

RESTRICTED PUBLIC EXCLUDED

Report RPE 16.283
Date 14 June 2016
File PTOMBUS-13-24

Committee Sustainable Transport
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Bus Services Transformation

Procurement of Bus Services under the Public Transport Operating Model

1. Purpose

This Report:

1. Presents a summary of the key components of GWRC's tender for bus services under the Public Transport Operating Model (PTOM);
2. Requests that the Committee recommends that Council:
 - Endorses the key components of GWRC's Request for Tender (RFT) documentation, including the Tender Evaluation and Selection Plan and the Partnering Contract, for Bus Services;
 - Authorises the Chief Executive to approve GWRC's Request for Tender (RFT) documentation, including the Tender Evaluation and Selection Plan and the Partnering Contract, for Bus Services, following the approval of the RFT by the New Zealand Transport Agency; and
 - Authorises the Chief Executive to approve the issue of the RFT to the bus operator market, following the approval of all RFT documentation.

2. Restricted Public Excluded

Grounds for exclusion of the public under section 48(1) of the Local Government Official Information and Meetings Act 1987 and the restricted circulation of this report are:

Certain information contained in this report relates to potential future bus service contracting in the Wellington region. Release of this information would be likely to harm the commercial position of Greater Wellington Regional

Council (GWRC) and compromise probity of the RFT process. GWRC has not been able to identify a public interest favouring disclosure of this particular information in public proceedings of the meeting that would override the need to withhold the information.

3. Previous decisions

The approvals sought in this Report have been preceded by approvals at an earlier meeting on 7 December 2015 (Report RPE 15.622) at which Council:

1. Endorsed the key components of GWRC's Procurement Strategy for bus services under the Public Transport Operating Model (PTOM);
2. Authorised the Chief Executive to approve GWRC's Procurement Strategy for bus services, following the endorsement of the strategy by the New Zealand Transport Agency; and
3. Approved officers proceeding into a preparatory phase of tender and contract documentation that will enable GWRC to release a Request for Tender to the bus operating market for bus services across the Wellington Region in April 2016.

Officers updated the Council at the Council workshops on 8 March and 26 May 2016 on the progress of the preparations for the RFT.

4. Report contents

To inform Council's consideration of the approvals sought in this Report, this Report sets out:

- The key milestones and indicative timing of the Tender Process from Council approval through to service commencement;
- The approach to developing the RFT (which include the terms and conditions of Tender and the draft Contract), and the Tender Evaluation and Selection Plan;
- An overview of the RFT, including the documents that make up the RFT, and the Tender Evaluation and Selection Plan;
- An overview of the draft Contract;
- The projected cost of the new Contracts;
- Keys risks associated with the tendering process and mitigations;
- External assurance and approvals;
- Communications; and
- The significance of Council's proposed decisions considered against the requirements of Part 6 of the Local Government Act 2002.

5. Background

GWRC is changing the way bus services are delivered in the Wellington region, to provide better value for money and a better customer experience and ultimately grow public transport patronage.

Bus services are being contracted under the Public Transport Operating Model (PTOM) which provides a framework for building long-term, collaborative partnerships between GWRC and operators.

Partnering relationships will be based on mutual benefit for GWRC and operators, and will have a shared focus on optimising the performance of bus services in the Metlink public transport network, and maximising value for money.

The approach that GWRC is taking to implement PTOM meets the requirements of the Land Transport Management Act (LTMA) and supports the Regional Public Transport Plan (RPTP), while taking into account the specific characteristics of the Wellington market.

PTOM introduces a new approach to the delivery of public transport services, based on three key elements: partnering, performance and competition.

PTOM seeks to grow patronage, while reducing reliance on public subsidies, by meeting the dual objectives of growing the commerciality of public transport services and growing confidence that services are priced efficiently and the market is competitive.

Customers are at the heart of GWRC's strategy to increase public transport use. People want a seamless public transport service that is easy to use and is affordable. There is also growing public awareness of the need for sustainable, clean public transport solutions that will boost Wellington's status as a desirable place to live, work and play.

Guiding objectives

There are five public transport objectives guiding GWRC's application of PTOM goals to the procurement of bus services in Wellington.

The objectives applied to the development of this procurement are:

- **Quality** – to ensure quality of procurement in terms of value for money and customer satisfaction;
- **Smooth transition** – a smooth transition to new contracts, new operators, new fleet and new service patterns in Wellington city;
- **Partnership and transparency** – to embed an open and collaborative partnering relationship with operators;
- **Increasing patronage** – to grow patronage, particularly at peak travel times, and improve integration between services and between modes; and

- **Improving commerciality** – to improve the commerciality of bus services and reduce reliance on public subsidy.

Under PTOM, services are grouped into ‘units’ of routes (as set out in the Regional Public Transport Plan), and operators will tender (and in certain circumstances, negotiate) to deliver all services within units, instead of individual routes. The Wellington regional bus network is made up of 16 units.

GWRC’s approach to unit allocation takes account of the current procurement environment, as well as taking a long-term view to achieve market sustainability and maintain and enhance value. It endeavours to remove barriers and foster supplier entry and growth.

In accordance with the transitional “like for like” rule of PTOM, GWRC has recognised those operators who have provided registered commercial services (as defined under the Public Transport Management Act 2008 as at 30 June 2011) by making a one-off offer of a number of units on a direct appointment basis. There are seven Direct Appointed Units (DAU) and nine units being offered to the market by tender.

Negotiations for the seven direct appointed units with NZ Bus and Mana are scheduled to occur in early 2017, with negotiations informed by the results of the tender process.

GWRC’s procurement approach for bus units has been undertaken in association with the New Zealand Transport Agency, and is in accordance with GWRC’s Procurement Strategy for Bus Services and the New Zealand Transport Agency’s Procurement Manual.

6. **Milestones and timeline of the tender process**

The RFT phase of the tender process will commence with the release of the RFT and will conclude when delivery of Wellington’s bus service Contracts begins in 2018.

Table 1 below sets out the indicative dates of key milestones in the RFT phase including Council decisions.

Table 1 - Indicative dates of key milestones in the RFT process

Milestone	Indicative timeline
Council approval of delegation to the Chief Executive to approve RFT documentation	Wednesday, 29 June 2016
NZTA approval of RFT	[tbc, July]
RFT release date	[tbc, July]
RFT submission by tenderers	[tbc, depending on release date] (12 weeks for submission)
Evaluation and selection of preferred tenderer	October 2016 – February 2017
Final decision to Council recommending preferred tenderer	February 2017 or first available meeting in March 2017
Negotiation – if required (note negotiation only required if an alternative tender is selected as part of the Preferred Tender Outcome)	Late February – mid March 2017
Contract preparation	Mid-March – mid April 2017
Contract execution for tendered units	Mid April – late April 2017
Service commencement	School holidays early- mid April 2018 (TBC - school holiday dates not yet released)

7. Ensuring probity

As a public entity, GWRC has a very strong commitment to achieving the highest possible standard of probity in relation to this tender process. Reflecting this commitment to fairness, transparency, efficiency and effectiveness in the tender process, GWRC has placed a number of requirements on tenderers, GWRC staff and external advisors.

These requirements have been strictly observed throughout the development of the RFT, which has included consultation with industry, strategic discussions with NZ Bus and Mana in relation to their direct appointed units, and business as usual discussions with all incumbents.

Probity requirements are documented in the:

- RFT Terms and Conditions;
- GWRC Probity Plan (Bus); and
- GWRC Probity Framework (revised).

8. **Development of the RFT including the Partnering Contract and the Tender Evaluation and Selection Plan**

The RFT documentation (including the Partnering Contract and the Tender Evaluation and Selection Plan) has been developed by GWRC's in-house project team with assistance from appropriately qualified and experienced external advisors.

The development of these documents has also been informed by consideration of documents in other comparable jurisdictions and feedback from the bus industry.

The details of these advisors and the inputs considered are set out in **Attachment 1**.

9. **Overview of the RFT documentation**

The RFT is made up of a main document referred to as the Request for Tender and a group of documents comprising instruction booklets and templates referred to as Returnables. An overview of the RFT and a summary of key aspects of the tender approach (including bundling of units, labour market considerations and assessment of bus fleet emissions) are set out in **Attachment 1**.

10. **Approach to the evaluation of tenders**

The purpose of the tender evaluation process is to allow GWRC to select the tenderer/s that provide the best region wide value for money, to operate bus services across the Greater Wellington region under the Public Transport Operating Model (PTOM). The details of the tender evaluation approach and the Tender Evaluation and Selection Plan, including the tender management, evaluation and selection teams are set out in **Attachment 2**.

11. **Overview of draft contract**

The underlying principles that have been applied in the development of the draft Contract are:

Network approach: bus services are part of the Wellington Public Transport Network

Partnering: joint ownership of service outcomes

Performance: incentives for continuous improvement

Risk: allocated fairly between the parties

Return: an attractive long term commercial return is available for operators

The structure and key aspects of the Contract are set out in **Attachment 3**.

