

Discussion document

Public transport assets, operating models and partnering

Sustainable Public Transport Framework
November 2023

Not government policy – for discussion

Introduction and scope

In August 2022, the Government announced the establishment of the Sustainable Public Transport Framework (SPTF) as a new policy and legislative framework for the planning, procurement, and delivery of public transport services.

The SPTF is being given effect through the recent passing of the Land Transport Management (Regulation of Public Transport) Amendment Act 2023 and the development by Waka Kotahi of enabling and supporting operational policy and guidance.

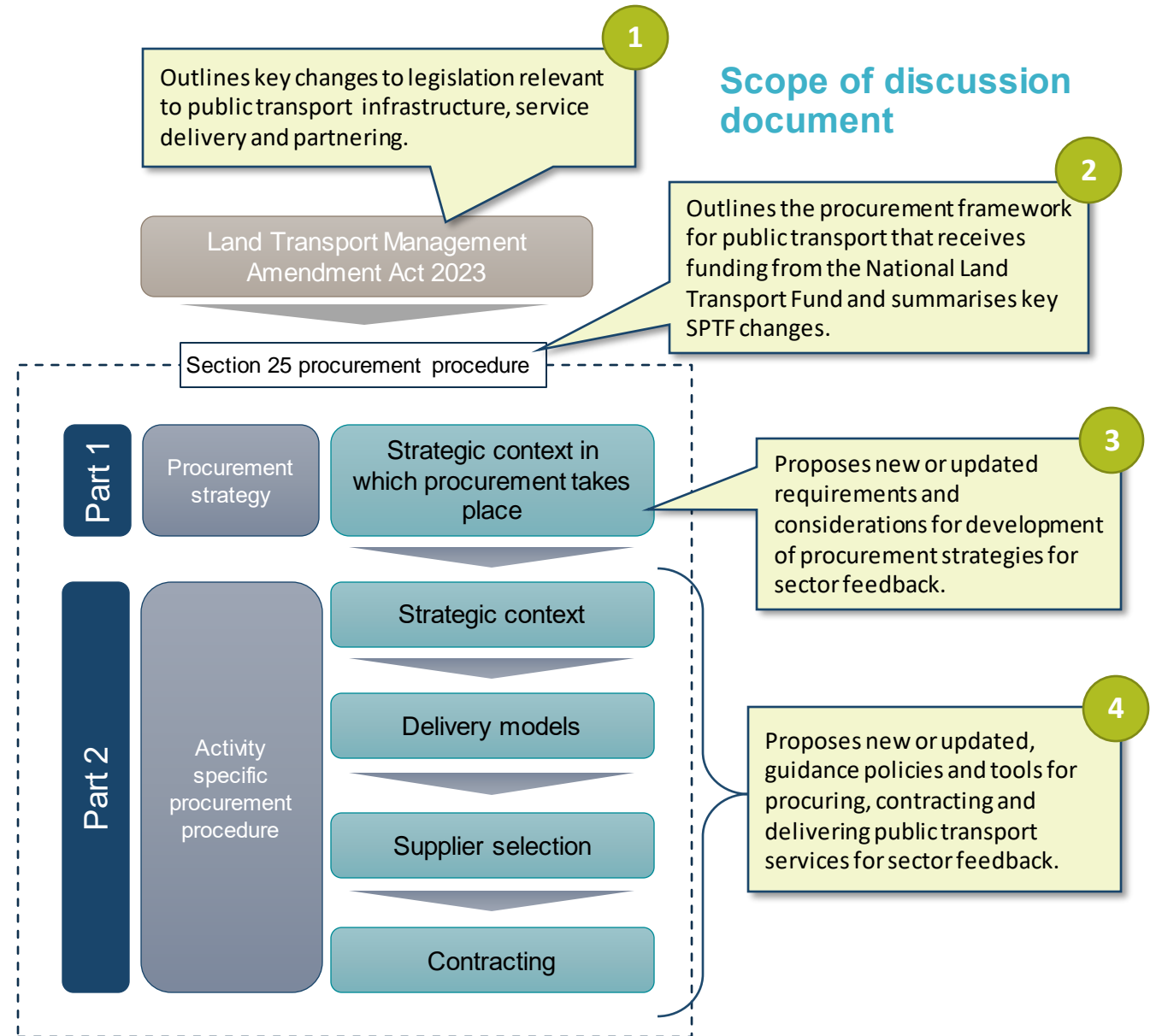
Waka Kotahi has been developing operational policy via cross sector working groups.

This document reflects the efforts of two working groups:

- Infrastructure and delivery models
- Partnering and reporting

The document is structured around the procurement framework as illustrated on the right. It starts with high-level legislation changes and aims to provide a clear line of sight through to matters that relate to day-to-day service delivery.

The document includes engagement questions which seek sector feedback. Feedback will inform Waka Kotahi's final operational policy, requirements and guidance.



Contents

Introduction

Section 1 – Context

Legislative change	5
Problems and objectives	6
Drivers of change	8
Question and feedback	9

Section 2 – Procurement framework

Introduction and overview	11
Service classification	12
Allocation of services into units	13
Procurement and planning	14
Questions and feedback	15

Section 3 – Procurement strategies

3.1 Energy and assets

Enabling assets	18
Asset control and classification	19
Forms of asset control and management	20
Asset delivery models	21
Asset control pathways	22
Asset delivery & investment approaches	23
Questions and feedback	24

3.2 Depots and vehicles

Bus depot strategies	26
Basis of tendering - depots	27
Vehicles	28
Vehicle transfer approaches	29
Vehicle transfer scenarios	30
Questions and feedback	31

3.3 Service delivery models

Overview	33
Service delivery model concepts	34
Integrated delivery model framework	35
Contract tenure	37
Questions and feedback	38

3.4 Framework Summary

Key requirements	40
Procurement development steps	41
Questions and feedback	42

Section 4 – Procurement procedures

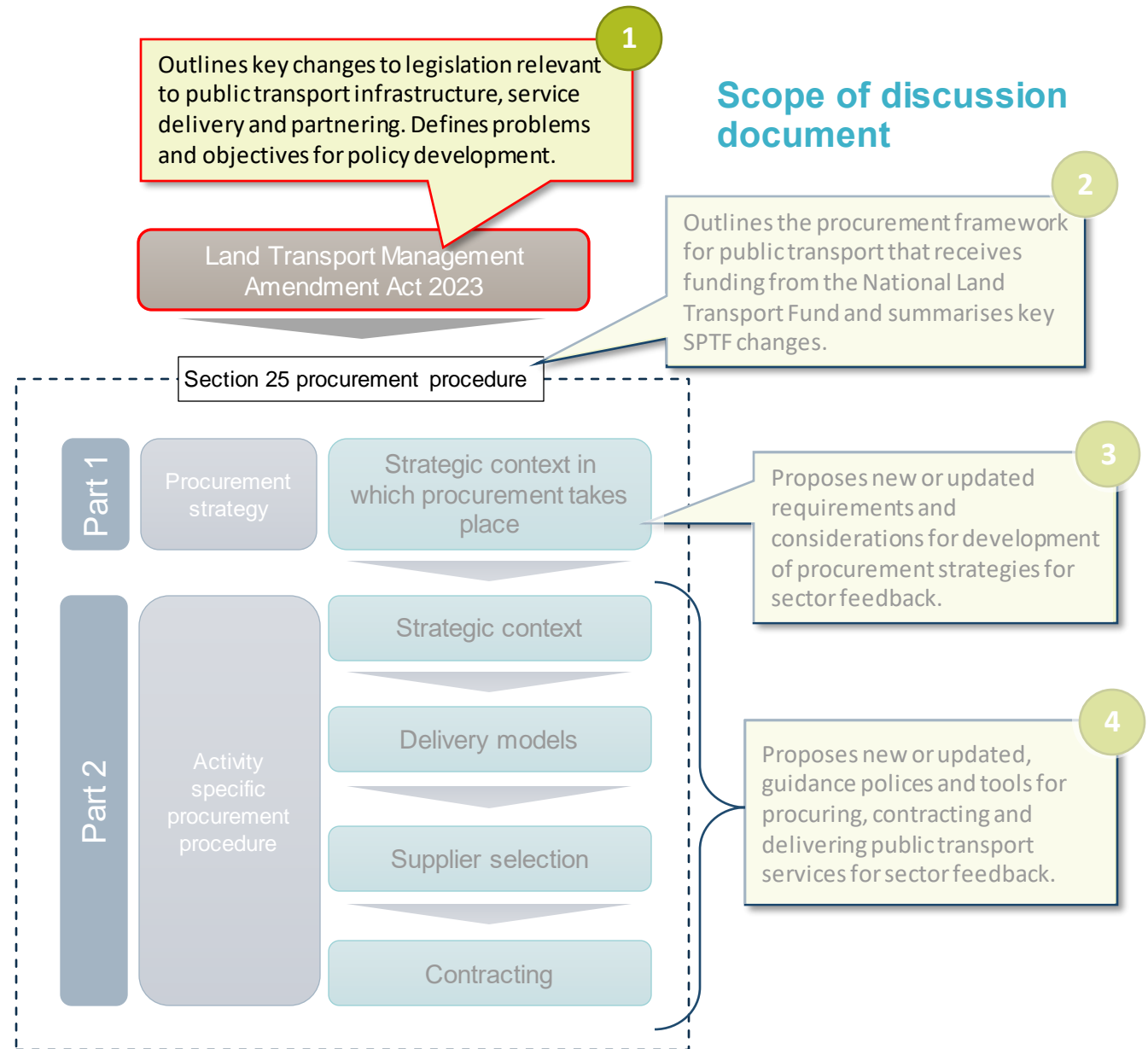
Strategic context	44
Delivery models	45
Supplier selection	46
Contracting	47
Relational contracting	48
Aligning objectives	49
Joint improvement planning	50
Questions and feedback	51
Risk allocation	51
Pricing mechanisms	55
Contract length	56
National consistency	57
Information transparency	58
Options tool kit	59
Questions and feedback	60

Appendices

Appendix 1 - Service delivery framework
Appendix 2 - Options tool kit report

Section 1 Context

Legislative change and objectives for policy development



Scope of discussion document

Legislative change

Key legislative changes relating to infrastructure, operating models and partnering



Introduction

The following sections summarise key legislative changes and impacts for procurement. Headings represent links to the Land Transport Management Amendment Act 2023.

[Section 115 principles](#)

All persons exercising powers or performing functions relating to public transport regulated under part 5 of the LTMA must be guided by the principles defined in section 115.

The new principles emphasise a broad range of outcomes sought from providing public transport and reference attributes required to achieve those outcomes.

In relation to procurement, the principles help inform what constitutes value for money and what must be considered when developing procurement strategies and detailed procurement procedures.

The principles also add further weight to the notion that the lowest price does not always equate to the best value for money spent. This has important implications for the design and execution of procurement procedures.

The principles underpin Waka Kotahi operational policy development and are expanded on in this discussion document.

[Section 25 procurement procedures and obtaining best value for money](#)

Section 25 requires Waka Kotahi to approve procurement procedures designed to obtain best value for money (s25 (1)).

To provide public transport authorities (PTAs) with the flexibility to deliver public transport services in-house, the LTM Amendment Bill removed explicit requirements from s25 for Waka Kotahi to consider the desirability of competition and the requirement for PT activities to be outsourced.

While the amendments to section 25 creates flexibility, the requirement to achieve value for money spent on public transport remains embedded within the act:

- s25 still requires procurement procedures to obtain best value for money. This applies to all outsourced procurement scenarios.
- s115 retains the principle, amongst a broader set of principles, that investment in PT services should be efficient and give value for money. This applies to all procurement scenarios.
- s124 requires that, PTAs must take into account the need to obtain best value for money when adopting regional public transport plans. This applies to all procurement scenarios.

It is Waka Kotahi policy that enabling fair competition and encouraging competitive and efficient markets remains the primary method for obtaining best value for money spent on public transport.

This underpins the extent and circumstances to which Waka Kotahi may support in-house delivery of services and assets. We expand on this further in this document.

[Section 27 manner in which certain local authority interests in public transport service must be held](#)

Section 27 defines the manner in which PTAs can hold an interest in public transport services and assets.

Previously PTAs could only hold an interest in public transport via a council-controlled trading organisation (CCTO). A CCTO undertakes a trading activity for the purpose of making a profit.

Amendments to section 27 permit PTAs to directly hold interests in PT services and assets and do not need to do so through a CCTO. The amended LTMA enables PT services to be delivered through both the continued outsourcing to public transport operators (PTOs) or through in-house delivery by PTAs. The LTMA also now enables PTAs as well as PTOs to provide enabling infrastructure and assets.

Waka Kotahi and PTAs are now able to consider both approaches when developing procurement procedures designed to obtain best value for money.

Via the development of procurement strategies, PTAs need to determine circumstances and extent to which services should be delivered in-house and who should provide enabling assets.

[Section 116 transparency](#)

Section 116 requires planning, procuring, and operating public transport services to be carried out in an open and transparent manner, irrespective of who operates the service.

Openness and transparency extend to matters such as, operating costs, service performance, vehicles and vessels, the financial performance of the person operating services and the aggregate terms and conditions of the workforce.

While section 116 aims to enable greater transparency, it does not require commercially sensitive information to be disclosed publicly.

Overarching problems and objectives

Investment logic mapping



Introduction

A key principle of the Waka Kotahi Business Case Approach (BCA) is the use of informed discussions to ensure that the rationale for a potential investment is adequately understood.

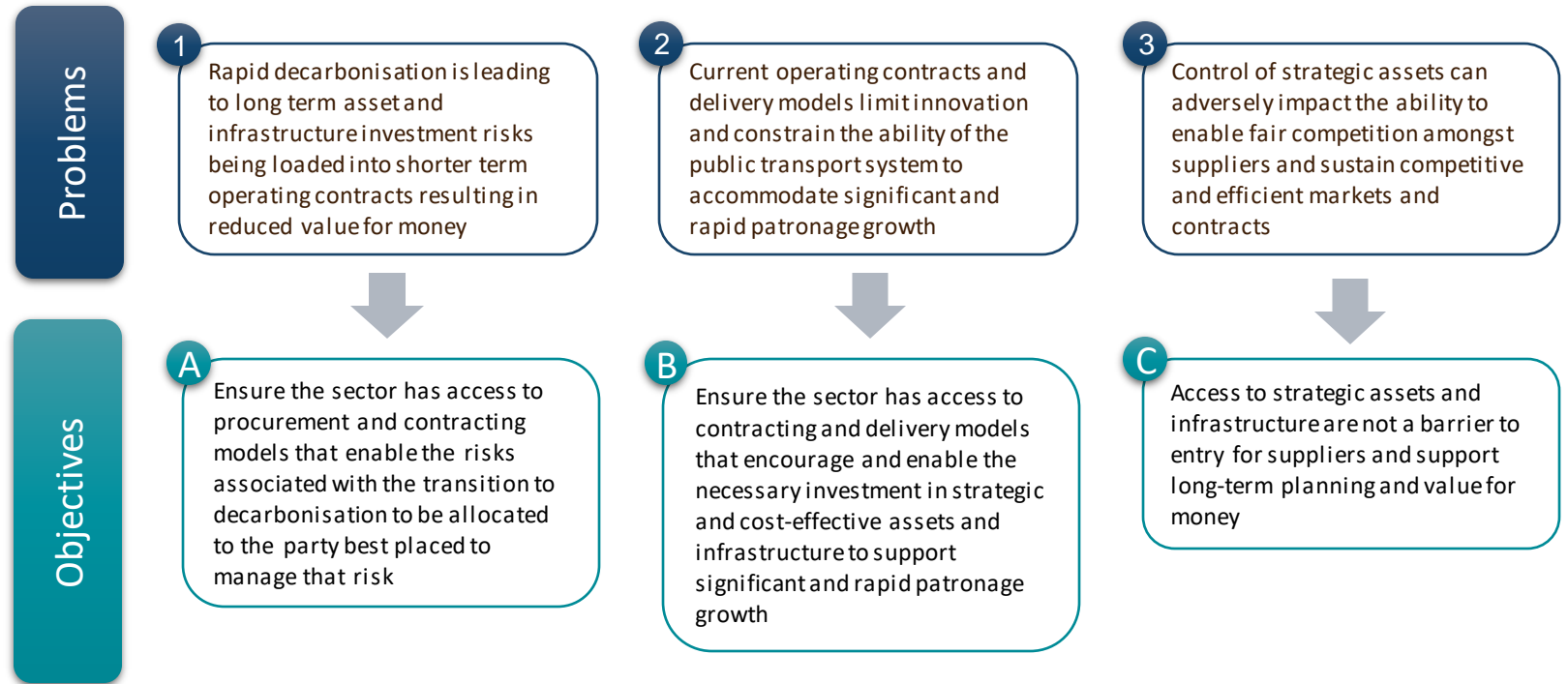
One technique for informed discussion is investment logic mapping (ILM), which is included in the New Zealand Treasury’s guidelines for public sector business cases.

ILM ensures ‘that robust discussion and thinking is done up-front, resulting in a sound problem definition, before solutions are identified and before any investment decision is made’. ILM uses facilitated workshops to draw out context and problem definitions.

The SPTF Infrastructure and Delivery Model Working Group undertook a series of facilitated ILM workshops to help define strategic sector wide context for public transport delivery.

The output of the ILM workshops is a set of problem and objective statements that reflect the changing dynamics within the sector. These statements have shaped SPTF work to date and will inform planned updates to Waka Kotahi’s procurement manual.

The problems and objectives from the ILM process are outlined below with context underpinning the problems outlined on the following page.



Driver of change

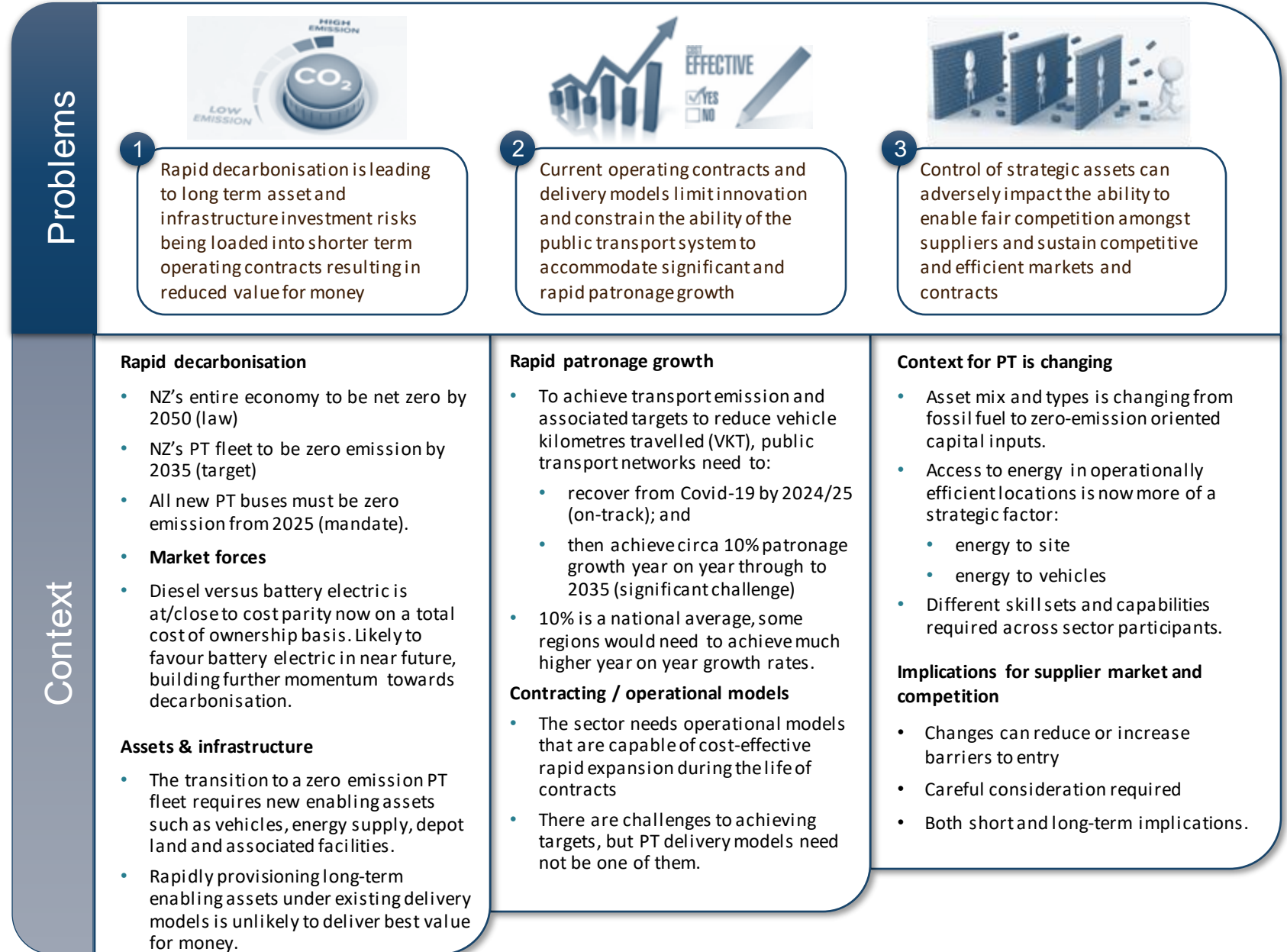
Context for problem definition and objectives

Introduction

The diagram on the right summarises context for the problem statements and outlines key drivers of change for the public transport sector.

The problems and drivers of change in turn provide context for objectives and policy development.

It is important to note the problems and drivers of change exist irrespective of legislative change.



Drivers of change

Considerations for procurement strategies

Introduction

Procurement strategies define the strategic context in which procurement activity is to take place and outlines how a PTA intends to procure activities in a way that obtains best value for money.

Procurement strategies should be dynamic and updated at least every three years, or more frequently in response to significant changes to the procurement environment.

Procurement strategies should provide a high degree of certainty in the shorter term (zero to three-year timeframes) with respect to how and when procurement occurs, whilst also taking a strategic view over longer timeframes.

What is possible in the near-term is shaped by what has occurred previously and what is possible in the longer-term will be shaped by what happens next.

Drivers of change and achieving best long-term value for money

There are four key near-term drivers of change that should be factored into forthcoming procurement strategy reviews, in addition to guidance already outlined within Waka Kotahi’s procurement manual. The drivers of change include:

1. Legislative change enabling:
 - different asset control arrangements
 - either in-house or outsourced service delivery
2. Decarbonising public transport.

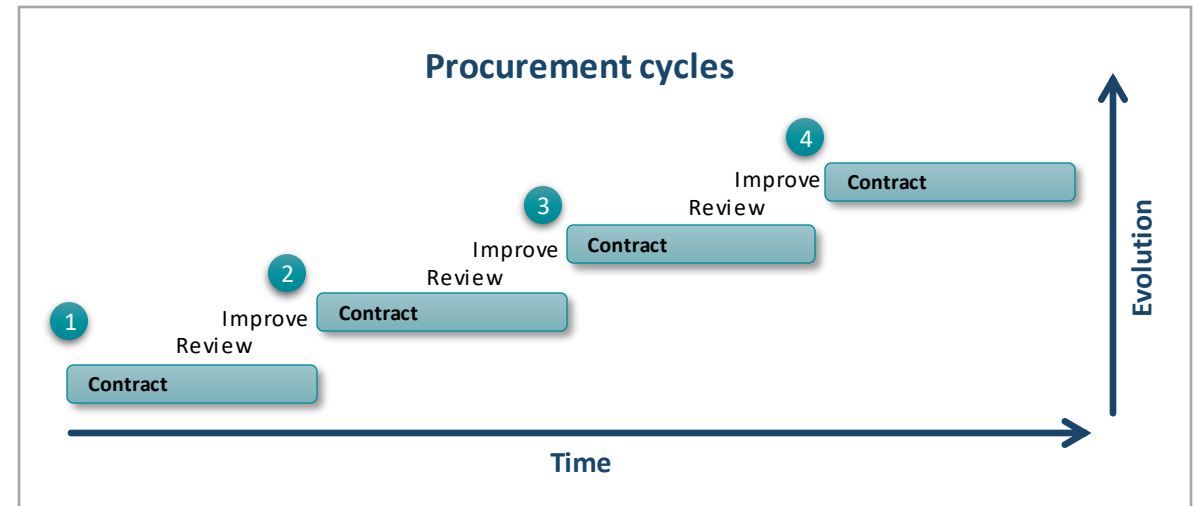
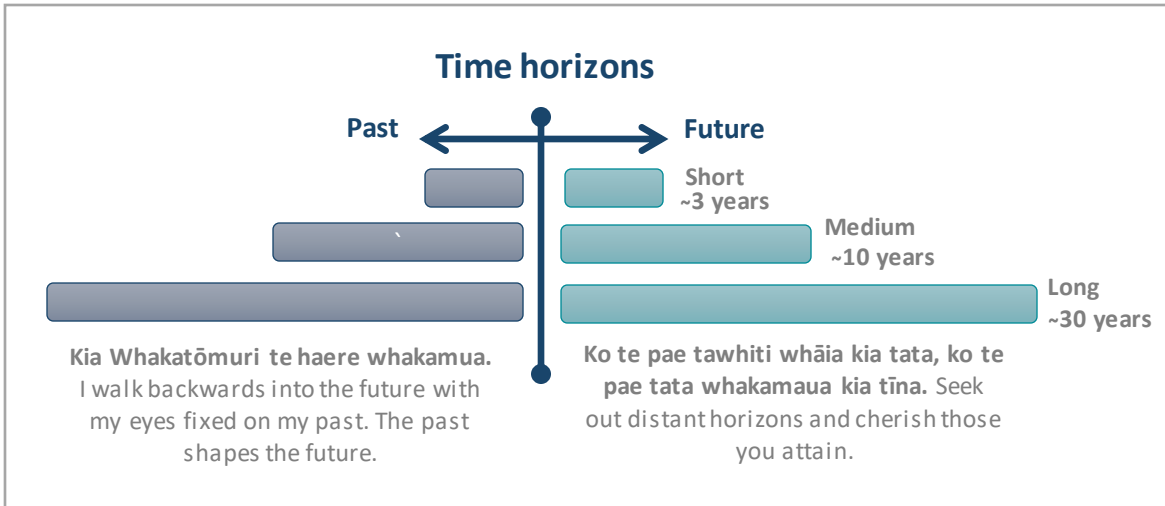
3. Enabling cost-effective rapid growth of public transport.
4. Responding to a changing procurement environment and ensuring fair competition and supporting competitive and efficient markets both in the short and long-term.

When exploring potential implications associated with the drivers of change outlined above, the working group identified many potential scenarios where sector participants (PTAs and PTOs) will be faced with trade-offs between shorter-term benefits and challenges versus achieving longer-term outcomes.

Procurement strategies must take a long-term view to achieving best value for money. This means, to the maximum extent practicable, achieving longer-term outcomes must take precedence.

Infrastructure and assets

The next section of this document outlines implications for enabling assets and infrastructure. Later sections address service delivery approaches and enabling the potential for rapid growth.



Questions for feedback

Legislative change and objectives for policy development

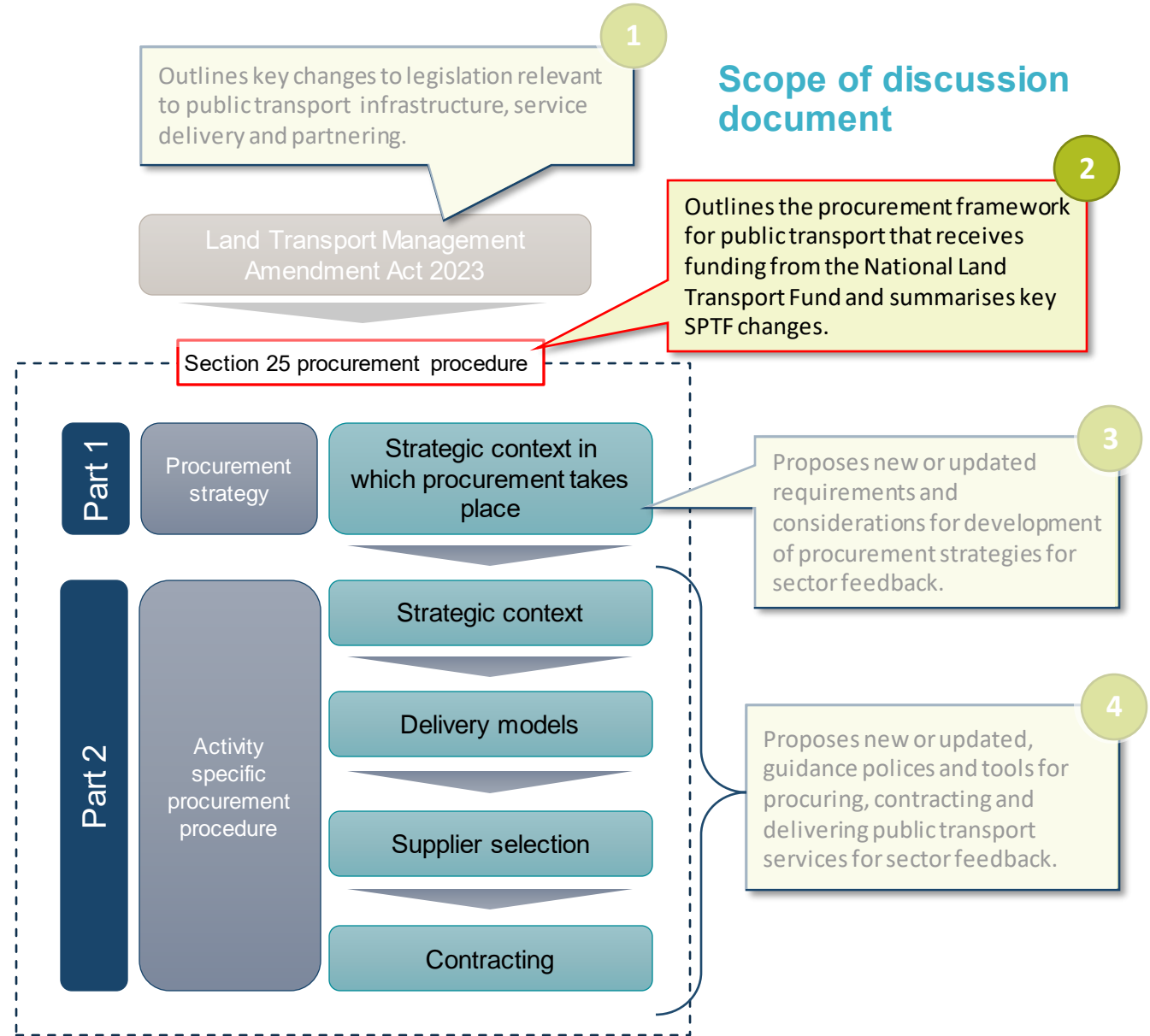
LTMA amendments

1. Please provide any feedback on the recent legislative amendments noting:
 - any benefits that you consider the amended legislation could present to the sector
 - any challenges that you consider the amended legislation could present to the sector
 - how Waka Kotahi could help to maximise any benefits and address any challenges.

Problems, objectives and drivers of change

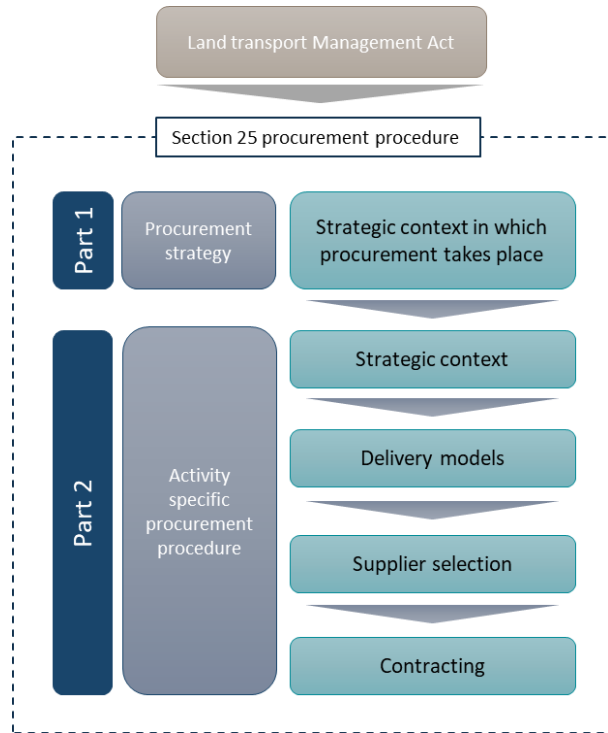
2. Please provide any feedback on the applicability and usefulness of the problem statements and objectives when considering the future delivery of PT services.
3. Please provide any feedback on the strategic context and drivers of change for consideration by PTAs when preparing procurement strategies. To what extent are these considerations useful and what additional guidance, if any, would be helpful from Waka Kotahi?

Section 2 Procurement framework



Introduction and overview

Procurement framework



Introduction

The Land Transport Management Act (s25) requires Waka Kotahi to approve procurement procedures designed to obtain best value for money for activities funded from the National Land Transport Fund (NLTF). Procurement procedures can be summarised into two key parts.

Part 1 - Procurement Strategy

First, PTAs must assess the strategic context in which procurement activity is to take place. This is documented within a procurement strategy endorsed by Waka Kotahi.

The strategy must take a long-term strategic view and outlines how an approved organisation will deliver a programme of activities in a way that obtains best value for money spent.

Part 2 – Procurement Procedure

Secondly, specific activities must be procured in accordance with a detailed procurement procedure encompassing:

- definition of the strategic context for the specific activity
- delivery model selection
- determining a supplier selection method
- contract form and content.

The four elements are related. The strategic context informs the selection of the delivery model, which in turn informs the choice of a supplier selection method from which a contract is established to purchase the required outputs.

The Waka Kotahi Procurement Manual contains procurement procedures pre-approved under s25 suitable for routine activities.

The Procurement Manual also allows for:

- advanced procurement procedures that can only be used with approval from Waka Kotahi, and

- customised procurement procedures for approaches that can be demonstrated to deliver best value for money but are not otherwise catered for in the Procurement Manual.

In essence, Approved Organisations (AOs) can purchase goods and services utilising funds from the NLTF under the following circumstances:

1. they have a current procurement strategy endorsed by Waka Kotahi
2. the activity is included within the National Land Transport Programme (NLTP) and has received funding approval, and
3. the activity is procured in accordance with an activity specific procurement procedure approved by Waka Kotahi.

While the overall approach and framework remains the same, there is a need to update components within the framework to achieve SPTF objectives.

The remainder of this document outlines proposed changes to the procurement framework for public transport services for sector engagement and feedback.

The next page outlines the regulatory classification of public transport services and its relevance to procurement.



