

Report RPE17.124
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Committee Council
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Procurement of Public Transport Services

1. Decisions sought

- 1 This Report seeks Council decisions to:
 - a. Note the Preferred Tender Outcome¹ that has been determined by the Tender Selection Group for nine Bus Units being procured by tender in accordance with the Government's Public Transport Operating Model (PTOM) as described in Attachment 1
 - b. Approve the appointment of Tranzit Group Ltd (Tranzit) and Madge Coachlines Limited (Madge) as the Preferred Tenderers
 - c. Delegate authority to the Chief Executive to:
 - i. approve the finalisation and issue of an 'Appointment of Preferred Tenderer' letter to Tranzit and Madge
 - ii. appoint a negotiation team
 - iii. agree a negotiation brief, and
 - iv. execute Partnering Contracts (Contracts) with the Preferred Tenderers subject to a satisfactory outcome to negotiations on final terms and conditions.

2. Public Exclusion

This Report and the meeting at which it is to be considered are excluded from the public under section 48(1) of the Local Government Official Information and meetings Act 1987.

Grounds for exclusion of the public under section 48(1) are:

Certain information contained in this report relates to future bus service contracting in the Wellington region.

¹ The combination of Tenders that gives the best value-for-money outcome for GWRC, subject to due diligence

Certain information contained in this Report is subject to an obligation of confidence.

Release of this information would be likely to harm the commercial position of Greater Wellington Regional Council (GWRC) and also harm the commercial position of preferred tenderers and current providers as it sets out pricing and fleet options which, if adopted by Council, might expose preferred tenderers and current providers to commercial risks.

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. Prior Council decisions

The decisions sought today are the culmination of a series of related decisions that have been made by Council since June 2014. A record of the key Council decisions can be found in Attachment 2.

4. Executive Summary

The GWRC Tender Selection Group has chosen two Preferred Tenderers - Tranzit Group Ltd (Tranzit) and Madge Coachlines Ltd (Madge) for the nine tendered Bus Units.

This follows a competitive Request for Tender (RFT) process launched on 11 August 2016, in accordance with the Government's Public Transport Operating Model (PTOM), to provide better value for money and a better customer experience and ultimately grow public transport patronage.

The process is based on international best-practice, with advice from internal and external experts, and assistance from the New Zealand Transport Agency and a range of appropriately qualified and experienced advisors including Deloitte, DLA Piper, Robert Buchanan and Emission Impossible.

Council was briefed and consulted through a series of workshops, committee and Council meetings throughout the procurement and RFT development process.

The bus tender process has achieved Council's objectives to promote competition and grow confidence that services are provided efficiently. It attracted 86 tenders from nine Tenderers (including several international operators), resulting in a competitive process that provided the best outcomes for ratepayers, taxpayers and fare payers.

Subject to the outcome of the negotiations with Tranzit and Madge it is expected that the tender process will deliver cost reductions of \$ [REDACTED] that Council may invest in high priority initiatives for the benefit of the people of the region.

s7(2)(i) -
negotiation

The Preferred Tender Outcome will deliver a new more environmentally friendly bus fleet with 3 percent lower GHG emissions than the minimum emission standards specified in the RFT. Importantly, the Tenderers' bus fleet will improve air quality,

reducing emissions of harmful pollutants by at least 38 percent in Wellington and 84 percent in the Hutt Valley.

Though electric buses are not part of the Preferred Tender Outcome, Councillors have the opportunity today to instruct the Chief Executive to pursue a variation to Tranzit's Preferred Tender that would yield 32 full battery electric double decker buses operating in Wellington city and a further reduction in emissions at a modest increase to the price of the Preferred Tender of Tranzit.

If approved by Council, GWRC will begin negotiations with the Preferred Tenderers – Tranzit Group and Madge Coachlines – both locally-owned, family businesses that will bring a modern and best of breed bus service to the region and its people.

Tranzit Group and Madge Coachlines achieved or exceeded the criteria set in the tender and were rated best on a combination of price and quality. They also scored highly for their employment relations, organisational cultures, work-life balance, and health and safety performance.

Tranzit Group and Madge Coachlines will introduce 250 brand new buses into the region's bus fleet and all of them will be wheelchair accessible.

5. Achievement of the objectives of PTOM and Council objectives

The Tender Selection Group consider the procurement process for the nine tendered Units has been successful in achieving the key objectives of PTOM and specific objectives identified by Council, including those in the 2015 Bus Fleet Strategy:

PTOM objectives	Outcome
To grow confidence that there is access to public transport markets for competitors	Achieved: 9 Tenderers submitted tenders (including 4 incumbents and 3 international Tenderers)
To grow confidence that services are priced efficiently	Achieved: 86 Tenders were received from the 9 Tenderers demonstrating strong competition
To create incentives for services to become fully commercial	Achieved: The terms and conditions of the draft Partnering Contract incentivise patronage and revenue growth
GWRC's objectives for the Wellington region	Outcome
Two-thirds of the fleet will be 5 years old or younger	Exceeded: In the Preferred Tender Outcome all 250 proposed buses will be new buses
75% of the fleet will be Euro IV or better	Exceeded: in the Preferred Tender Outcome 228 buses (91%) will be Euro VI and 22 buses (9%) will be Euro V
A 33% reduction in emissions of harmful pollutants per bus km travelled in Wellington City	Exceeded: The Preferred Tender Outcome will achieve a 40% reduction in harmful pollutants per bus km travelled in Wellington City
Value for money	Achieved: Preferred Tender Outcome comprises a combination of Tenders from Tranzit and Madge that

	achieved the highest value for money outcome across the Tendered Units
First council to operate a full battery electric bus (FBEV) fleet	Progress achieved – the Preferred Tender Outcome comprises all diesel-fleets, however an opportunity exists to negotiate a variation with Transiti to include some Full Battery Electric Vehicles (FBEVs) from Day One should this still be desired by Council

The July 2018 Commencement Date of the tendered Partnering Contracts is a significant milestone in the modernisation of GWRC’s Metlink regional bus services that will include:

- new and extended routes
- increased service coverage, service frequency and span of service
- improved customer information about services
- new vehicles
- new livery, and
- standardised electronic ticketing on buses across the region.

These factors are expected to make bus travel a more attractive option for people in the Wellington region and lead to patronage growth.

Some of this patronage growth will be achieved by modal shift from private motor vehicles - leading to reduced congestion and further declines in the emission of harmful pollutants and greenhouse gases in the Wellington region.

6. Criteria, management and governance of tender process

GWRC’s procurement documentation (Procurement Strategy, RFT, Partnering Contract and the Tender Evaluation and Selection Plan) was informed by the best practice approaches taken in other comparable jurisdictions and extensive engagement with the bus industry. It was developed by GWRC with assistance from the Transport Agency and a range of appropriately qualified and experienced external advisors including:

- **Deloitte** – financial and commercial
- **DLA Piper** – legal
- **Robert Buchanan** – probity
- **Emission Impossible** – vehicle emissions.

GWRC adopted the Transport Agency’s Price Quality Methodology (PQM) for the evaluation of Tenders, with the objective of obtaining best value for money. The weighting applied to price and quality was:

Price	Quality
60%	40%

Table 1 Price Quality Weighting

The following adaptations were made to the PQM methodology to accommodate GWRC's specific objectives for the procurement process:

- A quantitative assessment of the emissions profile of each bus fleet tendered was included
- Tenderers were allowed to specify their maximum contractual capacity in terms of Peak Vehicle Requirements (PVR)
- A market concentration assessment was included to assess the possible impact on competition in GWRC's future bus tender rounds; and
- Preferred Tenderers were selected on the basis of the best value for money at a region-wide level for tendered Units (rather than at individual Unit level).

Council was briefed and consulted through a series of workshops, committee and Council meetings throughout the procurement and RFT development process.

On 23 June 2016 Council authorised the Chief Executive to approve the issue of the RFT to the bus operator market following the approval of the RFT documentation by the Transport Agency.

The Transport Agency reviewed the procurement documentation and provided its endorsement that the Request for Tender met all legislative requirements and was fit for purpose.

Prior to final approval of the RFT documentation by the Chief Executive the following confirmations were provided by key advisors:

- **Deloitte:** confirmation that the draft Contract is fit for purpose from a financial and commercial perspective, and that industry concerns with the initial draft contract were adequately and appropriately addressed;
- **DLA Piper:** confirmation that the draft Contract allocates risks appropriately taking into account international market precedents;
- **Robert Buchanan:** confirmation that the RFT process to date and associated documents had due regard for probity from an advisory perspective;
- **Audit New Zealand:** assurance that the RFT process to date and associated documents had due regard for probity from an audit perspective.

The RFT was released to the bus market on 11 August 2016.

Tender evaluation and selection

The Tender Selection Group followed a thorough and robust process as set out in the Tender Evaluation and Selection Plan (the Plan). A high level of probity oversight by both the Probity Advisor and Probity Auditor occurred throughout the process.

Separate Tender Evaluation Groups were responsible for different aspects of the tender evaluation process. Membership of the Tender Evaluation Teams was carefully selected

to provide a balance of independence, critical thinking, subject matter expertise, internal knowledge and external viewpoints.

The evaluation of the quality aspects of all Tenders was undertaken by the Quality Evaluation Group, comprising five evaluators with a wide range of experience in bus operations, public transport planning, human resources and customer service:

- Brian Baxter (Chair) – with over 25 years experience working in public transport and a former Manager of the Public Transport Group at GWRC
- Peter McKenzie – a transport professional with over 20 years experience leading large complex operations and consulting experience providing advice to government
- Lori Bradley – An HR and operations professional with former experience working in the bus industry in Wellington for NZ Bus
- Jane Hornibrook – a specialist consultant with 15 years experience across a board spectrum of planning, development and implementation of transport
- Rob Braddock (GWRC) – has been with GWRC for over 10 years in ferry and bus operations and currently heads up the bus service delivery team.

The evaluation of emissions was undertaken by the Emissions Evaluation Group comprised of:

- Andrew Cooper (GWRC) – currently Programme Director, Bus Services Transformation and an experienced transport consultant
- Dr Gerda Kuschel (Emission Impossible Ltd) – a technical specialist in air quality policy development, health effects of air pollution, assessing effects of land transport, monitoring of vehicle emissions and cost benefit analyses.

The evaluation of price was undertaken by the Price Evaluation Group comprised of:

- Jonathon Gear (GWRC) (Chair) – currently Financial Advisor – PTOM and an experienced financial and commercial professional
- Charlotte Vaughan (GWRC) – currently Strategic Business Partner with a background in evaluation, strategic procurement and financial reporting
- Deloitte – financial and commercial advisors.

Due diligence was undertaken by the Due Diligence Evaluation Group comprised of:

- Jonathon Gear (GWRC) (Chair) – currently Financial Advisor – PTOM and an experienced financial and commercial professional
- Ai-Bee Tan (GWRC) Senior Legal and Commercial Advisor with over 20 years of experience providing advice on procurement, contracting and commercial transactions
- Samantha Gain (GWRC) Manager Procurement and Contracts and a lawyer with over 20 years experience in procurement and commercial contracting
- Deloitte – financial and commercial advisors
- DLA Piper – legal advisors.

Governance of the tender evaluation process was provided by the Tender Selection Group, comprising five senior managers and executives – three from GWRC and two externals:

- Wayne Hastie (Chair) GM, (GWRC) – has 10 years experience as GWRC’s GM, Public Transport and has been involved with PTOM from the inception
- Dave Humm – Corporate Services/CFO (GWRC) – a well-rounded strategic executive and financial leader with a broad range of experience working in diverse companies both in New Zealand and abroad
- Rhona Hewitt – Project Manager, Network, Customer and Transition (GWRC) – has been with GWRC for over 10 years and has held a variety of positions in the Public Transport Group
- Ian Dobbs – with 39 years experience managing bus, rail and tram companies and transport networks in Australasia and the UK; and
- Robin Barlow – experienced in tendering and contract design for urban bus services and providing advice to government on public transport services.

7. Tenders received

86 Tenders were received from 9 Tenderers of which:

- 38 were for individual Bus Units
- 48 were for bundled combinations of Bus Units

and

- 78 proposed diesel buses only
- 6 proposed a mix of diesel and hybrid buses
- 2 Alternative Tenders² proposed a mix of diesel and full battery electric vehicles (FBEVs).