12. **Projected cost of the Contract**

GWRC has commissioned Deloitte to develop a shadow bid for the Contract. The shadow bid models the cost of providing the Contract services by making assumptions about costs which operators will incur, risk positions they will

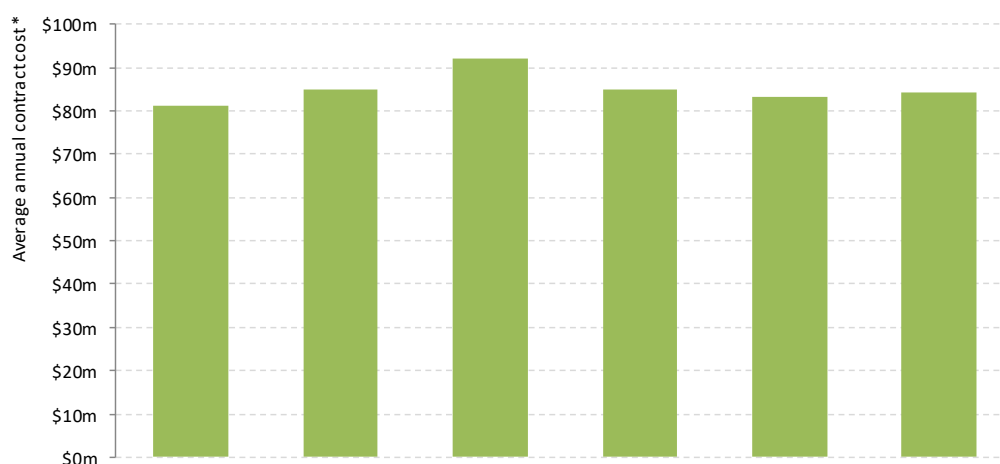
take and the margin that they would require if they are successful. One of the key assumptions made in the shadow bid is that the fleet will be a mix of new Euro V buses and existing Euro III/IV/V buses already in use in the Wellington region – a baseline fleet.

The shadow bid shows a saving over the current budget. While the headline savings appear promising it must be recognised that the shadow bid is based on a large number of assumptions. Specifically it does not take account of the following items which may lead to GWRC receiving tenders that are higher in price than the shadow bid:

- a) The premium which GWRC is prepared to pay for improvements in emissions (graph provided shows the premium GWRC is prepared to pay for an electric fleet over the baseline diesel fleet);
- b) The premium which GWRC is prepared to pay for an increase in quality (graph provided shows the premium GWRC is prepared to pay for a quality score of 80 over a quality score of 60);
- c) New entrants tendering 100% new fleet, given the restricted market for second hand buses that meet contract requirements (graph provided shows all new diesel fleet);
- d) Tenderers seeking to amortise the full cost of non-transferring, non-electric buses over the Contract term, given the limited market for diesel buses in future (graph provided shows all new buses recovered over 9 years); and
- e) Incumbents negotiating a price premium for Direct Appointed Units. This is beyond the scope of the tender process, with DAU negotiations following the award of all tendered units (graph provided shows a 10% premium paid for DAUs).

The impact of each of the above points is illustrated in Figure 1 below.

Figure 1 – Average contract cost of bus services under different scenarios



Scenario	Baseline	a)	b)	c)	d)	e)
Quality score	60	60	80	60	60	60
Fleet mix	Euro III, IV, V	All electric	Euro III, IV, V	Euro V (all new)	Euro III, IV, V	Euro III, IV, V
Residual fleet value not recovered by operators at end of term on new buses	41%	41%	41%	41%	0%	41%
Premium paid for DAUs	0%	0%	0%	0%	0%	10%

* Contract cost is based on the initial timetable. It does not factor in timetable growth, special events, or incentive payments

The tender for bus services does not include an affordability threshold as was used in the tender for rail services. This is to enable the tenders for bus services to be evaluated using the New Zealand Transport Agency’s Price Quality Method and to enable the tendering and evaluation of multiple bus contracts at one time. A further consideration is the requirement to negotiate a number of unit contracts directly with incumbents, following the tender process. The risk in relation to affordability, and mitigation, is set out in the section below.

13. Risks

Both the Tender Process and the resulting Contract create risks for GWRC. This section describes the key risks and how GWRC will mitigate these.

13.1. Tender process risks

The key risks that will arise for GWRC during the tender process are:

Probity – the risk that there may be a challenge if one or more of the tenderers consider that they have been unfairly treated during the tender process. This risk may give rise to delays and added costs. GWRC’s mitigations for this risk are set out in a comprehensive Probity Framework and Probity Plan which includes:

- proactive management of confidentiality and conflicts of interest; and
- active advice from our probity adviser and regular reviews by our probity auditor.

Lack of tenderer interest – the risk that bus operators do not consider the tender to be an attractive opportunity and do not submit tenders. GWRC is mitigating this risk by active engagement with the bus industry, including inviting feedback and having one on one meetings with bus operators on GWRC’s procurement strategy and the proposed Contract.

Affordability of tenders – the risk that the price sought by tenderers for the delivery of Wellington’s bus service is unaffordable to GWRC. GWRC is mitigating this by running a competitive tender for the 9 tendered units and implementing the PQM approach to evaluation with a weighting of 60% applied to price.

13.2. Contract risks

The key risks that may arise during the term of the contract are:

Delay in commencement – the risk that commencement of Contract will be delayed. This risk may arise due to:

- Critical infrastructure not being in place for the new Wellington network;
- Operator failing to properly manage the transition to new services.

GWRC has established the Bus Services Transformation Programme to ensure that the critical infrastructure, planning and processes are in place for the new network. The Contract provides for cure plans, liquidated damages and termination if operators are late.

Contract cost increases – the risk that the operator may seek increases in the amount of payments GWRC makes during the term of the Contract. This risk may arise due to:

- changes to GWRC’s service requirements or the operating environment that are not known but may arise over the 9 year term;
- Misunderstanding of GWRC’s service requirements; or
- General increases in costs.

Over the 9 year term of the Contract, it is likely that GWRC will identify further opportunities to develop the Wellington bus service and that those opportunities will impact on the operator’s role and associated costs. GWRC has mitigated this risk through provisions in the Contract for variation rates and provisions for an objective assessment of the net financial impact on the operator.

Over the 9 year term of the Contract, the cumulative effect of inflation will give rise to significant increases in the operator’s costs. GWRC has mitigated this risk by applying indexation to fees paid using the New Zealand Transport Agency bus index.

Performance deficits – although GWRC will undertake a robust Tender Evaluation to select the best Operators, there is a risk that over the term of the Contract, an operator's performance may decline against GWRC's expectations. GWRC has mitigated this risk through comprehensive provisions in the Contract that include:

- adopting a collaborative partnering approach with operators;
- providing non-financial and financial incentives that will optimise performance while avoiding perverse behaviours;
- a comprehensive regime of interventions if any performance deficits are not corrected.

Financial distress – GWRC will undertake a thorough appraisal of the financial strength of the Tenderers and their parent companies but nonetheless, there remains a risk that over the term of the Contract the operator's performance of its contractual obligations to GWRC may be compromised by its financial performance or that of its parents. GWRC has mitigated this risk through contractual provisions requiring the performance of the operator to be guaranteed by its parents and further supported by financial bonds lodged with a reputable bank.

GWRC's capabilities to manage the Contract – extracting the best possible value from the new Contract will depend on GWRC's capability to deliver robust performance information, to analyse and assess operator performance, and to participate in a partnering rather than master-servant contractual relationship. To mitigate the risk that GWRC does not extract the best possible value from the new Contract, it will be important that GWRC continues to invest in improving its capabilities.

Dependency on GWRC systems and assets – under the new Contract, the operator will have an increased reliance on systems owned and operated by GWRC, such as RTPI, Ticketing, customer satisfaction surveys, patronage, reliability and punctuality measurement systems. The robustness of the systems will directly affect the operator's capability to not only perform its obligations but also to achieve performance payments. GWRC will need to ensure that it invests as necessary to ensure that all of these systems perform as required throughout the term of the Contract.

Transition between contracts – at both the commencement and the expiry of the Contract, any transition to a different operator will carry significant reputational risks for GWRC and operators. GWRC will mitigate this risk by entering into tender participation and transition deeds with incumbent operators that govern the transition and handover process, in addition to various provisions in the tender process and the Contract including:

- that an outgoing operator will cooperate with an incoming Operator to ensure that interruption to services is avoided;

- that tenderers will be required to include a draft transition plan in their tender which will be subject to agreement with GWRC and developed into a detailed transition plan on contract award; and
- that during the term of the Contract, the operator will be required to maintain a documented handover package for transferring assets.

GWRC has also created the role of Transition Manager in the Bus Services Transformation Programme to manage and coordinate the transition.

14. External assurance and New Zealand Transport Agency approvals

To provide Council with confidence in respect of the RFT (including the Partnering Contract) and the Tender Evaluation and Selection Plan, GWRC has:

- sought letters of assurance from its external advisors as appropriate; and
- sought and is expected to obtain the approval of the New Zealand Transport Agency.

The assurance that will be provided by the external advisors includes:

- **Deloitte:** assurance that the draft Contract is fit for purpose from a financial and commercial perspective, and that industry concerns with the initial draft contract have been adequately and appropriately addressed – completed;
- **DLA Piper:** assurance that the draft Contract allocates risks appropriately taking into account international market precedents – to be provided once all final proofs and editing have been completed – expected end June 2016;
- **Robert Buchanan:** assurance that the RFT process and associated documents have due regard for probity from an advisory perspective – to be provided – expected end June 2016;
- **Audit New Zealand:** assurance that the RFT process and associated documents have due regard for probity from an audit perspective – expected end June 2016.

A copy of the completed Deloitte assurance letter is attached at **Attachment 4** of this Report.

Officers will provide an update at the Council meeting regarding progress in obtaining the required New Zealand Transport Agency approval.