Service classification

Procurement framework

Activity	Contracted unit	Exempt unit
PTA can provide subsidy	Yes	No*
PTA can provide financial assistance to reduce fares	Yes	Yes
PTA can provide financial assistance for services in small passenger service vehicles	Yes	Yes
Must be operated in accordance with objective and policies in a RPTP	Yes	No
Must be operated in a unit by a PTA or under contract with a PTA	Yes	No

* Excluding financial assistance to reduce fares or for services in small passenger service vehicles.

Introduction

Under the LTMA, public transport is organised into three broad categories as outlined below.

Integral Services

The LTMA requires PTAs to identify services that are integral to the public transport network in a regional public transport plan (RPTP).

PTAs determine what makes a service ‘integral’ – it will vary from region to region and will be informed by public consultation on RPTPs.

Unless exempt, integral services identified in a RPTP must be operated in a unit by a PTA or under contract with a PTA (s116A).

Exempt services

Exempt services are operated by a private sector enterprise without a subsidy*.

Certain exempt services (those that may impact contracted public transport services) must be registered with the relevant PTA. A PTA may decline to register an exempt service where the service could adversely impact the operation of the public transport network.

Exempt services can be identified as integral to the public transport network by a PTA and identified as an exempt unit in a RPTP.

Identifying an exempt service as integral and allocating it into a unit does not change its status as an exempt service. The service, while exempt, is not subject to the objectives or policies of the RPTP and are not required to be operated in a unit by a PTA or under contract with a PTA.

However, if a PTA identifies an exempt service as integral, this signals an intent to operate that service under contract should the exempt service be deregistered in the future.

Contracted services

Contracted services are services that must be:

- identified as integral in a RPTP
- operated in a unit by a PTA or under contract with a PTA
- operated in accordance with objectives and policies defined within a RPTP.

Unlike exempt services, contracted services can be subsidised. Subsidy, means any funding from:

- the NLTF, or
- a local authority (including PTAs).

Subsidy, for the purpose of determining the exempt status of a service, does not include:

- anything done under an agreement between the relevant PTA and a PTO to reduce passenger fares, or
- financial assistance provided by the relevant PTA for a passenger service identified in a RPTP under LTMA section 120(1)(a)(vii).

Contracted services that receive funding from the NLTF must be procured in accordance with procedures that are both:

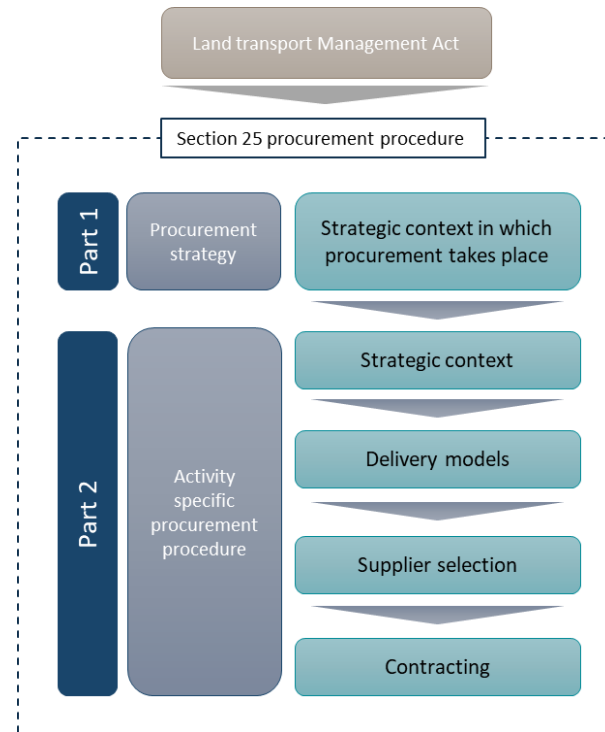
- designed to obtain best value for money
- approved by Waka Kotahi.

Waka Kotahi's procurement manual contains procurement procedures for public transport units.

The allocation of services into units is an important part of procurement procedures and the broader procurement framework.

Allocation of services into units

Procurement framework



Introduction

Units are a key organising concept for the procurement of contracted public transport services.

A unit is a defined geographic area of any size that is specified in a RPTP and for which the PTA has specified how public transport services must be operated.

The geographic area of a unit is largely determined by the services included within a unit.

The allocation of services into units should be done in a way that contributes to good network outcomes and assists public transport to be efficient and give value for money.

The following are updated requirements for allocation of services into contracted units for sector feedback. Once finalised and adopted by Waka Kotahi, PTAs would need to demonstrate alignment with the requirements when developing procurement strategies and related content in RPTPs. How PTAs align with the proposed requirements depends on context, which will vary from region to region.

Proposed contracted unit requirements

1. Units **must** be effective at meeting network outcomes

Services must be allocated into units in a manner that supports the wider network, including how services integrate between each other and future network changes.

Services in the unit must have similar operational characteristics. For example, a unit cannot include a combination of bus, ferry or train services.

On-demand public transport is a variant to a parent mode (bus, train, ferry) and may be configured into standalone units or form part of units with fixed route services of the same mode.

2. Units **must** be operationally and financially efficient

Services must be allocated into units in a manner that:

- is attractive to the target supplier market as defined in procurement strategies
- minimises out of service operation
- makes best use of existing or planned enabling infrastructure and assets
- minimises energy use
- supports cost-effective service changes.

Efficient operation may be as a stand-alone operation or as part of a wider suite of services across multiple units depending on regional context.

3. Allocation of services into units **must** support long-term competitive and efficient markets

Units must be configured in a manner that supports competition to the greatest extent practicable.

In larger markets, units should be organised to enable a regular programme of procurement over time that avoids extended periods of minimal or no procurement activity. This supports:

- sustainability of the service provider market and associated supply chains
- competitive pricing transparency and benchmarking.

Multiple units may be tendered as part of a group tender policy and procured as an integrated package where doing so may deliver best value for money.

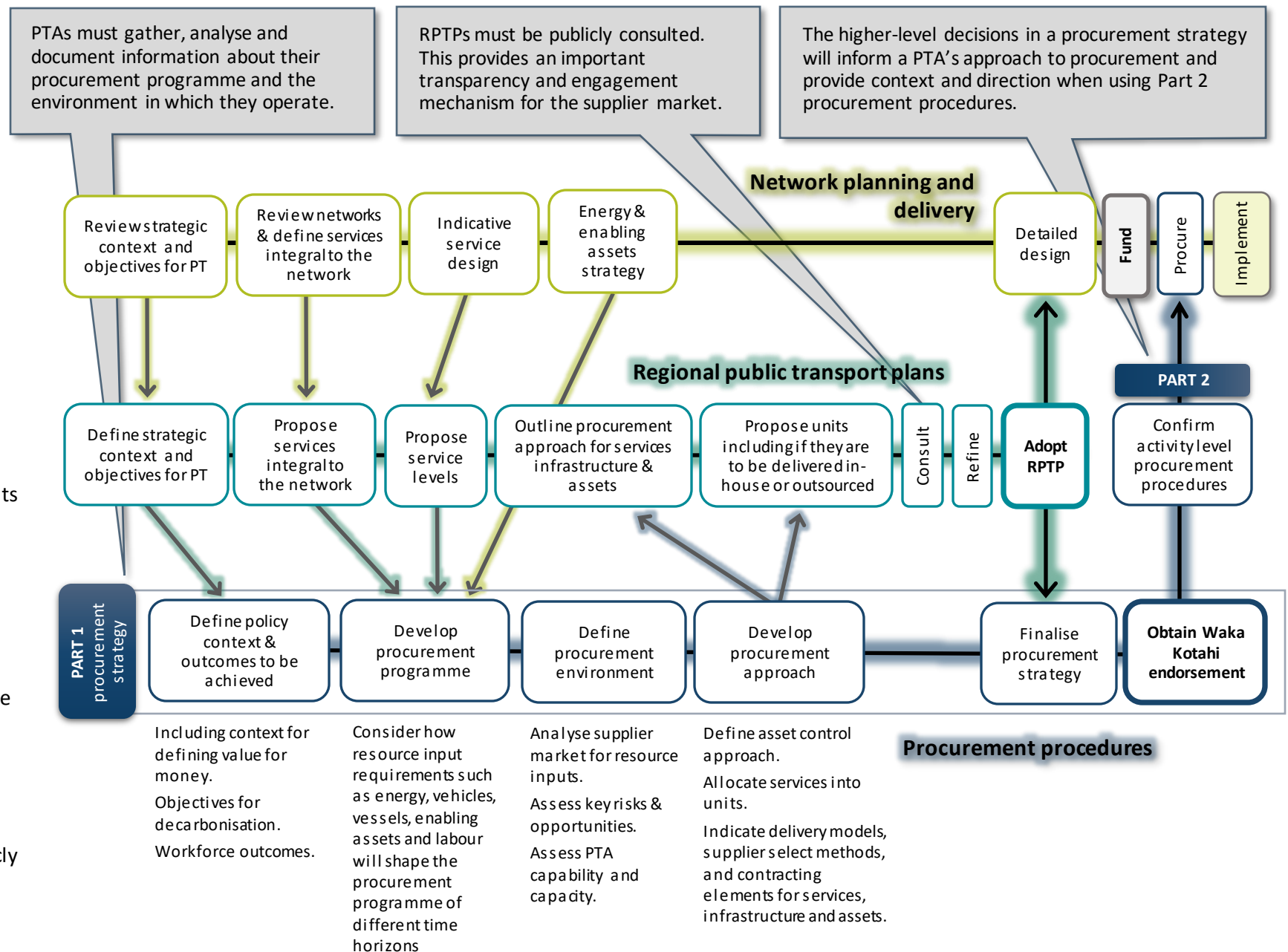
Procurement and planning

Procurement framework

The procurement framework includes related planning processes, in particular RPTPs. LTMA (s120) requires RPTPs to:

- arrange all integral public transport services into units
- identify the infrastructure necessary to support services
- indicate the date by which units are expected to start operating
- specify any objectives and policies that apply to units
- include policies on:
 - the process for establishing units
 - the approach that will be taken to provide the services in a unit, including;
 - how the procurement of units will be phased in over time, and
 - whether they are to be delivered in-house or outsourced
- managing, monitoring, and evaluating the performance of units.

Content in a RPTP relating to procurement should be informed by strategic elements and analysis that underpin procurement strategies. RPTPs must be publicly consulted on. This provides an important transparency and engagement mechanism for the supplier market.



Questions and feedback

Procurement framework

Classification of PT

4. Please provide any feedback on the classification of PT services on [page 12](#).

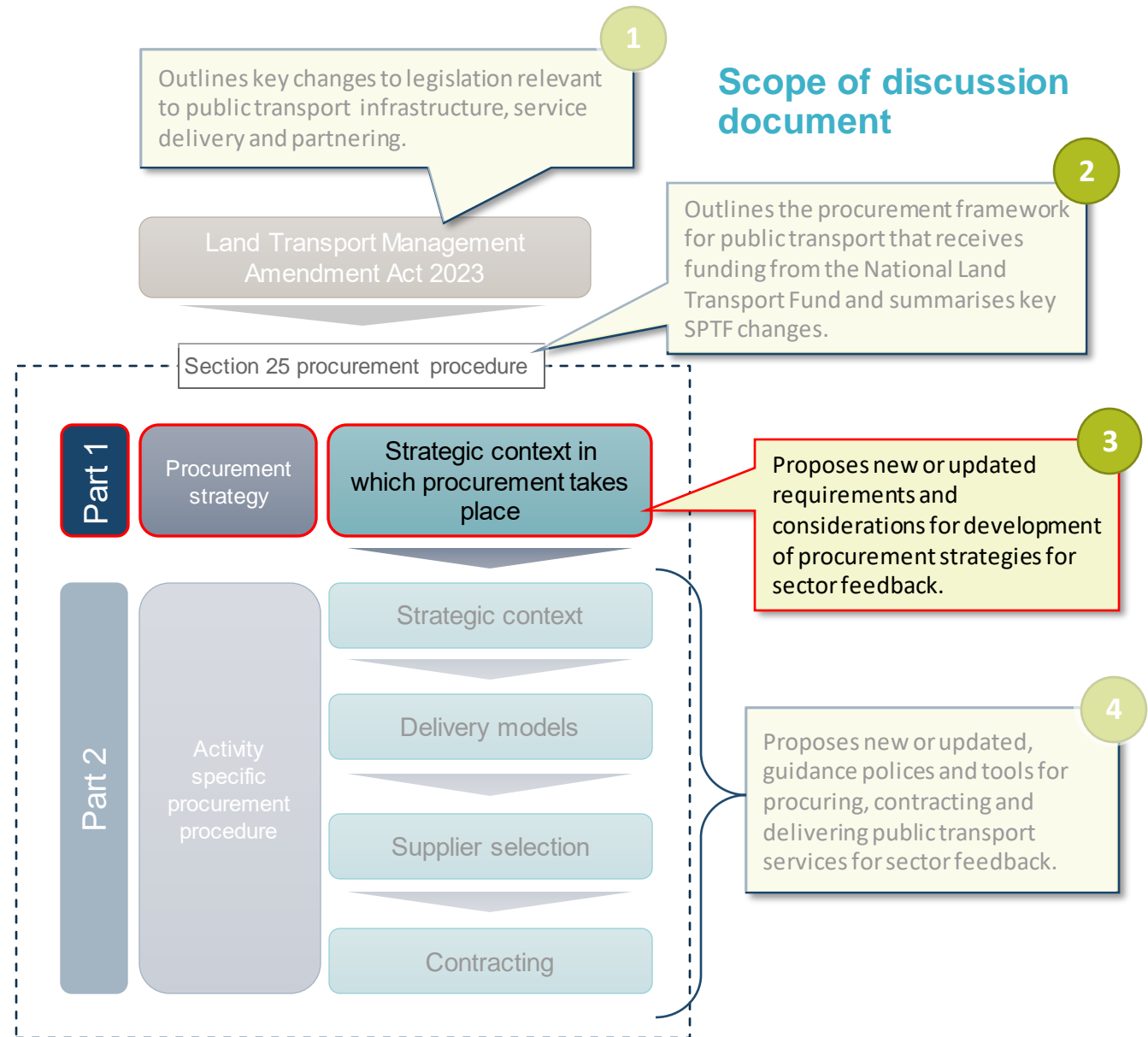
Proposed unit requirements

5. Please provide any feedback on the proposed requirements for the organisation of services into contracted units outlined on [page 13](#).

Procurement and planning framework

6. Please provide any feedback on how applicable and useful the framework diagram on [page 14](#) is when considering the planning and procurement of PT services.

Section 3 Procurement strategies



3.1 Energy and enabling assets



Enabling assets

Context for procurement

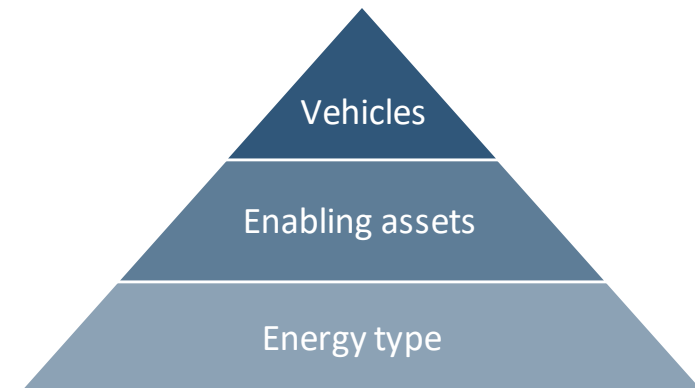
PTA provision or PTO provision of infrastructure and assets

The LTMA provides for either PTO or PTA provision / control of assets and infrastructure.

In this context infrastructure and assets refers to items that enable service delivery such as buses, depots, energy assets and the equivalent for ferry and rail services. We call these enabling assets.

In some circumstances the control of enabling assets, such as land and access to energy, can influence fair competition and competitive and efficient markets for the supply of public transport services.

Energy is a starting point for considering enabling assets and their control. Energy type determines vehicle and enabling asset requirements as, without energy, nothing works.



Current state bus fleet

Currently there are about 2600 public transport buses in New Zealand. About 90% are diesel powered with the balance being zero emission. Collectively the fleet travels about 115 million in-service kilometres per year and consumes an estimated 40 million litres of diesel, producing about 110,000 tonnes of CO₂ and other emissions harmful to human health.

New Zealand's economy is required to be net zero by 2050 (law). The public bus fleet aims to be zero emission by 2035 (target) and all new built public transport buses entering the fleet must be zero emission from 2025 onwards (mandate).

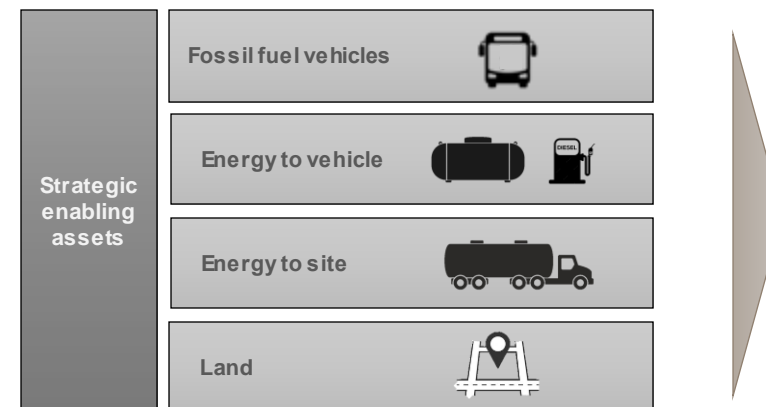
Battery electric bus operation is at or approaching cost parity versus diesel powered operations on a whole of life basis. Hydrogen continues to develop as a potentially viable option for public transport buses.

Future state bus fleet

For the foreseeable future battery electric buses are likely to be the main method of decarbonising the national bus fleet as other options such as green hydrogen continue to develop.

If the existing bus fleet of 2600 vehicles, collectively traveling about 115 million km per year, is to be battery electric, then

Current state



the fleet would consume over 115,000 megawatt hours of electricity per annum (assuming an average of 1 kwh per km travelled). This is roughly equivalent to the power consumption of 14,300 households.

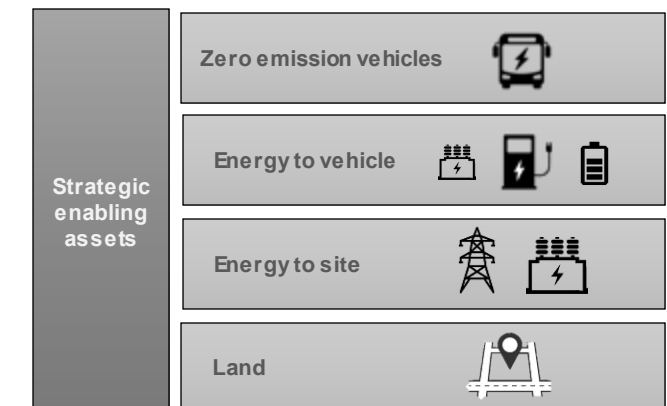
Actual energy consumption will be significantly higher, as the bus fleet is expected to grow over time, along with rail and ferry fleets, which are also electrifying.

Proposed procurement manual update

Waka Kōwhiri proposes that the following additional inputs be included in future procurement strategies with an assessment of the implication that each element will have on asset control, delivery model selection and procurement decisions:

1. A zero-emission road map.
2. Analysis of energy requirements and market context by operational locality over different time horizons.
3. An assessment of whether access to sufficient energy in operationally efficient locations could influence fair competition for service delivery contracts.
4. A strategy for provisioning enabling assets including the extent to which strategic assets may be controlled by the PTA or by PTOs.

Future state



For discussion – not government policy

Asset control & classification

Context for procurement

Introduction

Assets could be provisioned in many ways (refer to diagram). What is appropriate regarding the configuration of responsibilities and the form of asset control depends on context, which varies throughout New Zealand.

A decision on who is responsible for controlling assets, and why, should precede decisions regarding the form of asset control.

As an input into procurement strategies, PTAs, in consultation with the broader sector need to determine the circumstances and extent to which Tier 1 and 2 enabling assets should be controlled by the PTA or a PTO.

Proposed classification of assets

Tier 1 assets: Foundational long-term strategic enabling assets such as land and access to energy. Lifecycles measured in decades and/or strategically important for enabling competitive and efficient markets.

Tier 2 assets: Medium-term enabling assets essential to service delivery (generally >10-year lifecycles) and the treatment of which can significantly influence obtaining best value for money.

Tier 3 assets: Commodity assets (generally <10-year lifecycles) routinely renewed and replaced as part of normal business processes.

Tier 1 and Tier 2 assets can be classed as strategic enabling assets. In developing procurement strategies, PTAs will need to outline how they intend to provision such assets in a manner that enables fair competition, supports competitive and efficient markets and helps obtain best long-term value for money.

Circumstances that may warrant PTA control

Circumstances that may warrant PTA control of strategic assets, include but are not limited to:

- instances where suitable land for depot facilities is scarce or is likely to become scarce
- where asset control by PTOs represents a material barrier to entry / credible competition for unit contracts, and/or

- where there is a value for money proposition in enabling two or more PTOs to utilise enabling assets,
- where public control supports cost effective service change or expansion over time.

Asset delivery scenarios

		All Assets	Land only	Land & energy 1	Land & energy 2	Energy only	Vehicle assets	All Fixed assets	All assets	
Strategic enabling assets	Tier 2	Staff facilities						PTA	PTA	
		Vehicle facilities				PTO	PTO			
		Vehicles	PTO	PTO	PTO			PTO	PTO	
	Tier 1	Energy to vehicle					PTA			
		Energy to site			PTA	PTA		PTA	PTA	
		Land		PTA			PTO			

Forms of asset control and management

Context for procurement

Forms of asset control

Asset control, does not necessarily mean ownership. Forms of asset control include:

- ownership
- end of term transfer
- lease
- third party 'solution as a service'.

The viability, benefits and risks associated with different forms of asset control depends on context and will vary throughout New Zealand.

Where it is deemed that best value for money can be obtained via PTO control of assets, then the optimal form of control can be established via competitive tender processes and need not be specifically outlined in procurement strategies.

Where it is deemed that best value for money can be obtained via PTA control of assets, then the PTA will need to outline the intended form of control in procurement strategies.

The intended approach can be reassessed and finalised as part of procurement procedures for specific activities (Part 2 of a procurement procedure).

Asset management

In this context asset control refers to the entity that determines what happens to an asset and how it is utilised over time. Asset management refers to the operation and maintenance of assets. An entity responsible for control can be different to the entity responsible for asset management.

Where PTAs are to control enabling assets, they will also need to outline an approach to management of those assets as part of procurement strategies.

Proposed procurement manual amendments

Waka Kotahi proposes updating the procurement manual to treat:

1. Provision, operation and maintenance of strategic enabling assets by a PTA, including via a third party 'solution as a service' or other third party offering, as an approach that requires an advanced procurement procedure approval.

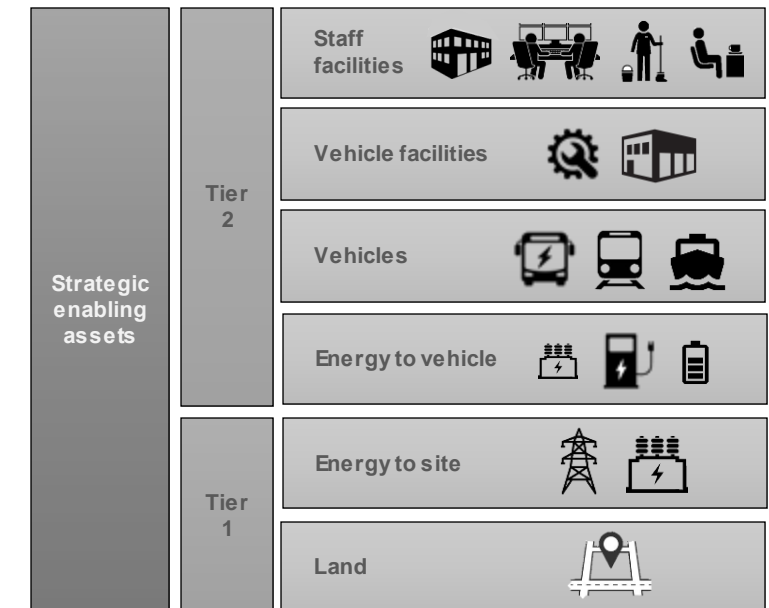
This means it would only be considered on a case-by-case basis and would need explicit agreement from Waka Kotahi. To obtain agreement a PTA would need to demonstrate that both:

- the approach would achieve best long-term value for money, and
- the PTA has a robust asset management plan and the necessary skills and capabilities.

2. Provision, operation and maintenance of strategic enabling assets by a PTO will continue to be part of a standard procurement procedure.

This means Waka Kotahi agreement is not required on a case-by-case basis, provided the procurement programme has been endorsed by Waka Kotahi.

This may include PTA asset control through the specification of end of term asset transfer arrangements in which the PTOs remain responsible for the delivery, operation and maintenance of strategic enabling assets but the asset transfers to the PTA's nominee at the end of the contract term.



Asset delivery models

Context for procurement

Asset delivery models

Delivery models help define both the:

- form of relationship and allocation of responsibilities between the purchaser and suppliers
- allocation of risk and control to the most appropriate parties to manage and mitigate those risks.

How strategic enabling assets are provisioned and controlled is a critical component of a public transport services delivery model.

The specification and choice of the right delivery model for a procurement activity is an important component of a procurement strategy. This sets the scene for supplier selection methods along with the form and content of contracts.

Proposed procurement manual update

Waka Kotahi proposes updating the procurement manual to include three broad asset delivery models as follows:

1. **PTO provided:** where all enabling assets are provided by a PTO.
2. **Mixed:** where some enabling assets are provided by a PTO, some by a PTA. Within a mixed asset delivery model, responsibilities between PTAs and PTOs could be configured in a wide range of ways.
3. **PTA provided:** where all enabling assets are provided by a PTA.

Waka Kotahi anticipates most contracted units will utilise either PTO provided or mixed asset delivery models for the foreseeable future.

Asset control pathways

Where PTA control is necessary for supporting competitive and efficient markets and obtaining best long-term value for money; then the PTA will need to outline their intended pathway to asset control in procurement strategies.

There are generally two pathways for increasing PTA control over strategic assets:

- requiring the transfer of specific assets at the end of a contract term to the PTA (or nominee, generally an incoming PTO)
- the direct provisioning of assets by the PTA through acquisition or leasing or through specialist third parties.

These pathways are described in more detail on the following page.

Asset delivery models



Asset control pathways

Context for procurement

Asset provision and control pathways

Where PTA control is necessary for supporting competitive and efficient markets and obtaining best long-term value for money; then the PTA will need to outline their intended pathway to asset control in procurement strategies.

The working group considered two broad pathways for establishing PTA asset control as follows:

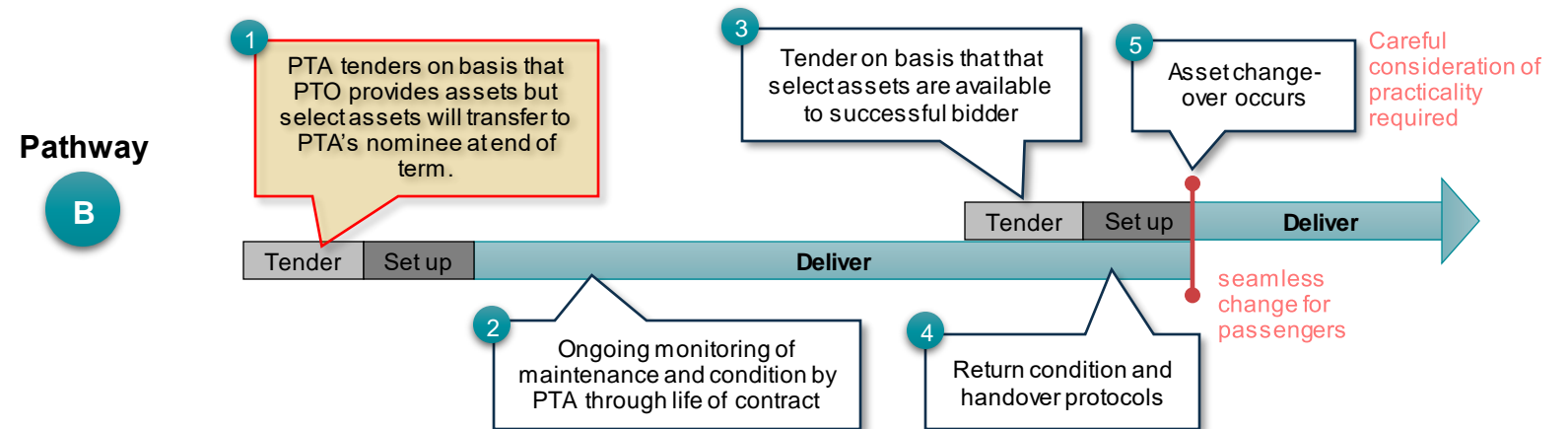
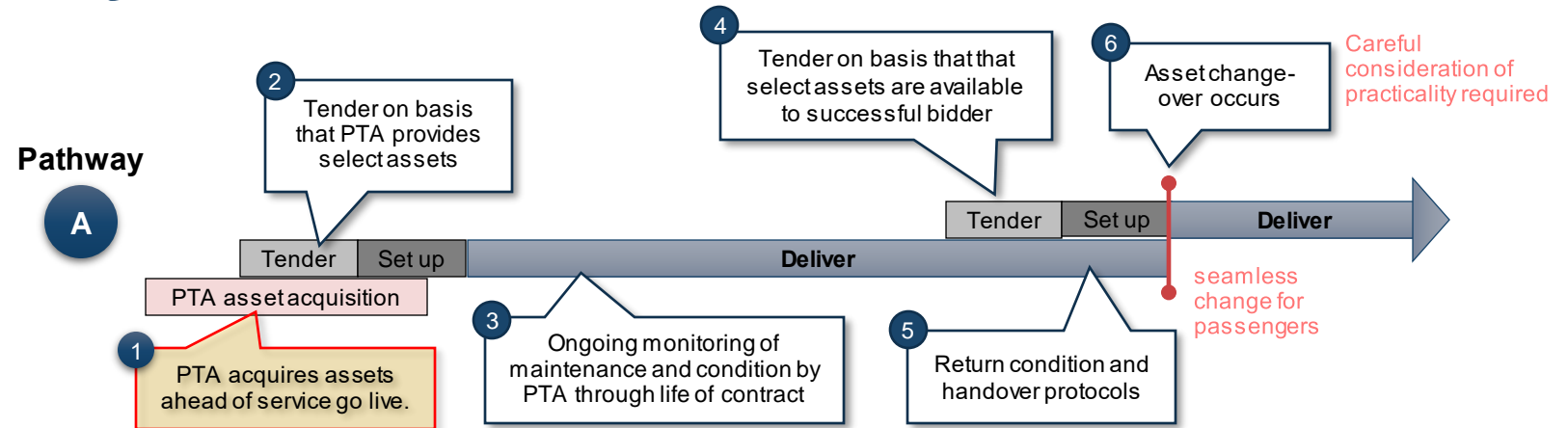
- **Pathway A:** where a PTA procures enabling assets as a separate exercise to procuring services that will utilise the enabling assets.

This may be desirable where the assets are to be utilised by two or more PTOs or where the potential service providers prefer management style contracts.

- **Pathway B:** where a PTA seeks to leverage the capability and capacity of a PTO to provision the enabling assets as part of new service delivery contract on the basis that defined assets transfer to the PTAs nominee at the end of the service delivery contract.

This approach is applicable for the provisioning of new assets. However, a PTO with existing assets (that meet requirements) may also consider tendering on the basis that those assets transfer to the control of the PTA at the end of the contract term. In either case the value for the assets would be reflected in the tender price for the service delivery contract.

Provisioning and funding concepts associated with the pathways are outlined on the following page.



Asset delivery and investment approaches

NOTE: The concepts outlined below enable PTA asset control but do not expose PTOs to potential capital gain on asset value (in relation to depots) and limits the use of assets for other purposes, which constrains the ability to apportion costs across other PTO business activities. This may result in higher pricing from supplier market for service delivery contacts.

Worthwhile return on investment and treatment of risk are key factors from a PTO perspective and need to be carefully considered by PTAs for all potential approaches.

Approaches to provision and investment in assets where PTA control of assets is deemed important

PTA provisions assets (Pathway A)	PTO provisions assets on behalf of PTA (Pathway B)	
<p>Approach 1A – PTA direct provision</p> <p>PTA provides defined assets:</p> <ul style="list-style-type: none"> • specifies asset solution in consultation with supplier market • funds the capital expenditure (capex) • takes all risk on delivering within budget • responsible for maintenance and renewals (could outsource to PTO or third party) <p>Approach 1B – PTA provides via third-party</p> <p>PTA is responsible but outsources to a third-party provider that is not the PTO delivering services.</p>	<p>Approach 2A – PTA funds upfront and PTO provides</p> <ul style="list-style-type: none"> • PTA specifies asset requirements in tender documents • PTO proposes asset(s) solution including capex required <ul style="list-style-type: none"> • could be new assets, or: • acquisition of existing assets (willing seller & buyer) • PTO provisions all elements. Takes risk on delivering within tender price (within reason). • PTA funds capex as one-off inclusive of PTO margin on asset delivery and ownership transfers to PTA. • PTO manages and maintains asset(s) over the life of contract to an agreed standard and builds maintenance cost into contract price. • PTO hands over asset to PTA at end of contract term to pre-agreed standard and PTA makes available to incoming PTO. 	<p>Approach 3 – Cost amortised over longer period</p> <p>Same as approach 2B except:</p> <ul style="list-style-type: none"> • Total cost to be amortised over a defined period that exceeds the contract term with PTO. • PTO funds provision of the asset. Cost + margin recovered via contract payments. • Amount owing reduces with contract payments. • Residual value paid to PTO at end of contract term by either PTA or incoming PTO. • Asset either: <ul style="list-style-type: none"> • owned by PTA, or • transfers to incoming PTO who purchases for residual value and factors condition into contract price.
<p>Overview</p> <p>This page outlines high level concepts for delivering and investing in enabling assets for sector feedback.</p> <p>These concepts assume a circumstance where PTA control of defined assets, such as bus depots, is considered necessary for enabling fair competition and supporting competitive markets in future tender rounds.</p>	<p>Approach 2B – Cost amortised over life of contract</p> <p>Same as approach 2A, except:</p> <ul style="list-style-type: none"> • PTO funds provision of the asset upfront and recovers cost plus margin over the life of the contact. • Total cost + margin / [x] year contract term = price p/a paid by PTA. • Asset fully paid for over contract term and ownership transfers to PTA at end of contract term. 	<p>Approach 4 – Negotiated transfer of existing assets</p> <ul style="list-style-type: none"> • Existing strategic assets (such as depot land) become transferring assets at end of contact term in return for commensurate benefit for incumbent, such as contract extension or directly negotiated new contract. Approach must demonstrate best value for money.