8. Successful and unsuccessful Tenderers

The application of GWRC’s tender evaluation and selection methodology yielded a Preferred Tender Outcome including Tranzit Group Ltd as the Preferred Tenderer for 8 Units and Madge Coachlines Limited (trading as Uzabus) as the Preferred Tenderer for 1 Unit:

Bus Unit	Preferred Tenderer	Fleet type
1. North-South Spine	Tranzit Group Ltd	New Euro VI diesel
4. Khandallah/Aro	Tranzit Group Ltd	New Euro VI diesel

² A Tender which offers a change from the requirements specified in the RFT and which complies with section 7.2 (Alternative Tenders) of the RFT.

Bus Unit	Preferred Tenderer	Fleet type
7. Brooklyn/Owhiro	Tranzit Group Ltd	New Euro VI diesel
9. Lower Hutt	Tranzit Group Ltd	New Euro VI diesel
10. Upper Hutt	Tranzit Group Ltd	New Euro VI diesel
11. Wainuiomata	Tranzit Group Ltd	New Euro VI diesel
13. Porirua	Tranzit Group Ltd	New Euro VI diesel
14. Kapiti	Madge Coachlines Limited	New Euro V diesel
15. Wairarapa	Tranzit Group Ltd	New Euro VI diesel

Table 2- Outcome of the Process by Bus Unit

The Tenderers that are not within the recommended Preferred Tender Outcome are:

1. [REDACTED]
2. [REDACTED]
3. [REDACTED]
4. [REDACTED]
5. [REDACTED]
6. [REDACTED]
7. [REDACTED]
8. [REDACTED]

s7(2)(b)(ii) - commercial position

s7(2)(c)(ii) - confidential

9. The Preferred Tenderers and their strengths

9.1. Tranzit Group Ltd (Tranzit)

Tranzit is a substantial private Masterton-based company, owned by four generations of the same New Zealand family, since it was established in Masterton 1924. It provides bus services across many sectors including urban and regional public transport, schools, Special Needs Transport (SESTA), charters, tours, private contracts and major events.

Tranzit also has involvement in bus and coach sales/leasing/long -term rental and fleet management.

Tranzit currently operates contracted bus services for GWRC in the Wairarapa and two other North Island regional authorities - Horizons Regional Council and Taranaki Regional Council. Tranzit is also a major supplier of Metlink rail replacement services to Transdev Wellington Ltd. These contracts represent a small part of Tranzit's current total business, which also includes charter, school and special education needs bus services, a 46.3% shareholding in Intercity Coachlines and a vehicle rental business (Cross Country Rentals).

Tranzit currently operates a total fleet of over 900 vehicles (excluding Intercity Coachlines) across New Zealand and currently operates within the Wellington region from depots in Masterton and Kilbirnie.

Key strengths of Tranzit that led to it scoring well in the non-price parts of the Process include:

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

s7(2)(b)(ii) - commercial position

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

s7(2)(b)(ii) -
commercial
position

9.2. Madge Coachlines Limited (Madge)

Madge is a family-owned private company based in Palmerston North and established in 1948. It is the incumbent operator for GWRC's Otaki service (1 vehicle) and holds contracts for the delivery of urban services in two other regions - Bay of Plenty Regional Council, and Horizons Regional Council.

Madge also holds contracts to deliver school bus services, Special Needs Transport (SESTA) and cruise tours.

Madge currently utilises a fleet of approximately 280 buses across its operations.

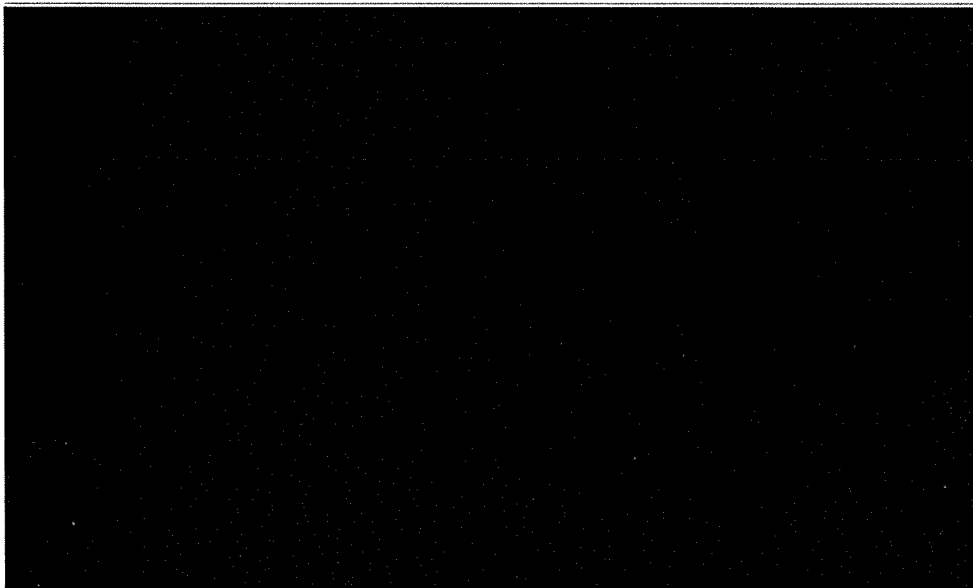
Key strengths of Madge that led to it scoring well in the non-price parts of the evaluation include:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

- [REDACTED]

9.3. Preferred Tenderer's quality scores

Figure 1 below shows where the total weighted quality score of each of the Preferred Tenderers sits within the range of weighted quality scores of all Tenderers.



s7(2)(b)(ii) -
commercial
position

Figure 1 - Weighted quality scores of the Preferred Tenderers against the range of all Tenderers

10. Outcomes for Council

10.1. Emissions

The Bus Fleet Strategy presented to Council in December 2015 targeted the following improvements in the regional bus fleet as a result of the PTOM procurement process:

- a move from two-thirds of the fleet being 11 years or older to two-thirds of the fleet 5 years or younger
- a move from two-thirds of the fleet being Euro III or worse to three-quarters of the fleet being Euro IV or better, and
- a 33% reduction in emissions of harmful pollutants per bus km travelled in Wellington city.

Reflecting the importance to GWRC of lowering emissions (both greenhouse gas (GHG) and harmful pollutants) from the regional bus fleet, Tenderers were encouraged to offer fleet that meets GWRC's aspirations.

The tender evaluation process included the quantitative evaluation of the emissions profiles of all bus fleets tendered for GHG and other harmful pollutants over the nine-year life of the contract. The Process then calculated an Emissions Improvement Premium (EIP) for each Tender. The EIP of each Tender was then used to adjust the

price of each Tender for the purpose of evaluation and determining the Preferred Tender Outcome. Refer to Attachment 3 for further information.

Emissions were 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 EIP results were consistent with expectations, with results accurately reflecting the relative differences in the various fleets proposed by Tenderers, i.e. lower emission bus fleets (e.g. those with Euro VI, hybrids and electrics) were rewarded with a higher EIP than those fleets with older, higher emitting technologies (e.g. those with predominantly Euro III and Euro V fleets).

The Preferred Tender Outcome will deliver:

- 250 new buses (i.e. there are no existing or second hand buses proposed in the Preferred Tender Outcome),
- 228 (of the 250) new Euro VI buses operating in all Units except Kapiti, and
- 22 new Euro V buses operating in Kapiti.

10.2. Reduction in harmful pollutants

New Euro V and VI diesel buses will deliver a substantial reduction in the emissions of harmful pollutants when compared against the current regional bus fleet and the minimum standards specified in the RFT.

The final makeup of the bus fleets in the DAUs is not known at this time. However combining the fleet profiles in the recommended Preferred Tender Outcome with a worst case outcome scenario from the DAU fleets³ will deliver:

- at least 80% of new diesel buses being rated Euro V (25%) or Euro VI (55%)
- at least a 40% reduction in emissions of harmful pollutants per km in Wellington City, when compared with the current bus fleet (including trolley buses) operating in Wellington City
- an 84% reduction in emissions of harmful pollutants per km in the Hutt Valley when compared with the current bus fleet operating in the Hutt Valley.

The incentives and signals contained in the RFT for low emission fleets have achieved the desired outcome of a low emission bus fleet for the tendered Units. When compared against the emissions from a bus fleet that meets the minimum emission standards specified in the RFT, the Preferred Tender Outcome delivers an 89% reduction in

³ Note that a worst case scenario outcome for the Direct Appointed Units assumes a mix of Euro III and Euro V buses and no Wrightspeed buses from NZ Bus

harmful pollutants, as illustrated in Figure 2 below. Of particular note is the significant reduction in the most harmful of diesel pollutants, NOx and PM₁₀.

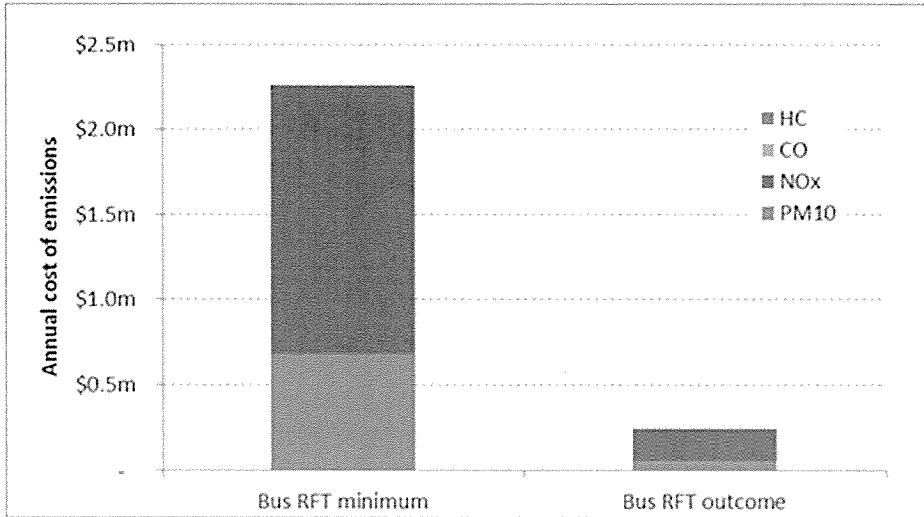


Figure 2: Economic social cost of emissions of harmful pollutants

10.3. Impact on greenhouse gas emissions

With all new diesel buses, primarily of Euro VI standard, the Preferred Tender Outcome will also deliver 3% lower GHG emissions than a bus fleet that meets the minimum emission standards specified in the RFT, as illustrated in Figure 3 below.

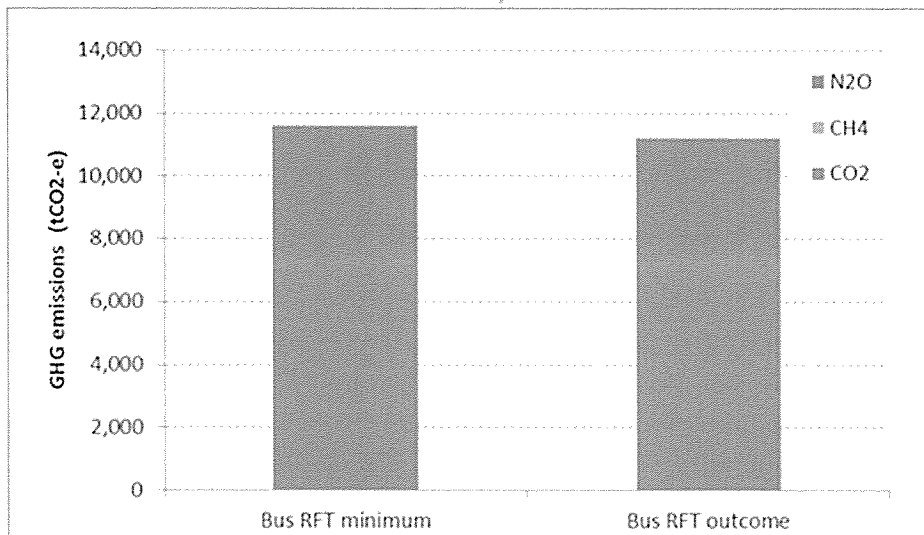


Figure 3: Economic social cost of emissions of greenhouse gases

11. Workforce

11.1. GWRC's role

As agreed by Council, the PTOM bus tender process 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.