15. Communication

Communication with the operator market and tenderers will continue to be carefully managed to maintain probity, for example by ensuring where relevant that the same information is released to all parties at the same time.

The general public will not be affected by the tender process and, therefore, apart from notification on GETS and Tenders.net (Australia), GWRC does not intend to make a public announcement that the Tender Process has commenced.

16. The decision-making process and significance

The matters requiring decision in this report have been considered against the requirements of Part 6 of the Local Government Act 2002 (the Act).

16.1. Significance of the decision

Part 6 of the Act requires GWRC to consider the significance of the decisions that are the subject matter of this report. The term 'significance' has a statutory definition set out in the Act.

The subject matter of this Report is part of a decision-making process that began in December 2013 when officers sought an initial mandate from Council to undertake the preparatory phase for GWRC's tendering of new public transport contracts, including bus contracts.

A decision by Council to issue the RFT will lead to Council being asked to subsequently make a decision to enter into Contracts with preferred Tenderers to replace existing contracts with incumbent bus operators.

Officers have considered the significance of the matters for decision set out in this Report, taking into account the Council's significance and engagement policy and decision-making guidelines. While the considerations are part of a process that will ultimately lead to a decision of medium or high significance, the matters for decision in this report have a low degree of significance in terms of the statutory definition set out in the Act.

16.2. The decision-making process

In developing the RFT documents officers have taken into account the principles set out in section 14 of the Act and the need to manage the Council's resources prudently. This has been achieved by:

- ensuring the Contract has been prepared in accordance with sound business practice;
- ensuring that GWRC's objective in the evaluation of tenders is focused on achieving a value for money outcome; and
- including mechanisms within the Contract to ensure that GWRC is in a position to maintain prudent stewardship and the effective use and management of GWRC's resources.

16.3. Engagement and community views

The following engagement with key stakeholders and customers has contributed to the development of the decisions that are the subject of this report:

- Engagement with the New Zealand Transport Agency (as outlined in this report);
- Engaging with potential bus and rail operators by undertaking the market soundings exercise in March 2014 and a bus specific briefing held in August 2015;
- Inviting further feedback after the bus industry briefing from potential operators on GWRC's procurement approach;
- Inviting feedback from bus operators on the draft Contract;
- Customer satisfaction surveys undertaken by GWRC; and
- Submissions made on the Wellington Regional Public Transport Plan 2014.

Officers consider that no additional engagement other than that set out above is warranted at this time.

17. Recommendations

That the Committee recommends that Council:

1. *Receives the report.*
2. *Notes the content of the report.*
3. *Agrees that the matters for decision have a low degree of significance.*
4. *Agrees that the extent and detail of the information before the Council is appropriate having regard to both the significance of the matters for decision in this report and the matters in section 79(2) of the Local Government Act 2002.*
5. *Agrees that it has sufficient knowledge of the views and preferences of persons likely to be affected by, or have an interest in, the matters for decision in this report.*
6. *Notes that the New Zealand Transport Agency is yet to approve the RFT documents as set out in this report.*
7. *Notes that assurances are to be provided by Council's external advisers as set out in this report.*
8. *Notes that final proofs and edits are required to finalise the RFT documents and Tender Evaluation and Selection Plan and to settle outstanding aspects of the Contract prior to issue to the bus operator market.*
9. *Endorses the key components of GWRC's Request for Tender (RFT) for Bus Services.*

10. *Delegates authority to the Chief Executive to approve:*

- a. *GWRC's Request for Tender (RFT) documentation, including the Tender Evaluation and Selection Plan and the Partnering Contract, for Bus Services, following the approval of the RFT by the New Zealand Transport Agency, and*
- b. *the issue of an open RFT to the bus operator market, following the approval of all documentation,*

subject to the Chief Executive being satisfied that:

- c. *all outstanding assurances from external advisers have been provided; and*
- d. *the New Zealand Transport Agency has provided written approval.*

Report prepared by:

Report reviewed by:

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Report approved by:

Report approved by:

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Greg Campbell
Chief Executive

Attachment 1: Development and Overview of RFT

Attachment 2: Tender Evaluation and Selection Approach

Attachment 3: Partnering Contract

Attachment 4: Assurance letters from GWRC's External Advisers

Attachment 1 – Development and Overview of RFT

1. Development of the RFT including the Partnering Contract and the Tender Evaluation and Selection Plan

The advisors consulted in the development of the RFT include:

- Legal – DLA Piper, led by Brisbane partner Alex Guy;
- Financial (including tax) and Commercial strategy – Deloitte, led by Wellington partner Tim Arbuckle;
- Probity – Robert Buchanan of Buchanan Law (Probity Adviser) and Peter Davies of Audit NZ (Probity Auditor);
- Technical (Operations) – John Wilson of WD Associates Pty Ltd;
- Technical (Vehicle Quality Standards) – HTS Group Limited;
- Technical (Emissions) – Emission Impossible Limited, led by Dr Gerda Kuschel;
- Employment Law – Dundas Street Lawyers, led by Blair Scotland; and
- Funding Structures – John Chandler of JC Capital Limited.

Development of the RFT documents and the Tender Evaluation and Selection Plan has been informed by:

- Consideration of the GWRC rail tender documents;
- Consideration of comparable documents from other jurisdictions, including Auckland Transport;
- Consideration of feedback from bus operators on the procurement approach and draft contract; and
- Input from the New Zealand Transport Agency.

GWRC has undertaken extensive engagement and consultation with the bus industry in the design of its procurement approach and the content of the Partnering Contract. The engagement and consultation has included:

- Market soundings in March 2014;
- Bus industry briefing and one-on-one interactive meetings with participants in August 2015;
- Inviting formal feedback on GWRC's procurement approach;

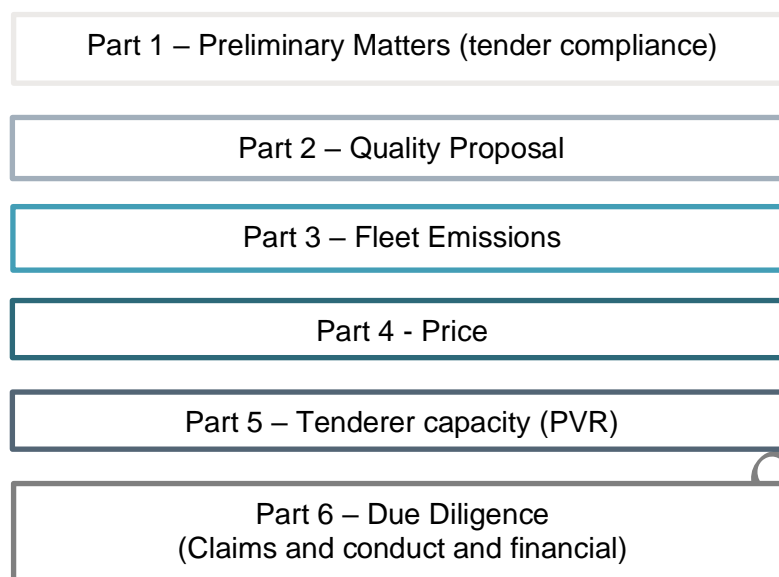
- Inviting formal feedback from bus operators on the draft Contract including two rounds of one-on-one interactive meetings; and
- Inviting formal feedback from bus operators on the final Contract prior to final release with the RFT.

2. Overview of the Request for Tender documentation

The RFT is made up of:

- A main document referred to as the Request for Tender which includes:
 - a high level outline of the opportunity available, information about GWRC and an overview of GWRC's requirements;
 - submission instructions, such as where to send responses, when they are due and the number of electronic and printed copies required;
 - an overview of the evaluation approach including the attributes and stages of evaluation; and
 - the terms and conditions applicable to the RFT and tender process.
- A group of documents comprising instruction booklets and templates referred to as Returnables. The Returnables align with, and capture, the information required to evaluate each of the six Parts of the RFT outlined below in Figure 2 below. Each Tenderer's RFT response must comprise the following Returnables:
 - Part 1– Preliminary matters
 - Part 2a – Tenderer specific quality proposal (submitted once)
 - Part 2b – Tender specific quality proposal (submitted once per Tender response)
 - Part 3 – Fleet emissions profile for each Tender response
 - Part 4 – Pricing template for each Tender response
 - Part 5 – Tenderer's capacity (submitted once)
 - Part 6 – Due diligence information (submitted once)
 - Returnables checklist – for Tenderers to ensure their Tender submissions are complete and ready for submission;
- An Information Memorandum which provides information, statistics and links about the Wellington region and also an overview of the key commercial terms of the Partnering Contract; and
- The Partnering Contract.

Figure 2 – Structure of the RFT



3. Bundling of units and market concentration

Bundling of bus units is permitted and encouraged. GWRC recognises that operators are best placed to understand where synergies and economies of scale may exist, and does not want to stifle innovation by prescribing or constraining bus unit bundles. Therefore, GWRC has placed no limitations on the number of bus units included in a bundle, or the number of bundles or individual unit tenders that a tenderer may tender for.

GWRC does however acknowledge that market dominance by any one Operator may stifle longer term competition. It is desirable that market depth in the Wellington region is developed to encourage competitive tension, and therefore that no operator has a regional market presence that dominates the others. However this condition will not be accepted at any cost. A market concentration guideline is included in the evaluation process to enable consideration of the value for money implications of any preferred tender outcomes that exceed this guideline.