Questions and feedback

Energy and enabling assets

Zero emission road map

7. Please provide any feedback on the inclusion of additional information including a PTA's zero emission roadmap in its procurement strategy, as outlined on [page 18](#).

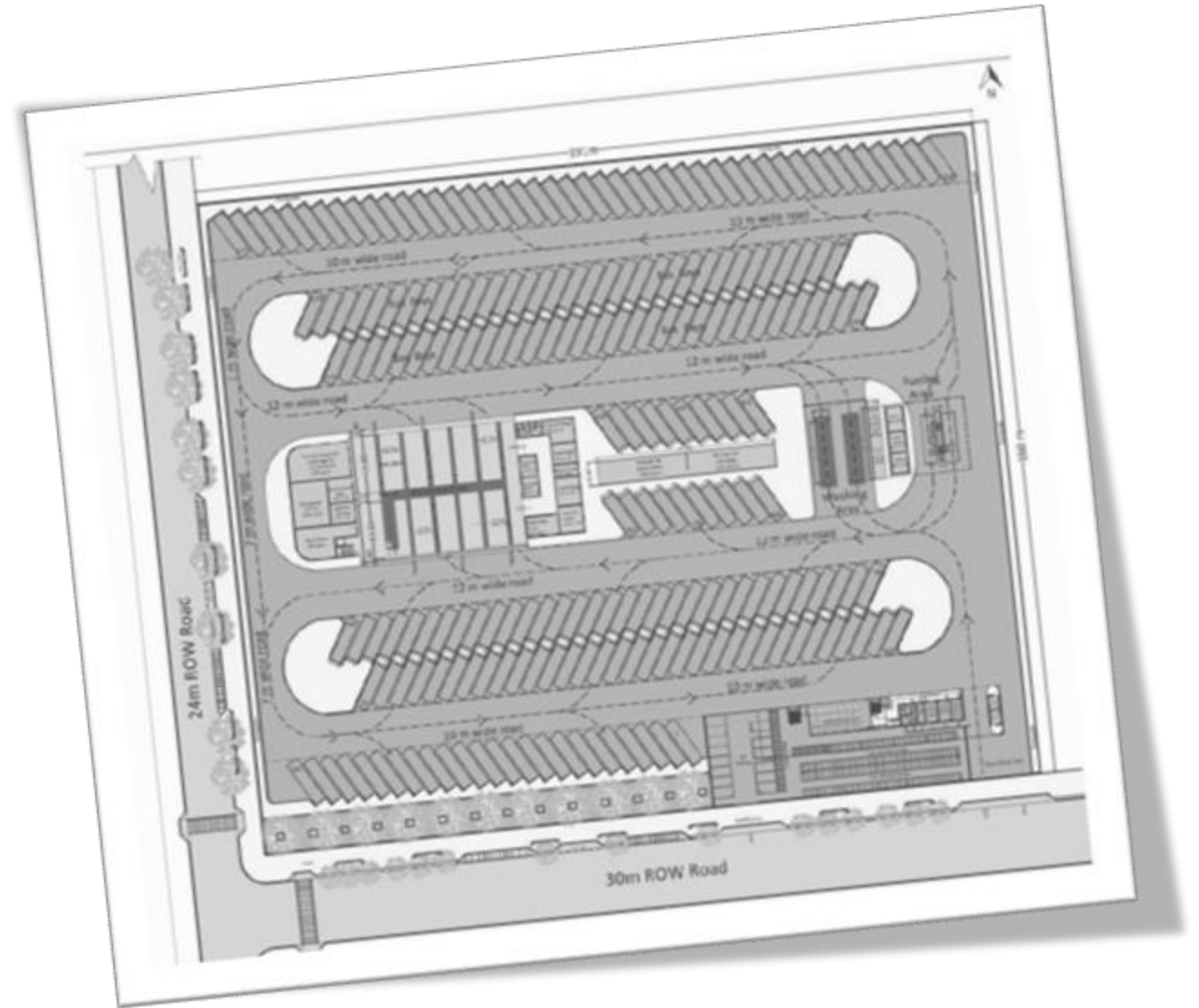
Asset classification and control

8. To what extent are the enabling asset classifications, circumstances for PTA control of assets and asset control scenarios on [page 19](#) useful? Please provide any additional feedback or comments on these concepts.
9. On [page 20](#) it is proposed that provision, operation and maintenance of enabling assets:
 - by [PTAs](#) would require a Waka Kotahi advanced procurement procedure approval on a case-by-case basis
 - by [PTOs](#) will continue to be part of a standard procurement procedure that does not require Waka Kotahi approval on case-by-case basis
 - a) To what extent do you agree with this approach and why?
 - b) Please provide any other feedback you consider relevant on the topic of provision, operation and maintenance of enabling assets by PTAs.
10. To what extent are the asset control scenarios and asset control pathways on [pages 21 & 22](#) useful? Please provide any additional feedback or comments on these concepts.

Delivery and investment approaches

11. To what extent do you agree with the asset delivery and investment approaches described on [page 23](#) as being viable and practicable options for the funding and provision of future enabling assets?
 - a) What are the risks associated with the approaches proposed?
 - b) What other options should be considered for the funding and provision of strategic assets that the PTA is seeking to control in the long term?

3.2 Depots and vehicles



Bus depot strategies

Context for procurement

Depot strategies

Depots are key to enabling decarbonisation and cost-effective expansion of public transport over time. Depots also have the potential to significantly influence fair competition and achieving best value for money in the long-term.

Waka Kotahi proposes to require a depot strategy as an input into forthcoming PTA procurement strategies and updates, with consideration to be given to each of the elements in the following diagram. These reflect topics raised via working group discussions.

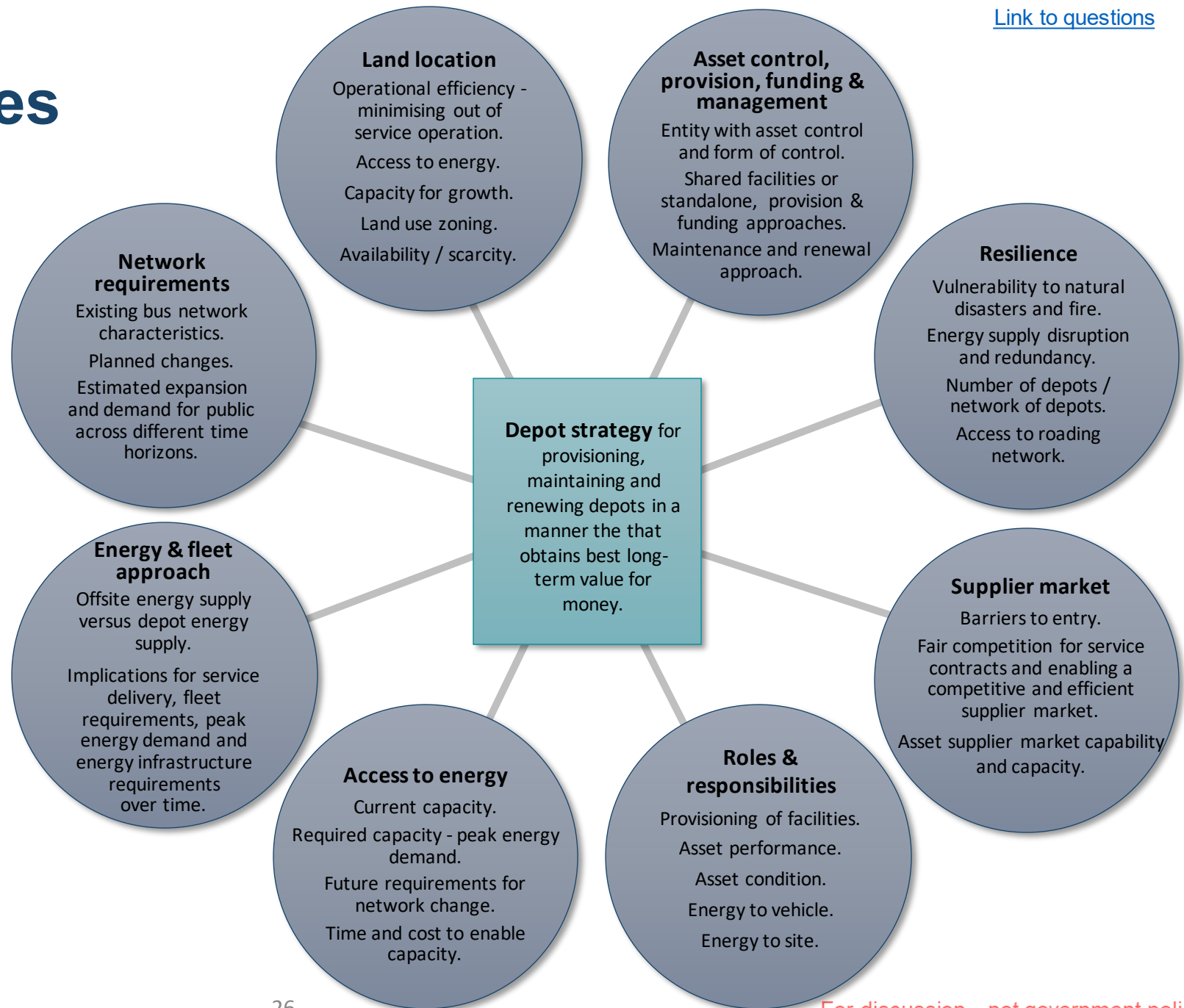
Guidance

Depot strategies should be commensurate with the scale of the network to which they relate.

For regions with small networks, the strategy can be brief and only address matters of relevance to that region and highlight areas that require further consideration.

For regions with larger networks the strategy should be sufficiently comprehensive to inform a preferred approach at a programme level. This means PTAs would need to demonstrate sufficient understanding across the input topics to make informed trade-offs and identify preferred approaches by locality within the region. The strategy does not need to define specific solutions or site locations at a programme level, but rather the options available and how these will be factored into pending procurements.

Considerations for tendering, pricing and the potential for shared depot sites are outlined on the following page.



Basis of tendering - depots

Context for procurement

Basis of tendering

PTAs must be able to define what constitutes a complying tender bid and PTAs may include terms regarding the provision and use of enabling assets in general accordance with a procurement strategy endorsed by Waka Kotahi.

Where PTAs can provide depot assets, PTAs will need to demonstrate in its procurement strategies how it will consider alternative bids from PTOs who consider that better value for money can be achieved through PTO provided asset solutions, where such opportunity exists.

Terms of use between parties

Where a PTA issues a request for tender based on the PTA controlling or providing assets, it must do so in a manner that clearly defines all the elements necessary for PTOs to respond and price tenders with confidence and make informed decisions regarding risk.

This means all relevant contract elements must be developed and included within tender documents, including but not limited to:

- roles and responsibilities
- lease/use charges (if any)
- liabilities/obligations
- make good clauses

- terms for transferring assets
- treatment of non-PTA related activities.

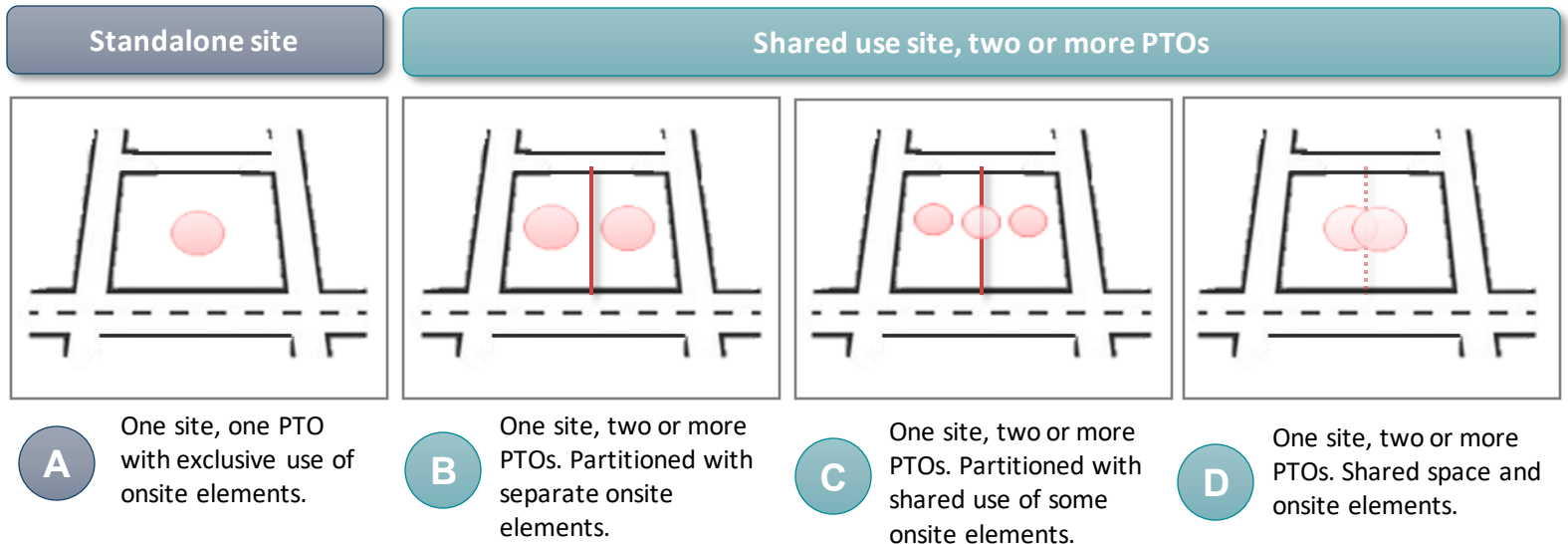
Proposed principles for lease/use charges:

1. For efficiency purposes there should not be a fee charged by PTAs to PTOs for use of PTA provided assets as it relates to the provision of contracted services.
2. Commercial value still needs to be accounted for by PTAs, such as the cost of capital, for NLTF funding purposes. Waka Kotahi proposes to develop further guidance on this in due course.
3. PTOs may utilise PTA provided assets for other purposes where circumstances allow but there must be a commercial fee for such use on normal market terms.

Shared use sites

Where a PTA controls a depot site it may be appropriate to accommodate multiple PTOs to:

- encourage supplier market depth
- make best use of investment where land and energy opportunities are scarce
- enabling different units operated by different PTOs from the one depot to commence or and/or expire at different times, providing additional flexibility and procurement options.



Vehicles

Context for procurement

Introduction

In the development of procurement strategies, PTAs need to consider whether continued PTO provision of fleet or the potential for PTA provision is likely to deliver best long-term value for money.

Waka Kotahi position regarding provision, operation and maintenance of vehicles

From a value for money perspective, Waka Kotahi anticipates there to be a stronger case for PTOs to provide, operate and maintain buses in most cases.

The operator sector generally has a strong track record at providing, operating and maintaining buses to a high standard while also maximising use of the vehicles across their entire life cycles, including uses beyond service in public transport fleets. This enables good value for money and mitigates risk for PTAs.

Proposed procurement manual update

Waka Kotahi proposes to treat continued PTO vehicle provision, operation and maintenance as an activity associated with a *standard* procurement procedure.

This means Waka Kotahi will not require case-by-case agreement for provision of vehicles by the PTO, provided the procurement programme as a whole has been endorsed by Waka Kotahi.

PTA vehicle provisioning, operation and maintenance

Waka Kotahi proposes to treat PTA vehicle provision, operation and maintenance, including PTA outsourcing to a 3rd party provider (other than the PTO), as an activity associated with an *advanced* procurement procedure.

This means prior approval from Waka Kotahi is required on a case-by-case basis and would need to be supported by a business case commensurate with the scale and risk of the intended undertaking.

Cost effective fleet expansion

One of the overarching objectives for this workstream is to enable operational models and contracting approaches that better support cost-effective rapid expansion of public transport during the life of contracts.

One of the issues identified via working group discussions is the risk associated with PTOs acquiring additional buses during the term of contracts and/or acquiring specialist vehicles, such as articulated buses, that have limited utility beyond the immediate contract with the PTA.

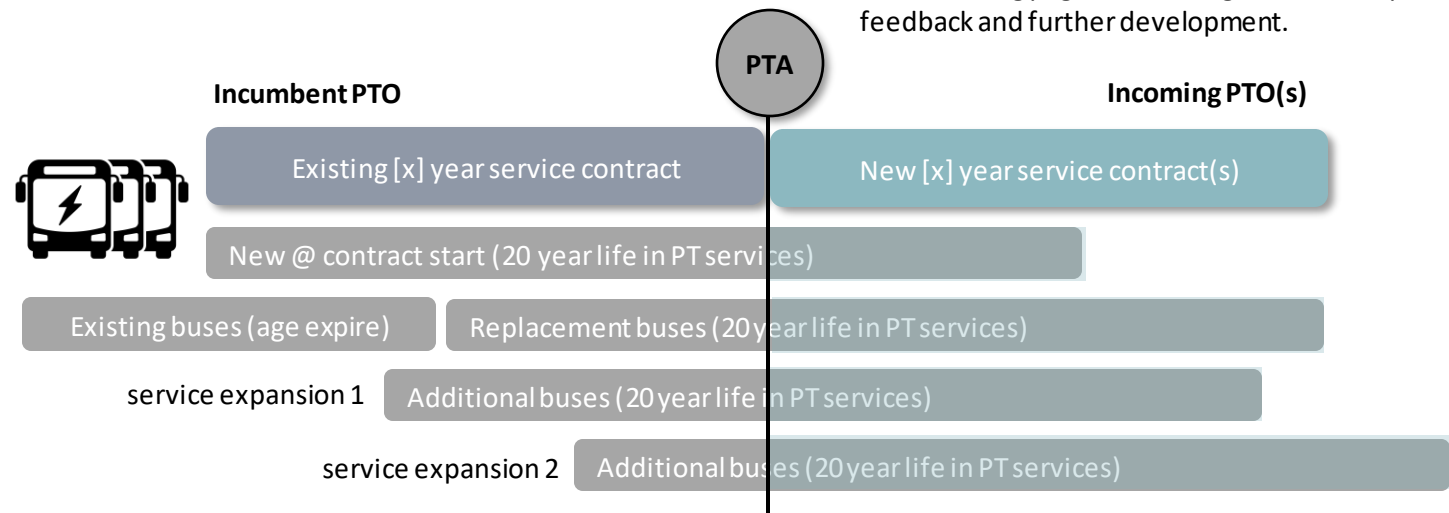
This can result in pricing premiums and/or practical challenges for the contracting parties when faced with the need to adjust fleet sizes during the life of contracts.

End of term vehicle transfers

To help address this, Waka Kotahi proposes developing and standardising a nationally consistent approach to enabling the transferring of vehicles between incumbent and incoming PTO at the end of contract terms.

The approach is not proposed to be mandatory, rather a tool in the toolbox to address specific challenges where appropriate. Transferring vehicles have both benefits and risks for all parties that require careful consideration.

The following page outlines high level concepts for sector feedback and further development.



Vehicle transfer approaches

Context for procurement

Vehicle transfer concepts

Mandatory transfer concept

- Parties enter contract and/or variations on the basis that defined vehicles will transfer at end of contract (unless otherwise agreed) to either the PTA (or its nominee, usually an incoming PTO).
- A pre-agreed residual value paid by PTA or incoming PTO to outgoing PTO upon transfer.
- PTA has option to require use of vehicles in new tender and specify purchase value for successful bidder.

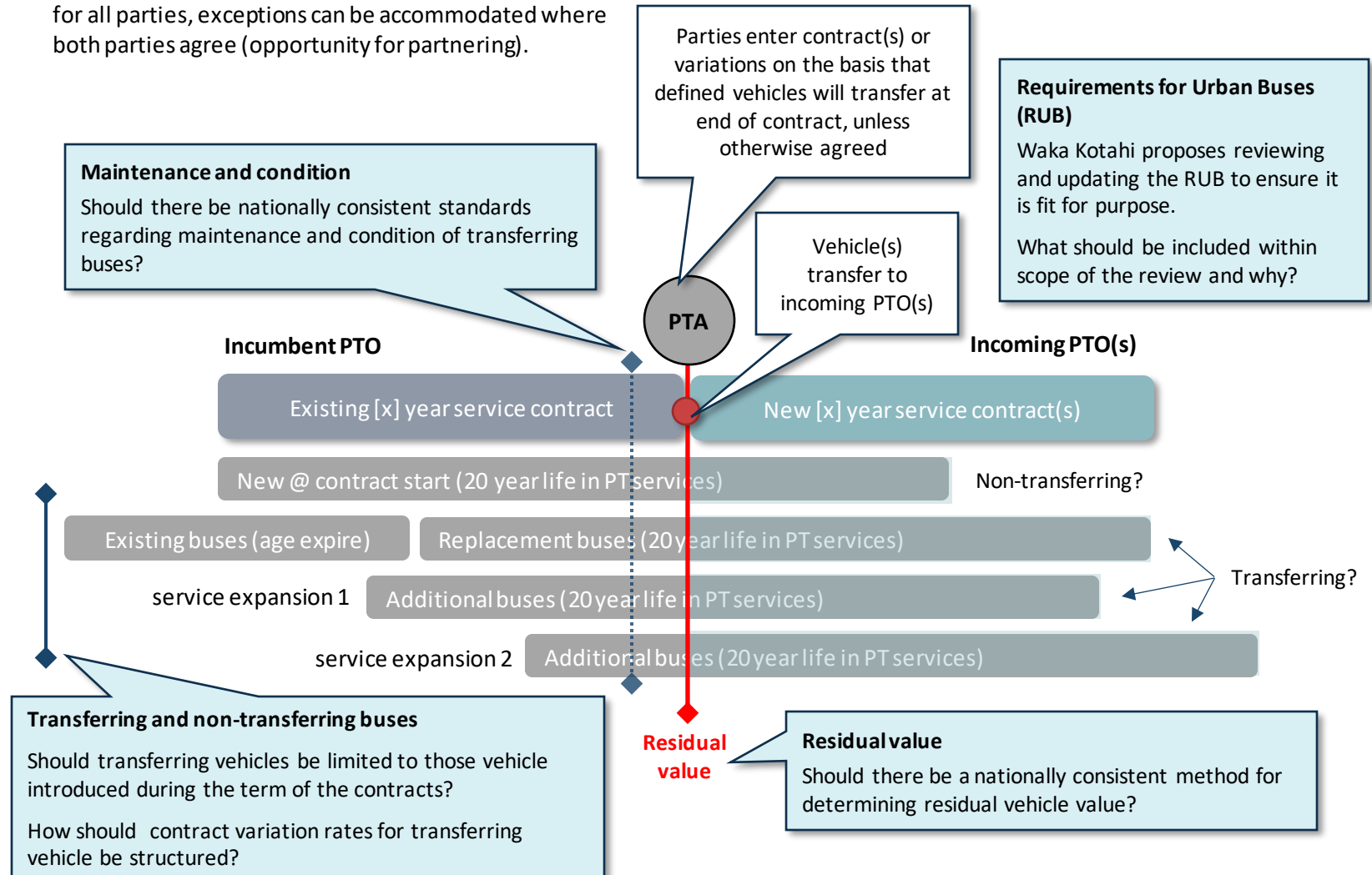
Optional transfer concept

- Incumbent PTO has option to sell defined buses to the PTA who is obligated to purchase at pre-agreed value if PTO exercise its option.
- PTO would need to exercise its option to sell prior to tender round to provide certainty for the tendering process. PTA must give notice to PTO to confirm option and if no clear decision from PTO, then default is no transfer.
- A pre-agreed residual would be paid to the incumbent PTO upon transfer.
- PTA has option to require use of vehicles in new tender and specify purchase value for successful bidder.

Draft approach and principles for feedback

- Transferring vehicles should be limited to those vehicles introduced during the term of unit contracts and/or specialist vehicles.
- Mandatory transfers are preferred to maximise certainty for all parties, exceptions can be accommodated where both parties agree (opportunity for partnering).

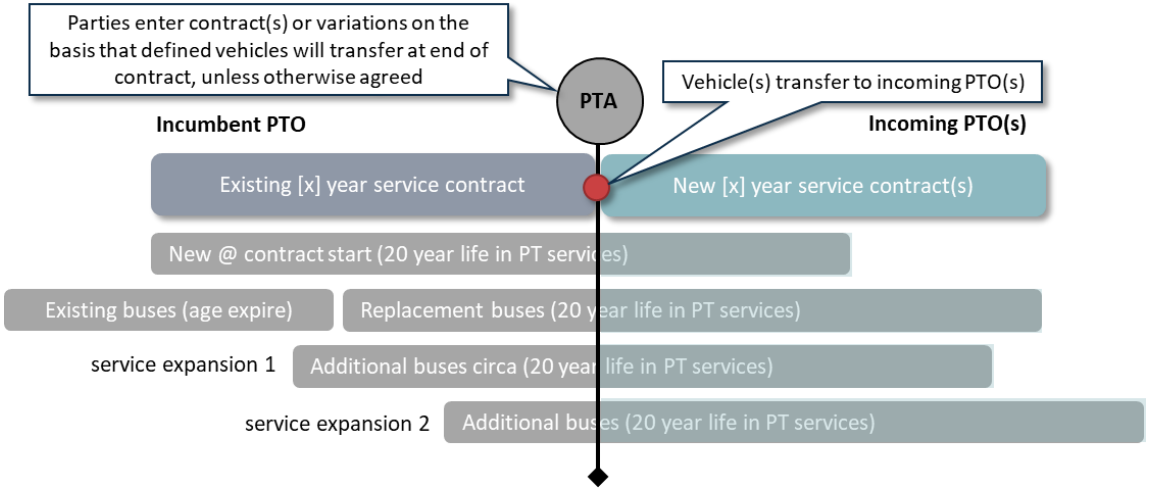
- Where an incoming PTO inherits a transferring vehicle, it should be able to utilise the vehicle as it sees fit, (for example sell, redeploy) so long as the incoming PTO is able to meet is contract terms and the PTA is no worse off.



Vehicle transfer scenarios

Context for procurement

The diagram below outlines potential vehicle transfer scenarios. Waka Kotahi is seeking feedback for the potential benefits and risks associated with each scenario from the perspective of both PTAs and PTOs? Are there additional scenarios that should be considered? Feedback will be utilised to finalise policy and inform updates to Waka Kotahi’s procurement manual.



	A	B	C	D	E	F
Existing unit contract						
New unit contract						
	Like for like about the same number of vehicles required	Service reduction fewer vehicles required	Service expansion more vehicles required	Consolidation multiple units consolidated into fewer number of units (may or may not include service level changes)	Disaggregation one or more units disaggregated into a larger number of units (may or may not include service level changes)	Efficiency gain fewer vehicles required to deliver the same output

Questions and feedback

Depots and vehicles

Bus depots

12. Please provide feedback on the proposed requirement that PTAs undertake and consider the implications for depot strategies in their procurement strategy, as outlined on [pages 26](#) and [27](#).
 - a) Where PTAs require conforming tender responses to utilise PTA controlled depots, should Waka Kotahi mandate that PTAs consider alternative proposals for PTO provided depots and on what basis should value for money from such alternative proposals be determined?
 - b) Are there other aspects that should be considered?
13. Please provide feedback on the proposed requirement that the direct provision, operation and maintenance of vehicles by PTAs be subject to an advanced procurement procedure requiring case by case agreement with Waka Kotahi ([page 28](#)).

Vehicles

14. To what extent do you agree with the proposed approaches on [pages 28](#) and [29](#) in relation to end of term vehicle transfer options. What other considerations need to be considered for vehicle transfer arrangements and what guidance would be useful for PTAs? In particular:
 - a) Should there be nationally consistent requirements for the maintenance and condition of transferring vehicles and periodic auditing of the requirements, or should this be left up to the PTA to define?
 - b) Should there be independent assessment of transferring buses prior to tender, with information disclosed to tender participants? Or should tender participants have the opportunity to undertake their own due diligence on transferring buses?
 - c) Should transferring vehicles be limited to those vehicle introduced during the term of the contracts?
 - d) How should contract variation rates for transferring vehicle be structured?
 - e) Should there be a nationally consistent method for determining residual value?
15. Please provide feedback on the potential benefits and risks associated with the vehicle transfer scenarios on [page 30](#), and what are the potential mitigations for any risks? Are there additional scenarios that should be considered?

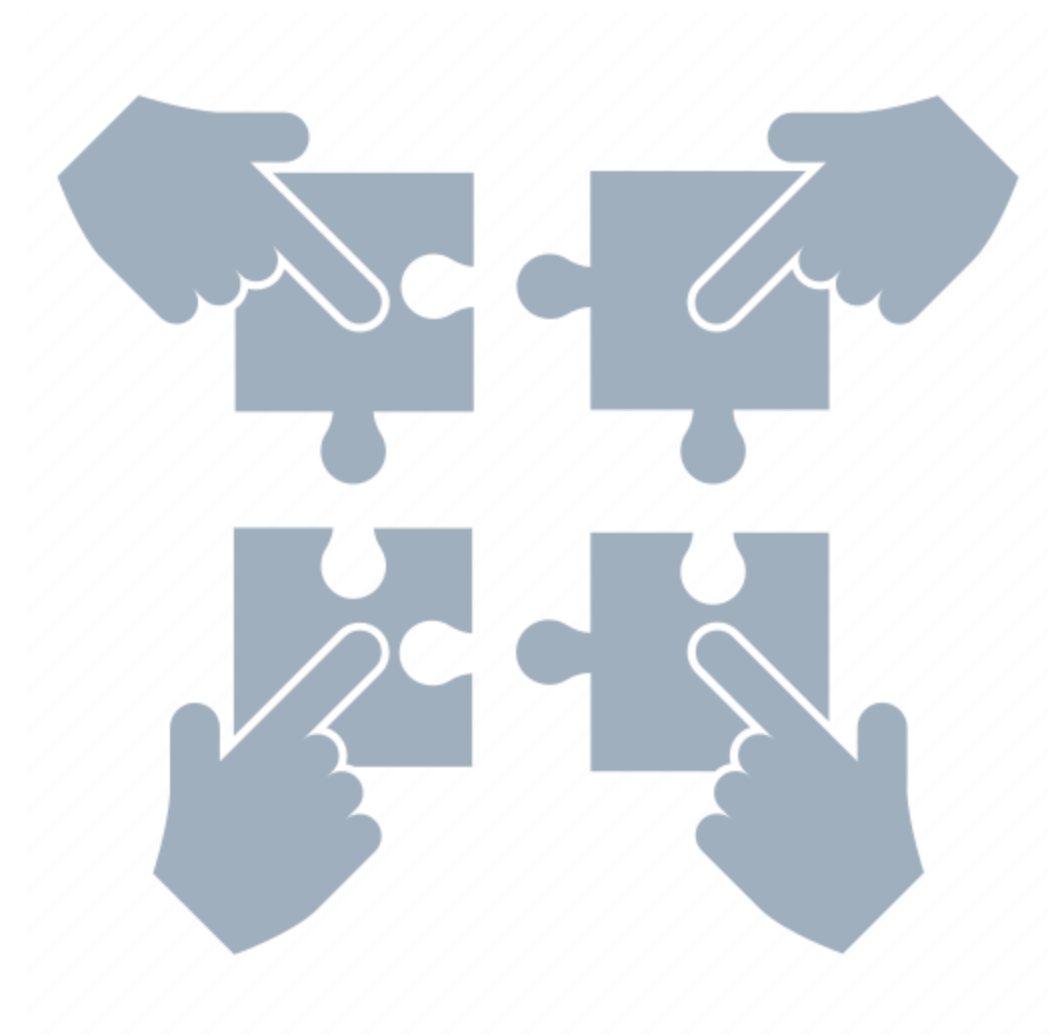
The requirements for urban buses

16. Waka Kotahi proposes reviewing and updating the Requirement for Urban Buses (RUB) to ensure that it is fit for purpose for defining the quality of zero emission buses. What should be included within scope of the review and why?

Other

17. Please provide any additional feedback or comments on the concepts discussed in relation to depots and vehicles.

3.3 Service delivery models



Service delivery models

Context for procurement

Introduction

So far, this document has addressed enabling assets and proposed asset delivery models for sector feedback.

We now consider service delivery models. Service delivery refers to the day-to-day operation and delivery of public transport services.

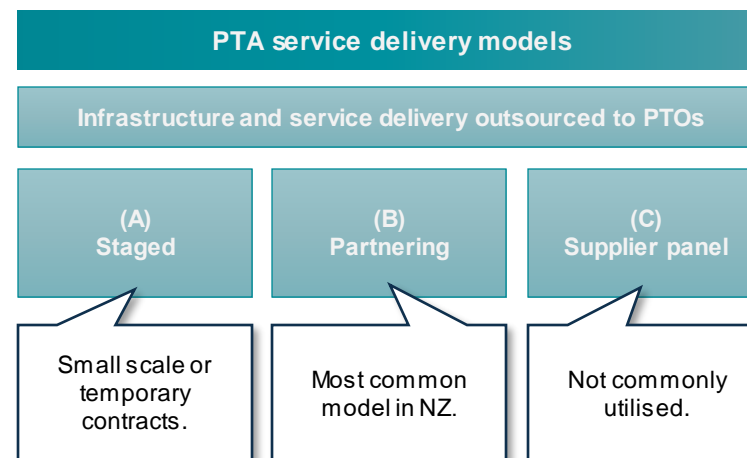
As outlined earlier, delivery models help define the allocation of responsibilities between the purchaser and supplier and the allocation of risk and control to the appropriate parties to manage and mitigate those risks.

The specification and choice of the right delivery model for a procurement activity is an important component of a procurement procedure and sets the scene for supplier selection methods along with the form and content of contracts.

Currently there are three public transport delivery models included within the Procurement Manual (refer to diagram). All models assume PTO asset provision and service delivery.

As well as enabling both PTO and PTA provision of assets, the LTMA also now enables both outsourcing and in-house delivery of services. PTAs now need to consider both approaches when developing procurement strategies.

Existing delivery models



In-house service delivery

The current approach to service delivery through outsourcing and enabling competitive and efficient markets for the supply of services remains the preferred method by Waka Kotahi for achieving best long-term value money.

On this basis Waka Kotahi proposes to treat in-house service delivery by a PTA, as an advanced procurement procedure. This means it would only be considered on a case-by-case basis and would need explicit agreement from Waka Kotahi as a standalone procurement procedure.

Any proposal to deliver services in-house would need to be supported by:

1. a review undertaken in accordance with section 17A of the Local Government Act,
2. a robust assessment regarding the potential short- and long-term implications for achieving best value for money and desirability of maintaining competitive markets for the supply of services, and

3. a business case commensurate with the scale and significance of the potential undertaking.

