practice in this context (key question 1). These include governance and leadership, strategic planning, workforce capability and capacity, systematic and collaborative processes or 'gateways' and review, analysis and measurement, and the considerations of competition, sustainable markets and shared risk. The literature also suggested that VFM must be framed and measured over the whole life of the asset, and should reflect a composite of costs and benefits depending on contextual objectives.

The evaluation found that the Transport Agency's policy governance was more effective on leadership, customer and market focus and a VFM results focus than it was on guidance for RCA strategic planning, workforce, process management, and measurement and analysis. RCA implementation was more effective on leadership, workforce, customer and market focus, and less effective in the areas of process management and VFM results focus.

The following two tables present summary findings on effectiveness using the seven evaluation criteria. Detailed findings are presented in the main findings sections of the report.

**Table 1 Evaluation findings and conclusions (key question 2)**

Effectiveness findings on the Transport Agency's policy governance
<b>Leadership</b> – The <i>Procurement manual</i> content is robust and aligned, allows innovation and flexibility, and the Transport Agency is modelling good policy practice. The format of the manual could be improved to be more user friendly.
<b>Strategic planning</b> – The <i>Procurement manual</i> links well to the Transport Agency corporate policy outcomes. However, significant improvements are needed to guide RCAs' development of procurement strategies, which also need to be better monitored, reviewed and current for accountability and transparency.
<b>Workforce focus</b> – The procurement efficacy of the <i>Procurement manual</i> and achievement of VFM outcomes relies heavily on the skills and expertise of those applying the <i>Procurement manual</i> . The Transport Agency has not set or monitored national standards of capability and capacity from the RCA workforce to manage procurement relating to the national road spend portfolio. RCAs need more support to benchmark and plan for staff procurement guidance and training.
<b>Customer and market focus</b> – The Highways and Network Operations group effectively profiles market opportunities by scale complexity, and monitors impacts of the network outcomes contract approach on the national supplier market. RCAs require system information on markets to inform a strategic and national approach and requested the Transport Agency facilitate more information sharing between RCAs on collaborative and innovate supplier relationships.
<b>Process management</b> – The Transport Agency, and Highways and Network Operations group model systematic and effective procurement processes, yet there is significant scope for better support for RCAs to develop improved procurement management processes. <i>Procurement manual</i> process reporting and review processes are not necessarily being driven by the Transport Agency or undertaken by RCAs.
<b>Measurement and analysis</b> – There is insufficient review of the operation of national roading procurement by the Transport Agency on RCA policy compliance and results including procurement capacity and capability, costs, and targets and metrics to monitor strategic goals such as VFM results. This gap limits the Transport Agency's understanding of policy outcomes for learning and accountability.
<b>VFM results focus</b> – Since 2009, the procurement policy framework has delivered well-designed approaches and resource use to allow RCAs to target the long-term, whole-of-life value of the road network. There is unmet potential for RCA innovation, and improved guidance from the Transport Agency on results focus and ownership, sharing lessons learned and disseminating stories of innovation and good outcomes would add value.

**Table 2 Evaluation findings and conclusions (key question 3)**

Effectiveness findings on RCA policy implementation
<b>Leadership</b> – Some RCAs highlight leadership support for procurement to realise business priorities, yet this could be strengthened. RCAs are adhering to national procurement policy but could more consistently align corporate organisational strategies, procurement strategies and roading procurement plans.
<b>Strategic planning</b> – Some RCAs' roading procurement strategies successfully aligned local needs with Transport Agency policy outcomes. The RCA procurement strategies assessed could be enhanced by national market analysis, clear definitions of procurement outcomes, and situational risk analyses and mitigation.
<b>Workforce focus</b> – RCAs' procurement policies generally define standards of workforces' capability and capacity needs to manage spend portfolios, although most do not clearly articulate a framework for the provision of procurement guidance, training and support. RCAs consider the Transport Agency's procurement support adequate;



however, increased resourcing or support would be beneficial.
<b>Customer and market focus</b> – RCAs have strong regional and local market focuses that encourage competition and sustainability; however, greater consideration of national markets and local impact is possible. RCAs' procurement processes are generally effective at identifying future projects based on scale and complexity, and the majority of RCAs are effectively managing supplier relationships, although not consistently collaborating in an innovative manner.
<b>Process management</b> – RCAs' procurement procedures support procurement as an end-to-end cycle, with more emphasis placed on scoping and front-end processes to the detriment of management, monitoring and review phases of the cycle. RCAs could provide more transparent rules and process parameters.
<b>Measurement and analysis</b> – RCAs are inconsistent in reviewing local roading procurement, capacity and capability. While 'control systems' were 'fit for purpose', compliance and costs monitoring, review of procurement strategy impact on market development and strategy adjustment could be improved.
<b>VFM results focus</b> – RCAs are making some headway in achieving VFM roading outcomes for end users, but greater emphasis on social and environmental dimensions, whole of life outcomes and efficient resource use could increase VFM results. Dissemination of innovation and good procurement outcomes could be enhanced.

## Recommendations

On the basis of the findings above, the report provides detailed opportunities for consideration by the Transport Agency and the transport sector (including RCAs) respectively. A summary of recommendations is as follows:

- 1 Strengthen procurement policy and processes alignment with the Ministry of Business Innovation and Employment (MBIE) regulations (eg through increased access to MBIE training, review on subjects such as use of supplier panels, use of supplier selection approaches).
- 2 Revise and reformat the *Procurement manual* to enhance usability (eg short version with hyperlinks to detailed information, clear indexing and search functionality, delivery model and supplier selection decisions toolkit).
- 3 Increase support for quality RCA procurement strategy development through increased information and/or additional Transport Agency resourcing to enhance evidence-based scenario planning, provide more opportunities for peer support, and ensure documents are kept 'live' through periodic scaled review.
- 4 Extend procurement training and workforce development as a priority (eg through development of an industry workforce development strategy, increased training opportunities, establishment of mandatory skill requirements for RCA staff, consideration of opportunities for RCA shared services).
- 5 Drive systems and processes for innovative VFM results through clearer definitions of VFM, development and use of standardised tools and measures, consideration of funding timeframes, and increased knowledge sharing throughout the sector.
- 6 Extend the Transport Agency's monitoring of supplier markets with a focus on local roading contexts and through additional guidance to RCAs to systematise this in procurement planning and tendering processes.
- 7 Develop focus on roading procurement outcomes measurement, evaluation and reporting for learning and improvement, including systematic and formal national monitoring and benchmarking of roading procurement processes and results.
- 8 Undertake further research to inform policy development (eg review of sector use of the Transport Agency's performance assessment, network and supplier market analysis, good practice and VFM results) and make this information available to RCAs.

## Abstract

This report presents the results of an independent evaluation undertaken by Allen and Clarke between January and July 2015 on the effectiveness of the NZ Transport Agency (the Transport Agency) procurement policy framework and its implementation by four road controlling authorities (RCAs) in physical works and professional services procurement. A review of international and national literature identified key success factors for good practice in outsourced procurement and informed the development of an evaluation framework. The Transport Agency's policy governance and implementation by RCAs in Auckland, Ruapehu, Dunedin and Central Otago were assessed against the framework using stakeholder interviews and site document data. Key evaluation recommendations were to: strengthen policy alignment with Ministry of Business Innovation and Employment regulations; revise and reformat the NZ Transport Agency's *Procurement manual* to enhance usability and impact; increase support for RCA strategy development; drive system innovation and VFM; enhance monitoring of national supplier markets in local roading and measurement and reporting processes; and further research to profile RCA procurement nationally. The report will inform ongoing review by the Transport Agency of its policy framework and will support future improvement of the policy procedures and guidelines for the sector.

# 1 Introduction

## 1.1 Evaluation purpose and objectives

The purpose of this formative<sup>1</sup> evaluation was to assess how effectively the Transport Agency's roading procurement policy framework<sup>2</sup>, and its implementation by road controlling authorities (RCAs), is working in terms of delivering best value for money (VFM) procurement outcomes for 'physical works'<sup>3</sup> and 'professional services'<sup>4</sup> in roading procurement. In addressing this purpose, the evaluation was intended to:

- provide evidence to inform the decisions on the future design and delivery of the Transport Agency's strategy-led procurement policy for best VFM procurement outcomes through approved purchaser organisations
- identify any learnings for continuous improvement of Transport Agency procurement policy and delivery
- provide evidence that accounts to Transport Agency and wider roading stakeholders for the effectiveness of the current policy and practice.

The primary project outputs included a:

- review of New Zealand and overseas literature on good practice transport procurement
- comprehensive peer reviewed evaluation report to be published on the Transport Agency website that answers the key evaluation questions
- top-line findings presentation to the project Steering Group.

In framing this project as an evaluation, it is important to consider the conceptual meaning of the words 'research', 'evaluation' and 'review', each of which have different functions. Appendix A provides a terminology brief that explains the different meanings.

## 1.2 Evaluation scope

This evaluation focused on areas of Transport Agency policy reach and implementation, and excluded others, as outlined in table 1.1.

---

<sup>1</sup> The main purpose of a formative evaluation is to inform decision-making aimed at continuous improvement, in this case of the Transport Agency's policy framework.

<sup>2</sup> For the purposes of this evaluation, the Transport Agency's roading procurement policy framework includes regulatory aspects under the Land Transport Management Act (LTMA) 2003, the *Procurement manual* and all associated procurement governance structures and processes.

<sup>3</sup> For example, capital works and new builds by contractors.

<sup>4</sup> For example, professional engineering design and consultancy services.

**Table 1.1 Policy aspects in and out of scope**

Policy aspects	In scope	Out of scope
Procurement of transport services	Physical works and professional services procurement	Public transport services procurement
<i>Procurement manual</i> (PM) coverage of procurement phases	Roading activity procurement planning, tendering and implementation	Roading activity selection and funding approval processes
Focus on policy implementation by RCAs	Four selected RCAs, namely Auckland Transport, Ruapehu District Council, Dunedin City Council and Central Otago District Council	All RCAs nationally (ie nationally representative sample), regional councils, the Highways Network and Operations Group (HNO) and state highways (SH) roading procurement
Delivery of VFM outcomes	Assessments of the Transport Agency's policy governance and RCA implementation including likelihood for VFM results	VFM analysis

## 1.3 Evaluation methodology

This section briefly summarises the approach to the evaluation, including the key questions the project sought to answer, the evaluation framework developed, summary data collection and analysis methods and limitations. A comprehensive methodology is provided in appendix B.

### 1.3.1 Key research and evaluation questions

In order to make a formative assessment of the effectiveness of the Transport Agency's procurement policy framework, and to provide useful findings for policy development, the following key research question (1) and evaluation questions (2 and 3) were developed:

- 1 What key success factors enable best VFM results in transport procurement policy and implementation, both internationally and in the New Zealand context?
- 2 How effectively is the Transport Agency's procurement framework supporting national delivery of strategy-led, long-term and VFM roading procurement outcomes?
- 3 How effectively are RCAs implementing the policy to deliver strategy-led, long-term and VFM procurement outcomes?

The project explored detailed sub-questions for each of the three questions, as outlined in table B.1 in Appendix B.

### 1.3.2 Evaluation framework

In order to make a transparent assessment of the Transport Agency policy framework and its implementation, an evaluation framework was developed iteratively throughout the project. The evaluation framework adapted the New Zealand Business Excellence Foundation (NZBEF 2014) 'Criteria for Performance Excellence' (CPE) model. The seven CPE criteria were considered a good fit for this project because they aligned well with the Transport Agency's procurement policy goals (ie strategy-led, long-term, for best VFM outcomes), key success factors identified through a literature review of national and international good practice procurement and team subject matter expertise.

The seven criteria are effectively the dimensions considered important for the Transport Agency's procurement policy to effectively deliver its intended procurement outcomes. They are:

- 1 Leadership – clear values, organisational governance, legal and ethical behaviour and societal responsibilities.
- 2 Strategic planning – strategy development processes, strategic objectives, action plan development and performance projections.
- 3 Workforce focus – workforce capability and capacity, workforce climate, workforce performance and workforce development.
- 4 Customer and market focus – end-user satisfaction and engagement and building relationships.
- 5 Process management – process design and management, cost control, supply-chain management and innovation management.
- 6 Measurement, analysis and knowledge management – performance measurement, analysis and review, and performance improvement for organisational learning.
- 7 VFM results focus – organisational efficiency, policy and societal results.

The evaluation framework also includes:

- indicators for each of the seven criteria (ie evidence we expect to see that would demonstrate organisations are meeting the criteria) – with separate indicators relating to the Transport Agency (as policy owner) and RCAs (policy implementers) respectively
- a rating scale (for different levels of performance from 'Highly effective' to 'Not effective') with descriptors for assessing the presence or absence of indicators for each criterion. These are expressed using the rating scale shown in table 1.2.

**Table 1.2 Evaluative rating scale**

Highly effective	Mostly effective	Somewhat effective	Minimally effective	Not effective
All indicators present. Minimal improvements needed.	The majority of indicators present. Some improvements may be needed.	Some indicators present. Many improvements needed.	May be a few indicators present. Significant improvements needed.	All indicators are missing.

The full evaluation framework is provided in section 3.1 of this report.

### 1.3.3 Data collection

Multiple methods of data collection were undertaken for this project including:

- review of selected literature (see appendix B for the review methodology)
- document review
- semi-structured (face-to-face and telephone) key informant interviews
- site visits to four RCAs (three territorial local authorities (TLAs) and one council controlled organisation).<sup>5</sup>

---

<sup>5</sup> Auckland Transport is a council controlled organisation of Auckland Council.

A sample of four RCAs was selected in consultation with the Transport Agency. Sites visited were Auckland Transport (AT), Ruapehu District Council (RDC), Dunedin City Council (DCC) and Central Otago District Council (CODC). See appendix B, table B.4 for site visit selection matrix.

A total of 42 interviews were undertaken with 54 people in Wellington, Auckland, Dunedin, Central Otago, Ruapehu District and other locations (telephone interviews) between May and June 2015. Each site was visited for a minimum of one full business day to undertake interviews and review documentation. Further detail is provided in table 1.3.

**Table 1.3 Number of interview participants by stakeholder group and interview code**

Stakeholder group	Interview code	Number
NZ Transport Agency <sup>(a)</sup>	NZTA	10
RCAs <sup>(b)</sup>	AO	19
Physical works contractors	PWC	10
Professional services consultants	PSC	10
Industry association representatives <sup>(c)</sup>	IAR	5
<b>Total</b>		<b>54</b>

<sup>(a)</sup> Includes the Transport Agency Head Office Wellington (P&I/HNO Group, Corporate) and Regional Office staff

<sup>(b)</sup> Staff at the four RCA sites – AT, DCC, CODC and RDC.

<sup>(c)</sup> Includes one procurement training professional, grouped here to ensure anonymity

#### 1.3.4 Limitations

This evaluation had some limitations, which are outlined below:

- The development of the evaluative framework might have involved more extensive stakeholder (eg Steering Group and industry) input. Broader stakeholder input might have strengthened the evaluation framework by allowing more time to rank criteria (eg leadership) by order of stakeholder importance. This was not possible given project time constraints. Having said this, the framework content was signed off by the Transport Agency, validated during stakeholder interviews and approved through two external report peer reviews.
- The team experienced difficulty accessing some of the requested documentation from sites in order to compare the documentation meaningfully across the four sites. Procurement strategies and approximate percentages of projects delivered by supplier selection and delivery model were provided. Much of the remaining documentation (that the Transport Agency expected to be available), however, was not supplied. Moreover, two sites were unable to provide: document samples relating to rationalising the selection of delivery model for specific procurement activity; sample supplier selection analyses for price quality method (PQM)<sup>6</sup> (or similar alternative methodology); or post-implementation review documentation. With the exception of AT, none of the sites provided market review analysis informed delivery model selection. As a result, the findings on RCA process management draw heavily on participants' perspectives gathered during fieldwork rather than RCA tender document analysis.

<sup>6</sup> The supplier quality premium is used in price quality supplier selection approaches that use a price weight. It balances (or trades off) price and quality by use of a formula. It enables the purchaser to pay more for a high-quality supplier, and clearly shows the process the purchaser goes through to decide how much more to pay (NZ Transport Agency 2009).

- Findings relating to RCA policy implementation are focused on four selected RCA sites only, and it is possible that a focus on different sites would have produced different findings. Having said this, national stakeholder perspectives were included in the report and corroborated the location specific findings overall.

## 1.4 Report structure

This report contains four sections.

Chapter 1 describes the evaluation purpose and scope and summarises the methodology used.

Chapter 2 provides background on the Transport Agency; its procurement policy, and the Transport Agency's strategic roading procurement objectives.

Chapter 3 presents the evaluation findings and conclusions, aligned to the three key research and evaluation questions as follows:

- 1 Findings on good procurement practice in comparable international jurisdictions and in the New Zealand roading procurement context
- 2 Findings on the evaluative assessment of the effectiveness of the Transport Agency procurement framework in supporting the delivery of VFM policy outcomes
- 3 Findings on the evaluative assessment of the effectiveness of RCAs in implementing procurement policy to deliver VFM policy outcomes.

Chapter 4 provides recommendations for the Transport Agency and the transport sector.

Appendices A and B provide additional technical information on the project methodology.

The diagram in appendix C overviews the full Transport Agency procurement process from activity selection to output review, as shown in the *Procurement manual* (PM).

## 2 Background

### 2.1 The Transport Agency roading procurement policy context

#### 2.1.1 About the Transport Agency

Established in 2008, the Transport Agency is the Crown entity responsible for planning and investing in New Zealand's land transport networks, managing the state highway (SH) network, and providing access to the land transport system. The Transport Agency is guided by the Government Policy Statement (GPS) on Land Transport Funding (MoT 2014) which sets out the government's high-level land transport objectives and priorities. The Transport Agency gives expression to this land transport policy through its National Land Transport Programme (NLTP), through the approval of activities included in the NLTP and through approval of procurement procedures.

The Transport Agency works in partnership with approved organisations (AOs)<sup>7</sup> to develop investment opportunities in order to achieve the GPS outcomes. This approach means most investments are funded from a variety of sources, including the NLTP, local government funding, and alternative or supplementary government funding sources, such as Crown funding, and public private partnerships (PPPs)<sup>8</sup>.

The Transport Agency comprises six business groups, including the Planning and Investment Group (P&I) and the HNO Group, each of which serve different functions. P&I funds and oversees the Transport Agency's roading procurement policy, owns the PM and works alongside regional office staff to advise and assist RCAs. HNO is the RCA or operator for SH maintenance, operations and renewals. The HNO oversight of SHs includes management of the network outcomes contracts (NOCs) introduced in 2012, which led to aggregation and bundling in SH work.

#### 2.1.2 Transition from competitive pricing to the *Procurement manual* environment

The *Competitive pricing procedures manual* was replaced by the Transport Agency's PM in July 2009 as a result of a series of policy reviews and changing procurement and economic contexts. An overview of the transition from competitive pricing procedures (CPP) to the PM is outlined in figure 2.1.

Under the current investment and procurement procedures policy framework (Transport Agency 2015), the Transport Agency seeks to create transport solutions that:

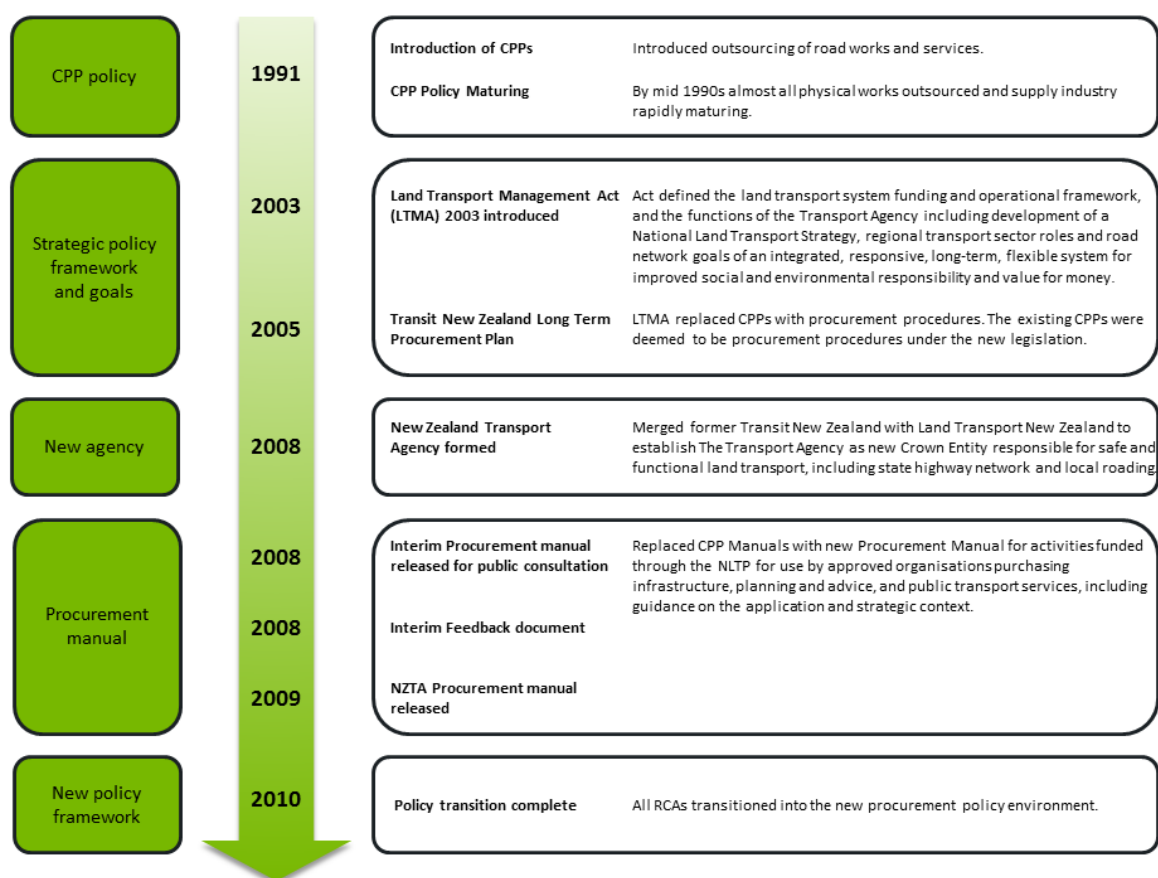
- integrate one effective and resilient network for customers
- shape smart, efficient, safe and responsible transport choices
- deliver efficient, safe and responsible, and resilient highway solutions for customers
- maximise effective, efficient and strategic returns for New Zealand.

