



Land transport infrastructure procurement strategy

2023

Approved by the Waka Kotahi Board

August 2023

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More information

Waka Kotahi NZ Transport Agency

[August 2023](#)

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Summary

The Waka Kotahi infrastructure procurement strategy (IPS) 2023 focuses on 5 key areas to enhance the planning and delivery of our infrastructure procurement portfolio. The strategy aims to strengthen procurement practices, foster strategic partnerships, and introduce innovative approaches to achieve improved outcomes.

Waka Kotahi is the largest government procuring agency in New Zealand with an approximate \$4-6 billion annual spend through procured activities. We are subject to and influenced by several internal and external requirements that shape our procurement approaches and are discussed in this strategy. Alongside this, the infrastructure sector faces a growing number of challenges as well as opportunities.

The IPS has direct line of sight to Te kāpehu, our compass, and to Kāhui Whetū, our guiding stars which are the 4 strategic priorities for Waka Kotahi. These are: Culture and Leadership, Future Focus, Delivery Excellence and Accelerating Digital. The relationship between Te kāpehu and this IPS is described within section 2.3 of the strategy.

This first part of this strategy describes our procurement context, how Waka Kotahi undertakes its approach to market and an overview of the infrastructure markets that serve us. The second part focuses on our strategic intent for infrastructure procurement through 5 strategic focus areas. These seek to respond to the infrastructure sector procurement and delivery challenges and to drive continuous improvement through all aspects of our procurement function at Waka Kotahi. Each of the focus areas is connected to and supports the others.

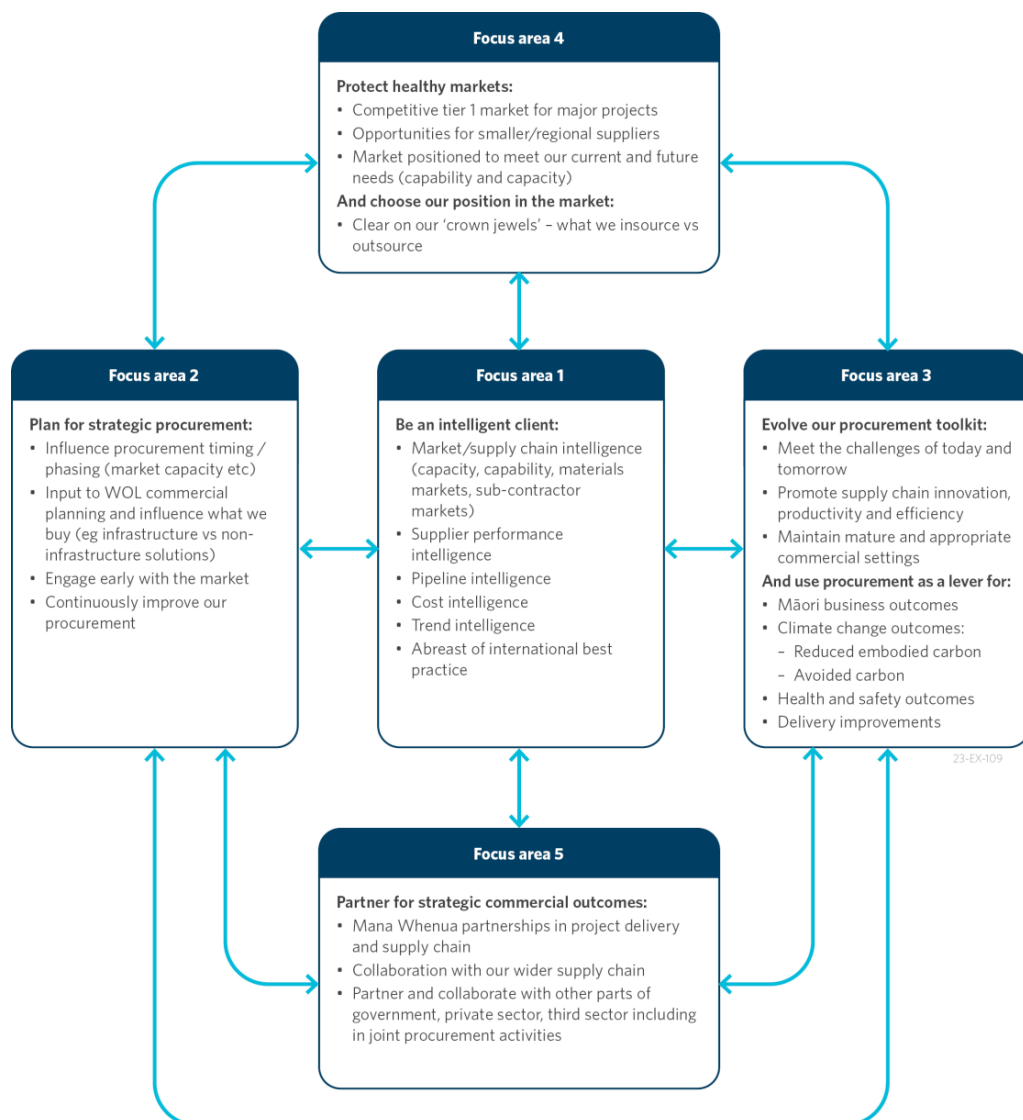


Figure 1 Our 5 strategic focus areas for infrastructure procurement

The first focus area highlights the importance of Waka Kotahi developing as an **intelligent client** to optimise the value for money outcomes of our infrastructure activities across the motu. This includes implementing advanced planning methods, leveraging data and technology, and incorporating market intelligence to make informed decisions throughout the procurement lifecycle.

The second focus area emphasises the importance of **robust planning** disciplines and effective management throughout the procurement process. By enhancing the planning phases, Waka Kotahi can improve the efficiency and effectiveness of infrastructure projects. This includes elevating procurement and commercial planning disciplines, ensuring comprehensive upfront planning and commercial decision making within the business case process, and closing the continuous improvement loop to learn from past procurement experiences and enhance future processes and their outcomes.

The third focus area emphasises the importance of evolving our procurement **practices** to keep pace with changing expectations and industry trends and demands. Waka Kotahi will continue to embrace innovative approaches and methodologies to enhance the procurement and delivery of our portfolio. This includes exploring alternative delivery models, promoting collaboration between public and private sectors, and adopting best practices from other industries to drive efficiency and innovation.

The fourth focus area centres on **protecting healthy markets** and being intentional in how we participate in the market to ensure that our markets are healthy, strong and able to meet our current and future needs. This will require partnering with others for strategic outcomes, innovation, risk management and to meet system-level challenges (eg decarbonisation, waste minimisation, broader and community outcomes).

The fifth focus area underscores the significance of **strategic commercial partnerships and collaborations** to achieve optimal commercial outcomes. Waka Kotahi will actively engage with the market and other partners and stakeholders, foster strong relationships with suppliers, and establish mutually beneficial partnerships to drive innovation, deliver public value, and achieve shared outcomes and goals.

Our focus areas encourage a proactive and intentional approach to market participation and commercial strategy. By prioritising activities within these 5 focus areas, we'll continue to move procurement and commercial practices forward for Waka Kotahi. We'll enhance planning and management, leverage strategic intelligence, introduce innovative approaches, and foster fruitful partnerships. Implementing this strategy will lead to improved procurement outcomes, increased efficiency, and enhanced value for money, ultimately contributing to the success of infrastructure outcomes in New Zealand.

1. About this strategy

1.1 Purpose

The purpose of this document is to set out the Waka Kotahi Infrastructure procurement strategy (IPS) for the next 3 years. The IPS sets out the strategic approach Waka Kotahi is taking to procuring infrastructure and the best practice procurement practices that will enable strategic outcomes to be achieved.

The IPS provides a clear pathway and commitment for continuous change and modernisation of procurement capability and approaches, reflecting best practice and considering the dynamics of the New Zealand infrastructure market and the needs of its participants, including delivering on government directives.

The IPS is a dynamic strategy, and it will not be realised in a linear fashion. Success hinges on mutually beneficial collaboration across all who participate in the infrastructure market whether it be policy, procurement or delivery.

1.2 Audience

The IPS applies to all internal areas of Waka Kotahi who procure and deliver infrastructure programmes or projects, together with all parts of the organisation who intersect with delivering infrastructure policy, funding approaches, legal, risk and environmental services.

The other critical audience of the IPS is the New Zealand infrastructure market and associated supply chain providers, including design, other professional services, contractors, equipment, and materials suppliers.

1.3 Scope

The scope of this IPS includes all infrastructure procurement and contract requirements under the Waka Kotahi infrastructure portfolio, including infrastructure activities funded by the National Land Transport Fund (NLTF) and from other funding sources. It covers infrastructure design and professional services, physical works, and ongoing network operations and maintenance activities. The IPS sets out and defines how Waka Kotahi deploys strategic procurement practices across strategy, planning, sourcing and managing phases of the procurement cycle, and of the wider strategic setting within which procurement takes place.

This strategy does not present a procurement strategy for the parts of the NLTP that are under the responsibility of Approved Organisations.

This is a strategic document and does not contain operational material, which sits below this strategic level. For procurement guidance and planning material, refer to the Waka Kotahi Procurement Manual and its SMO procedures manuals.

1.4 Ownership and review

This strategy has been endorsed by the Waka Kotahi Board. The document is managed and maintained by the Procurement Centre of Excellence on behalf of the Executive Leadership Team. The Infrastructure procurement strategy will be formally reviewed in 2026. The 3-yearly review cycle reflects the requirement under the Waka Kotahi Procurement Manual, and ensures the strategy encompasses prevailing market conditions, shifts in methodologies and procurement approaches, our wider strategic priorities and risk appetite to achieve those priorities. The strategy should be treated as a living document with ongoing testing for currency against these priorities.

2. Policy context

2.1 Waka Kotahi infrastructure procurement and delivery

Our approach to procurement is directed by specific sections of the Land Transport Management Act 2003 (LTMA), which includes obligations to:

- Consider effectiveness of contracting out or insourcing our functions
- Approve procurement procedures for use by ourselves and other Approved Organisations (councils)
- Use procurement procedures designed to fulfil the purpose of the LTMA, and achieve best value for money spent
- Consider fair competition and maintaining efficient and competitive markets

The Waka Kotahi Procurement Manual assists with ensuring compliance with the requirements of all relevant government policies and legislation in respect of transport sector procurement activity. Waka Kotahi maintains the Procurement Manual for use by all Approved Organisations (AOs), including Waka Kotahi itself, and has a statutorily independent role in approving procurement procedures used by other AOs.

We are also subject to a range of expectations for procurement from external stakeholders including the Ministry of Transport, Office of the Auditor General, and the Ministry of Business, Innovation and Employment. We have committed to the Principles of the Construction Sector Accord.

Of strategic importance to Waka Kotahi are the priorities set within the Government Policy Statement on Transport (GPS), our health and safety responsibilities, and the pursuit of broader economic, social, cultural, and environmental outcomes through procurement.

Within Waka Kotahi, all staff engaging in procurement activities are subject to our Procurement Policy, conflicts of interest policy, and contract management requirements. Financial decision making and approvals are subject to delegations under the Waka Kotahi business rules. Infrastructure procurement activities are guided by our suite of procurement and contract procedures manuals.

These obligations and commitments all directly influence how we approach procurement activities and inform standards and priorities that we must meet in managing our procurement function. The diagram below captures the obligations, commitments, policies and influences within the Waka Kotahi procurement operating environment.