Outsourced service delivery

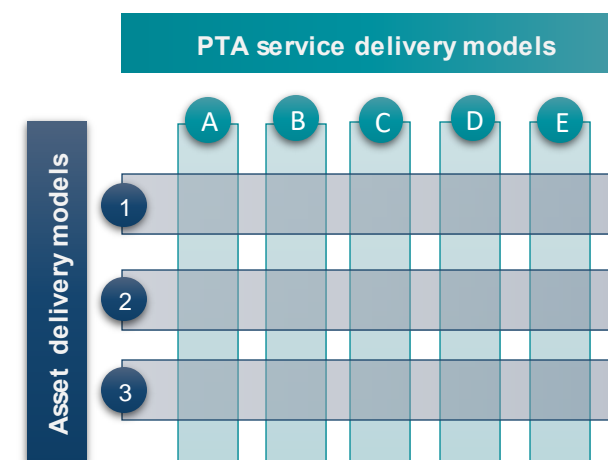
Waka Kotahi intends to retain outsourcing of service delivery as the basis for standard public transport procurement procedures within the procurement manual.

New out-sourced delivery models

The SPTF working group considered five updated and new service delivery model concepts for sector feedback. The concepts are outlined on the following page. Sector feedback will be utilised to inform further development and/or whether they will form part of procurement manual updates.

Integrated delivery models

Asset delivery models are proposed to intersect with service delivery models to create an integrated framework, which is further outlined later in this document.



Service delivery model concepts

Context for procurement

Outsourced service delivery model concepts

Short term

- Delivery model with basic contracting elements suitable for short term PT activities that are a steppingstone to something else, such as:
 - trial services
 - emergency contracts
 - special events
 - interim services for growth areas

Partnering

- Same core concept as existing partnering model but updated contracting elements.
- Typically, a single entity is responsible for provision of all enabling assets and service delivery.
- A PTA may have multiple partnering units within a region, but they largely function independently of each other.
- Likely to be the most common delivery model.

Supplier pool

- An extension of the partnering delivery model.
- Two or more PTOs operate in the same operational area or potentially from the same site.
- Aim is to foster depth in supplier market. Enable competition for the market (tender time) and competition within the market (service variations).
- Best PTO on KPIs and VFM could be offered negotiated tenure extensions beyond initial term.
- Lowest PTO (may still be good) on KPIs & VFM has unit contract retendered at end of term.
- Opportunity for new entrants and competitive pricing benchmarks.

Alliance (lite)

- Multiple PTOs work together to jointly deliver services. Participants either:
 - voluntarily formed into a joint venture by a tender requirement, or
 - selected by the PTA through tender responses.
- Foster supplier market depth and enable a pathway for new entrants.
- Incentives, such as longer tenure, may be required to encourage PTO collaboration and share IP with potential future competitor.
- Partnering delivery model as base contracting framework adapted to accommodate collaborative approach.
- Leverage alliancing features without the formal governance structures.

Alliance (advanced)

- Under a more standard alliance style contract, the PTA and selected PTOs work together to collaboratively determine and deliver the best solution to meet the PT service objectives.
- Shared risk and reward.
 - Potentially only for large scale, changeable and higher risk service delivery scenarios.
 - Could be used to deliver a single unit in a given locality or multiple units across a broad spatial area.
 - Administration heavy, good culture & collaboration paramount. Advanced skills capabilities required across all participants.
 - Formal governance oversight by an Alliance board required
 - PTA would be a participating owner in the Alliance.

In-house service delivery

Waka Kotahi proposes to treat in-house service delivery as an advanced procurement procedure. This means it would only be considered on a case-by-case basis and would need explicit agreement from Waka Kotahi as a standalone procurement procedure.

Integrated delivery model framework

Context for procurement

Introduction

The specification and choice of the right delivery model for a procurement activity is an important component of a procurement procedure and sets the scene for supplier selection methods along with the form and content of contracts.

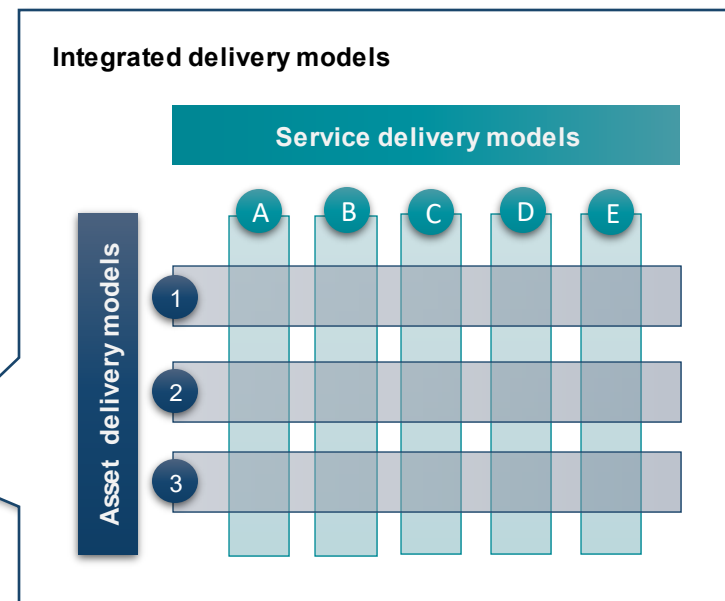
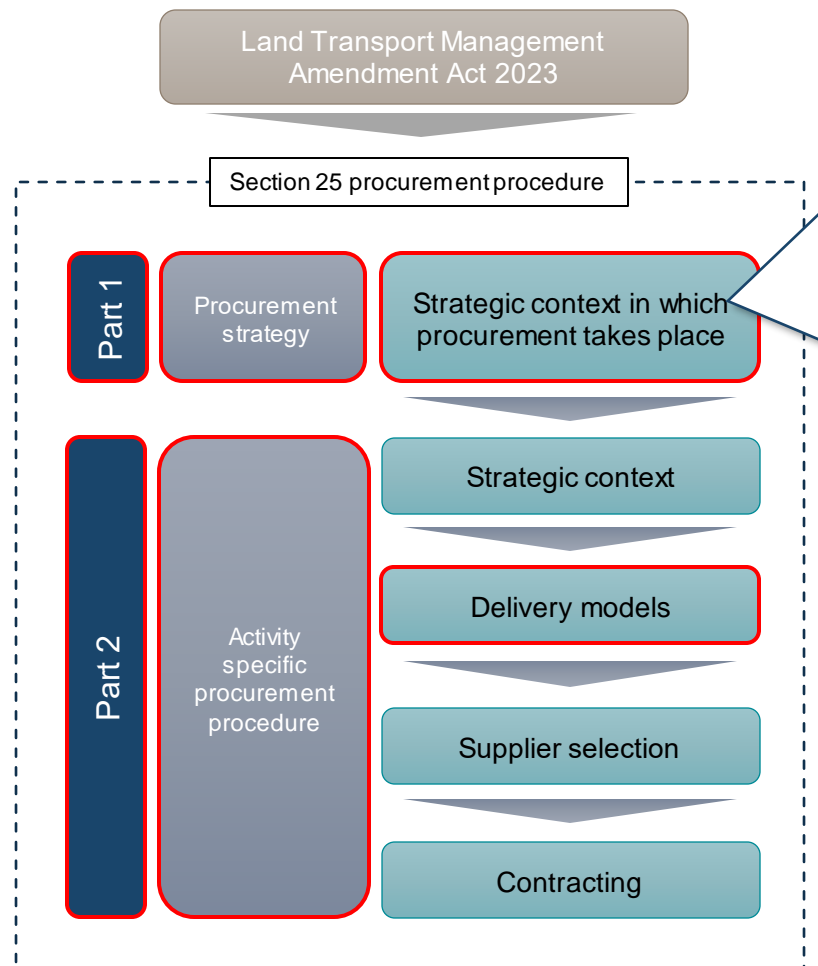
The LTMA now enables both outsourcing and in-house delivery of services and PTO or PTA provision of infrastructure and assets. This enables much greater flexibility, but it also creates more complexity.

Delivery models now need to cater for different asset provision approaches, of which there are many, as well as different service delivery approaches. The intersection between asset provision and service delivery approaches define the number of potential delivery models.

In the interests of simplicity, the working group identified three broad approaches to asset provision and five service delivery concepts that collectively respond to the objectives previously discussed. This results in 15 distinct delivery models.

While 15 models is a lot, it is likely most procurement procedures will select from within four standard models.

A proposed framework is outlined on the following pages for sector feedback.



Process

- Procurement strategies must outline the intended delivery model for each contracted unit. Waka Kotahi must endorse a PTA's procurement strategy as a condition of funding.
- Selection of intended delivery model will be reassessed by a PTA at the strategic context stage under Part 2 of a procurement procedure.
- If the approach remains fit for purpose it will be confirmed and utilised to help finalise a supplier selection method along with the form and content of contract(s).

Integrated delivery model framework

Context for procurement

		Service delivery models				
		Outsourced to PTO				(E) In-house Services delivered by PTA
		(A) Short term Trial services, emergency contracts or similar.	(B) Partnering Standard delivery model.	(C) Supplier pool Two or more PTOs operating within same locality.	(D) Alliance Shared risk & reward, PTOs working together.	
Asset delivery models	(1) PTO provisioned All enabling assets provided by PTO	Dependent on being able to utilise existing PTO assets.	Assets and services responsibility of PTO to deliver. Strategic assets may transfer to PTA's nominee at end of contract.	Same as B1 except tender approach structured to ensure two or more PTOs are present within a locality. Options for negotiated performance-based tenure extensions.	All assets and services are delivered by the PTO members of the alliance. PTA is the participating owner in an advanced alliance and the customer in an alliance (lite).	PTOs are responsible for all assets and take all asset risk. PTAs employ workforce and operate services.
	(2) Mixed Some enabling assets provided by PTO, some by PTA	Dependent on being able to utilise existing assets.	Services responsibility of PTO. Some assets provided by PTO, which may transfer at end of contract. Some assets provided by PTA, could be via third party. PTO operates services.	Same as B2 and B3 except two or more PTOs share key enabling assets provided by PTA. PTOs are a supplier pool for that locality.	Some assets provided by PTA; all services delivered by the PTO members of the alliance. PTA is the participating owner in an advanced alliance and the customer in an alliance (lite).	Some assets provided by PTO, some provided by PTA PTAs employ workforce and operate services.
	(3) PTA provisioned All enabling assets delivered by PTA	Dependent on being able to utilise existing PTA assets.	PTA responsible for all assets. PTO responsible for workforce and operating services. Management style contract.	Options for negotiated performance-based tenure extensions for highest performing units. Lower ranked units to be retendered.	All enabling assets provided by PTA, all services delivered by the PTO members of the alliance. PTA is the participating owner in an advanced alliance and the customer in an alliance (lite).	PTA delivers all elements.

Contract tenure

Context for procurement

Introduction

Enabling a range of asset control approaches and service delivery models requires greater flexibility with respect to contract tenure. Waka Kotahi is proposing to provide increased flexibility, underpinned by the following principles, requirements and framework.

Principles

- Contract tenure should be influenced by the level of capital investment being made and where risks fall:
 - Longer contract terms are more appropriate where PTOs or third parties are to make larger scale capital investments and are taking associated risk.
 - Shorter contract terms are more appropriate where PTAs are making capital investment and/or taking risk away from PTOs or third parties.
- Contract length and timing of procurement needs to be considered on a unit-by-unit basis and as a procurement programme.
- In larger markets, and to the extent practical in smaller markets, a range of contract lengths should enable a regular programme of procurement over time that avoids extended periods of minimal or no procurement activity and supports:
 - sustainability of the service provider market and associated supply chains
 - competitive pricing transparency and benchmarking.

Requirements

In all cases when selecting procurement approaches, contract lengths and developing procurement programmes, PTAs must consider and document how the approach contributes to:

- obtaining best long-term value for money
- enabling suppliers to compete fairly for the right to supply services
- encouraging competitive and efficient markets in both the short and long term.

Contract tenure bands

Waka Kotahi proposes to include the framework outlined below within the procurement manual. The framework associates contract tenure bands with delivery models and aims to standardise approaches while also enabling departures by way of exception.

A **standard approach** means Waka Kotahi agreement to contract length is not required on a case-by-case basis, provided the procurement programme has been endorsed by Waka Kotahi.

By **exception** means prior approval from Waka Kotahi is required on a case-by-case basis.

Further guidance is provided within the [contracting section](#) of this document.

		Service delivery models					Contract tenure bands	
		Outsourced to PTO				(E) In-house		
Asset delivery models	Contract tenure framework	(A) Short term	(B) Partnering	(C) Supplier pool	(D) Alliance	(E) In-house	More than 10 years	Band 3 Advanced requires prior agreement from Waka Kotahi. Band 2 Standard for use with Partnering and Supplier Pool delivery models. Band 1 Standard for use with Short Term delivery model.
	(1) PTO provided	Contract term selected from Band 2 as standard or other bands by exception.	Contract term selected from Band 2 as standard or other bands by exception.	Advanced delivery models.		Contract term considered on a case-by-case basis	6 to 10 years	
	(2) Mixed	Contract term selected from Band 1 as standard or other bands by exception.	Contract term selected from Band 2 as standard or other bands by exception.		Contract term considered on a case-by-case basis			
(3) PTA provided	Contract term selected from Band 1 or 2 as standard or other bands by exception.	Contract term selected from Band 1 or 2 as standard or other bands by exception.						

Questions and feedback

Service delivery models

Status of in-house serve delivery

18. Please provide feedback on the proposed requirement that in-house service delivered by PTAs be the subject of an advanced procurement procedure requiring Waka Kotahi approval on a case-by-case basis? ([page 33](#)).

Delivery models

19. To what extent are the service delivery model concepts described on [page 34](#) useful and to what extent could they be practical and viable in your organisation's circumstances? Please provide any additional feedback or comments on these concepts.

20. To what extent is the integrated delivery model framework described and illustrated on [pages 35 & 36](#) useful? Please provide any additional feedback or comments on these concepts

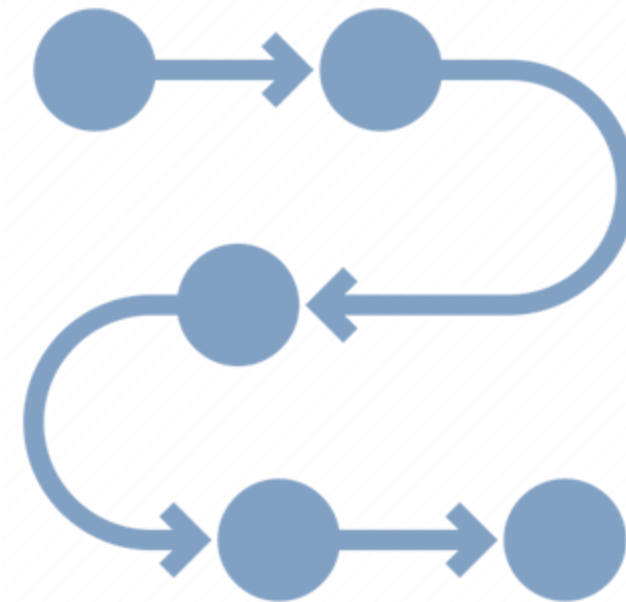
Contract tenure

21. To what extent do you agree with the contract tenure options described on [page 37](#). What are the risks associated with the approaches proposed? What other considerations should be considered when considering contract tenure?

Other

22. Please provide any additional feedback or comments on the concepts discussed in relation to service delivery model options.

3.4 Framework Summary

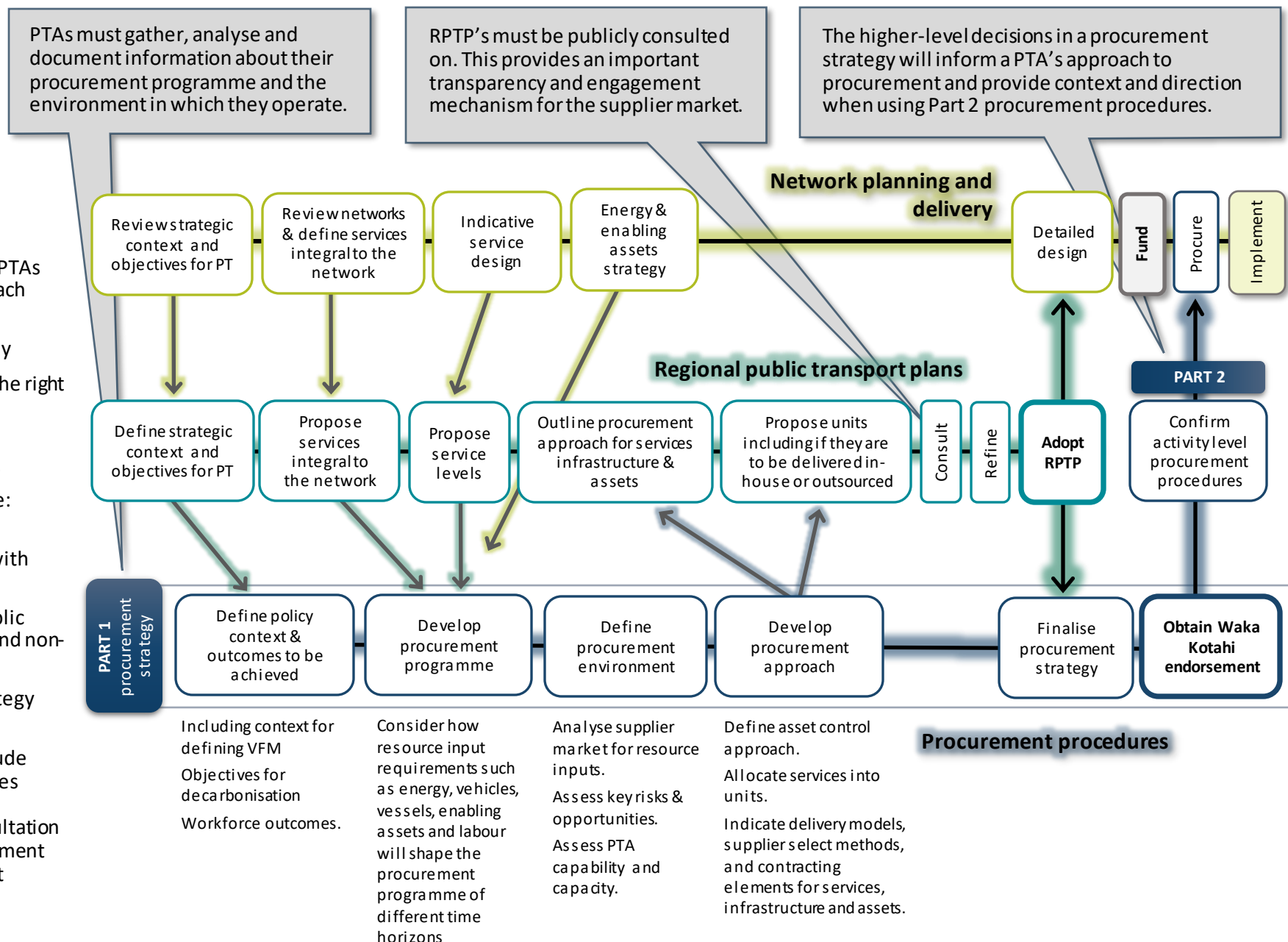


Key requirements

Context for procurement

Requirements

- When developing procurement approaches, PTAs must consider and document how the approach contributes to:
 - Obtaining best long-term value for money
 - Enabling suppliers to compete fairly for the right to supply services
 - Encouraging competitive and efficient markets in both the short and long-term.
- Indicative procurement programmes must be:
 - Identified by way of developing draft procurement strategies in consultation with stakeholders,
 - Included within RPTPs and subject to public consultation, including with incumbent and non-incumbent PTOs,
 - Included within a final procurement strategy endorsed by Waka Kotahi.
- RPTPs and procurement strategies must include significance polices that confirm circumstances under which a departure from a planned programme would trigger the need for consultation in relation to RPTPs and / or require endorsement from Waka Kotahi in relation to procurement strategies.



Procurement development steps

Strategic network assessment

- 1 **Review strategic context and objectives for PT network**
- 2 **Review and identify services integral to the network**
- 3 **Identify strategic assets required to deliver integral services**
- 4 **Identify strategic localities for services and assets**
- 5 **Identify high level resource input requirements such as energy, labour, rolling stock and enabling assets, by time horizon and approximate locality within region:**
 - **Now:** continuous programme (known)
 - **Near term:** 10-year planning horizon including intended network improvements (estimated with reasonably good level of certainty)
 - **Long term:** 30-year view outline indicative requirements for core network components (estimated and can be highly uncertain)

Indicative procurement programme.

Individual activities such as procurement of a unit or enabling assets should form a cohesive but flexible procurement programme of activities over time

Indicative programme must be anchored in the procurement strategy and outlined in an RPTP

Procurement strategy

- 1 **Define strategic procurement outcomes to be achieved**
Including context for defining VFM
Maintaining competitive and efficient supply markets
Broader outcomes
Objectives for decarbonisation, including extent and timeframes.
- 2 **Define strategic context for service and asset procurement**
Analysis of market trends for resource inputs such as energy supply, labour, vehicles and enabling assets and methods for decarbonisation
Analysis of supplier market, potential barriers to entry, key risks and opportunities.
- 3 **Identify preferred procurement approach**
Informed by 1 & 2, outline high level procurement approach:
 - including preferred service delivery methods (in-house versus outsourced)
 - asset control arrangements
 - how the approach delivers best VFM.
- 4 **Identify indicative procurement programme**
Identify delivery models that may be utilised for individual procurement activities.

Activity specific procurement

Assess strategic context

Confirm delivery model

Confirm supplier selection method

Confirm contract form and content

Business case and funding considerations highly dependent on context, discuss with Waka Kotahi investment advisors.

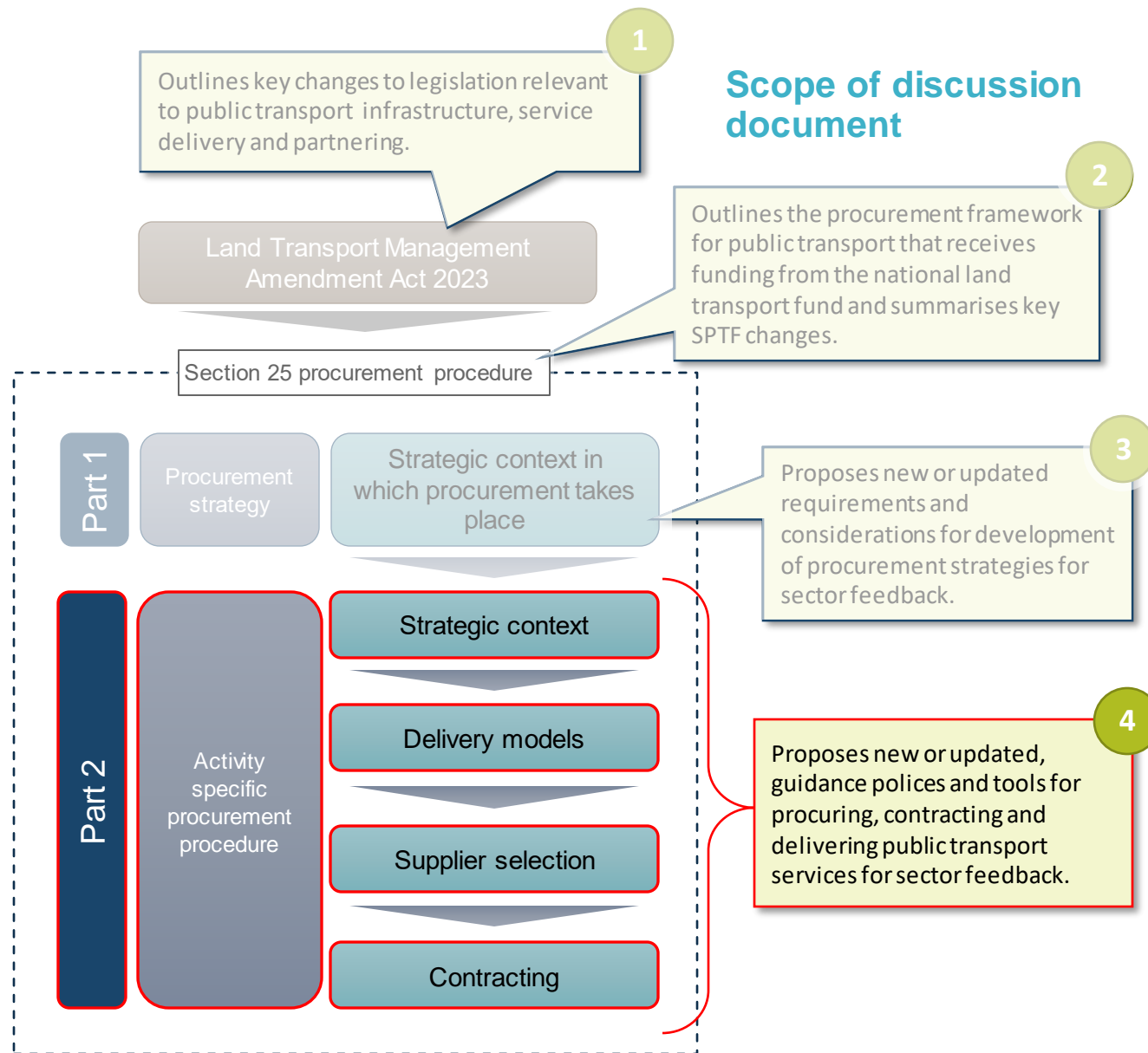
Questions and feedback

Framework summary

Key requirements

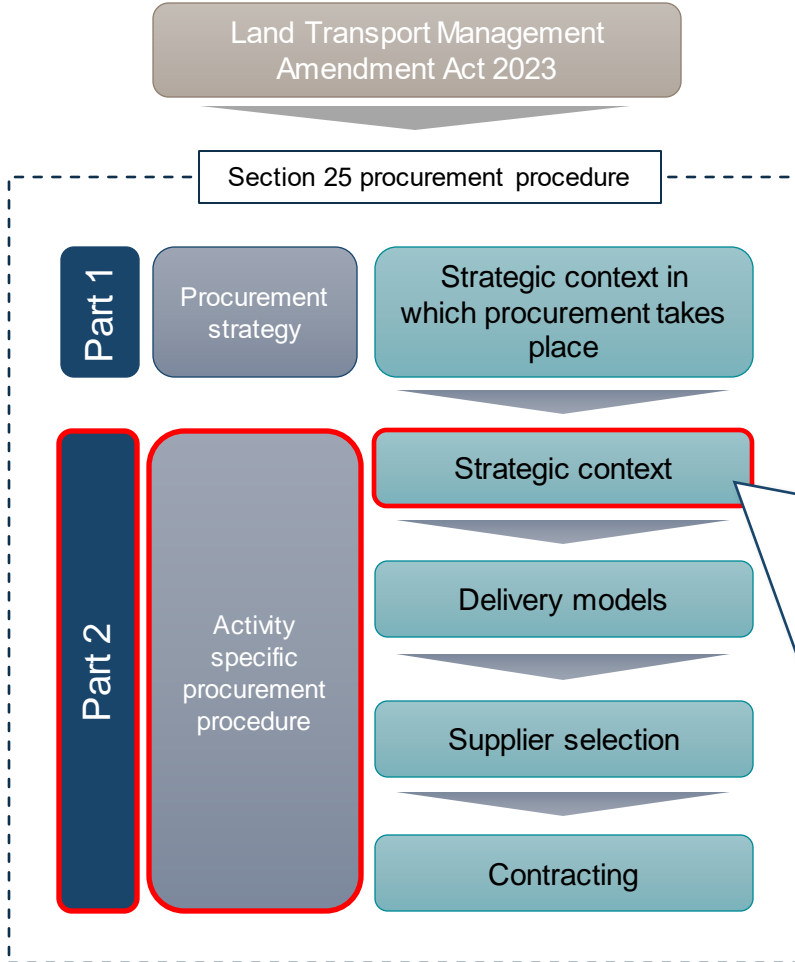
23. Please provide feedback on the key requirements for developing procurement strategies and procurement procedures described on [pages 40](#) and [41](#).
24. What additional guidance in relation to the concepts described would be useful?

Section 4 Procurement procedures



Strategic context

Part 2 procurement procedure



The strategic context stage of the activity specific procurement procedure is utilised to determine if the original assumptions as documented in the procurement strategy still hold true. In particular, a reassessment or confirmation of:

- demand for public transport
- market depth
- PTA's capability and capacity
- degree of funding constraints
- asset control and provisioning approach
- anticipated significant changes to services requirements
- risk apportionment

Where circumstances have changed, there may be the potential to enhance best value for money through an alternative approach.

If this requires the procurement strategy to be varied, Waka Kotahi endorsement of this variation should be sought at this stage.

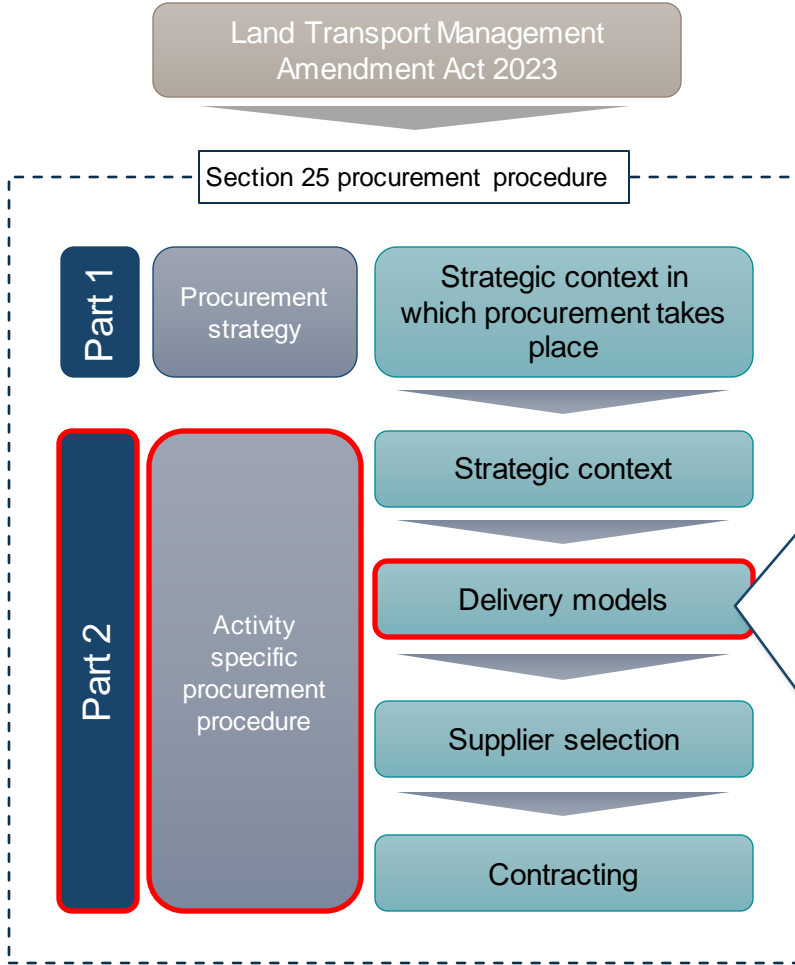
Finalising the strategic context for a specific activity determines the basis for selecting a delivery model, supplier selection method and contract requirements.

Updated procurement guidance will require consideration of key market features (past, present, future) for each region via the development of procurement strategies:

- **Demand for public transport:** Assessing the projected expansion and demand for public transport services in the PTA's operating area across different time horizons.
- **Market depth:** Evaluating the degree of market concentration now and potential for future market entry and competition.
- **PTA's capability and capacity:** Considering the PTA's expertise, capabilities and resource capacity in managing the intended procurement and delivery model approach and transition to full decarbonisation of public transport.
- **Degree of funding constraints:** The financial limitations or restrictions faced by the PTA in delivering and growing public transport services.
- **Asset control and provision:** The context and extent to which PTA should control strategic assets to enable best value for money.
- **Anticipated significant changes to services requirements:** Expected modifications to service demands resulting from upcoming public transport projects.
- **Risk apportionment:** Initial considerations of the key commercial risks (refer [page 52](#)) and how they will be allocated and managed through the contracting arrangement.

Delivery models

Part 2 procurement procedure



Delivery models help define both the:

- form of relationship and allocation of responsibilities between the purchaser and suppliers
- allocation of risk and control to the most appropriate parties to manage and mitigate those risks.

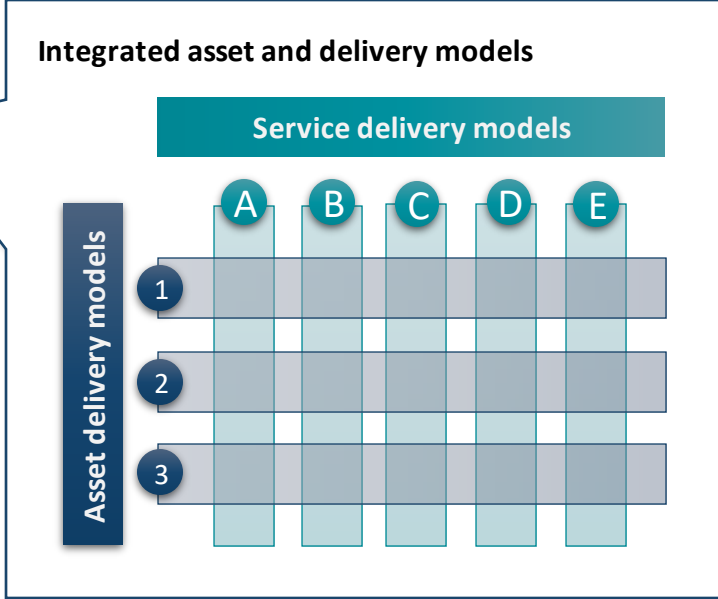
The specification and choice of the right delivery model for a procurement activity is an important component of a procurement procedure and sets the scene for supplier selection methods along with the form and content of contracts.

Procurement strategies must outline the intended delivery model for each contracted unit, which must be endorsed by Waka Kotahi as a condition of funding.

Selection of an intended delivery model should be reassessed by a PTA at the strategic context step above.