This consideration is in addition to the initial price/quality assessment for all tendered units, and is triggered if market concentration (expressed as a % of region-wide market share, incorporating all units – both tendered and directly appointed) of any one operator exceeds a threshold of 60%.

4. Labour market considerations

The PTOM Bus tender does not include arrangements for staff of incumbent operators to be transferred to new operators, or the specification of labour rates and conditions. There is also no contractual requirement for the redeployment of staff from an outgoing operator to an incoming operator at the end of term.

GWRC's objectives in running a competitive tender process for bus services is to enable the testing of best value for money, and is not to achieve a least cost outcome. In using the Price Quality Method (PQM) for tender evaluation,

COMMERCIAL IN CONFIDENCE

GWRC is able to reward higher quality proposals, striking a balance between quality and price. As part of the quality assessment, those operators who can demonstrate strong staff engagement and welfare will be rewarded.

Tenderers will be required to demonstrate their approach to staff engagement and welfare by describing, amongst other things:

- How their employees would describe the organisational culture
- How staff engagement is analysed and targets set to support a long-term employee welfare vision
- How their organisation retains staff
- Their organisation's approach to engagement with unions and how effective working relations are maintained
- Their organisation's approach to change management
- Their approach to recruitment, training and staff development
- The core elements of their organisation's approach to health and safety

Tenderers will also be required to demonstrate staff engagement levels and health and safety outcomes through metrics, including:

- The average annual absenteeism rate for each of the last 3 years
- Key health and safety lead and lag indicators

GWRC will not rely on unsubstantiated claims by Tenderers but will verify statements made via reference checks.

GWRC will also oversee the continued welfare of staff by reviewing relevant Operator plans, such as training and health and safety plans, and requiring all plans to form part of the contract. These will be assessed and updated each year through the annual business planning process.

This differs from the approach taken in the PTOM Rail tender process which required the transfer of certain staff (including drivers, train managers, passenger operators and maintenance personnel) to the successful operator, both at the outset (from KiwiRail to Transdev) and at the end of the contract to any new incoming operator.

The differences between the rail approach and the bus approach is summarised in the following table:

Table 2 – Differences between rail and bus tenders in relation to staff transfers

Rail	Bus
Single operator/employer/union/collective agreement	Several operators/employers/unions/collective and individual employee agreements
One contract	16 bus unit contracts
Staff all dedicated to one contract	No single contract against which staff could be assigned/redeployed
Specialised staff, trained to work on specialised vehicles – rail operator the only employer of those specialties in the Wellington region; dedicated labour pool	Transferable skills with a range of employment opportunities outside contracted public transport operators (eg coach services, charters, school services, freight sector)
New operator would struggle to recruit and train staff during relatively short transition period between contract award and contract commencement (3-6 months)	Transition period of up to 15 months, which is considered adequate for a new operator to recruit and train a pool of drivers and other key personnel
One union, one collective agreement	Several unions, each with at least one collective agreement. Some operators have representation by more than one union and also have staff on individual employment agreements.
Transfer of Tranz Metro business unit from KiwiRail to Transdev in entirety.	The major incumbent bus operators have been allocated Direct Appointed Units and therefore are guaranteed enduring business in the Wellington region which requires retention of some of their current workforce. The incumbent operators will also be tendering and may win other contracts within the region that will also require retention of workforce.

GWRC has sought legal advice on this matter. This advice suggests that intervention by GWRC in labour matters at the outset of the new contracts will place GWRC at risk of being forced into ongoing involvement in operators' future negotiations with the various unions representing bus workers. There are also legal limitations preventing transferring staff from transferring on the same terms and conditions, if the new employer has different terms and conditions with same union. In other words, by law, transferring staff must accept the

terms and conditions of an existing collective agreement that is in place with the new employer.

5. Bus fleet emissions

Reflecting the importance to GWRC of lowering greenhouse gas emissions and other harmful pollutants from the regional bus fleet, Tenderers are encouraged to offer the most cost effective fleet that meets GWRC's aspirations. As part of GWRC's Tender evaluation process for bus services, the emissions profiles of all bus fleets tendered will be evaluated for the level of both harmful pollutants and greenhouse gas (GHG) emissions produced over the nine year life of the contract. Emissions will be valued for each tendered fleet by estimating the total emission outputs for five pollutants – CO₂, PM₁₀, NO_x, HC & CO – and assigning a dollar value to that output based on the economic social costs attributed to each pollutant.

The assessment of fleet emissions is quantitative, using an economic cost to society approach to calculate a monetised value of emissions. Generalised production rates of emissions will be calculated for the different Euro standard of bus tendered and for any alternative motive power such as hybrids and fully electric buses. Recognising that fleet may be upgraded by Operators during the term of the contract, Tenderers are required to submit their proposed fleet composition for each year of the contract by stipulating the numbers of different Euro standard buses, bus sizes and any alternative motive power options.

The approach quantifies the emissions profile of a Tenderer's proposed fleet into a nominal dollar value. This dollar value will be offset against the Tender price to reflect the benefit of a lower emitting fleet in such a way that a lower value emissions profile will contribute more favourably to the overall evaluation score (represented by the Evaluation Adjusted Price for that Tender).

Due to wider benefits and other considerations, proposals that include electric buses are requested to be submitted as Alternative Tenders. This will allow wider aspects, than solely emissions benefits, to be considered in the evaluation of electric bus proposals. For example:

- Charging infrastructure requirements
- Any impacts on vehicle size and capacity
- Any impacts on timetable and scheduling
- End of term transfer of buses that will reduce residual risk and therefore lower the price for such buses
- Other benefits beyond emissions, and GWRC's (and NZTA's) willingness to pay for these benefits

Attachment 2 – Tender Evaluation and Selection Approach

1. Approach to the evaluation of Tenders

The purpose of the tender evaluation process is to allow GWRC to select the Tenderer/s that provide the best region wide value for money, to operate bus services across the Greater Wellington region under the Public Transport Operating Model (PTOM).

GWRC's approach to evaluating tenders is set out in the Tender Evaluation and Selection Plan, which includes:

- The composition and role of the Tender Management, Evaluation and Selection teams;
- Tender receipt and pre-evaluation process;
- The tender evaluation process;
- Steps taken to ensure probity; and
- Content of the Tender Evaluation Report.

Note that the Tender Evaluation and Selection Plan will not be released to Tenderers, although a high level overview of GWRC's evaluation approach will be provided in the RFT documents that Tenderers receive.

2. Overview of evaluation approach

GWRC has selected the Price Quality – without disclosure of the estimate – Method (PQM) for the assessment of Tenders. Under this methodology, the quality attributes of a Tenderer, where the tender conforms to the RFT, are graded and balanced against the tender price using a pre-determined weighting and formula. This formula translates the quality score of a tender into a monetary value, known as the Supplier Quality Premium (SQP).

The Supplier Quality Premium represents the additional price that GWRC will be willing to pay for the additional quality offered by a Tenderer over the lowest scoring Tenderer.

Alternative tenders will be considered, subject to submission of a conforming tender and prior written approval by GWRC.

If a Tenderer wishes to submit an Alternative Tender they must first discuss the nature of the Alternative Tender with GWRC at an Alternative Tender Interactive Meeting. These meetings will be held after the release of this RFT. The purpose of these meetings is to ascertain GWRC's appetite for the proposed outputs or variation. GWRC will then respond in writing to confirm whether GWRC will or will not accept the submission of the alternative.

The additional, or lower, benefits offered by an Alternative Tender will be given a monetised value (Added Value Premium (AVP)), that represents the

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additional (or lower) price that GWRC would be prepared to pay for the additional (or lower) output or benefit delivered by the Alternative Tender.

Low emission buses are a high priority for GWRC, and Tenderers are encouraged to offer the most cost effective fleet that meets GWRC's aspirations. Differences in the emission profiles of bus fleets will be evaluated using an economic "cost to society" approach to generate a monetised value of emissions. This monetary value (Emissions Improvement Premium (EIP)) will be used to adjust the tendered price in the same way that the Supplier Quality Premium is applied to reflect the additional value that GWRC would be prepared to pay for an improved quality outcome.

Preferred Tenders will be selected based on their Evaluation Adjusted Price which is determined by:

- The Tender Price
- Minus the Supplier Quality Premium,
- Minus the Emissions Improvement Premium
- Plus or minus the Added Value Premium (if the tender is an Alternative Tender).

The Evaluation Adjusted Price of all tenders is then compared to determine the Preferred Tender Outcome.

As GWRC is tendering multiple bus units at the same time, which may be bundled by Tenderers, the Preferred Tender Outcome will be the combination of unit tenders that generate the lowest aggregate Evaluation Adjusted Price across all tendered bus units in the region.

To encourage a high number of bids for each unit, no limits have been set for the number of units or unit bundles that each Tenderer may tender for. To enable Tenderers to submit multiple bids without the risk of over-committing financially or in their ability to deliver, Tenderers are given the opportunity to nominate a maximum size of contracts (in aggregate) that they wish to commit to (Tenderer's capacity). Tenderer's capacity is specified as an aggregate maximum Peak Vehicle Requirements (PVR) for tendered units at a regional level.

The evaluation process ensures that any region wide tender combinations that result in any Tenderer's capacity being exceeded will be eliminated from consideration. In all other respects, tenders will be binding.

All remaining tender combinations will then be ranked to identify the Preferred Tender Outcome which will be the combination of unit tenders that generate the lowest aggregate Evaluation Adjusted Price across all tendered bus units in the region.