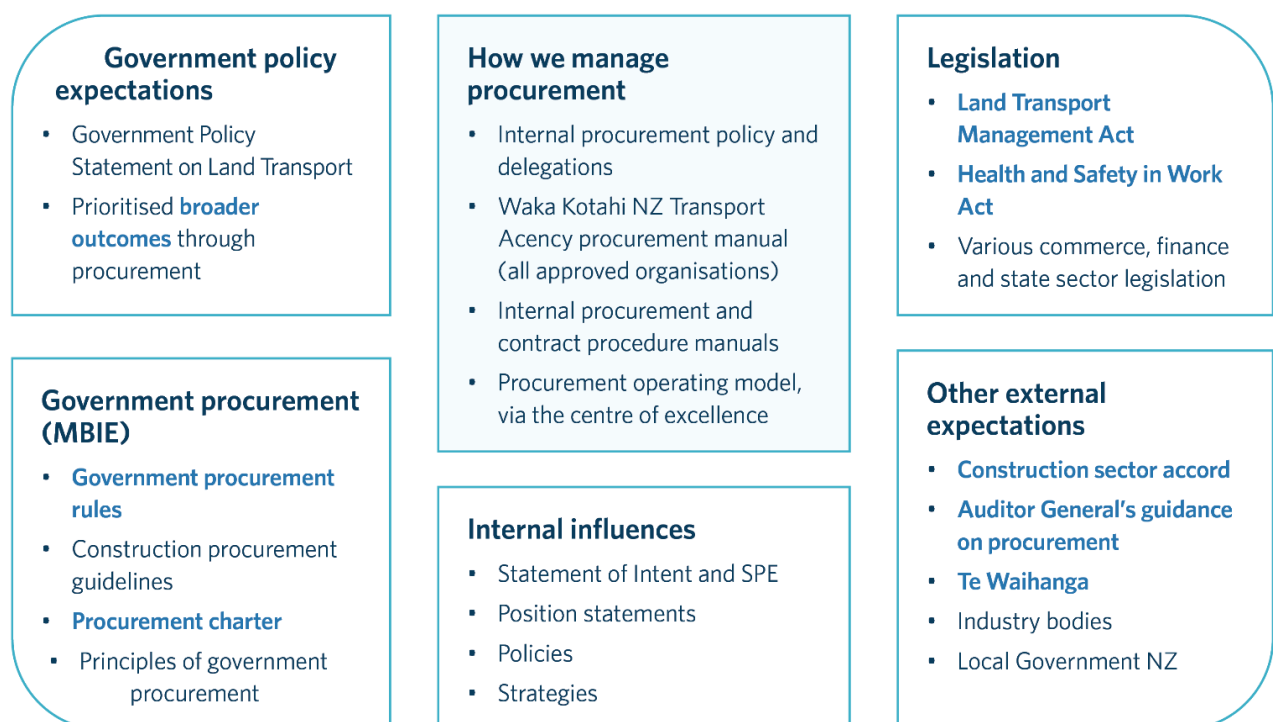


Figure 2 Influences and expectations on procurement at Waka Kotahi

2.2 Government strategic priorities for transport

The Government Policy Statement (GPS) on land transport describes the Government's strategic priorities for land transport for the next ten years. The GPS guides Waka Kotahi on the type of activities to be included in the National Land Transport Programme (NLTP), which contributes to part of our infrastructure programme.

The current Government Policy Statement (GPS) of Land Transport for 2021/22 to 2030/31 sets out 4 strategic priorities:

The strategic priorities in the GPS are executed through the Transport Outcomes Framework which provides a framework for how a transport system supports and can improve intergenerational wellbeing and liveability. It is expected that over the ten-year period of the GPS, these priorities will guide investment decisions by Waka Kotahi and its co-investment partners, including local authorities and KiwiRail.

The GPS is generally published by the Government of the day every 3 years, meaning that an updated GPS is due for publication by the Government in 2024. We acknowledge that the publication of this IPS will not align with those timescales and will make the appropriate updates if required once GPS 2024 has been published.

Notwithstanding this timing mismatch, we expect the next release of the GPS will contain a focus on safety and climate change, including emissions reduction and resilience and adaptation, and these priorities are allowed for in the strategic framework set out by the IPS.

The IPS seeks capability shifts in how we procure so that infrastructure delivery outcomes are gained on a sector and programme basis and not just as individual projects. This means a strong focus is maintained on a healthy and competitive market, on successfully procuring programmes of work that demonstrate achievement of GPS priorities, and on working in partnership with others to tackle system-level challenges and achieve common goals.

2.3 Te kāpehu – our compass

The GPS sets out the Government's strategic direction for the land transport system over the next 10 years and is updated every 3 years. This determines the infrastructure categories that we need to procure for and indicates priority areas, such as safety and resilience.

Te kāpehu – our compass – sets out our place and aspirations within the wider land transport system. It sets our direction for what we want to achieve as an organisation, how we'll go about this, and why we are here. The components of Te kāpehu are shown in the illustration below.


		Te kāpehu Our compass		
Our purpose Why Waka Kotahi is here		Waka Kotahi Moving. Together.		
Our vision What we aspire to		A land transport system connecting people, products and places for a thriving Aotearoa.		
Our roles What we do	Kia hoe ngātahi Move together as one	Te anamata Leave great legacies	Kia tika te mahi Deliver the right things	Kia marutau Enable a safe system
	We lead with others to achieve valuable transport outcomes.	We shape and invest in a sustainable transport system for everyone.	We partner and invest to maintain, operate and improve the land transport system.	We reduce harm to people and the environment.
System outcomes The difference we want to make		Aotearoa has a transport system that is:		
		<ul style="list-style-type: none">• Safe.• Meeting current and future needs.• Environmentally sustainable.• Effectively and efficiently moving people and freight.		
System measures and targets The change we want to see		<ul style="list-style-type: none">• Reduce deaths and serious injuries.• Sustainable funding to deliver.• Reduce carbon emissions.• Reliable and multi-modal travel for people and freight.		
Our values Guide our actions	Ngākau aroha Have heart	Kotahitanga Better together	Kia māia Be brave	Mahia Nail it
	We have the wellbeing of our people, community and planet at the heart of everything we do.	We achieve great things when we work together to build trusted relationships inside and outside of Waka Kotahi.	Our outcomes are better when we bring courage and self-belief to our passion and purpose.	We create an enduring legacy, delivering our best work every day.

Figure 3 Waka Kotahi – Our strategic direction. Source: Waka Kotahi – Te kāpehu – our compass

Te kāpehu is informed by the wider government direction and will be implemented through our strategic priorities, business plans and a range of organisational strategies, programmes and initiatives that have been or are being developed. From a procurement perspective, it includes a focus on being an intelligent client, with a centrally managed procurement strategic framework, and on delivering value for money and favourable long-term commercial outcomes for Waka Kotahi.

Te kāpehu is guided and informed by our 4 strategic priorities, our Kāhui Whetū. The following shows how this IPS has line of sight to Te kāpehu and our Kāhui Whetū.

Pou Herenga tangata – Culture and leadership

This strategic priority values long-term trusted relationships with iwi, central and local government, industry and stakeholders. The IPS positions Waka Kotahi to continue its role of procurement leadership in the land transport sector. Strategic focus area 5 of this IPS contains our strategic intent for partnering for successful commercial outcomes.

Eke panuku – Delivery excellence

This strategic priority focuses on the work we do every day, often with partners, to plan, design, build and deliver our projects and services, to achieve better climate outcomes and maintain a safe and efficient transport system that is well integrated with our local government partners and supports government goals. Focus area 2 of this IPS is on planning for strategic procurement and focus area 3 contains details about how we intend to evolve our procurement toolkit.

Pae tawhiti – Future focus

This strategic priority is about a dedicated focus on research and insights, innovative thinking, strategy, policy, intelligence, future planning and system leadership to navigate and help transform the land transport system. Focus area 1 of this IPS sets out our intentions to be a smarter client as a foundation for improved procurement outcomes while focus area 4 is on ensuring healthy markets to meet our future needs.

Auahatanga – Accelerating digital

Working with all our land transport system providers, this priority signals our commitment to more investment in digital and technology platforms but always with the end user, or customer, and sector in mind. Strategic procurement planning under focus area 2 encompasses opportunities for digital solutions to raise the efficiency of procured infrastructure outcomes. We'll ensure alignment of our infrastructure procurement with the Waka Kotahi digital strategy.

2.4 Waka Kotahi procurement strategic objectives

Waka Kotahi strategic objectives for procurement are to deliver public value, efficiently, safely and skilfully, today and for the future. These 5 strategic pillars contain the following focus:

- **Public value:** value for money, commercial value, social and sustainable outcomes
- **Efficiently:** Procurement process cost, speed, clarity and ease; commercially pragmatic decision-making
- **Safely:** Rigorous probity; procuring within rules, process and legal bounds; risk managed on a principles basis with sound commercial judgement
- **Skilfully:** Sound commercial acumen and skilled, capable, and qualified people across Waka Kotahi and our external advisors
- **Today and for the future:** growing healthy and sustainable supplier markets; being a client of choice; seeking and driving innovation; and staying focused on commercial outcomes.

Our strategic objectives for infrastructure procurement include meeting the challenges of an increasingly complex and changing delivery environment.

2.5 Broader outcomes

Broader outcomes in the context of Waka Kotahi is defined as "the pursuit of secondary benefits including social, cultural, environmental and economic outcomes that are generated by the way a good, service or works is produced or delivered".

Government procurement can be used to support wider social, economic, cultural and environmental outcomes that go beyond the immediate purchase of goods and services. In October 2018 the Government recognised that its procurement activities offer a unique opportunity to achieve broader outcomes for New Zealand and mandated 4 priority outcome areas:

- Increasing access for New Zealand businesses
- Construction skills and training
- Improving conditions for New Zealand workers
- Reducing emissions and waste.

The [Waka Kotahi broader outcomes strategy](#) recognises the critical role that Waka Kotahi has in the pursuit of broader outcomes (environmental, economic, social and cultural) through the function of procurement, and in collaboration with our suppliers, Approved Organisations (AOs), mana whenua and local communities, industry bodies and wider public sector partners.

Waka Kotahi has worked with several government agencies and developed a [Framework for delivering broader outcomes](#) to help agencies deliver broader outcomes. The framework provides a practical and consistent way to include the mandated priority broader outcomes as part of a comprehensive approach to strategic procurement.

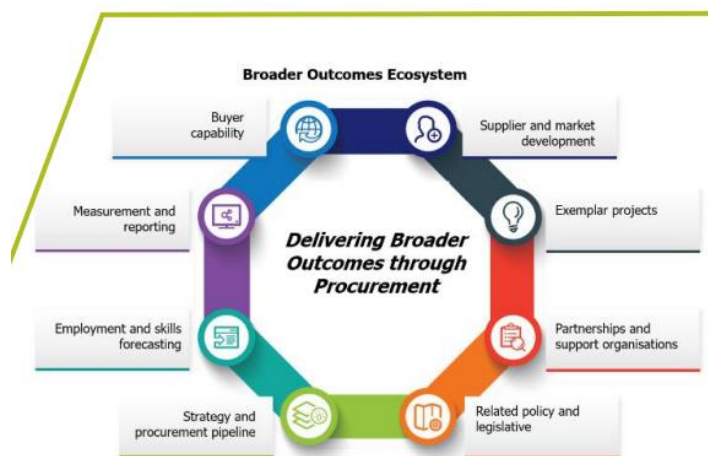


Figure 4 Broader outcomes ecosystem

The Waka Kotahi framework sets out our approach to ensuring broader outcomes are planned for and implemented in an integrated way throughout the lifecycle of a project.

Partnering with Mana Whenua

The Waka Kotahi broader outcomes strategy places a strong focus on leveraging the procurement function to meet various government obligations. One of the 4 target outcomes that is defined by our broader outcomes strategy is increasing access for Māori business and Mana Whenua to our projects. We'll partner with Māori as Treaty Partners, businesses, and community leaders, ensuring strong, meaningful and enduring mutually beneficial outcomes.

Focus area 5 of this IPS sets out our intent for positioning and partnering for strategic commercial outcomes, including partnership with Mana Whenua within projects and with Māori-owned parts of the supply chain.

Progressive procurement policy

Te Puni Kōkiri and the Ministry of Business, Innovation and Employment are supporting government agencies to implement the progressive procurement policy, introduced in 2020.

The Government has set an 8% target of all annual government contracts to be awarded to Māori businesses. The initial 5% target was increased after it was exceeded in the first full year of reporting.

Supporting delivery of our climate change objectives

We recognise that the environment is a taonga that must be managed carefully. We'll protect and enhance the environment by focusing on reduction in emissions and waste, resource efficiency and the enhancement of positive public health outcomes through our procurement activities.

Delivering against these objectives will include honouring the vision and principles of our Sustainability Action Plan – Toitū Te Taiao, reducing waste and emissions across, improving resource energy efficiency and driving positive sustainable outcomes.

2.6 Health, safety & wellbeing

Waka Kotahi recognises its obligations under the Health and Safety at Work Act 2015 (HSWA) and as such requires all suppliers to take practical steps to ensure safe work practices are employed. We require all suppliers to comply with these requirements also recognising that in a contracting chain there are shared responsibilities under HSWA to consult, cooperate and coordinate activities with supplier and contractors.

Waka Kotahi requires its suppliers to actively explore ways to promote best practice health and safety throughout the procurement lifecycle, including ensuring that the key principle of 'health and safety by design' is considered and met.

The Waka Kotahi Health, Safety & Wellbeing team provide advice on procurement including the procurement planning stage, tender document preparation, contractor health and safety plan reviews, and audits as appropriate.

Over the period of this strategy, we'll continue to strengthen our treatment of health and safety risks within our prequalification, tendering and contract management practices, and actively work with our suppliers and wider industry to ensure that we prevent any serious injuries or deaths through our contracted work.

We also recognise our role as industry leaders that we have an opportunity to set the industry up for success through improved safety and innovation indicators that go beyond core compliance. We'll continue to drive improvements that seek out better outcomes in the areas of mental health and wellbeing, emergency response and community improvement.

Go to [Health, Safety & Wellbeing at Waka Kotahi](#) for more information.

2.7 Key challenges for infrastructure procurement and delivery

It is critical that Waka Kotahi is clear on our objectives and, equally, clear on the strategies to achieve them. Our objectives must not only effectively address the challenges immediately in front of us but must have a clear focus towards building agility and resilience for the future.