[REDACTED]

s7(2)(g) -
legal privilege

By using the Price Quality Method (PQM) for tender evaluation, GWRC has sought to strike a balance between quality and price. Best value for money (not lowest cost) was one of GWRC's objectives for the tender process. As part of the quality assessment, those operators able to demonstrate strong staff engagement and welfare, amongst other considerations, received higher scores.

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

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

The evaluation team verified statements made by Tenderers on the above responses via reference checks.

11.2. Employment outcomes

Throughout the tender process GWRC has been mindful that any tender outcome that resulted in a loss of market share by the incumbent operators would likely result in some employees of the incumbent operators, in particular bus drivers, needing to move from their existing employers to new employers should they wish to continue to work in the bus industry in the Wellington region.

For this reason, consideration of the reputation of Tenderers and their approach to the management of any future workforce were key considerations in the tender evaluation process.

With respect to **Tranzit** the tender evaluation process identified the following key strengths as an employer:

- From an organisational culture perspective a strong and deeply embedded family-focussed culture that aims to provide work life balance to staff, while being flexible and adaptable. Tranzit's approach is to treat staff how they would wish to be treated. Management's approach is to be highly visible to its drivers and to have one-on-one time with staff at all levels
- A commitment to 'maintaining high level of commitment to ongoing training and development, including induction, H&S and customer experience'
- A focus on improving the diversity and resilience of the workforce. [REDACTED]
- A well-developed approach to health and safety in employment and operations. Tranzit has a 5-star rating in NZTA's Operator Rating System and has tertiary accreditation with ACC
- Well-developed recruitment strategies and approach identified together with a method for achieving each. For example each new driver applicant is assessed for service industry focus and driving skills in a pre-employment drive in a bus or car.

s7(2)(b)(ii) -
commercial
position

With respect to **Madge**, the evaluation process identified the following key strengths as an employer:

- A strong corporate culture expressed via Mission and Vision Statements and evidenced by the lowest absenteeism rate of all Tenderers
- Demonstration of good understanding of the Employment Relations Act citing productive relationships, trust, good faith behaviour, individual's right to representation/collective bargaining

- Madge 'is known as a good employer' due to the provision of training programmes, quality facilities, inviting work environment and strong workforce relationships
- A detailed H&S programme with a Zero Harm culture.

The Tender Selection Group is satisfied that Council's decision to approve the Preferred Tender Outcome will lead to employment opportunities with new operators for affected employees.

From the award of the Partnering Contracts GWRC will monitor the investment of all contracted bus operators in their workforces by requiring relevant plans (e.g. training plans and health and safety plans) to be submitted for review and approval by GWRC each year through the annual business planning process.

12. Tender prices and cost reduction for GWRC ratepayers and taxpayers


12.1. Preferred Tender Outcome: Prices

The Tender Process compared the prices of each Tender by reference to their 9 year Net Present Value (NPV).

The prices of the Preferred Tenders are:

- Madge:
 - \$3.2m base fee annually
 - \$20.2m 9 year NPV.
- Transit
 - \$37.2m base fee annually
 - \$238.2m 9 year NPV.

12.2. Cost reductions to benefit ratepayers and taxpayers

 This reflects the intense competition amongst Tenderers to win GWRC's contracts.

s7(2)(i) -
negotiation

Cost reductions via the tender process are consistent with the intent of PTOM, i.e. to 'incentivise the delivery of effective public transport services to communities, grow

⁴ Based on the 2018/19 year, in tender close date dollars (November 2016)

patronage, maximise farebox revenue, and improve commerciality' and thereby reduce public transport subsidies paid by taxpayers via the National Land Transport Fund (NLTF).

The future cost of providing all Metlink bus services will not be known until negotiations are concluded with Tranzit and Madge, and pricing has been agreed for the Directly Appointed Units (DAUs) with NZ Bus and Mana.

12.3. How cost reductions may have been achieved by the Preferred Tenderers

Prior to the release of the RFT, GWRC commissioned Deloitte to prepare an estimate of the likely future cost of providing bus services in the region.

The estimate (known as the Shadow Bid) was informed by reference to Australasian metrics for urban bus operations, with adjustments to reflect the unique characteristics of the Wellington operating environment.

The Shadow Bid was lower than GWRC's long term forecast of future costs which indicated that the Tender Process was likely to lead to savings.

The competition generated by the Tender Process has resulted in an outcome that is below the Shadow Bid, meaning that the cost reductions are greater than expected.

Pricing information that GWRC required from Tenderers in their Tender submissions and subsequently requested has enabled GWRC to analyse at a general level how the Preferred Tenderers' cost reductions against the Shadow Bid have been achieved. This analysis has found that cost reductions have been achieved across all cost components as illustrated in figure 4.



s7(2)(b)(ii) -
commercial
position

Figure 4 - Bridge from the Shadow Bid to Preferred Tender Outcome



[REDACTED]

s7(2)(b)(ii) -
commercial
position

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Following these discussions, the Chief Executive authorised the Tender Selection Group Chair to conduct preliminary negotiations on a strictly confidential and non-binding basis with Tranzit to seek a variation to its preferred tender. Those preliminary negotiations have been conducted and the changes between Tranzit's preferred (all diesel) Tender and the variation are summarised below:

- Changes to Fleet profile
 - In July 2018: introduce 10 FBEV double-deckers, offset by 10 less diesel double-deckers
 - By July 2020: introduce 10 more FBEV double-deckers and remove 10 diesel large buses from Tranzit's Wellington fleet
 - By July 2021: introduce 12 more FBEV double-deckers and remove 12 more diesel large buses

s7(2)(b)(ii) - commercial position

- [REDACTED]
- [REDACTED]
- Changes to emissions⁵:
 - Emissions that are harmful to human health reduce by a further 1%
 - GHG emissions that contribute to climate change reduce by a further 11% against the minimum fleet standards in the RFT.

If accepted by Council, recommendation 12 of this Report would enable Councillors to authorise the continuation of commercial-in-confidence negotiations with Tranzit for the variation described above, subject to a specified ceiling of any increase in the 9 year NPV. The Tender Selection Group has taken probity and legal advice on this approach, which is permissible using GWRC’s reserved right referred to earlier and is also considered not to raise any significant or measurable issue of unfairness to any Tenderer which may have elected not to submit a FBEV Alternative Tender based on the RFT.

15. Next Steps

15.1. Appointment of Preferred Tenderer Letter

Subject to Council’s endorsement of the recommendations in this Report, it is proposed that an “Appointment of Preferred Tenderer Letter” (Letter) be sent to Tranzit and Madge.

The “Appointment of Preferred Tenderer Letter” will state that Council have agreed to appoint of Tranzit and Madge as the Preferred Tenderers and Partnering Contracts will be awarded, subject to the following conditions being satisfied:

s7(2)(b)(ii) - commercial position

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

⁵ When compared to network wide view of Preferred Tender Outcome and worst case DAU outcome

- [REDACTED]
- [REDACTED]
- [REDACTED]

s7(2)(b)(ii) - commercial position

15.2. Communications

The communications plan is attached to this report; refer Attachment 4.

Subject to Council’s endorsement of the recommendations in this Report, the communications plan will be implemented immediately after the meeting. In essence Council’s decision will be communicated as follows:

Stakeholder	Form of communication	Timing - elapsed after conclusion of Council meeting (subject to Council acceptance of recommendations)
Preferred tenderers	Phone call followed by emailed letter signed by CE	Within 1 hour
Unsuccessful Tenderers	Phone call followed by emailed letter signed by CE	Within 2 hours. Letter will advise that Tenders remain open for acceptance for 270 days from the Tender Closing Date and included up an offer to de-brief with GWRC.
Mayors and TLA CEs	Emailed letter from CE	After 2 hours
Minister and local MPs	Emailed letter from CE	After 2 hours
MOT	Emailed letter from CE	After 2 hours
NZTA	Emailed letter from CE	After 2 hours
Unions	Emailed letter from CE	After 2 hours
Media	Media release (will be copied to Councillors)	Embargo lifted after 2 hours
GWRC staff	CE email	After 2 hours
Tender evaluators	TMG Email	After 3 hours

15.3. Delegation to the Chief Executive

This Report seeks the approval of Council to delegate authority to the Chief Executive to:

- Appoint negotiators to negotiate final terms with the Preferred Tenderers

- Approve negotiation briefs setting out GWRC's required amendments to the draft Partnering Contracts, and
- Execute Partnering Contracts with Tranzit and Madge, subject to negotiation being completed to the Chief Executive's satisfaction.

15.4. Undertaking negotiations with Preferred Tenderers

The Tender Selection Group is confident that negotiations will be completed to GWRC's satisfaction and Contracts executed on or before 30 June 2017.

15.5. Report Back to Council

Following the conclusion of negotiations with the Preferred Tenderers and the signing of Partnering Contracts, a Report will be provided to Council that sets out the outcome of negotiations and plans for the management of the transition through to commencement date.

16. Context for Council decisions

To fully inform Councillors' consideration of this Report and decision-making, Attachment 5 to this Report provides Council with information about:

- The significance of the decisions sought
- The management of probity, and
- The assurance of process integrity.

17. Recommendations

It is recommended that that the Council:

1. *Receives the Report.*
2. *Notes the content of the Report.*
3. *Agrees that the matters for decision in the report have a low degree of significance.*
4. *Agrees that nothing in section 97(1) of the Local Government Act 2002 applies to the matters for decision in this Report.*
5. *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:*
 - a. *Agrees that the extent to which different options particularly regarding fleet have been identified and assessed is appropriate*

- b. *Agrees that the degree to which advantages and disadvantages of options have been quantified is appropriate*
 - c. *Agrees that the extent and detail of the information before the Council is appropriate.*
6. *Notes the outline of the tender evaluation and selection process and the other information set out in this report to support these recommendations from the Tender Selection Group including the financial implications.*
 7. *Notes the probity assurance provided by Audit New Zealand.*
 8. *Notes that the integrity of the process has been assisted by the involvement of Deloitte and Emission Impossible in the evaluation process and by PWC in respect of its testing of the mathematical accuracy of the excel evaluation model.*
 9. *Notes the recommendation of the Tender Selection Group following evaluation to appoint the following as the Preferred Tenderers:*
 - a. *Madge Coachlines Ltd for Unit 14, and*
 - b. *Tranzit Group for Units 1, 4, 7, 9, 10, 11, 13 and 15.*
 10. *Agrees with respect to Unit 14 that Madge Coachlines Ltd be offered a Partnering Contract for its Euro V diesel tender at a 9 year NPV of \$20,236,441 subject to Madge's acceptance of the matters to be negotiated that are set out in section 10 of this Report.*
 11. *Agrees with respect to Units 1, 4, 7, 9, 10, 11, 13 and 15 that Tranzit Group Ltd be offered a Partnering Contract for its Euro VI diesel Preferred Tender at a 9 year NPV of \$238m, subject to Tranzit's acceptance of the matters to be negotiated that are set out in Section 10 of this Report.*

<p>note: minutes refer to section 13 for these two recommen- dations</p>
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And if Council wishes to advance its stated vision to be the first council to have a full battery electric bus fleet:

12. *Directs and authorises the Chief Executive to continue the non-binding, commercial-in-confidence discussions with Tranzit referred to in section 9.2 of the Report with a view seeking the replacement of 32 diesel buses with 32 full battery electric double-decker buses for use in Wellington City provided that this does not increase the 9 year NPV by more than \$11 million.*
13. *Authorises the Chief Executive to:*
 - a. *approve the finalisation, execution and issue of the Appointment of Preferred Tenderer Letter to Tranzit and Madge, and to appoint negotiators*