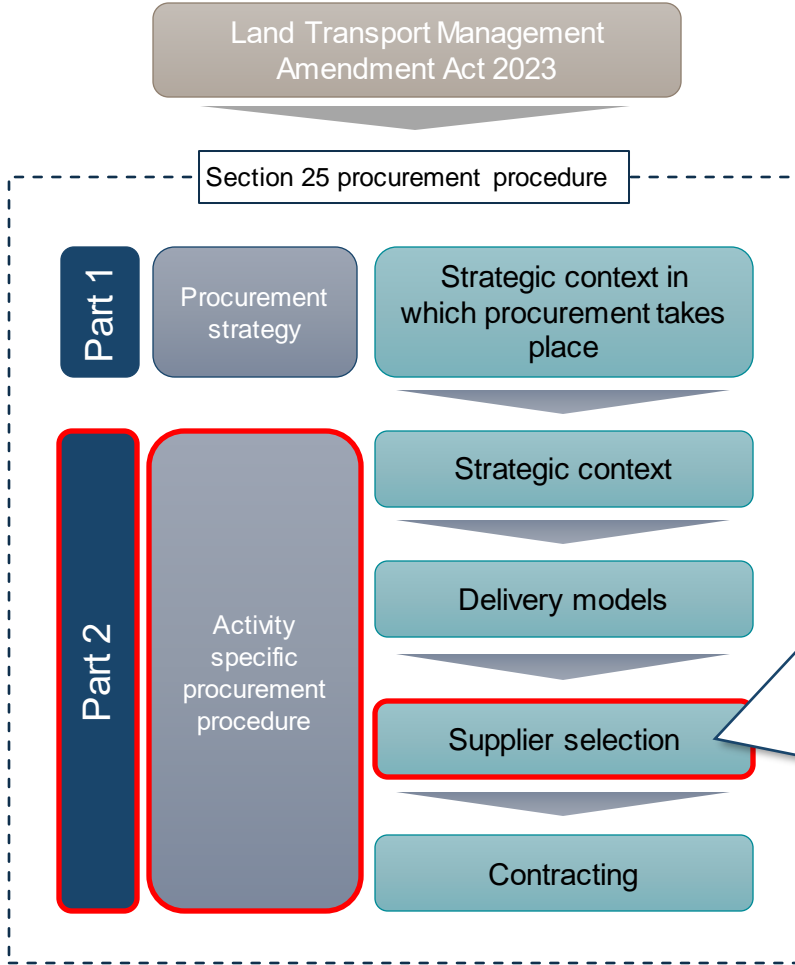
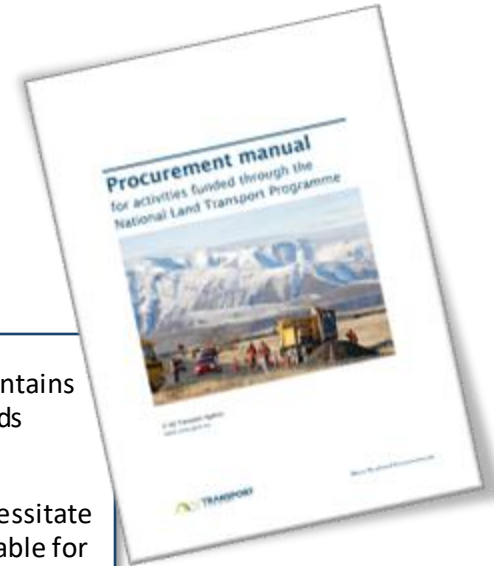
If the approach remains fit for purpose it will be confirmed and detailed procurement requirements will be developed in general accordance with the delivery model but tailored to the specific activity to be procured.

From here, detailed tender and contract documents can be developed.



Supplier selection

Part 2 procurement procedure



Section 8.5 of the Procurement Manual contains guidance for the supplier selection methods specific to public transport.

Changes as a result of the SPTF do not necessitate a material change to the approaches available for selection and evaluation of public transport suppliers. So, it is not intended to change the guidance contained in section 8.5.

However, the context and environment of the future of PT delivery, as envisaged by the SPTF, create additional considerations for PTAs when determining the appropriate supplier selection method and the underlying elements, such as the evaluative criteria and weightings, for inclusion in its procurement procedure.

Should stakeholders consider that the guidance and/or options contained in Section 8.5 of the Procurement Manual do not meet future needs, we would be interested in feedback on how this could be improved.

Tender Participation and Transition Deeds

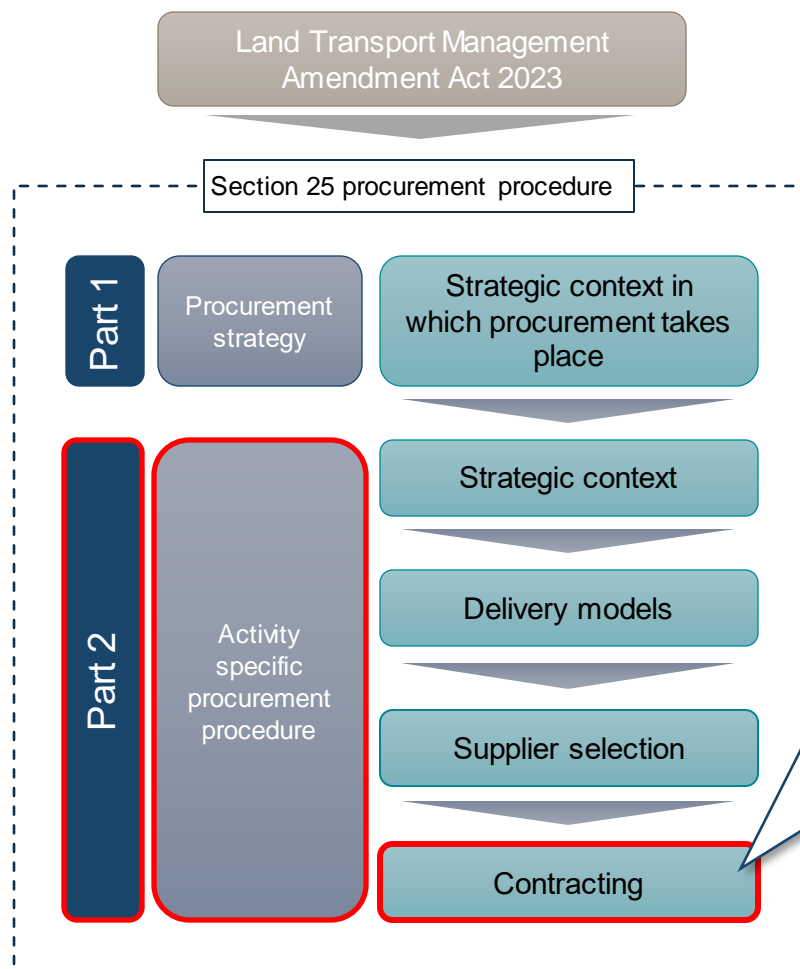
As a result of the new options and obligations available to PTAs when planning procurements, including mandating the transfer of employees, PTAs need to consider additional obligations required of incumbent PTOs that may not be addressed in existing PTOM contracts.

Therefore, PTAs should define the responsibilities of incumbent PTOs in preparing for and undertaking future procurements and subsequent transition processes and establish the required undertakings of incumbent PTOs to perform these responsibilities through a Tender Participation and Transition Deed.

Such deeds should be entered into prior to the release of procurement documents to the market and as a condition of the incumbent PTO participating in the future procurement processes.

Contracting

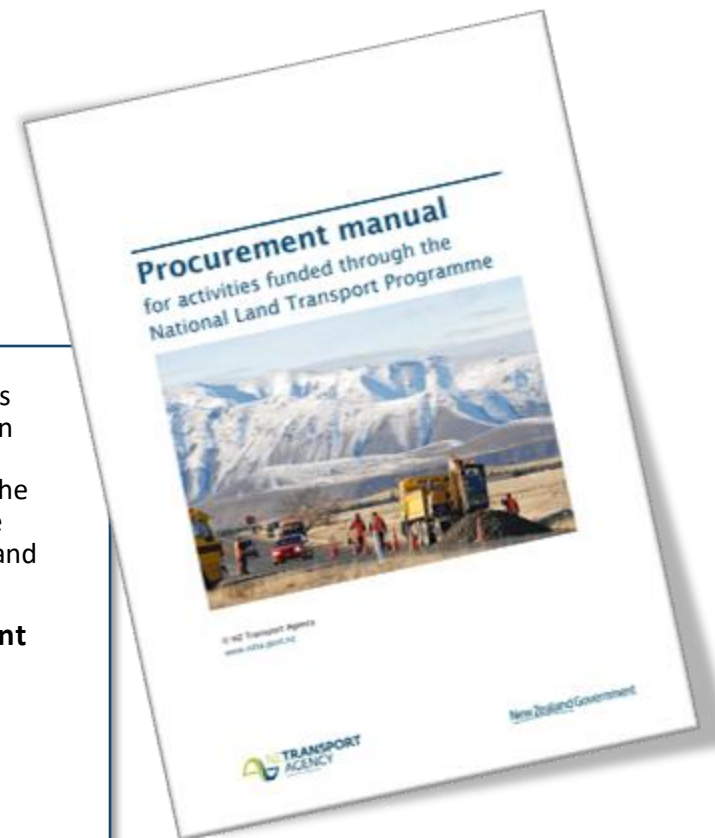
Part 2 procurement procedure



The remaining sections of this discussion document focus on contracting and in particular, elements that aim to create the conditions for more effective relationships between PTAs and PTOs.

Focus areas for engagement

- Relational contracting
- Aligning objectives
- Joint planning
- Risk allocation
- Contract length
- Pricing mechanisms
- National consistency
- Information transparency
- Options tool kit



Relational contracting¹

Contracting

Overview

Enhancing the quality of relationships between PTAs and PTOs can considerably improve the delivery of services and the outcomes from an effective and efficient PT system.

Relational contracting can be effective in complex and dynamic sectors, where the parties need to adopt a long-term approach, collaborate closely, share information, and adapt to changing circumstances.

There is general agreement in the limitations of 'transactional' approaches that are overly prescriptive and focused on compliance and an emerging recognition of the benefits of improved relationships and new forms of procurement and contracting approaches that better align objectives, enhance trust and encourage collaboration and the sharing of ideas.

Relational contracting is based on open mindedness, adaptability, prudent risk-taking, fairness and commitment. Embedding relational approach is an ongoing process, not a one-off initiative. It should build on sector experiences and evolve over time. It requires careful ongoing planning, negotiation, monitoring by all participating parties to realise the benefits and mitigate against potential challenges.

Procurement Manual amendments

Waka Kotahi proposes to amend the Procurement Manual to ensure that procurement procedures give effect to each of the key features of relational contracting.

1. Acknowledgement to [Partnerships with principles: putting relationships at the heart of public contracts for better social outcomes](#), GO Lab, University of Oxford

[Link to questions](#)

Key features of relational contracting

1. **A strong relationship:** creating the environment for strong relationships between PTA and PTO – this includes fostering opportunities to build a successful relationship during the procurement and pre-contract phase and enabling collaboration that utilises the skills and assets that each party is able to bring to the table.
2. **Tightly defined goals** that provide clarity on what success looks like, with flexibility on how to achieve it so that the partners perceive that their interests are closely aligned at the outset.
3. **Shared principles:** explicitly stating a set of shared principles in the contract provides an anchor point for the way in which the parties will behave and interact with one another, in particular when dealing with unforeseen changes during the life of the contract.
4. **A procurement process** that recognises and rewards alignment of objectives and values between PTA and PTO.
5. **A risk-sharing approach** that ensures contract mechanisms, such as the payment model, appropriately allocate risks to the party best placed to manage them that does not simply transfer risk and includes mechanisms to appropriately manage shared risk.

Challenges in achieving relational contracting

1. **Contract form:** Establishing the appropriate tone and form of contract is critical. Relational contracting recognises that a contract remains key to underpin the relationship between the parties, but that, while the contract should reflect the necessary flexibility and risk sharing approach to manage future uncertainties, the form of contract should still retain a high level of specificity in scope and contract terms to avoid ambiguity and an imbalance of power and leverage of one party over another that can lead to unintended consequences and an inappropriate allocation of risk.
2. **Cost:** Relational contracting can require higher investments in time and costs in the short term to build and maintain higher-intensity relationships, however this should be outweighed by the longer term benefits that relational contracting can deliver.
3. **Reliance on individuals:** Underpinning relational contracting are personal relationships which can change with turnover of staff. Relational contracting therefore requires an underlying culture of trust and commitment within each organisation to ensure the organisational relationships are not reliant and at risk from changes in personnel.

Aligning objectives

Contracting

Overview

The SPTF working group identified key objectives for PTAs and for PTOs. While the objectives for PTAs and PTOs are different, neither set of objectives is inconsistent with the overarching outcomes of an effective and efficient PT system.

Improved understanding by PTAs and PTOs of each other’s objectives can lead to improved outcomes through higher levels of trust and more constructive solutions that endeavour to meet objectives for both.

Equally important is the recognition of when objectives do not align as to when they do. Finding solutions when objectives pull in different directions is key to relational contracting. Recognising that win-win outcomes may not always be possible the parties should act in good faith to reach consensus on trade-offs that appropriately share risk and reward.

The development of SPTF guidance to improve partnering through procurement and contractual mechanisms has been informed by the key objectives sought by PTAs and PTOs.

Procurement procedures should describe how alignment of objectives for both PTAs and PTOs will be achieved through the procurement process.

Waka Kotahi is seeking feedback on whether the points identified in the table below, provide an accurate summary of overarching key factors PTAs and PTOs are seeking from a contracting relationship.

These factors are intended to be generally applicable at a sector wide level and will underpin further development regarding relational contracting and aligning objectives.

Key objectives identified by the SPTF working group

Theme	PTA	PTO
Outputs	<ul style="list-style-type: none"> Meeting community need Delivery on the tender promises by PTOs Integrated, cohesive, resilient network Customer satisfaction Expansion of usage 	<ul style="list-style-type: none"> Providing quality service Deliver on requirements of contract Robust contract with clear and consistent requirements Growth opportunities
Commercial	<ul style="list-style-type: none"> Confidence that value for money is being achieved, assisted by transparency of information Stewardship of public money 	<ul style="list-style-type: none"> Achieving and maintaining a ‘reasonable’ margin/profit throughout a contract (that is, avoiding the erosion of margin through contract variations over time) Operational efficiency Commercial ‘certainty’
Change	<ul style="list-style-type: none"> Responsiveness to changing needs Innovation from PTOs 	<ul style="list-style-type: none"> Flexibility to adapt to change over time
Other	<ul style="list-style-type: none"> PTA brand reputation – trusted provider of PT services Responsiveness to incidents 	<ul style="list-style-type: none"> Brand reputation Joint ownership of problems Balanced relationship Clarity of roles and responsibilities

Joint monitoring, reporting and improvement planning

Contracting

Overview

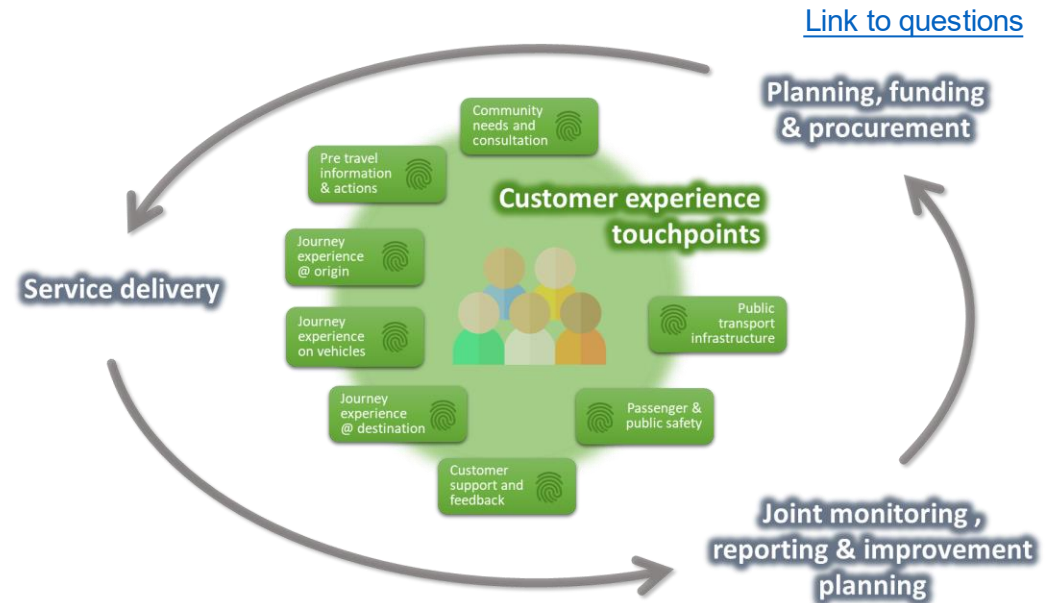
The basis of joint business planning in public transport contracts is established in the Waka Kotahi Procurement Manual. Feedback from PTAs and PTOs indicates that the requirement to undertake joint business planning is not consistent across PTAs and generally is not undertaken in a manner that maximises the potential benefits of joint planning between PTAs and PTOs.

Proposed approach to enabling better sector wide practices

Waka Kotahi sees joint planning between PTAs and PTOs as an essential component of a broader service delivery framework that has customer service at its centre (see diagram above).

Waka Kotahi proposes retaining the requirement for joint planning, while working with the sector to improve related elements that better enable joint planning as part of a broader service delivery framework (refer to Appendix 1 for a conceptual overview of key elements). Proposed focus areas include:

- Emphasising and elevating the importance of:
 - good monitoring and reporting practices as an essential enabler of joint planning
 - leveraging technology to automate the provision of high-quality data and insights (ensuring quality data and insights requires ongoing investment and effort from all participating parties)
 - data and insights being equally accessible to PTAs and PTOs
- Ensuring greater national consistency regarding the definition and application of key performance indicators and other metrics
- Reviewing contract abatement and incentive frameworks and sharing best practice guidance
- Developing guidance on the attributes of good joint planning identified by the SPTF working group.



Draft attributes of good joint planning identified by the SPTF working group

- Common goals – PTAs, PTOs, Waka Kotahi, TLAs, workforce
- Openness and listening to different perspectives
- Proactive, forward looking
- Apportion accountability to party best placed to effect improvements
- Long term goal setting
- True consultation
- Collaboration to ensure a sustainable environment, for example to ensure a sustainable workforce
- Operational meetings that set the foundations
- Business planning requirements in PTOM contracts set a good baseline to build from
- PTO representation in infrastructure discussions between PTAs and TLAs
- PTOs to be involved in development of Long-Term Plans and RPTPs

Questions and feedback

Procurement procedures

Strategic context

25. Please provide feedback on the concepts described on [pages 44](#) and [45](#) in relation to treatment of market features and delivery models.

Supplier selection

26. Please provide any feedback on the intention to continue to apply section 8.5 of the Procurement Manual in relation to supplier selection methods and any additional or amended options that would benefit future PT service procurement ([page 46](#)).

Tender Participation and Transition Deeds

27. Please provide feedback on the use of Tender Participation and Transition Deeds to facilitate the cooperation of incumbent PTOs in upcoming procurement processes ([page 46](#)).

Relational contracting

28. Please provide any feedback on the appropriateness of relational contracting for the PT sector as described on [page 48](#).

- a) What are the barriers to relational contracting in PT and what needs to happen to enable the benefits of relational contracting to be realised?

Aligning objectives

29. Please provide any feedback on the key objectives identified for PTAs and PTOs on [page 49](#). Any other objectives that should be included? To what extent do the objectives of PTAs and PTOs conflict with each other, what are the consequences and what can be done to create greater alignment in achieving objectives?

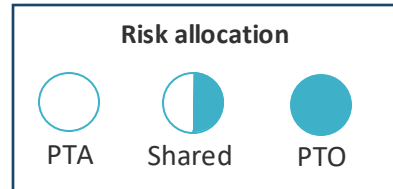
Joint improvement planning

30. Please provide any feedback on the role of joint planning by PTAs and PTOs on [page 50](#).

- a) What are the barriers to more meaningful joint planning in the PT environment and what needs to happen to enable the benefits of joint planning to be realised?
- b) What role should other stakeholders play in joint planning of the development and improvement of PT services?
- c) To what extent do you support Waka Kotahi's proposed approach to improving joint monitoring, reporting and improvement planning?

Risk allocation

Contracting



Introduction







As discussed above, one of the key principles of relational contracting is a risk-sharing approach that ensures contract mechanisms appropriately allocate risks to the party best placed to manage them and includes mechanisms to appropriately manage shared risk.

For public transport contracts where there are many unknowns and uncertainties, PTAs can better manage risks through a more cooperative approach where the risk is embraced rather than transferred.

Changes in the public transport environment, such as decarbonisation of the vehicle fleets, and a shift toward more relational contracting changes what may have previously been considered a traditional risk allocation approach.

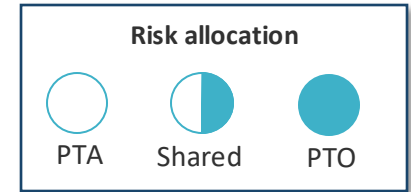
The following risk allocation matrix provides suggestions for how risk treatment and allocation may be considered for managing key public transport risks in future.

An assessment of each of these risks (where applicable) should be included in PTA procurement procedures.

Risk	Allocation	Notes
Revenue risk		All levers –for example planning, fares and ticketing sit with PTA. Very little influence by PTOs to shift revenue and patronage
Patronage risk		The Financial Incentive Mechanism (FIM) introduced under PTOM has not been effective at driving the intended outcomes of increased patronage, principally due to the main levers available to the PTO, such as service reliability, being better incentivised through other mechanisms. Consequently, it is proposed that a patronage FIM will no longer be a mandatory requirement for PT operating contracts.
Electricity cost price risk		PTO owned depots – PTO take full electricity cost risk. Where PTA owns depot, dependent on who is best placed to procure electricity (for example PTA may have greater buying power than PTO). Influenced by PTA role in depot design and resultant charging strategy to take account of optimal electricity tariffs and lines charges (for example time of day (TOD), peak demand).
Electricity consumption		PTOs control consumption through vehicle choice and driving behaviour. PTAs have an influence on consumption through network planning but this should be factored into PTO consumption assumptions at time of contract pricing (tendering).
Electricity infrastructure		Collaboration between PTAs and PTOs required to get best outcomes. Consideration for additional/new infrastructure needed to enable service expansion.
Diesel price / use		Status quo, solely sits with PTOs.

Risk allocation (cont.)

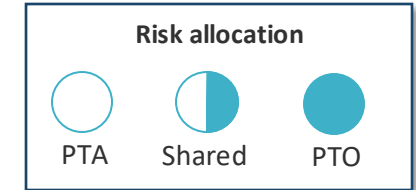
Contracting



Risk	Allocation	Notes
Inflation		Intent is for indexation risk to sit with PTAs (and Waka Kotahi). Current bus indexation mechanism has transferred more risk onto PTOs than is desirable and requires review, which is underway. The focus of the review is on how to keep PTOs 'whole' for cost movements due to inflation, how best to treat movements in labour costs and the timing of indexation adjustments relative to PTO's cashflow.
Performance (punctuality & reliability)		PTOs are responsible for performance that is under their control and PTAs responsible for performance impacting events that are outside the control of the PTO. These events are generally given effect through performance targets below 100% and identified relief events. PTOs and PTAs need to collaborate when establishing network and infrastructure changes to consider impacts on performance requirements. For PTA owned assets, PTAs are responsible for specifying and procuring assets that are fit for purpose to deliver on the performance standards.
Daily specified capacity		PTO is responsible for delivering availability of existing fleet in accordance with PTA timetables and capacity specifications.
Long-term capacity		PTA responsible for funding investment in increased asset and service levels to deliver capacity for long term growth (additional growth buses and increases in depot capacity).
Cost for enabling assets		Different asset delivery models may be used to better manage cost of key assets.
Service volume risk		PTA sets the service and timetable requirements and is therefore best placed to manage risks associated with unknown future changes to planned service volumes. PTOs compensated through service variation rates to keep PTO whole for marginal cost and margin.
Out-of-service volume risk		PTO is best placed to manage the efficient deployment of resources on the network to minimise out-of-service running based on tendered assumptions. PTA to take some out of service risk for service variations that result in material impacts on dead-running.

Risk allocation (cont.)

Contracting



Risk	Allocation	Notes
Staff T&Cs		Subject to appropriate indexation for labour costs. PTAs may establish baseline T&Cs at time of contract pricing. PTAs have an influence on conditions such as expense of work hours and the requirement for split shifts through network design.
Staff utilisation		PTOs control staff utilisation through rostering and schedule management. PTAs have an influence on staff utilisation through network planning, but this should be factored into PTO utilisation assumptions at time of contract pricing (tendering).
Asset condition – PTO owned assets		PTO responsible for the maintenance, condition and performance of the assets that it owns. Including mid-life refurbishments, renewals and battery health and replacement. For transferring assets, PTO responsible for the end of term condition of the assets to the PTA's specified condition standard.
Asset condition – PTA owned assets		Subject to operating model and scope of responsibilities, generally the PTO will be responsible for the maintenance, condition and performance of the assets that the PTA owns and has assigned to the PTO during the contract term. The PTO will be responsible for any cost risk associated with providing the assets in a condition that satisfies the Return Condition requirements established in the contract. Condition risk associated with fair wear and tear will be retained by the PTA. PTA responsible for specifying maintenance and condition standards (and auditing against these). PTO responsible for managing battery and charger health (to specifications) and PTA responsible for cost of replacements where PTO has complied with specifications.
Change in law		Compliance with change in law sits with PTOs, with cost risk sitting with PTAs (and Waka Kotahi).
External cost / performance shocks		The PTO is best placed to manage its supply chain and put in place mechanisms to mitigate these events. However, force majeure, excepted risks and indexation sit with the PTA.

Pricing mechanisms

Contracting

Overview

Development of operational policy to address changes to the public transport contracting environment because of the transition to decarbonisation, alternative options for asset provision and the need for improved partnering between PTAs and PTOs, has identified the requirement for alternative options for remunerating PTOs to more appropriately allocate risk and ensure the necessary incentives are in place to efficiently grow PT.

Research commissioned on practices in other jurisdictions and sectors, together with input from the SPTF working group, has identified a range of pricing mechanism options that will provide more flexibility for PTAs and PTOs when pricing contracts and variations.

As noted in the risk allocation section above, a review of the Waka Kotahi bus indexation mechanism is underway. The focus of the review is on how to keep PTOs 'whole' for cost movements due to inflation, how best to treat movements in labour costs and the timing of indexation adjustments relative to PTO's cashflow. The sector will be provided the opportunity for input to this review.

Pricing – payment approach

Fixed annual pricing

- An all-inclusive fixed price is provided at the time of tender for each year of the contract term in the form of an Annual Gross Price to deliver the PTA's service specifications and the contract obligations.
- Changes to services or the contract are managed through variations.
- Indexation applies.
- Most suitable for less complex contracts with relatively predictable changes through the term.

Combined fixed and variable pricing

- Fixed price for fixed cost elements and variable pricing rates for delivered volumes.
- Indexation applies.
- Most suitable for contracts with uncertain or highly variable levels of demand, such as on-demand services.

Annual budgeting

- A price to operate the services is developed each year through an annual budgeting process and agreed between both parties.
- Indexation adjustments included within budget.
- Risk and reward for achieving target price.
- Most suitable for complex contracts with expected high levels of change and variability through the term.
- Requires very high levels of collaboration between PTA and PTO.

Pricing – variations approach

Marginal rates – in-service

- Pre-defined rates for variations to the original service plan, reflecting marginal running and investment costs on an in-service unit basis (\$/km, \$/hour, PVR (\$/vehicle per annum)).
- PTO takes out-of-service cost risk.
- Suitable for small changes to service schedules and average amounts of out-of-service running.

Marginal rates – in-service + out-of-service

- Pre-defined rates for variations to the original service plan, reflecting marginal running costs on a total time and distance basis.
- PTO compensated for efficient scheduled out-of-service running and layover.
- Suitable for small changes to service schedules that require higher than 'average' amounts of out-of-service running.

Pre-priced options

- Prices are provided at the time of tender for specific service change options that the PTA may wish to activate.
- Suitable where there is a high degree of certainty around the scope of the future change and it is feasible for tenderers to price this as part of their submission.

Net Financial impact (NFI)

- Variations are assessed based on their net financial impact to the contract (no net loss / no net gain) governed by a set of defined pricing principles.
- Suitable for major service changes and non-service related changes.

Contract length

Contracting

To provide more options for PTAs to utilize different contract term lengths to support improved partnering, better manage the transition to zero emission fleets and improve procurement outcomes, Waka Kotahi is proposing to provide increased flexibility in the contract durations that PTAs may choose for its PT service contracts.

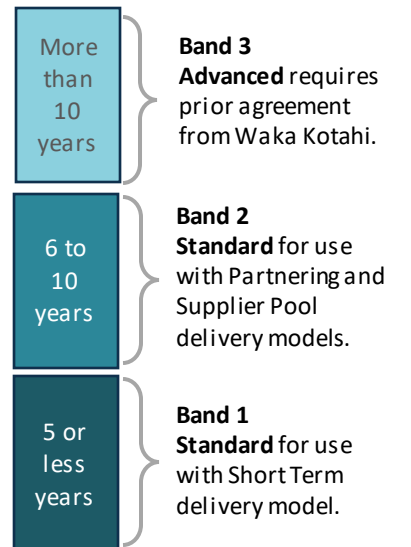
Band 2 options of between 6 to 10 years are considered appropriate for the majority of PT partnering contracts and will be approved by Waka Kotahi, subject to PTAs demonstrating in their procurement strategy the considerations given to the selection of the relevant contract term. Considerations for selecting a Band 2 term of between 6 and 10 years include:

- Asset delivery model –generally assets provided by the PTO will suit a longer contract term to provide a suitable amortization period and return on capital for the PTO, while, conversely, where key assets are provided by the PTA, the same length of term to provide PTO returns is not required, and a shorter term may be preferred to enable more frequent tendering or for other reasons.
- Depth of supplier market –good depth in the incumbent supplier market can support more regular tendering and therefore shorter contract terms.
- Shorter terms (6 to 7 years) with performance linked rights of extension (for example 2 to 3 years) can provide an additional mechanism to incentivise PTO performance.
- Different contract terms for different units may be utilised to enable the alignment of expiry dates of different units for planning future tender rounds or to align to other significant changes that may be planned for the network.

Band 3 options of greater than 10 years are considered longer than are necessary for 'standard' bus contracts and can add risk to PTAs by locking in individual PTOs and stifling competition, impacting long term value for money. However, in certain circumstances, such contract lengths may be appropriate to achieve certain outcomes. These circumstances will need to be demonstrated to Waka Kotahi for approval to use. Examples of potential circumstances include:

- To enable the alignment of expiry dates of different units for planning future tender rounds or to align to other significant changes that may be planned for the network.
- Incentivising particular outcomes, such as the offer of longer tenure in exchange for the end of term transfer of a strategic asset.
- In circumstances where significant change and complexity is expected to occur, particularly in outer years, and it would be difficult to change PTO during that period.
- For complex contracting arrangements, such as an alliance style delivery model, that requires a longer timeframe to deliver the expected benefits.

Contract tenure bands



Consistency in procurement & contracting

Contracting

Development of operational policy to support implementation of the SPTF reforms has identified the following principles to facilitate the SPTF objectives of improved partnering and increased transparency of information:

1. Planning, procuring, and operating public transport services should be:
 - a) carried out in an open and transparent manner, irrespective of who operates the service
 - b) undertaken in a manner that enables national benchmarking for the purposes of supporting sector wide continuous improvement.
2. There should be transparency in pricing build-ups to:
 - a) contribute to conditions of high trust and good partnering between PTOs and PTAs
 - b) validate value for money
 - c) enable more collaborative negotiations in relation to major service or contract changes
 - d) enable different asset control arrangements
 - e) ensure visibility of underlying labour costs
 - f) enable cost elemental indexation to be easily applied.
3. To the maximum extent practicable, tendering and contracting approaches should:
 - a) be streamlined and consistent across PTAs to reduce workload for the supplier market and support increased participation in procurement processes
 - b) avoid duplicate effort and be accessible to sector participants with varying levels of capacity and capability.

To support these principles Waka Kotahi proposes to develop a nationally consistent set of guidance, tools and frameworks. These will include:

- Tender pricing templates
- Tender pricing evaluation tool
- Glossary of contract pricing elements
- Guidance on the definition, measurement and application of key performance metrics
- Reporting templates
- Model contract provisions

Information transparency

Contracting

Overview

To support the SPTF objectives of improved partnering and greater transparency, PTAs will be provided with the tools to seek greater levels of information transparency through the tender and contracting processes.

A principal objective for gaining increased transparency of information is to strengthen the relationship between PTAs and PTOs through a greater understanding of underlying costs and financial performance, leading to improved levels of trust and to enable more informed conversations between the parties when collaborating on service changes and other factors impacting costs.

Feedback from the SPTF working group has indicated that there are benefits for PTOs where there is consistency in the information requested by PTAs and benefits for PTAs where clear guidance and templates for information collection can be provided by Waka Kotahi to avoid duplication of effort.

Consequently, Waka Kotahi proposes to develop specifications for tender pricing templates for use by PTAs that will provide consistency for PTOs and ease of evaluation and improved understanding of costs for PTAs.

Waka Kotahi will also develop specifications for reporting templates to enable the collection of information that satisfy the SPTF objectives and has been legislated through the LTMA amendments.

Illustrative form of tender pricing template

[Link to questions](#)

	Year 1	Year 2	Year 3	Year 4	Etc...
a. Bus Hour Costs					
Drivers wages					
Full-time Drivers					
Part-time Drivers					
Casual Drivers					
Other employment type					
Total Driver wages					
Drivers on-costs					
Superannuation					
Payroll tax					
Worker's compensation					
Other on-costs					
Total Drivers on-costs					
Other bus hour costs					
Total Bus Hour Costs					
b. Bus Kilometre Costs					
Electricity					
Fuel - diesel (net of fuel tax credit)					
Mechanics					
Mechanics wages					
Mechanics on-costs					
Total Mechanics					
Bus parts & consumables					
Contracted maintenance & repairs					
Bus Cleaning					
Other bus kilometre costs					
Total Bus Kilometre Costs					
c. Bus Overhead Costs					
Admin and management on-costs					
Admin and management salaries & wages					
Accounting, consulting & legal fees					
Advertising / marketing					
Bus registration					
Communications					
Information technology					
Insurances					
Motor vehicle and non-bus expenses					
Rates & taxes (property related)					
Redundancy costs					
Rent (non-depot)					
Repairs & maintenance (depots and non-fleet)					
Depot - rent / ownership charges					

Options tool-kit

Contracting

Overview

To assist the sector to respond to differing circumstances and needs, take advantage of different asset ownership and delivery models enabled by the SPTF and to improve partnering outcomes, Waka Kotahi has developed an options tool-kit to help illustrate how PTAs can utilise different procurement and contracting mechanisms dependent on their specific circumstances and needs.

To acknowledge the different circumstances and needs of PTAs, the tool-kit uses five theoretical scenarios to represent the range of diverse characteristics that different PTAs may associate themselves with. The scenarios use variations across six key characteristic features that influence how PTAs can deliver bus services.