There is broad agreement across stakeholders on the current challenges and opportunities facing infrastructure procurement and delivery for Waka Kotahi and the sector. These include:

- Ensuring early-stage commercial planning considers procurement, commercial and market considerations
- Lifting productivity and efficiency in our supply chain
- Ensuring performance of our suppliers, both technically and in how they work with us
- Providing visibility of the pipeline of work to underpin supply chain investment
- Being well informed on what our infrastructure should cost
- Relieving capacity and capability constraints in the supply chain
- Continuing to deliver broader outcomes, including for Māori and communities and responding to climate change
- Ensuring our procurement processes are able to respond to rapidly changing demands
- Ensuring our market is healthy and able to meet our needs
- Responding to increasingly complex and multi-faceted system challenges and shared outcomes.

Additionally, the increased and changing nature of infrastructure investment as well as a shift in Waka Kotahi priorities and expectations from the Government and other stakeholders require new approaches to client leadership and procurement thinking.

This strategy responds to these challenges through the 5 strategic focus areas described later.

3. Our procurement and delivery programme

3.1 Our Government Policy Statement investment portfolio

Waka Kotahi infrastructure investment is guided by the Government Policy Statement on Land Transport (GPS). The GPS influences decisions on how money from the National Land Transport Fund will be invested across activity classes, and guides Waka Kotahi and local government on the type of activities that should be included in Regional Land Transport Plans (RLTPs) and the National Land Transport Plan (NLTP).

The period of this IPS spans at least 2 GPS publications and at the time of writing a draft GPS was out for public consultation. Detail of the prevailing activity classes and investment allocations, reflecting any recent update, can be sought from the [Ministry of Transport](#) website.

Activity classes that are typically consistent between GPS updates and that relate to our infrastructure portfolio and this IPS include, but are not limited to:

- **State highway improvements** – investment to improve capacity, level of service or safety or to build new state highways.
- **State highway maintenance** – investment to optimise, maintain, renew existing state highways or to provide urgent response to network disruptions.
- **Walking and cycling improvements** – investment to improve levels of service and improve uptake in walking and cycling.
- **Public transport infrastructure** – investment in maintenance, renewal or new build of infrastructure supporting public transport.

The target investment in these activity classes over the period of this IPS is anticipated to be in the order of \$10 – 15 billion.

The state highway improvements and maintenance activity classes are directly managed by Waka Kotahi whereas other activity classes, such as public transport infrastructure and walking and cycling improvements, include a portion of co-investment and delivery via Approved Organisations (councils).

We may package the investment programme in a way that does not necessarily align to the funding structures in the GPS to optimise combined procurement and delivery and obtain best value for money.

3.2 Our infrastructure portfolio

Waka Kotahi has a diverse and live infrastructure portfolio that is subject to regular update and is best provided via our website.

Our [upcoming contracts](#) are referred to on our website and are advertised via the Government Electronic Tender Service (GETS). Information on our live infrastructure portfolio can be found from the [Capital Projects Tender Programme page](#), which links to our interactive, map-based, online resource that enables the market to view our investment portfolio by programme, region, phase and completion status.

Our infrastructure portfolio is made up of programmes of investment. Detail on these is also available on our website:

- [National Land Transport Programme \(NLTP\)](#), which includes links to planned investment by activity class and by region as well as a view of future investment from 2024
- [New Zealand Upgrade Programme \(NZUP\)](#), which describes each of the infrastructure packages within the programme
- [Speed and Infrastructure Programme \(SIP\)](#), which is our infrastructure safety programme
- [Climate Emergency Response Fund \(CERF\) programme](#), which contains 3 sub-programmes with work to be procured by Waka Kotahi and local authority partners.

In addition to these major programmes, Waka Kotahi has a large work programme for recovery from severe weather events and a programme of proactive resilience work around the state highway network.

Our maintenance and operations activities outside of Auckland and Wellington are currently delivered via our [Network Outcomes Contracts](#) (NOC). Waka Kotahi initiated a review of the NOC in 2022 and intends to progressively shift from NOC to Integrated Delivery Contracts (IDC) over the period of this strategy.

Maintenance and operations activities in Auckland and Wellington are delivered through alliance agreements.

3.3 Our approach to market

Waka Kotahi operates within a dynamic environment characterised by high demand for infrastructure, constrained funding, cost, and resource pressures both for Waka Kotahi directly and within the supply chain, and a desire for infrastructure to deliver increasingly diverse outcomes. Our infrastructure activities must also contend with a world that is increasingly affected by the impacts of climate change, including damaging weather events and an urgent need to decarbonise our sector.

Our approach to procurement uses a range of delivery models, which have been developed based on international best practice and adapted to the New Zealand context. The procurement and delivery models that we use are described in the [Waka Kotahi Procurement Manual](#). Given the breadth and scale of our infrastructure investment and procurement portfolio we use the full range of procurement models in the Procurement Manual, from relatively simple traditional methods through to advanced procurement procedures.

Our approach allows us to select the best model to deliver the best value for money based on specific project and market characteristics, such as scale, risk, and complexity. Our strategic focus areas set out later in this strategy are designed to enable our ongoing delivery of this diverse portfolio by responding to our key challenges.

Waka Kotahi actively engages with its markets to provide visibility of our portfolio and of our priorities and focus areas. This includes direct engagement for individual projects, regular industry liaison meetings, supplier relationship meetings, and regional industry roadshows throughout New Zealand.

3.4 Our infrastructure markets

The civil infrastructure sector in New Zealand is responsible for the design, construction and maintenance of national and local roads and other transport infrastructure. The sector is key to New Zealand's transport infrastructure and is a significant contributor to the national and local economies.

Waka Kotahi infrastructure delivery is served primarily by New Zealand suppliers, covering professional services, physical works and maintenance and operations suppliers.

Professional services markets

The bulk of Waka Kotahi direct and indirect infrastructure professional services spend is served by seven multi-disciplinary engineering firms. In addition to firms with core engineering and environmental planning expertise, the professional services market includes specialist expertise in strategic transport planning, property acquisition, resource management law, commercial law, and financial and commercial strategic advisory services. Other international transport engineering firms have entered New Zealand in recent years.

Competition among professional services providers in the core transport engineering and planning sub-sector is strong. Many of these are large firms with reach across New Zealand and beyond, enabling them to tap into international expertise. Other sub-sectors are more constrained, due to a smaller pool of suppliers working in specialist fields in what is a relatively small domestic market.

As with other parts of the infrastructure supply chain, the professional services sector faces ongoing challenges to resource with enough skilled workers to meet its requirements. The sector's knowledge workers are internationally mobile, and the sector competes with other markets for staff. That said, some services can be provided from offshore sites with lower cost bases and access to broader resources, and our market is increasingly pursuing these efficiencies.

Physical works and maintenance and operations markets

Waka Kotahi operates a supplier pre-qualification system for physical works activities. This system categorises suppliers' capability and capacity based on works categories and scale.

At the national level, the Waka Kotahi physical works construction market is served by large, integrated contracting firms and smaller nationally active (Tier 1) contractors all pre-qualified to the highest level.

Recent years have seen the entry of international contractors, although their market share remains relatively small.

At the regional level, there are a number of mid-size (Tier 2) contractors who are pre-qualified to deliver small-medium sized projects. Many of these suppliers also sub-contract to the larger firms for delivery of Waka Kotahi and other clients' work (such as local authorities).

In addition, there are various smaller suppliers providing specialised sub-contracted works and services, such as temporary traffic management and line marking.

The Waka Kotahi maintenance and operations market is primarily served by the 3 largest national contractors, who also provide these services to local authorities around the country. Regionally focused contractors serve local authorities and provide sub-contracting services.

Threats and challenges to our markets

Barriers to entry are relatively low for small-scale firms but are higher at larger scale (beyond the small 10- to 20-person firm). Greater levels of management expertise, project management skills and capital are required to make the step to larger scale.

The combination of a strongly competitive environment and thin cashflow buffers (via low margins) can drive a 'must-win' mentality, especially when the pipeline is dominated by a small number of large projects. Risk management has been a challenge for the sector, exacerbated by over-optimistic offers made in must-win tenders.

While there are competitive markets for input materials, there may be supply chain constraints in some geographies.

The New Zealand civil construction sector is relatively labour intensive. The industry is facing a shortage of skilled labour, particularly on-site management and supervision. There remains a risk of skills being lost from the industry, either to other sectors in the economy or from New Zealand completely.

The capacity constraints in the sector may be exacerbated by added infrastructure demand to meet recovery efforts from major weather events. Additionally, transport infrastructure delivery draws on resources that are shared with other infrastructure sectors (for example, 3 waters). Increased investment in these sectors will create added pressure on capacity to deliver transport infrastructure.

4. Our strategic framework, direction and intent for infrastructure procurement

4.1 The Plan-Source-Manage framework describes the transaction level

The Plan-Source-Manage framework is a useful way of describing the 3 key lifecycle phases of procuring activities. Each procuring transaction, including infrastructure transactions, passes through these 3 phases:

- **Planning** includes the strategic planning activities to prepare the procurement for success, including identifying needs, sounding the market, and planning the approach to market and evaluation.
- **Sourcing** covers the activities associated with tendering, evaluation, negotiation and contract award.
- **Managing** sees the contracted services and outcomes delivered, including management of the contract and relationship with the supplier, delivery lessons learnt and close out of the contract.

The 3 phases also usefully correspond to role focus of different teams within Waka Kotahi. In general, the 'Planning' and 'Sourcing' activities are led by the Procurement team and the 'Manage' activities occur within the delivery teams.

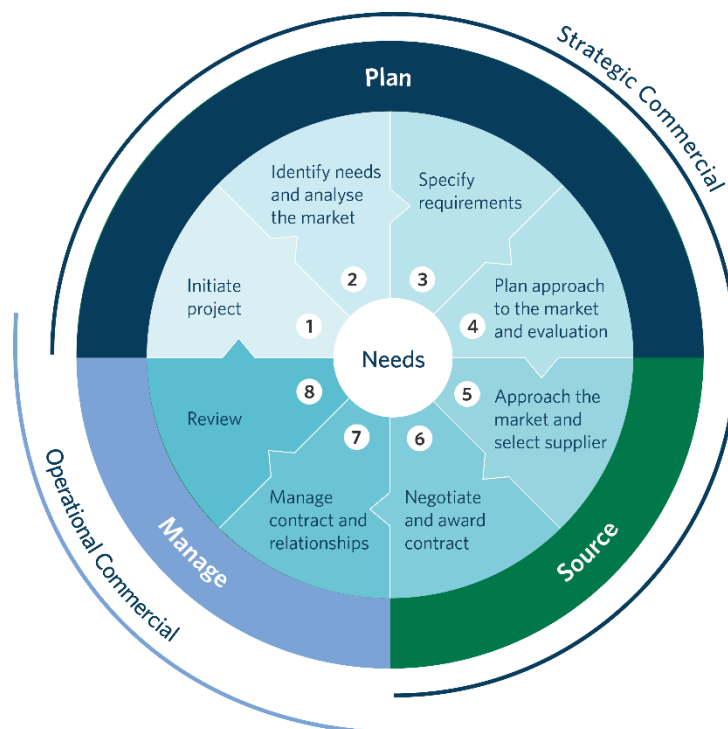


Figure 5 Waka Kotahi Plan-Source-Manage framework

The transaction-focused procurement lifecycle activities at the individual project or programme level within the Plan-Source-Manage framework are informed by consistent application of robust processes and guidance. There is feedback from these activities (eg lessons learnt, intelligence, supplier performance) into Strategic Procurement setting.

The table below summarises the key areas of emphasis and the drivers of value during each phase of the plan, source, manage framework.

Phase	Emphasis	Value drivers
Plan	<ul style="list-style-type: none"> • Develop tailored procurement strategies and plans for projects and programmes based on assessing risk, opportunity, market and other factors • Identify needs and analyse the market • Choose most appropriate supplier selection method, including consideration of past performance • Plan market approach • Set requirements and evaluation criteria • Prepare tender documentation 	Best practice, analytical, flexible, principle-based, commercially focused, outcomes and market-oriented
Source	<ul style="list-style-type: none"> • Engagement with potential suppliers • Approach market and select supplier • Receive and evaluate responses or offers • Select best value offers • Due diligence, refinement of requirements, negotiation and award 	Consistent application of best practice
Manage	<ul style="list-style-type: none"> • Administer and manage the contract and supplier performance • Provide appropriate oversight and supervision • Continuously review the agreement • Monitor and assess performance • Capture lessons and learnings • Implementing continuous improvement within the contract • Feed lessons for continuous improvement into future procurement planning activities 	Consistent application of best practice

Table 1 Plan-Source-Manage value drivers

4.2 We must also focus on evolving the wider strategic procurement setting

The strategic importance of infrastructure to Waka Kotahi goals, the relative high cost of infrastructure interventions, and the expansion and increase in complexity of our infrastructure portfolio and markets require us to evolve our strategic approach to procurement.