- b. *approve negotiation briefs*
 - c. *appoint a team to negotiate with the Preferred Tenderers.*
14. *Authorises communication of the outcome of the Tender Process in accordance with a Communications Plan approved by the Chief Executive and agrees that during the period of negotiation, all other communications regarding the Tender process, including the content of this report, are of a confidential nature and are to be managed by the Chief Executive.*
 15. *Authorises the Chief Executive to consider and approve on behalf of the Council to any further amendments to the final form of the Partnering Contracts and all related transaction documents.*
 16. *Agrees to the execution of the Partnering Contracts and all related transaction documents and Authorises the Chief Executive to execute them on behalf of the Council.*
 17. *Authorises the Chief Executive to consider and make decisions on behalf of the Council about the satisfaction or otherwise of the milestones and conditions precedent referred to in Appendix 2 (Milestone Dates) to Schedule 13 (Transition Plan) of the Partnering Contracts, to exercise the rights of the Council under clause 2.5 of the Partnering Contracts and to execute, complete and return a copy of the preliminary commencement certificates under clause 2.7 of the Partnering Contracts.*
 18. *Agrees that the matters set out in recommendations 11, 12, 14 and 17 are consistent with the purpose of local government defined in section 10 of the Local Government Act 2002.*

Report prepared by:

Wayne Hastie

General Manager, Public Transport

Report approved by:

Greg Campbell

Chief Executive

Attachments

- Attachment 1: PTOM information sheet
- Attachment 2: Key Council decisions
- Attachment 3: Further information about the calculation of the Emissions Improvement Premium

Attachment 4: The communications plan

Attachment 5: Context for Council decisions

Appendix 1: Deloitte letter

Appendix 2: Emission Impossible letter

Appendix 3: PwC letter

Appendix 4: Audit NZ assurance letter

Attachment 1: PTOM information sheet

Implementation of the Public Transport Operating Model update



JULY 2012

Key points

- New legislation is being enacted to implement the Public Transport Operating Model (PTOM).
- The intent is to incentivise the delivery of effective public transport services to communities, grow patronage, maximise farebox revenue, and improve commerciality.
- A partnership approach between operators and regions (including regional councils, unitary authorities and Auckland Transport) is essential.
- Units, which are the building blocks of the network and services, will be defined in regional public transport plans (RTPs).
- Regions need to consider the implications of PTOM now, and if necessary, change their strategic public transport planning and procurement approach in consultation with the NZ Transport Agency (NZTA).
- The NZTA is developing policies and procurement requirements – from now on all new bus and ferry contracts must be aligned to the PTOM approach.

Introduction

PTOM, announced by the government in March 2012, is a combination of planning, funding and procurement tools all aimed to improve the efficiency and effectiveness of public transport for New Zealanders. PTOM is intended to build long-term partnerships between regions and bus and ferry operators, which will incentivise the delivery of effective public transport services to communities. A bill to enact PTOM is likely to be introduced to parliament before the end of calendar year 2012. The aim of PTOM is to grow patronage with less reliance on public subsidies. It has two key objectives:

- To grow the commerciality of public transport services and create incentives for services to become fully commercial, and
- To grow confidence that services are priced efficiently and there is access to public transport markets for competitors.

PTOM has been developed by representatives from the public transport sector as part of a review of the Public Transport Management Act 2008. While the Ministry of Transport will manage legislative change, the NZTA will review its policies and procurement requirements to implement PTOM. Regions need to review their public transport planning policies and procurement approach in order to implement PTOM. They can implement the model ahead of legislative change if they wish, with approval from the NZTA.

Metro passenger rail will be incorporated into the legislation, but Cabinet is yet to decide which components of PTOM will apply to rail.



Purpose

This update provides information to regions about the new PTOM. It is intended to provide interim guidance before legislation is finalised, NZTA procurement rules are updated, and formal guidance is produced.

In the absence of such guidance, regions whose bus service contracts expire within the next two years need to review this update and contact NZTA regional staff to discuss how best to incorporate PTOM into their planning and procurement practices. This is because current NZTA procurement rules are not necessarily consistent with the planned PTOM changes and the NZTA must ensure that any new contracts entered into by regions are aligned with the new approach.

Strategic context has changed

PTOM is a strategic change in the way public transport is planned and procured. It provides an opportunity for regions to work in partnership with operators to achieve improved competition and value for money outcomes that may not previously have been possible, while improving the effectiveness of services delivered to communities. Over time all regions are expected to review their procurement strategies to incorporate PTOM requirements. Such reviews are consistent with the NZTA's *Procurement manual*.

The change will be less significant for smaller regions with limited public transport networks and services. Regions that have recently completed tendering service contracts may not need to incorporate PTOM elements in their procurement strategies in the short term. However these regions should still consider the benefits of PTOM components such as partnership-based contracts and joint annual business planning.

New aspects to be considered

All regions will need to consider the new environment in their procurement strategies. These are the key changes, which will be set out in the legislation and NZTA *Procurement manual* and tools:

Regional public transport plans

- The RPTP defines a region's public transport network. Any services not included in the RPTP will be exempt services.
-

Units

- All public transport services identified in a RPTP will be allocated into 'units.'
- A unit will be no smaller than a full route but may include multiple routes and will include all timetabled services for a route.
- Each unit will be provided under contract to the regional council and operated as a single marketable whole.
- Units will either be tendered on the open market or negotiated with incumbent operators of those services.
- Some units will be fully commercial and will operate without a subsidy (but be eligible for concessionary fare payments). These units will still be under contract. Others will have varying levels of subsidy determined by their commerciality.

Contracts

- Tendering will be designed to the greatest extent possible to enable new entrants to participate in the market.
- Contracts will include a sharing of financial risk and reward.
- All operators with a contract will have exclusive operating rights in the unit (or units) for the duration of that contract.
- Joint annual business planning for units between operators and regions to support stronger partnerships.

Performance indicators

- Key performance indicators designed to grow patronage and farebox revenue will be agreed.
- There will be more transparency about operator and regional performance through the key performance indicators and better availability of information about fare revenue and patronage.

Impact on procurement

NZTA will update its *Procurement manual* and tools to be consistent with PTOM prior to the legislation coming into force in 2013. In the meantime, regions planning to tender service contracts need to consider the implications of contract types and contract lengths on their future implementation of PTOM. The process for regions implementing components of PTOM ahead of legislative change may involve working with NZTA to arrange exemptions from the current rules or approval of components, as they develop a procurement procedure.

Progressive roll out

The implementation of PTOM will gather pace following the passing of the legislation. Prior to that time a number of regions will be implementing PTOM, including letting contracts that incorporate aspects of the model. The NZTA regional offices will work with regions in developing their PTOM processes and welcome early contact. The NZTA will consult with regions and industry groups such as the Bus and Coach Association as it develops policies and guidelines.

Next steps and timeframes

- All regions assess their public transport procurement strategies in light of PTOM (now).
- Consultation on draft NZTA policies, for example risk and reward, group tenders and benchmarking (September–December 2012).
- Regions implementing PTOM ahead of legislation, work with NZTA to arrange procurement approvals (September–December 2012).
- NZTA *Procurement manual* and tools updated (first half 2013).
- Legislation becomes operational (second half 2013).

Further information on the key components of PTOM

The main components of PTOM are summarised below. These are based on the cabinet paper and the work of the Core Working Group. They will be implemented via legislation, regional planning and contracting processes, the NZTA's *Procurement manual* and tools, and partnerships between operators and regions.

Units

All services will be planned as units by the region and identified in the Regional Public Transport Plan. A unit must at a minimum be all services on one route for the full timetable, but can include more than one route where a group forms a marketable whole. All units will have a contract with the region guaranteeing exclusive operating rights, although there may be some crossover of units, particularly on key arterials.

Commercial units

These are units operated without direct public subsidy from the region and the NZTA (excluding SuperGold card and concessionary fare payments). Provided services remain without direct public subsidy, they will not be put out to tender. However, they will still need to meet specific performance measures. Over time the number of commercial units is expected to increase as operators innovate and invest to improve the commerciality.

Tendered units

A portion of the regional network must be competitively tendered – the proportion will be determined by the region through its procurement strategy, influenced by the region's overall commerciality ratio. Tenders will be based on the gross operating cost of the unit. The region will provide recent trend information about the unit to the market as part of the tendering process. Contracts for tendered services will be for nine years, with a re-set of the gross operating cost at six years. This is separate to and different from NZTA indexation adjustments. Tender prices will be used to benchmark prices for negotiated units and re-sets. In smaller regions it is likely all units will be tendered.

Negotiated units (applicable mainly to larger regions)

Units with above average commerciality for the region may be directly negotiated with operators rather than going out to tender. This provides an incentive to improve the commerciality of a unit since, if a service meets the criteria, it will be renegotiated rather than tendered. Negotiated units (including fully commercial units) will have a term of six years. Benchmarking information from tendered units will be used to inform direct negotiations.

Like for like units (applicable where commercial registrations were in place prior to 30 June 2011)

These are a one-off commercial arrangement within a negotiated unit as part of the transition to PTOM. In exchange for relinquishing commercial registrations, operators will be offered negotiated units that contain an equivalent number of service kilometres to those held in existing commercial registrations, with a once-only 12-year fixed term contract.

Exempt services

Commercial services not identified in a regional public transport plan will be exempt services and will not be under contract. Exempt services do not have exclusive operating rights and can set their own fares and timetables. All inter-regional services that drop off or pick up passengers outside the region will be exempt.

Regional public transport plans

These are statutory plans that must be reviewed at least every three years, containing the unit descriptions and policies relating to the provision of public transport services. Regions are responsible for adopting the plan but must engage with operators in developing it, particularly when determining unit design. Plans are publicly consulted on.

Contracts

Contracts should provide a platform for partnership, and will include partnership principles, an agreement for joint annual business planning, updated key performance indicators and financial risk and reward sharing. Contracts should provide incentives for the partners to grow patronage and farebox revenue. In large regions a three-tiered approach is under development. Each of the three contract tiers is described below:

- **Regional agreement**

A strategic agreement between all operators and the region setting out matters for consistent treatment across the region, for example partnership principles. Any operator who intends to provide services in the region must be a signatory to the regional agreement.

- **Partnering agreement**

An agreement between an individual operator and the region setting out how they will work together, including aspects such as key performance indicators and reporting requirements.

- **Unit agreement**

An agreement for an operating unit which will contain details of services, including schedules, route coverage and peak vehicle requirements.

League table (applicable mainly to larger regions)

The league table ranks all units in a region and will be published annually. Initially it will be based just on the commerciality ratio of a unit. After a region has transitioned all contracts to PTOM, a weighted formula that also takes into account the relative increase in patronage will be used. League tables will be used to determine which units will be negotiated and which tendered. League tables are likely to be used in this way only in larger regions, and small and medium regions will only publish the commerciality of units.

Commerciality ratio

The commerciality ratio shows what portion of the costs of running a service are recovered from fare revenue. It is used to determine a unit's placing on the league table and consequently whether it will be negotiated or tendered. The commerciality ratio will also be used to assess the region's network as a whole. The formula for deriving the commerciality ratio is (fare revenue + concessionary fares +

SuperGold payments)/(fare revenue + concessionary fares + SuperGold payments + subsidy). The commerciality ratio is similar in concept to the NZTA's farebox recovery ratio.

Benchmarking (applicable mainly to larger regions)

Regions will use tender cost prices from tendered units to determine a suitable benchmark price range for negotiated units and cost re-sets for tendered units. Such information will initially be provided to the region by a neutral third party.

Fare setting

Regions will describe their policy for fare setting, which will apply to all units, in the Regional Public Transport Plan. Operators may set the fares for exempt services.

Information requirements

All units will be required to provide patronage and revenue information to the region and the NZTA. Recent revenue and patronage information for units going out to tender will be disclosed to potential bidders. Revenue information for commercial units will not be made public, unless the service is to go out to tender due to operator withdrawal, or poor performance.

Risk and reward sharing

Risk and reward sharing essentially involves the operator and the region sharing any profits or losses above or below the previous year's revenue. All contracts will contain a risk and reward sharing model, but these may vary in complexity between units, and between regions.

Annual business planning

This is an annual process where the operator of a unit and the region will review the performance of the unit and agree a collaborative business plan to grow patronage and maximise farebox revenue.

Dispute process

Most disputes will be managed through standard contract clauses. In cases where operators consider they have been adversely affected by a region's decision in respect of exempt services or new services, there will be a right of appeal to the District Court.