---

<sup>7</sup> AOs include regional councils, TLAs, Auckland Transport and other approved public organisations such as the Department of Conservation and the Waitangi National Trust Board. This report refers collectively to the four organisations that participated in the evaluation, as well as the HNO Group, as RCAs.

<sup>8</sup> Many governments are using PPPs, namely long-term contracts between private parties and government agencies to provide public assets or services, (in which the private party bears risk and management responsibility) to deliver infrastructure.



**Figure 2.1 Policy milestones in New Zealand roading procurement 1991–2010**

To achieve these objectives, the PM provides guidance on strategy-led, integrated, and long-term procurement by RCAs to obtain best VFM (Transport Agency 2009).

The Transport Agency devolves authority to RCAs to use and follow the PM specifications for roading procurement within their jurisdiction. To do so, RCAs must submit a procurement strategy to the Transport Agency for formal endorsement. Within their procurement strategies, RCAs may request to operate procurement approaches and practices that are ‘advanced’ (ibid), such as alliance delivery models or quality-based supplier selection, ‘customised’ approaches, or other approaches that deviate from the ‘rules’ of the PM. These requests are approved on a case-by-case basis.

## 3 Findings

### 3.1 Success factors enabling value for money procurement outcomes in roading

This section presents a summary of key findings from the literature review undertaken to answer the key research question: What key success factors enable best VFM results in transport procurement policy and implementation, both internationally and in the New Zealand context?

The section summarises key drivers, techniques and enablers identified from a review of the international and national VFM procurement literature, including key national roading procurement reports. The section ends with conclusions about success factors and demonstrates the factors identified by presenting the evaluation framework developed for this project.

It is important to iterate that in addressing VFM, this evaluation makes no attempt to calculate the VFM of the Transport Agency policy in terms of resource use, economic efficiency or outcomes delivered. Instead, the focus here is the Transport Agency governance and RCA implementation of the procurement policy, because the presence or absence of particular features of either are likely to influence VFM outcomes in RCA roading procurement.

#### 3.1.1 International value for money drivers, procurement governance trends and principles

A scan of the international literature highlighted that VFM drivers should be conceived of holistically and take a whole-of-life (of a roading asset) approach. The literature identified key principles underpinning VFM procurement, emphasising the central role of procurement governance and processes in enabling VFM outcomes.

#### 3.1.2 Value for money drivers are holistic and encompass whole-of-life outlook

All investments in public infrastructure are based upon the expenditure securing value for taxpayer's money. There is, however, little consensus about how to define and measure this VFM. This is evident in the diversity of international approaches to measuring VFM of roading PPPs. For example, in relation to PPPs, some jurisdictions (OECD 2011) assess the VFM in investment terms only (ie when the investment in the project is first appraised), while others assess VFM in project management terms (ie the value actually realised after the project has proceeded to construction).

Some of the literature (International Federation of Accountants and the Chartered Institute of Procurement and Supply 2015; King 2015), however, does provide some scope for defining the concept. For example, it highlights that VFM:

- does not necessarily mean 'lowest price'
- requires more than just determination of efficiency (eg through cost-benefit analysis (CBA) or similar tools)
- can be created or destroyed at various stages of the project from planning, sourcing, building and maintaining
- is situational and dependent on contextual factors

- should be conceived holistically and with reference to the outcomes that were being sought (from the perspective of citizens and/or society) such as fitness for purpose, quality, risk, environmental, sustainability and other organisational or project objectives
- should be assessed over the whole of life of an asset or investment, not just at a single point
- is a composite or reconciliation of the costs incurred and the benefits realised.

### 3.1.3 International value for money procurement principles

VFM good practice principles (Pacific Economic Development Agency 2010) that underpin numerous international jurisdictions state that public procurement should be:

- Economic: the procurement agency seeks to procure a good price, but also benefits economically from lower procurement costs and enhanced procurement performance.
- Efficient: the procurement system operates in a timely manner and has a high degree of responsiveness to suppliers and contractors.
- Transparent: the procurement agency exhibits clear legislation and guidelines, has the ability to verify its actions, is willing to be audited, and has provisions allowing ways for unsuccessful bidders to seek feedback.
- Accountable: procurement agencies and suppliers alike must adhere to procurement standards and rules, and accept consequences if obligations are not met.
- Non-discriminatory: the procurement system should not restrict participation from any bidders.
- Able to promote equity in domestic or regional industry, development, society and employment: procurement is planned to ensure local or regional participation, and considers market areas where development should be enhanced or sustained.

### 3.1.4 Procurement governance and processes as central enablers of value for money

Literature suggests that achieving VFM from procurement requires a combination of people, processes and governance, and there is increasing emphasis on supporting techniques that enable VFM throughout projects, as well as measuring actual VFM realised. Governance is not just policy, procedures and processes, but rather a broader holistic framework.

General trends in international procurement governance<sup>9</sup> are as follows:

- Complexity-based governance is replacing threshold-based procurement governance, and emphasises that the rigour of the procurement process should be proportional to the value of the project.
- Where thresholds are applied to projects, the threshold values are being raised to reflect the fact that scarce procurement resources need to be focused upon the highest-value projects, and to ensure that the primary driver of the chosen procurement methodology is the selection of the most appropriate process, rather than compliance with governance rules.

---

<sup>9</sup> Personal communication with Paul Rogers, June 2015.

- Principle-based procurement governance that emphasises the underpinning goals (but which leaves the selection of market engagement to the discretion of the project team within broad boundaries) is replacing prescriptive procurement governance regimes that emphasise the process (ie '...at least three bids shall be invited...').
- To support the selection of appropriate strategies, the higher-level procurement principles (typically focusing upon VFM, transparency of decision making, the harnessing of competition, the contribution to broader policy goals, or priorities of the public authority) are supported by tools, techniques, guidelines, procedures and methodologies to enhance decision making.
- Procurement 'policy' is being conceived of as part of a system including governance, leadership, processes and knowledge, not just in terms of a policy document.

One technique being employed internationally is systematic process review. The United Kingdom Office of Government Commerce (OGC 2007) has pioneered a 'gateway process' that conceives the life of any project as a series of milestones. At each milestone, a gateway review is carried out by a team of experienced people who are independent of the project team, on behalf of the project sponsor. Each review ensures that the project is justified and the proposed approach is likely to achieve VFM, with approval allowing the project to proceed to the next milestone. The significance of this approach is that it suggests VFM is assessed both in principle and in practice, and both in financial terms and in terms of procurement and project management outputs and outcomes. The success factors combine both the quality of the original investment appraisal decision making, and the client's subsequent executional capability. In other words, VFM outcomes rest in part upon the client's capacity and capability to execute the project in a way that realises the anticipated costs and benefits. This technique focuses attention on the attributes of the client organisation as an intelligent customer to plan, procure and contract manage significant projects to drive value.

High performance or excellence models are used as a means of assessing the extent to which an organisation's approach to key business processes (including procurement) and business results are sound, likely to promote continuous improvement, and deliver VFM. Models like the Baldrige Award (or the Baldrige Business Model)<sup>10</sup> and the European Foundation for Quality Management<sup>11</sup> focus upon VFM, not so much in terms of whether a specific project did or did not realise VFM, but rather whether the client's overall organisational capability is likely to deliver VFM results on a sustainable basis. These models are based on evidence demonstrating that the key dimensions of organisational capability include excellence across areas such as leadership, policy, strategy, partnerships and resources, processes, and information and knowledge.

Organisational excellence is suggested to enable the sustainable delivery of project outputs and outcomes, including VFM. The implications are that VFM is not only assessed at project level, but at system level, with the 'system' being the client's leadership, strategies, people, policy and processes. In summary, an organisation with adequate resourcing, strong policy and robust processes is more likely to deliver VFM outputs and outcomes.

### 3.1.5 New Zealand policy drivers, roading procurement themes and principles

The review of New Zealand procurement and roading literature identified the scope of policy drivers for good practice roading procurement, as well as key challenges in the national context. Similar to the international literature, it highlighted that governance features strongly in key principles underpinning VFM procurement.

---

<sup>10</sup> Baldrige Business Model. Accessed June 2015. [www.nist.gov/baldrige/publications/business\\_nonprofit\\_criteria.cfm](http://www.nist.gov/baldrige/publications/business_nonprofit_criteria.cfm)

<sup>11</sup> EFQM Model. Accessed June 2015. [www.efqm.org/sites/default/files/overview\\_efqm\\_2013\\_v1.1.pdf](http://www.efqm.org/sites/default/files/overview_efqm_2013_v1.1.pdf)

### 3.1.6 The Transport Agency procurement policy drivers suggest a range of good practice enablers

A number of policy drivers embedded in the GPS, the LTMA (2003) and the PM reflect the importance of taking a strategic approach to procurement, and of adhering to industry good practices (NZ Transport Agency 2009; NZ Transport Agency 2014; NZ Transport Agency 2015), including:

- proactive risk management and clear communication of risks to responsible parties
- a good balance of supplier selection methods to ensure quality and to remove undue process costs
- continued development of contract agreement incentives to enhance or reduce supplier's profits based on performance against prescribed standards
- initiation and development of relationships with local authorities, particularly when areas of outcome improvement have been identified
- assessment of traditional economic sustainability as well as the intangible benefits of roading projects, such as environmental and social sustainability
- the establishment of a sustainable market equilibrium where the client delivers a high-quality service to the public using a range of suppliers, and where the suppliers enjoy sustainable profit levels to develop and grow their businesses.

National reports (Controller and Auditor-General 2011; Opus 2012) have highlighted elements of good policy practice in national roading procurement, including risk profiling and management, supplier market capacity and capability, sustainable competition, innovation, sustainability, embedding social and environmental responsibility into all procurement processes and contracts, the role of people in optimising outcomes and responsiveness. In particular, the importance of the leadership role of the Transport Agency has been acknowledged (Controller and Auditor-General 2011) in terms of:

- appreciation of the consequences that procurement activities have on the health and sustainability of the transport sector as a 'leader and shaper' of the supply industry
- use of the Transport Agency's internal value added teams to promote best practice approaches through performance reviews by HNO (Controller and Auditor-General 2011).

Indeed, the HNO procurement strategy (2014, p55) promotes good practice by identifying 'best practice documentation and procedures to support the development and delivery of both asset improvement projects and asset management activities [to ensure] project managers will be well briefed and trained in the subtleties of project and asset management'. The document suggests that staff, consultants, project and contract managers should:

- ensure requirements are well defined to minimise risks of scope change during contract terms
- manage contracts to minimise surprises, with forecasting time and costs a high priority
- establish a cooperative environment, where completing the project is seen as a team result
- ensure clear understanding of respective roles, responsibilities and accountabilities
- seek help from those involved in similar activities so previous experience is put to best effect
- use project plans with systematic investigation and planning for subsequent project phases.

The policy drivers above suggest an overall focus on roading procurement that spans tendering, project and contract management, construction, the ongoing life of roads and VFM outcomes. They also reflect

the international literature trends described above that highlight the role of organisational capacity and capability as a key enabler of success in procurement.

### 3.1.7 National sector challenges underscore the need for procurement capability and capacity

New Zealand's context is unique with its small population base, geographic isolation and limited natural resources and this serves to heighten the importance of innovative and efficient good practice procurement approaches in order to be able to withstand market fluctuations, maximise the sustainability of resource consumption, and encourage VFM outcomes (NZ Transport Agency 2014).

The approach to roading procurement in New Zealand differs from other international jurisdictions in several important ways. Practically all asset maintenance, improvement and management projects are outsourced by RCAs. The efficiency of this approach is therefore highly dependent on the procurement practices of RCAs. Another more detailed point of difference relates to management of inflation risk through indexation. For example, in Australia, Canada, the United Kingdom and the United States inflation risks are shared, whereas New Zealand's indexation approach commonly places inflation risks solely with central or local government rather than suppliers (PricewaterhouseCoopers 2013). One argument against this approach to indexation (NZIER 2013) is that it does not incentivise suppliers to enhance performance by, for example, reducing reliance on inputs subject to large price fluctuations or developing new ways of sharing risk along supply chains, with implications for cost escalation.

Other research reports (Controller and Auditor-General 2011; NZ Transport Agency 2012; NZIER 2013; PricewaterhouseCoopers 2013; Small and Irvine 2014) have highlighted national context challenges such as the impact of standards and guidelines on productivity, performance and cost escalation, long-term market and VFM impacts of contract bundling and aggregation, market concentration, and the sustainability of supplier markets. One report noted the importance of defining and measuring VFM outcomes using both economic and non-economic criteria (Controller and Auditor-General 2011). These reports proposed a series of recommendations including that the Transport Agency should:

- improve risk management and optimisation of risk allocation to suppliers where they are best placed to manage these risks
- better capture and promote innovation
- better promote and share effective measures that lead to positive project outcomes across projects of all scales and models ('cross-pollination')
- establish more formalised working relationships with transportation partners to increase goal alignment and generate more effective VFM outcomes
- encourage more suppliers to enter the maintenance and renewal market and avoid reductions in competition, the creation of monopolies, duopolies and price increases.

These challenges highlight the complexity in delivering VFM roading outcomes in New Zealand. The finding from the international literature that organisational capability and capacity are key enablers of VFM results implies that both the Transport Agency and RCAs have important roles in delivering good governance and implementation, and need to manage these risks well, drawing upon their leadership, strategies, people, policies and processes.

### 3.1.8 National frameworks highlight the role of good governance in procurement

The New Zealand *Government rules of sourcing* (MBIE 2014) state that the following five principles form the foundation of good procurement practice:

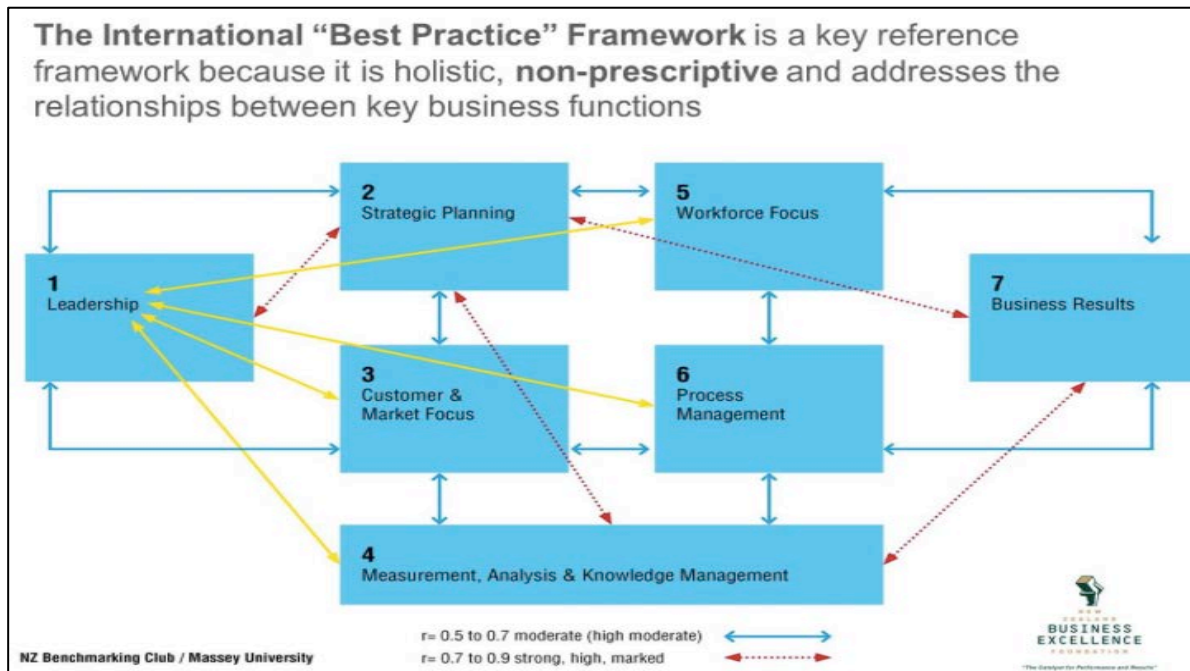
- Plan and manage for great results: Actively plan for success and ensure processes are reasonable and have realistic timeframes.
- Be fair to all suppliers: Give all suppliers an opportunity to respond with adequate time to prepare and submit proposals.
- Get the right supplier: Choose the right supplier and be confident that they will successfully deliver.
- Get the best deal for everyone: Achieve best VFM, including making price and quality decisions that remain intact across the life of the contract.
- Play by the rules: Build trust with suppliers and keep a reputation as a fair buyer.

Implicit in and underlying these principles is the notion of good public sector governance, with one of the key functions of the Ministry of Business, Innovation and Employment (MBIE) indicated as 'building procurement capability across government'. The idea that governance is a key success factor for VFM procurement is further evidenced by broader supporting initiatives including the good practice collateral developed by MBIE (including training and MBIE's training academy), embedding responsibility for agency procurement capability in Chief Executive performance agreements, development of a commercial pool to support strategic procurement initiatives within agencies, and work underway to develop procurement communities of practice.

The Transport Agency P&I Group has a governance role in managing the procurement of roading by RCAs, as devolved through the endorsement of their procurement strategies. A governance framework therefore needs to work across this devolved structure. The centre led action network (CLAN) is one model that translates well to the demarcation between Transport Agency and RCAs. The concept of a CLAN was first proposed by Russill (1991), and is premised upon a central team that sets standards and policy, with local implementation. The CLAN model is the dominant paradigm in procurement organisation, creating a hybrid of centralised and decentralised procurement management. To work effectively, a CLAN requires clear demarcation of roles and responsibilities, as exists between the Transport Agency and RCAs.

A relevant and useful good practice governance model for the New Zealand context is the New Zealand Business Excellence Framework (2014). The framework, which is shown below, assumes that outcomes (or 'business results' in the model in figure 3.1) are the product of a series of enablers.

Figure 3.1 The New Zealand Business Excellence Framework



In developing a draft model of ‘best practice procurement governance’, this evaluation adopts the elements from the Business Excellence Framework, and demarcates ‘who does what’ between the Transport Agency and an RCA. Using this model, governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. Consequently, the governance arrangements extend beyond the policy framework (in this case the LTMA and the PM), and include all enablers that contribute to realising the desired outcomes.

### 3.1.9 Conclusions

The international and national literature highlight a number of key success factors important for good practice in a devolved procurement context. Factors that support delivery of VFM outcomes include governance and leadership, strategic planning, capability and capacity or workforce, systematic and collaborative processes, gateways review, analysis and measurement, and the considerations of competition, sustainable markets and shared risk. The review also highlighted that VFM in roading procurement is measured in different ways. Yet some literature suggests it should be understood as more than efficiency estimates at the procurement acquisition or investment stage. Rather, VFM is more successfully understood and likely to be achieved when it is defined and measured holistically over the whole life of the output or asset, in a way that reflects a composite of contextual costs and benefits, including utility benefits and benefits to end users (such as the tax payer, local citizens and road users). These success factors, specifically the NZBEF model, informed the evaluation framework in table 3.1. This framework guides the assessment of the effectiveness of the Transport Agency procurement policy and its implementation in four RCA local roading sites. The findings of that assessment are outlined in the next two sections respectively.