While Plan-Source-Manage framework includes some strategic activities, in particular the up-front strategic planning and later lessons learnt feedbacks, it encapsulates procurement and delivery activities at the transaction level. Waka Kotahi recognises that these transactions take place within a wider strategic procurement setting and that this setting requires strategic focus.

Without a strong focus on the strategic procurement setting, we risk stifling innovation, hindering productivity, shrinking our supply chains and impeding the financial sustainability of the market. Taking this strategic approach to how we plan to shift infrastructure procurement forward will also enable us to realise commercial value from Waka Kotahi activities as a key element of our value for money drive.

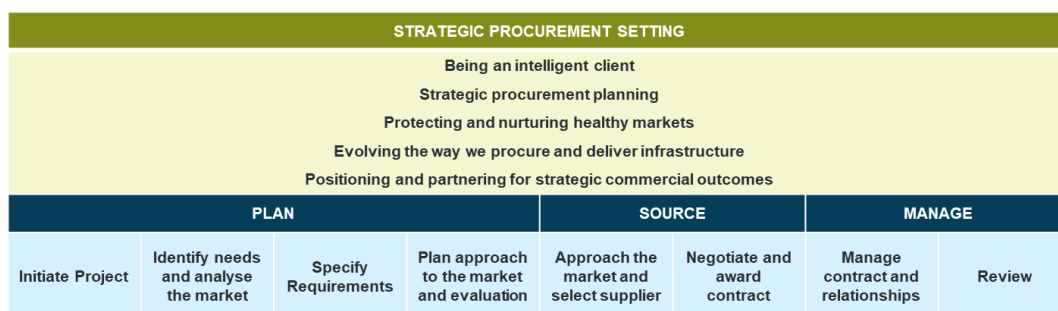


Figure 6 Waka Kotahi strategic procurement setting

This wider strategic setting includes:

- The environment in which procurement takes place (the market, supply chain, and cost environment)
- The way in which procurement is done (the development of the procurement methods and approaches themselves)
- Waka Kotahi position within and as a member of the supply chain
- The partnerships, relationships and collaborations between Waka Kotahi and its suppliers and other clients and entities

Phase	Emphasis	Value drivers
Evolving the Strategic Procurement Setting	<ul style="list-style-type: none"> • Commercial influence in investment plans • Assessment of operating environment and organisational maturity • Internal capability uplift and change • Forward pipeline and portfolio assessment • Smart packaging of requirements • Market and supply chain analysis and intelligence • Options analysis and delivery model development • Cost and price analysis • Market shaping to ensure healthy market • Continual review of most appropriate market Waka Kotahi positioning • Taking learnings for continuous improvements from previous Plan, Source and Manage activities • National and international best practice awareness • Collaborative partnering with suppliers, Iwi, community, other agencies etc 	Best practice, analytical, principle-based, commercially focused, outcomes and market-oriented, focused on establishing and implementing ongoing strategic initiatives, medium to long-term outlook

Table 2 Waka Kotahi strategic procurement setting

4.3 Our strategic direction and intent for infrastructure procurement

Waka Kotahi is an established and leading procurer of infrastructure in New Zealand. Over the period of this strategy, we'll continue to build on and seek to advance our infrastructure procurement leadership. This includes a strategic focus on improving how we do procurement, and a strategic focus on moving our procurement and commercial activities forward toward the future:

- **Focus area 1: Be an intelligent client** – strengthening our market and supply chain, pipeline, supplier performance, and cost intelligence capabilities as the foundation for Waka Kotahi as a smart client. This is an underpinning of the other focus areas.
- **Focus area 2: Plan for strategic procurement** – through the continued application of strategic planning, decision-making and communications to unlock further value from Planning activities, and by strengthening the lessons learnt continuous improvement feedback loops from the Manage activities into future Planning.
- **Focus area 3: Evolve our procurement toolkit and use procurement as a lever** – to meet the challenges of today and tomorrow, to further deliver value for money and to realise broader outcomes such as emissions and waste reduction, health and safety, and delivery improvement.
- **Focus area 4: Protect healthy markets and choose our position in the supply chain** – ensuring that our markets are healthy, strong and able to meet our needs, and positioning Waka Kotahi appropriately within its supply chains.
- **Focus area 5: Partner for strategic commercial outcomes** – working with partners to leverage our combined capability to help solve system-level problems. Waka Kotahi will actively engage with the market and other partners and stakeholders, foster strong relationships with suppliers, and establish mutually beneficial partnerships to drive innovation, deliver public value, and achieve shared outcomes and goals.

These 5 strategic focus areas advance from our business-as-usual focus on excellence in our operational procurement activities. Each of the focus areas is covered in the remaining sections of this IPS.

The 5 focus areas are interrelated and support each other, as shown in the diagram below. Crucially, being an intelligent client is central to success in all of our other strategic focus areas and is a foundational focus.

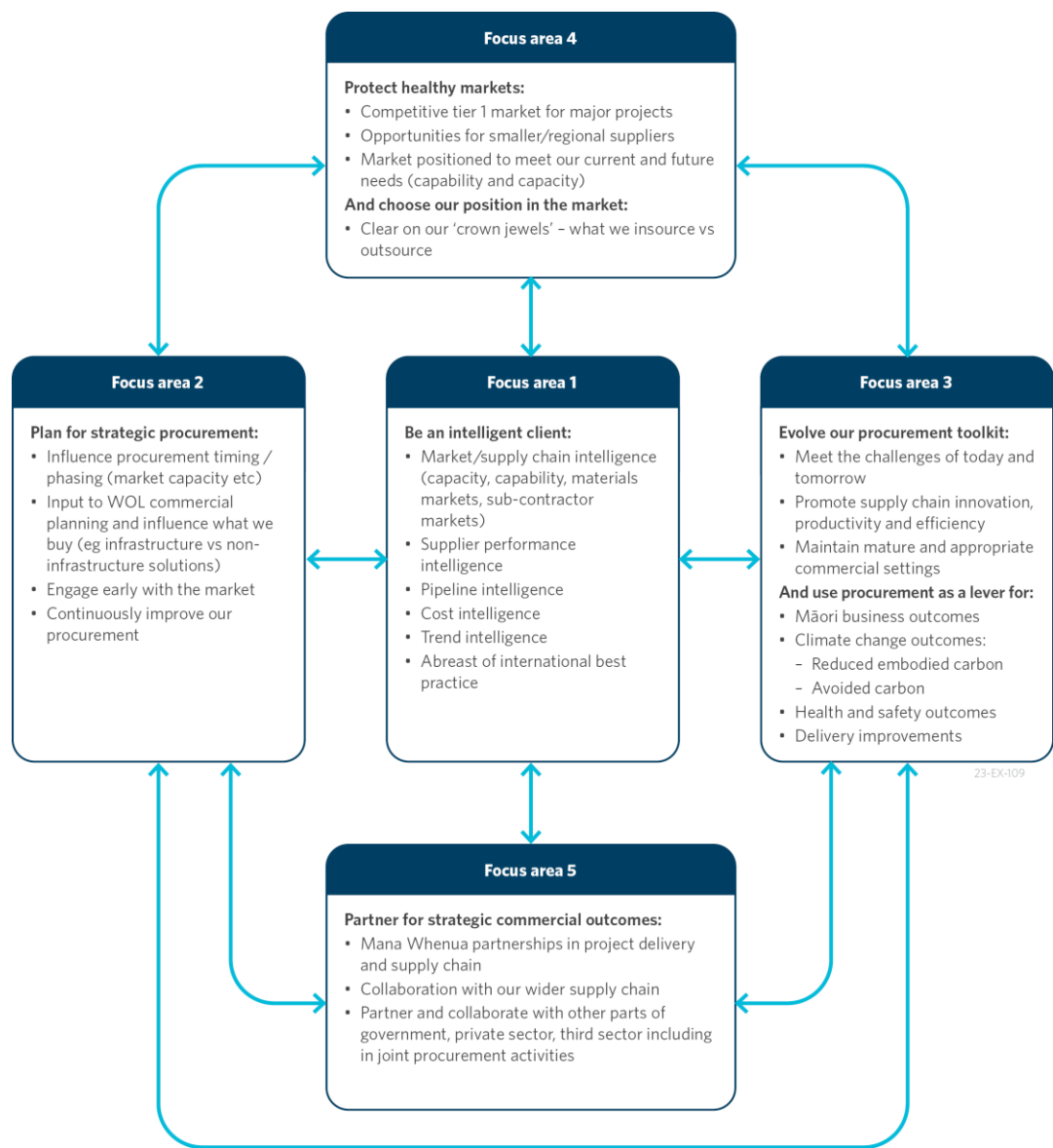
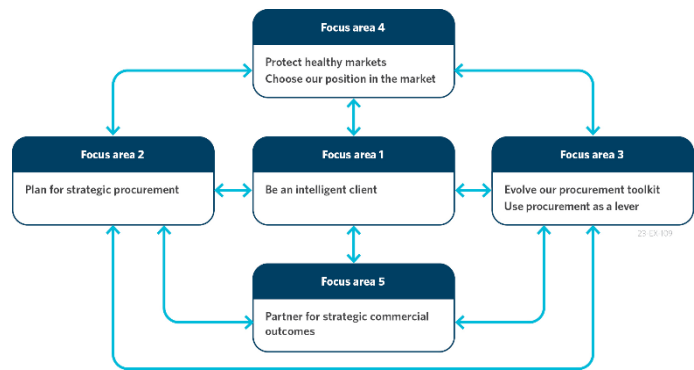


Figure 7 Our 5 strategic focus areas for infrastructure procurement

5. Focus Area 1: Be an intelligent client

Connection to our challenges and opportunities:

- Ensuring performance of our suppliers, both technically and in how they work with us
- Providing visibility of the pipeline of work to underpin supply chain investment
- Cost estimation and knowing what our infrastructure should cost
- Ensuring our market is healthy and able to meet our ongoing needs.



Strategic responses:

We'll continue to build our foundations for strategic procurement activities and to position Waka Kotahi as an intelligent client by strengthening:

- Market and supply chain intelligence
- Procurement pipeline visibility, analysis and planning
- Utilising supplier performance histories from our delivery activities
- 'Should cost' intelligence and price analysis
- Best practice environmental scans, research and awareness, including peer clients in New Zealand and internationally.

5.1 Market and supply chain intelligence

Having strong market and supply chain intelligence ensures we understand who our suppliers are, we are aware of constraints, limitations and strengths in our markets, and we use informed positions to focus our strategic attention.

We'll continue to build intelligence on:

- Supplier capability segmented by Tier, geographic location and reach, and by skills and specialisation
- Supplier capacity, including current and scheduled work for Waka Kotahi and for other clients
- Supplier preferences and perspectives for Waka Kotahi as a client
- A stronger understanding of specialist and niche suppliers that have traditionally been indirectly engaged by Waka Kotahi
- Greater understanding of the subcontracting market, to better understand the reach of Waka Kotahi spend and overall health of the subcontractor market
- Critical materials intelligence, including main inputs and labour, their location, availability and supply chain risks
- The pipeline demand of other infrastructure buyers that Waka Kotahi shares its supplier markets with
- Trends and anticipated changes, challenges and opportunities impacting the market.

The diagram below summarises the key information to be obtained via good market analysis.

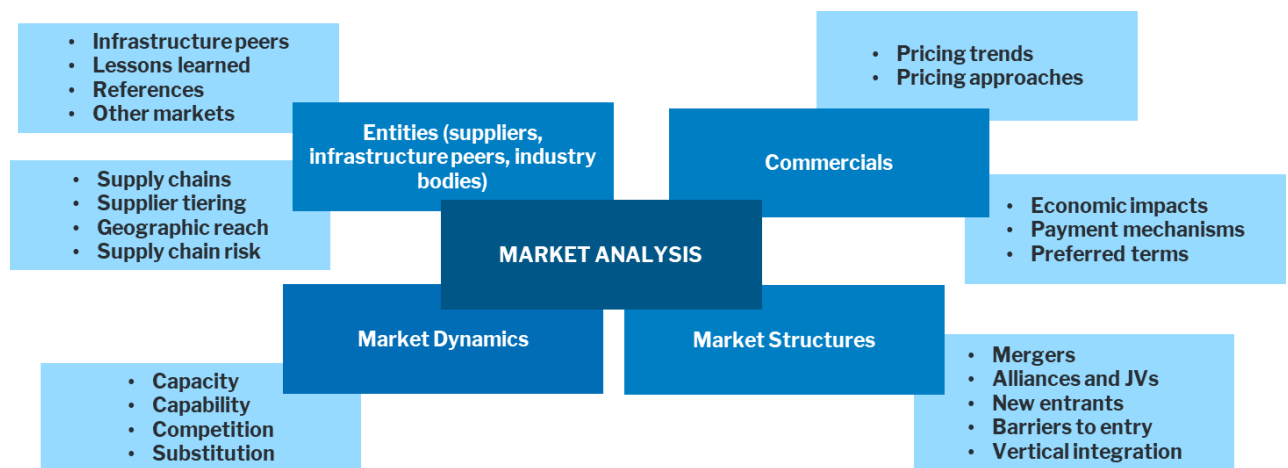


Figure 8 Market analysis inputs

5.2 Procurement pipeline visibility, analysis and planning

The strategic procurement emphasis within pipeline analysis and planning is to allow Waka Kotahi, working with other stakeholders, to derive appropriate strategic responses to key pipeline characteristics and to enable communication to the market to support their business planning for upcoming procurement opportunities.