Nine aspects of PT contracting and procurement considerations have been identified and different contractual and procurement mechanism tools are placed on a spectrum for each of the nine aspects. These options have been informed from research on approaches taken in other jurisdictions and sectors.

For each scenario, we identified the potential suite of contractual and procurement tools that may best respond to each theoretical PTA's specific characteristics and objectives.

Many of the contractual approaches and features have relationships and interdependencies that need to be considered when designing procurement approaches and contracts. The tool-kit provides an indication of these relationships, and the scenarios explore these in more detail. It will be important for PTAs to seek further guidance from Waka Kotahi when navigating these relationships and considering when different contractual levers can be used to realise desired outcomes.

The options tool-kit report is provided for reference in Appendix 2.

Spectrums of options for different contract elements

Asset control—End state	Full operator control		Mixed PTA-operator control		Full PTA control
Asset control—Pathway	N/A (no PTA ownership)	Transfer obligation—Fleet	Transfer obligation—Infrastructure	PTA leases or purchases assets—Fleet	PTA leases or purchases assets—Infrastructure
Procurement—Evaluation	Quality Based Method	Value for money assessment combining price and quality		Price Quality Method	Price assessment only
Procurement—Method	Direct award / negotiation	Closed contest tender	Open competition tender		N/A – In-house provision
Contract type	Concession	Quality partnerships	Net cost contract	Gross cost contract	Collaborative contract (alliance-style)
Contract term	Short (1-5 years)	Moderate (6-9 years)		Long (10-15 years)	Very Long (15+ years)
Pricing—Transparency	No pricing transparency (total fixed price)		Transparency at the payment component-level		Detailed breakdown of elemental costs
Pricing—Payment approach	Annual budgeting		Combined fixed and variable pricing elements		Fully fixed annual pricing
Variations	Marginal Rates—In-Service	Marginal Rates—In-Service + Dead Running		Pre-Priced Options	Net Financial Impact
Indexation	No indexation (nominal pricing)		Compound index		Cost element indices
Performance incentive regime	No performance regime	Service delivery, quality, and customer regime		Patronage regime	Behavioural regime

+ supporting guidance for selecting options

Questions and feedback

Procurement procedures

Risk allocation

31. Please provide any feedback on the risk allocation matrix ([pages 52-54](#)). Does this represent an accurate reflection of risk allocation in the future PT environment? Are there other key risks that should be included in the matrix? What guidance from Waka Kotahi would be helpful in assessing and treating risks?

Pricing mechanisms

32. Please provide any feedback on the proposed available pricing and variation mechanisms for PT contracts ([page 55](#)). Are there other mechanisms that you would like to see included? What guidance from Waka Kotahi would be helpful in determining the suitability and application of different pricing and variation mechanisms?

Contract length

33. Please provide any feedback on the proposed available contract term options for PT contracts ([page 56](#)). To what extent are the proposed bands appropriate? What guidance from Waka Kotahi would be helpful in determining the suitability and application of different contract terms?

National consistency and transparency

34. To what extent do you agree with the requirement for greater consistency in PT procurement and contracting across New Zealand to improve partnering and transparency of information ([page 57](#))? Please provide any feedback on the proposed principles to achieve greater consistency in PT procurement and contracting. What other guidance and tools would be useful from Waka Kotahi to help achieve greater consistency?
35. To what extent do you agree with the requirement for and benefits of greater transparency in information through the PT procurement and contracting process ([page 58](#))? What guidance would be useful from Waka Kotahi to achieve greater information transparency?

Options tool-kit

36. To what extent is the Contracting Options Tool-kit useful for understanding the considerations and options available to PTAs in future ([page 59](#) and [Appendix 2](#))? Please provide any specific feedback on the Options Tool-kit and any additional guidance that would be helpful?

Appendix 1 – Service delivery framework

Context for joint monitoring, reporting and improvement planning

Service delivery framework

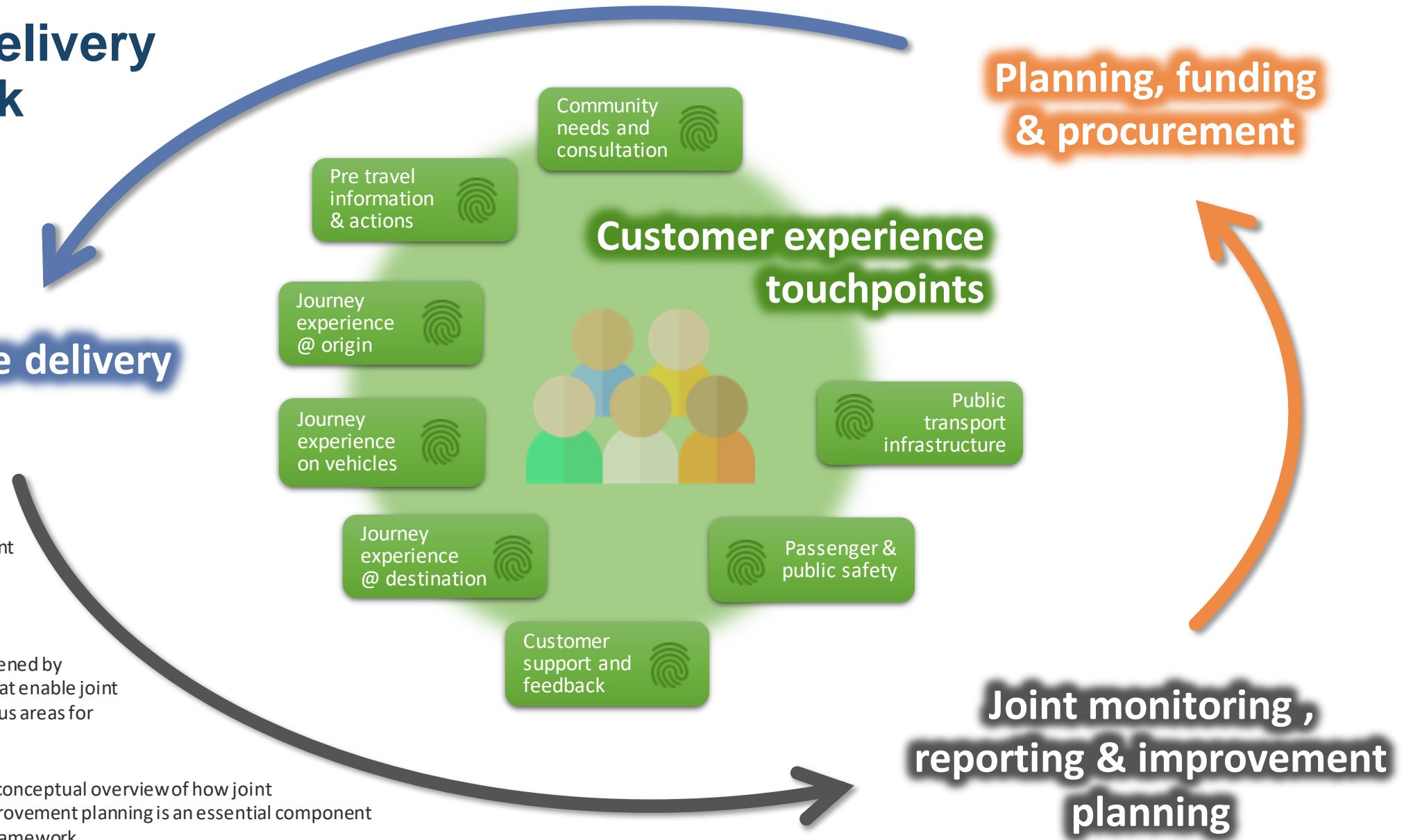
Service delivery

Planning, funding & procurement

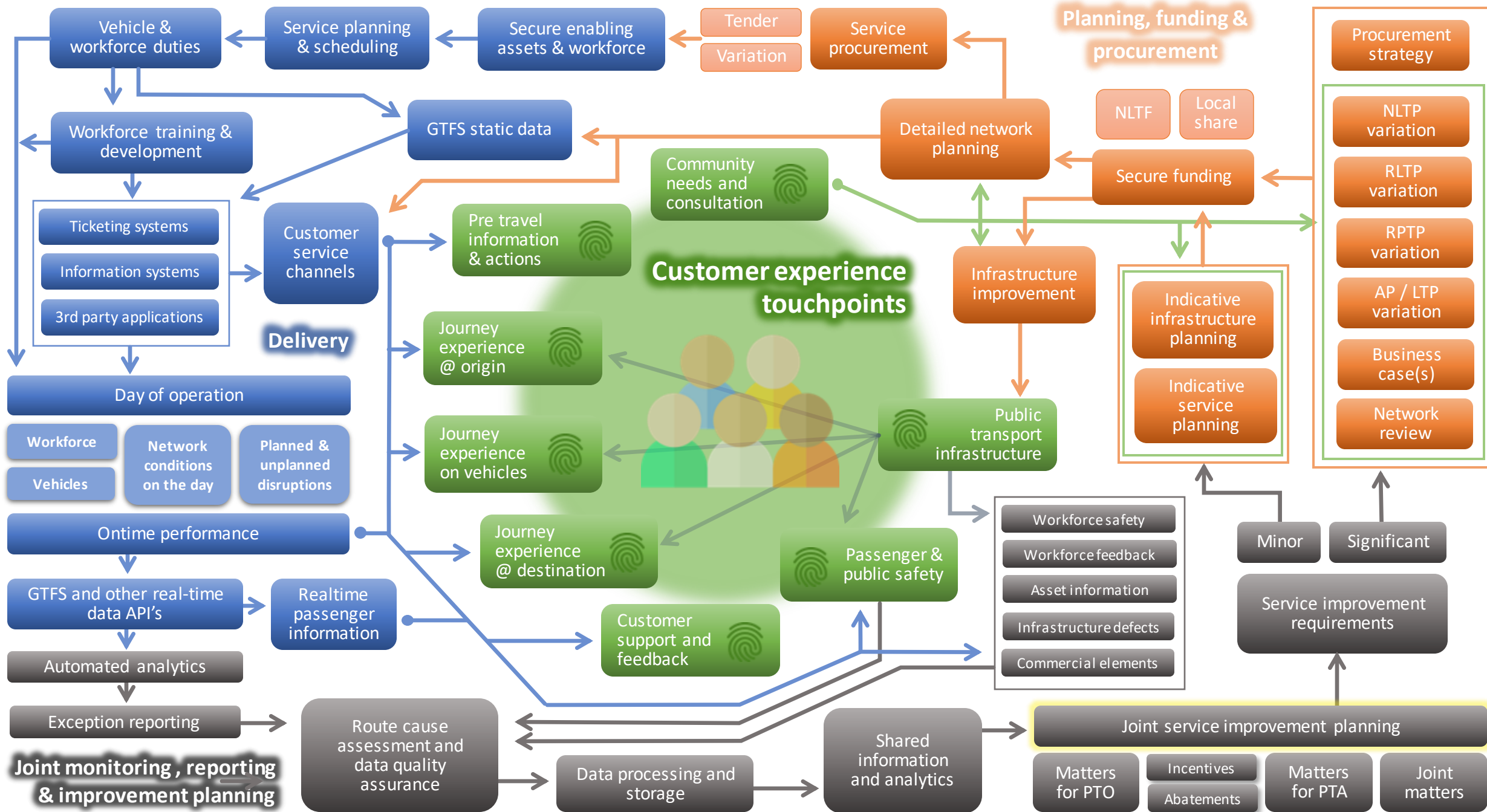
Waka Kotahi sees joint planning between PTAs and PTOs as an essential component of a broader service delivery framework that has customer service at its centre.

Joint planning can be strengthened by improving related elements that enable joint planning. [Link](#) to proposed focus areas for improvement.

The following page provides a conceptual overview of how joint monitoring, reporting and improvement planning is an essential component of a broader service delivery framework.



Joint monitoring, reporting & improvement planning



Appendix 2 – Options tool-kit report



Waka Kotahi
SPTF Implementation Support

Advisory Scope #5: Potential Contract and Procurement Tool-Kits

12 October 2023

Contents

Introduction	3
Approach	5
Context	6
Scenario Key Features	7
Five Scenarios at a Glance	8
Contractual Approach Options Spectrum	9
Contractual Mechanisms Dependencies	12
Scenarios	13
Scenario 1	15
Scenario 2	21
Scenario 3	27
Scenario 4	33
Scenario 5	39
Reporting	45
Discounted Options	46
Net Financial Impact Key Features	47
Suggested Next Steps	48

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Introduction

We have been engaged by Waka Kotahi to provide research to support the development of operational policy for the implementation of the Sustainable Public Transport Framework.

Background

The Public Transport Operating Model (PTOM), governs the planning, procurement, and delivery of public transport services in New Zealand. The Sustainable Public Transport Framework (SPTF) has replaced and expanded elements of the original PTOM objectives through its enabling legislation (Land Transport Management (Regulation of Public Transport) Amendment Act 2023).

The four objectives of SPTF are:

1. Public transport services support mode shift from private motor vehicles, by being integrated, reliable, frequent, accessible, and safe,
2. Employment and engagement of the public transport workforce is fair and equitable, providing for a sustainable labour market and sustainable provision of public transport services,
3. Well-used public transport services reduce the environmental and health impact of land transport, including by reducing reliance on single-occupancy vehicles and by using zero-emission technology, and
4. Provision of services supports value for money and efficiency from public transport investment while achieving the first three objectives.

To support these objectives, Waka Kotahi has been tasked with developing operational policy that would enable the above objectives through the following reforms:

- Requiring that services are procured and delivered in a way that ensures transparency,
- Allowing PTAs to own or otherwise control assets,
- Improving partnering between PTAs and operators, and
- Enabling the transition to decarbonisation and zero emission fleets and supporting infrastructure.

SPTF Objectives

Mode shift

Public transport services support mode shift from private motor vehicles, by being integrated, reliable, frequent, accessible, and safe.

Sustainable workforce

Employment and engagement of the public transport workforce is fair and equitable, providing for a sustainable labour market and sustainable provision of public transport services.



Reduced environment and health impacts

Well-used public transport services reduce the environmental and health impact of land transport, including by reducing reliance on single-occupancy vehicles and by using zero-emission technology.

Value and efficiency

Provision of services supports value for money and efficiency from public transport investment while achieving the first three objectives.

Introduction

This report draws on the research work completed in our previous advisory scopes of work to develop potential contractual and procurement ‘tool-kits’ that can respond to differing circumstances or needs of diverse public transport authority archetypes.

Our Scope

To inform policy development, Waka Kotahi has engaged Deloitte to undertake a number of research papers that have investigated different topics relevant to SPTF implementation. The Statements of Work (SoW) were:

- SoW 1: Staff Transfer / Employee Rights
- SoW 2: Asset Control
- SoW 2A: Asset Control and Insourced Service Provision
- SoW 3: Contractual Models
- SoW 4: Transparency

From the findings identified across SoW 2, 2A, 3, and 4, Waka Kotahi is now seeking the identification of the potential ‘tool-kits’ of procurement and contractual features and mechanisms that could be relevant and useful in revised procurement guidance.



Our collated ‘tool-kits’ development has focused on:

- **Procurement evaluation:** tender evaluation methodologies that could be used in addition to, or instead of, the Price Quality Method to select suppliers.
- **Contract type:** contract forms / types that could be appropriate in the context of the SPTF.
- **Contract term:** alternative contract term arrangements that could be included within the procurement manual as an alternative to the standard 9-year term under PTOM, including how alternative contract durations could support improved partnership and transition to zero-emission fleets.
- **Pricing:** alternative pricing approaches to improve transparency of operator costs and to more appropriately allocate risk that could be included in procurement guidance.
- **Variations:** potential suite of variation types that could be included in procurement guidance, including how larger service changes to enable / support mode shift could be addressed.
- **Reporting:** the high-level reporting requirements that could be included within updated procurement guidance.
- **Indexation:** alternative approaches to indexation that could be used to better align with the alternative pricing approaches.
- **Performance regime:** additional performance regime approaches or elements that could be included within procurement guidance to supplement existing mechanisms.

Approach

We developed contractual responses to five theoretical scenarios that represent PTAs with diverse characteristics. We engaged with internal Waka Kotahi personnel and external stakeholders to refine and agree the 'tool-kits'.

1

Develop illustrative scenarios

We identified six key features that influence how PTAs can deliver bus services. We developed five theoretical scenarios described within the context of these features, each representing PTAs with diverse characteristics.

2

Develop Contractual Approach Options Spectrum

To frame the development of contractual responses to each scenario, we developed the Contractual Approach Options Spectrum that reflects what the *art of the possible* may look like, to capture tools for responding to nine contractual and procurement mechanisms. The tools identified are a collation of options exhibited through research of other jurisdictions in SoWs 1 through 4.

3

Develop preliminary contractual responses

For each scenario, we used the Contractual Approach Options Spectrum to develop preliminary thinking on what suite of contractual and procurement tools may best respond to the theoretical PTA's specific characteristics and objectives.

4

Test with Waka Kotahi and stakeholders

We held two workshops to facilitate discussion around the scenario framing, Contractual Approach Options Spectrum, and contractual response design; the first with internal Waka Kotahi personnel, and the second with the SPTF Working Group which comprises external stakeholders representing both PTAs and operators.

5







Incorporate feedback and identify next steps

We took feedback received on board to refine scenario framing, the spectrum of contractual and procurement responses available and how these can be packaged as 'tool-kits' for different scenarios. We have further detailed the supporting rationale for the proposed 'tool-kits'. The report concludes with identification of specific tools that could be discounted within the New Zealand context, and identification of next steps for further procurement guidance design and development.

Context

Context | Scenario Key Features

We have developed five theoretical scenarios that represent PTAs with diverse characteristics. These scenarios are described within the context of six key features.

Key Feature	Associated High-level Considerations		
<p>Demand for Public Transport</p> <p>Assessing the projected expansion and demand for public transportation services in the PTA's operating area.</p>	<p>In areas with declining demand, contracts can be structured to allow for demand-responsive services, ensuring cost-efficiency.</p>	<p>Declining Steady Increasing</p> 	<p>An increasing demand for services indicates a need for scalability and flexibility. Contracts should allow for easy adjustments to service frequency and routes.</p>
<p>Market Depth</p> <p>Evaluating the degree of market concentration now and potential for future market entry and competition.</p>	<p>In a shallow market where traditional open tenders may not attract strong competition alternative contractual arrangements may need to be considered to support value for money and improve competition.</p>	<p>Shallow Deep</p> 	<p>In a deep market with multiple operators, competitive procurement methods can be effectively used to drive value for money.</p>
<p>PTA's Capability and Resources</p> <p>Considering the PTA's expertise and capabilities in managing complex transportation operations and transition to full decarbonisation of public transport.</p>	<p>For PTA's with constrained capabilities and resources, simpler contract types that are easier to implement and manage across the contract lifecycle may be more suitable.</p>	<p>Limited Advanced</p> 	<p>PTA's with greater capabilities and resources can explore more complex contracting models, including approaches to payments, variations, and performance incentive regimes that require enhanced contract management capabilities.</p>
<p>Degree of Funding Constraints</p> <p>The financial limitations or restrictions faced by the PTA in delivering and sustaining public transport services.</p>	<p>In financially constrained environments, contracts should emphasise value for money, budget certainty, cost transparency, and clear pricing mechanisms.</p>	<p>Significant Limited</p> 	<p>PTA's with limited funding constraints may be better placed to increase asset control and more easily meet additional demand and service objectives.</p>
<p>Control of Assets by PTA</p> <p>The cost-benefit and willingness of PTAs to have direct ownership or control of assets.</p>	<p>A lower appetite for asset control may require PTAs to consider alternative ways to lower barriers to entry in a shallow market. Lower levels of asset control may also support the transfer of dead running risk to operators and the use of in-service variation rates.</p>	<p>Low High</p> 	<p>PTA's with appetite to control assets will need to consider the most appropriate pathway to achieving this given funding constraints and their capability and resourcing. Control of assets could impact pricing and variation approaches (e.g. PTA control of depots may better support the use variation rates based on total units – in-service and dead running).</p>
<p>Anticipated Significant Change to Service Requirements</p> <p>Expected modifications to service demands resulting from the integration of new or upcoming public transport projects.</p>	<p>The level of service required is largely steady and predictable. The contract reflects a more 'business as usual' approach with traditional levers used to deliver outcomes. Variations are less of a focus given that minimal change to service levels is expected.</p>	<p>No Yes</p> 	<p>Where there is an anticipated significant change to service requirements contracts should include appropriate variation mechanisms. Known changes could be pre-priced as options, and unknown changes will require Net Financial Impact approaches.</p>

Context | Five Scenarios at a Glance

We have developed five hypothetical PTA scenarios with diverse characteristics, based on the key features presented earlier, and identified potential contractual responses to each.

1 Large market with increasing demand for public transport and a capable and well-resourced PTA

- High population growth and increasing demand for public transport services, yielding an expected step change in service requirements.
- A larger number of contracts, delivered by a competitive market with reasonable depth.
- The PTA is reasonably capable and resourced and has limited funding constraints.
- A large, interfacing transit project is known to be delivered during contract implementation, which will significantly alter service requirements.

2 Mid-sized shallow market, stable demand for public transport, and a reasonably capable and resourced PTA

- Steady population growth and stable demand for public transport.
- A high market concentration with shallow supplier depth.
- The PTA is funding constrained, which limits the ability of the PTA to own assets with a preference for asset transfer provisions to reduce barriers to entry.
- There are no known significant interfacing transportation projects that will significantly alter service requirements.

3 Mid-sized market with increasing demand for public transport, and a reasonably capable and resourced PTA

- High population growth and increasing demand for public transport services, yielding an expected step change in service requirements.
- A limited number of contracts, delivered by few operators within a shallow market.
- The PTA has limited funding constraints, is reasonably capable and resourced, and there is a business case for controlling assets over time.
- A large, interfacing transit project is known to be delivered during contract implementation, which will significantly alter service requirements.

4 Mid-sized, stable market, with funding constraints and capability constrained PTA

- A mid-sized market with steady population growth and stable demand for public transport.
- A limited number of contracts, delivered by one or two dominant operators within a shallow market.
- PTA is funding constrained, which limits the ability of the PTA to own and control assets, thereby limiting the ability to attract new market entrants.
- There are no known significant interfacing transportation projects that will significantly alter service requirements.

5 Small, declining market with moderate market depth and a capability constrained PTA

- A low growth environment, with fluctuating levels of demand for public transportation, reflecting an overall downward trend.
- The PTA is funding constrained with low or declining patronage, resulting in a high cost per passenger to deliver traditional timetable bus services.
- There are no known significant interfacing transportation projects that will significantly alter service requirements.

Context | Contractual Approach Options Spectrum

In order to frame the development of contractual responses to each scenario, we have developed the **Contractual Approach Options Spectrum**, that reflects preliminary thinking as to what the *art of the possible* may look like, for each contractual and procurement mechanism. Options can be either alternatives or additive depending on the contractual feature. Later in this report we discount some options from potential application in the New Zealand bus market.

Asset control – End state
Asset control – Level
Contract type
Contract term
Procurement – Method
Procurement – Evaluation
Pricing – Transparency
Pricing – Payment approach
Variations
Indexation
Performance incentive regime
Reporting

Full operator control		Mixed PTA-operator control		Full PTA control	
N/A (no PTA ownership)	Transfer obligation– Fleet	Transfer obligation– Infrastructure	PTA leases or purchases assets – Fleet	PTA leases or purchases assets – Infrastructure	
Concession	Quality partnerships	Net cost contract	Gross cost contract	Collaborative contract (alliance-style)	
Short (1-5 years)	Moderate (6-9 years)		Long (10-15 years)		Very Long (15+ years)
Quality Based Method	Value for money assessment combining price and quality		Price Quality Method		Price assessment only
Direct award / negotiation	Closed contest tender		Open competition tender		N/A – In-house provision
No pricing transparency (total fixed price)		Transparency at the payment component level		Detailed breakdown of elemental costs	
Annual budgeting		Combined fixed and variable pricing elements		Fully fixed annual pricing	
Marginal Rates– In-Service	Marginal Rates-In-Service + Dead Running		Pre-Priced Options		Net Financial Impact
No indexation (nominal pricing)		Composite index		Cost element indices	
No performance regime	Service delivery, quality, and customer regime		Patronage regime		Behavioural regime
<i>All reporting will be transparent and detailed, and designed to support the selected asset control model.</i>					

On the following pages, we’ve expanded the Contractual Approach Options Spectrum to include clarification as to how we’ve defined each tool or option, in the context of this exercise.

Context | Contractual Approach Options Spectrum

We have provided clarification as to how we have defined each tool or option in the context of this exercise.

Asset control – End state	Full operator control <i>Operator has full control, through ownership or leases, over the assets used in service provision</i>		Mixed operator-PTA control <i>The PTA and operator each control some assets, through ownership or leases</i>		Full PTA control <i>PTA has full control, through ownership or leases, over the assets used in service provision</i>	
Asset control – Pathway	N/A (no PTA ownership)	Transfer obligation – Fleet <i>End of term asset transfer obligation enabling the transfer of fleet assets from the outgoing operator to the incoming operator or PTA</i>	Transfer obligation - Infrastructure <i>End of term asset transfer obligation enabling the transfer of infrastructure assets from the outgoing operator to the incoming operator or PTA</i>	PTA leases or purchases – Fleet <i>PTA purchases fleet assets, or leases from a third-party integrator or similar, and sub-leases to the operators</i>		PTA leases or purchases – Infrastructure <i>PTA purchases infrastructure assets, or leases from a third-party integrator or similar, and sub-leases to the operators</i>
Contract type	Concession <i>Partnership between public sector and private operator, in which the operator is remunerated primarily through having the authorisation to deliver the service and collect revenues from fares that it sets and other commercial activities</i>	Quality partnerships <i>PTAs invest in improved facilities, and operators commit to improving standards. Operators design routes and retain revenues with PTAs providing extra financial support for achieving quality measures and concessionary fares</i>		Net cost contract <i>Operator is paid to operate a specified service for a specified period, and retains all fare and commercial revenue. The operator must forecast both its costs and its revenues and takes on risk associated with each</i>	Gross cost contract <i>Operator is paid a specified sum to provide a specified service for a specified period. The PTA retains passenger revenue, and generally sets the routes, types of vehicles, and service quality</i>	Collaborative contract (alliance-style) <i>A collaborative contract that mirrors some features of a typical Alliance (e.g. pain share / gain share mechanisms), and a behavioural outcomes focused performance regime</i>
Contract term	Short (1-5 years)		Moderate (6-9 years)		Long (10-15 years)	
Procurement – Method	Direct award / negotiation <i>Contract is awarded directly to a selected operator through negotiation, without a competitive tender process</i>		Closed contest tender <i>A limited number of pre-selected operators are invited to submit tenders for the contract</i>		Open competition tender <i>The contract is openly tendered, and any qualified operator can participate</i>	
					N/A – In-house provision <i>The service is provided in-house by the PTA without external procurement</i>	

Context | Contractual Approach Options Spectrum

We have provided clarification as to how we have defined each tool or option in the context of this exercise.

Procurement - Evaluation	Quality Based Method <i>Evaluation where the quality attributes of suppliers whose proposals meet requirements are graded, and the preferred supplier is selected solely on that basis. Price is then negotiated based on their price proposal</i>	Value for money assessment combining price and quality <i>Evaluation that considers both the price and quality of the proposed solution to determine the best value for money in a holistic assessment</i>	Price Quality Method <i>Formula-based evaluation that considers weighted price and non-price attributes</i>	Price assessment only <i>The evaluation focuses solely on the price of the proposed solution for bids that meet a minimum quality standard</i>
	No pricing transparency (total fixed price) <i>Detailed pricing build up is not disclosed, and instead a single total fixed price is agreed</i>	Transparency at the payment component-level <i>Pricing detail is provided to the payment component-level to support indexation, for example for labour, materials and fuel</i>		Detailed breakdown of elemental costs <i>Pricing detail is provided that shows the detailed elemental costs that comprise each payment component</i>
Pricing – Transparency	Annual budgeting <i>A price to operate the services is developed each year through an annual budgeting process and negotiated / agreed between both parties</i>		Combined fixed and variable pricing elements <i>Pricing structure includes both fixed price and variable elements</i>	Fully fixed annual pricing <i>Fixed pricing is provided at the time of tender for each year of the contract term</i>
Pricing – Payment approach	Marginal Rates - In-Service <i>The contract includes predefined rates for variations to the original service plan, expressing marginal rates on an in-service unit basis which includes an average dead running cost allowance (per km, hour, PVR)</i>	Marginal Rates - In-Service + Dead Running <i>The contract includes predefined rates for variations to the original service plan, expressing marginal rates on a total unit basis comprising in-service plus efficient scheduled dead running and layover (per km, hour, PVR)</i>	Pre-Priced Options <i>Prices are provided at the time of tender for specific service change options that the PTA may wish to activate</i>	Net Financial Impact <i>Variations are assessed based on their net financial impact to the contract governed by a set of defined pricing principles</i>
Variations	No indexation (nominal pricing) <i>Pricing accounts for estimated inflation, and therefore remains fixed and is not further adjusted for inflation or any other index</i>	Composite index <i>Pricing is adjusted based on a composite index that combines, in a pre-determined way, the cost inputs to the contract (e.g. existing Waka Kotahi Bus Cost Index)</i>		Cost element indices <i>Pricing components are adjusted using individual indices aligned to each specific cost component</i>
Indexation	No performance regime <i>Contract does not include any specific performance-related requirements</i>	Service delivery, quality, and customer regime <i>Performance is assessed based on operational metrics and service standards</i>	Patronage regime <i>Performance is measured based on patronage or ridership levels</i>	Behavioural regime <i>Performance is evaluated based on operator behaviour and collaboration</i>
Performance incentive regime				

Context | Contractual Mechanisms Dependencies

The below matrix demonstrates the relationships between contractual and procurement mechanisms that should be considered when designing contractual responses. Supported detailed guidance should be provided to PTAs as to how these relationships should be navigated to realise desired outcomes.

Many of the contractual approaches and features have relationships that need to be considered when designing procurement approaches and contracts. The table provides an indication of these relationships, and the scenarios explore these in more detail. It will be important to provide PTAs with guidance around how to navigate these relationships and when different contractual levers can be used to realise desired outcomes.

Examples of the theoretical relationships include:

- **Asset Control x Contract Term:** contract term may be used as an incentive to negotiate with operators in exchange for asset transfer obligations for selected existing assets at the end of a contract.
- **Variations x Asset Control:** PTA acquisition of strategic assets such as depots may influence the approach to variations including how dead running risk is allocated within marginal rates.
- **Pricing Transparency x Procurement Evaluation:** the level of pricing transparency and granularity should align with the selected evaluation method. A greater level of pricing transparency may be considered to support effective benchmarking.

	Asset control – End state	Asset control – Pathway	Contract type	Contract term	Procurement – Method	Procurement – Evaluation	Pricing – Transparency	Pricing – Payment approach	Variations	Indexation	Performance incentive regime
Asset control – End state		✓	✓	✓	✓	-	-	-	-	-	-
Asset control – Pathway			-	✓	✓	✓	-	-	✓	-	-
Contract type				✓	✓	✓	✓	✓	✓	✓	✓
Contract term					✓	-	-	✓	✓	✓	-
Procurement – Method						✓	-	-	-	-	✓
Procurement – Evaluation							✓	-	✓	-	✓
Pricing – Transparency								✓	✓	✓	-
Pricing – Payment approach									✓	✓	-
Variations										✓	-
Indexation											-
Performance incentive regime											

Scenarios

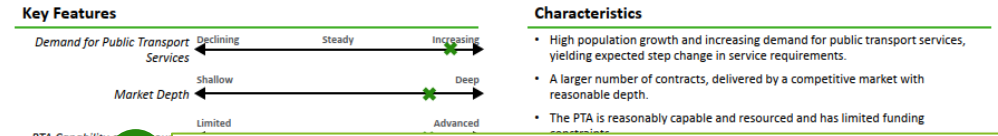
How to navigate this report section

For each illustrative scenario, we have presented the characteristics and key objectives of the PTA, a summary of the contractual response using the Contractual Approach Options Spectrum, and provided supporting detail and rationale.

1

Scenario 1 | Large market with high demand for public transport

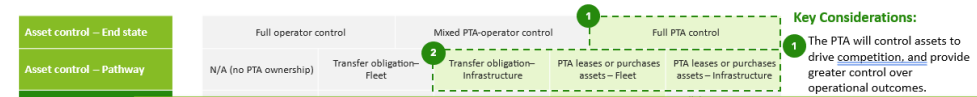
A capable and resourced PTA in a large competitive market, with limited funding constraints and asset control benefits.



2

Scenario 1 | Options mapping

The PTA will achieve full asset ownership through purchasing new assets and acquiring key strategic assets from outgoing operators. Asset control and moderate-term contracts will support value for money.



3

Scenario 1 | Large market with high demand for public transport

The PTA will achieve full asset ownership through purchasing new assets and acquiring key strategic assets from outgoing operators. Asset control and moderate-term contracts will support value for money.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Asset control – End State		
Full PTA control of assets	<ul style="list-style-type: none"> The PTA will seek to fully control assets, with a goal of driving competition and providing greater control over operational outcomes. The PTA has a reasonable level of capability and resources, which facilitates it taking an active role in asset control and ownership. The selected asset control pathway is directly influenced by its end asset control state of full PTA control. 	<ul style="list-style-type: none"> Asset Control – Pathway
Asset control – Pathway		
Transfer obligation – Infrastructure	<ul style="list-style-type: none"> Depots are strategic assets due to the influence their location can have on cost to deliver services and the importance of service continuity. As such, the PTA will focus on controlling these first. Depots will be acquired through a combination of end of term transfer arrangements to meet current public transport demand, and the purchase of new depots to meet the expected increase in public transport demand. Tenderers will be more likely to accept end of term transfer arrangements for infrastructure assets, given the size of the opportunity in this large, metropolitan market. 	<ul style="list-style-type: none"> Asset Control – End State Contract Term Variations
PTA leases or purchases assets – Fleet	<ul style="list-style-type: none"> The PTA will control the fleet through a phased approach, as it purchases or leases additional vehicles to meet increasing demand, and to take the place of operator-owned vehicles that have reached end of service life. The PTA will focus on the procurement of zero-emissions vehicles, in order to facilitate its transition to ZEB. The PTA will forecast demand and match fleet procurement to the expected level of service and replacement of existing fleet. 	
PTA leases or purchases assets – Infrastructure		
Contract type		
Gross cost contracts	<ul style="list-style-type: none"> The contract is gross cost reflecting operator's minimal control over patronage. The gross cost contract is paired with service delivery, quality, customer, and behavioural incentive regimes, to assess contractor performance. Routes are packaged into medium to large sized contracts, responding to the large size of the metropolitan area and asset control by the PTA. The approach to packaging supports market competition and helps to realise some efficiencies of scale. 	<ul style="list-style-type: none"> Performance Incentive Regime

1

Illustrative scenario summary and PTA objectives

- For each scenario, we've described the illustrative PTA in the context of the six key features.
- Taking into characteristics of each scenario into consideration, we've summarised the key procurement and contractual approach considerations to support design of the unique contractual approach.