Table 3.1 Evaluation framework

Evaluative ratings				
Highly effective	Mostly effective	Somewhat effective	Minimally effective	Not effective
All indicators present. Minimal improvements needed.	The majority of indicators present. Some improvements may be needed.	Some indicators present. Many improvements needed.	May be a few indicators present. Significant improvements needed.	All indicators are missing.
Evaluation criteria	Indicators: The Transport Agency		Indicators: RCAs	
<b>Leadership</b> Involves clear values, organisational governance, legal and ethical behaviour, and societal responsibilities.	The Transport Agency PM and associated governance structures and processes: <ul style="list-style-type: none"> <li>• provide user friendly guidance on procurement theory and tools</li> <li>• clearly define procurement outcomes (eg VFM, end-user benefits and environmental sustainability)</li> <li>• enable innovation, flexibility and tailoring to local contexts</li> <li>• drive alignment between the Transport Agency organisational strategies, the procurement policy, and roading procurement plans and priorities</li> <li>• model good procurement practice and provide guidance to RCAs on good practice</li> <li>• include review and reporting for accountability.</li> </ul>		RCA governance, policies and documentation: <ul style="list-style-type: none"> <li>• highlight RCA Executive and senior leadership support for procurement processes as a means to realise business priorities</li> <li>• drive adherence to national procurement policy</li> <li>• align their corporate organisational strategies and procurement strategies, and roading procurement plans and priorities (eg contribution of procurement approach to strategy goals)</li> <li>• define and consider how VFM outcomes can be obtained in a way that is relevant to their context</li> <li>• include review and reporting for accountability.</li> </ul>	
Strategic planning	Indicators: The Transport Agency		Indicators: RCAs	
Involves strategy development processes, strategic objectives, action plan development and performance projections.	The Transport Agency's procurement policy (including the PM): <ul style="list-style-type: none"> <li>• links to corporate policy outcomes for roading, and what is needed from procurement processes</li> <li>• provides national guidance and supporting information that RCAs can use to ensure their strategic procurement planning is informed by the 'big picture'</li> <li>• identifies key supplier/buyer relationships</li> <li>• defines desired national roading outcomes in relation to VFM and whole-of-life costs</li> <li>• includes regular analyses of the spend portfolio and reviews of national market</li> <li>• includes demand versus market capacity (for accountability and transparency)</li> <li>• assesses national capacity and capability for delivery of transport procurement outcomes</li> </ul>		RCAs' procurement strategies and structure: <ul style="list-style-type: none"> <li>• align well-defined regional/local roading needs with Transport Agency policy outcomes</li> <li>• link to corporate policy outcomes for procurement</li> <li>• define desired roading outcomes in terms of VFM and whole of life costs</li> <li>• identify and review key supplier/buyer relationships</li> <li>• assess in-house capacity and link in-sourcing/outsourcing decisions with delivery of outcomes</li> <li>• are accessible to suppliers and potential suppliers</li> <li>• include regular analysis of the spend portfolio and information on national market capacity versus regional market demand and capacity</li> <li>• define standards for accountability and transparency of procurement</li> </ul>	

	<ul style="list-style-type: none"> <li>• defines standards for national capacity and capability required for accountability, transparency and for procurement outcomes to be delivered effectively</li> <li>• identifies organisational/regional risks (short- and long-term) through situational analyses and mitigation.</li> </ul>	<p>outcomes</p> <ul style="list-style-type: none"> <li>• identify organisational/regional risks (short- and long-term) through situational analyses and mitigation.</li> </ul>
<b>Workforce focus</b>	<b>Indicators: The Transport Agency</b>	<b>Indicators: RCAs</b>
Involves workforce capability and capacity, workforce climate, workforce performance, workforce development.	<p>The Transport Agency's procurement policy (including the PM):</p> <ul style="list-style-type: none"> <li>• defines and sets clear standards on what capability and capacity is required from its own workforce to manage the national road spend portfolio</li> <li>• identifies roles and responsibilities of staff involved in roading procurement processes</li> <li>• includes a development framework for procurement guidance, training and support</li> <li>• considers and facilitates adequate procurement support and resources to maintain effective procurement capability by RCAs.</li> </ul>	<p>RCAs' procurement policy and implementation:</p> <ul style="list-style-type: none"> <li>• define standards on what capability and capacity is required from their own workforces to manage regional road spend portfolios</li> <li>• include a development framework for procurement guidance, training and support</li> <li>• ensure capability/capacity standards are reflected in their organisational structure and in their recruitment decisions (ie in-sourcing versus outsourcing) to extract the best value from each selection/delivery model and to mitigate any risks</li> <li>• consider that Transport Agency provides adequate procurement training support and resources to maintain effective procurement capability.</li> </ul>
<b>Customer and market focus</b>	<b>Indicators: The Transport Agency</b>	<b>Indicators: RCAs</b>
Involves end-user satisfaction and engagement, and building relationships.	<p>The Transport Agency's procurement policy (including the PM):</p> <ul style="list-style-type: none"> <li>• systematically considers national, regional and local markets (including risk profiles and opportunities, and reviews of national roading supply markets and profiling of market segments, with development of procedural framework for different situations)</li> <li>• supports and manages collaborative and innovate supplier relationships</li> <li>• encourages an end-user focus (eg how projects impact regions, communities and taxpayers)</li> <li>• identifies and profiles different market opportunities by scale and/or complexity</li> <li>• balances market demand/capacity issues in a non-discriminatory, fair, and encourages national market competition and sustainability.</li> </ul>	<p>RCAs' procurement policy and implementation:</p> <ul style="list-style-type: none"> <li>• consider national, regional, and local markets (including risk profiles, supplier characteristics and opportunities) to balance demand and supply issues</li> <li>• identify and review foreseeable future projects, segmented by scale and/or complexity</li> <li>• encourage an end-user focus (eg how projects impact local communities and ratepayers)</li> <li>• support and manage collaborative and innovate supplier relationships</li> <li>• balance market demand/capacity issues in a manner that is non-discriminatory, fair, and encourages local market competition and sustainability.</li> </ul>

Process management	Indicators: The Transport Agency	Indicators: RCAs
Involves process design and management, cost control, supply-chain management and innovation management.	<p>The Transport Agency's procurement policy (including the PM):</p> <ul style="list-style-type: none"> <li>• supports RCAs in developing their own procurement management processes (aligned to best practice guidance, exemplars and models developed by the Transport Agency)</li> <li>• has developed procurement principles that promote procurement management as an end-to-end cycle of scoping, planning, tendering, management and review that is supported by procedures and processes</li> <li>• outlines and drives procurement reporting and review processes for RCAs, and RCAs are using these processes</li> <li>• models systematic and effective procurement processes as an organisation (eg operational tendering and contract management systems to record processes, decisions and relationship management).</li> </ul>	<p>RCAs' procurement policy and implementation:</p> <ul style="list-style-type: none"> <li>• consider procurement as an end-to-end cycle of scoping/planning – tendering – management – review supported by procedures and processes</li> <li>• include systematic approaches to procurement, (eg operational tendering and contract management systems to record processes/ decisions and relationship management)</li> <li>• specify process risk management (eg managing supplier relationships, transparency, fairness to suppliers, clear rules and process parameters)</li> <li>• include procurement monitoring, reporting and review (including review processes to ensure staff are appropriately capable) and provide these reports and review to the Transport Agency on a regular basis.</li> </ul>
Measurement, analysis and knowledge management	Indicators: The Transport Agency	Indicators: RCAs
Involves performance measurement, analysis and review, and performance improvement for organisational learning.	<p>The Transport Agency's procurement policy (including the PM) includes:</p> <ul style="list-style-type: none"> <li>• periodic reviews of national/regional roading procurement capacity and capability (ie inputs) for procurement process compliance</li> <li>• regular assessments of national procurement costs</li> <li>• regular assessments of national policy compliance</li> <li>• clearly defined targets and metrics for measuring outcomes, and regular monitoring/reporting of these against strategic goals (eg VFM)</li> <li>• regular reviews of the impact of its procurement policy and governance framework on market development and amends as appropriate</li> <li>• periodic review and benchmarking of policy, processes and VFM outcomes against other comparable jurisdictions.</li> </ul>	<p>RCAs' procurement policy and implementation include:</p> <ul style="list-style-type: none"> <li>• regular reviews of regional/local roading procurement capacity and capability (ie inputs)</li> <li>• control systems that are 'fit for purpose' to the RCA level of risk and used to monitor compliance and procurement costs</li> <li>• clearly defined targets and metrics for measuring outcomes, and regular monitoring/reporting of these against strategic goals (eg VFM)</li> <li>• regular reviews of the impact of their procurement strategies on market development and amend as appropriate (ie act on lessons learned and revise their plans and processes and feed innovation).</li> </ul>
Value for money results focus	Indicators: Both Transport Agency and RCAs:	
Involves organisational efficiency, and a focus on policy and societal results.	<p>The Transport Agency's procurement policy (including the PM), and RCAs' procurement policy and implementation include:</p> <ul style="list-style-type: none"> <li>• procurement approaches and resource use are designed in the most efficient way for</li> </ul>	

	<p>the organisational context and scope and target the long-term, whole-of-life value of the national and local road network</p> <ul style="list-style-type: none"> <li>• a focus on and ownership for the results achieved for end users and in terms of economic, social and environmental dimensions</li> <li>• systematic use of targets and metrics to monitor and report the impact of procurement against VFM outcomes and act on any lessons learned</li> <li>• revision of plans and processes to encourage innovation and improved outcomes</li> <li>• disseminate stories of innovation and good procurement outcomes.</li> </ul>
--	--

## 3.2 Effectiveness of the Transport Agency's policy framework to deliver policy outcomes

This section presents key findings on the effectiveness of the Transport Agency's governance of the procurement policy to support the delivery of policy outcomes, namely strategy-led, long-term and best VFM roading procurement. It addresses the key evaluation question: *How effectively is the Transport Agency's procurement framework supporting national delivery of strategy-led, long-term and VFM roading procurement outcomes?*

It discusses findings from stakeholder interviews, national reports and to a lesser extent, national data. It also includes analysis by the evaluation team procurement expert. The discussion addresses, and is loosely framed by, the effectiveness criteria outlined in the evaluation framework (see previous section).

The section ends with evaluation conclusions of effectiveness against the seven criteria of the framework.

Please refer to chapter 1, table 1.3 for a list of interview participants and their interview codes, as used in the following sections.

### 3.2.1 Policy framework is robust and generally aligned with MBIE regulations

The Transport Agency PM is the key policy mechanism representing the shift from the former CPP procurement policy environment. Compared with the CPP manual, which focused more on 'selection and procurement regulations', the PM was viewed as less prescriptive and regulatory and a 'stronger framework for RCAs' (IAR1). However it does stipulate 'rules' (chapter 10 of the PM) which are 'mandatory requirements' that RCAs must follow. One participant considered the PM too prescriptive (PSC7). Policy levers are available to the Transport Agency through the LTMA that can be engaged where RCAs do not operate within these mandatory boundaries.

The PM was described as 'the gold standard' of transport procurement guidance by several participants (IAR5, IAR1, NZTA6). It was assessed and affirmed by MBIE, and seen as comparing well with other international models (eg World Bank). Robustness on delivery models, supplier selection processes and risk management were seen as reflecting historical expertise built up through heritage organisations (Transit New Zealand and Transfund). Overall the PM was particularly valued for its specificity to the transport sector.

The Transport Agency's independent legislation for procurement means the policy operates independently from MBIE regulations, but must be consistent with these, although maintaining consistency is seen as a 'balancing act' (NZTA3). In 2015, the two agencies signed a Deed Poll that formally acknowledged the alignment of the Transport Agency policy framework to New Zealand's obligations under free trade agreements. Some RCAs, notably HNO, are working more closely with MBIE. For guidance on what

sustainability means in relation to procurement, AT for example looked to MBIE's resources to determine what they should consider to optimise natural resource use (AO1).

Nevertheless some participants thought the PM could be better aligned with MBIE material to ensure practices are more consistent nationally (IAR5, AO10). This was seen as important because MBIE principles and rules are influencing RCAs and as this happens small inconsistencies are becoming apparent, eg the way that the lowest price conforming (LPC)<sup>12</sup> method is taught. One participant suggested that the Transport Agency:

*Could use MBIE more as a resource and better align procurement policy and processes [...] there should be more hand holding between the two agencies (PSC7).*

### 3.2.2 Policy framework allows flexibility and fit-for-purpose procurement approaches

The PM offers an enabling environment with scope for flexibility, innovation and negotiation. The Transport Agency's longer funding cycle allows RCAs more forward planning and resource planning ability. In particular, the PM includes provisions for RCAs to deviate from its 'Rules' (chapter 10) if they are able to make a convincing case to the Transport Agency that there are good reasons why standard procedures (eg the standard five-year contract period) will not deliver the best VFM outcomes. The PM allows RCAs to seek approval to use 'advanced components' (ie shared risk delivery models, supplier panels, and quality-based supplier selection approaches in physical works projects). The flexible nature of the framework allows fit-for-purpose procurement strategies and approaches and the activities of RDC, CODC and AT offered good examples of this.

HNO as the state highway operator and RCA have demonstrated the flexibility of the PM potential for innovation and advanced methods of procurement through the policy, with the roll-out in 2012 of the NOCs in the SH roading procurement area, and also PPPs in roading. Having said this, some participants were cautious about what the NOCs approach might mean for future local roading procurement, both in terms of policy and market impacts. Some participants thought there might be a reluctance on the part of local authorities to raise this explicitly with the Transport Agency as the funder; yet these concerns would need to be addressed by the Transport Agency.

The key point of difference of the current framework compared with the previous policy environment is that the current policy framework requires RCAs to develop and have endorsed (by the Transport Agency) a procurement strategy to apply the PM and to 'enable an approved organisation to better increase its chances of obtaining value for money' (Transport Agency 2009). Chapter 4 of the PM sets out clear guidance on the rationale, content and process for developing strategies, a process supported both through the Transport Agency Regional and National Office P&I staff. Taking a strategic approach to roading procurement activities is expected to span 'identifying and understanding the objectives of the activity, the relevant supplier market, the associated risks and the nature and quality of the goods and services to be purchased'. The manual guides strategies to:

- present a long-term view on, for example, maintaining 'a long-term competitive and efficient market'
- describe 'how procurement procedures can provide incentives' [for the RCA and suppliers] to 'continually innovate and work to improve people, practices, goods and services'

---

<sup>12</sup> LPC refers to when a preferred supplier meets all the requirements set out in the RFP and offers the lowest-priced proposal after deducting any added value premium (NZTA 2009).

- 'provide a channel for clear communication with potential suppliers [and] other purchasers in the market [...]'
- describe 'the particular risks an approved organisation faces with regard to procurement'
- be aligned with an approved organisations business-wide procurement strategy.

### 3.2.3 *Procurement manual* guidance for strategy development could be strengthened

Overall the PM guidance and checklist format is comprehensive and helpful. From a procurement strategy perspective, there are, however, some additional areas of guidance that might be added:

- an organisational capacity development plan – to raise the procurement capability of the organisation over the strategy term
- governance and control environment – to identify a dedicated procurement team and/or governance panel and processes, and specify the key measures and outcomes from procurement process
- information, systems and knowledge environment – to demonstrate the level of understanding of the spend portfolio; contract management systems, or any use of e-commerce
- supply market profile – for example, to analyse the top five suppliers by annual spend, and who manages them; the total number of suppliers; the total number of suppliers with which the RCA spent less than \$100,000 in the last one to three years, geographic footprint, level of competition within supplier base, supply market constraints.

In addition, evaluation participants noted the strategy development guidance could be strengthened on:

- long-term asset management (IAR1, IAR3, PSC6) to align overall planning work, and investment outcomes sought with procurement planning
- broader scenario-based planning to reflect dynamic strategic contexts, eg shifts in market 'pull' factors (IAR3).

The Transport Agency's 'Advise and assist' role under the LTMA, however, supports RCAs in their strategic aspirations to take innovative approaches. Several local authority representatives among sites visited appreciated this form of the Transport Agency leadership support, and another reported positively: 'We cannot fault the support we have had and they have embraced our collaboration aims' (IAR2).

### 3.2.4 Format of the *Procurement manual* has poor usability for many stakeholders

While the content of the PM was generally considered highly, the format of the manual was viewed in a less positive light by many participants. Its length and density were seen as a barrier for some audiences to engage with the content.

Very few contractors consulted had read or were familiar with details of the document. For one local authority representative, the PM was described as 'too wordy', and 'a challenge for councillors and local body politicians' (AO14). The PM was seen as more of a high-level 'reference manual' (IAR5, AO2), light on operational methodology and tools, and in need of more simple supporting tools and materials. While

many participants said they used the price quality method<sup>13</sup> (PQM) and the related tools provided, overall supporting documentation around the manual was seen as ‘vague’ compared with the detail available for industry in the SH area (AO2).

One participant noted:

*It's difficult to get your head around; rules are quite detailed, such as thresholds around budget and supplier selection approaches, and you need to have decent knowledge of other manuals if you are not using it all of the time; this puts pressure on contractors given the timeframes.* (PSC4)

Another suggested that the policy transition away from CPP was not necessarily embraced by all of the seasoned industry practitioners, and there was a need for more focused training to support the uptake of the flexibility of procurement practice inherent in the manual (IAR5). Specifically, there are challenges for practitioners (especially those newer to the sector) in linking the Transport Agency manual to the advantages and disadvantages of using a particular delivery model or supplier selection approach for different projects (AO1). Another participant suggested:

*The manual needs to be stronger in the strategic space in trying to help people understand the options they should consider [and] could provide examples of best practice.* (PSC7)

Many participants thought the Transport Agency's delivery of advice on procurement to RCAs fell short of the practical support needed and saw opportunity for the Transport Agency to do more, although this was seen as having likely resource implications for the Transport Agency. There were numerous suggestions for how the PM might be better supported including:

- availability of the Transport Agency senior procurement staff to answer specific questions relating to the application of the PM (PSC1)
- improved navigation through the PM with a clear indexing system (AO2)
- specific guidance on how procurement processes and practice work (AO1)
- better recognition of training needs and requirements in the PM for skilled operators (PSC2)
- establishment of a Transport Agency 0800 number with trained procurement experts (AO2).

### 3.2.5 The Transport Agency takes a hands-off approach to procurement leadership for road controlling authorities

The Transport Agency has clear responsibilities and accountabilities for long-term procurement activities and planning for RCAs. The PM states that:

*An approved organisation must develop, maintain and use and regularly review its procurement strategy – at a minimum once every three years* (Rule 3, chapter 10).

Participants (AO17, IAR1, IAR3), including the Transport Agency representatives (NZTA1, NZTA6), highlighted that the Transport Agency has not encouraged RCAs to keep their procurement documents ‘live’ to ensure relevancy and currency, or checked in on the extent to which RCAs are using them, updating them, and monitoring the VFM story being delivered. It is unclear whether this reflects resource

---

<sup>13</sup> The PQM supplier selection method uses a price weight formula to trade off price and quality. It enables the purchaser to pay more for a high-quality supplier, and clearly shows the process the purchaser goes through to decide how much more to pay (NZTA 2009).

constraints within the P&I Group; however, it indicates that the Transport Agency has not operated its strategy guidance and endorsement role to the fullest extent possible.

HNO produces analysis on national sector asset management and market analysis relating to SH work to inform the HNO procurement strategy; however, RCAs do not appear to have access to similar analysis to draw on relating specifically to local roading. Nor is it clear whether RCAs draw on broader MBIE strategic planning development material available in developing and reviewing their strategies<sup>14</sup>, or whether this is a factor contributing to the outsourcing of procurement strategy development work. Participants raised questions about RCA buy-in for the strategy development process, where this work was being outsourced to professional consultants (NZTA6). If RCAs are buying in strategy development from industry consultants, then it is important that they are at least doing the thinking. The extent to which RCA management is involved in the development of strategic processes is really important, as it greatly impacts on RCA ownership and whether their practice is led by these documents. Participant feedback suggested there may be an overdependence nationally by RCAs on the capability of professional services to supply procurement, management and contract management services overall, although this would require further data to assess conclusively.

Two participants thought the Transport Agency needs to take a more hands-on role in roading procurement governance overall and to implement the cultural 'step-change' sought in the sector, from passive funder to actively influencing direction (IAR2, PSC5). One participant thought it was important for Transport Agency consultation with the sector to be single-channel, to ensure all stakeholder groups were getting the same messages (IAR2).

Participants suggested the Transport Agency may have a challenge understanding the role of local authorities at a regional level – beyond roading procurement and the political drivers of their key stakeholders namely ratepayers, councillors and constituents that impact on their roading procurement approaches and outcomes (PWC1) – although 'not through lack of trying' (IAR1). One suggestion was that the Transport Agency could attend council meetings to better understand RCAs' issues around road maintenance 'at the coalface' (PWC2). The influence of local political drivers was an issue raised across stakeholder groups and site visits, which highlighted that roading procurement is heavily influenced by local factors of organisational management and culture, local body politics, as well as the professional consultant engineers working closely with RCAs.

### 3.2.6 National roading procurement workforce development needs not being fully met

The LTMA restricts the Transport Agency from directly addressing the capability and capacity of the RCA workforce although training has been made available through Infratrains and other 'smart buyer' courses. Numerous participants at the RCAs visited had attended courses and found procurement courses useful. The RCA procurement workforce appears to rely on assumed skills or the optional uptake of, for example, Plan A's 'Clever Buying' training course focused on request for tenders (RFT) preparation and tender evaluation course which is marketed to the sector, or an NZ Qualifications Authority (NZQA) registered qualification administered by the industry training organisation Connexis, 'The National Certificate in Transport Agency Procurement Procedures'. It is a Transport Agency requirement for at least one tender evaluation team (TET) member to hold this qualification, or to meet a minimum competency level by some other means, whenever a contract has a value greater than \$200,000.

---

<sup>14</sup> New Zealand government strategic planning development guides and tools. Accessed July 2015.  
[www.business.govt.nz/procurement/for-agencies/guides-and-tools/A-to-Z-guides-tools-templates#st](http://www.business.govt.nz/procurement/for-agencies/guides-and-tools/A-to-Z-guides-tools-templates#st)



There appears to be a gap regarding where accountability lies for workforce development of those implementing the PM in RCAs. The PM assumes that procurement practitioners have ‘tacit’ knowledge of how and when to use the various procurement methods and processes (AO2). One example of this is the non-price grading scale (chapter 10–14) in the PM which suggests generic descriptors for attribute evaluation at different levels such as ‘Requirements are adequately covered’. As a subjective descriptor, this would be hard to operationalise without requisite expertise. Arguably, the procedural ‘Decision trees’ in the PM’s appendix D would also require a basis of experiential knowledge to be correctly applied.