Preparing a well maintained and comprehensive investment pipeline of our future projects, contracts and other commercial opportunities enables Waka Kotahi to:

- Plan its internal resources for procurement and delivery
- Pursue smarter procurement through packaging, long-term engagements etc, and
- Promote smarter go-to-market timing that better manages market resources.

Actively sharing and engaging with the market on the pipeline is crucial to delivery success, as it enables our suppliers to:

- Undertake their own strategic planning activities, including in plant and people
- Recruit and assemble resources to ensure they have the capacity and readiness for their target projects
- Appreciate potential risks and select and prioritise opportunities more aligned to their chosen strategic direction
- Innovate and devise the best strategies for maximising desired outcomes, and
- Select and engage strategic partners as necessary to jointly pursue Waka Kotahi opportunities.

The procurement pipeline will ideally include the information as illustrated below.

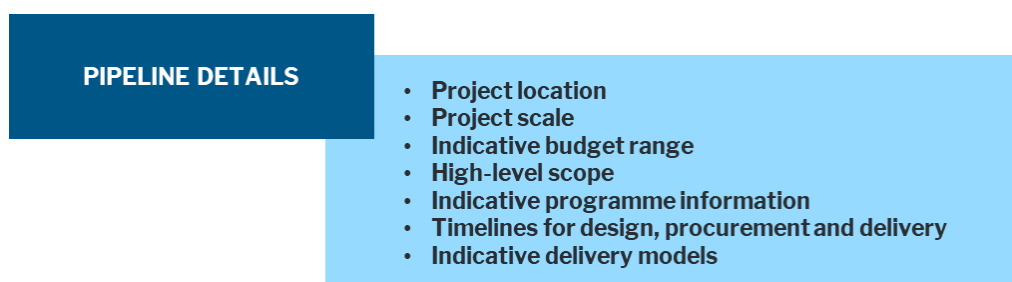


Figure 9 Procurement pipeline inputs

The nature of the infrastructure operating environment is such that the forward pipeline is likely to always contain uncertainty and limitations on the level of project-level granularity. The Waka Kotahi infrastructure portfolio investment pipeline is driven by the GPS, NLTP and other priorities. It is dynamic and is frequently updated to reflect changing priorities, timescales and the relative progress of projects through the development and delivery cycle.

Waka Kotahi takes the view that it is still helpful to suppliers to have visibility of the best available pipeline view, accompanied by an indication of level of certainty, with frequently communicated updates.

By developing collaborative communication with other client agencies (for example, in transport and other horizontal civil infrastructure such as water), we can help reduce duplication across programmes of work and increase understanding of pipelines and phasing to manage supply chain resources.

5.3 Supplier performance intelligence

Waka Kotahi already measures supplier performance through its PACE system and currently incorporates previous supplier performance into its procurement processes. We have an opportunity to strengthen our approach to performance measurement and to close the loop from current to future procurement activities by increasingly using performance measurement to underpin performance-based competition and performance-based contracting.

Measuring performance and delivered value will enable us to better align our suppliers' incentives with our desired outcomes, as defined in performance metrics. Over time, this will help us shift our suppliers' business incentives from selling us time and volume toward selling us outcomes-based value.

5.4 Should cost intelligence and price analysis

Waka Kotahi has a mandate and responsibility to achieve value for money in its procuring activities. A key focus in *value* for money is the value delivered from the spend, which takes various forms including quality, time and broader public value outcomes. The other part of value for money is the requirement that Waka Kotahi pays fair and reasonable prices in the competitive marketplace for its infrastructure investment. This means striking the right balance between Waka Kotahi paying no more than it needs to, while also paying fair prices to sustain a healthy market.

We'll continue to build our capability to assess what our infrastructure 'should cost', employing best practice cost and price analysis methods. Price analysis involves normalising and benchmarking prices across similar purchases and across suppliers. Cost analysis involves analysing direct costs, overheads and margin components using cost breakdown structures.

Consistent cost breakdown structures for open book purchases can help enable cost capture, repeatability and ease of analysis and understanding costs. This also has benefit for our suppliers in making it easier to tender and simplifying contract management. Waka Kotahi will work with our suppliers to create greater consistency and transparency across our cost base.

Waka Kotahi already uses transparent open book cost approaches in some of its contracting, particularly on its Alliances. Where applicable, we can seek to move toward more open book approaches as the basis for providing greater assurance over value for money.

Improved 'should cost' intelligence supports performance-based contracting and work allocation and enables us to shift away from reliance on price-based tendering.

5.5 Best practice environmental scans, research and awareness

Our strategic procurement activities and our efforts to continually improve and move our procurement system forward should be informed by best practice. We need to stay abreast of what other clients and jurisdictions are doing to shift their procurement. This will help us remain up to date on procurement innovations and advances around the world and we can anticipate and flex our approaches when needed.

Our best practice intelligence draws from peer clients in the transport sector, government clients outside of transport, and private-sector clients (eg manufacturing, large process engineering). We can also learn and adapt ideas from policy and advisory bodies such as Te Waihanganga and its international counterparts, New Zealand Government Procurement (MBIE), and the Construction Sector Accord. Internationally, Waka

Kotahi has relationships with procuring agencies in infrastructure, including transport and other sectors (eg water) that it can draw on for lessons from approaches that those clients are taking to the challenges they face.

Peer engagement will also enable a more comprehensive view of the wider infrastructure sector in New Zealand and Australia, which will enable more informed, portfolio-wide decision making.

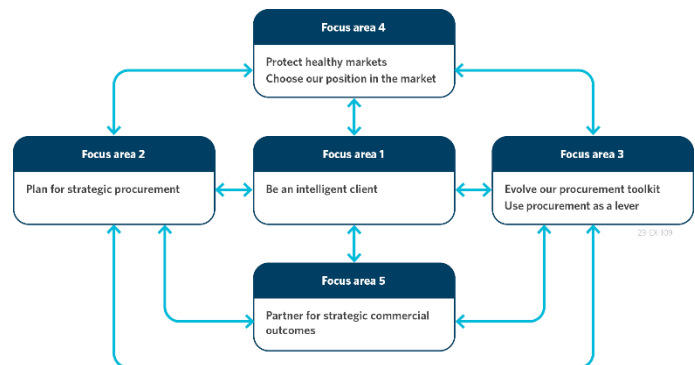
6. Focus Area 2: Plan for strategic procurement

Connection to our challenges and opportunities:

- Ensuring early-stage commercial planning considers procurement, commercial and market considerations

Strategic responses:

- We'll continue to uplift the application of strategic planning, commercial decision-making and communications during business case and procurement planning activities.
- We'll strengthen the lessons learnt feedback loops from current Manage activities back into future Planning activities, to support our continuous improvement.



The opportunities to create and realise value are greatest in the planning and managing phases of the procurement lifecycle. We'll continue to lift the quality of our procurement planning and build stronger lessons learnt feedback loops from the manage phase into subsequent procurement planning activities, in support of continuous improvement.

6.1 Value emphasis within the Plan-Source-Manage framework

The plan phase of the procurement lifecycle is where many of the strategic decisions are made. Experience tells us that one of the most common causes of poor project outcomes arises from poor planning in the crucial early stages of development. From a procurement perspective, much of the value realised during the source phase is set-up during the plan phase. Additionally, the opportunity to manage risk and realise value arises during the manage phase.

Whilst sourcing is a critical part of the procurement lifecycle, our strategic approach to infrastructure procurement places an increasingly strong emphasis on the planning and managing activities. Lessons learnt and performance outcomes from current Plan-Source-Manage activities are key sources of improvement for future Plan-Source-Manage cycles.

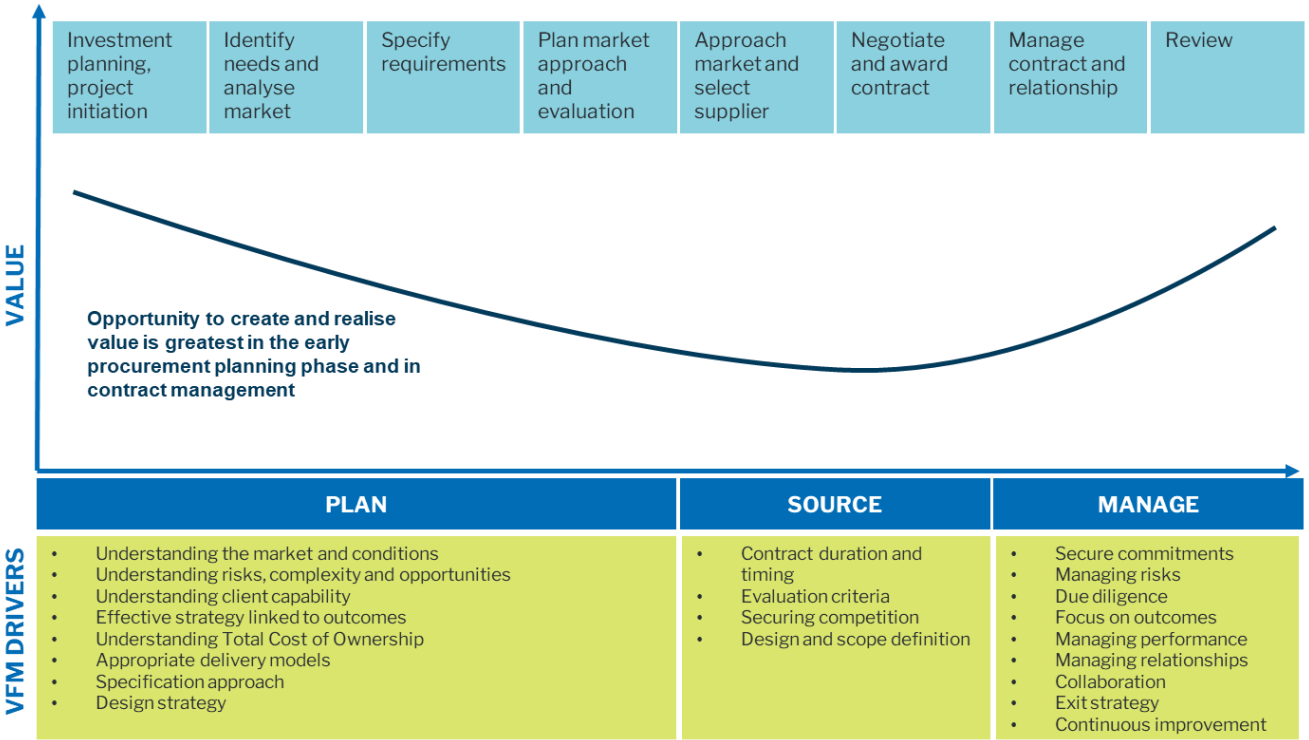


Figure 10 Plan-Source-Manage value scale

6.2 Planning for delivery model selection and development

Selecting the appropriate delivery model for a given project or programme is critical to achieving value for money objectives for Waka Kotahi. There are a range of terminologies in common and interchangeable usage, but for the purposes of this IPS the delivery model is a combination of the client, packaging and contracting (and commercial) model as illustrated and described below.

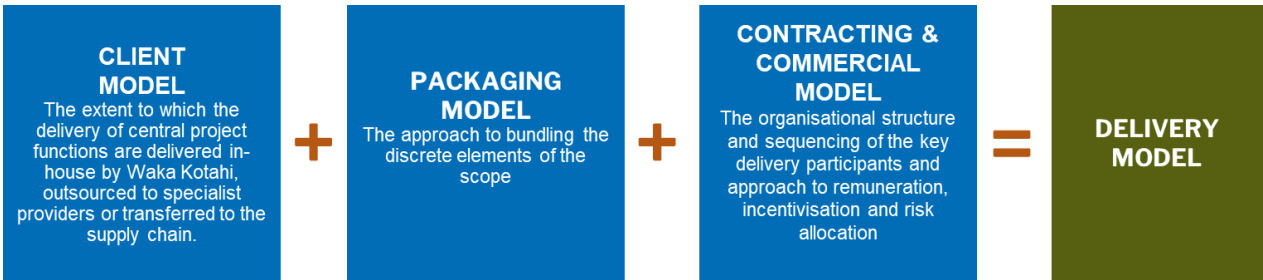


Figure 11 Delivery model inputs

Waka Kotahi is agnostic to delivery models for its infrastructure portfolio, and is committed to using structured, best practice approaches in electing or developing the optimal delivery model for projects and programmes. Aspects of delivery model selection are covered in the Waka Kotahi Procurement Manual.