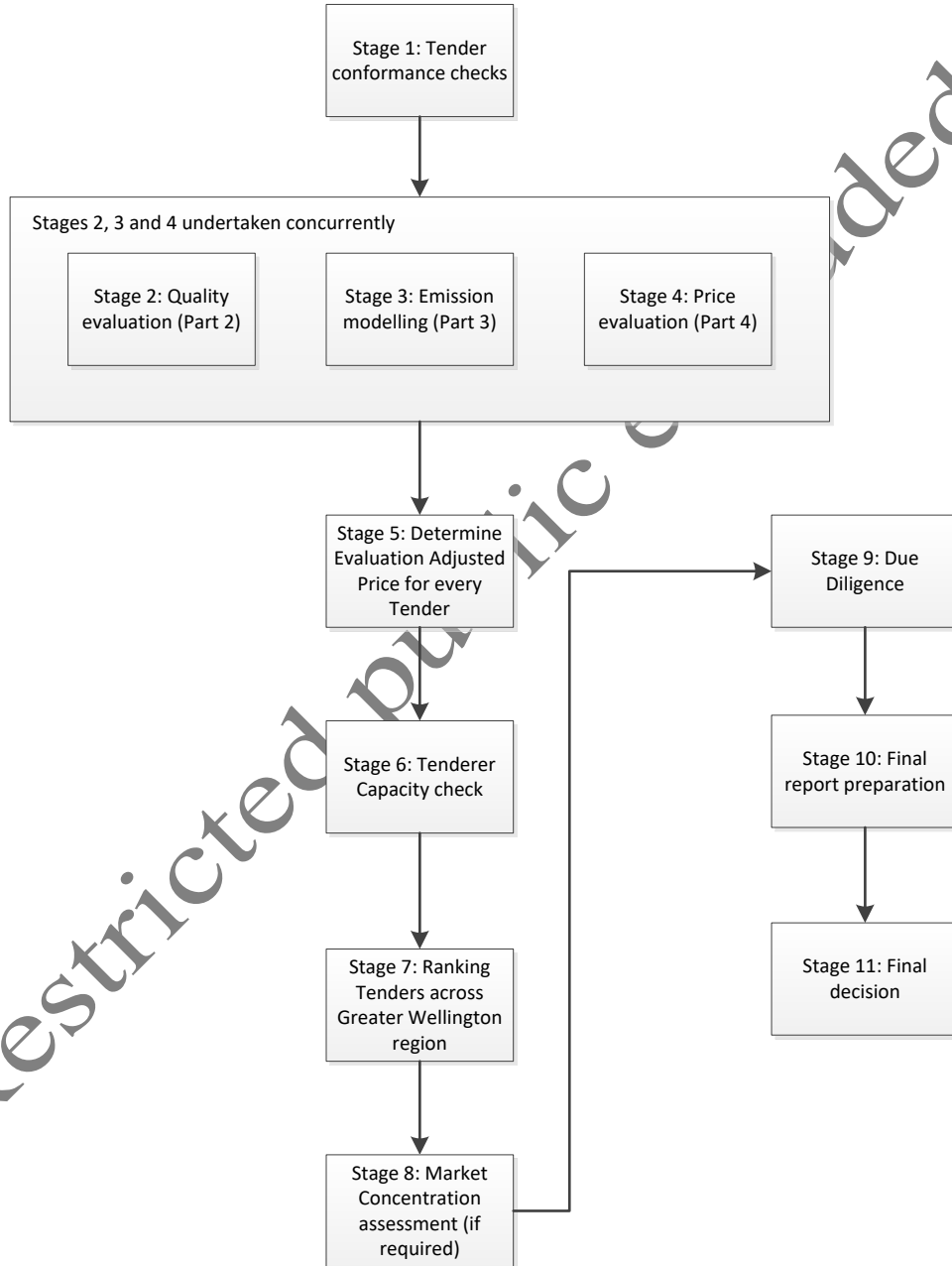
The preferred combination of tenders will be assessed to determine market concentration and competition impacts in this and future tender rounds. These

assessments will determine the Preferred Tenderers across the Greater Wellington region.

3. Evaluation and Selection Stages

Figure 3 illustrates the high level overview of the tender evaluation and selection Stages.

Figure 3 – Overview of evaluation and selection process



4. Evaluation

4.1. Selected evaluation methodology

The NZ Transport Agency Procurement Manual Appendix C (*Supplier Selection Method*) sets out the options for the evaluation of public transport tender bids, with the objective of obtaining best value for money. Of the available evaluation options, GWRC has selected the Price Quality (without disclosure of the estimate) Methodology (PQM) for evaluating Tenders, with some adaptations to account for GWRC's specific objectives in this RFT.

Under the Price Quality methodology GWRC has chosen the weighting set out below:

Table 3 – Price Quality Weighting

Price	Quality
60%	40%

The key adaptations which GWRC will apply to the evaluation of Tenders are:

- Applying a quantitative assessment of the emissions profile of each bus fleet tendered
- Allowing Tenderers to specify their maximum contractual capacity in terms of Peak Vehicles Requirements (PVR) – see Stage 6: Tenderer Capacity for more information
- Carrying out a market concentration assessment – see Stage 8: Market concentration for more information
- Selecting Preferred Tenderers on the basis of the best value for money outcome at a region-wide level.

4.2. Information used for evaluation

GWRC will evaluate each Tender based on:

- The Tender Returnables submitted in response to the RFT;
- Any material provided in response to requests for clarification from GWRC;
- Any information gathered or brought to GWRC's attention during the Tender Process; and
- Any other information that GWRC considers relevant to selecting a Preferred Tenderer.

4.3. Evaluation process

This section sets out the process that GWRC will follow for evaluating Tenders

Stage 1: Preliminary matters

Each Tender will be subject to a series of pre-evaluation checks to ensure that it complies with the requirements specified in this RFT and the Returnables checklist. Where a Tender does not comply, GWRC may seek clarification or additional information from the Tenderer and, depending on the seriousness of the non-compliance, may disqualify any Tender that does not comply with the RFT from the evaluation process.

Stage 2: Quality evaluation

GWRC will evaluate the quality proposal (Parts 2a and Part 2b) based on the weightings in the following table.

Table 4 – Evaluation criteria

Quality attributes	Sub-attributes	Percentage allocation of Quality
Confidence in service delivery	Relevant experience Operator performance Innovation (organisational approach) Organisation Transition Approach to service delivery and plans Approach to fleet management	55%
Partnering and corporate culture	Approach to partnering Corporate culture Recruitment and training Health and safety	15%
Customer service and patronage growth	Customer service Patronage growth Managing service disruptions	30%
		100% (of 40%)

Each quality attribute will be scored within a range of 0-100 using the scoring / grading framework as set out below in Table 5 – Quality scoring framework, which broadly follows the scale presented in Rule 10.14 of the New Zealand Transport Agency’s Procurement Manual) and weighted, based on the percentages set out above, to determine a total quality score for that Tender.

GWRC may take into account any additional information that it considers relevant to its Tender evaluation process.

GWRC may undertake reference checks with the referees nominated by the Tenderer.

GWRC may also take into account supplementary information obtained if GWRC requires a Tenderer to participate in an interview or give a presentation in relation to its Tender.

During the quality evaluation, a review of core metrics associated with the Tenderer’s resourcing of the Timetable will be undertaken to determine if there are any concerns or risks associated with the resourcing levels proposed by the Tenderer. Should the check identify any material discrepancies, GWRC may then seek clarification from the Tenderer which may include GWRC requesting that the Tenderer submit their working timetables for further review and confirm their key metrics.

Table 5 – Quality scoring framework

Score	Description	Requirements
90, 95, or 100	Excellent (significantly exceeds the criterion)	Demonstrates exceptional compliance or ability to convey exceptional provision of the requirement. Exceeds the criterion. Exceptional demonstration by the Tenderer of the relevant ability, understanding, experience, skills, resource and quality measures required to meet the criterion. Proposal identifies factors that will offer significant potential added value, with supporting evidence.
75, 80, or 85	Very Good (exceeds the criterion in some aspects)	Requirements are fully covered in all material aspects. Satisfies the criterion with minor additional benefits. Above average demonstration by the Tenderer of the relevant ability, understanding, experience, skills, resource and quality measures required to meet the criterion. Proposal identifies factors that will offer potential added value, with supporting evidence.
60, 65, or 70	Good (meets the criterion in full)	Requirements are adequately covered. Satisfies the criterion in full. Demonstration by the Tenderer of the relevant ability, understanding, experience, skills, resource and quality measures required to meet the criterion, with supporting evidence.
50 or 55	Minor Reservations (marginally deficient)	Adequate, with some deficiencies that are not likely to have any adverse effect. Mainly satisfies the criterion with minor reservations. Minor reservations of the Tenderer’s relevant ability, understanding, experience, skills, resource and quality measures required to meet the criterion, with some supporting evidence.
40 or 45	Serious Reservations (significant issues that need	Barely adequate and would need considerable improvement in this attribute, if selected. Only partially satisfies the criterion with major reservations. Considerable reservations of the Tenderer’s

	to be addressed)	relevant ability, understanding, experience, skills, resource and quality measures required to meet the criterion, with little or no supporting evidence.
35 or less	Unacceptable (significant issues not capable of being resolved)	Total non-compliance or inability to convey provision of the requirement. Does not meet the criterion. Does not comply and/or insufficient information provided to demonstrate that the Tenderer has the ability, understanding, experience, skills, resource and quality measures required to meet the criterion, with little or no supporting evidence.