Yet, as one participant highlighted:

*The skilled application of the tool is as important as having a good tool. (PSC1)*

Several earlier reports (NZ Transport Agency 2012; Horn and Gidley 2013) identified room for improvement in the preparation by RCAs of RFTs, as well as tender evaluation practices. Four participants (IAR5, PWC1, PSC4, PSC7) suggested there were still inconsistent practices and diverse standards operating in the sector. Others (NZTA1, IAR5, PSC7) suggested the Transport Agency could better drive RCAs’ capability-building and leadership development in roading procurement and there is a need for consistent training nationally. The common issue noted was that the PM focuses on ‘the what’ rather than the ‘how to’ and therefore training for roading procurement should be mandatory for anyone with this role. One stakeholder (PWC1) concluded that while workforce development is an industry-wide issue, it also presents an opportunity for the Transport Agency to facilitate increased support or resources to RCAs to ensure quality procurement outcomes.

One stakeholder (IAR5) suggested recent MBIE developments in procurement practice had made the need for upskilling and national consistency more pertinent. Others (IAR2, NZTA6) agreed it is not enough for the industry to rely on mentoring by experienced RCA engineers, especially given staff levels in RCAs and the continuous updates in procurement regulations and staff movement between local authorities, the Transport Agency and the private sector (NZIER 2013). This idea was echoed by newer RCA staff who, in addition to supporting the training they had received, mooted the idea of a national peer support network (AO2). This issue seems pertinent given some stakeholders (IAR3, AO16) indicated a current upward trend and desire among RCAs nationally to develop in-house capacity.

### 3.2.7 *Procurement manual* is insufficient to ensure quality road controlling authority process management

Section 10.6 of the PM requires all RCAs to have their own operational procurement policies and procedures in place to support quality procurement processes. Useful checklists such as the questions for RCAs in chapter 7.3 are provided. Where the PM provides weaker guidance is expectations on local authority RCAs around procurement scoping, asset management, documentation of decisions, contracts and project management.

Two industry participants thought that local authority RCAs do not necessarily have the capacity required for good process management (IAR1, IAR5). One had observed a lack of robust process management generally, reflecting diverse capability of roading procurement staff in RCAs, and the tendency of RCAs to rely on generic ‘templates’ and portfolios of evidence rather than engage in project-based scoping and planning work. For example, many RCAs look to HNO processes for guidance, particularly at the contractual and commercial specifications levels (NZTA7). Despite the PM providing a ‘toolbox’ to support procurement practice, overall industry participants noted a range of poor RCA practice nationally and even cases of non-conformance, such as:

- lack of continuity between procurement strategies and procurement tools and processes used (IAR5)

- poor scoping and a 'lack of thinking' reflected in low-quality RFT questions (IAR4, IAR5)
- use of the LPC method<sup>15</sup> (where all quality envelopes would be opened) incorrectly (IAR5)
- use of PQM where insufficient tool testing was carried out prior to scoring, and where weightings were being adjusted after bids were received (IAR5)
- using PQM with too high a percentage on price so as to defeat the purpose of non-price attributes (IAR4)
- inadequate timeframes for responses that do not reflect government rules of sourcing (IAR5, PSC1)
- inconsistent pricing structures and contract processes (IAR2).

Other participants (AO16, IAR4) thought some RCAs were not using supplier panels or pre-qualification approaches well, and noted the costs for suppliers where this was the case. These issues have previously been highlighted (Horn and Gidley 2013; PricewaterhouseCoopers 2013).

### 3.2.8 Tensions in the Transport Agency's role in maintaining sustainable markets nationally

The Transport Agency gives a clear directive to RCAs in the PM to strategically consider local market fairness, competition and sustainability, to contribute to the maintenance of efficient and effective supplier markets for local roading. The importance of market sustainability and supporting growth of small and medium-sized enterprises (SMEs) for good policy outcomes has been emphasised (Controller and Auditor-General 2011; NZIER 2013; Horn and Gidley 2013). Another important reason relates to local authorities' need for machinery to be maintained locally, so that it is able to be mobilised quickly in order to respond to civil emergencies (IAR4).

Long-term market sustainability is complicated by the dynamic and cyclic nature of the roading supplier market in New Zealand. In this market, competitiveness and price tension fluctuates (PSC5) and this reflects wider push and pull factors such as national land development needs (IAR3). This appears to present a 'balancing act' (IAR5). On the one hand New Zealand is a small market requiring some intervention to ensure SMEs have opportunities to develop capacity for competition and to ensure sustainable markets in the long term. On the other hand, it is unclear whether RCAs should be expected to artificially 'prop up' suppliers that are not self-sustaining within the market (NZTA7). Participants noted that an ongoing barrier to sustainable markets was persistent adversarial and anti-competitive supplier behaviours, which some thought were alive and well in some local markets (AO14, PSC6, IAR1). While the Transport Agency had developed tools to measure and monitor market competition (eg the competition monitoring template in Transport Investment Online (TIO)) none of the four RCAs visited were actively using these tools at the time of the evaluation, nor was the Transport Agency analysing the information that had been collected and reported by RCAs.

Participants noted that the Transport Agency's NOCs were impacting on RCA supplier markets locally and some (IAR1, PSC5) thought RCAs had underlying concerns about whether they would be also required to cluster and aggregate contracts in future. One stakeholder noted, however, that it would be several years before the impacts of longer-term NOCs are known (PSC3). Two other related issues raised for SMEs were bigger contracts requiring bigger on-demand bank bonds and contract retentions, both of which can constrain the work and financial viability of smaller market players (IAR4, PSC6).

---

<sup>15</sup> Using the LPC method, price envelopes are meant to be opened first, from lowest to highest, until there is a specifications conforming bid.

One participant noted that the transport industry is seeking consistency nationally (NZTA6) which presents a challenge for the policy focus on local markets. A range of suggestions for how the Transport Agency might support markets nationally included:

- extending and promoting the HNO pre-qualification system so that it is useful for and available to RCAs (PSC6, AO16, IAR3)
- capturing trends in local roading market procurement compared with the national picture by extending the HNO annual 'healthy markets' analysis and review (while nationally industry shares of work may not have changed markedly since 2009, it was possible the trend looks different with a lens on local markets)
- setting standards for bitumen and chip-seal that drive more cost-effective market supply for RCAs (PSC6)
- systemising the drivers for sustainability more transparently through the PM directives for planning and tendering (IAR5, PSC6).

#### **HNO modelling good procurement planning and process management**

HNO is modelling good practice planning and process management that can inform good practice by other RCAs in local roading contexts.

The robustness of HNO processes reflects the fact that the Transport Agency has been outsourcing procurement and developing its processes and practices since the 1990s through heritage organisations – Transfund and Transit New Zealand (IAR1).

It also reflects the HNO transition to NOCs and a business case approach that clearly identifies problems, and the benefits of the outcomes sought and outcomes measurement as well as 'thinking outside of the box' (NZTA2, PSC1, PSC5). As an RCA, HNO has modelled the capacity to pay more for outcomes when long-term quality roading outcomes are key and one HNO participant emphasised that when using price-based supplier selection approaches, there needs to be a corresponding rationale for why this approach was chosen (NZTA6).

The HNO procurement strategy (2014) provides an exemplar for procurement planning, good practice, meeting both the PM requirements, and pitches at high-level strategic thinking and business planning, rather than at operational level. Notable features of the strategy include: acknowledgment of the changeability of supplier markets and the subsequent need for monitoring and responsiveness (sections 1.2 and 6.2); identification of opportunities for HNO business process improvement or development (section 2.8); a clear approach to address market sustainability (section 1.2.3), asset management objectives as part of the group's directional plan (2.4); discussion of shared-risk models (section 3.5), commitment to best practice processes (section 5.5); and addressing internal capability and capacity requirements (section 6.2).

To meet its strategic objectives, HNO has established strong processes covering supplier engagement, contract pro-formas, tender evaluation and TET moderation, and reporting (NZTA6). The group also uses a variety of process tools such as the PACE and the Road Assessment and Maintenance Management (RAMM) systems and gateway reviews to support and inform its procurement and contracting processes. Many local authorities already take the lead from HNO in terms of their approaches to procurement and their documentation and standards. They are using for example the HNO pre-qualifications register for physical works contactors (AO14, AO15), as well as contractual and commercial specifications such as contract pro-formas SMO30 and SMO31 (NZTA7).

HNO highlighted an example where good practice supported the policy goal of sustainable supplier markets. Several years ago, HNO provided detailed debrief feedback to a small supplier that had been unsuccessful, at around \$3 million behind the other leading bids. The supplier later reported that they had acted on the HNO feedback about why they were unsuccessful, and as a result of insights gained were later successful in another bid (NZTA6).

**Figure 3.2 Good practice case example 1**

### 3.2.9 Unmet potential for innovation in roading procurement among road controlling authorities

Overall, stakeholders consulted were clear that innovation in roading procurement requires a step-change through a cultural shift in the sector, and that this shift was underway, but had not yet reached its full potential. To do so would require thinking and practice beyond more traditional delivery approaches that have a tendency to be aggressive and adversarial to a more collaborative style of working based on trust, and strong relationships between RCAs and the industry. This starts with planning and procurement and continues through contract and project management phases.

One participant suggested the Transport Agency policy framework provided insufficient operational guidance to drive more innovative practice (PSC5) to detach industry stakeholders across the board from entrenched industry behaviours. There was a sense that the current transition towards the latter happening in the SH area, and led by HNO, was not paralleled by change in local roading procurement (PWC1). A participant (PSC5) thought there was limited innovation happening in roading procurement among RCAs (aside from HNO and CODC) and that the Transport Agency needs a strategy for driving this. The Callaghan Institute Improve 3 model of leadership was suggested as an example structure for the Transport Agency to follow to set groundwork and environment for innovation for RCAs.

### 3.2.10 The Transport Agency value for money outcomes articulation for road controlling authorities is broad and emergent

The Transport Agency is strengthening its corporate outcomes focus to influence the transport network to deliver the government's desired GPS outcomes through its approach to transport planning and investment, in which VFM is defined as 'Selecting the right things to do, implementing them in the right way, at the right time and for the right price'.<sup>16</sup> At a corporate level, the Transport Agency seeks outcomes that are 'efficient, effective, safe' with benefits to end users and sustainability of roading supplier markets to deliver value. It appears that the Transport Agency corporate definitions of VFM and its measurement are emergent (NZTA2) rather than established.

The LTMA 2003 gave rise to the concept of 'best value for money benefits' in New Zealand roading procurement. Chapter 3.2 of the PM provides guidance for RCAs on interpreting VFM in relation to roading procurement. The manual defines it fairly narrowly as follows:

*In the context of land transport procurement in New Zealand, obtaining best value for money spent means purchasing a good or service that delivers the output approved for funding under s20 in an efficient and economic manner. Efficiency and economy have both financial and non-financial attributes. (PM, p3-2)*

Chapter 3.4 offers a broad VFM *outcomes* definition; however, it sets out a number of processes that, if followed, will ensure that the VFM of any procurement output is 'maintained or enhanced', namely:

- taking a strategic approach to procurement
- optimising whole-of-life VFM
- using an approved procurement procedure
- allocating and managing risk appropriately
- proactively managing contract delivery

---

<sup>16</sup> Accessed July 2015: [www.pikb.co.nz/home/the-way-we-work/nzta-planning-and-investment-principles/outcomes-focused-and-strategy-led/](http://www.pikb.co.nz/home/the-way-we-work/nzta-planning-and-investment-principles/outcomes-focused-and-strategy-led/)

- monitoring performance.

In terms of the first point above, the PM (chapter 4) requires a strategic approach by RCAs that 'will significantly influence the approved organisation's ability to obtain better value for money'. The PM highlights the importance of the front end phases of actively including scoping, budgeting and supplier selection models with 'the options to improve value becoming increasingly limited as time passes'. It also requires RCAs to communicate in their strategies on:

- how VFM will be determined in respect of the procurement activities
- how procurement outcomes are aligned with an RCA's overarching vision and goals
- the proposed approach to procurement design including delivery models and supplier selection
- a framework for performance measurement and monitoring of procurement outcomes.

The Transport Agency's 'assist and advise' function is available to support RCA investment decisions and procurement approaches reflecting this philosophy of investing for VFM outcomes (NZTA3). The implication of a broad and emergent articulation of VFM, however, is that there is a lot of room for both the Transport Agency and RCA interpretation.

### 3.2.11 Value for money guidance for road controlling authorities needs clarification and strengthening

Participants offered diverse interpretations of what VFM roading procurement means in practice for RCAs, and how it should be measured, even among the Transport Agency staff. Views included:

- VFM is about 'transparency' and 'competition' (NZTA1)
- we tend to use 'strategic fit' (ie do we care about this journey?), effectiveness (ie will it do something?) and CBA (ie the value of travel time and journey surety) equally (NZTA2)
- the bit that drives value is the choice of delivery model as this is about innovation (NZTA3)
- VFM is different for capital works and maintenance and requires different metrics (NZTA7).

Many participants agreed there was scope for conflation between cost and value. Indeed, among the RCA sites visited, participant interpretations ranged from 'value for the money' (with a short-term cost focus) to 'value for money' (with a long-term cost plus quality focus):

*What is not clear is, what does value for money actually mean? We see it referred to sometimes as concepts like 'whole of life costs'. It needs to be defined. (PSC1)*

It is not surprising that a values-based concept should carry different assumptions and meanings for different stakeholders. This, however, implies there is scope for the Transport Agency to provide clearer guidance to RCAs and the industry on its expectations on what VFM means, to guide stakeholders to operationalise VFM in local roading procurement.

It is particularly important for RCAs to have a clear definition of VFM given that the PM, through the rule in section 10.11 'Direct appointment where competition will not help to obtain value for money' gives RCAs an 'out' of the rules provided they can make a case for 'good VFM'. The competing and complex demands on RCAs from ratepayers, councillors and constituents on spend issues were an added challenge for RCAs (NZTA6) making strategic support for VFM decisions even more important.

### 3.2.12 Tendering costs are a challenge to the sector in delivering value for money

An associated theme arising in discussions of VFM was the efficiency costs of tendering processes for both RCAs and their suppliers. It was noted that tender costs can be very high for RCAs (AO16). At two sites, it was suggested that thresholds for going to market were too low and were a contributing factor to the tendering cost burden (AO8, AO15).

Industry stakeholders thought it important for the PM to have better guidance on choosing delivery models and supplier selection processes to ensure procurement is efficient for industry and to reduce unnecessary costs of procurement for the industry (eg not having to submit non-price information more than once if not necessary (PSC1)). Another industry participant noted that more standardisation of both procurement and contract documentation as well as use of supplier panels by RCAs nationally would reduce costs of procurement for the industry (PSC4).

### 3.2.13 Stakeholder perspectives on enablers and barriers to value for money

Notwithstanding the diverse interpretations of VFM outcomes, participants agreed that realising VFM is strongly influenced by up-front prerequisites of good planning (timing), scoping (clarity of roading needs and design) and (appropriate) choice of supplier selection and delivery models to meet those ends.

Specific VFM enablers were expressed as follows:

- consultation, strategic focus, breathing space, robust decision-making (AO14)
- use of economic analysis at scoping stages to realise value, including non-price elements (NZTA3)
- RCAs clarifying and defining what they need really well – smart buyer, or asset owner? (PWC1, NZTA7)
- design is as important as delivery (NZTA2)
- using quality-based supplier selection approaches that allow focus on non-price supplier attributes (eg Brookes Law)<sup>17</sup> (NZTA3, PSC5).

VFM was considered slightly differently for the two main types of roading activity procurement.

Specifically, participants highlighted that for:

- physical works activity, VFM requires strong supplier attributes, project scoping, value engineering/design and built-in VFM assessment (NZTA7)
- roading maintenance activity, VFM requires good asset management, looking at life of asset and when best to intervene (PSC5, NZTA7).

Conversely, participants noted a range of system level barriers to realising VFM. One suggested that the timeframes around NLTP decisions and RCAs' long-term plan (LTP) development were misaligned and did not allow RCAs adequate time for scoping (AO14). Time was central to other tensions that participants highlighted: short-term versus long-term goals (PWC1); innovation that requires higher upfront costs and cost risk versus the cheapest capital costs (PSC1); asset management as a long-term game versus an operational delivery focus (IAR1, PSC5); and the difference between 'as tendered' and 'as completed' project costs.

At the level of RCAs, barriers to VFM included:

- the use of LPC or price-focused supplier selection methods without good rationale (NZTA6)

---

<sup>17</sup> A quality-based supplier selection method where the quality attributes of suppliers whose tenders meet the requirements of the RFP/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.

- bureaucracy (ie too many layers of procurement delegations and sign-off) (AO8)
- the competence of RCA staff to actively challenge suppliers on commercial aspects and performance in a partnership or alliance delivery model, as well as judging of performance contracts in maintenance projects, skills that might take some 10 or more years in the industry to master (PWC1, NZTA7).

### 3.2.14 The Transport Agency needs to strengthen its outcomes measurement and review processes

Linked to participants' perspectives of the need for the Transport Agency to drive VFM more was a sense that this needs to be done through strong measurement and review processes. As evidenced by the Road Maintenance Task Force Review, the Transport Agency (2012) reviews the impact of its roading procurement policy and governance framework with a focus on market development, and it has made amendments as appropriate. The Transport Agency also undertakes a 'high-level' audit and assurance assessment of RCA procurement compliance. Overall, however, in addition to lapsed procurement strategy review processes and diffuse outcome definitions for RCAs, the Transport Agency leadership on how to measure and review the VFM roading outcomes sought appears to lack follow-through. This is most evident in terms of measurement, knowledge management and analysis to 'close the loop' on the VFM outcomes model. The Transport Agency is not driving outcomes performance measurement among RCAs and there are critical gaps in this respect, a point Transport Agency staff also acknowledged (NZTA1, NZTA3).

These gaps are despite the Transport Agency having set valuable foundations for this to happen in future. For example, the PM (appendix E) provides a comprehensive checklist for RCA data collection, the intent of which appears to be putting into practice the Transport Agency governance role and to support RCA capacity and capability in measurement. While section 11.3 of the PM gives guidance on reporting VFM, performance measurement processes were not established at the four RCA sites visited. For example, the TIO competition monitoring spreadsheets were tabled at RCA site visits, but the RCAs themselves had no idea whether the data was used, reported, or how. It is possible the data collection list is too much of a long 'wish list' and could be focused more on key aspects (NZTA1). While RCA participants discussed their use of PACE and RAMM and other supplier performance indicator tools (see section 3.3), it is unclear to what extent these tools are being used, and being used consistently among local authorities. The Transport Agency has established internal RCA procurement assurance processes.

Therefore, currently, none of the Transport Agency processes get to the heart of measuring RCA procurement outcomes. Four RCA participants agreed the Transport Agency could progress processes around how they monitor performance and measure VFM outcomes (AO9, AO10, AO14, AO16). In the absence of strong drivers for outcomes measurement and national outcomes data itself, the extent to which VFM is being realised nationally, or by individual RCAs, would be difficult to measure.

### 3.2.15 Conclusions

Drawing on the findings discussed above, and using the evaluation framework indicators, this section presents evaluative conclusions on the extent of the effectiveness of the Transport Agency's procurement policy framework to support the delivery of strategy-led, long-term and best VFM roading procurement outcomes. Each criterion is discussed and rated in turn.

#### 3.2.15.1 Leadership – somewhat effective

The PM content is robust, highly thought of and aligned with MBIE (2014) *Government rules of sourcing*. Unlike its predecessor, the PM clearly enables innovation, flexibility and tailoring to local contexts, as evidenced by the site visits to RCAs and as represented by the HNO NOCs approach. Within the Transport

Agency itself, the HNO is modelling good procurement practice and in this way providing guidance to other RCAs. There are, however, improvements needed to the Transport Agency's governance that would enhance the effectiveness of the policy framework. The format of the PM is not user friendly and needs to provide more practical guidance on applying procurement approaches and tools. Clearer definitions on what VFM outcomes are sought from RCA procurement would also be helpful. The Transport Agency must drive RCA procurement strategy use and review, as a key tenet of policy review and outcomes reporting.

#### **3.2.15.2 Strategic planning – minimally effective**

The PM links to the Transport Agency corporate policy outcomes for roading, and provides basic guidance on what is needed for RCAs to develop procurement processes (eg identification of key supplier-buyer relationships). If RCA planning and development of procurement strategies is as critical for effective procurement as the policy suggests, there are significant improvements required from the Transport Agency to guide quality strategy development (this includes setting standards for national capacity and capability required for accountability, transparency and robust procurement practice). National situational analysis information should be made available to local authority RCAs to enable: scenario-based planning with strategic alignment of national, regional and local procurement strategies and work programmes; clarity on the Transport Agency roading outcomes sought in relation to VFM and whole-of-life costs; regular analysis of the spend portfolio and reviews of national market demand versus market capacity assessment of the national capacity and capability for delivery of transport procurement outcomes; and national/Transport Agency/regional risks (short- and long-term) and their mitigation. To be relevant operationally, procurement strategies need to be informed by all of the above, as well as monitored, reviewed, and current for accountability and transparency.