The flow diagram below represents a consistent, best practice, repeatable approach to developing delivery models for projects and programmes. It borrows certain key aspects from proven international best practice models with refinement and enhancement for Waka Kotahi. The model provides a structured sequence of activities (allowing some level of iteration between them as may be required) and ensures no considerations are omitted or analysed out of sequence.

Some of these activities relate directly to the strategic procurement planning activities discussed earlier.

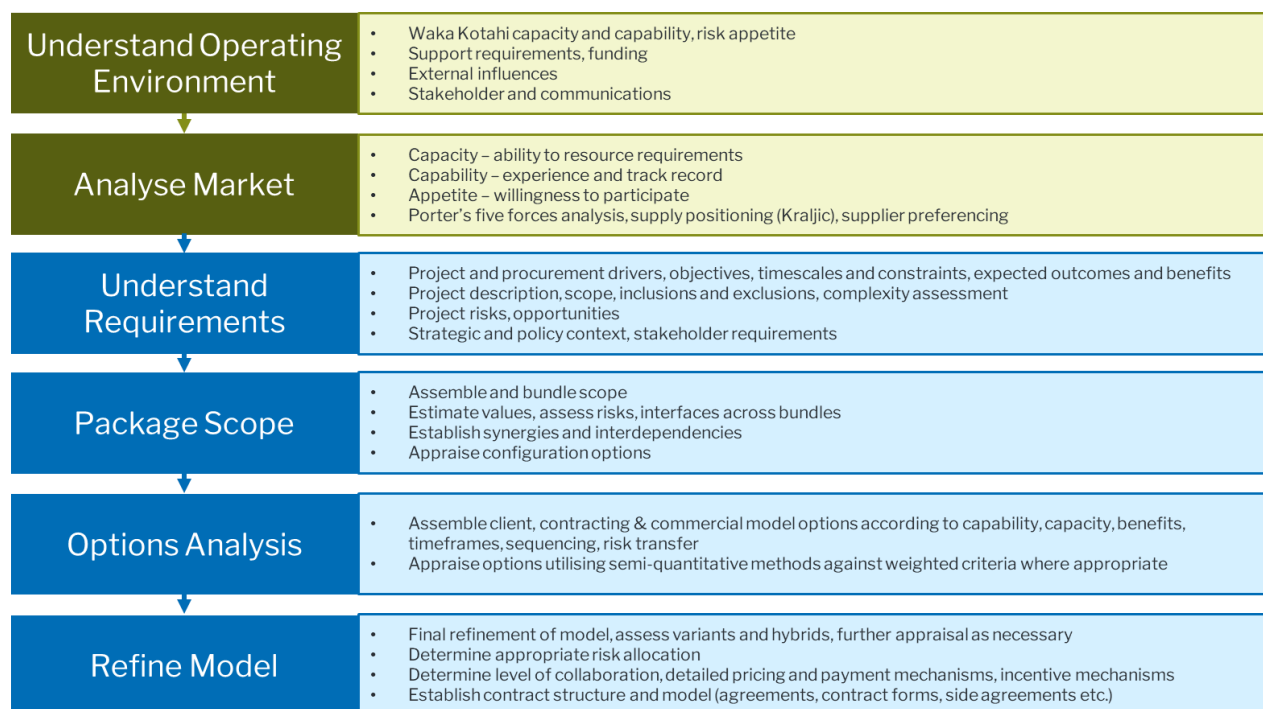


Figure 12 Delivery model flow diagram

Client model

The client function and delivery environment is a key differentiator in the successful delivery of most projects, and therefore the client model is a crucial element of the delivery model. A tailored approach is required to establishing the appropriate client model for a major project/programme.

Alternative client model approaches set out in the table below represent the options available to Waka Kotahi, but the models may be refined considerably.

Client model approaches	Features and benefits
Collaborative enterprise – Waka Kotahi as capable owner working together with or as an integrator with the market and other stakeholders with shared purpose and a distinctive set of values	<ul style="list-style-type: none"> Integration and aggregation of wide range of skillsets and new thinking Waka Kotahi takes ownership of complexity as integrator and relationship with industry
Outsourced delivery management – market acting as agent or with Waka Kotahi input (eg delivery partner, managing contractor, EPCM or construction management)	<ul style="list-style-type: none"> Single point of accountability and knowledge capture Utilise private sector delivery management expertise May retain contractual relationships with delivery contractors May retain control over design development
Intelligent client – boost internal capability via strategic recruitment, partnerships and ongoing development	<ul style="list-style-type: none"> Retain leadership and delivery management skillsets Structured approaches to develop maturity in delivery management via model
Traditional client – insourced client role and delivery management via existing resources	<ul style="list-style-type: none"> Familiarity Simplicity

Table 3 Potential options for client model

Waka Kotahi will select the appropriate client model on a project or programme basis depending on the characteristics and outcomes of the strategic planning assessment, taking account of capabilities required, existing internal capacity and capability, organisational preference and optimal contract model compatibility.

Commercial model

The commercial model is the method by which the market is remunerated for their services and outstanding performance is incentivised. The commercial model includes:

- The contract form and structure
- The method of remunerating the market for its works or services (prices and payment)
- The risk allocation between the parties
- The approach to performance and incentivisation to align objectives.

Waka Kotahi has at its disposal a range of contracting and commercial models to deliver its infrastructure. The models vary according to:

- The nature of the client role required to manage and govern the model (the Client Model)
- The organisation structure of all the key players (client, designers, integrators, contractors, operators, and others as necessary) in terms of the relationships and interdependencies between each other and the contractual relationships that link them together
- The sequencing of commencement of each key player and the skills they require to undertake their function within the model
- The primary risk owner at each delivery phase
- The allocation of risk between the players
- The benefits and risks typically presented by each model.

The models present differing extents to which they allocate and optimise project costs, manage risks, foster innovation, and facilitate delivery efficiency. Detailed appraisal is required to determine the best fit for a project or programme. There are also several variants associated with each model, therefore the appraisal process may be iterative within the above process to allow initial shortlisting and further refinement and fine tuning to take account of these variants.

6.3 Continuous improvement approach

Continuous improvement across the Plan-Source-Manage cycle is underpinned by feedback loops from lessons learnt in each phase. Procurement planning activities influence the experience and outcomes in the contract management activities. These experiences and outcomes should continually inform changes to future procurement planning.

By adopting a continuous improvement mindset throughout the entire procurement lifecycle, we can continually improve our procurement and contract management processes, resulting in better procurement efficiency, continually refined commercial positions, better risk management, and improved delivery outcomes and performance.

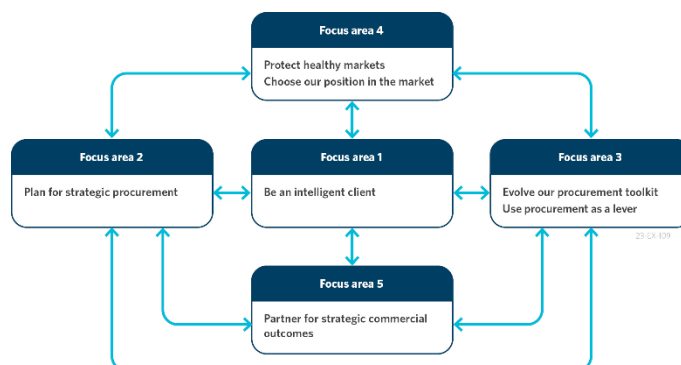
By implementing a programme of reviews, ongoing lessons learnt and continuous improvement activity, Waka Kotahi can ensure we are always capturing opportunities for improvements identified by both internal stakeholders and by suppliers and the market through supplier engagement and relationship management activities.

By demonstrating that Waka Kotahi is receptive to feedback and will actively take this information and use it to improve future procurement activity, Waka Kotahi is demonstrating that it values the input of stakeholders which will in turn improve the perception of the organisation in the market and lead towards being a “Client of Choice” in the New Zealand Infrastructure market.

7. Focus Area 3: Evolve our procurement toolkit and use procurement as a lever

Connection to our challenges and opportunities:

- Lifting productivity and efficiency in our supply chain
- Continuing to deliver broader outcomes, including for Māori
- Ensuring performance of our suppliers, both technically and in how they work with us
- Relieving capacity and capability constraints in the supply chain
- Making progress against system challenges like decarbonisation and waste minimisation
- Ensuring our procurement processes are able to respond to rapidly changing demands



Strategic responses:

Our diverse infrastructure portfolio requires a diverse procurement tool kit, and we'll continue to actively build our tool kit's maturity:

- Long-term, collaborative, programme-level engagements with suppliers
- Developing an enterprise approach within an integrated supply chain
- Continuing to take an active focus on procurement as a lever for delivery improvement and to advance our commercial objectives and deliver broader outcomes
- Ensuring our commercial settings position us as client of choice

7.1 Continuing to mature our contracting and delivery models

We'll explore long-term programme-level engagements with suppliers on a collaborative, performance basis with incentives for over-performance.

Where appropriate, Waka Kotahi will look to:

- **Move from project- to programme-based procurement and delivery** – Aggregating investments to create optimal commercial and delivery packages and providing suppliers with greater planning certainty over a programme of work. The aim is to underpin investment in people and systems to raise productivity and enable better programme-level risk and delivery management.
- **Shift from short-term repeat tendering toward longer-term contracting** – Longer-term contracting on a 'yours to lose' performance basis provides planning certainty to underpin investment in productivity and relationships and provides learning feedback loops for continuous improvement.

Where we choose to apply work allocation models that bring a greater focus on **performance-based competition** this would be underpinned by our market intelligence, should cost intelligence and supplier performance histories.

Procurement and delivery models that follow from this may include elements of long-term engagements with suppliers (first gate), allocation of work on a performance basis or through secondary processes (second gate), with a **collaborative contracting** wrap and an integrator role for Waka Kotahi with deeper supply chain engagement.

7.1.1 Programme-based packaged procurement

Waka Kotahi will seek opportunities to achieve greater value, efficiency and reduce market tendering by packaging and delivering work as programmes.

We'll do this where it can drive greater investment in productivity, systems and skills, will reduce costs of doing business, while retaining value for money and a healthy market and lifting performance in the delivery of Waka Kotahi outcomes

A programme approach presents opportunities for speed and cost efficiency of delivery, both through avoided transactional tender processes and by prompting investment in efficiency, and to develop lower tier markets via long-term maturity development initiatives.

Opportunities to do so will be identified via our pipeline assessment across the investment portfolio. Where multiple requirements offer synergies in terms of scope, market alignment and skillset, time, geography etc they will be assessed to identify whether a programmatic opportunity exists. Waka Kotahi may consider programme procurement approaches via frameworks, framework contracts and integrator opportunities.

10.1.2 Long term, collaborative contracting

The use of collaborative delivery methods is steadily increasing in infrastructure. In many cases, the traditional approaches to pricing, risk allocation, and master-subordinate contracting relationships can contribute to adverse outcomes as project scale and complexity increases.

Waka Kotahi uses collaborative procurement and contracting approaches for its investment portfolio where these are appropriate.

There is no one size fits all collaborative model, and the concept of collaboration is best viewed as varying degrees along a continuous spectrum, as illustrated below with respect to contracts

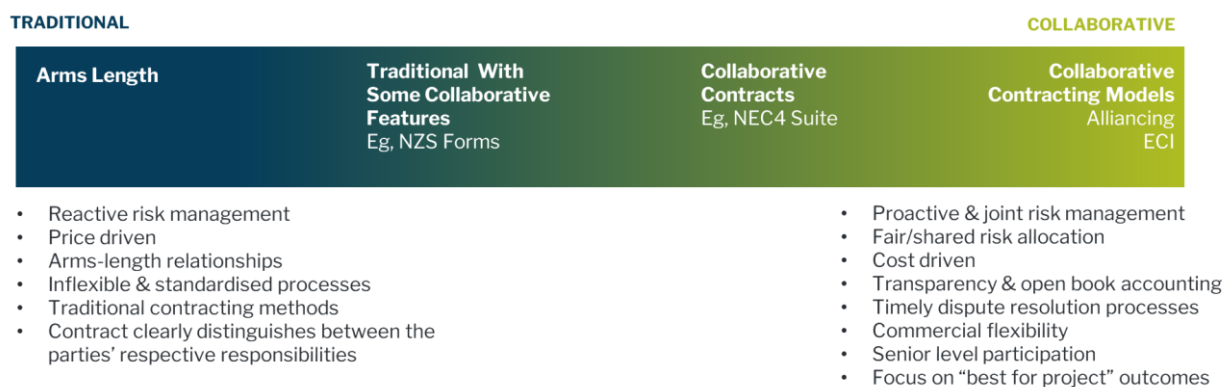


Figure 13 Traditional to collaborative delivery model continuum

Collaboration is a multi-dimensional concept with the level of collaborative engagement depending on the extent to which each of the following dimensions is pursued:

- Collaboration intensity – the level of integration between participants and the extent to which integrative methods, activities and tools are utilised (eg collaborative contracts, co-location, open-book commercial framework)
- Collaboration breadth – the nature and number of entities involved in the integrated team (eg interfacing project participants, other key external stakeholders, key supply chain partners)
- Collaboration length – the length of time allowed by the participants to grow and leverage the relationship and utilise the integrative activities. This either plays out via early commencement of the relationship (collaborative procurement) or via the establishment of longer-term contracts.