GWRC may at its discretion, eliminate any Tender that does not offer acceptable quality, deemed to be where any Quality Attribute scores 35 or less out of a possible 100.

The initial Supplier Quality Premium (SQP) for each tender will be calculated and confirmed in accordance with the methodology set out in appendix C of the Procurement Manual.

Alternative Tenders will be assessed in accordance with the methodology set out in section 10.17 of the Procurement Manual and the Tender Selection and Evaluation Plan. This will result in an Added Value Premium (AVP) being calculated for any Alternative Tender.

Stage 3: Fleet emissions

The monetised value of emissions (including both greenhouse gas emissions and other ‘harmful’ pollutants) for each tendered fleet will be compared at a unit level to calculate the emissions saving that each Tender delivers against the highest emitting fleet for each unit. The result is the Emissions Improvement Premium (EIP) for each Tender, which is used to adjust the Tender price in the same way that the Supplier Quality Premium adjusts the Tender price for improvements in quality.

Each fleet tendered for a unit will be assessed using GWRC’s emission valuation model.

GWRC’s emission valuation model assesses emission costs for a bus based on its weight, type of engine, and the average speed of each respective unit.

The specific emissions that will be valued in this RFT process are: CO₂, PM₁₀, NO_x, CO and hydrocarbons (HC).

The total emission output of a fleet is calculated by first apportioning the annual vehicle kilometres (how far all the buses in each fleet would drive each year in delivering services) for a unit evenly across all buses in a tendered fleet. The model then multiplies the annual vehicle kilometres for each bus in the fleet by the emission production values for the relevant bus fuel type and size.

These total emission outputs are then multiplied by emission costs to approximate the externality cost of emissions for each fleet tendered. The fleet

that has the highest cost of emissions (in Net Present Value terms over the 9 year life of the contract) for a unit will be set as the baseline fleet emission profile for that unit.

The baseline fleet emission profile will be valued at \$0. For all other tendered fleets for that unit, the monetised difference in emissions against the baseline fleet emission profile is the Emissions Improvement Premium (EIP). Fleets that generate lower emissions will be rewarded with a higher Emissions Improvement Premium.

Stage 4: Price evaluation

This stage will calculate the expected cost to GWRC of each Tender over the 9 year term. Price evaluation will be undertaken in a separate, secure location by a separate tender evaluation group to ensure separation of price and quality. Price and quality will only be brought together once all aspects of the quality evaluation have been completed/

The cost to GWRC of each bus unit within a Tender will be calculated by applying the formula below to the Tenderer's pricing (unindexed) for each year of the 9 year term:

- Base Service Fee; plus
- Bus Unit Timetable Change Rates multiplied by GWRC's forecast of Bus Unit Timetable Changes; plus
- Special Event Services Rates multiplied by GW's forecast Special Events Services; plus
- Transferring Vehicles Transfer Price; plus
- Tender Price adjustments (if any).

A Net Present Value (NPV) of the 9 year costs will be generated using a real discount rate of 6%.

Stage 5: Determining the Evaluation Adjusted Price

In this step, GWRC will bring together the results from Stage 2, 3, and 4 to calculate the Evaluation Adjusted Price.

The Evaluation Adjusted Price for each bus unit within a Tender will be calculated by;

- Taking the price calculated in stage 4
- Subtracting the Supplier Quality Premium, which will be calculated in accordance with Appendix C of the Procurement Manual using the lowest price for each unit from stage 4 as the price estimate
- Adding/subtracting the Added Value Premium (if an Alternative Tender) calculated in stage 2

- Subtracting the Emissions Improvement Premium.

A financial model, developed by Deloitte, will be used to input all evaluation scores to calculate the Supplier Quality Premium and the Evaluation Adjusted Price. The model will then be used to assess Stage 6 – Tenderer Capacity, Stage 7 – Bid ranking and Stage 8 – Market concentration. Model support and quality assurance will be provided by Deloitte during the evaluation process.

Stage 6: Tenderer Capacity

Part 6 (Tenderer’s capacity) specifies each Tenderer’s maximum contract capacity that the Tenderer is willing to contractually commit to in response to this tender. Tenderer’s capacity is specified in the form of region-wide Peak Vehicle Requirements (PVR) for tendered units. Note that a Tenderer may elect not to specify a maximum capacity, however if Tenderers do not specify a maximum capacity, it is expected that they will accept all contracts that may be awarded to them as a result of this tender process.

Any region-wide tender combination in which any Tenderer’s nominated capacity is exceeded will be eliminated from consideration prior to the ranking process.

For example, if a Tenderer specified a capacity of 95 PVR, and submitted the following Tenders:

- North - South
- North - South / Porirua (bundle)
- Lower Hutt / Upper Hutt (bundle)

then each combination of Tenders would be assessed for compliance with the Tenderer’s capacity and those combinations eliminated from consideration where PVR is exceeded.

Table 6 – Example of Tenderer capacity check

Tender	PVR of unit/combination	Outcome of compliance assessment
Tenderer’s capacity = 95 PVR		
North - South	62	Within Tenderer’s capacity
North - South / Porirua (bundle)	92	Within Tenderer’s capacity
Lower Hutt / Upper Hutt (bundle)	80	Within Tenderer’s capacity
North - South + Lower	142	Exceeds Tenderer’s capacity

Hutt / Upper Hutt		– eliminated
North - South / Porirua + Lower Hutt / Upper Hutt	172	Exceeds Tenderer’s capacity – eliminated

Stage 7: Bid ranking

Stage 7 uses the Evaluation Adjusted Price calculated in Stage 5 to determine the best combination of Tenders (individual and bundled) across the Greater Wellington Region.

All possible combinations are ranked from the lowest Evaluation Adjusted Price for all tendered bus units to the highest. The lowest aggregate region-wide Evaluation Adjusted Price represents the best value for money outcome for GWRC.

The best value for money outcome will be carried forward to Stage 8 as the Initial Preferred Tender Outcome.

Stage 8: Market concentration

GWRC will assess whether any Tenderers have exceeded the market concentration guideline of 60% of total bus Revenue Service Kilometres across Greater Wellington (inclusive of any Direct Appointed Units).

If the Initial Preferred Tender Outcome does not exceed the concentration guideline then this combination of Tenders will become the Preferred Tender Outcome.

If the Initial Preferred Tender outcome results in the market concentration guideline being exceeded by a Tenderer then GWRC will undertake a market concentration assessment.

This assessment will compare the value offered by the Initial Preferred Tender Outcome against that of the Next Preferred Tender Outcome, and weighing this up against the potential effects of a higher market concentration outcome (i.e. paying a higher price and/or accepting lower quality from the Next Preferred Tender Outcome versus the potential cost of lesser competition in future as a result of the potential market dominance effect of the Initial Preferred Tender Outcome). This will enable GWRC to make an informed value for money decision.

The Preferred Tender Outcome for the Greater Wellington region may contain a single Preferred Tenderer or multiple Preferred Tenderers, noting that this outcome will be in addition to the units directly appointed to NZ Bus and Mana.

Stage 9: Due diligence

The Preferred Tenderer(s) will be subject to the following due diligence checks;

- Review of financial capacity and strength

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- Claims and conduct checks
- Financial price review.

To support any concerns raised by a financial price review, GWRC reserves the right to request the financial models and Working Timetable underpinning each Tender submitted by Tenderers.

Stage 10: Final report

The Tender Selection Group will prepare a report that includes:

- Statements on the management of conflicts of interest and probity, including any significant issues that arose during the evaluation;
- Confirmation of the total number of Tenders received, including the total number of conforming Tenders and the number of Alternative Tenders;
- Confirmation of any non-conforming Tenders and/or Alternative Tenders that were not evaluated;
- The methodology used for the evaluation of Tenders (Parts 1- 6);
- A summary of the results from all evaluation stages;
- The outcomes of the due diligence process;
- A high level list of the issues that the TSG recommend to be included in any negotiations with the Preferred Tenderers. Such issues are only expected for Alternative Tenders (if selected). Issues will be consolidated into a negotiating brief for which GWRC will be asked to delegate the authority to negotiate to the Chief Executive;
- A recommendation in regard to the Preferred Tenderers;
- A recommendation in regard to the next preferred Tenderer option (if any).

Stage 11: Final decision

The Chair of the TSG will present the Tender Report to the elected members of the Greater Wellington Regional Council for their consideration.

The elected members of GWRC will be responsible for:

- Approving (or declining) the recommendation of the TSG in relation to the Preferred Tender Outcome,
- Approving contract award if the Preferred Tender Outcome comprises Conforming Tenders only and no contract departures are required from the Partnering Contract previously approved by Council.