2

Options mapping summary

- For each scenario, we've used the Contractual Approach Options Spectrum to present a summary of what tools may best respond to the PTA's objectives in each scenario, using green highlighting.
- We've used bold dashed borders to highlight specific key considerations for each scenario, that reflect distinctive facets of the contractual approach design for the given PTA.

3

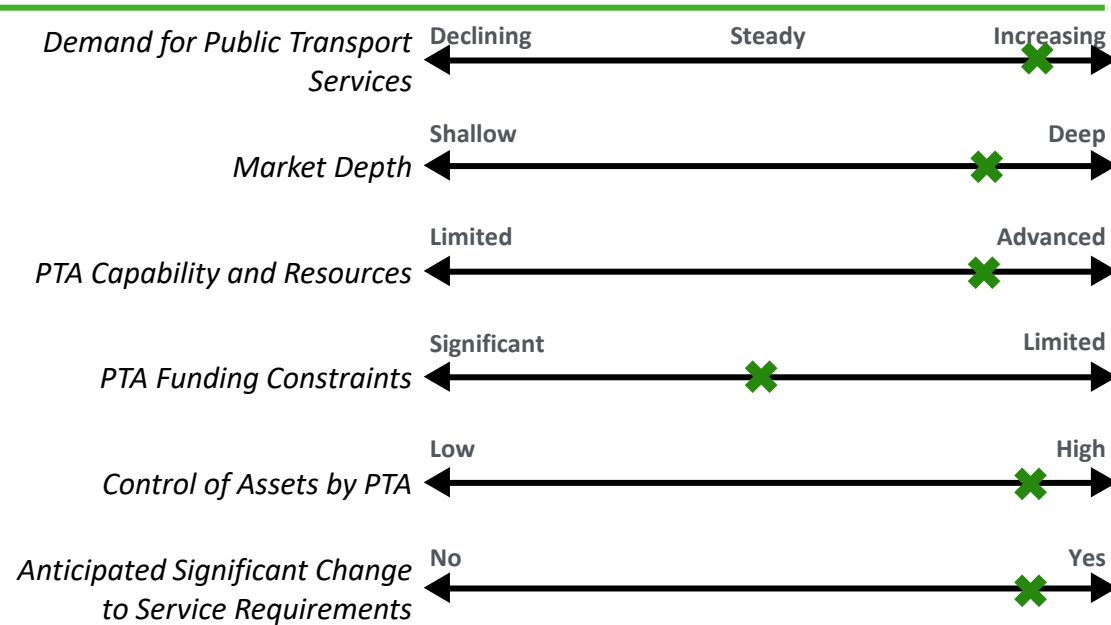
Detail and Supporting Rationale

- The Contractual Approach Options Spectrum for each scenario is followed by pages that detail the position for each contractual and procurement mechanism, including the rationale as to why, as well as specific contractual mechanism dependencies that exist for that scenario.

Scenario 1 | Large market with high demand for public transport

A capable and resourced PTA in a large competitive market, with limited funding constraints and asset control benefits.

Key Features



Characteristics

- High population growth and increasing demand for public transport services, yielding expected step change in service requirements.
- A larger number of contracts, delivered by a competitive market with reasonable depth.
- The PTA is reasonably capable and resourced and has limited funding constraints.
- A large, interfacing transit project is known to be delivered during contract implementation, which will significantly alter service requirements.

Procurement & Contractual Approach Considerations



The **contract approach** that will **best drive value for money** within a competitive market.



Realising the benefits of **PTA to control assets** to support a transition to **zero emission assets** and public value in the long-term.



The **best approach to phased PTA asset control** given its level of capability and resourcing, and available funding.



The provision of **variation flexibility and pricing transparency** to accommodate the expected significant service change.

Scenario 1 | Options mapping

The PTA will achieve full asset ownership through purchasing new assets and acquiring key strategic assets from outgoing operators. Asset control and moderate-term contracts will support value for money.

Asset control – End state
Asset control – Pathway
Contract type
Contract term
Procurement – Evaluation
Procurement – Method
Pricing – Transparency
Pricing – Payment approach
Variations
Indexation
Performance incentive regime

	Full operator control	Mixed PTA-operator control	Full PTA control		
Asset control – Pathway	N/A (no PTA ownership)	Transfer obligation– Fleet	Transfer obligation– Infrastructure	PTA leases or purchases assets – Fleet	PTA leases or purchases assets – Infrastructure
Contract type	Concession	Quality partnerships	Net cost contract	Gross cost contract	Collaborative contract (alliance-style)
Contract term	Short (1-5 years)	Moderate (6-9 years)	Long (10-15 years)	Very Long (15+ years)	
Procurement – Evaluation	Quality Based Method	Value for money assessment combining price and quality	Price Quality Method	Price assessment only	
Procurement – Method	Direct award / negotiation	Closed contest tender	Open competition tender	N/A – In-house provision	
Pricing – Transparency	No pricing transparency (total fixed price)	Transparency at the payment component level		Detailed breakdown of elemental costs	
Pricing – Payment approach	Annual budgeting	Combined fixed and variable pricing elements		Fully fixed annual pricing	
Variations	Marginal Rates– In-Service	Marginal Rates-In-Service + Dead Running	Pre-Priced Options	Net Financial Impact	
Indexation	No indexation (nominal pricing)	Composite index		Cost element indices	
Performance incentive regime	No performance regime	Service delivery, quality, and customer regime	Patronage regime	Behavioural regime	

Key Considerations:

- 1 The PTA will control assets to drive competition, and provide greater control over operational outcomes.
- 2 The PTA will take two pathways to full ownership of assets. It will purchase new assets to meet expected growth. It will also acquire key strategic infrastructure assets from outgoing operators utilising transfer obligations. The PTA will be able to secure transfer obligations because the size of the market is attractive to operators.
- 3 The PTA will be able to test contract value for money at regular intervals through a moderate contract term, given the high growth, competitive market.

Scenario 1 | Large market with high demand for public transport

The PTA will achieve full asset ownership through purchasing new assets and acquiring key strategic assets from outgoing operators. Asset control and moderate-term contracts will support value for money.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Asset control – End State		
Full PTA control of assets	<ul style="list-style-type: none"> The PTA will seek to fully control assets, with a goal of driving competition and providing greater control over operational outcomes. The PTA has a reasonable level of capability and resources, which facilitates it taking an active role in asset control and ownership. The selected asset control pathway is directly influenced by its end asset control state of full PTA control. 	<ul style="list-style-type: none"> <i>Asset Control – Pathway</i>
Asset control – Pathway		
Transfer obligation – Infrastructure	<ul style="list-style-type: none"> Depots are strategic assets due to the influence their location can have on cost to deliver services and the importance of service continuity. As such, the PTA will focus on controlling these first. Depots will be acquired through a combination of end of term transfer arrangements to meet current public transport demand, and the purchase of new depots to meet the expected increase in public transport demand. Tenderers will be more likely to accept end of term transfer arrangements for infrastructure assets, given the size of the opportunity in this large, metropolitan market. The PTA will control the fleet through a phased approach, as it purchases or leases additional vehicles to meet increasing demand, and to take the place of operator-owned vehicles that have reached end of service life. The PTA will focus on the procurement of zero-emissions vehicles, in order to facilitate its transition to ZEB. The PTA will forecast demand and match fleet procurement to the expected level of service and replacement of existing fleet. 	<ul style="list-style-type: none"> <i>Asset Control – End State</i> <i>Contract Term</i> <i>Variations</i>
PTA leases or purchases assets – Fleet		
PTA leases or purchases assets - Infrastructure		
Contract type		
Gross cost contracts	<ul style="list-style-type: none"> The contract is gross cost reflecting operator’s minimal control over patronage. The gross cost contract is paired with service delivery, quality, customer, and behavioural incentive regimes, to assess contractor performance. Routes are packaged into medium to large sized contracts, responding to the large size of the metropolitan area and asset control by the PTA. The approach to packaging supports market competition and helps to realise some efficiencies of scale. 	<ul style="list-style-type: none"> <i>Performance Incentive Regime</i>

Scenario 1 | Large market with high demand for public transport

The PTA will achieve full asset ownership through purchasing new assets and acquiring key strategic assets from outgoing operators. Asset control and moderate-term contracts will support value for money.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Contract term		
Moderate (6 - 9 years)	<ul style="list-style-type: none"> The contract term is moderate, providing an opportunity that is commercially attractive to tenderers while also allowing the PTA to regularly test the market to support public value. The market is attractive to operators because of its large scale, creating demand for entry into the market which the PTA can leverage to secure transfer obligations. The PTA may also consider the contract term to be at the long end of Moderate to ensure market interest. The PTA will consider the expected increase in public transport demand and any interfacing transit projects to be delivered over the contract term and include sufficient provisions in the contract that enable variation flexibility. 	<ul style="list-style-type: none"> <i>Asset Control – End State</i> <i>Asset Control – Pathway</i> <i>Pricing – Payment approach</i> <i>Variations</i>
Procurement – Method		
Open competition tender	<ul style="list-style-type: none"> The PTA will procure the contract through an open competition tender, as a mechanism to drive competition within the deep market that already exists and attract new entry. The PTA's reasonable level of capability and resources provides it with the procurement capabilities to run open tenders at relatively short intervals. 	<ul style="list-style-type: none"> <i>Contract Term</i> <i>Contract Type</i> <i>Performance Incentive Regime</i>
Procurement – Evaluation		
Price Quality Method	<ul style="list-style-type: none"> Tenders are assessed using Price Quality Method, as both value for money and service quality are important. Pricing is transparent and broken down to a granular level at tender stage to enable the PTA to understand the cost build-up of each tenderer. There is a known large-scale interfacing transit project that will be delivered during contract implementation that will significantly alter service requirements. The tender evaluation provides for the inclusion of pre-priced options that reflect costing for specific service change options that the PTA may wish to activate in the near future. The performance incentive regime includes a behavioural component that incentivises operator collaboration with the PTA, interfacing operators, and government authorities. Non-price attributes of the procurement evaluation capture ways in which the operator will seek to implement collaborative partnering behaviours. 	<ul style="list-style-type: none"> <i>Pricing – Transparency</i> <i>Variations</i>

Scenario 1 | Large market with high demand for public transport

The PTA will achieve full asset ownership through purchasing new assets and acquiring key strategic assets from outgoing operators. Asset control and moderate-term contracts will support value for money.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Pricing – Transparency		
Detailed breakdown of elemental costs	<ul style="list-style-type: none"> The PTA derives certainty of pricing from a transparent and fixed price approach, informed by well-defined base service requirements. Pricing is transparent and detailed costing is provided that shows the detailed elemental costs that comprise each payment component. Pricing against detailed elemental costs is provided at tender stage and informs the tender evaluation by enabling comparative interrogations of cost elements by the PTA to enable a better understanding of operator’s pricing strategies. 	<ul style="list-style-type: none"> <i>Procurement – Evaluation</i> <i>Variations</i>
Pricing – Payment approach		
Fully fixed annual pricing	<ul style="list-style-type: none"> Pricing is fully fixed for the contract term and is subject to indexation. The pricing approach is appropriate given the moderate contract length. The fixed pricing approach is supplemented with a flexible variation regime that can accommodate scope changes as required through contract implementation. 	<ul style="list-style-type: none"> <i>Contract term</i> <i>Indexation</i>
Variations		
Marginal Rates – In-Service + Dead Running	<p>The contract needs to cater to variations in four categories:</p> <ul style="list-style-type: none"> Known large change: <ul style="list-style-type: none"> As the effect of the expected significant service change is known, each operator provides pre-priced options to respond to the change at tender stage. These are included in the service agreement, allowing the PTA and the operator to have certainty over the financial impact of the change. Unforeseen changes: <ul style="list-style-type: none"> Unforeseen changes in scope/services may still be required. Net Financial Impact mechanisms to apply. Smaller service changes: <ul style="list-style-type: none"> Tenderers provide marginal rates on a total unit basis (in-service + dead running) for minor service variations. This provides greater flexibility to align with the PTA’s asset control pathway, where dead running provisions and assumptions may change over the contract term as the PTA acquires depots. Marginal rates provided by tenderers are tested in a number of scenarios as part of the evaluation to confirm value for money across tenderers. 	<ul style="list-style-type: none"> <i>Asset Control – Pathway</i> <i>Procurement – Evaluation</i> <i>Contract term</i> <i>Pricing – Transparency</i>
Pre-Priced Options		
Net Financial Impact		

Scenario 1 | Large market with high demand for public transport

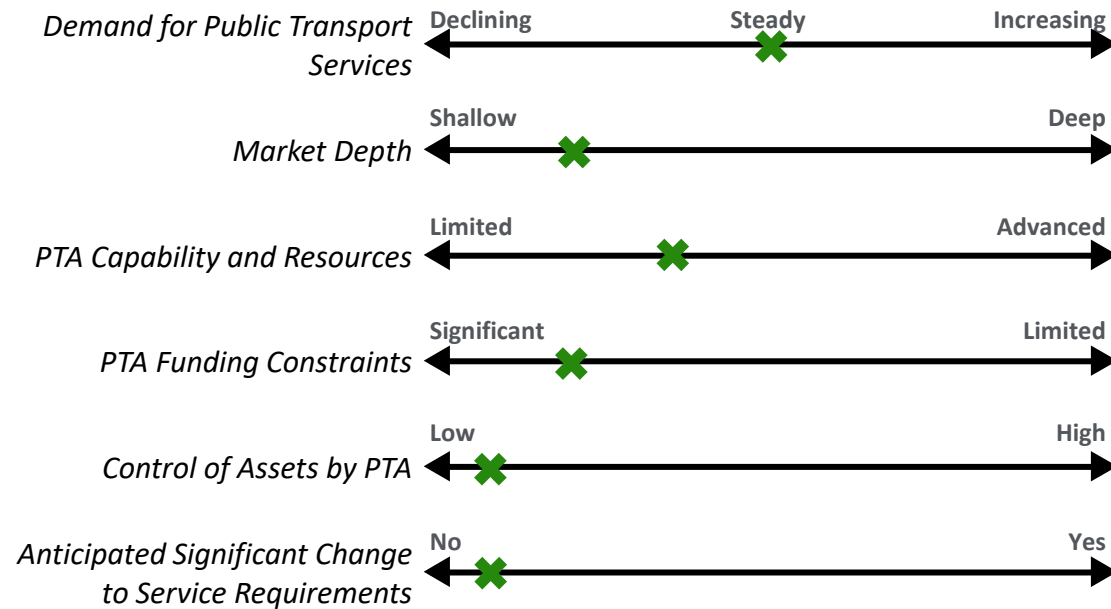
The PTA will achieve full asset ownership through purchasing new assets and acquiring key strategic assets from outgoing operators. Asset control and moderate-term contracts will support value for money.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Variations (Con't)		
Marginal Rates – In-Service + Dead Running	<ul style="list-style-type: none"> Peak Vehicle Requirement changes: <ul style="list-style-type: none"> The operator will conduct competitive sourcing to ensure value for money for the PTA. This will occur with Net Financial Impact mechanisms applying. The PTA will have transparency over operator scheduling and rostering to support reaching agreement over whether additional vehicles are required, or whether the schedule could be rationalised to utilise existing assets to meet increased demand. 	<ul style="list-style-type: none"> Asset Control – Pathway Procurement – Evaluation Contract term Pricing – Transparency
Pre-Priced Options		
Net Financial Impact		
Indexation		
Cost element indices	<ul style="list-style-type: none"> Cost build ups are transparent and pegged to real cost increases at a cost element level, enabling Waka Kotahi’s updated bus indexation outcomes. Indices could be based on key cost elements including labour, fuel, parts and materials / suppliers. 	<ul style="list-style-type: none"> Pricing – Transparency Pricing – Payment Approach
Performance incentive regime		
Service delivery, quality, and customer regime	<ul style="list-style-type: none"> Performance Incentive Regime includes the flexibility to incorporate alternative measures for punctuality and reliability where services are being run on a headway basis. Patronage is not included as a performance measure due to it being largely out of the operator’s control. The performance regime also considers broader behavioural measures to incentivise partnering such as collaborating with the PTA, other bus operators, and other operators on different modes to drive network improvements 	<ul style="list-style-type: none"> Procurement – Evaluation Contract type
Behavioural regime		

Scenario 2 | Mid-sized market with shallow depth

A PTA in a mid-sized, shallow market, with stable demand for public transport, and a reasonable level of capability.

Key Features



Characteristics

- Steady population growth and stable demand for public transport.
- A high market concentration with shallow supplier depth.
- The PTA is funding constrained, which limits the ability of the PTA to own assets with a preference for asset transfer provisions to reduce barriers to entry.
- There are no known significant interfacing transportation projects that will significantly alter service requirements.

Procurement & Contractual Approach Considerations



Securing **value for money through procurement** given shallow market conditions



How to **support and improve market depth**, when the PTA is funding constrained and there is little benefit for the PTA to control assets.



How **alternative contract types** can be utilised to **improve market depth** over time



A **contract term** that will attract **new investment** and **market interest**

Scenario 2 | Options mapping

The PTA establishes a collaborative contract to increase market depth through upskilling less experienced operators and offers a longer contract to attract investment and market interest.

Asset control – End state
Asset control – Pathway
Contract type
Contract term
Procurement – Evaluation
Procurement – Method
Pricing – Transparency
Pricing – Payment approach
Variations
Indexation
Performance incentive regime

	Full operator control		Mixed PTA-operator control		Full PTA control	
	N/A (no PTA ownership)	Transfer obligation–Fleet	Transfer obligation–Infrastructure	PTA leases or purchases assets–Fleet	PTA leases or purchases assets–Infrastructure	
	Concession	Quality partnerships	Net cost contract	Gross cost contract	Collaborative contract (alliance-style)	
	Short (1-5 years)	Moderate (6-9 years)	Long (10-15 years)		Very Long (15+ years)	
	Quality Based Method	Value for money assessment combining price and quality	Price Quality Method		Price assessment only	
	Direct award / negotiation	Closed contest tender	Open competition tender		N/A – In-house provision	
	No pricing transparency (total fixed price)		Transparency at the payment component level		Detailed breakdown of elemental costs	
	Annual budgeting		Combined fixed and variable pricing elements		Fully fixed annual pricing	
	Marginal Rates– In-Service	Marginal Rates-In-Service + Dead Running	Pre-Priced Options		Net Financial Impact	
	No indexation (nominal pricing)		Composite index		Cost element indices	
	No performance regime	Service delivery, quality, and customer regime	Patronage regime		Behavioural regime	

Key Considerations:

- 1 A collaborative style contract is selected which stipulates a requirement that non-owner participants comprise a partnership between a larger, more experienced operator, and a smaller, less experienced operator, which facilitates building market depth.
- 2 The contract term is long for two reasons. A long-term contract spreads the cost of a collaborative style contract, which often incurs significant procurement costs, over a longer term. A long-term contract is also required to attract tenderers into a contract form that might be less familiar to the market and requires new investment.
- 3 An annual budgeting process is required to support a collaborative style contract. There is also a consideration that the PTA will need to have sufficient contract management capability to support this process.

Scenario 2 | Mid-sized market with shallow depth

The PTA establishes a collaborative contract to increase market depth through upskilling less experienced operators and offers a longer contract to attract investment and market interest.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Asset control – End State		
Full operator control	<ul style="list-style-type: none"> The PTA is relatively funding constrained, and there is limited capacity for the PTA to own assets, but there are competition benefits from the PTA controlling the assets. As such, the PTA does not own assets, instead facilitating the transfer of assets between incumbent and incoming operators through end of term asset transfer provisions within contracts. 	<ul style="list-style-type: none"> <i>Asset Control – Pathway</i>
Asset control – Pathway		
Transfer obligation – Fleet	<ul style="list-style-type: none"> The PTA requires end of term transfer rights over both the fleet and depots. There is limited cost-benefit for the PTA to own assets directly. Further, the PTA is funding constrained which limits its ability to purchase assets from the outgoing operator. This pathway to asset control will improve contestability, enabling participation from smaller operators, therefore improving market depth in the future, without requiring the PTA to commit to purchasing the assets directly. 	<ul style="list-style-type: none"> <i>Asset Control – End State</i> <i>Contract Term</i> <i>Pricing – Transparency</i>
Transfer obligation – Infrastructure		
Contract type		
Collaborative contract (alliance-style)	<ul style="list-style-type: none"> The contract is a collaborative contract that mirrors some features of a typical Alliance, including pain share / gain share mechanisms, annual budgeting processes, and a behavioural focused performance regime. The PTA stipulates a requirement that the non-owner participants comprise a partnership between a larger, more experienced operator, and a smaller, less experienced operator. Through contract delivery, the experienced operator will upskill the smaller operator over time, increasing market depth and supporting competition in future procurement processes. 	<ul style="list-style-type: none"> <i>Procurement - Evaluation</i> <i>Pricing – Payment approach</i> <i>Indexation</i> <i>Performance Incentive Regime</i>

Scenario 2 | Mid-sized market with shallow depth

The PTA establishes a collaborative contract to increase market depth through upskilling less experienced operators and offers a longer contract to attract investment and market interest.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Contract term		
Long (10 – 15 years)	<ul style="list-style-type: none"> • Collaborative, alliance-style contracts generally incur significant procurement costs. The term of the contract is long to spread these costs over a longer term. • While these types of contracts are uncommon within bus markets, potential operators should be attracted to the longer contract term to provide for recovery of investment and low risk nature of the contract. • The PTA seeks to facilitate asset transfer between operators through end of term transfer arrangements. The longer contract term is as an incentive for operators to agree to asset transfer as part of an overall package. 	<ul style="list-style-type: none"> • <i>Asset Control – Pathway</i> • <i>Contract type</i>
Procurement - Method		
Open competition tender	<ul style="list-style-type: none"> • The PTA will procure both the experienced and less experienced non-owner participants through an open competition tender, to enable assessment of the most suitable long-term operator partner pairings, with a view to ensure strong working relationships. A tender process is also expected to drive value for money through ongoing transparency and a business plan (including a one-year budget) submitted as part of the tender. • The performance incentive regime includes a behavioural component that incentivises operator collaboration with the PTA, with the other operator in the contract, and other local government authorities. Non-price attributes of the procurement evaluation capture ways in which the operator will seek to implement collaborative partnering behaviours. Tenderers will also be assessed on how their proposal will create market depth. 	<ul style="list-style-type: none"> • <i>Contract Term</i> • <i>Contract Type</i> • <i>Performance Incentive Regime</i>
Procurement – Evaluation		
Quality Based Method	<ul style="list-style-type: none"> • Evaluation is focused on non-price/quality elements and considers how the tender proposal will create market depth. Given the contract will pair an incumbent operator, market entrant or smaller incumbent operator and the PTA in a collaborative contract form it is important to assess the ability of all three parties to work effectively together. 	<ul style="list-style-type: none"> • <i>Contract type</i> • <i>Procurement – Method</i> • <i>Pricing – Transparency</i> • <i>Variations</i>

Scenario 2 | Mid-sized market with shallow depth

The PTA establishes a collaborative contract to increase market depth through upskilling less experienced operators and offers a longer contract to attract investment and market interest.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Pricing – Transparency		
Detailed breakdown of elemental costs	<ul style="list-style-type: none"> • Pricing is transparent and detailed costing is provided that shows the detailed elemental costs that comprise each payment component. A detailed breakdown of elemental costs is required to facilitate annual budgeting on an open book basis. • Pricing transparency is also required to allocate payment for services to each operator. 	<ul style="list-style-type: none"> • <i>Contract type</i> • <i>Pricing – Payment approach</i>
Pricing – Payment approach		
Annual budgeting	<ul style="list-style-type: none"> • The PTA and both operators set budgets each year through a collaborative annual budgeting process. The PTA controls costs by having visibility over the build-up of costs. • Transparency within the annual budgeting process to support value for money is promoted by three elements: collaborative budgeting between the operators and PTA, the use of an independent estimator who validates rates and costs of activities and the use of an independent auditor that examines the efficiency and effectiveness of past financial and operational performance of the operators. • The PTA will need to develop or procure sophisticated contract management capability to support the annual budgeting process. 	<ul style="list-style-type: none"> • <i>Pricing – Transparency</i> • <i>Contract type</i>
Variations		
Net Financial Impact	<p>The contract will only consider variations in three categories:</p> <ul style="list-style-type: none"> • Known large change and smaller service changes: <ul style="list-style-type: none"> ○ There is no known large change expected during the contract. Small, foreseeable changes are priced for in the annual budgeting process and do not require a variations regime. • Unforeseen changes: <ul style="list-style-type: none"> ○ A Net Financial Impact regime is conducted on an open book basis to govern unforeseen changes. 	<ul style="list-style-type: none"> • <i>Contract type</i> • <i>Pricing – Transparency</i>

Scenario 2 | Mid-sized market with shallow depth

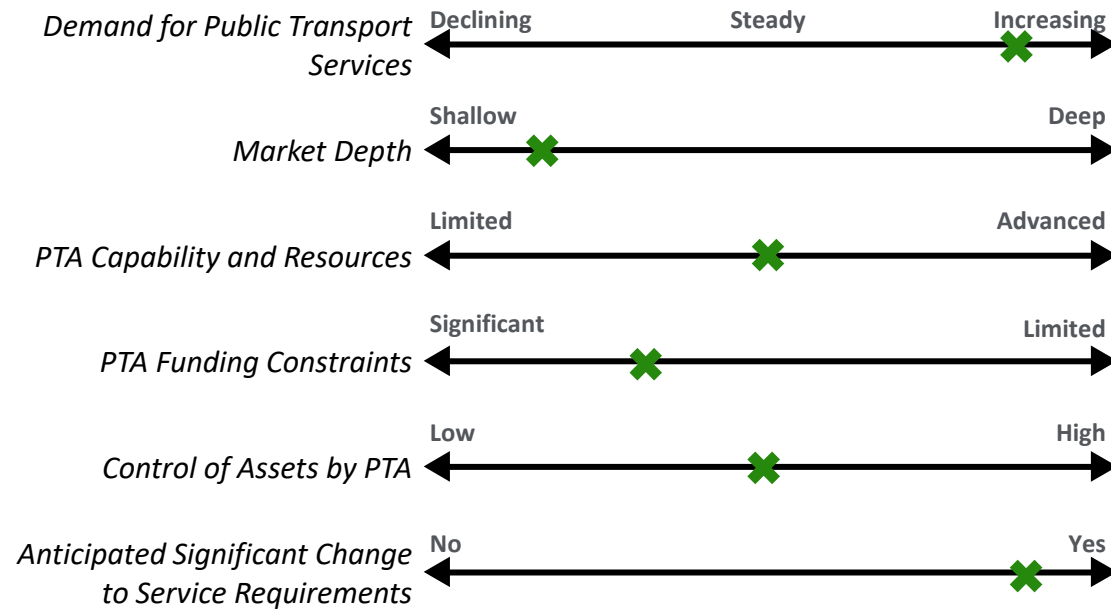
The PTA establishes a collaborative contract to increase market depth through upskilling less experienced operators and offers a longer contract to attract investment and market interest.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Variations (Con't)		
Net Financial Impact	<ul style="list-style-type: none"> • Peak Vehicle Requirement changes: <ul style="list-style-type: none"> ○ The operator will conduct competitive sourcing to ensure value for money for the PTA. This will occur with Net Financial Impact mechanisms applying. ○ The PTA will have transparency over operator scheduling and rostering to support reaching agreement over whether additional vehicles are required, or whether the schedule could be rationalised to utilise existing assets to meet increased demand. 	
Indexation		
No indexation (nominal pricing)	<ul style="list-style-type: none"> • Indexation is not necessary as the contract is priced by an annual budgeting process in nominal, current day terms. 	<ul style="list-style-type: none"> • <i>Pricing – Payment approach</i>
Performance incentive regime		
Service delivery, quality, and customer regime	<ul style="list-style-type: none"> • A service delivery, quality, and customer regime is included to drive better performance. • Patronage is included as the operators are allocated greater responsibility for the uptake of public transport. • The performance regime also considers broader measures to incentivise collaborative partnering such as: <ul style="list-style-type: none"> ○ Behavioural – the extent to which operators drive desired behaviours ○ Workforce – the extent to which operators are promoting a sustainable workforce ○ Safety – the extent to which the operator is safely delivering services ○ Market depth – the extent to which the junior operator is being upskilled in its capability 	<ul style="list-style-type: none"> • <i>Procurement – Evaluation</i> • <i>Contract type</i>
Patronage regime		
Behavioural regime		

Scenario 3 | Mid-sized market with increasing demand for PT

A reasonably well-resourced PTA in a mid-sized growing PT market, with business case for PTA asset control.

Key Features



Characteristics

- High population growth and increasing demand for public transport services, yielding expected step change in service requirements.
- A limited number of contracts, delivered by few operators within a shallow market.
- The PTA has limited funding constraints, is reasonably capable and resourced, and there is a business case for controlling assets over time.
- A large, interfacing transit project is known to be delivered during contract implementation, which will significantly alter service requirements.

Procurement & Contractual Approach Considerations



The **contract term** that may best drive **value for money** given the increasing demand for public transport services and shallow market depth



The new investment required to support **increasing demand for public transport services** influences the PTA's consideration of asset control options



Improving market depth over the long-term and public value is a **benefit associated with PTA control of assets**



The provision of **variation flexibility** to adapt to the expected **rapid change in public transport requirements** and a known significant service change

Scenario 3 | Options mapping

The PTA acquires new depots to lower barriers to entry for operators, improving market depth and competition. The incumbent operator agrees to transfer assets in return for a negotiated transition contract.

Asset control – End state
Asset control – Pathway
Contract type
Contract term
Procurement – Evaluation
Procurement – Method
Pricing – Transparency
Pricing – Payment approach
Variations
Indexation
Performance incentive regime

	1			
Asset control – End state	Full operator control	Mixed PTA-operator control		Full PTA control
Asset control – Pathway	N/A (no PTA ownership)	2	Transfer obligation– Fleet	Transfer obligation– Infrastructure
Contract type	Concession	Quality partnerships	Net cost contract	PTA leases or purchases assets – Fleet
Contract term	Short (1-5 years)	Moderate (6-9 years)	3	Long (10-15 years)
Procurement – Evaluation	Quality Based Method	Value for money assessment combining price and quality		Price Quality Method
Procurement – Method	3	Direct award / negotiation	4	Open competition tender
Pricing – Transparency	No pricing transparency (total fixed price)		Transparency at the payment component level	Detailed breakdown of elemental costs
Pricing – Payment approach	Annual budgeting		Combined fixed and variable pricing elements	Fully fixed annual pricing
Variations	Marginal Rates– In-Service	Marginal Rates-In-Service + Dead Running	Pre-Priced Options	Net Financial Impact
Indexation	No indexation (nominal pricing)		Composite index	Cost element indices
Performance incentive regime	No performance regime	Service delivery, quality, and customer regime	Patronage regime	Behavioural regime

Key Considerations:

- 1 The PTA will own depots only, as a mechanism to improve market depth and lower barriers to entry for new competitors.
- 2 The PTA will acquire depots through leases or the purchase of new depots, supported by the expected increased demand and consequential service expansion.
- 3 To incentivise end of term asset transfer obligations the PTA will negotiate with the incumbent operator, and provide either a moderate or long contract length as required.
- 4 In parallel, the PTA will go to market via an open competition tender for a moderate contract term of 6 to 9 years, which will serve to meet expanded service requirements in response to high growth and public transport demand.