Collaborative contracting is the use of contracts that enable, encourage and facilitate collaboration between the parties. They are structured to enable the parties to develop trust and focus on win-win outcomes. Collaborative contracts may include some or all of the following features, typically not found in more traditional agreements:

- Longer term arrangements to facilitate relationship building, maturity development and lessons learned over sustained period

- Consistent and standardised contracting methods
- Contract cooperation and 'good faith' obligations with sanctions for failure to adhere
- Early warning and joint risk management mechanisms
- Open book, transparent pricing as a key building block to develop trust and avoid adversarial behaviours
- Alignment of objectives via precise, incentivised KRAs representing desired outcomes
- Agility and flexibility – agile change management and effective delegations to enable rapid decision making and responses
- Risk allocation arrangements within the commercial structure that financially motivate the market to seek best outcomes for the services/works instead of self-interest
- Governance arrangements that facilitate collective problem solving and decision making
- Dispute resolution arrangements designed to resolve issues consensually and avoid expensive and protracted disputes.

Waka Kotahi will consider the most appropriate forms of contract to match the desired risk allocation and contracting approach.

10.1.3 Collaborative procurement

Where available we'll look for opportunities to engage our suppliers through collaborative procurement.

Collaborative procurement is the approach and conduct of the sourcing process to enable effective collaboration in aligning the interests and understandings of both parties before establishing final contracts. Collaborative procurement approaches allow opportunities in the process to enable Waka Kotahi to obtain detailed understanding such as the market's perception of risk, cost impacts of key decisions and other key information prior to finalising contracts or making award decisions.

Collaborative procurement also allows proponents to acquire better understanding of the needs, the ability to challenge key terms, the ability to innovate, the ability to test options and the ability to gather more detailed project information before finalising methodologies, resources, schedules and prices for opportunities for Waka Kotahi. It reduces the likelihood of avoidable risks being priced into tenders.

Collaborative procurement approaches include the use of interactive dialogue processes, behavioural assessments and competitive ECI approaches as part of procurement processes. Waka Kotahi uses several of these approaches already, particularly in its major alliance procurement activities.

10.1.4 Performance based competition with reward for value

Industry engagement and lessons learned suggests that continually promoting transaction-based cost competition fatigues the market and is not the best motivational incentive for encouraging outstanding performance and achievement of broader outcomes. Cost competition involves repetitive secondary 'bidding' for opportunities, consuming the market's already scarce resources and overly focusses on cost rather than value. Manufacturing and service industries have shifted emphasis towards outcomes and results rather than the cost of input resources.

Coupled with long term, collaborative and programmatic engagements, Waka Kotahi will explore opportunities for performance-based competition and contracting structures, in which the market is rewarded with incentives via demonstrated performance, commercial discipline and ongoing efficiency gains across allocated packages of work.

Performance is intrinsically linked to a value for money framework involving robust, objectively measured KPIs that accurately reflect expected outcomes for Waka Kotahi and may be expressed in terms such as minimising lifecycle costs, availability, reliability, etc.

Waka Kotahi will seek to engage deeper with the professional services market through our SRM and other initiatives to explore opportunities for contracting for performance, gradually moving away from the resource-based approach where appropriate. This allows us to work collaboratively with the market to package up opportunities more strategically, clearly define priorities and performance targets, linking remuneration and incentives to efficiency and outcomes. Contractual engagements

can be established with shared visions and intent on both sides and aligned view of performance outcomes suitably linked to organisational priorities.

7.2 Developing an enterprise approach within an integrated supply chain

Internationally, there has been a trend in infrastructure procurement and delivery from a transactional to an enterprise approach. The enterprise approach represents a further step in maturity that blends each of the elements mentioned in the previous section within an integrated diverse supply chain. An integrated enterprise model would aim to bring together the best of Waka Kotahi and industry expertise through more agile, longer-term collaborative contracting with clear strategic outcomes delivered by integrated teams.

An enterprise may be appropriate for certain parts of our delivery portfolio, such as corridor-wide activities.

The table below outlines the principles and benefits of an enterprise approach.

Principles	Benefits
Interdependent	Reward for outcomes
Collaborative	Value-focus rather than cost-focus
Integrated	Alignment among partners toward shared outcomes
Commercial	Integrated teams across supply-chain Ecosystems
Ecosystem view	Production platforms (standardisation and digitalisation)
	Strong commercial management and expectations

Table 4 Enterprise delivery approach – principles and benefits

In developing toward an enterprise approach, Waka Kotahi will look to:

- **Increase the role of Waka Kotahi as the Integrator within the supply chain ecosystem** – Waka Kotahi has a central role to play in leading, coordinating and working with our supply partners toward shared outcomes. This will support Waka Kotahi outcomes and efficiency throughout the project lifecycle.
- **Develop deeper supply chain management and ecosystem partnering** – Waka Kotahi will take an ecosystem view of its supply chains through our supply chain intelligence and active management or partnership in strategic services as appropriate. This supports resilience and delivery efficiency.

A collaborative enterprise approach would be made up of Waka Kotahi among delivery partners engaged via an Alliance-like collaborative contract with aligned objectives, mature risk allocation and knowledge sharing, with scope delivered through an ecosystem of suppliers, including a wider range of directly engaged suppliers, focused on a package of works.

The enterprise approach is underpinned by 5 key pillars: capable owner that articulates the outcomes, clear governance, integration among partners, a one team organisational approach, and digitally enabled delivery and asset management.

An enterprise is dependent on a strong long-term relationship between all participants. It requires the Waka Kotahi role in the delivery life cycle to be one that actively engages and integrates with suppliers and requires procurement advisory and expertise as a constant throughout the infrastructure life cycle.

We'll also seek to mirror the integrative aspects of this approach in our pursuits of other models where appropriate, for example where we seek strategic relationship partnering with niche suppliers, leveraging best practice and insights from our strategic planning activities (eg supply chain intelligence).

7.3 Continuing to focus on procurement as a lever for broader outcomes

Procurement can be a useful lever for achieving our commercial outcomes, as well as broader outcomes, decarbonisation, waste minimisation, and health and safety outcomes.

Waka Kotahi is committed to using procurement as a vehicle for the advancement of Delivery Improvements and commercial, economic, environmental and social policy objectives. We'll continue to use available commercial opportunities, levers and incentives to secure and champion broader value-based and societal outcomes. This will include opportunities for Māori-owned business in line with our broader outcomes strategy.

We'll encourage innovation within our contracts to promote the development and adoption of environmental initiatives, sustainable sourcing and technology. Including environmental and sustainability criteria in procurement processes, such as requirements to meet energy efficiency, carbon neutrality or waste reduction standards, will allow Waka Kotahi to encourage their suppliers to develop and offer more innovative, sustainable solutions that will further the sustainability targets for each entity.

Waka Kotahi will also encourage the advancement of corporate social responsibility targets through procurement and our supplier relationships, to encourage our suppliers to meet social responsibility standards, including modern slavery requirements, fair labour practices and ethical sourcing.

Setting sustainable sourcing targets within procurement can help Waka Kotahi measure and improve our sustainability performance and drive innovation and improvement in their supply chains. These targets can also help us to communicate our sustainability commitments to stakeholders, and to demonstrate our commitment to sustainable procurement.

Waka Kotahi will also use available commercial opportunities to prioritise Diversity, Equality and Inclusion (DE&I) targets throughout our supply chain.

We can encourage our suppliers to demonstrate their commitment to DE&I values by setting contractual targets on workforce demographics, diversity policies and initiatives as part of procurement processes. Waka Kotahi can also encourage the prioritisation of small and medium enterprises, or those organisations owned by underrepresented groups, by setting minimum targets to promote greater diversity within the supply chain.

By prioritising DE&I through procurement activity, Waka Kotahi can create positive social impact and promote more equitable and inclusive supply chains across the infrastructure industry in New Zealand.

7.4 Ensuring our commercial settings position us as client of choice

Waka Kotahi aims to be seen as an engaged and collaborative client by the market. This includes ongoing consideration of our commercial settings to ensure they support value for money outcomes.

Fair and balanced risk allocation - Prioritising fair risk allocation within a procurement ensures that each party assumes the risks they are best placed to manage, and the allocation of risk is reflective of the value and complexity of the requirement being procured.

Fair risk allocation can help support relationship development by building greater trust, transparency and collaboration between Waka Kotahi and the supplier, and can reduce risk, cost and challenge both during the procurement process and throughout contract delivery.

Early market engagement - Carrying our early and regular engagement with the industry helps ensure that Waka Kotahi has strong market knowledge to support procurement processes, is taking the market's current state and expertise in consideration when designing requirements and are aware of and actively working on improving supplier and market pain points. These activities will improve the perception of Waka Kotahi within the market and will encourage the prioritisation of work as suppliers view Waka Kotahi as a client of choice.

Efficient tender processes - Waka Kotahi will seek to design tender processes to ensure they are as efficient as possible; engage with the market early to ensure they fully understand and are able to deliver the requirement and actively seek to understand and address market pain points. Engaging the market to understand any perceived challenges with the procurement process will allow Waka Kotahi to identify opportunities for improvements that will allow for greater efficiencies.

Contributions to intellectual property development in tender processes, where appropriate -

For some complex and high value procurement processes Waka Kotahi purchases developed intellectual property from unsuccessful tenderers. This reflects, on a case-by-case basis, the level of effort required from tenderers and the value created through the tender process.

Commercial incentives aligned to performance outcomes – As mentioned above, Waka Kotahi will employ a range of incentive arrangements, often in combination, to align our motivations with that of our supply chains to achieve outstanding performance against project/programme objectives. The commercial incentive strategy will be considered alongside the strategy for allocating risk.

We take account of market feedback and best practice recommendations that positive incentives generally work better than negative ones, and that financial incentives are not the only ones to consider. Where appropriate, we'll explore opportunities to employ incentives that reward future work allocation based on the value delivered in earlier tranches of work.

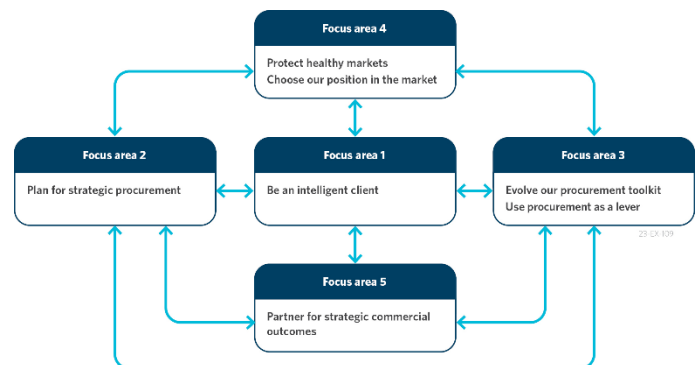
8. Focus Area 4: Protect healthy markets and choose our position in the market

Connection to our challenges and opportunities:

- Ensuring our market is healthy and able to meet our ongoing needs
- Relieving capacity and capability constraints in our supply chain
- Ensuring efficiency and best value for money

Our strategic responses:

- Influencing and protecting market health
- Intentional supplier relationship management
- Strategic use of direct and insourced purchasing



The infrastructure market in New Zealand is constrained, with a limited number of suppliers available to support an unprecedented pipeline of infrastructure works being carried out across New Zealand and Australia.

To ensure the Waka Kotahi pipeline of work is prioritised by the market and that the market can meet our needs on a sustainable basis, we must be intentional in how we strategically position ourselves in the market. This should include consideration of how Waka Kotahi engages and influences our current and future supply chain effectively, to ensure the market is available to us and that it sees us as a client of choice.

Additionally, the challenges that we increasingly face as a sector and as a nation are complex and cannot be solved by any one party acting alone. We should consider how we can work with a wider group of stakeholders including parallel industries, other infrastructure clients and other diverse entities to develop innovative solutions to problems challenging Waka Kotahi and the wider land transport system.

8.1 Influencing and protecting market health

The Waka Kotahi supply chain is a crucial component of how we deliver our outcomes. Our ability to procure those outcomes within the quality, timeliness, safety, value for money and other parameters that we require depends on the capability, capacity, and competitiveness of the markets that we buy from. This is recognised in the Land Transport Management Act, which requires Waka Kotahi to encourage competitive and efficient markets.

Waka Kotahi has several tools available to help ensure a sustainable market. These include our own procurement processes, the requirements we take to market, the way we communicate with the market, and the way we approach the market.

We'll be intentional in how we use these tools to attract suppliers, reduce barriers to entry for smaller suppliers and new entrants, and protect competition amongst larger suppliers. We'll also intentionally engage the market to ensure it is prepared to meet our future needs.

Our ability to help ensure a healthy market is supported by our market and supply chain intelligence (Focus Area 2).