More information about PTOM, including the cabinet paper and questions and answers, can be found on the Ministry of Transport's website www.transport.govt.nz.

Further contact with the NZTA can be made through our regional offices (contact your regional planning and investment manager), and for matters of policy, the national public transport unit (contact Julie Alexander julie.alexander@nzta.govt.nz).

Attachment 2: Key Council decisions

Meeting reference	Information provided/approvals sought
<p>Report 14.287</p> <p>Date 26 May 2014</p> <p>Adoption of the Regional Public Transport Plan</p>	<p>Requests the Council to adopt the Regional Public Transport Plan 2014.</p> <p><i>The Council:</i></p> <ol style="list-style-type: none"> 1. <i>Receives the report.</i> 2. <i>Notes the content of the report.</i> 3. <i>Agrees that the matters in the report require the Council to make a decision with a high degree of significance.</i> 4. <i>Agrees that the Council 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.</i> 5. <i>Adopts the Regional Public Transport Plan 2014 (Attachment 1).</i> 6. <i>Delegates to the Chair the ability to make minor editorial changes prior to publication to correct errors and improve public understanding.</i>
<p>RPE15.622</p> <p>(Procurement Strategy for Bus Services under PTOM)</p> <p>7 December 2015</p>	<p>Presents a summary of the key components of GWRC's Procurement Strategy for bus services under the Public Transport Operating Model (PTOM);</p> <p>Requests that Council:</p> <ul style="list-style-type: none"> • <i>Endorses the key components of GWRC's Procurement Strategy for bus services, and</i> • <i>Authorises the Chief Executive to approve GWRC's Procurement Strategy for bus services, following the endorsement of the strategy by the New Zealand Transport Agency (Transport Agency).</i> <p>Outcome</p> <ol style="list-style-type: none"> 1. <i>Receives the report.</i> 2. <i>Notes the content of the report.</i> 3. <i>Endorses the key components of GWRC's Procurement Strategy for bus services under the Public Transport Operating Model (PTOM).</i> 4. <i>Authorises the Chief Executive to approve GWRC's Procurement Strategy for bus services, following the endorsement of the strategy by the New Zealand Transport Agency.</i> 5. <i>Approves 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.</i>
<p>RPE.15.631</p> <p>(Bus fleet strategy)</p> <p>16 December 2015</p>	<p>Presents GWRC's bus fleet strategy which sets out the configuration and motive power options for the Greater Wellington bus fleet given the removal of the trolley bus network in mid-2017 and the implementation of PTOM unit contracts by 1 January 2018;</p> <p>Requests that Council:</p> <ul style="list-style-type: none"> • <i>Endorses the bus fleet strategy, and</i> • <i>Approves the recommendations contained in the strategy.</i> <p>Outcome</p> <ol style="list-style-type: none"> 1. <i>Receives the report.</i> 2. <i>Notes the content of the report.</i> 3. <i>Notes that Part 6 of the Local Government Act 2002 provides the statutory basis for</i>

	<p><i>decision-making and the assessment of the significance of the decision.</i></p> <ol style="list-style-type: none"> 4. <i>Endorses the bus fleet strategy (Attachment 1).</i> 5. <i>Approves the recommendations contained in the strategy:</i> <ol style="list-style-type: none"> a. <i>Recommendation 1: From 1 July 2017, replace trolley bus capacity with a mix of Euro 5 and/or 6 single deck and double Decker buses and 10 hybrid double Decker buses to operate the trolley bus routes until PTOM commencement of Wellington city units on 1 January 2018.</i> b. <i>Recommendation 2: That the RFT for PTOM bus contracts specifies 50% new buses for every tender to help encourage competition in the tender process.</i> c. <i>Recommendation 3: Through the RFT process, encourage Tenderers to offer fleet that meets GWRC's aspirations, recognising low emission fleets with higher quality scores given to tenders that can demonstrate improved emissions outcomes – in other words, encourage Tenderers to innovate and bid the optimal balance between emissions and financial outcomes. Tenderers will be encouraged to do so through both conforming tenders and alternative tenders.</i> d. <i>Recommendation 4: Scope and implement a limited demonstration electric bus service in 2016.</i> e. <i>Recommendation 5: Monitor electric bus technology developments and plan for wider scale trials of electric buses as the technology matures, targeting route specific urban services in the next 3-5 years. Plan for progressive electric bus deployment in line with fleet renewals from 2022.</i>
<p>RPE16.284 23 June 2016</p>	<p>Presents a summary of the key components of GWRC's tender for bus services under the Public Transport Operating Model (PTOM);</p> <p>Requests that Council:</p> <ul style="list-style-type: none"> • <i>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,</i> • <i>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</i> • <i>Authorises the Chief Executive to approve the issue of the RFT to the bus operator market, following the approval of all RFT documentation.</i> <p>Outcome:</p> <ol style="list-style-type: none"> 1. <i>Receives the report.</i> 2. <i>Notes the content of the report.</i> 3. <i>Agrees that the matters for decision in the report have a low degree of significance.</i> 4. <i>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.</i> 5. <i>Agrees that the Council 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.</i> 6. <i>Notes that the New Zealand Transport Agency is yet to approve the RFT documents</i>

	<p><i>as set out in this report.</i></p> <p>7. <i>Notes that assurances are to be provided by Council's external advisers as set out in this report.</i></p> <p>8. <i>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.</i></p> <p>9. <i>Endorses the key components of GWRC's Request for Tender (RFT) for Bus Services.</i></p> <p>10. <i>Delegates authority to the Chief Executive to approve:</i></p> <p>a. <i>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</i></p> <p>b. <i>the issue of an open RFT to the bus operator market, following the approval of all documentation.</i></p> <p><i>subject to the Chief Executive being satisfied that:</i></p> <p>c. <i>all outstanding assurances from external advisers have been provided; and</i></p> <p>d. <i>the New Zealand Transport Agency has provided written approval.</i></p>
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Attachment 3: Further information about the calculation of the Emissions Improvement Premium

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 standards of bus tendered and 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 in their response to Part 3 of the Request for Tender (RFT).

The monetised value of emissions for each tendered fleet will be compared at a Bus Unit level to calculate the emissions saving that each Tender delivers against the fleet with the highest emissions cost for each Bus Unit. The result is the Emissions Improvement Premium (EIP) for each Tender (recorded as a positive figure), which is used to adjust the Tender price in the same way that the Supplier Quality Premium (SQP) adjusts the Tender price for improvements in quality.

The EIP for each tendered unit is calculated as follows:

$$\text{EIP} = \left[\begin{array}{l} \text{Emissions cost} \\ \text{for the tender} \\ \text{(by unit)} \end{array} \right] \text{ minus } \left[\begin{array}{l} \text{Highest} \\ \text{emissions cost} \\ \text{for the unit} \end{array} \right] \times -1$$

Attachment 4: The communications plan

Circulated separately

Attachment 5: Context for Council's decisions

The significance of the decisions sought

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

Significance

Officers 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 in this report have a low degree of significance in terms of the statutory definition set out in the Act.

This is consistent with the conclusion on significance reached prior to the decision to issue the Request for Tender (RFT).

The decision-making process

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 is achieved by:

- Ensuring the Contract has been prepared in accordance with sound business practice; and
- Ensuring that GWRC's objective in the evaluation of Tenders has been focussed on achieving value for money at an affordable outcome

Officers advise that there is no process for making this decision explicitly set out in the Local Government Act 2002 or any other enactment.

Engagement

Engagement with key stakeholders contributed to the development of the Contract, the RFT requirements, the RFT Terms and Conditions and the Tender Evaluation and Selection Process.

No further engagement with key stakeholders has occurred during the Process other than that permitted by the RFT Terms and Conditions.

Community views and preferences

Officers consider that, in light of their assessment of significance and the other factors relevant to the process for making this decision, engagement with the community to identify views and preferences, such as through formal consultation, is not warranted.

The management of probity

Probity was a key consideration in the design of the Process which included:

- a clear separation between evaluation, selection and appointment/award
- complete separation of non-price and price evaluation.

During the Tender submission period and the evaluation and selection stages probity management has included:

- managing confidentiality and interests at an individual and organisational/company level by:
 - obtaining confidentiality undertakings at the earliest opportunity from each member of each Tenderer's bid team and seeking updates at key stages in the process
 - obtaining confidentiality undertakings and interest declarations from persons employed or engaged by GWRC to participate in the Tender evaluation and selection process
 - assessing interest declarations and where appropriate developing and implementing an individual management plan appropriate to the particular risk
 - seeking updates on interests at key stages in the process and upgrading management plans as appropriate
- ensuring that all Tenderers have equal access to information necessary to prepare their Tenders, principally by releasing 50 Notices to Tenderers (NTTs) and Addenda following the RFT release date and prior to the closing date for the submission of tenders, and
- ensuring that the position taken on key issues that arose during the evaluation and selection process was based on the key principle of fairness to all Tenderers.

Throughout the Process probity risks have been actively managed by GWRC's Tender Management Group (TMG) by reference to the probity framework and plan, and with expert assistance from Buchanan Law and Audit New Zealand.

Process integrity

To provide Council with confidence in the integrity of the Process GWRC engaged external parties to provide assurance over various aspects.

Appended to this Attachment are letters from:

- Deloitte, in respect of the financial analysis of Tenderers' pricing (Appendix 1)
- Emissions Impossible in respect of its involvement in evaluation of emissions (Appendix 2)
- PwC, in respect of the mathematical accuracy of the scoring and weighting of Tenders and the fairness of price adjustments (Appendix 3), and
- Audit NZ in respect of probity (Appendix 4).

Appendix 1: Deloitte letter

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3 May 2017

Wayne Hastie
General Manager Public Transport
Greater Wellington Regional Council
PO Box 11646
WELLINGTON 6142

Dear Wayne

PUBLIC TRANSPORT OPERATING MODEL - BUS TENDER EVALUATION PROCESS

Deloitte has been engaged by Greater Wellington Regional Council (GWRC) to provide financial advisory services in support of its implementation of the Public Transport Operating Model (PTOM) in the Wellington public transport market.

As part of our engagement (PTOM Financial Consultancy Services (PT0395)) we have assisted GWRC with the Bus Tender Evaluation Process, both prior to tender submission and following the receipt of the tenders from bidders.

This letter summarises the assistance we have provided to GWRC.

Prior to Tender Submission the following activities were undertaken:

Development of Models

- **GWRC Bus Contract Pricing Model 26082016.xlsm (Shadow Bid Model):** In close collaboration with GWRC, Deloitte developed a spreadsheet model to be used as a Bus "Shadow Bid" Model to inform the PTOM Bus Contracts. The Model estimates a benchmark price for each of the 16 units making up with PTOM Bus contracts using existing cost information held by GWRC, publicly available information, and Deloitte and WD & Associates industry knowledge. The model was tested and accepted by GWRC
- **Tender Evaluation Model:** In close collaboration with GWRC, Deloitte developed a spreadsheet model to be used to evaluate tenders to decide the operators of the tendered PTOM Bus contracts. The Model was developed to undertake the tendered evaluation process designed by GWRC, with assistance from Deloitte. The model is accompanied by a process document, titled "Bus Tender Evaluation Model: Evaluation model process and instructions", which sets out the process and business rules for operating the Bus Tender Evaluation Model and the governance process for reviewing, validating and documenting each stage of the process. The model was tested and accepted by GWRC

Process Documentation for the Evaluation Approach

- Approach to tender evaluation and ranking
- Approach to financial due diligence and price review
- Market Concentration: Evaluation approach

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Post Tender Submission Deloitte undertook the following activities:

Further Development of Models & Documentation

- **High Volume Process for Tender Evaluation:** following a high number of submissions from many tenderers, the Tender Evaluation Process and Model were modified to accommodate the volume of tenders.
- **Tender Evaluation Model:** supplied a resource who worked as part of the GWRC team to operate the models through the Tender Evaluation process.

Deloitte undertook multiple model reviews using agreed test procedures on steps undertaken by GWRC through the Tender Evaluation Process.