Scenario 3 | Mid-sized market with increasing demand for PT

The PTA acquires new depots to lower barriers to entry for operators, improving market depth and competition. The incumbent operator agrees to transfer assets in return for a negotiated transition contract.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Asset control – End State		
Mixed PTA-Operator Control	<ul style="list-style-type: none"> The PTA will own depots only, as a mechanism to improve market depth and lower barriers to entry for new competitors, while fleet will continue to be owned by operators. The PTA has a reasonable level of capability, which facilitates it taking a role in asset control and ownership. The selected asset control pathway is directly influenced by its end control state of full PTA control. 	<ul style="list-style-type: none"> <i>Asset Control – Pathway</i>
Asset control – Pathway		
Transfer obligation – Fleet	<ul style="list-style-type: none"> Given demand growth, there will be a need for new depots. The PTA targets control of depots and acquires them through either leases or purchases. Acquisition of strategic depot locations can reduce barriers to entry for new operators now and in the future. To incentivise operators to agree to end of term asset transfer arrangements the PTA will negotiate a contract renewal with the incumbent operator and provide either a moderate or long contract length as required. 	<ul style="list-style-type: none"> <i>Contract Term</i> <i>Variations</i> <i>Procurement – method</i>
PTA leases or purchases assets - Infrastructure		
Contract type		
Gross cost contracts	<ul style="list-style-type: none"> The contract is gross cost reflecting operator’s minimal control over patronage. The gross cost contract is paired with a service delivery, quality, and customer incentive regime, to assess contractor performance. 	<ul style="list-style-type: none"> <i>Performance Incentive Regime</i> <i>Procurement – method</i>

Scenario 3 | Mid-sized market with increasing demand for PT

The PTA acquires new depots to lower barriers to entry for operators, improving market depth and competition. The incumbent operator agrees to transfer assets in return for a negotiated transition contract.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Contract term		
Moderate (6 - 9 years)	<ul style="list-style-type: none"> The contract renewal negotiated with the dominant incumbent operator to secure asset control will be either moderate or long, depending on local circumstances. 	<ul style="list-style-type: none"> Asset Control – End State Asset Control – Pathway Pricing – Payment approach Variations
Long (10 - 15 years)	<ul style="list-style-type: none"> Given the rapidly growing environment there should be sufficient market interest to tender contracts for new routes / expanded routes with moderate terms. The PTA will consider the expected increase in public transport demand and any interfacing transit projects to be delivered over the over the contract term and include sufficient provisions in the contract that enable term flexibility. 	
Procurement – Method		
Direct award / negotiation	<ul style="list-style-type: none"> The PTA will meet current and future public transport demand through taking a two-phased approach. The PTA will negotiate a contract renewal with the dominant incumbent operator for a large portion of the routes, based around the incumbent’s strategic depots, as a mechanism to agree end of term transfer arrangements for existing fleet. The PTA will establish a market cap to prevent a monopoly over operator position and will let the remaining routes via an open competition tender. Market growth creates a larger market with new routes added over time, allowing for multiple operators. The PTA will let additional route-based contracts and award these through an open competition process. The introduction of additional operators into the market will drive value for money outcomes. 	<ul style="list-style-type: none"> Contract Term Contract Type Performance Incentive Regime
Open competition tender		
Procurement – Evaluation		
Price Quality Method	<ul style="list-style-type: none"> Tenders are assessed using the Price Quality Method, with a prescribed weighting for price and service quality. Pricing is transparent and broken down to a granular level at tender stage enabling the PTA to understand the cost build-up of each prospective tenderer. There is a known large-scale interfacing transit project that will be delivered during contract implementation that will significantly alter service requirements. Priced options for the associated service changes are also required and evaluated. 	<ul style="list-style-type: none"> Pricing – Transparency Variations

Scenario 3 | Mid-sized market with increasing demand for PT

The PTA acquires new depots to lower barriers to entry for operators, improving market depth and competition. The incumbent operator agrees to transfer assets in return for a negotiated transition contract.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Pricing – Transparency		
Detailed breakdown of elemental costs	<ul style="list-style-type: none"> The PTA derives certainty of pricing from a transparent and fixed price approach, informed by well-defined base service requirements. Pricing is transparent and detailed costing is provided that shows the elemental costs that comprise each payment component. Pricing against detailed elemental costs is provided at tender stage and informs the tender evaluation. Pricing transparency across all other PTAs allows Waka Kotahi to advise this PTA on pricing during negotiations with the incumbent. 	<ul style="list-style-type: none"> <i>Procurement – Evaluation</i> <i>Variations</i>
Pricing – Payment approach		
Fully fixed annual pricing	<ul style="list-style-type: none"> Pricing is fully fixed and is subject to indexation. The pricing approach is appropriate given the well-defined levels of service. The fixed pricing approach is supplemented with a flexible variation regime that can accommodate scope changes as required during the contract term. The competitive process to deliver network expansion requirements will drive value in a fixed pricing approach. 	<ul style="list-style-type: none"> <i>Contract term</i> <i>Indexation</i>
Variations		
Pre-Priced Options	<p>The contract needs to cater to variations in four categories:</p> <ul style="list-style-type: none"> Known large change: <ul style="list-style-type: none"> As the effect of the expected significant service change is known, each operator provides pre-priced options to respond to the change at tender stage. These are included in the service agreement, allowing the PTA and the operator to have certainty over the financial impact of the change. Unforeseen changes: <ul style="list-style-type: none"> Unforeseen changes in scope/services may still be required. Net Financial Impact mechanisms to apply. 	<ul style="list-style-type: none"> <i>Asset control - Pathway</i> <i>Procurement – Evaluation</i> <i>Contract term</i> <i>Pricing – Transparency</i>

Scenario 3 | Mid-sized market with increasing demand for PT

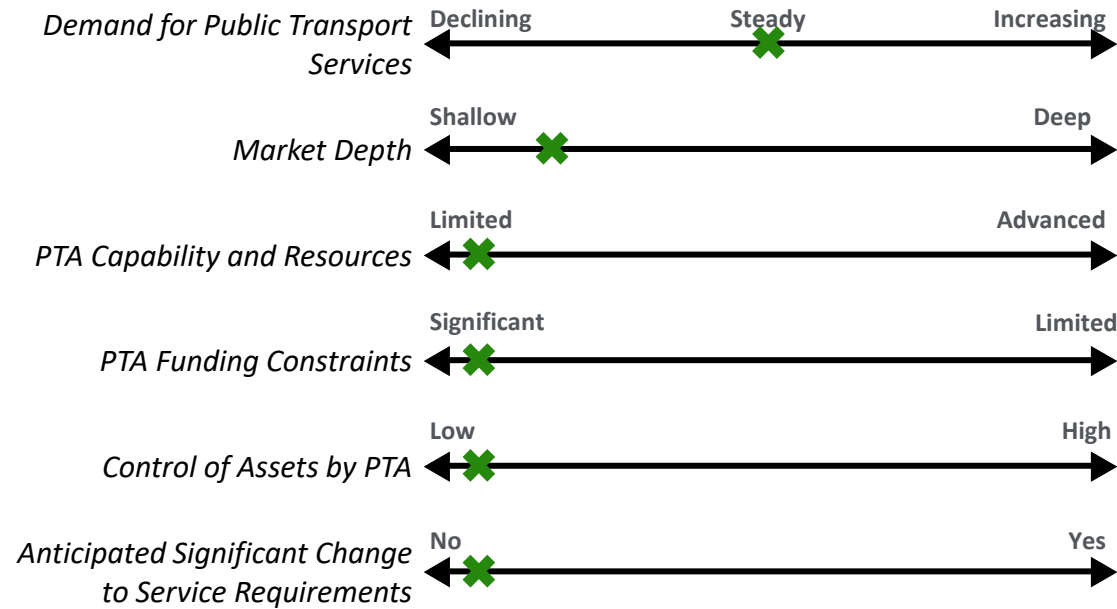
The PTA acquires new depots to lower barriers to entry for operators, improving market depth and competition. The incumbent operator agrees to transfer assets in return for a negotiated transition contract.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Variations (Con't)		
Net Financial Impact	<ul style="list-style-type: none"> • Smaller service changes: <ul style="list-style-type: none"> ○ Tenderers provide marginal rates on a total unit basis (in-service + dead running) for minor service variations. This provides greater flexibility to align with the PTA’s asset control pathway, where dead running provisions and assumptions may change over the contract term as the PTA acquires depots • Peak Vehicle Requirement changes: <ul style="list-style-type: none"> ○ The operator will conduct competitive sourcing to ensure value for money for the PTA. This will occur with Net Financial Impact mechanisms applying. ○ The PTA will have transparency over operator scheduling and rostering to support reaching agreement over whether additional vehicles are required, or whether the schedule could be rationalised to utilise existing assets to meet increased demand. 	
Marginal Rates – In-Service + Dead Running		
Indexation		
Cost element indices	<ul style="list-style-type: none"> • Cost build ups are transparent and pegged to real cost increases at a cost element level, enabling Waka Kotahi’s updated bus indexation outcomes. • Indices could be based on key cost elements including labour, fuel, and materials / suppliers. 	<ul style="list-style-type: none"> • <i>Pricing – Transparency</i> • <i>Pricing – Payment approach</i>
Performance incentive regime		
Service delivery, quality, and customer regime	<ul style="list-style-type: none"> • Performance Incentive Regime includes the flexibility to incorporate alternative measures for punctuality and reliability where services are being run on a headway basis. • Patronage is not included as a performance measure due to it being largely out of the operator’s control. 	<ul style="list-style-type: none"> • <i>Contract type</i>

Scenario 4 | Mid-sized, stable market, with funding constraints

A funding constrained PTA in a mid-sized market with steady demand for public transport, and shallow market depth.

Key Features



Characteristics

- A mid-sized market with steady population growth and stable demand for public transport.
- A limited number of contracts, delivered by one or two dominant operators within a shallow market.
- PTA is funding constrained, which limits the ability of the PTA to own and control assets, thereby limiting the ability to attract new market entry.
- There are no known significant interfacing transportation projects that will significantly alter service requirements.

Procurement & Contractual Approach Considerations



The **contract term** that may best drive **value for money** given the **relatively shallow market depth**, and stable demand for public transportation



The approach the PTA can take to encourage a **shift to ZEBs**, given the **significant funding constraints** and relative **lack of capability and resources**



The way in which the PTA can **improve market attractiveness**, with consideration to the PTA's significant **funding constraints** and **limited appetite to control assets**

Scenario 4 | Options mapping

The PTA seeks a low intervention contract, where asset ownership is retained by the operator. Value for money is supported by offering an attractive contract term and benchmarking of detailed elemental costing.

Asset control – End state
Asset control – Pathway
Contract type
Contract term
Procurement – Evaluation
Procurement – Method
Pricing – Transparency
Pricing – Payment approach
Variations
Indexation
Performance incentive regime

1 Full operator control		Mixed PTA-operator control		Full PTA control	
1 N/A (no PTA ownership)		Transfer obligation– Fleet	Transfer obligation– Infrastructure	PTA leases or purchases assets – Fleet	PTA leases or purchases assets – Infrastructure
Concession	Quality partnerships	Net cost contract	Gross cost contract	Collaborative contract (alliance-style)	
Short (1-5 years)	Moderate (6-9 years)	2 Long (10-15 years)		Very Long (15+ years)	
Quality Based Method	Value for money assessment combining price and quality	Price Quality Method		Price assessment only	
Direct award / negotiation	Closed contest tender	Open competition tender		N/A – In-house provision	
No pricing transparency (total fixed price)		Transparency at the payment component level		3 Detailed breakdown of elemental costs	
Annual budgeting		Combined fixed and variable pricing elements		Fully fixed annual pricing	
Marginal Rates– In-Service	Marginal Rates-In-Service + Dead Running	Pre-Priced Options		Net Financial Impact	
No indexation (nominal pricing)		4 Composite index		Cost element indices	
No performance regime	Service delivery, quality, and customer regime	Patronage regime		Behavioural regime	

Key Considerations:

- 1 The PTA is funding constrained and lacks access to capability and resources, which limits its appetite to control assets. As a result, assets will be fully owned and controlled by the operator.
- 2 The contract term is sufficiently long to incentivise the operator to make the investment into ZEBs and supporting infrastructure.
- 3 A detailed breakdown of elemental costs is appropriate to support benchmarking and testing of value for money, given that the PTA is in a shallow market.
- 4 For ease of contract management, application of a composite index is appropriate, applied to the contract value.

Scenario 4 | Mid-sized, stable market, with funding constraints

The PTA seeks a low intervention contract, where asset ownership is retained by the operator. Value for money is supported by offering an attractive contract term and benchmarking of detailed elemental costing.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Asset control – End State		
Full operator control	<ul style="list-style-type: none"> The PTA is funding constrained and lacks access to capability and resources which limits its appetite to control assets. As a result, assets will be fully owned and controlled by the operator. 	<ul style="list-style-type: none"> <i>Asset Control – Pathway</i>
Asset control – Pathway		
N/A (no PTA ownership)	<ul style="list-style-type: none"> The asset control pathway for the PTA is not applicable, as assets will be wholly owned and controlled by the operator. The PTA's transition to ZEB is facilitated by the operator, in line with PTA expectations established through the tender and contractual requirements. The operator provides investment into ZEBs and supporting infrastructure, which is included in pricing at the tender stage. 	<ul style="list-style-type: none"> <i>Procurement – Evaluation</i>
Contract type		
Gross cost contract	<ul style="list-style-type: none"> The contract is gross cost reflecting the operator's minimal control over patronage. 	<ul style="list-style-type: none"> <i>Performance incentive regime</i>

Scenario 4 | Mid-sized, stable market, with funding constraints

The PTA seeks a low intervention contract, where asset ownership is retained by the operator. Value for money is supported by offering an attractive contract term and benchmarking of detailed elemental costing.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Contract term		
Long (10 – 15 years)	<ul style="list-style-type: none"> A longer, low intervention contract with reduced contract management effort would suit the PTA given its constrained capability and resources and the expected stable demand for timetabled public transportation services. The contract term is sufficiently long to incentivise the operator to make the investment into ZEBs and supporting infrastructure. The contract term is informed by the expected life of the ZEBs. 	<ul style="list-style-type: none"> <i>Asset control – End state</i> <i>Variations</i>
Procurement – Method		
Open competition tender	<ul style="list-style-type: none"> Attractive longer-term contracts are tendered to drive value for money, ensuring desired levels of service are delivered at an appropriate price point, and that other requirements such as ZEB transition are delivered in an effective and efficient manner. 	<ul style="list-style-type: none"> <i>Contract Term</i> <i>Asset control – End state</i>
Procurement – Evaluation		
Price Quality Method	<ul style="list-style-type: none"> Operators are evaluated on price and quality through the Price Quality Method. Given its limited resources, the PTA appreciates the ability to apply a well-defined mechanical evaluation process. Price attributes are important to drive value for money given the PTA’s funding constraints. Quality attributes include an importance on the operator’s ability to manage the ZEB transition. 	<ul style="list-style-type: none"> <i>Procurement – Method</i> <i>Asset control – End state</i>

Scenario 4 | Mid-sized, stable market, with funding constraints

The PTA seeks a low intervention contract, where asset ownership is retained by the operator. Value for money is supported by offering an attractive contract term and benchmarking of detailed elemental costing.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Pricing – Transparency		
Detailed breakdown of elemental costs	<ul style="list-style-type: none"> A detailed breakdown of elemental costs with a standardised level of granularity, allows the PTA to easily compare bids and understand cost build ups. This approach is appropriate to support benchmarking and testing of value for money, given that the PTA is in a shallow market and the number of tenders received may be low. 	<ul style="list-style-type: none"> <i>Procurement – Evaluation</i> <i>Pricing – Payment approach</i> <i>Variations</i>
Pricing – Payment approach		
Fully fixed annual pricing	<ul style="list-style-type: none"> Pricing is fixed as it is expected to be consistent given there are no significant variations to service levels expected and subject to indexation. 	<ul style="list-style-type: none"> <i>Contract term</i> <i>Pricing – Transparency</i> <i>Variations</i> <i>Indexation</i>
Variations		
Marginal Rates – In-Service	<ul style="list-style-type: none"> While there are no planned significant changes to services, given the longer contract length, change may still occur. The contract needs to cater to variations in three categories: <ul style="list-style-type: none"> Unforeseen changes: <ul style="list-style-type: none"> Unforeseen changes in scope/services may still be required. Net Financial Impact mechanisms to apply. Smaller service change: <ul style="list-style-type: none"> For smaller service change, tenderers provide in-service marginal rates for minor service variations, including a Peak Vehicle Requirement rate for any new vehicles required during the contract. 	<ul style="list-style-type: none"> <i>Pricing – Transparency</i> <i>Procurement – Evaluation</i>
Net Financial Impact		

Scenario 4 | Mid-sized, stable market, with funding constraints

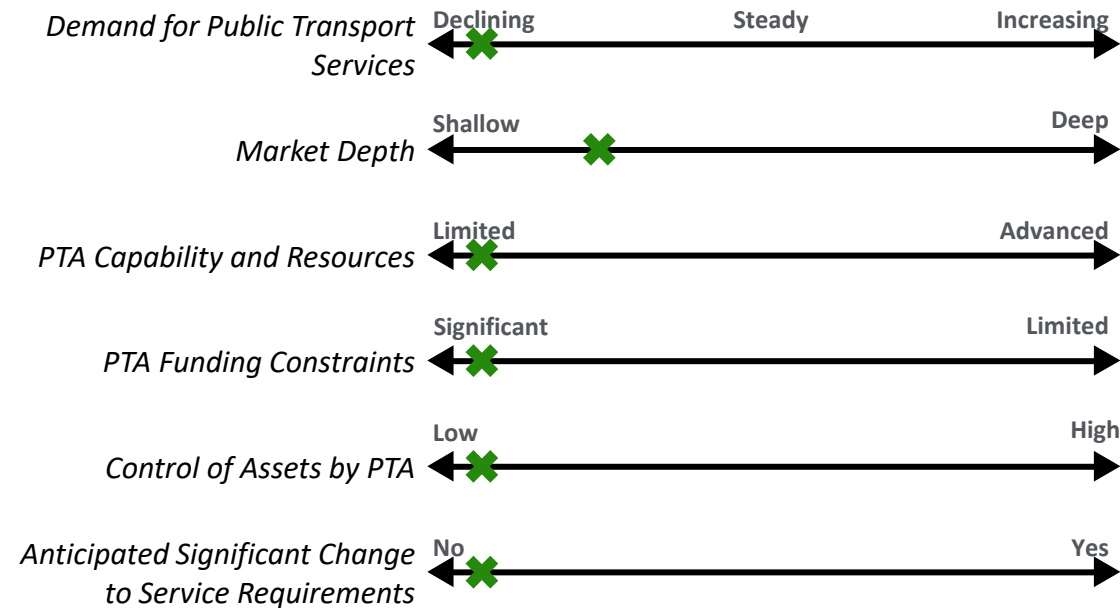
The PTA seeks a low intervention contract, where asset ownership is retained by the operator. Value for money is supported by offering an attractive contract term and benchmarking of detailed elemental costing.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Indexation		
Composite index	<ul style="list-style-type: none"> An industry composite index, applied to the total contract value, is appropriate for ease of contract management, given the PTA's lack of resources and a desire to streamline contract management. 	<ul style="list-style-type: none"> <i>Pricing – Transparency</i> <i>Pricing – Payment approach</i> <i>Contract term</i>
Performance incentive regime		
Service delivery, quality, and customer regime	<ul style="list-style-type: none"> The operator is rewarded for strong operational performance. Patronage-based performance measures are not appropriate given stable population growth. 	<ul style="list-style-type: none"> <i>Contract type</i>

Scenario 5 | Small, declining market with moderate market depth

A funding constrained PTA within a small declining market with moderate market depth, delivering on-demand services.

Key Features



Characteristics

- A low growth environment, with fluctuating levels of demand for public transportation, reflecting an overall downward trend.
- The PTA is funding constrained with low or declining patronage, resulting in a high cost per passenger to deliver traditional timetable bus services, and therefore the PTA will utilise an on-demand service to meet community needs.
- There are no known significant interfacing transportation projects that will significantly alter service requirements.

Procurement & Contractual Approach Considerations



The way in which the PTA can **achieve an acceptable level of service** at an **affordable cost per passenger**, given the challenges of low patronage and PTA funding constraints



The **contract term that may best drive value for money**, given the PTA's relatively limited capability and resources and significant funding constraints

Scenario 5 | Options mapping

Short contract terms are appropriate given the lower investment required for on-demand services and the uncertain future demand. The pricing approach best reflects fixed and variable costs incurred by the operator.

Asset control – End state
Asset control – Pathway
Contract type
Contract term
Procurement – Evaluation
Procurement – Method
Pricing – Transparency
Pricing – Payment approach
Variations
Indexation
Performance incentive regime

Full operator control		Mixed PTA-operator control		Full PTA control	
N/A (no PTA ownership)	Transfer obligation– Fleet	Transfer obligation– Infrastructure	PTA leases or purchases assets– Fleet	PTA leases or purchases assets– Infrastructure	
Concession	Quality partnerships	Net cost contract	Gross cost contract	Collaborative contract (alliance-style)	
1 Short (1-5 years)	Moderate (6-9 years)		Long (10-15 years)		Very Long (15+ years)
Quality Based Method	Value for money assessment combining price and quality		Price Quality Method		Price assessment only
Direct award / negotiation	Closed contest tender		Open competition tender		N/A – In-house provision
No pricing transparency (total fixed price)		Transparency at the payment component level		Detailed breakdown of elemental costs	
Annual budgeting		2 Combined fixed and variable pricing elements		Fully fixed annual pricing	
Marginal Rates– In-Service	Marginal Rates-In-Service + Dead Running		Pre-Priced Options		Net Financial Impact
No indexation (nominal pricing)		Composite index		Cost element indices	
No performance regime	Service delivery, quality, and customer regime		Patronage regime		Behavioural regime

Key Considerations:

1 A short contract length of 1 to 5 years aligns with the relatively lower levels of investment required from operators delivering on-demand services, and the consequential shorter payback period.

Further, given the uncertain future demand and impact of on-demand services, long-term commitments may not be appropriate.

2 The fixed price elements recognise that some costs cannot be avoided, such as overheads, or fleet availability, and can be priced on a fixed basis. Whereas the variable elements support payment for services delivered helping to minimise total forecast costs.

Scenario 5 | Small, declining market with moderate market depth

Short contract terms are appropriate given the lower investment required for on-demand services and the uncertain future demand. The pricing approach best reflects fixed and variable costs incurred by the operator.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Asset control – End State		
Full operator control	<ul style="list-style-type: none"> The PTA is funding constrained and lacks capability and resources which limits its ability to control assets. As a result, assets will be fully owned and generally controlled by the operator. Note that the on-demand nature of the contract provides for lesser fleet and depot requirements when compared to timetabled services. However, an investment is still required to procure and fit-out special-purpose vehicles and therefore could present a barrier to entry. 	<ul style="list-style-type: none"> <i>Asset Control – Pathway</i>
Asset control – Pathway		
Transfer obligation – Fleet	<ul style="list-style-type: none"> The PTA may require an end of term transfer obligation over the specialised fleet, nominating the incoming operator as the purchaser. This is to mitigate any potential scarcity of vehicles suitable for on-demand services given the bespoke fit-out requirements. A transfer obligation over infrastructure is not required as depots have a smaller footprint and maintenance can be readily out-sourced. In larger metropolitan areas, the PTA may consider owning the route optimisation and booking systems (including customer App) necessary for on-demand services to create consistency of customer experience and data ownership. 	<ul style="list-style-type: none"> <i>Asset Control – End state</i>
Contract type		
Gross cost contract	<ul style="list-style-type: none"> The declining market and falling patronage is out of the control of the operator, therefore a gross cost contract suitably allocates farebox risk to the PTA. 	

Scenario 5 | Small, declining market with moderate market depth

Short contract terms are appropriate given the lower investment required for on-demand services and the uncertain future demand. The pricing approach best reflects fixed and variable costs incurred by the operator.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Contract term		
Short (1-5 years)	<ul style="list-style-type: none"> A short contract length of 1 to 5 years aligns with the relatively lower levels of investment required from operators delivering on-demand services, and the consequential shorter payback period. Given the declining demand for public transport services, long-term commitments may not be appropriate or attractive for either party. 	<ul style="list-style-type: none"> <i>Asset control – end state</i> <i>Asset control – pathway</i>
Procurement - Method		
Open competition tender	<ul style="list-style-type: none"> Contracts are procured through tendering to drive value for money. Given the relatively low barriers to entry to provide on-demand services when compared to timetabled services, there should be sufficient market depth amongst traditional and non-traditional operators to drive competition through a competitive tendering process. 	<ul style="list-style-type: none"> <i>Contract Term</i>
Procurement – Evaluation		
Price Quality Method	<ul style="list-style-type: none"> Operators are evaluated on price and quality through the Price Quality Method. Given its limited resources, the PTA appreciates the ability to apply a well-defined mechanical evaluation process. Price attributes are important to drive value for money given the PTA’s funding constraints. The PTA has a relative lack of capability and resources and appreciates the ability to apply a well-defined evaluation process. Tenders could also be evaluated using a Quality Based Method, which may better suit on-demand services given the flexibility in designing services and the large variable component to costs. A PTA that is more capable could utilise this evaluation approach, however given that the PTA in this scenario has relatively low capability, we have retained the Price Quality Method. 	<ul style="list-style-type: none"> <i>Procurement – Method</i>

Scenario 5 | Small, declining market with moderate market depth

Short contract terms are appropriate given the lower investment required for on-demand services and the uncertain future demand. The pricing approach best reflects fixed and variable costs incurred by the operator.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Pricing – Transparency		
Transparency at the payment component-level	<ul style="list-style-type: none"> The tender price returnable is transparent and broken down to a granular elemental cost level to allow the PTA to understand the cost build-up of each prospective tenderer. 	<ul style="list-style-type: none"> <i>Procurement – Evaluation</i> <i>Pricing – Payment approach</i> <i>Variations</i>
Pricing – Payment approach		
Combined fixed and variable pricing elements	<ul style="list-style-type: none"> The fixed elements recognise that some costs cannot be avoided, such as overheads, or fleet availability, and can be priced on a fixed basis. Whereas variable elements support payment for services delivered, helping to minimise total costs incurred. Given the on-demand nature of the services, pricing comprises the following elements: <ul style="list-style-type: none"> Fixed price components to capture overheads and charges for availability of fleet and drivers. Variable charges based on distance travelled, number for passengers, or other similar bases. 	<ul style="list-style-type: none"> <i>Pricing – Transparency</i>
Variations		
Marginal Rates – In-Service	<ul style="list-style-type: none"> The contract needs to cater for variations in three categories: <ul style="list-style-type: none"> Unforeseen larger changes: <ul style="list-style-type: none"> Unforeseen changes in scope/services may still be required. Net Financial Impact mechanisms to apply. Smaller future service change: <ul style="list-style-type: none"> For smaller future service change, tenderers provide marginal rates for variation categories that are not reflected in variable rates (e.g. expanded service coverage requiring additional fleet and driver availability). Peak Vehicle Requirement changes: <ul style="list-style-type: none"> The operator will conduct competitive sourcing to ensure value for money for the PTA. This will occur with Net Financial Impact mechanisms applying. 	<ul style="list-style-type: none"> <i>Pricing – Transparency</i>
Net Financial Impact		

Scenario 5 | Small, declining market with moderate market depth

Short contract terms are appropriate given the lower investment required for on-demand services and the uncertain future demand. The pricing approach best reflects fixed and variable costs incurred by the operator.

Position	Description and Rationale	Contractual Mechanisms Dependencies
Indexation		
<p>Cost element index</p>	<ul style="list-style-type: none"> A bespoke cost element index approach is required because on-demand services are less mature and the weighting of variable pricing elements will fluctuate by its nature. This will place some burden on the PTA but is within the capability of any finance function, with additional support from Waka Kotahi. 	<ul style="list-style-type: none"> <i>Pricing – Transparency</i> <i>Pricing – Payment approach</i>
Performance incentive regime		
<p>Service delivery, quality, and customer regime</p>	<ul style="list-style-type: none"> Traditional punctuality and reliability measures are not appropriate in an on-demand context. Different operational performance metrics are required e.g. wait times, trip denial rates, trip cancellation rates etc. Performance is also measured based on customer satisfaction. A small patronage incentive regime is included, as patronage can be driven by the operator in an on-demand context. 	<ul style="list-style-type: none"> <i>Procurement – Evaluation</i>

Reporting Requirements

We have set out the high-level reporting requirements that could be included within updated procurement guidance, including the type of information to be reported, data to be provided to the PTA including limitations, and how aggregated reporting could be enabled.



Information Reported

The type of information to be reported across financial, operational, and compliance frameworks include:

- **Financial** – periodic and annual financial reporting and financial statements, commercial / contractual reporting, and compliance and solvency statements.
- **Operational** –
 - Performance: service quality (i.e. punctuality, reliability, commendations, complaints), mileage information, fare evasion, fleet information, and environmental and sustainability metrics.
 - Health and Safety (H&S): H&S inspections, collisions, incidents/accidents/near misses, customer safety, security incidents, compliance with legislation
- **Compliance** – self-compliance reporting against management plans, subject to PTA audit rights

To enable aggregated reporting, minimum reporting requirements for operational reporting should be considered across all contract sizes. The types of information reported can further be designed to support the selected asset control model, contract type, and relative scale of the operation.



Aggregated Reporting

To enable aggregated reporting, consideration should be given to the adoption of consistent minimum performance metrics built into each contract, that is, metrics that are defined and calculated in the same way.

These could include metrics related to:

- **Punctuality** – percent on time, percent late, measured at start, end and intermediate timing points (will need to be adapted for headway services)
- **Reliability** – proportion of services operating their scheduled journey (net of cancelled, short or incomplete services)
- **Customer Satisfaction** – minimum customer satisfaction score that operators must achieve

The inclusion of consistent metrics could enable collation and reporting of performance results at the PTA, regional, and national level, and could be used to support development of a data-rich source to inform contract benchmarking.



Data Provision and Access Limitations

To further support aggregated reporting, transparency, and service review and improvements, consideration should be given to the design of minimum contractual requirements as it relates to the provision of raw operator data, and further allow PTAs to use operational data across a wide range of applications:

- **Data provision** – In order to better enable aggregated reporting and the collection of performance data over time to inform decision making, consideration should be given to the requirement for operators to transfer raw performance data to PTAs (for instances where the PTA does not centrally manage and own monitoring and data collection systems). Contractual design would need to consider a consistent raw data format requirement for operators. Raw operational data may include performance data, customer survey results, passenger counts, and revenue protection results.
- **Data access limitations** – contractual design should give consideration to the use of operational data as a tool that has a wide application and use, permitting the PTA and Waka Kotahi to use for its own analysis, or to publish and disclose the data to others.

Discounted options

The framework presented throughout this report depicts a broad spectrum of possible options. Based on the scenario analysis undertaken, we have identified options that should be discounted from the options framework.

Mechanism	Options Discounted	Rationale
Contract type	<p>Concession <i>Partnership between public sector and private operator, in which the operator is remunerated primarily through having the authorisation to deliver the service</i></p>	From our prior research we observed that concessions for bus services have only been feasible on specific routes (e.g. expresses buses from the airport to the city). In the New Zealand context, registered exempt services provide for a form of concession.
	<p>Quality partnerships <i>PTAs invest in improved facilities, and operators commit to improving standards. Operators design routes and retain revenues with PTAs providing extra financial support for achieving quality measures and concessionary fares</i></p>	Quality partnerships were used in the UK in response to a legislative ban on franchising (outside of London). As this ban does not exist in New Zealand, the benefits of a Quality Partnership can be better achieved through a conventional contract with bus operators. Further, the model deployed in the UK would take network planning functions away from PTAs and could result in a network that doesn't fully meet the needs of the public and therefore may not support SPTF objectives around greater PT use etc.
Contract term	<p>Very Long (15+ years)</p>	A very long term has drawbacks because it does not allow the PTA to drive value for money through contract retendering. We heard from the SPTF Working Group that the benefits of a very long contract (i.e. negotiating leverage for end of term transfer arrangements, compensating the operator for introducing a ZEB fleet, and spreading the procurement costs of a collaborative contract) were already achieved through a long contract (10-15 years).
Procurement - Evaluation	<p>Price Assessment only <i>The evaluation focuses solely on the price of the proposed solution for bids that meet a minimum quality standard</i></p>	A criticism of the PTOM model is that it encouraged a 'race to the bottom' on driver wages. Assessment on price alone may encourage behaviours and tendering approaches that are counter to SPTF objectives of creating a sustainable workforce and encouraging greater use of public transport through provision of high-quality services.
Pricing – Transparency	<p>No pricing transparency (total fixed price) <i>Detailed pricing build up is not disclosed, and instead a single total fixed price is agreed</i></p>	Given the focus of SPTF on creating a financially sustainable model that also supports value for money, there is a need to have at least some degree of pricing transparency to support these objectives.
Performance incentive regime	<p>No performance regime <i>Contract does not include any specific performance-related requirements</i></p>	A performance regime is important in driving desired behaviours and improved performance from the operator. A lack of a performance regime removes incentives for the operator to improve their performance, therefore greatly reducing the likelihood of customers seeing increased performance.

Net Financial Impact Regimes – Key Features

We have identified a set of principles, inclusions, and exclusions that could form the basis of a Net Financial Impact (NFI) regime.

Principles

- The PTA is receiving value for money and the compensation amount is fair and reasonable
- Changes in costs are determined on an incremental cost basis
- NFI is calculated on an open book basis and the PTA may audit compliance
- NFI is calculated by reference to the impact on the Operator's cash flow position
- Cash flow impacts are assessed over the life of the impact but not beyond the contract term
- NFIs are assessed on a pre-income tax basis
- The PTA may have regard to the rates proposed by the Operator during the procurement process
- The cash flows must reflect commercial arm's length arrangements
- Nominated bid margin or rate of return

Inclusions

- Actual incremental direct costs of plant, labour, materials, and subcontractors directly engaged in the delivery of the change
- Financing costs
- External third-party advisors
- Insurance proceeds, damages, compensation, or other revenue the Operator receives or is entitled to receive as a result of the NFI event
- Proceeds of any asset sales
- Operating cost impacts
- Redundancy payments that are necessary as a direct result of the change
- Cash outflows associated with CAPEX, subject to the PTA approving that CAPEX
- The impact of buses disposed of earlier than scheduled or new bus acquisition not occurring

Exclusions

- The impacts reflects only the cash impacts, and calculation excludes non-cash impacts including movements in provisions, depreciation, non-cash abnormal items, and environmental impacts with no associated cash flows

Waka Kotahi should **consider developing detailed guidance for Net Financial Impact regimes** to be used by PTAs.

Conclusion | Suggested next steps

We recommend that Waka Kotahi undertake a gap assessment between the proposed ‘tool-kits’ and existing procurement guidance, develop clear guidance to support PTAs, and further design key contractual mechanisms.

The introduction of the Sustainable Public Transport Framework shifts the focus of public transport procurement and delivery and will be an important lever for PTAs, and the country more broadly, in the drive to reduce transport emissions.

To reflect the individual objectives and circumstances of different PTAs the procurement and contractual options available need to be flexible to respond to these needs. We have seen through the development of this report the close relationship between different contractual features and how these might be combined to deliver a range of potential contract designs that best support PTA objectives.

Given the broader tool-kits that will be on offer and the need to successfully realise PTA objectives it will be important for PTAs to have appropriate guidance when selecting and developing a procurement pathway and contractual mechanisms.

Below, we have captured the next steps that Waka Kotahi should undertake:



Gap Assessment Between Proposed ‘Tool-Kit’ and Existing Procurement Guidance:

We recommend that a gap assessment be undertaken to review existing Procurement Guidance against the ‘tool-kits’ identified in this report identify where new guidance may need to be developed and designed, and where existing guidance can be further refined or adjusted.



Guidance Development

We recommend the development of clear guidance that helps PTAs identify and select their optimal procurement approach and make decisions around key contractual features (e.g. asset control, contract form, performance regimes). The guidance should consider: specific PTA objectives for their PT contracts, the market conditions, the future of public transport in the region including the level of change, the procurement and contract management capability of the PTA, and the risk profile associated with the contract / services. The approach adopted by the Road Efficiency Group through their ‘REG smart buyers self-assessment tool’ and Delivery Models Guidelines is a template that could be adapted alongside the content already contained within the NZTA Procurement Manual to help PTAs identify contractual models appropriate to their circumstances.



Detailed Design

We recommend that further design be undertaken on new contractual and procurement mechanisms, to support incorporation within Procurement Guidance. Key mechanisms requiring detailed design include, but are not limited to:

- *Asset control*: Design of asset transfer contract provisions, including direct deeds and transfer agreements
- *Collaborative-style contract type*: contract design with consideration to the public transport context,
- *Information*: the specific contract features that warrant reporting of certain information types,
- *Metrics*: design of appropriate performance metrics and the context in which they apply,
- *Pricing transparency*: design of consistent requirements that can be applied nationally, and
- *Indexation*: design composite indices and identification of indices can be applied to specific cost elements.

This guidance should be structured in a manner **which makes it easy for the PTA to identify their local context**. From this identification, **PTAs should be able to see the range of options** that would drive value for money and quality outcomes for customers.



Tim Arbuckle

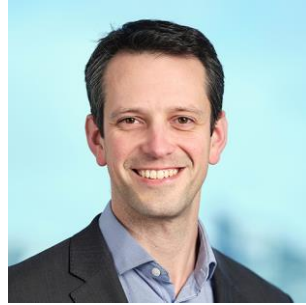
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