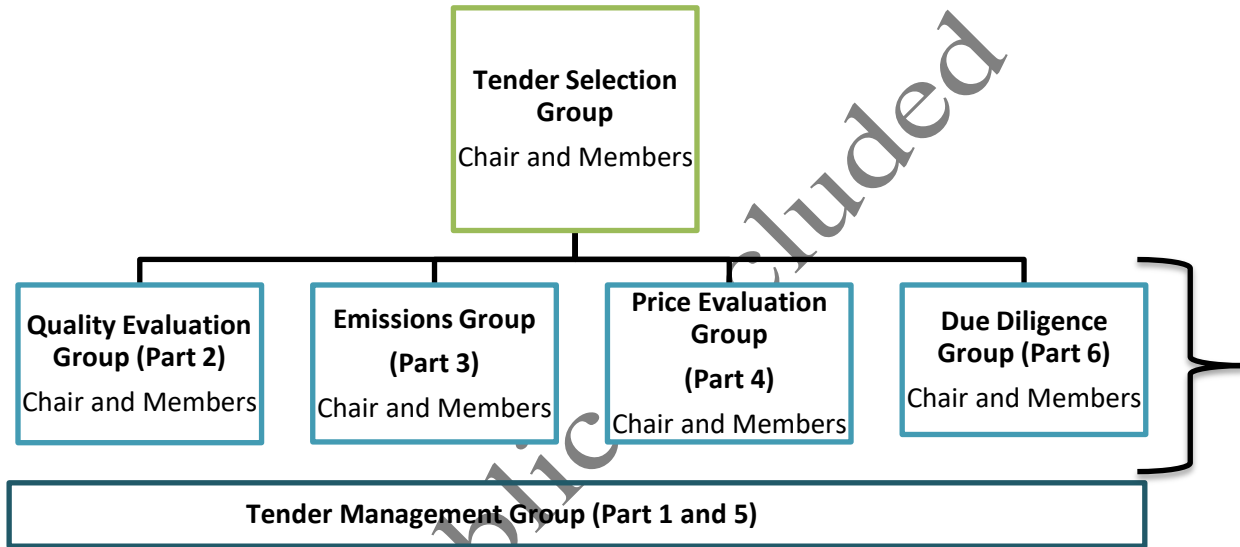
If the Preferred Tender Outcome includes an Alternative Tender, the recommendation to Council will be to approve the request to delegate authority

to negotiate any changes to the Partnering Contract to the Chief Executive. In this instance, a second stage will be required for Council post negotiation to approve the final form of contract and its award to the Preferred Tenderers.

5. GWRC’s Tender Evaluation and Selection Teams

The tender evaluation and selection will be conducted by the following teams as illustrated in Figure 4.

Figure 4 – Tender Evaluation Team structure



5.1. Tender Selection Group

Tender selection will be performed by the Tender Selection Group (TSG), who will consider all of the information provided by the Tender Evaluation Groups and provide a recommendation to Council of the Preferred Tender Outcome.

5.2. Tender Evaluation Groups

The evaluation will be conducted by four separate groups to assess each of: Quality, Emissions, Price, and to conduct Due Diligence; collectively referred to as the Tender Evaluation Groups (TEGs). Each Group will have a Chair and at the conclusion of their respective evaluations, the Chairs will provide a report of the Group’s findings to the Tender Selection Group (TSG).

The Price Evaluation Group will evaluate price submissions in a separate, secure location to ensure that price information does not, in any way, influence the quality evaluation.

5.3. Tender Management Group

The work of the TSG and TEGs will be supported by the Tender Management Group (TMG) including the Evaluation Manager, who is responsible for ensuring the Evaluation process runs in accordance with the Tender Evaluation and Selection Plan.

5.4. Tender Evaluation Team composition

Composition of the Tender Evaluation Team is provided in the following tables.

Quality Evaluation Group Members

Name	Title	Role in Evaluation	Employer
Brian Baxter	Transport Consultant (NZTA Qualified Evaluator)	Chair	Self-employed
Matthew Lear	Health & Safety Manager	Evaluator	GWRC
Rob Braddock	Team Leader, Service Delivery	Evaluator	GWRC
Environment Canterbury (seconded)	TBC	Evaluator	Environment Canterbury
Jane Hornibrook	Transport Consultant	Evaluator	Hornibrook Consulting

Price Evaluation Group Members

Name	Title	Role in Evaluation	Employer
Jonathon Gear	Senior Financial Advisor	Chair	GWRC
Kerry Saywell	Strategic Business Partner, Finance	Evaluator	GWRC
Mark Ford	Strategic Finance Manager	Evaluator	GWRC
Tim Arbuckle	Partner	Adviser	Deloitte

Emissions Evaluation Group Members

Name	Title	Role in Evaluation	Employer
Thomas Davis	Fleet Transition Manager	Chair	GWRC
Andrew Cooper	Programme Director Bus Services Transformation	Adviser	GWRC
Gerda Kuschel	Senior Air Quality Specialist	Adviser	Emissions Impossible Ltd

Due Diligence Evaluation Group Members

Name	Title	Role in Evaluation	Employer
Jonathon Gear	Senior Financial Adviser	Chair	GWRC
Samantha Gain	Manager Legal and Procurement	Evaluator	GWRC
Tim Arbuckle	Partner	Adviser	Deloitte
Alex Guy	Partner	Adviser	DLA Piper

Tender Selection Group Members

Name	Title	Role in Evaluation	Employer
Wayne Hastie	GM Public Transport	Chair	GWRC
Dave Humm	Chief Financial Officer	Selector	GWRC
Rhona Hewitt	Project Manager, Network, Customer & Transition (NZTA qualified evaluator)	Selector	GWRC
Ian Dobbs	Consultant	Selector	Independent
Robin Barlow	Consultant	Selector	Nine Squared Pty Ltd
Andrew Cooper	Programme Director Bus Services Transformation	Adviser	GWRC

Tender Management Group Members

Name	Title	Role in Evaluation	Employer
Philip Crampton	Senior Commercial Advisor	Evaluation Manager	GWRC
Andrew Cooper	Programme Director Bus Services Transformation	Adviser	GWRC
Ai-Bee Tan	Senior Legal and Commercial Advisor	Evaluation support	GWRC
Tania Williams	Commercial Advisor	Evaluation support	GWRC
Christine Pullen	Project Administrator	Evaluation Administrator	GWRC
Deloitte	Manager / Analyst	Quality assurance of the evaluation model	Deloitte

Attachment 3 – Contract

1. Structure of the Contract

The structure of the Contract is set out in Table 4:

Table 4 – Contract structure

Main Agreement	Schedules	Annexures
Part One - Preliminary	1. Definitions and interpretation	1. Timetable Change Process
Part Two – Parties' obligations and rights	2. Agreement details	2. Customer Service Standards
Part Three – Management of this Partnering Contract	3. Passenger Services	3. Customer Communication and Information Systems
Part Four - Intellectual Property	4. Vehicle Quality Standards	4. Not used
Part Five - Health and Safety	5. Planning, Reporting and Meetings	5. Transfer Agreement
Part Six - Financial	6. Financial and Performance Regime	6. Fares, Ticketing and Enforcement Requirements
Part Seven - Dispute Resolution	7. Not used	7. Conditions of Carriage
Part Eight - Breach and termination	8. Warranties and Representations	8. Customer Satisfaction Survey
Part Nine - Obligations associated with change of Operator	9. Facilities Protocol	9. Parent Company Guarantee
Part Ten – Miscellaneous	10. Regional Agreement	10. Bond
Part Eleven -	11. Handover Package for Transferring Assets	11. Preliminary Commencement Certificate
	12. Not used	12. Incoming Operator Confidentiality Undertaking
	13. Transition Plan	13. Incoming Operator Access Indemnity
	14. Change Events and Net Financial Impact	14. Form of Payment Claim
	15. Operator's Proposals	15. Variation Forms
		16. Not used
		17. Transferring Asset Related Party Direct Deed
		18. Key Subcontractor Direct Deed
		19. GWRC Privacy Policy
		20. Not used
		21. Approved Transferring Asset Agreements
		22. Lessor Direct Deed

2. Key aspects of the Contract

This section of the Report outlines the key aspects of the Contract. A more detailed outline of the Contract was provided to Council on 7 December 2015 (Report RPE 15.622).

2.1.1 Parties

The parties to the Contract will be GWRC and the Operator of the respective unit.

2.1.2 Term of Contract

The term is nine years for tendered units.

The term for “Like for Like” units is twelve years and the term for other direct appointed units is nine years.

2.1.3 Scope

The Operator will be exclusively awarded each contract for each unit. The Operator will be responsible for:

- Providing passenger services, which will include the punctual delivery of all timetabled services and special event services, and the management of service disruptions (including communication with GWRC (Metlink) in response to planned and unplanned events);
- Acquiring (including purchasing or leasing) buses and depots for the provision of services;
- The sale of tickets on board buses and the protection of revenue;
- The health and safety of passengers, Operator staff and the general public;
- Holding material damage and public liability insurance cover on specified terms and conditions set out in the Contract, in addition to other securities for performance.

2.1.4 Performance management mechanisms

The draft Contract uses the following mechanisms to manage and incentivise the performance of each Operator:

- Partnering principles and contract management practices
- Clear allocation of responsibilities and risks
- Joint planning processes
- Reputational incentives
- Financial incentives to achieve performance targets, including patronage growth
- Financial deductions when on-time performance and reliability is below targeted levels
- Specific provisions related to transition and mobilisation

- Specific provisions related to managing and rectifying performance that is below expectations or is in breach of contract
- Specific provisions related to variations to GWRC's service requirements
- Specific provisions related to managing the impacts of disruption events.

2.1.5 Payment model

The Services Fee comprises the following amounts:

- (a) the Base Services Fee;
- (b) the Special Event Services Fee;
- (c) the Punctuality Performance Payment;
- (d) the Indexation Payment;
- (e) the Performance Payment;
- (f) the annual FIM Adjustment;

less:

- (g) Performance Deductions in relation to the Reliability KPI and the Punctuality KPI;
- (h) Reporting Error Deductions;
- (i) Fleet Deductions.