- **Pricing Evaluation Model Review:** undertook test procedures on the model that collates the pricing templates received from Bidders
- **Quality Model Review:** undertook test procedures on the model that captures the quality score for each tender
- **Added Value Premium Template Review:** undertook test procedures on the model that captures the added value premium (or discount) for alternative services.
- **Emissions Improvement Premium Review:** undertook test procedures on the model that captures and determines the fleet emissions values and Emission Improvement Premium input.

Financial Due Diligence Report: on the preferred tenderers we undertook financial due diligence. We reviewed financial information available for the preferred tenderers, and assessed the financial performance, size, liquidity, and gearing & debt ratios of the tenderers on a pass/fail basis.

Assumptions and Price Model Review: undertook the test procedures on the preferred Bidder's financial models and reviewed the assumptions underpinning the Models against the corresponding assumptions used in the Shadow Bid Model for the comparable units.

Yours sincerely



Tim Arbuckle
Partner, Deloitte

Appendix 2: Emission Impossible letter

16 February 2017

Andrew Cooper
Project Manager, Public Transport Operating Model
Greater Wellington Regional Council
PO Box 11646, Manners Street
Wellington 6142
NEW ZEALAND

Dear Andrew

Involvement in the evaluation of Part 3 (Emissions) for bus services tenders in the Wellington region

This letter summarises the involvement of Emission Impossible Ltd (EIL) in the evaluation of Part 3 (Emissions) for the tenders for bus services called by Greater Wellington Regional Council (GWRC).

Our original brief

In early 2016, GWRC signaled it was planning a modernization of its bus fleet. Due to the cost of maintenance and constraints on operational efficiencies, the trolley buses will be retired in mid-2017, with the oldest diesel vehicles due to be retired at the same time.

GWRC commenced work on a model to evaluate and quantify the emissions profiles of bus fleets for upcoming tenders for nine units. The model takes the emissions of a proposed fleet and converts them into a nominal dollar value. This can then feed to the overall evaluation model to offset the price of the tender to reflect the benefit of a lower emitting fleet.

EIL was commissioned by GWRC initially to review the draft model to ensure its assumptions were appropriate, robust, and transparent. As a result of this review, we updated the GWRC Bus Emissions Evaluation Model with the latest emissions factors and air pollution health costs to enable comparison of different tendered fleets. Later in the process we were also asked to provide emission factors for alternative bus technologies that were offered by tenderers, such as the Wrightspeed power train and micro hybrid buses.

EIL is an environmental consultancy specializing in the improved management of air quality and vehicle emissions. We have considerable experience in developing emissions models for New Zealand vehicles and also in quantifying costs/benefits of harmful and greenhouse gas emissions management.

Review and update of draft model and approach

EIL was provided with the draft model and a draft report outlining the methodology in March 2016.

Page 1 of 4

Emission factors

We updated the bus emission factors using the latest published data from the European Computer Model to Calculate Emissions from Road Transport (COPERT)¹. Where necessary, these were adjusted to provide emission factors for all vehicle classifications included in the GWRC model.

COPERT is an average speed model. This type of model is based on the fact that average emissions for a pollutant and vehicle type/technology vary as a function of the average speed during a trip. The emissions factors are based on the results of empirical tests. These tests use drive cycles representing **real life driving conditions** rather than the cycles used for regulatory compliance. This is particularly important for heavy duty diesel vehicles, because Euro IV and V vehicles have been found to produce higher real world emissions than previously expected. The real world drive cycles have a wide range of different operating conditions, i.e. acceleration rates, maximum speeds, periods of idle etc., with a low average speed being typical of driving in congested traffic.

We requested data from GWRC on the typical average tare weight and passenger numbers for typical in service vehicles in the bus fleet so we could match the bus classifications in the GWRC model with the closest equivalent COPERT classifications. We also applied mass adjustments to compensate for longer wheelbase and double decker buses.

We also requested typical average speeds for the nine units under consideration and then developed emission factor matrices for average speeds of 20km/h, 25km/h, 30km/h, 35km/h and 45km/h, which covered the range of average speeds encountered in service.

Full details on our recommended emission factors are reported in:

Memo_Bus emission factors for GWRC updated_29Sep16.docx

which was originally sent to GWRC on 5 May 2016 then revised on 27 May 2016 before being finalized on 29 September 2016.

Social costs

Social costs (also known as damage costs) are a way to value changes in air emissions in order to compare the benefits to society of a change in policy/operation versus the cost of implementing the change. They can also be used to compare a range of options to see which will yield the best overall outcome.

For the GWRC bus emissions model, we started with the latest factors published by Austroads in their *Guide to Project Evaluation Part 4*² which cover carbon dioxide (CO₂), particulate matter (PM₁₀), oxides of nitrogen (NO_x), carbon monoxide (CO), and hydrocarbons (HC). We then reviewed the latest literature published on air pollution damage costs for New Zealand and internationally to confirm or refine the estimates for each of the pollutants.

¹ Emisia (2015). *Computer Model to Calculate Emissions from Road Transport (COPERT 4)*, Version 11.3, Windows application prepared by Emisia for European Environment Agency and Institute for Energy and Transport of the European Commission Joint Research Centre, June 2015.

² Austroads (2012). *Guide to Project Evaluation Part 4: Project Evaluation Data*, Austroads, 06 August 2012, available from <http://www.austroads.com.au/road-construction/planning-evaluation/publications-resources/guide-to-project-evaluation>

PM₁₀ is the key (and only) air pollutant for which we have actual health impacts and associated social costs estimated for New Zealand as PM₁₀ typically dominates air pollution health impacts. The critical reference for this was the Updated Health and Air Pollution in New Zealand (HAPINZ) study³, released in 2012, which used the 2006 Census and comprehensive monitoring records. Figures were updated to incorporate 2013 Census data.

For NO_x, the most recent work on valuing impacts has been undertaken by the UK Department for Environment Food and Rural Affairs Department (DEFRA)⁴.

For CO₂, we reviewed a factsheet⁵ published by the US Environment Protection Agency (USEPA) which specifically addresses the longer term societal costs associated with CO₂ emissions.

All costs were then updated to a value base date of 2015 to provide social costs in NZD per tonne for inclusion in the GWRC model.

Full details on our recommended social costs are reported in:

Memo_Social costs of bus emissions for GWRC_13May16.docx

which was sent to GWRC on 13 May 2016.

Provision of emission factors for alternative technologies

Following provision of the initial updated emissions factors in May 2016, EIL was asked to also provide emission factors for a range of alternative technologies.

Factors were developed for:

- natural gas-fueled buses – taken from COPERT⁶
- hybrid buses – taken from recently published reviews^{7, 8} and actual testing⁹
- micro hybrid buses – taken from test results¹⁰

³ Kuschel *et al.* (2012). *Updated Health and Air Pollution in New Zealand Study*, prepared by G Kuschel, J Metcalfe, E Wilton, J Guria, S Hales, K Rolfe and A Woodward for Health Research Council of New Zealand, Ministry of Transport, Ministry for the Environment, NZ Transport Agency, March 2012, available from <http://www.hapinz.org.nz/>

⁴ DEFRA (2015a). *Valuing impacts on air quality: Updates in valuing changes in emissions of Oxides of Nitrogen (NO_x) and concentrations of Nitrogen Dioxide (NO₂)*, UK Department for Environment Food and Rural Affairs, September 2015, available from <https://www.gov.uk/guidance/air-quality-economic-analysis>

⁵ USEPA (2015). *Social Cost of Carbon*, EPA Fact Sheet, United States Environmental Protection Agency, December 2015, available from <https://www3.epa.gov/climatechange/EPAactivities/economics/scc.html>

⁶ Emisia (2015). *Computer Model to Calculate Emissions from Road Transport (COPERT 4)*, Version 11.3, Windows application prepared by Emisia for European Environment Agency and Institute for Energy and Transport of the European Commission Joint Research Centre, June 2015.

⁷ NAEI, 2013. *Emission Factors for Alternative Vehicle Technologies*, report prepared by Ricardo AEA for the National Atmospheric Emissions Inventory, February 2013.

⁸ MJB&A, 2013. *Comparison of Modern CNG, Diesel and Diesel Hybrid-Electric Transit Buses: Efficiency and Environmental Performance*. MJ Bradley and Associates, November 2013

⁹ Clean Fleets, 2014. *The New Bus for London, Diesel/Electric Hybrid*. Case study for the Clean Fleets project consortium, September 2014.

¹⁰ The Low Carbon Emission Bus (LCEB) scheme requires buses to be tested on a "real world" test cycle. The test cycle is based on a London bus route. (<http://www.lowcwp.org.uk/initiatives/lceb/what-is-lceb.htm>)

For the Wrightspeed power train, emission factors were developed assuming the turbine meets the emissions limits set by the California Air Resources Board for heavy vehicles (CARB HDD 2010). Assumptions were made regarding turbine utilization rates (based on typical power consumption and air conditioning requirements at bus speeds averaging 20km/h).

Full details on our recommended emission factors for alternative technologies are reported in:

Memo_Bus emission factors for GWRC updated_29Sep16.docx and

Memo_Bus emission factors for GWRC_Wrightspeed_21Nov16.docx

which were sent to GWRC on 29 September 2016 and 21 November 2016, respectively.

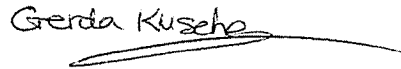
Statement on how our data have been applied

In early February 2017, I met with GWRC to review the draft *Evaluation Group Report – Part 3: Emissions* and all associated spreadsheet models.

I performed spot checks on the input data provided by us for the emission factors and social costs and also checked a random selection of calculations manually to verify the resulting outputs.

I can confirm that the EIL information provided to GWRC has been applied appropriately and correctly to this part of the evaluation and therefore the findings are robust.

Yours sincerely,



Dr Gerda Kusche
Director and Senior Technical Specialist

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Appendix 3: PWC letter



Private & Confidential

Wayne Hastie
General Manager Public Transport
Greater Wellington Regional Council
PO Box 11646
Wellington 6142

23 March 2017

PTOM: bus procurement evaluation model testing procedures

Dear Wayne,

Introduction

In accordance with our engagement letter dated 9 March 2017, we have performed the procedures agreed with you (the Procedures) in relation to the procurement of operators to provide bus services to the greater Wellington region.

This letter summarises the work performed and our findings. It should be read in conjunction with the Important Notice in Appendix A.

Background

The Council is implementing the Public Transport Operating Model (PTOM) for the greater Wellington region (the Region). It has sought and received proposals from operators interested in entering into contracts with GW to provide bus services for the Region as part of the PTOM implementation.

The bus services are grouped into units of routes. The Region's bus network comprises 16 units. The Council has offered to directly contract with incumbent operators for the provision of services for seven of these units. It requested tenders (Tenders) from operators (Respondents) for the provision of services for the remaining nine units. Respondents were able to tender for individual units or bundles of units.

Nine Respondents submitted Tenders in response to the Council's request for proposals. Because Respondents were not constrained in how they could bundle units and the number of bundles that they could propose for, the nine Respondents submitted a total of 86 Tenders.

The Council has undertaken a comprehensive evaluation of the Tenders. Features of the evaluation process include:

- The Council and its advisors developed a spreadsheet model (the Model) to evaluate both the price and non-price attributes of the Tenders. The ultimate outcome of the evaluation is an Evaluation Adjusted Price for each Tender.

PricewaterhouseCoopers, 113-119 The Terrace, PO Box 243, Wellington 6140, New Zealand
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- The procurement process has allowed the Council to combine Tenders, regardless of Respondents, to produce combinations of Tenders that deliver comprehensive sets of services across the Region.
- The Model produced all combinations of Tenders that could deliver services across the Region. The outcome of this was 381,968 different combinations. This very significant number reflects that there were 86 Tenders.
- The Model ranked combinations of Tenders based on each combination's region-wide Evaluation Adjusted Price (the lowest price being the first ranked combination).
- Two thresholds were applied to the Tender combinations:
 - Respondents must have the capacity (number of buses) to deliver the services.
 - Consideration has been given to market concentration where a combination results in a single Respondent having more than 60% of the services across the Region.
- The Council used a number of additional spreadsheet models to support its evaluation process, particularly with regard to the testing of the two thresholds (Supporting Models).