#### **3.2.15.3 Workforce capability and capacity – minimally effective**

The Transport Agency advises RCAs on the training available to RCA staff for the range of skills required within the roading procurement cycle. The Transport Agency, however, has not set or monitored national standards of capability and capacity from the RCA workforce to manage procurement relating to the national road spend portfolio, despite earlier evidence of gaps. RCAs currently have few benchmarks to identify and assess the roles and responsibilities of staff involved in roading procurement processes, and to plan for procurement guidance, training and support to maintain effective procurement capability. This is important as the efficacy of the PM, not least in relation to procurement efficiency and VFM outcomes, relies heavily on the skills and expertise of those applying it.

#### **3.2.15.4 Customer and market focus – somewhat effective**

The HNO appears to be effectively identifying and profiling different market opportunities by scale complexity, as well as closely monitoring any impacts of their NOCs approach on the national supplier market. While the PM provides expectation to RCAs to systematically consider local markets, RCAs do not appear to have requisite system information on national or regional markets (including risk profiles and opportunities, and reviews of national supply markets and profiling of market segments, with development of procedural framework for different situations) to inform a genuinely strategic approach. The customer and market lenses in the strategies assessed were locally focused and narrow, with little consideration to supplier markets in adjoining regions. Yet, New Zealand is a small market nationally. System level information would help RCAs manage the tensions between market demand and capacity issues, and the need to be non-discriminatory and fair. It would also encourage market competition and sustainability, and balance these with local 'political' drivers. There was high interest in the Transport Agency facilitating more information sharing between RCAs on collaborative and innovate supplier relationships – and the relationship with an end-user focus (eg how projects impact regions, communities and taxpayers).



### 3.2.15.5 Process management – minimally effective

While the Transport Agency itself, and HNO as an RCA specifically, models systematic and effective procurement processes as an organisation (eg operational tendering and contract management systems to record processes/decisions and relationship management), there is significant scope for the Transport Agency (and/or MBIE) to better support local authority RCAs to develop their own procurement management processes, and to promote procurement management as an end-to-end well-documented cycle covering scoping/planning, tendering, management, and review. While the PM provides a basis for comprehensive process reporting and review processes for RCAs, these are not necessarily being driven by the Transport Agency or undertaken by RCAs.

### 3.2.15.6 Measurement and analysis – minimally effective

In terms of regularly measuring and reviewing the operation of local roading procurement, significant improvement is needed. There is currently insufficient regular measurement or periodic assessment by the Transport Agency of:

- national RCA policy compliance
- national/regional roading procurement capacity and capability (ie inputs) for procurement process compliance
- national procurement costs, (clearly defined) outcomes targets and metrics for measuring them
- monitoring/reporting of the costs against strategic goals (eg VFM).

Without such processes in place, it is difficult to support and understand policy effectiveness and to support the Transport Agency leadership for outcomes and accountability.

### 3.2.15.7 Value for money results focus – somewhat effective

Taking into consideration HNO approaches and findings on innovation nationally by industry participants, the procurement policy framework has, since 2009, gone some way to delivering approaches and resource use that are designed in the most efficient way for the RCA context/scope and target the long-term, whole-of-life value of the (national/local) road network. The findings, however, suggest there is unmet potential for further innovation among RCAs, and there are many improvements that the Transport Agency could make to guide RCAs to better focus on and take ownership for the results achieved for end users (economic, social and/or environmental dimensions); systematically use targets/metrics to monitor/report the impact of procurement against VFM outcomes, act on any lessons learned and revise plans/processes to encourage innovation and improved outcomes; and to disseminate stories of innovation and good procurement outcomes.

## 3.3 Effectiveness of road controlling authority implementation to deliver policy outcomes

This section presents key findings on the effectiveness of four RCAs' implementation of the Transport Agency procurement policy to deliver policy outcomes, namely strategy-led, long-term and best VFM roading procurement. It addresses the key evaluation question, namely: *How effectively are RCAs implementing the policy to deliver strategy-led, long-term and VFM procurement outcomes?*

It discusses findings from participant interviews and document reviews for the four RCA site visit areas (Auckland, Dunedin, Central Otago and Ruapehu) undertaken as part of this evaluation. It focuses in particular on the procurement strategies underlying procurement at each site, as well as practices and how these relate to delivering VFM outcomes.

The discussion addresses the effectiveness criteria outlined in the evaluation framework and ends with summary conclusions of effectiveness against the seven criteria of the framework.

### 3.3.1 Road controlling authorities use the flexibility in the *Procurement manual* to lead with new approaches to procurement

Findings suggest that the RCAs visited as part of the evaluation are making headway in exploring new approaches to roading procurement. This demonstrates that the Transport Agency procurement policy and the PM have enabled a lot of flexibility for RCAs to develop specific procurement strategies that best suit their contexts, and to innovate with new collaborative approaches (AO10, AO11, PSC2).

For example, AT<sup>18</sup> is making efforts to work closely with suppliers, using a new 'hybrid' maintenance contract approach which was longer term and supported with built-in performance measures. Routine works at AT's road rehabilitation and reconstruction contracts take a step beyond the performance-based model in that the contractor is responsible both for the treatment and the design of faults, and through the use of the RAMM system can help determine whether or not reported faults fall under routine maintenance work or a specific works programme. This contract management system was seen to be working well, and one participant considered it comparable to work in this area being done in Australia (AO9).

DCC is increasing its collaboration through both a 'design and build' approach and its maintenance 'fusion' delivery model. Specifically, DCC has initiated mechanisms for increased collaboration with suppliers through its design and build approach, in which a contractor can engage the consultant, enabling a better relationship between roading contractors and consultants (AO14). The new delivery model is considered to be halfway between an alliance and traditional or staged approach, with increased fluidity around renewals work, capital projects maintenance and decisions about asset management being maintained in-house, creating a greater focus from contractors to ensure funds are spent wisely (AO14, AO15).

Likewise, the CODC's partnership and cost-plus model for maintenance contracts is driven by Vanguard<sup>19</sup> system thinking in order to increase maintenance contract efficiency, cut waste and take ownership of procurement relationship and asset management in-house. The approach was informed by a council review of the value they were getting from the previous 'traditional' system of having consultants managing different aspects (eg renewals). The review found sub-optimal end-to-end workflow, inefficient drivers in contract payment schedules and 'messy' multi-party processes in which relationship break-downs were common and high external consultant costs that were not considered cost effective. In summary, the former approach was 'causing the wrong choices to be made about what gets done', and expensive tendering processes were not getting services quickly when they needed them (AO16). Sustaining this collaborative culture is not without challenges, however:

*You have people coming in to the council all of the time who are used to a different way of working; also sometimes there are staff changes on either side of the relationship [...also...] funding (split into maintenance, renewals, minor improvements and grading programme work) with the contractor is on an annual basis versus a monthly programme that we*

---

<sup>18</sup> At the time of the site visit, AT's strategy was under development, and unless otherwise indicated the analysis here focuses on the version approved for the period July 2012 – June 2015.

<sup>19</sup> Based on the 'system thinking' of John Seddon (UK), which is a method that applies systems thinking principles to a broad range of organisations, each yielding unimagined benefits to both people (customers and staff) and results, in the form of improved performance. Accessed at: [www.vanguardmethod.co.nz/?page\\_id=2](http://www.vanguardmethod.co.nz/?page_id=2)

*approve in terms of budgets [so] if estimates are not accurate, then this causes us problems too.* (AO16)

The RDC's 'virtual alliance' model has a traditional base, but, as a mix between measure and value, staged and partnering delivery models, it behaves in practice more as an alliance, with incentives built in against performance-based measures (AO10). Unlike the three other RCAs, the RDC chose to unbundle its maintenance contract into several smaller contracts based on the logic that 'bigger isn't necessarily better' (AO12; NZTA9). The previous aggregated model was considered to have decreased competition in the local market, and the contractor responsible for the large bundled contract was under-resourced (AO13) and underperforming in several different areas (ie poor quality of pavement rehabilitation services where roads started to fail after only one to three years, which in turn affected assets (PSC2). Representatives from the RDC reported positive impacts from this new approach. Unbundling appears to have increased risk sharing, created more certainty and ability for smaller contractors to compete and thrive in the local context (AO12), and ensured greater accountability and ownership from these suppliers who work collaboratively together to achieve the same goal (AO10, AO11, AO12, PSC2).

The RCA representatives considered their supplier relationship management processes outlined within the strategy helped to drive and embed resilience in relationships with local suppliers to sustain the local market (AO10). A supplier considered the RDC strategy outlines procurement processes are transparent and fair for suppliers (PSC2).

### 3.3.2 Road controlling authority procurement strategies focused on context of local needs

New procurement approaches were supported through strong linkages between RCAs procurement strategies, procurement planning and projected roading outcomes, with a focus on local needs. Certainly the four RCA strategies reviewed reflected the needs of their local communities, although the extent to which local needs were considered in RCA strategies varied.

At one site, a council representative mentioned extensive consultation with community, ratepayers and suppliers as part of procurement planning and updating its procurement strategy (AO14). Another RCA participant thought their procurement strategy reflects the 'localisation of talent', with council leadership both understanding and valuing local skills to sustain and drive economic activities supported by the council (AO12). A local supplier noted that RDC has been able to consider its own 'horses for courses' approach that was best suited to the local context (PSC2).

With the exception of DCC<sup>20</sup>, RCA procurement strategies directly mention local community-specific objectives. DCC, however, reported undertaking extensive consultation with community/ratepayers and suppliers on specific procurement plans (eg the Portobello project) and indicated interest in eventually incorporating roading procurement into the LTP, which would in turn drive the need for an updated procurement strategy (AO14).

AT's strategic goals span delivering 'effective and innovative transport solutions' (AT 2012, p6) to customers, and CODC's organisational strategic goals (CODC 2009, p4) incorporate community perspectives as developed through the local *Long-term council community plan 2009-19* (Auckland Regional Council 2009). Similarly, the RDC strategy includes sections on community outcomes (section 5.1) and aligning procurement activities to community outcomes (section 5.2) to inform key objectives for

---

<sup>20</sup> DCC's strategy (ie appendix 26, 'Dunedin City Council's general contractual provisions for buying goods/services') does not include specific mention of community, customer or end-user outcomes.

suppliers, supplier relationship managers and tender documentation. The RDC strategy states that, 'given the high-level of outsourcing for core infrastructure and community services there is a very direct link between supplier relationships and RDC's goals for the economic and environmental wellbeing' (p23). These outcomes include:

- environmental waste minimisation
- core infrastructure and roading keeps pace with growth demand
- excellent standards of safety and welfare are promoted and respected
- a prosperous and diverse economy
- that employment opportunities for school leavers are encouraged and supported, and
- that the traditions, values and history of all ethnic groups are understood, embraced, respected and celebrated.

### 3.3.3 Road controlling authority procurement strategies lacked national sector context and scenario-planning

Ultimately, RCAs' strategic understanding of the procurement environment is a pre-condition to using the PM procurement procedures effectively (NZTA3). RCAs appear to understand this and have applied national procurement policy to local-level strategies. Three out of four of the RCA strategies reviewed refer to other national or external requirements<sup>21</sup>, although approval of specific advanced and customised procurement procedures highlighted within the strategy is ongoing for councils. The strategies encompass elements of a long-term focus, although this is another weak aspect across the four strategies, which largely focus on the three-year strategy renewal period.

Having said this, AT's procurement strategy outlines the role of procurement in supporting delivery of strategic goals and objectives through:

- driving value in AT procurement activities by taking a whole-of-life procurement approach
- driving best practice procurement throughout AT
- learning from one another and leveraging cross-functional skills to achieve required outcomes (p5).

AT incorporates its LTP into the strategy as a guiding document. The LTP is 'a 10 year plan to build a better Auckland' that outlines approaches toward achieving this goal through identification of projects and initiatives that will provide the 'catalyst' for Auckland's transformation. Specifically, the LTP identifies the need for a 'world-class transport system that allows Aucklanders to travel around the city' (p7). Whole-of-life costs are also discussed in the LTP as requiring a 'long-term view of the total cost attributable to an activity and not simply the initial purchase cost' (p8).

Furthermore, the RDC strategy (2014) outlines a clearly defined strategic approach to procurement development (p9). RDC'S procurement plan (as a planning document embedded within RDC's procurement strategy) mentions a need to increase 'collaborative working with key suppliers and increasing future focus and transparency around cost and levels of service' in order to create more flexibility around reprioritising activities, revising specifications and adjusting levels of service in current and future term

---

<sup>21</sup> External resources used to develop RCAs' procurement strategies include the Land Transport Management Act (LTMA) 2003; the Public Transport Management Act (PTMA) 2008; the Local Government Act (LGA) 2002; the PM (NZ Transport Agency 2009) and Controller and Auditor General (2008).

maintenance and renewals contracts (p10). In addition, RDC's procurement plan (p59) considers both current and future budgeting and contracting values, expected expenditures, and any relevant strategic links to the *Procurement strategy* as well as category plans (summaries required from capital programme budget holders that outline their intended approach to delivering their programmes; RDC 2014). Future costs and lifecycle costs are also featured as evaluation criteria within the procurement plan.

There was not much evidence, however, to suggest that RCAs consider or articulate the relationship of the local context to the wider national context within their procurement strategies. For example, none of the four RCA strategies reviewed specifically discuss local needs in relation to national and regional trends in areas such as roading networks, supplier markets, and workforce capability and capacity, and how these national trends might impact on their local strategies. One exception was the broad CODC consultation and system thinking processes undertaken in the lead up to their strategy development that did involve consideration of roading procurement 'system' factors, such as transport sector culture and how this impacts on procurement outcomes and costs (AO16).

### 3.3.4 Strategies address sustainability though supplier analyses had narrow outlook

All four RCA documents acknowledge the need for sustainable supplier markets in addressing their roading procurement needs. Yet in terms of supplier markets, the four procurement strategies are very narrowly and locally focused overall. One industry participant thought this reflected the fact that RCAs were in general terms not participating in broad market analysis (IAR4). Three out of four of the strategies do not explicitly consider national supply markets and the impact that regional or national markets play at achieving VFM outcomes at the local level.

One industry association participant suggested RCA procurement strategies need to consider different future market scenarios more widely 'to position the organisation well to take opportunities and realise potential' (IAR3). This scenario-based planning is arguably important because New Zealand is in and of itself a small market. A narrow local lens may not capture important situational factors that need to be addressed in a strategic context. Moreover, where strategies consider the potential supplier market pool, RCAs would need to consider not only local and national players, but also any scope for international suppliers within the potential pool. This seems more pertinent given the recent Deed Poll signed between the Transport Agency and MBIE.

The AT strategy details supplier market analysis under its category management approach; however, the analysis is dated. During the site visit this was acknowledged as a factor to be addressed in the ongoing redevelopment of the strategy. By comparison, the RDC strategy has detailed supplier profiling by both value and impact, although this is limited somewhat by assessment of current contractual commitments and supplier relationship management activities with existing suppliers. The strengths of the RDC strategy is the analysis of future potential for regional cooperation with other RCAs, shared services and syndicated contracts, as well as a commitment to supplier engagement through its user group feedback mechanism (section 6).

Similarly, the CODC strategy considers local and regional markets with a strong preference and rationale suggested for its focus on established suppliers:

*Council's intent is to maintain existing relationships with current suppliers, on the understanding that where required they will undertake a system thinking intervention on work flow [and] CODC does not want to risk long-term relationships by seeking short-term windfalls (pp13–14).*

Although the DCC strategy limits its consideration largely to current supplier base, it also has a regional lens by considering the market in adjoining areas such as Clutha and Waitaki. It also explicitly addresses the usefulness of bundling or unbundling work given the need to respond to market dynamics and to avoid monopoly (p14) and the need to grow local supplier markets:

*DCC takes an active role in encouraging the smaller providers to tender for Professional Services work and, where appropriate, will negotiate directly with a smaller provider to allow them to secure work and establish a track record with the DCC (p5).*

Having said this, Dunedin site participants noted that maintaining competition needs to be carefully balanced through due diligence as the increased project and budget risks of supporting newcomers to the market had been evident (AO14, PWC4, PSC6).

### 3.3.5 Road controlling authority procurement strategies linked their approaches with value for money in diverse ways

The RCAs' procurement strategies assessed generally define procurement values and objectives, articulated links between strategic roading outcomes and local procurement approaches, and encompassed long-term planning. All four strategies state VFM outcomes as a central objective; however, as illustrated below they represent different and broad articulations of VFM.

The AT procurement strategy (p8) defines its VFM aim as:

*Using resources effectively, economically, and without waste, with due regard for the total costs and benefits of a procurement arrangement, including its contribution to the outcomes which are trying to be achieved. The principle of value for money for procuring goods or services does not necessarily mean selecting the lowest price but rather the best possible outcome for the total cost of ownership (or whole-of-life cost).*

This compares with the definition adopted by DCC (p10):

*[O]ptimising the best outcome for money with consideration of the equal social, economic and environmental (quadruple bottom line) factors affecting the region and sector.*

In its strategy, the 'best VFM' definition (p3) CODC has adopted is 'the best available outcome for the money spent in procuring the councils' needs'.

Interestingly, the RDC strategy avoids providing a VFM definition because:

*RDC cannot measure or manage a wider value proposition until it understands total cost in terms of price, usage, transaction costs and cost of levels of service. The reason for this is that non cost value options may require additional funding or may result in cost savings. In either event RDC cannot establish the value for money it is receiving until it has established a robust methodology for measuring the Total Cost of Ownership (TCO) of goods and services (p35).*

Despite directly acknowledging the concept of VFM, there are variable levels of information in the strategies on how this would be achieved, and even less indication on how VFM roading outcomes would be measured. Two of the sample RCA strategies do not outline explicitly how they will achieve VFM through their roading procurement activity. One of the two documents, however, does list key considerations including balancing in-house versus outsourcing, considering quality, not just cost as well as market stability in the market, reducing unnecessary tendering costs and working with other organisations to share resources. Notably, one of these two documents specifies that their 'move to the cost-plus model removes the price risks that results from uncertainty around the scope and schedules of

work'. The AT strategy is clearer on VFM in action, as it employs a procurement category management approach which outlines more directly how VFM will be achieved for each different procurement delivery category, informed by a procurement category positioning matrix (p11) used to assess business impact and risk in delivery against relative costs and market factors. Interestingly, the RDC strategy despite not wanting to define VFM, does provide a comprehensive list (p31) of how it intends to increase VFM.

Finally, the four strategies are also weak overall on details such as the relationship of TLA business processes which if efficient could support achieving VFM, such as procurement scoping, asset management, documentation of decisions, contracts and project management.

### 3.3.6 Road controlling authority strategies are not living documents for 'strategy-led' procurement

There was not strong evidence based on site visits to suggest that practice is 'strategy-led' in the fullest sense, in other words, that the current strategies are informing daily procurement practice in a significant way. One participant felt that ownership of RCA procurement strategies had 'fallen through the cracks', and it was believed the Transport Agency should request and enforce that RCAs update their strategies more frequently (AO17).

To some extent, the AT and RDC procurement strategies were seen to be 'living documents' at the time of this evaluation given that they were undergoing review. Both of the strategies also draw clear distinctions between their procurement strategies (eg the what) and plans (eg the how), and are aligned with the Transport Agency PM but tailored to their own specific contexts (AO6; AO11; AO12).

While DCC does explicitly note the need for flexibility to 'constantly review its strategy to take advantage of new VFM opportunities' (p14) and to seek the Transport Agency's approval to change where necessary, both that document and that of CODC appeared to be 'in the drawer' and were perceived as a bit out-of-date and in some areas inadequate by some participants. For example, DCC staff considered their strategy provides only a 'smorgasbord' of procurement planning options on different procurement models, and felt more information could be added with regards to when and why some models are better to use than others (AO14).

While the connection between the CODC strategy and the cost-plus approach was clear, there was less clarity on the link between the strategy and direct approaches to professional services consultants via their established panel of providers. Moreover, it is unclear in the CODC strategy how the RCA applies checks and balances with its partnership model (in terms of challenging the supplier to ensure efficiencies) as this is not addressed. Ideally the strategy would address this risk and the RCAs' learnings since 2009 might have been used to update the strategy. Finally, CODC suppliers indicated that professional services using the direct approach via panel was somewhat ad hoc, and this is another area of the document where the 'what' needed better linking with 'the how' in outlining the panel 'Direct Approach' for professional services.

### 3.3.7 Inconsistent road controlling authority approaches to workforce capability, capacity and development

As contracting options begin to include new approaches to roading procurement, realising policy objectives increasingly depends upon the capability of the people involved within the roading procurement system and their ability to align decisions consistently with overall policy objectives. More specifically, RCA shifts towards novel supplier relationships (eg alliancing and collaborative arrangements) and higher requirements for in-house asset management and improvement thinking would suggest a focus on developing workforce capability and capacity to manage this. Previous reports (Transport Agency 2012;

Opus 2012; NZIER 2013) highlight the importance of having the 'right people' involved in establishing close working relationships to extract the best out of roading delivery models and suggest increased use of standardised tender documents without stifling innovation and increasing the skills of a 'smart buyer' to enhance efficiencies. As one participant mentioned, the entire procurement process depends on the workforce 'knowing how to drive it', which is important for staff because getting it wrong is embarrassing, and potentially, career threatening (AO11).

Two participants believed that RCAs' reliance on individual capacity and capability can be stymied by experts retiring and taking their knowledge with them. They identified that currently there is a lot of 'churn' and 'variability' among the roading procurement workforce (IAR1, PWC5). Another mentioned that the 'industry is starving at the moment; there are not a lot of young ones coming through' (AO15). One participant even suggested some procurement staff were using smaller RCAs as a 'stepping stone' in their career (eg career development as opposed to career maintenance) and not investing themselves in rural communities (AO10). Increased regional collaboration was one way in which participants believed workforce sustainability could be increased. Specifically, collaboration to capitalise on regional diversity in skill levels and experience (eg individuals familiar with DTIMs<sup>22</sup>, BCRs and RAMM) was seen as a way of providing people with more stable career paths and of enhancing the attractiveness of the work (PSC5).