The Base Services Fee sets the fee payable for the tendered timetable. This fee will be indexed quarterly in arrears through the Indexation Payment using the New Zealand Transport Agency's bundled index for bus services. The Tender allows the Tenderer to profile the fleet capital and financing cost recovery portion of the Base Services Fee by year but all other items must be spread evenly over the term.

The Contract includes variable rates for timetable changes and special event services. These rates will be applied to changes in in-service kilometres, in-service hours, and PVR.

If GWRC requires the operator to change the motive power of a bus during the term of the contract the impact on the Services Fee will need to be negotiated.

2.1.6 Incentivising Reliability and Punctuality

The contract measures how many services are run (Reliability KPI measure) and how many are delivered on-time (Punctuality KPI measure). A threshold of 99.5% has been set for the Reliability KPI and 95% for the Punctuality KPI. These thresholds include an allowance for factors outside the operator's control (eg roadworks, accidents, traffic delays etc).

For every 0.1% or part thereof that an operator falls below the Reliability KPI threshold for each month of the contract they will be abated 0.1% of the base fees for that month. The abatement for the Reliability KPI is uncapped.

For every 0.1% or part thereof that an operator falls below the Punctuality KPI threshold for each month of the contract they will be abated 0.05% of the base fees for that month. The abatement for the Punctuality KPI is capped at 5% of the base fee.

For the purposes of abatements, a lower Punctuality KPI threshold of 90% will apply for the first 12 months of the contract. This is to provide relief to operators while new timetables are bedded-in and new operators build their experience in the network.

To incentivise continuous performance on punctuality a payment will be made for any month in which the Punctuality KPI exceeds 96%. For every 0.1% the Punctuality KPI is above 96% a payment of 0.025% of the base fees will be made for that month.

2.1.7 Reporting Error Deductions

If the Operator fails to report specific items as required by the contract they will incur a reporting Error Deduction of \$500. Furthermore, if a reporting error affects the Service Fee the party that caused the error will pay \$500 to the other party.

2.1.8 Fleet Deductions

To encourage Operators to replace buses at the maximum bus age requirement of 20 years, an abatement will be applied when a bus in the fleet exceeds 20 years of age.

2.1.9 Performance Payment

GWRC will set aside an amount of money to a performance incentive pool that will be applied to reward Operators who meet nominated performance indicators. A set of initial performance indicators are included in the Contract and further performance indicators may be added by GWRC.

This performance incentive pool is set at 1.2% of the base service fees annually. Based on the expected contract value of all units in the region and the tendered timetable this will be worth approximately \$970,000 p.a. in 2016/17 dollars.

2.1.10 Financial Incentive Mechanism

An annual Financial Incentive Mechanism (FIM) is included in the Contract to incentivise the Operator to contribute to bus patronage growth, as required under PTOM.

The FIM will reward Operators for patronage growth that exceeds historical trend data. 25% of the average fare will be paid for every passenger above the projection for each financial year the FIM applies. This payment will be capped at 0.6% of the base fee for each financial year.

If actual patronage on a unit is below the historical trend, then 25% of the average fare will be deducted for every passenger below the projection for each financial year the FIM applies. This deduction will be capped at 0.3% of the base fee for each financial year.

The Operator may propose initiatives to GWRC which target patronage growth in return for the FIM payment/deduction being based on a larger percentage of the average fare. GWRC will retain sole discretion as to whether it accepts the Operators proposal or not.

SuperGold patronage will be excluded from patronage figures for the purpose of calculating the FIM achievement and payment/deduction. This is because incentivising Operators to grow SuperGold patronage is contrary to Government and GWRC objectives to grow patronage at the peak and improve commerciality.

2.1.11 Security for performance

On Contract signing, Operators will be required to perform specified obligations by set milestone dates, to ensure that they are able to commence services at the commencement date. If Operators fail to meet milestones, they will be required to implement a plan to mitigate any delays. If Operators fail to commence services on commencement date, they will be liable to pay GWRC liquidated damages.

GWRC has reserved the right to ask for parent company guarantees. These may be requested in conjunction with a performance bond.

A bond will be set according to the contract value of each unit and will be used to cover any replacement services required and the cost of retendering the units.

If transferring assets are not maintained in accordance with expected maintenance standards, GWRC may withhold the services fee due to the Operator or alternatively, the Operator may provide a maintenance rectification bond set at 110% of GWRC's reasonable estimate of the cost of undertaking the rectification and maintenance work notified to the Operator.

The operators will also be required to have insurances for their assets and operations.

2.1.12 Assets

Operators will procure and own (or lease) assets required to operate the bus services. At the end of the term of the contract, the Operators are required to transfer any new depots and specified specialist fleet to incoming operators or to GWRC, if there are no incoming operators. Specialist fleet include all double decker buses specified by GWRC in the tender documents and any alternative motive powered buses, including electric buses, where it is deemed advantageous to GWRC for these buses to transfer to a new operator at end of term.

2.1.13 Service planning responsibilities

GWRC will be responsible for service planning, integration and service changes across the Metlink network. GWRC will consult with operators, who will be invited to suggest initiatives and/or changes through strategic monthly meetings, annual business planning, or by instigating the timetable change process.

2.1.14 Smooth transition

A new Operator will be required to prepare a transition plan for the period from the date of execution of the Contract to the date six months after the commencement date. The transition plan will form part of the Contract and will address the following processes:

- acquiring and commissioning depots and buses;
- obtaining any required licences and consents;
- establishing business systems; and
- recruiting and training staff.

2.1.15 Staff

There will be no contractual requirement for the transfer or redeployment of staff from an outgoing operator to an incoming operator and GWRC will not prescribe minimum terms and conditions for staff employment. Responsibility for employee relations will reside with the Operator.

GWRC is interested in engaging Operators with good employee relations and practices. Therefore Tenderers' approach to staff relationships, recruitment, training and welfare will form part of the RFT quality evaluation criteria.

This includes assessment of Tenderers' responses on:

- Employer principles
- Staff recruitment and training plan
- Approach to staff engagement
- Union engagement
- Change management
- Levels of absenteeism
- Health and safety approach and track record

Operator plans relating to staff will form part of the contract and will be monitored for compliance and action by GWRC.

2.1.16 Health and safety

The draft Contract recognises that safety is of paramount importance. The Operator is required to comply with safety laws, directions and codes of practice, and provide training for staff and supervision of contractors, to complete regular risk assessments and reports and to prepare and act in accordance with a Health and Safety Management Plan.

2.1.17 Customer communication

The draft Contract provides that the responsibility for communication with customers is allocated as follows:

Table 5 – Communication channels

Communication channel	Primary responsibility
Website, social media, call centre, email address, apps, APIs, widgets including all future customer communication channels created by GWRC	GWRC
Real Time Passenger Information System (RTPI System) signs at bus stations and bus stops	GWRC
Printed timetables	GWRC
Printed collateral such as brochures and posters	GWRC
In – Vehicle announcements	Operator
Media management	GWRC

2.1.18 Branding

The Partnering Contract provides that the Operator will:

- use one brand, specified by GWRC (currently Metlink)
- be permitted to place its name on GWRC branded buses
- be required to provide staff uniforms that record both the GWRC brand (i.e. Metlink) and the Operator's name.

2.1.19 Advertising

In the Council Report of 7 December 2015 (Report RPE 15.622), officers noted the intention that GWRC will manage all advertising on the exterior and interior of buses and retain 80% of the revenue generated from it. GWRC intended to share 20% of net advertising revenue with operators.

However, officers received feedback from some operators that this is not worth the administrative effort. In addition, for some operators unfamiliar with the local advertising market, this revenue would be difficult to estimate and would therefore be discounted, leading to an unfair advantage to incumbent operators who are familiar with local bus advertising and better able to price this revenue into their bids.

As a consequence of operator feedback, GWRC will now retain 100% of the revenue generated from advertising, ensuring all Tenderers are on an equal footing.

2.1.20 Conditions of carriage

In the Council Report of 7 December 2015 (Report RPE 15.622), officers noted the intention that Operators will be required to include minimum core provisions supplied by GWRC in their conditions of carriage. As there will be a number of different operators in the Wellington Public Transport Network, officers have reconsidered this approach and GWRC will now be responsible for a common set of conditions of carriage across all public transport modes on the Network.

2.1.21 Risks and responsibilities of GWRC

GWRC will be responsible:

- for fare and timetable requirements
- to receive the fare box revenue (cash) from the Operator
- to carry all fare box revenue risk for cash
- to provide and maintain all GWRC Systems related to customer service, for example:
 - the RTPI System
 - the Ticketing System
- to pay for the capital investment required to procure the Ticketing System that underpins the IFT Programme
- to pay for and manage the Metlink Service Centre and all related communication to customers as set out above at Table 5
- to pay for and arrange the annual Customer Satisfaction Survey undertaken.

2.1.22 Infrastructure and facilities

GWRC will develop operating protocols for multiple operators to utilise the Lambton Interchange.

The Contract provides that GWRC will use its best endeavours to make certain facilities available for use by the Operator, including terminal locations and layover spaces. As these facilities are not within the control of GWRC, GWRC's responsibilities are limited to best endeavours. The Operators therefore remain responsible for negotiating and agreeing the rights to use terminal locations (except for Lambton Interchange), layover spaces and any other facilities required for them to provide the services.

Attachment 4 – Assurance Letter from Deloitte

Restricted public excluded