Model and Supporting Spreadsheets

We performed our Procedures on the following versions of the Model and Supporting Models, provided to us by the Council on 9 March 2017:

- GWRC.Tender Evaluation.013.003.xlsm
- FINAL Quality model for tender evaluation.xlsm
- FINAL Emissions model for tender evaluation – 051216 Update.xlsm
- NPV model for tender evaluation working linked FINAL v4.1 HARDCODED.xlsm
- Ranked Combinations.xlsm
- PVR Capacity Check - complete.xlsx
- Market concentration check - completed.xlsx

Procedures performed

We have undertaken certain procedures (the Procedures) on components of the Model. Please refer to Appendix B for an outline of GWRC's tender evaluation process and the scope of the Procedures.

The Procedures have been undertaken to test:

- The accuracy of values transcribed from the Supporting Models to the tab "ReviseSQP+CalcAdjPrice" within the Model. This test was undertaken for all Tenders and was directed at validating that:
 - The quality attribute scores from the "FINAL Quality model for tender evaluation.xlsm" aligned with those recorded in this tab.
 - The Emissions Improvement Premium values from "FINAL Emissions model for tender evaluation – 051216 Update.xlsm" aligned with those recorded in this tab.



- The Price values from “NPV model for tender evaluation working linked FINAL v4.1 HARDCODED.xlsm” aligned with those recorded in this tab.
- The calculation of ‘Revised SQP (\$000)’ within the Model. This test was directed at ensuring that the ‘Revised SQP (\$000)’ calculation from the tab “ReviseSQP+CalcAdjPrice” aligned with the calculation methodology set out in section 13.49 and 16.2 of the Tender Evaluation and Selection Plan (TESP). The test was undertaken for all Tenders.
- The calculation of ‘Evaluation Adjusted Price (\$000)’ within the Model. For all Tenders, we have:
 - Recalculated the ‘Evaluation Adjusted Price (\$000)’ using the values on the tab “ReviseSQP+CalcAdjPrice” within the Model and the calculation methodology set out in section 16.5 of the TESP.
 - Compared these results to the ‘Evaluation Adjusted Price (\$000)’ recorded in the tab “ReviseSQP+CalcAdjPrice” within the Model.
- The validity of the combinations of Tenders produced within the Model.
 - We tested that all combinations were correctly composed of valid Tenders.
 - We generated a sample of 50 valid Tender combinations (as specified in our engagement letter) and tested if they were included as one of the combinations produced by the Model. Each Respondent was included in at least one of the combinations generated.
- The calculation of the region-wide ‘Evaluation Adjusted Price’, ‘PVR capacity check’ and ‘market concentration’. For the top 10 ranked combinations of Tenders and additional combinations selected to include the first ranked combination in which each Tenderer was included, we:
 - Recalculated the region-wide Evaluation Adjusted Price and tested if it matched the values recorded in the Final Evaluation Report and “Ranked Combinations.xlsm” file.
 - Re-performed the PVR capacity check by sourcing the required PVR capacities from the Part 5 Returnable and tested if it matched the values recorded in the Final Evaluation Report and “PVR Capacity Check - complete.xlsx” file.
 - Recalculated the market concentration for each Respondent/Tender combination and tested if it matched the values recorded in the Final Evaluation Report and “Market concentration check - completed.xlsx” file.

Our engagement was conducted in accordance with the Statement of Agreed Upon Procedures Engagement Standards Number 1, issued by the New Zealand Institute of Chartered Accountants.

Limitations to scope

For avoidance of doubt, our scope for this engagement did not include:



- Providing any assurance on the calculation logic, internal consistency and mathematical accuracy of the Model or on any updates to the Model and the Supporting Models.

Our work was confined to the Procedures described in the Scope section of this letter. The Council was responsible for determining the adequacy or otherwise of the Procedures. As the Procedures did not constitute either an audit performed in accordance with New Zealand Auditing Standards or a review performed in accordance with New Zealand's Professional Engagement Standards and Guidance applicable to review engagements, we do not express any assurance on the Model.

- Any comment on the validity or reasonableness of the assumptions or inputs used in the Model and the Supporting Models.
- Review or comment on any of the outputs produced by the Model and the Supporting Models, including the ranking of combinations of the Tenders and the identification of the preferred combination.
- Anything in the nature of a financial audit.

Findings

We identified two testing exceptions in carrying out the Procedures. These exceptions are described in Appendix C. The Procedures did not identify any other testing exceptions.

We tested the impact of the exceptions on the outcome of the evaluation of the Tenders. We concluded from the testing that the exceptions do not have an impact on the formation of the combinations or on the final scoring and ranking of the combinations.

General

If you have any questions regarding the contents of this letter please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in cursive script that reads 'Bruce Wattie'.

Bruce Wattie
Partner
bruce.wattie@nz.pwc.com



Appendix A Important Notice

This Letter has been prepared solely for the purposes stated herein and should not be relied upon for any other purpose.

This Letter is strictly confidential and (save to the extent required by applicable law and/or regulation) must not be released to any third party without our express written consent which is at our sole discretion.

To the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this Letter and/or any related information or explanation (together, the "Information"). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of the Council. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

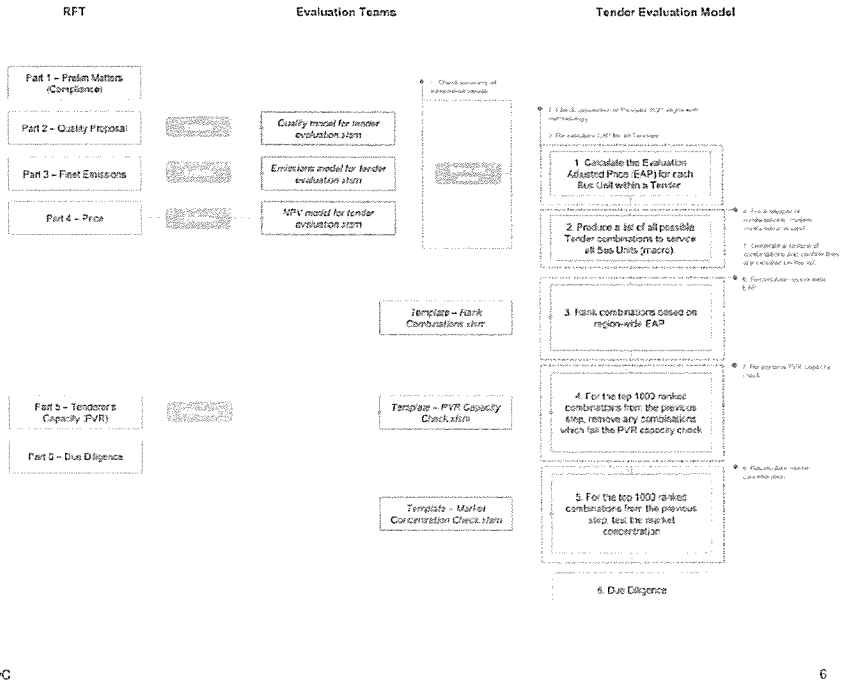
The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

The statements and opinions expressed in this letter are based on information available as at the date of the Letter.

We reserve the right, but will be under no obligation, to review or amend our letter, if any additional information, which was in existence on the date of this Letter was not brought to our attention, or subsequently comes to light.

We have relied on forecasts and assumptions prepared by the Council and the Respondents about future events which, by their nature, are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts upon which we have relied. These variations may be material.

This Letter is issued pursuant to the terms and conditions set out in our engagement letter dated 9 March 2017.



PwC

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Appendix C Testing Exceptions Identified

Testing Exception	GWRC Comment
<p>1. The calculation of 'Revised SQP (\$000)' does not align with the calculation methodology set out in section 13.49 and 16.2 of the TESP.</p> <p>The 'Weighted Sum' calculation as per the methodology contained in Appendix C of the Procurement Manual is:</p> $\text{Weighted Sum} = \text{Quality score} * \text{Quality Weight} / 100$ <p>The 'Weighted Sum' calculation in the Model is:</p> $\text{Quality score} * \text{Quality Weight}$ <p>As the 'Weighted Sum' calculation in the Model did not include the scaling factor, the subsequent calculation of the 'Supplier Quality Premium' in the Model also deviates from the calculation methodology to account for the scaling.</p> <p>The 'Supplier Quality Premium' calculation as per the methodology contained in Appendix C of the Procurement Manual is:</p> $\text{SQP} = \text{Price} * (\text{Weighted Sum Margin} / \text{Price Weight})$ <p>The 'Revised Supplier Quality Premium' calculation in the Model is:</p> $\text{SQP} = \text{Price} * (\text{Weighted Sum Margin} / (\text{Price Weight} * 100))$ <p>We have re-performed the calculation of 'Revised Supplier Quality Premium' in accordance with the methodology and confirm that the testing exception does not impact the values of the final 'Revised Supplier Quality Premium'.</p>	<p>The exception identified is a calculation difference but does not impact the outcome, thus the final SQPs are identical under either approach. No further action required.</p>

PwC

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<i>Testing Exception</i>	<i>GA/RC Comment</i>
2 The value of TDA's PVR capacity as per the Part 5 Returnable (113) does not match the value input into the Supporting Model 'PVR Capacity Check - complete.xlsx' to undertake to the PVR Capacity Check (112). We confirm that the testing exception does not impact the outcome of the combinations included in the PVR Capacity Check.	The exception identified is an input error, but the final PVR Capacity Check is unaffected. No further action required.

Appendix 4: Audit New Zealand assurance letter

Confidential

AUDIT NEW ZEALAND
Mana Aotaka Aotearoa

Our ref: W010 115

2 May 2017

Level 2 (Reception), 100 Molesworth Street
Thorndon, Wellington
PO Box 99, Wellington 6140

04 496 3099

www.auditnz.govt.nz

Wayne Hastie
General Manager, Public Transport
Greater Wellington Regional Council
Shed 39
Harbour Quays
P O Box 11646
Wellington 6142

Dear Wayne

Final Report: Assurance over Greater Wellington Regional Council's Public Transport Operating Model Bus Services Procurement Process

We have been engaged by Greater Wellington Regional Council (GWRC) to provide independent assurance over procurement processes to select public transport service operators for bus, rail and ferry services. A procurement process for bus services has been undertaken over the last 20 months and it has now been concluded subject to Council endorsement of the Preferred Tenders recommendations. We previously reported on this process on 5 August 2016 at the time the Request for Tenders (RFT) was finalised for issue to the market. This report relates to the RFT process – the period from the release of the RFT on 11 August 2016 up to the conclusion of the tender evaluation on 26 April 2017 at which time the Preferred Tenders were identified.

Our probity audit services have been provided on a real time basis since our engagement on this tender process in August 2015. This report is our final report on the tender process.

Introduction

The bus services procurement process consisted of a pre RFT market engagement phase which commenced in August 2015 and an RFT stage which commenced in August 2016 and concluded in April 2017.

Audit New Zealand is a business unit of the Controller and Auditor-General. Our assurance services were provided in accordance with:

- Our contract with GWRC dated 3 December 2014;
- Section 17 of the Public Audit Act 2001;
- The Auditor-General's Auditing Standard: AG 5: "Performance Audits, other Auditing Services and other work carried out by or on behalf of the Auditor-General"; and
- The standards and good practice guidance detailed in our proposal dated 13 August 2014 and in GWRC's Probity Plan.

GWRC Bus Services Final Report May 2017

Scope and approach

GWRC sought probity audit over the bus services procurement process to confirm that:

- The procurement process was conducted in accordance with the planning for the process.
- The process conformed with accepted good practice.
- Any probity risks including concerns or complaints that arose or were identified during the course of the process were appropriately managed and/or mitigated.
- A good practice approach was taken to the identification, mitigation and management of conflicts of interest.
- The recommendation for bus service providers is based on the evaluation team having followed established methodologies and process in arriving at its decisions and the recommendations are consistent with our observations of the process.

What our probity audit did not include:

A review of this kind provides assurance that the significant risks have been identified and appropriate steps have been taken to address them. We can help GWRC understand the risks it faces and assist it to manage those risks. However, our review is by its nature limited and the review does not remove the responsibility of GWRC to ensure that its actions comply with all relevant standards and good practice.