The four RCA procurement strategies deal with workforce capability, capacity and development in different ways. The RDC document explicitly addresses (p9) the need for staff training and indication on procurement as a key recommendation of the strategy review process and lists this as a strategic objective at the top of its 2014/15 planning requirements. Also, clear decision flowcharts and procurement plan template tools to guide staff are provided as appendices. Not surprisingly given procurement is a core function of AT, the organisation's strategy is similarly strong on identifying procurement workforce needs. It notes the need to develop procurement staff through its CLAN model with the Procurement Support team as a 'centre of excellence', the need for sufficient skills and qualified tender evaluators as well as individual training and development through staff performance development plans (pp9–10). Neither the DCC nor the CODC strategies address the question of staff capability and capacity in achieving the intended VFM goals by outsourcing services.

Evidence from site visits suggests that inconsistency in workforce capability and capacity exists across and within RCAs. While the site visits were unable to be conclusive on some of these issues, the visits did suggest wide variability in capability across the sites. Variability was most evident at AT, although perhaps not surprisingly given the size of the procurement team in the organisation was some 40 staff. The key implication, however, was that there were different workforce needs at different RCAs, not least in order to service the varying scales and approaches of their activity. AT had addressed this through appointing a workforce development staff member responsible for supporting training and development of AT staff. In Dunedin, several suppliers interviewed voiced concerns about poor performance of RCA procurement staff in recent years. The DCC response has been to outsource aspects of their procurement work. Some emphasis on workforce development was seen in RDC's procurement strategy, which suggests placing increased focus on improving workforce development planning (p8).

This diversity of capability and capacity among RCAs visited was also reflected in differences in levels of outsourcing and in-house procurement and asset management activities across the RCAs. For example, some RCA representatives outsourced their TETs to consultants (AO14), whereas other TETs were housed exclusively in-house. Developing in-house capacity was seen by some RCAs as a way to maintain

---

<sup>22</sup> The Deighton Total Infrastructure Management System is a tool for deterioration modelling and life-cycle cost analyses of infrastructure assets.



continuity, lift internal resources, and better manage relationships through more transparent and open communications (AO14). While AT and the RDC had actively invested in workforce capacity around procurement processes; other RCAs had outsourced contractors to manage relationships between suppliers and council staff. Potential RCA overdependence on the capability of professional services to supply procurement and management services was seen as having potential to lead to negative consequences. For example, participants noted the possibility that RCAs could 'lose touch' with the market (PSC6), and asset management tenders being written by consultants that are 'identical' and 'poor', so tender responses may not comprehensively cover the methodology, risks, or special circumstances of the project (AO4).

Some RCA participants had accessed development opportunities but overall there appeared to be scope for more. Some RCA staff specifically mentioned wanting more on-the-ground training and experience regarding what methodologies acted as better drivers of VFM than others (AO12), while others reported 'learning on the job' from their peers or informal knowledge mining through contractors during tender processes rather than attending specific training courses (AO15). One RCA provided access for its staff to a certification course involving procurement theory as well as practical guidance. Representatives of this particular RCA found the course very helpful for knowledge building and for preparing them on the procurement 'frontline' (AO2). They found the course much more specialised and specific to their needs than other procurement procedure courses (ie Chartered Institute of Procurement & Supply). Another participant agreed that increased emphasis on evaluator training was required (PSC2). One RCA had developed a process whereby the Transport Agency evaluators reviewed tender decisions rather than participating on the tender panel; however, this was not considered to be an ideal long-term solution.

### 3.3.8 Road controlling authorities demonstrated inconsistent choice and use of supplier selection processes

Site visits suggested inconsistencies in RCAs' use of supplier selection processes, planning and application of different delivery models. While participants generally indicated a shared understanding of the value and use of LPC as a supplier selection method, participant interviews suggested a lack of scoping and planning upfront to support delivery models and supplier selection approaches, the overuse or misuse of the LPC supplied selection method, and RCA use of supplier panels.

A national perspective (IAR5) was that selection methods are not being well implemented overall. Key issues included LPC being incorrectly used (with all attributes evaluated before price is opened which is inefficient and inappropriate), and a perception that PQM is too hard (lack of testing of attributes and weightings), leading to poor practices (capping or altering the supplier quality premium), which effectively allows for changing the weightings after the submissions are in. While the LPC approach appears simple, the pass-fail process it involves is not well understood and using it as a 'cookie cutter' approach is not the intent of the PM (NZTA1). Participants suggested overall that these issues impacted on both the RCA suppliers and subsequently project and contract management, with implications for VFM outcomes through time and cost implications.

Generally, participants suggested that innovation and VFM were difficult to achieve without consideration of quality dimensions in procurement. AT's supplier selection overall (indicated by the RCA's preview of its new strategy under development) appeared to be over-reliant on cost drivers. For example, procurement for physical works, was being driven strongly by LPC, or quality-based approaches with 70/30 (price/non-price) attributes (which were also prioritising price and some staff members did not think this was always the best VFM approach (AO5, AO6). Interestingly a national perspective on use of LPC overall was that RCA staff need help using it as up to 40% of RCAs are scoring the attributes first, which is not cost-effective procurement for RCAs or suppliers, and contradicts the way MBIE is teaching the approach (IAR5).

Other participants shared concerns about the application of the LPC method. LPC was reported as causing particular problems in the case of poorly scoped projects or where RCA project managers were low skilled, causing project delays and cost blow-outs (PSC6). One participant considered this selection method, when used after inadequate activity planning, contributed to inefficient behaviours with too many 'loopholes in contracts' leading to poor VFM overall unless suppliers were competent (AO14). Furthermore, procurement processes for maintenance contracts were seen to mitigate VFM, as these types of contracts are often dictated by the LPC model. For example, one project the supplier bid for began as an LPC, but the supplier had to explain that the provider had overlooked key components of the project, in the end increasing the value of the project from \$32,000 to \$50,000 (PSC3). One RCA representative suggested that without excellent scoping work, LPC could easily lead to variations and claims: one example was an \$840,000 estimated project that turned into a \$2.2 million cost (tender closed at \$1.6 million). As they noted:

*Sometimes suppliers come back and say 'that's not enough budget to do the job [...] we need to listen more to our suppliers, as this can drive [expensive] post-procurement variations.*  
(AO15)

Five-year contracts are becoming progressively cheaper, but the ability to issue variations has diminished under the 2013 version of the contract standard NZS3910. This situation creates tension in the buyer-supplier relationship, with 'unrealistic prices' pitted against the need for 'more people to manage contracts' (AO15). In addition, one stakeholder considered that the low margin rates some contractors receive for work may be driven by use of LPC supplier selection approaches (IAR4).

The RCAs consulted all use the PQM<sup>23</sup> in a relatively consistent fashion. For example, one RCA participant observed that almost all professional services are acquired through PQM unless going for a target price (AO14). One supplier thought that PQM is generally set up well, but its effectiveness depends on how well the evaluation weightings are considered. Perspectives were generally favourable on the value of PQM in its application. One RCA representative believed its organisation was receiving better value out of PQM than LPC as it allowed them an 'interactive' tender process that enabled a more accurate portrayal of a project's importance to the supply market in comparison to the 'one horse race' model of LPC (AO14). Similarly, another participant considered that this method creates more transparency and encourages RCAs to demonstrate they believe quality to be an important attribute by placing a higher percentage weighting on it versus on the price (IAR4).

There were also some concerns about the use of PQM. One participant wondered whether PQM is 'worth going through' for professional services suppliers due to costs and length of time associated with the process (AO8) as these contracts are generally smaller and worth less than physical works contracts. Another stakeholder wondered whether PQM is 'too hard', particularly for longer-term or experienced sector people who may not be adapting well to the significant changes that have occurred in the last 10 to 15 years in procurement practices (IAR5). The price quality process was also seen to be susceptible to probity issues at the hands of TETs or consultants getting the price weightings wrong: contractors want pricing on a level playing field to limit any potential manipulations (PWC5).

Findings were mixed with regards to tender committees and the extent of their effectiveness at the RCA level. For example, it was not unusual for smaller RCAs such as RDC and DCC to use consultants for all

---

<sup>23</sup> Price quality involves grading the quality attributes of suppliers whose proposals meet the RFP's requirements and selection of the preferred supplier based on a balance of price and quality through use of a formula. See [www.nzta.govt.nz/assets/resources/procurement-manual/docs/appendix-c-supplier.pdf](http://www.nzta.govt.nz/assets/resources/procurement-manual/docs/appendix-c-supplier.pdf)

tendering preparations and TET work or to fill gaps where these services were unavailable in-house (AO16). Some conversations at RCAs indicated there may be too much delegation and insufficient transparency in TETs' scoring processes and a lack of robust processes around procurement documentation (AO14). Conversely, AT and RDC were seen to have strong tender committee processes. AT had a large degree of in-house workforce development being invested in led by a manager (AO2, AO6). Similarly, RDC staff considered that their procurement plan and relevant documentation works well and is like 'painting by numbers' (AO10). They were seen to actively seek external assistance as required, specifically with regard to ensuring procurement processes avoid prescriptive outputs (PSC7).

Across the four RCAs, suppliers shared diverse experiences on the levels and quality of procurement process debrief they received during tendering processes. One supplier observed that it was 'rare' for its affiliated RCA to provide feedback debriefs on unsuccessful tenders with suppliers (PWC5), while another suggested there was a need for a website or similar for suppliers to provide feedback and raise issues on RCA practice beyond taking these to industry associations (PSC3). RCA representatives generally agreed that increased engagement with suppliers during the procurement process would help inform perspectives, particularly during the planning stage of the procurement cycle and on drivers of post-procurement cost variations (AO14).

Another factor potentially contributing to procurement process inefficiencies across RCAs related to the thresholds for inviting competitive offers. In particular, several participants suggested that the spend threshold is too low and should be raised (AO8, AO11, AO14), while in one RCA a staff member thought the low threshold in their organisation failed to justify all of the procurement activities being undertaken (AO11).

### 3.3.9 Some road controlling authorities were weak on internal feedback loops and organisational learning

Most of the RCA strategies mention organisation review of procurement processes and outcomes. The AT document explicitly mentions procurement performance management subject to external reviews and regular reviews and benchmarking (p34), RDC outlines a high-level approach to capturing and reporting procurement through 'hard, soft, and strategic value' measures under development (p31). DCC document identifies the intent for annual reviews of delivery models to determine the extent of goals and key performance indicators met (p16). The CODC strategy (p16) lists performance measurement and success measure areas under development namely: 'volume of public demand', 'time to complete tasks', 'achievement of program', and 'actual expenditure against forecast expenditure'.

Of the four RCAs visited, however, only one had developed and was implementing a formalised system for organisational learning to strengthen roading procurement efficiency and outcomes. Overall, the performance of the four RCAs on organisational learning, monitoring and reporting processes was emergent or non-existent. It was unclear to what extent RCAs were acting on lessons learned, and revising their strategies and processes as a result. Monitoring and reporting by RCAs was generally not formalised or was inconsistent (ie post-implementation reviews). None of the RCAs visited was able to provide reporting on VFM outcomes (as outlined in the PM) and none had clear strategies in place to ensure procurement specific outcomes were being reviewed and acted on. One RCA representative admitted to their organisational procurement being:

*A bit lax on documentation and process, that's where we get into trouble, we have simple processes for scoping and planning and use the same processes for each project [...]. (AO15).*

At the time of the visit to AT, it had rolled out a new organisational continuous learning system for use by all staff and the tool was seen as having potential value to roading procurement staff. In addition, AT had

established a system similar to the Transport Agency's PACE system as a way to provide a feedback loop to inform whole-of-life project information and to help measure contractors' performance (AO8) as well as actively using the RAMM system in its maintenance work. Despite use of this system, a formal process for sharing lessons learned was still being developed and there was general consensus among participants at the RCA that they still had some way to go in closing the loop (AO8).

To increase its organisational learning, the RDC held annual meetings with its professional services provider, reported on contractors' performance against specific contract performance indicators to create what one staff member described as a 'continuous feedback loop' (AO11). However the RCA does not appear to have formal processes in place for ensuring the knowledge that people develop in their roles is captured or documented before they move on, ie future-proofing. Although the majority of the organisational learning was 'informal' (AO12), RDC participants observed that increased consideration was being given at the strategic level to what they want to achieve and how these results could be structured into longer-term planning (AO10). Similarly, at the time of the site visit, CODC was undergoing focused review of its current maintenance contract cost-plus model that was approaching term, and was exploring how to use customer and asset data it had collected to report on the value of the approach and the results delivered.

Two of the sample RCAs were unable to provide examples of procurement process documentation and it was unclear how some processes operated or whether the documentation existed. In the case of one of these RCAs, this appears to reinforce supplier perspectives that TET processes required improvement on quality, objectivity and transparency (PWC4, PSC3). On this issue, one evaluation participant suggested that some smaller RCAs were communicating a need for assistance with standardised procurement process documentation and tools (NZTA7).

### 3.3.10 Scope for improving road controlling authority practices to increase value for money and its measurement

Notwithstanding the fact that the Transport Agency could better guide RCAs on how to interpret VFM, the PM is relatively clear for RCAs in communicating that VFM is about more than simply minimising costs (Horn and Gidley 2013). The Transport Agency's guidance for RCAs towards whole-of-life value, end-user benefits and longer-term asset management as part of an outcomes focused approach – let alone its measurement – was not necessarily seen consistently on the ground during site visits. Interestingly, one supplier thought that councils have a systemic issue on their hands regarding the way in which funding and budgeting works that hinders positive whole-of-life costs and best VFM, and this means that their ability to address whole-of-life costs is fundamentally hindered:

*Budgets are broken up according to capital and operational costs, ending up with entrenched projects that are siloed and not working to drive each other's efficiencies [...] Plus the contract-by-contract approach hinders strategic planning, which also lowers value (PSC7).*

Nevertheless, all four RCAs visited appeared to be working through how to achieve VFM results measurement in some way. An increased use of more collaborative and innovative delivery models is one way some RCAs have opened up scope to increase VFM results. Alliance models offer a way to enable an outcomes-focused perspective, whereby incentives are built into the remuneration structure to encourage non-cost outcomes such as innovation and increased efficiency (PWC3). This type of delivery model enables the parties to leave 'their agendas at the door' and can produce less overheads if 'set up right' (NZTA7). The Auckland Motorway Alliance, while not necessarily innovative, highlights the benefits of a contractor and client working in tandem to gain efficiencies and ensure the asset is being maintained to meet a service standard, while achieving cost savings (Horn and Gidley 2013). Further scope for improving alliance models was noted, as a strong alliance is built on competitive price tendering and requires

reaching a balance between the need for extra short-term resources and the risks associated with the realisation of long-term benefits.

**Figure 3.3 Good practice case example 2**

Not all RCAs have the capacity to harness ‘liberal’ aspects of the PM, however, and one supplier thought one of the four RCAs visited did not have the ability to manage these types of models in-house (PWC5). Certainly, alliance models are not without challenges. These models require a change in mindsets and perhaps more historical organisational practices, as they require all parties to accept collective

#### **CODC value for money focus and outcomes measurement**

The CODC has shown innovation in its use of Vanguard system thinking, a method enabling the systemic study and re-design of an organisation and its service delivery to improve performance and increase cost efficiencies. The RCA is successfully using this approach to increase maintenance contract efficiency, cut waste and take in-house ownership of procurement relationships.

Their previous system was non-optimal due to an inefficient multi-party process, with contract payment schedules causing wrong choices to be made about what gets done. Tendering processes were also expensive and CODC weren't getting services quickly when they needed them with an eight-week lead-in time for some jobs. Through the systems-thinking process, CODC decided: ‘a lot of our work is not specialist, therefore we would be better off doing it [in-house]’.

CODC has now adopted an ‘alliance’ or cost-plus model. Based on a cost-plus partnership method of payment, asset management has now been brought back in-house with individual consultants managing different renewals on an as-needed basis. This approach differs from their previous and more traditional ‘this is what has to get done and it has to get done this way’ roading procurement culture.

‘The Council doesn't mind paying for the right things to be done, it just wants to make sure that work is being done cost-effectively [and through the cost-plus model] we are paying an appropriate profit-margin for that.’ This particular style of contract seeks to optimise use of gear related to the contract as the contractor does not want to be bringing in a lot of other machinery such as trucks with graders. If multiple machines are parked up you can pay a higher hourly rate (AO16).

Snow clearing is ‘now really cheap for us to do’ compared with how this was previously done under a traditional contract. Previously there would have been a unit rate for the use of the grader plus another ‘dayworks’ rate that was twice the price. This new cost transparency shuts down potential for any gaming in contract schedules and external observers can see we are getting a good deal.

One CODC staff member observed that the sustainability of this model depends on creating a collaborative culture irrespective of personnel changes, people from different backgrounds with different modes of working; working through additional layers of bureaucracy, and an agreed definition of ‘shared risk’ (AO16).

In addition, CODC management noted that a key to a value for money outcomes is ‘having good measures in place’ such as appropriate indicator data and review mechanism with the supplier. The number of public calls per week, or complaints received, relating to roading over the course of the year are proving useful indicators, and complaints were reported to be trending down. The organisation is also investigating the use of comparative road deterioration metrics as a measure.

responsibility for risk, performance and outcomes, as well as a strong, effective management board (Opus 2012). Further, the relatively complex nature of alliance models requires extensive coordination and management. Some participants believed that it was important to keep in check outsourced professional service consultants leading alliance and virtual alliance models in some RCAs, especially where this involved both supervisory and financial components of collaborative roading projects (PWC2). It was believed that more proactive, forward-planning programming is required from those managing alliance or highly collaborative models (PWC2). At AT, which has used alliance models, one participant noted that VFM is sometimes put at risk when budgeting and forecasting overruns is the sole responsibility of one consultant managing a group of contractors (AO13).

One example of good practice in the RDC strategy (p46) is that the Tender Review Group is required to ask budget holders to provide a summary procurement 'Plan on a page' outlining the intended approach to delivering capital programmes, which are then shared across services to 'identify VFM opportunities' such as cross-service opportunities. In addition, RDC's strategy considers both current and future budgeting and contracting values, expected expenditure, and any relevant strategic links to either the strategy or the category plan. Future and lifecycle costs are also featured as evaluation criteria within the plan. RCA and supplier participants believed the RCA generally considered the overall dimensions of their respective local supply markets in terms of VFM via practices such as regular comparison of national contracting and valuation databases against what is seen on the job at the local level (AO11).

### **3.3.11 Conclusions**

Drawing on the findings discussed above, and using the evaluation framework indicators, this section presents evaluative conclusions on the extent of the effectiveness of RCA's procurement approaches and practices to support the delivery of strategy-led, long-term and best VFM – roading procurement outcomes. Each criterion is discussed and rated in turn.

#### **3.3.11.1 Leadership – mostly effective**

Some RCAs highlight executive and senior leadership support for procurement processes as a means to realise business priorities, but this could be strengthened and seems inconsistent across RCAs. All RCAs were, however, seen to be adhering to national procurement policy. More consistency could occur regarding how RCAs align corporate organisational strategies, procurement strategies, and roading procurement plans and priorities. VFM outcomes are being considered but this is an area that needs improvement. Accountability (including reviews and reporting) could be increased and enhanced by the Transport Agency requesting and following up on this information.

#### **3.3.11.2 Strategic planning – minimally effective**

Some RCAs' procurement strategies successfully aligned local roading needs with the Transport Agency policy outcomes. However, other RCAs struggled to align corporate policy outcomes for procurement. There were also inconsistencies across RCAs regarding the degree to which desired roading outcomes were defined in terms of VFM and whole-of-life costs. The majority of RCA procurement strategies did not fully identify and review key supplier/buyer relationships, and there were inconsistencies across the RCAs visited in terms of how in-house capacity versus in-sourcing/outourcing decisions were considered against the effective delivery of outcomes. Further, RCAs varied in terms of how accessible their strategies were to the public and suppliers (ie suppliers and potential suppliers). RCAs had not undertaken national market analysis to develop their procurement strategies and analysis of spend portfolio was highly context-dependent. Accountability and transparency of procurement outcomes could have been better defined in the majority of RCAs visited, and long-term identification of organisational and regional risks via situational analyses and mitigation was not seen to occur across all RCAs.

#### **3.3.11.3 Workforce focus – mostly effective**

RCAs' procurement policies were generally seen to define standards on what capability and capacity is required from their respective workforces to manage spend portfolios, although the degree to which these standards were articulated varied across RCAs. The majority of RCAs did not include a well-articulated development framework for the provision of procurement guidance, training and support, although capability and capacity standards were generally reflected within RCAs' organisational structure and within recruitment decisions. RCAs generally considered the Transport Agency provides adequate procurement support and resources to maintain effective procurement capability, though increased resourcing and support in this area would be beneficial.

#### **3.3.11.4 Customer and market focus – mostly effective**

Findings suggest that RCAs have a strong regional and local market focus that encourages competition and sustainability; however, greater consideration of national markets and a greater emphasis on how projects impact on local communities and ratepayers could occur. RCAs' procurement processes were generally effective at identifying and reviewing future projects based on scale and complexity, and the majority of RCAs were effectively managing and supporting collaborative relationships with suppliers, but were not consistently collaborating with suppliers in an innovative manner.