8.1.1 Reducing barriers to entry

Barriers to entry inhibit market health by limiting the range of suppliers, the capacity of our markets, and the flexibility of our markets to respond to our needs, weakening competition, and softening innovation. We'll seek to reduce barriers to entry in several ways, including:

- Enhancing the efficiency of our procurement processes, to reduce time and cost of getting work with us
- Streamlining the procurement process or packaging work to align to market capability
- Building succession pathways into our procurement processes to enable up and coming talent to develop within the industry
- Developing work packages that allow niche or smaller suppliers to tender based on their market expertise
- Improving visibility of our pipeline of work to allow suppliers to plan for future procurements
- Ensuring all potential suppliers have access to clear and accurate information about procurement processes
- Providing clear feedback on the output of the procurement process to support suppliers' development.

We recognise that a sustainable market includes the presence and development of small and medium enterprises. In some cases, these suppliers may not be able to meet the capability that Waka Kotahi requires, for example where it relates to health and safety and quality control systems, and new entrants lack previous experience in working for us. This can limit access to our work and constrain the depth and breadth of our market.

Waka Kotahi can play an active role in supporting experience and capability uplift within our supply chain and creating opportunities for small and medium enterprises and new entrants. This may include:

- Creating environments that provide wrap-around support to smaller suppliers so that they may learn and grow their capability. These environments can be created within our larger projects and programmes
- Setting minimum requirements for local or sub-contractor engagement via our head contractors, with requirements for allocation of meaningful work that provides learning and development opportunities
- Requiring sub-contracting terms to reflect the head contract with Waka Kotahi

- Intentionally creating opportunities for new entrants or smaller suppliers by matching work on a risk- and complexity- appropriate basis
- Carrying out market briefings to support smaller organisations or new entrants with our procurement activities
- Engaging suppliers through 121 briefings to understand their appetite, capability and capacity to support the Waka Kotahi pipeline of work

8.1.2 Actively engaging, preparing and building our market in anticipation of future needs

The Waka Kotahi infrastructure portfolio is diverse and will continue to evolve to meet the changing requirements of our communities. In addition, delivering our system outcomes will require a range of solutions, including design, operational, technology and behavioral solutions as well as hard infrastructure solutions.

Our strategic approach to infrastructure procurement must retain a future focus that ensures our markets are prepared and available to meet our changing needs over time. For example, solutions that are in the early planning and design stage now may anticipate specialist delivery capability that is not currently available in our market.

We'll engage the market when appropriate to provide visibility of our needs, to promote our work, and to ensure we are informed as to where the strengths and needs are in the market.

Waka Kotahi can also play a role in promoting and encouraging training, development, and retention of people in our sector. Our procurement activities provide levers for this, and we can work with our suppliers and with workforce development and training bodies.

8.1.3 Strategic Supplier Relationship Management

Waka Kotahi seeks to develop strategic relationships with its key suppliers through a structured programme of activities to identify and deliver value. Waka Kotahi can access additional value from the market and beyond the scope of its contracts through a targeted approach to managing relationships with key suppliers. This is encompassed within the broad set of activities known as Supplier Relationship Management.

These relationships with strategic and critical suppliers and the wider market create opportunities to drive long term value release, maximise value and performance, identify contract and supply chain efficiencies, foster innovation and minimise risk.

Supplier relationship management and market engagement will support our supply chain and the health of our markets:

- Improved market knowledge including the current state of the market, emerging trends and innovations
- Increased competition by attracting a larger pool of suppliers, identifying new and innovative suppliers that could align to our requirements and improving the perception of Waka Kotahi in the marketplace
- Reduced risk by aligning Waka Kotahi tender requirements to the market's capacity and capability, ensuring risk is mitigated early on, and supplier's build less risk into their tender responses
- Improved supplier relationships by fostering greater communication, collaboration, transparency and trust
- Increased stakeholder engagement, providing opportunities for input and feedback from a range of stakeholders including potential suppliers, existing suppliers and the wider infrastructure market.
- Identification of risk reduction and optimisation of processes within contracts.

- Enhanced supplier satisfaction by understanding supplier pain points, needs and preferences and prioritising areas for improvement within Waka Kotahi.

8.2 Strategic use of direct and insourced purchasing

The scale and breadth of Waka Kotahi infrastructure activities and the commonality of some key inputs presents opportunities to realise value for money outcomes through category management approaches. Waka Kotahi will intentionally consider options for direct purchase and for insourced purchasing where these opportunities are available.

These approaches may include, among other options:

- Negotiating All of Waka Kotahi Contract terms directly with key input suppliers and making these terms available to our contractors
- Bulk purchasing where greater value for money is available through aggregating Waka Kotahi buying power
- Participating in buying consortia with other agencies
- Setting common specifications and sourcing from common suppliers to provide consistency, security and maintainability across the platform, for example in technology-related purchases.

These strategic category management approaches can also assist Waka Kotahi in introducing greater standardisation across the inputs to its infrastructure purchasing.

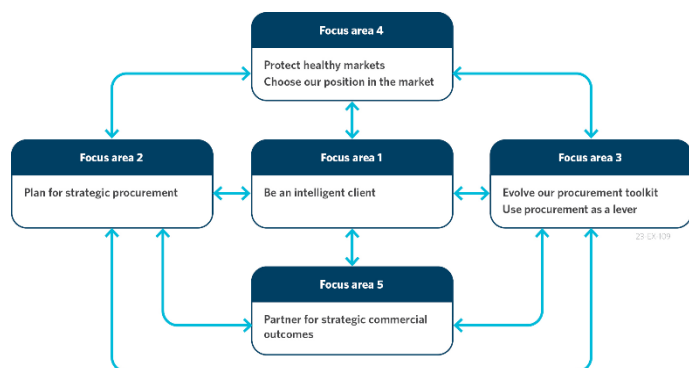
9. Focus Area 5: Partnering for strategic commercial outcomes

Connection to our challenges and opportunities:

- Responding to increasingly complex and multi-faceted system challenges and shared outcomes.

Our strategic responses:

- Strategic collaborative partnering to solve shared problems, working with Iwi, suppliers, other clients, community and the 'third sector' within and outside transport.



9.1 Strategic collaborative partnering to solve shared challenges

Waka Kotahi aspires to a land transport system connecting people, products, and places for a thriving New Zealand. The system outcomes that flow from this vision are increasingly complex and multi-faceted and involve a diverse range of third parties including in multi-partner procurement activities, particularly in our urban areas. As a sector we are also facing needs and challenges that no one party can solve alone, for example decarbonising and minimising waste in our infrastructure activities.

We need to work together with others to draw on innovation, increase our combined capacity and capability, and successfully deliver these system-level outcomes. Some of these strategic partnerships occur within the context of procurement activities.

This includes collaborating and commercial partnering with our supply chain to solve shared problems, bringing the best of both public and private sectors and leveraging the combination. It also means partnering with Iwi, community groups, stakeholders in the urban realm, research institutions,

funders, financiers, and other parts of central and local government. And it means working with other clients to procure and deliver shared infrastructure outcomes.

Collaborative partnerships can help foster innovation, using initiatives to engage beyond our traditional supplier categories (eg energy, technology) and with non-suppliers, matched to the nature of our challenges and outcomes sought.

We should not limit ourselves to partners just in the transport sector. Working in partnership helps tackle challenges from an outcome perspective and allows engagement with a wider much larger pool of expertise, including from sectors where opportunities and solutions may be more mature.

Examples where we are working in this way are the decarbonisation challenge, opportunities presented by digital engineering, and our [Hoe ki Angitū Innovation Fund](#). Engaging the market using problem statements, outlining issues or challenges that Waka Kotahi needs addressed allows a diverse selection of suppliers to respond to this challenge with a solution that, if chosen, can be developed and tested through research and development or trials in collaboration with Waka Kotahi.

We may also choose to strategically partner with niche suppliers. We can determine distinct supplier groups within the supply chain and prioritise those strategic and critical suppliers where strategic partnering and relationship management would add value.

This is a particularly valuable activity where suppliers provide business critical goods, works or services to Waka Kotahi, or where there are a limited number of alternatives available in the market and substitutability is low. In these instances, developing strategic partnerships will both strengthen the market and the Waka Kotahi supply chain, and will ensure Waka Kotahi is managing the risk associated with these suppliers effectively.

Strategic partnering also connects to and supports our broader outcomes objectives (discussed earlier). We'll continue our work in establishing partnerships with Iwi, community groups, and government agencies to help deliver economic and social outcomes (for example, for Māori) and to help achieve better infrastructure outcomes for our customers.

10. Enabling and implementing the strategy

10.1 Implementation roadmap

Implementation of the IPS involves converting the strategy into action and doing what needs to be done to achieve the targeted strategic procurement goals and objectives. Strategy implementation should be seen as a collaborative process through which all levels within Waka Kotahi and the wider market and peer organisations can benefit and work together.

Waka Kotahi is committed to driving ongoing improvement in its infrastructure procurement and delivery. We'll progressively implement the IPS strategic focus areas over the 3-year period and beyond. Implementation will be led by the Procurement Centre of Excellence (PCoE) in collaboration with relevant parts of the business, in particular Transport Services.

Progress can be made on all focus areas in parallel, noting the dependencies among them mentioned above and the foundational requirement to build intelligence as a platform for the other focus areas:

- Focus area 1 – Be an intelligent client: We'll build strengthened intelligence and planning capability within the Procurement Centre of Excellence and serve this out to procurement and delivery practitioners in the business. Pipeline visibility and 'should cost' capability will continue to build on work already underway across the business.
- Focus area 2 – Plan for strategic procurement: the PCoE will continue to provide leadership in lifting our procurement planning maturity. Continuous improvement feedback from Plan-Source-Manage will be led by Procurement for Plan and Source and working closely with Transport Services teams for Manage (eg the Transport Services Commercial team and project teams).

- Focus area 3 – Evolve our procurement toolkit and use procurement as a lever: Implementing expanded and matured approaches to infrastructure procurement and delivery is naturally done via projects and programmes. (eg SIP and NOC). Pilots for new approaches can be used and scaled up in a risk-appropriate way, with suitable pilot projects selected for their attributes and the capability of key people involved.
- Focus area 4 – Protect healthy markets and choose our position in the supply chain: Ensuring an enterprise-level view of market health and strategic commercial positioning via our procurement activities will be led by the PCoE.
- Focus area 5 – Partner for strategic commercial outcomes: Strategic partnering will be a collaboration among the PCoE and Transport Services and other parts of the business (eg Te Mātangi Māori Partnerships, Communications and Engagement, Digital, Future Transport, Finance, etc).

The IPS provides a unifying focus, within which some initiatives are already underway.

The high-level implementation roadmap is illustrated below and commences with a final, endorsed IPS as the planned strategic approach. An IPS implementation plan will be developed to focus resources and staff time to deliver the strategic objectives.



Figure 14 Infrastructure procurement strategy implementation roadmap

10.2 Capability and capacity

Waka Kotahi has capability and capacity to deliver its current programme through a combination of internal and external resources. Waka Kotahi operates a devolved procurement model with a Procurement Centre of Excellence (PCoE) providing advice, process and policy to the delivery parts of the business.

The PCoE sits within the Commercial and Corporate business group, which provides independence from the delivery parts of the business. The PCoE operates a 'guide, touch, do' advisory service direct to project and programme procurement activities sized according to project risk and scale and project team capability.

The Waka Kotahi infrastructure activities are delivered by the Transport Services business group which includes capacity across the full end-to-end range of infrastructure planning, design, delivery, and maintenance and operations. Transport Services operates a regional model whereby leadership teams are located near to the delivery requirements in each of 4 regions. The Manage part of the procurement lifecycle takes place within Transport Services, including project management and contract management.

Waka Kotahi is working through a strategic realignment, and this presents opportunity to ensure resourcing is sized to deliver the strategic objectives for infrastructure procurement. Skills gap analysis tools can be utilised to target priority areas for skills development among relevant teams, to ensure staff across the business have the relevant skillsets needed to deliver the strategic priorities outlined in this IPS.

Many aspects of the 5 strategic focus areas within this strategy are underway already. Full implementation will require ongoing focus and considered ways of working that optimise our existing capacity.

10.3 Communication plan

Through the development and approval process of this strategy, it has been communicated within Waka Kotahi to leadership teams across Procurement and Transport Services, to the Executive Leadership Team, and to the Waka Kotahi Board.

The strategy has also been shared and feedback received from Te Waihanga – New Zealand Infrastructure Commission.

The document will be available on the Waka Kotahi website and will be shared with selected peer clients in the New Zealand infrastructure sector.

10.4 Performance measurement and monitoring

Individual project and programme delivery performance is measured according to Key Result Areas (KRAs) and related Key Performance Indicators (KPIs) within the specific project. Performance is reported via the governance structures in place for each project or programme.

The Procurement Centre of Excellence is developing performance metrics for the overall procurement function within Waka Kotahi, including the strategic focus areas in this IPS and the maturity of Waka Kotahi procurement and delivery.