#### **3.3.11.5 Process management – somewhat effective**

RCAs varied in the degree to which procurement procedures and processes supported procurement as an end-to-end cycle, and much greater emphasis was observed to be placed on scoping and front-end processes to the detriment of management, monitoring, reporting and review phases of the procurement cycle. However, RCAs were largely effective in recording tendering and contract management processes and decisions and in specifying risk management process such as management of supplier relationships and fairness to suppliers. More transparency could take place in some RCAs with clear rules and process parameters being more clearly articulated to suppliers.

#### **3.3.11.6 Measurement and analysis – minimally effective**

RCAs were very inconsistent in the degree to which regular reviews of local roading procurement and capacity and capability were occurring, and although 'control systems' for RCAs risk levels were generally 'fit for purpose', further improvements could be made to how these compliance and procurement costs are monitored, including clearer definition of targets and metrics for measuring outcomes against strategic goals. More improvement could take place with regards to the regular review of how procurement strategies impact on market development, as well as taking on board lessons learned and adjusting strategies and procurement plans as required.

#### **3.3.11.7 Value for money results focus – somewhat effective**

Although RCAs were seen to consider VFM and were making some headway in addressing how to achieve VFM roading outcomes for end users, greater emphasis on social and environmental dimensions and a greater focus on whole-of-life outcomes is required in order to increase VFM results. Some efficiencies in procurement approaches and resource use could be realised to further scope and target long-term procurement impacts through increased use of targets, metrics and incorporation of lessons learned. Dissemination of innovation and good procurement outcomes could be enhanced.

## 4 Recommendations

This section presents the recommendations based on the findings and evaluative conclusions outlined in previous sections. The recommendations are listed by major theme, with detailed recommendations for Transport Agency and the transport sector (including RCAs) respectively. In addition, the report presents recommendations for the Transport Agency to consider, where recommendations are of lower order, or where their implementation is likely to have more significant fiscal or practical implications.

### 4.1 Strengthen procurement policy alignment with MBIE regulations

It is recommended the Transport Agency:

- Further aligns the Transport Agency procurement policy framework with MBIE's principles, resources and training to ensure maximum consistency. For example, amends the policy to add mandatory rules for minimum timeframe for tenderers to respond to requests to tender and align information on the use of LPC and PQM.

It is recommended the transport sector (including RCAs):

- Ensures staff have access to and understanding of MBIE resources and provides opportunities to participate in MBIE training.

### 4.2 Revise and reformat the *Procurement manual* to enhance usability

It is recommended the Transport Agency:

- Amends the current format of the PM to a simplified, more condensed version, with hyperlinks for users to drill into detail and access relevant tools and real world good practice examples and tips on specific topics, a clear indexing system and appropriate search functionality.
- Strengthens strategic aspects of the PM with more guidance on:
  - selecting the most appropriate supplier selection approaches and delivery models. Consider developing a toolkit to support this guidance, similar to the United Kingdom Highways and Maintenance Efficiency Programme toolkit to replace the current PM appendix D 'Procurement procedure decision trees'
  - RCA capabilities required for procurement, contract and project management processes, and support for RCAs to diagnose and support workforce development and training needs
  - how RCAs might access relevant MBIE resources and training
  - the 'gates', milestones or decision points throughout roading procurement processes, and the documentation RCAs are required to record for transparency at each of the key gates and provide this guidance in the PM
  - asset management planning for procurement strategy development
  - systematising local supply market sustainability drivers (transparently, such as through planning and tender criteria)



- non-price bid evaluation criteria, and provide criteria samples that RCAs may choose to amend or operationalise
- how to establish, use and maintain a supplier panel for tendering services.

It is recommended the Transport Agency also *considers*:

- Revising the five-year standard contract term length in the manual to allow for longer timeframes.

It is recommended the transport sector (including RCAs):

- Engages in any future submission and review processes to revise the PM to ensure RCA and industry needs are canvassed and inform any PM development scope and outcomes.

### 4.3 Increase support for procurement strategy development and review

It is recommended the Transport Agency:

- Provides increased support to RCAs for procurement strategy development and review, by:
  - developing and producing national data and analysis on the national roading network, and making this available to RCAs through a central Transport Agency hub such as the HNO Group Highways Information Portal, to inform procurement strategy development
  - systematically harvesting, through the Transport Agency regional offices and P&I, examples of good practice procurement strategy development, also drawing on the HNO procurement strategy, and make this information available to RCAs
  - facilitating neutral spaces, eg virtual/regional/roadshows for RCA peer support and knowledge share on strategic plan development and consider HNO convening regional cluster workshops at least annually
  - introducing and actively applying a staged system of RCA procurement strategy review and approvals for different RCAs depending on contexts, scope or work, and the quality of the strategy. This might mean a shorter time between reviews to bring an 'adequate' strategy up to standard, with a longer time to review for those that are 'exemplary'.
- Clarifies expectations on RCA ownership (where procurement strategy work is partly or fully outsourced) of procurement strategy planning, development and review processes and identifies the expected roles and responsibilities of RCA leadership in the processes.
- Expands scope of the Transport Agency auditing and assurance of RCAs' procurement processes to include procurement strategy practice and review and amendment processes.
- Ensures the P&I procurement strategy assessment tool aligns with scope of planned Transport Agency audit assessments of RCA strategies in practice.

It is recommended the Transport Agency also *considers*:

- Additional dedicated procurement strategy resourcing to the P&I Group if necessary to support RCA procurement strategy development work.
- Undertaking road shows to engage in strategic level conversations with RCA leadership and local body elected members on quality procurement principles and processes in delivering VFM roading outcomes.

It is recommended the transport sector (including RCAs):

- Undertakes more systematic consideration of potential long-term market scenarios in procurement strategy engagement work and development.
- Engages in more upfront planning, engagement and active listening both pre- and post- awarding of contracts to identify requirements, standards and guidelines that chill innovation, add greatest cost and cause post-procurement variations. Also, decreases the focus during procurement negotiations on 'where money is coming from' to 'where money is going to'.
- Moves from an input to an output-focused specification process in order to allow suppliers to be more innovative.
- Encourages strategic involvement of RCA leadership and local body elected members in procurement planning, processes and review of VFM roading outcomes.
- Strengthens asset management planning as part of procurement strategy development.

## 4.4 Extend procurement training and workforce development as a priority

It is recommended the Transport Agency:

- Drives improved procurement practice across RCAs by:
  - defining in the PM the minimum RCA capabilities required to manage quality procurement processes, and where possible utilising the work MBIE has already done with the Facilities Management Association of New Zealand or FMANZ's competency framework
  - requiring in the PM mandatory training for procurement managers and TET members; including new requirements for current certificate holders to refresh training on a periodic basis, for example three years
  - assessing these requirements as part of the Transport Agency's audit and assurance processes around RCA procurement.
- Facilitates increased access by PM users to training opportunities to apply the tools and embed good practices – particularly in relation to use of LPC, PQM and provides more guidance around meaningful weightings on price and non-price elements – through:
  - linking PM users to MBIE resources and training information
  - increased support and facilitation of RCA forum and roadshow opportunities that bring together RCAs and stakeholders for knowledge share, in collaboration with eg EQUIP (Local Government New Zealand (LGNZ) Centre of Excellence) with a focus on good practices in the use of specific supplier selection tools.

It is recommended the Transport Agency also *considers*:

- Leading the development of an industry workforce development strategy in collaboration with the transport sector to identify strengths, gaps in capability and an action plan.
- Establishing a Centre of Excellence (could be virtual/industry association led) for roading procurement including supplier selection approaches, procurement law, delivery models, contract and project management, a clearing house for good practice, a peer support network for guidance on the practical implementation of procurement-related processes, and/or regional registers of specific skills and

expertise in advanced methods (eg alliances), and analytical expertise with tools (eg DTIMs, CBA/BCR and RAMM).

- Facilitating the development of a wiki where RCA procurement staff can anonymously ask for advice and Q&A.
- Facilitating the development of a single NZQA qualification in procurement, including both tender evaluation and contract management that aligns both MBIE regulations and Transport Agency and transport sector good practice.

It is recommended the transport sector (including RCAs):

- Increases dialogue and investigation into shared services arrangements that may help smaller RCAs experiencing capacity or retention problems to access the broader pool of national technical skills.
- Increases the RCA procurement staff access to training and knowledge share opportunities, particularly on which procurement approaches and delivery models drive value procurement outcomes, and how to use approaches and tools appropriately to this end.
- Drives (particularly by RCA leadership) accountability of outsourced consultants in delivery of VFM, ability to forecast overruns, and forward programming ability, and requires knowledge transfer from consultants, eg through capacity and capability building arrangements built in to contracts.
- Develops a tiered or progressive system of procurement training and required TET qualifications based on complexity or scope of projects, in cases where they 'buy in' tendering capacity.

## 4.5 Drive systems and processes for innovative value for money results

It is recommended the Transport Agency:

- Improves the strategic alignment between Transport Agency corporate definitions of VFM (including social and environmental and end-user outcomes) and approaches to outcomes measurement, and PM guidance on VFM outcomes to RCAs.
- (section 4.4 also refers) Facilitates RCA forum and roadshow opportunities that bring together RCAs, stakeholders and the Transport Agency regional offices for knowledge share, and case study discussions in collaboration with eg EQUIP (LGNZ's Centre of Excellence) to focus on:
  - using innovative approaches in practice, and creating discussion space on shifting entrenched behaviours and practices that may stymie VFM
  - scoping roading project needs well, demonstrating how to translate those needs into congruent procurement objectives, and adapting aspects of the HNO business case model to suit the local roading environment where appropriate
  - sharing any opportunities and implications arising from the progress of NOCs in the SH space for local roading procurement.
- Increases national consistency and standardisation in RCA contract specifications, and reduces costs to industry by completing current work on a 'contract builder' tool.
- Expands the scope of the pre-qualifications register managed by HNO for use in local roading, and makes this available to all RCAs and suppliers through a national process.

- (section 4.4 also refers) Provides incentives for cost control, ensures the use of LPC is limited to procurement situations where this approach is most appropriate and also ensures it is being used correctly.

It is recommended the Transport Agency also *considers*:

- Increasing regional office staff involvement in eg local council meetings to understand information relating specifically to local roading for RCAs and their stakeholders and drivers, and translate any implications for the Transport Agency policy governance to P&I National Office.
- How the timeframes for NLTP and LTPs might be better aligned to give RCAs the best possible lead-in time for planning and scoping roading projects prior to engaging in tendering.
- Supporting NOCs as an option in the toolbox for RCAs for local roading; however, not as a mandatory approach until the long-term impacts are better understood.
- Reviewing current RCA procurement thresholds and whether they are providing efficiency in tendering, and investigating options for scaling thresholds for different RCA activity and spend levels.
- Extending to the industry additional advice and training opportunities on the full spectrum of tools available to support their practice, eg PACE tool, and to enhance consistency of use and the quality of data input.

It is recommended the transport sector (including RCAs):

- Increases transparency in tender negotiation and pushes the boundaries of 'business as usual' through use of purchaser nominated price options (appendix C in the PM) and PPP (eg design, build and maintain contracts 20–25 years), both of which could have longer-term payback.
- (section 4.4 also refers) Demonstrates more consistency in the approach to specific delivery models, procurement systems and practices.
- Develops more robust approaches to roading asset management that are well connected to roading activity delivery.
- Ensures, when using tender templates, that any specific context and risks of a project are appropriately considered and embedded within tender documentation and associated processes and avoids a 'one-size-fits-all' approach.
- Harnesses all opportunities for collaboration between local authority RCAs and highway asset managers to increase the economic efficiencies possible from a coordinated transport network, to reduce administration, evaluation and transaction costs and to provide better VFM for taxpayers and ratepayers as well as better returns to the industry.

## 4.6 Increase monitoring of supplier markets with a focus on local roading

It is recommended the Transport Agency:

- Extends supplier market analysis and monitoring currently undertaken through HNO to include six-month or annual review of data pertaining to local roading markets, and uses these to explore key topics, eg NOCs impacts on supplier markets, SME development and local supplier sustainability, asset management and procurement spends.

- (section 4.5 also refers) Continues to monitor and discuss impacts of NOCs on local roading policy options for checks and balances (such as the current 80/20 rule in NOC contracts) if NOCs' approaches reduce levels of competition available to local authorities.
- Provides clear guidance, through the PM and/or training to local authorities on how to sustain transparent and open competition, in cases of roading alliances, partnerships and similar long-term arrangements involving long-term incumbents.

## 4.7 Develop and apply outcomes measurement and reporting processes

It is recommended the Transport Agency:

- Drives monitoring and reporting by RCAs as required currently in the PM, and reviews the current PM 'checklist' and reduces it to a short list of critical indicators.
- Undertakes systematic and formal national benefits-mapping, monitoring and benchmarking of procurement results – using RCA data and other Transport Agency administrative data on supplier selection and delivery models by region, with cross-analysis using eg RAMM (asset management) and PACE (contractor performance).
- Extends RCA competition monitoring data requirements (under the PM) to professional services activity, actively analyses data and reports findings and implications back to RCAs annually.

It is recommended the transport sector (including RCAs):

- Engages in Transport Agency facilitated data collection, monitoring, and reporting processes on procurement outcomes and takes opportunities to discuss and interpret the results.
- Ensures (in particular, RCA leadership) formal processes of procurement tender process debrief and end of roading project review are in place and results monitored on an annual basis.
- Ensures (in particular, RCA leadership) procurement monitoring and review processes are hard-wired into the organisation, and future proofs procurement good practice through systematic capture and documentation of staff learning on procurement processes and outcomes through dedicated knowledge management systems.

## 4.8 Further research to inform policy development

It is recommended the Transport Agency:

- Undertakes research and analysis that profiles how all RCAs nationally are using delivery models and supplier selection approaches, innovative models and approaches, similar to the Opus (2012) review

It is recommended the Transport Agency also *considers*:

- Undertaking a review of the use of PACE, its benefits and any improvements to enhance usability.
- Undertaking a review of the impact of bonds and retention behaviour and their impact in local roading markets, and whether there is a need for regulatory guidance.

## 5 References

- Auckland Regional Council (2009) *Your region, your future: Long-term council community plan*. Accessed 22 April 2016.  
[http://www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/plansstrategies/planning\\_document/Documents/arcltccp20092019.pdf](http://www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/plansstrategies/planning_document/Documents/arcltccp20092019.pdf)
- Auckland Transport (2012) *Procurement strategy, July 2012 – June 2015*. Accessed May 2015.  
[https://at.govt.nz/media/imported/4186/PR02-01%20\(Jul12\)%20Procurement%20Strategy%20V2.pdf](https://at.govt.nz/media/imported/4186/PR02-01%20(Jul12)%20Procurement%20Strategy%20V2.pdf)
- Australian Federal Government (2002) *Australia government use of information and communication technology*. Accessed June 2015. [www.apsc.gov.au/publications-and-media/archive/publications-archive/technology](http://www.apsc.gov.au/publications-and-media/archive/publications-archive/technology)
- Central Otago District Council (2009) *Central Otago District Council procurement strategy*. Accessed May 2015. [www.codc.govt.nz/SiteCollectionDocuments/Strategies/Council/Procurement%20Strategy.pdf](http://www.codc.govt.nz/SiteCollectionDocuments/Strategies/Council/Procurement%20Strategy.pdf)
- Central Otago District Council (CODC) (2015) *Long term plan 2015–25*. Accessed June 2015.  
[www.codc.govt.nz/publications/plans/Itp/Pages/default.aspx](http://www.codc.govt.nz/publications/plans/Itp/Pages/default.aspx)
- Controller and Auditor General (2008) *Procurement guidance for public entities*. Good practice guide. 96pp. Accessed 19 March 2016. [www.oag.govt.nz/2008/procurement-guide/docs/procurement-guide.pdf](http://www.oag.govt.nz/2008/procurement-guide/docs/procurement-guide.pdf)
- Controller and Auditor General (2011) *New Zealand Transport Agency: delivering maintenance and renewal work on the state highway network*. Performance audit report. 41pp. Accessed 19 March 2016.  
[www.oag.govt.nz/2011/nzta/docs/maintenance-and-renewal-work.pdf](http://www.oag.govt.nz/2011/nzta/docs/maintenance-and-renewal-work.pdf)
- Davidson, JE (2013) *Actionable evaluation basics: getting succinct answers to the most important questions*. Auckland, New Zealand: Real Evaluation Ltd. 54pp.
- Dunedin City Council (2014) *Procurement plan. DCC Transportation Group*. Prepared by E Matheson and M Harrison. 23pp.
- European Foundation for Quality Management (2012) *An overview of the EFQM excellence model*. Accessed June 2015. [www.efqm.org/sites/default/files/overview\\_efqm\\_2013\\_v1.1.pdf](http://www.efqm.org/sites/default/files/overview_efqm_2013_v1.1.pdf)
- Horn, M and B Gidley (2013) *State highway procurement review issues report*. Accessed 19 March 2016.  
[www.nzta.govt.nz/assets/About-us/docs/state-highway-procurement-review-issues-report.pdf](http://www.nzta.govt.nz/assets/About-us/docs/state-highway-procurement-review-issues-report.pdf). 16pp.
- International Federation of Accountants and the Chartered Institute of Public Finance and Accountancy (2014) *International framework: Good governance in the public sector*. Accessed 22 April 2016.  
<http://ifac-communications.epaperflip.com/v/Good-Governance-in-the-Public-Sector/>
- King, J (2015) Using economic methods evaluatively. Unpublished article. New Zealand. 25pp.
- Ministry of Business, Innovation and Employment (2014) *Government rules of sourcing*. 2nd ed. Accessed June 2015. [www.business.govt.nz/procurement/pdf-library/agencies/rules-of-sourcing/government-rules-of-sourcing-April-2013.pdf](http://www.business.govt.nz/procurement/pdf-library/agencies/rules-of-sourcing/government-rules-of-sourcing-April-2013.pdf)
- Ministry of Transport (MoT) (2015) *Government policy statement on land transport 2015/6–2024/25*. 52pp. Accessed 19 March 2016. [www.transport.govt.nz/assets/Uploads/Our-Work/Documents/GPS-2015.pdf](http://www.transport.govt.nz/assets/Uploads/Our-Work/Documents/GPS-2015.pdf)

- New Zealand Business Excellence Foundation (NZBEF) (2014) *Baldrige excellence framework*. Accessed June 2015. [www.nzbef.org.nz/Content\\_9.aspx](http://www.nzbef.org.nz/Content_9.aspx)
- New Zealand Institute of Economic Research (NZIER) (2013) *Construction industry study, implications for cost escalation in road building, maintenance and operation*. NZIER final report to the Ministry of Transport. 79pp.
- New Zealand Transport Agency (2009) *Procurement manual*. Accessed May 2015. [www.nzta.govt.nz/resources/procurement-manual/](http://www.nzta.govt.nz/resources/procurement-manual/)
- New Zealand Transport Agency (2012) *Road maintenance task force 2012 – review of road maintenance regime*. 66pp.
- New Zealand Transport Agency (2014) *State highway procurement strategy 2014*. 65pp. Accessed 19 March 2016. [www.nzta.govt.nz/assets/resources/state-highway-portfolio-procurement-strategy/docs/sh-procurement-strategy-2014.pdf](http://www.nzta.govt.nz/assets/resources/state-highway-portfolio-procurement-strategy/docs/sh-procurement-strategy-2014.pdf)
- New Zealand Transport Agency (2015) *Statement of intent 2015 – 19*. Accessed June 2015. [www.nzta.govt.nz/assets/resources/statement-of-intent/docs/soi-2015-2019.pdf](http://www.nzta.govt.nz/assets/resources/statement-of-intent/docs/soi-2015-2019.pdf)
- Office of Government Commerce (OGC) (2007) *OGC Gateway process review 2: delivery strategy*. 20pp.
- Opus (2012) *Review of delivery models for works and services*. Accessed 19 March 2016. [www.nzta.govt.nz/assets/resources/rmtf-report/docs-interim/delivery-models-report.pdf](http://www.nzta.govt.nz/assets/resources/rmtf-report/docs-interim/delivery-models-report.pdf). 37pp.
- Pacific Economic Development Agency (2010) *Study on procurement policies and practices in FICs and recommendations on the inclusion of government procurement in the Pacific Island Countries Trade Agreement*. Accessed June 2015. [www.forumsec.org/resources/uploads/attachments/documents/Regional\\_Procurement\\_Study.pdf](http://www.forumsec.org/resources/uploads/attachments/documents/Regional_Procurement_Study.pdf)
- Patton, MQ (2008) *Utilization-focused evaluation*. Saint Paul, MN: Sage Publications Inc. 688pp.
- PricewaterhouseCoopers (2013) *Adjusting prices, a review of the NZ Transport Agency approach to contract price adjustment*. Report prepared for the NZ Transport Agency. 41pp.
- Rogers, P (2015) *Chartered Institute of Procurement and Supply procurement glossary*. Accessed May 2015. [www.cips.org/Knowledge/procurement-glossary/](http://www.cips.org/Knowledge/procurement-glossary/)
- Ruapehu District Council (2014) *Procurement strategy*. Accessed June 2015. [www.ruapehudc.govt.nz/Cache/Attribs/1393458/Procurement\\_Strategy\\_2014.pdf?ts=635723912485971134](http://www.ruapehudc.govt.nz/Cache/Attribs/1393458/Procurement_Strategy_2014.pdf?ts=635723912485971134)
- Russill, R (1991) *Clan: Centre-led action networks*. Accessed June 2015. <http://www.russill.com/Clan.htm>
- Scriven, M (1991) *Evaluation thesaurus*. 4th ed. Newbury Park: Sage Publications. 391pp.
- Small, J and R Irvine (2014) *Review of NZIER's road construction industry study*. Covec Report prepared for Roothing New Zealand. 7pp.

## Appendix A: Terminology brief on research and evaluation

### A1 Background

The words research and evaluation are used differently by different people and sometimes used interchangeably. However the terms have different meanings. This brief has been developed to clarify the meanings as they are used in the present evaluation, in particular the conceptual meanings of the words research, evaluation and review.<sup>24</sup>

### A2 General dictionary definitions

*Research:* The systematic investigation into and study of materials and sources in order to establish facts, test theories and reach new conclusions

*Evaluation:* The systematic determination of the quality or value of something using agreed criteria and standards

*Review:* A formal assessment or critical appraisal of something with the intention of instituting change if necessary.

### A3 Research and evaluation

Table A.1 provides a list of general purpose and approach differences between research and evaluation.

**Table A.1 Research and evaluation purposes and approaches**

Research	Evaluation
Purpose is testing theory and producing generalisable findings.	Purpose is to determine the effectiveness of a specific programme or model.
Questions usually originate with scholars in a discipline.	Questions usually originate with key stakeholders and primary intended users of evaluation findings.
Quality and importance of research is judged by peer review in a discipline.	Quality and importance of an evaluation is judged by those who will use the findings to take action and make decisions.
Ultimate test of value is contribution to knowledge.	Ultimate test of value is usefulness to improve effectiveness.

### A4 Research and evaluation are not mutually exclusive

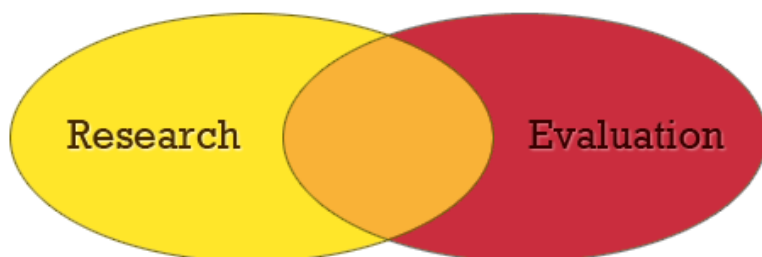
One way of thinking about research and evaluation considers them as endeavours that are not mutually exclusive (see figure A.1). In particular, an activity can be **both** research and evaluation – or neither. Research is about being empirical. Evaluation is about drawing evaluative conclusions about quality, merit or worth.

---

<sup>24</sup> See also the Better Evaluation website. Accessed April 2015.  
[http://betterevaluation.org/blog/framing\\_the\\_difference\\_between\\_research\\_and\\_evaluation](http://betterevaluation.org/blog/framing_the_difference_between_research_and_evaluation).



**Figure A.1 Research and evaluation are not mutually exclusive**



Research that is not evaluation involves factual description without judgements about quality, for example census data or interview data which collects descriptions.

Evaluation that is not research involves making evaluative judgments without systematic collection of data, for example, a connoisseur evaluator who produces a judgement without carefully gathering data.

Where this non-mutually exclusive view overlaps is when evaluative conclusions have been based on systematic data collection and analysis.

## A5 Research as an evaluation task

This view (depicted below) considers research as a tool for gathering empirical evidence, and as one of several tasks involved in doing an evaluation. Other evaluation activities include framing the purpose and scope of the evaluation, clarifying or negotiating the primary intended users and intended uses, formalising decision-making processes, deciding who will do what roles, gathering and analysing data, reporting and clarifying or negotiating resources to answer questions and support the use of findings.

**Figure A.2 Research as an evaluation task**



## Appendix B: Evaluation methodology

This appendix details the approach taken in this evaluation, including the specific research and evaluation questions it sought to answer, and the information collection, analysis and synthesis methods that were undertaken.

### B1 Evaluation principles and approach

The evaluation was informed by the Transport Agency P&I research programme principles of practicality and usability<sup>25</sup>, and it took a utilization-focused evaluation or UFE (Patton 2008) approach to generate utility-focused, actionable (Davidson 2013) and relevant findings. This involved a responsive process by the evaluation team using appropriate methods for the context and guided by the Transport Agency as the primary intended users of the project.

### B2 Key research and evaluation questions

In order to deliver the Request for Proposal (RFP) project goals and to provide actionable findings for policy development, the questions outlined in the RFP were reformulated into the following key research (KROs) and evaluation questions (KEQs):

- 1 What key success factors enable best VFM results in transport procurement policy and implementation, both internationally and in the New Zealand context? (KRO1)
- 2 How effectively is the Transport Agency's procurement framework supporting national delivery of strategy-led, long-term and VFM procurement outcomes? (KEQ1)
- 3 How effectively are RCAs implementing the policy for strategy-led, long-term and VFM procurement outcomes? (KEQ2)

Table B.1 presents project goals and detailed sub-questions for the key questions above.

### B3 Project governance

A project Steering Group was established by the Transport Agency to guide the project, and two meetings were held for input on the project design and scope, and to make sense of emerging findings prior to report drafting.

The Steering Group included representatives from the Transport Agency's P&I and HNO (Chair), LGNZ, the Ministry of Transport, MBIE and the Allen and Clarke team.

---

<sup>25</sup> NZTA P&I research investments. Accessed February 2015. [www.nzta.govt.nz/planning-and-investment/our-investments/research-investments/](http://www.nzta.govt.nz/planning-and-investment/our-investments/research-investments/)

**Table B.1 Project goals linked to detailed project questions**

Project goals	Detailed research and evaluation questions
Understanding of the success factors enabling best VFM results in transport procurement policy and practice (KRQ1)	<ul style="list-style-type: none"> <li>• How does the Transport Agency's policy and practice compare with other jurisdictions (eg Australia, Canada, the UK)?</li> <li>• What are current good practice approaches enabling best results in devolved procurement policy and practice settings?</li> <li>• How is policy operationalised most effectively and efficiently in devolved procurement settings to ensure VFM results?</li> <li>• What are the key challenges to address for successful policy delivery in the New Zealand context?</li> </ul>
Understanding of how the Transport Agency's procurement policy design supports purchaser delivery of strategy-led, long-term, and VFM procurement outcomes (KEQ1)	<ul style="list-style-type: none"> <li>• In what ways does the Transport Agency's procurement policy design, and operational policy, support the policy goals?</li> <li>• How are any important factors for policy delivery in the New Zealand context being addressed and any risks mitigated?</li> <li>• How do sample purchaser organisations develop their strategies?</li> <li>• What are the strengths and weaknesses of the Transport Agency's policy guidelines and related advice (eg the monitoring, audit, education and training roles) in supporting the sample purchaser organisations to develop and implement high quality procurement strategies?</li> <li>• How well are strategies and the Transport Agency's PM working for sample purchaser organisations?</li> <li>• How is policy sustainability being considered and addressed?</li> <li>• What, if any, improvements might strengthen the design and delivery of Transport Agency's procurement policy and practice in future?</li> </ul>
Determination of extent to which purchaser organisations are delivering the best long-term VFM procurement outcomes (KEQ2)	<ul style="list-style-type: none"> <li>• To what extent do purchaser organisations use their strategies in their procurement practice?</li> <li>• How much have sample purchaser organisations' strategies and their implementation made a difference to their procurement practice and to the delivery of VFM procurement?</li> <li>• Which aspects of procurement implementation deliver the best long-term VFM outcomes, in which circumstances and why/how?</li> <li>• What, if any, improvements would strengthen purchaser implementation of strategies?</li> </ul>

## B4 Literature review

The review of literature included selected published and 'grey' literature with a focus on international procurement good practice in comparable jurisdictions such as Australia, the United Kingdom and Canada. These countries were considered comparable given their relative maturity in procurement, the availability of published research evidence, and their multi-tier systems of government. The review also canvassed procurement literature from the New Zealand context, including the Transport Agency procurement policy documents, MBIE guidelines and research reports. The review was not exhaustive on the topic literature; rather, inclusion was limited according to relevance to the current evaluation and the identified research question.

## B5 Transparent evaluation framework with criteria and indicators

In order to make transparent assessment of effectiveness of the Transport Agency policy framework and implementation, an evaluation framework was developed to guide the assessment.

The evaluation framework comprises:

- seven criteria values or dimensions considered important for the Transport Agency procurement policy to effectively deliver the agency's intended procurement outcomes
- indicators for each criteria (ie evidence we expect to see that would demonstrate organisations are meeting the criteria) – with separate indicators relating to the Transport Agency (as policy owner) and RCAs (policy implementers) respectively
- a rating scale (anchored from 'Highly effective' to 'Not effective') with generic descriptors for assessing the evidence of indicators against each criteria.

The evaluation framework was adapted from the New Zealand Business Excellence Foundation (NZBEF 2014) CPE model. The seven CPE criteria were considered a good fit for the purpose of this project because they aligned well with:

- the stated Transport Agency procurement policy goals (strategy-led, long-term, best value for money outcomes)
- key enablers of success identified through a literature review of national and international good practice in procurement in the context of the New Zealand transport sector (KRQ1)
- team subject matter expertise in procurement.

The criteria were communicated to the project Steering Group (representing the Transport Agency, the Ministry of Transport, MBIE and LGNZ) in early June 2015. Evaluation rubrics are iterative, however, and the framework was further developed in the final phase of the project – to facilitate clear articulation of the conclusions and recommendations.

The seven evaluation criteria and their descriptors are:

- 1 Leadership – clear values, organisational governance, legal and ethical behaviour, and societal responsibilities
- 2 Strategic planning – strategy development processes, strategic objectives, action plan development, and performance projections
- 3 Workforce focus – workforce capability and capacity, workforce climate, workforce performance, workforce development
- 4 Customer and market focus – end-user satisfaction and engagement; building relationships
- 5 Process management – process design and management; cost control; supply-chain management; innovation management
- 6 Measurement, analysis and knowledge management – performance measurement, analysis and review, and performance improvement for organisational learning
- 7 VFM results focus – organisational efficiency, and a focus on policy and societal results.

The full evaluation framework is provided in chapter 3, table 3.1.

## B6 Data collection and analysis methods

To ensure the evaluation collated accurate data, a range of data was collected to deliver the project outcomes above. The primary methods of information collection undertaken included:

- literature review
- document review
- semi-structured (face-to-face and telephone) key informant interviews
- site visits to four selected RCAs (further document review and key informant interviews).

Table B.2 summarises how the data was integrated to answer each of the key research and evaluation questions.

**Table B.2 Integration of information methods for analysis**

Project objective	Review of documents	Review of literature	Key informant interviews	Site visits
Understanding of the success factors enabling best VFM results in transport procurement policy and practice (KRQ1)		✓	✓	
Understanding of how the Transport Agency's procurement policy design supports purchaser delivery of strategy-led, long-term and VFM procurement outcomes (KEQ1)	✓	✓	✓	✓
Determination of extent to which purchaser organisations are delivering the best long-term VFM procurement outcomes (KEQ2)	✓		✓	✓

## B7 RCA site selection

In order to assess RCA policy implementation, a sample of four (local authority) RCAs were selected for site visits in consultation with the Transport Agency. Sites were chosen to provide coverage on key dimensions for a range of roading procurement aspects, that is, according to geographic context (North and South Island; urban and rural); annual spend on transport-related projects (below and above \$15 per annum); delivery model (eg staged, design and build, alliance/partnership); and resourcing methods (in-house versus outsourced services). See site visit matrix in table B.4. Each site was visited for a minimum of one full business day to undertake interviews and review documentation. Fieldwork was conducted between May and June 2015.

At each site, participants were asked to supply the following documentation for review:

- procurement strategy
- approximate percentage of projects by each supplier selection model of procurement
- approximate percentage of projects by each delivery model (works and maintenance)
- VFM reports submitted to the Transport Agency (PM, appendix E)
- three sample planning documents rationalising selection of delivery model

- three sample supplier selection analyses for either PQM and/or an alternative selection methodology
- sample post-implementation reviews
- one market review (professional services and/or physical works) informing selection of a delivery model.

## B8 Interviews

Forty two group and one-to-one interviews were undertaken with 54 people in Wellington, Auckland, Dunedin, Central Otago and Ruapehu District between May and June 2015. The coverage of interviews among roading procurement stakeholders is outlined in table B.3.

Interview participants were provided with an information sheets about the evaluation and were invited to provide oral consent or to sign a consent form. Semi-structured interview guides were developed, framed by the evaluation criteria, and tailored to each stakeholder group. Telephone interviews were arranged with any individuals who were unavailable for a face-to-face meeting.

The names of key informants are not provided because ethical consent to publish names in this report was not requested for this purpose.

**Table B.3 Number of interview participants by stakeholder group and interview code**

Stakeholder group	Interview code	Number
The Transport Agency <sup>(a)</sup>	NZTA	10
RCAs <sup>(b)</sup>	AO	19
Physical works contractors	PWC	10
Professional services consultants	PSC	10
Industry association representatives <sup>(c)</sup>	IAR	5
<b>Total</b>		<b>54</b>

<sup>(a)</sup> Includes the Transport Agency Head Office Wellington (P&I/HNO Group, Corporate) and Regional Office staff

<sup>(b)</sup> Staff at the four RCA sites – AT, DCC, CODC and RDC

<sup>(c)</sup> Includes one procurement training professional, grouped here to ensure anonymity

## B9 Data analysis and evaluative synthesis methods

For KRQ1, the research question, the literature was analysed thematically to identify recurring themes and patterns, similarities and differences, or convergence and divergence of ideas.

For KEQ1 and KEQ2 respectively, the two evaluative questions, qualitative and quantitative data from the interviews, literature and document review were analysed against the evaluation framework, and findings discussed. Evaluative synthesis techniques (Davidson 2013) were employed for the evaluative assessments for KEQ1 and KEQ2. This involved a process of systematic analysis that involved weighing up the findings and the strength of data sources against each of the criteria and indicators – to make evaluative assessments for each of the two evaluation questions.

General thematic analysis was used to analyse qualitative interview data. A coding system was used to ensure anonymity of the evaluation participants, as shown in table B.3.

**Table B.4 Site visit matrix**

Proposed site	Geography		Context		Value of projects managed (annual average pa 2004–13)		Delivery model aspects
	North Island	South Island	Urban	Rural	<\$15M	>\$15M	
Auckland Transport	✓		✓			✓	<ul style="list-style-type: none"> <li>• Combination in-house and outsourced</li> <li>• All maintenance and renewal 4 contracts over 4 areas</li> </ul>
Ruapehu District Council	✓			✓	✓		<ul style="list-style-type: none"> <li>• Staged</li> <li>• 6 contractors over 6 disciplines</li> <li>• Shared risk</li> </ul>
Dunedin City Council		✓	✓			✓	<ul style="list-style-type: none"> <li>• Design and build</li> <li>• 2 performance specified maintenance contracts, one urban one rural</li> <li>• NZS3,910 contracts</li> </ul>
Central Otago District Council		✓		✓	✓		<ul style="list-style-type: none"> <li>• Single alliance contract for all maintenance and renewal</li> <li>• Shared risk</li> </ul>

**Table B.5** Number of interview participants by site visit locations

Site visit locations	Sub- group	Number
Auckland (Auckland Transport)	RCA staff	10
	Suppliers	5
	Total site	15
Dunedin (Dunedin City Council)	RCA staff	3
	Suppliers	5
	Transport Agency regional	2
	Total site	10
Alexandra (Central Otago District Council)	RCA staff	2
	Suppliers	5
	Total site	7
Ruapehu (Ruapehu District Council)	RCA staff	4
	Suppliers	5
	Transport Agency regional	1
	Total site	10
<b>Total</b>		<b>42</b>

## B10 Vignettes

Drawing on the primary data collected during the project, two case vignettes were developed to highlight good procurement policy and practice by RCAs. These provided real-world examples to illustrate the research and evaluation findings.

## B11 Data triangulation

Triangulation, which strengthens any evaluation approach, was addressed in several different ways. Methodologically, through the use of multiple data sources. For example, the triangulation of any visit quantitative (numeric) data – in addition to the qualitative (largely interview and documentation) data – provided breadth of evidence collected for robust evaluation findings. Second, four different members of the evaluation team conducted the fieldwork and engaged in multiple team analysis sessions. Team members wrote the report collaboratively including input by Paul Rogers, an expert on international procurement approaches.

## B12 Limitations

This evaluation process had some limitations, which are outlined below.

- The development of the evaluative framework might have involved more extensive stakeholder (eg Steering Group and industry) input. Broader stakeholder input might have strengthened the evaluation framework by allowing more time to rank criteria (leadership and so on) by order of stakeholder importance. This was not possible given project constraints. Having said this, the framework content was signed off by the Transport Agency, validated during stakeholder interviews and approved through two external report peer reviews.



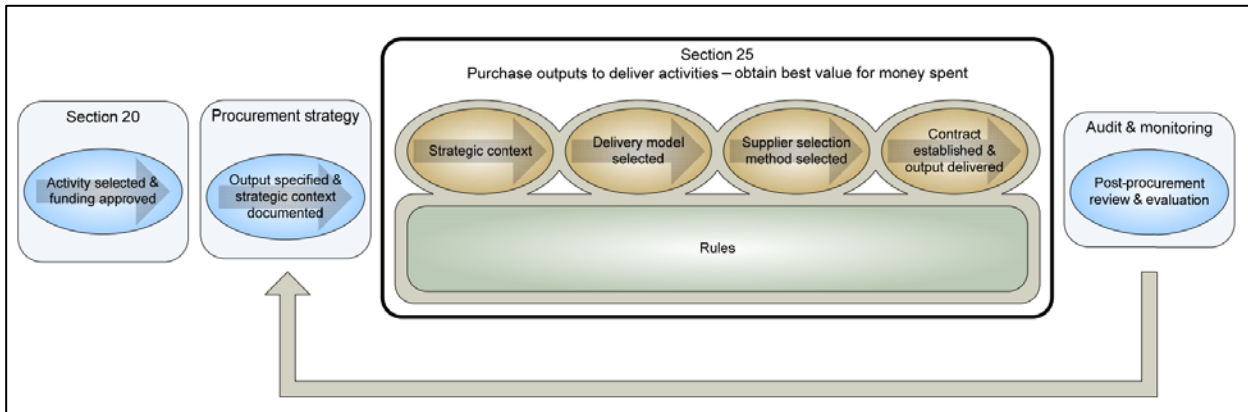
- The team experienced difficulty accessing some of the requested site documentation from sites in order to compare the documentation meaningfully across the four sites. Procurement strategies and approximate percentages of projects delivered by supplier selection and delivery model were provided. Much of the remaining documentation, however, was not supplied (that the Transport Agency expected to be available). Moreover, two sites were unable to provide: document samples relating to rationalising the selection of delivery model for specific procurement activity; sample supplier selection analyses for price quality method (PQM)<sup>26</sup> (or similar alternative methodology); or post-implementation review documentation. With the exception of AT, none of the sites provided market review analysis informed delivery model selection. As a result, the findings on RCA process management draws heavily on participants' perspectives gathered during fieldwork rather than RCA tender document analysis. Because findings on RCA policy implementation are centred on the four selected RCA sites, it is possible that a focus on different sites would produce different findings. Moreover, it is not possible to generalise the findings discussed to all RCAs nationally.

---

<sup>26</sup> The supplier quality premium is used in price quality supplier selection approaches that use a price weight. It balances (or trades off) price and quality by use of a formula. It enables the purchaser to pay more for a high-quality supplier, and clearly shows the process the purchaser goes through to decide how much more to pay (NZ Transport Agency 2009).

## Appendix C: The Transport Agency roading procurement process

Figure C.1 Procurement process overview from activity selection to output delivery



Source: NZ Transport Agency 2009

## Appendix D: Glossary

AO	approved organisation
AT	Auckland Transport
BCR	benefit-cost ratio
CBA	cost-benefit analysis
CLAN	centre led action network
CODC	Central Otago District Council
CPE	criteria for performance excellence
CPP	competitive pricing procedures
DCC	Dunedin City Council
DTIM	Deighton Total Infrastructure Management System
GPS	Government Policy Statement on Land Transport Funding
HNO	Highways and Network Operations Group
KEQ	key evaluation question
KRQ	key research question
LGNZ	Local Government New Zealand
LPC	lowest price conforming
LTMA	Land Transport Management Act (2003)
LTP	long-term plan
MBIE	Ministry of Business, Innovation and Employment
MoT	Ministry of Transport
NLTP	National Land Transport Plan
NOC	network outcomes contract
NZBEF	New Zealand Business Excellence Foundation
NZQA	New Zealand Qualifications Authority
OGC	Office of Government Commerce
PACE	performance assessment by coordinated evaluation
P&I	Planning and Investment Group
PM	<i>Procurement manual</i> (NZ Transport Agency 2009)
PPP	public private partnership
PQM	price quality method (of tender evaluation)
RAMM	Road Assessment and Maintenance Management System
RCA	road controlling authority
RDC	Ruapehu District Council
RFT	Request for Tenders
SH	state highway

SME	small to medium-sized enterprise
TLA	territorial local authority
TET	tender evaluation team
TIO	Transport Investment Online
Transport Agency	New Zealand Transport Agency
UFE	utilised-focused evaluation
VFM	value for money