Our work did not include:

- Review of the activities undertaken by GWRC prior to our engagement on the bus services procurement unless otherwise stated in this report.
- Assurance over the suitability of any providers selected as bus service operators. It is the role of the evaluation team and GWRC to determine suitability and to make any decisions on the process.
- The review of, nor full assurance over, the processes to identify and mitigate or manage conflicts of interest at senior executive/governance level for this procurement. This limitation exists because we usually have only limited visibility of those making the final decision.

Our expectations

To enable us to undertake our work we expect that GWRC:

- Made available to us all information that we requested or that was in its possession and was relevant to our engagement.
- Advised us of any circumstances that arose during the course of our work or prior to our work commencing that may have been material to and significant in relation to our work.

Summary of work done

Our services during the RFT period can be broadly categorised as:

- Review of ongoing planning activities
- Ongoing review of the management of conflict of interest
- Attendance at engagement with bus operators
- Review of the tender closing and compliance checking
- Attendance during the evaluation of tenders
- Review of various issues arising

We comment more fully on these activities as follows:

Procurement Planning

At the time of our interim report of 5 August 2016 almost all the planning for the process had been completed. We had reviewed, provided feedback and clarified various, mainly minor, issues related to the Probity Plan, Procurement Strategy, Tender Participation and Transition Agreement, Evaluation Plan and Submission Closing Procedure.

Following our interim report we reviewed the tender compliance checklists and minor amendments to the Evaluation Plan. There were no issues arising.

During the period 24 to 26 August 2016 we reviewed the protocols that were to be applied to the interactive meetings to be held with prospective tenderers following release of the RFT. These protocols had been adapted from those used during the rail procurement process. They were appropriate.

We had further discussions with GWRC on 31 August and 12 September 2016 to discuss the proposed approach to the evaluation and in particular the use of the tool developed by GWRC's Consultant. We noted the complexity of the tool. The Consultant provided advice on the internal quality control process it applied to the development of the tool. The Consultant also provided a step by step guideline for the use of the tool. Several key GWRC staff worked closely with the Consultant to gain experience in the use of the tool.

Part of the tender evaluation included the assessment of an "Added Value Premium" in relation to the use of alternative motive power for the buses. In early November 2016 we reviewed the planned approach to this assessment work. There were no issues arising.

We periodically discussed with GWRC the security arrangements for its offices. The need to manage this procurement process in a controlled and confidential manner was critical. Staff involved in this process found themselves having to work from four different offices during the course of the tender process. The effect of the November 2016 earthquake on the planned arrangements was significant. Tenders closed only days after the earthquake and some fast planning was required to put arrangements in place for the receipting of tenders. Some initial evaluation work was undertaken from GWRC offices which had been badly damaged in the earthquake. The procurement team subsequently relocated to its current Walter Street offices.

We were impressed with the efforts that staff went to in managing a very difficult situation. Despite the disruption we believe GWRC maintained a high level of security over its procurement activities.

Management of conflict of interest

We reported on the management of conflict of interest in our interim report of 5 August 2016. We concluded in that report that generally all potential conflict of interest issues known at that time had been either eliminated or mitigated to a reasonable extent. A number of management plans are in place where elimination of the issues wasn't feasible. There is some residual risk in a few instances mostly related to perceptions. However, GWRC has put considerable effort into considering the options for managing the situations and has made its decisions on its evaluation teams and advisors based on the need to balance business risks with probity risks.

On 25 November 2016 and again on 28 April 2017 we reviewed updated copies of the conflict of interest register in which the details of disclosures and management plans is recorded. There were no issues arising. We consider that GWRC has managed conflict of interest appropriately.

Tendering period

The RFT was released to the market on 11 August 2016.

We attended a briefing for prospective tenderers on 24 August 2016. This was a well-run briefing.

We attended individual interactive sessions with eight prospective tenderers between 6 and 13 September 2016. We reviewed the correspondence arising from these sessions. In our view the sessions provided an opportunity for a useful and equitable exchange of information. There were no probity issues arising.

We attended a second round of interactives between 4 and 10 October 2016. Only three prospective tenderers participated in this second round. However, the invitation had been extended to all. We did not regard this limited response as a probity issue.

Communications with tenderers

The RFT document advised prospective tenders of a single point of contact for communications on the tender process. This arrangement worked well.

During October and November we reviewed the notices, clarifications and responses to questions issued to prospective tenders during the open part of the tendering process. We also reviewed correspondence to several tenderers in which the submission of alternative tenders was approved. We supported GWRC's view in relation to a request from a tenderer for a question to be treated as commercial in confidence. This request was not agreed. There were no probity issues arising from our review of communications.

Tender closing and compliance checking

Tenders closed on 24 November 2016. Nine tenderers submitted 86 tenders. This was an extraordinary response in terms of the strong market interest but it also presented some significant issues for the management of the tender evaluation.

We were not present during the receipt of tenders but on 25 November we reviewed the submission record and discussed with GWRC the process that it had followed. GWRC advised that all tenders had been submitted on time. There were no issues arising from our review of this part of the process.

On 29 and 30 November we met with GWRC to discuss the compliance checking that had been undertaken on the submitted tenders. We also attended a meeting of the Tender Steering Group (TSG) on 5 December to consider the report on the compliance checking. Apart from some minor issues all tenders were accepted as compliant and the TSG confirmed that they should be taken forward for detailed evaluation.

Tender evaluation

On 18 October, prior to tender closing, we attended a briefing for the staff and consultants who were to be involved in the tender evaluation. GWRC's Probity Advisor provided a presentation on probity expectations for the evaluation work. We contributed to this discussion. On 25 November we provided a phone briefing to an evaluator with the emissions team who had been unable to attend the earlier session. The briefing sessions and the guidance material that was available provided a good basis for the work ahead.

The evaluation of tenders was undertaken on a structured basis as set out in the evaluation plan. Evaluation teams were established for Quality, Emissions, Added Value, Due Diligence and Price. Evaluation work was undertaken concurrently in each area. However, there was a strict separation maintained between the financial/price evaluation work and the quality assessment. We had no concerns about the way in which this was managed.

The assessment of tenders by individual evaluators was undertaken through December 2016 and early January 2017. Between 16 and 20 January 2017 we attended meetings of the Quality Evaluation Group (QEG) at which the group discussed and agreed consensus scores for each evaluation attribute and across all 86 tenders. This was a huge task that we believe was undertaken in a robust manner.

On 13 and 16 February we attended meetings of the TSG at which reports on the quality evaluation and referee checking were considered. The TSG sought further information from the QEG. We also raised a concern about the need to broaden the referee checking to place less reliance on GWRC itself acting as a referee. On 22 February we discussed with GWRC how it was responding to the TSG request for further information to be included in the quality report and the referee checking. We noted the steps that were then taken by GWRC to address these matters. On 1 March we attended another meeting of the TSG at which the Quality and Added Value (alternative tenders) reports were accepted subject only to some further minor revision.

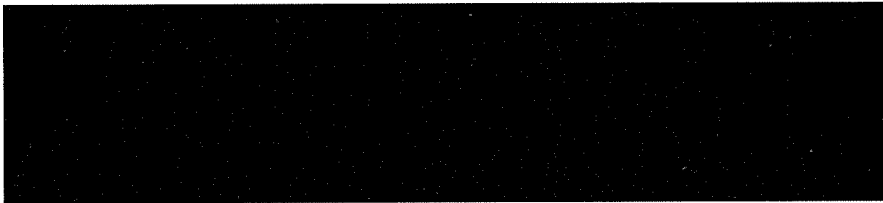
On 3 March we attended a meeting of the TSG to consider the Emissions Report and an early draft of the Price report. This was the first occasion on which pricing information had been provided to the TSG. The TSG requested some clarification and additional content in the reports. At a meeting on 6 March the TSG considered revised reports for Quality (minor changes only) Added Value, an updated pricing report and a draft Supplier Quality Premium (SQP) report based on the Council's own estimate of costs (the shadow bid). The TSG substantially accepted these reports. On 8 March the TSG considered the Final SQP report (based on actual tender prices). The TSG agreed the final SQP report.

On 15 March we met with GWRC to discuss the approach that had been taken with the use of the evaluation model (tool). This tool was the key determinant of the tender outcomes. The use of the tool had to be adapted because of the large number of tenders that had been received.

GWRC's Consultant had prepared an adjusted approach and amended guidance for the use of the tool. This amended approach involved a manual assessment of the last two stages of the evaluation process for Passenger Vehicle Requirements and Market Share. Previously these steps had been incorporated in the tool.

We concluded that a rigorous approach appeared to have been taken to the use of the tool and that comprehensive records of this existed. GWRC had engaged two Consulting firms, one to support the design of the evaluation methodology and the tool and the other to review the mathematical accuracy of the data input into the tool. We understand that both these Consulting firms are providing letters of assurance or confirmation in relation to their work. We have not separately reviewed the design of the tool (because of its complexity) nor the data entered into it. However, we are satisfied that good processes existed for these activities.

On 15 March we attended a TSG meeting at which a report on the Preferred Tenders outcome and recommendations was considered. The TSG confirmed the first ranked and therefore the Preferred Tenders outcome but noted the need for some further due diligence work to be done.



s7(2)(b)(ii) -
commercial
position

Following confirmation of the Preferred Tenders recommendations on 12 April and in noting the proposed bus fleet composition GWRC decided to undertake initial non-binding discussions with the Preferred Tenderer about the potential for a variation to be agreed for the contracted bus services. GWRC met with the Preferred Tenderer on 18 April to discuss this possibility. We attended this meeting but were not in attendance at subsequent meetings.

On 26 and 30 April we reviewed successive drafts of a Council report which summarised the tender process, noted the achievement of many of the objectives for the process and set out recommendations for contract award for consideration by Council. The report was consistent with our observations of the process to determine a first ranked tenders outcome. However, we had some concern with a recommendation that was being considered in relation to a proposed variation to the contracts. We raised our concern at a meeting of the TSG on 26 April. It was agreed that legal advice should be obtained and this occurred.

We don't have significant concerns about initial discussions on the elements of a possible variation to the bus contracts. However, if probity risk is to be avoided, then in our view the Council's approval at this time must be focussed on the outcome of this tender process as determined by the evaluation process. We also suggest that if consideration of any variation occurs at the same time that Council approves award of the contracts then this could be perceived as compromising the PQM methodology used in the evaluation of tenders.

We reviewed a further update of the draft Council report on 1 May and then on 2 May we reviewed the proposed updated recommendations for Council. We are satisfied that the matter noted immediately above has now been properly addressed.

Other significant matters arising during this reporting period

In November 2016 we were advised that several Councillors had received a letter from the parent company of one of the prospective tenderers. The letter was congratulatory with respect to election results but also commented on the use of electric buses. There was some concern by GWRC as to whether the letter may represent a breach of the tender process obligations that tenderers have to maintain confidentiality and communicate about the process only through prescribed channels. We reviewed the letter of response that GWRC issued to the tenderer and its parent company. We consider this matter to have been satisfactorily closed out.

On 11 November 2016 we issued a letter to all prospective tenderers seeking their advice on the probity of the tender process up to that point in time. Intentionally, this letter was issued just prior to tender closing. All but one tenderer responded. All responses were positive about the probity of the process. The tenderer that did not respond was the same tenderer referred to in the issue noted immediately above. We did not regard the lack of response as a significant probity issue.

We have reported above on the effects of the November 2016 earthquake on the tender evaluation process. The effects were significant. GWRC is to be commended for its efforts to ensure that the tender process could continue with minimal adverse consequences. We acknowledge that tenderers were also affected by this earthquake but none raised this as a major issue of concern for the tender process.

We were involved in discussions with GWRC and its Probity Advisor with regard to a complaint by a Union to the Ombudsman in respect of the Union's wish to obtain a copy of the RFT document. We reviewed GWRC's and its Probity Advisor's position on this which we supported. We recognise, as Council does, that there is a high level of interest by Unions in this tender process. That is to be expected. However, the tender process is a highly commercial process for which confidentiality obligations would normally apply to all parties directly involved – GWRC and its tenderers.

We were advised on 19 April 2017 of a request by a Union to meet with Councillors. We understand that this request was declined. This request was made at a very sensitive time given that the meeting was to occur immediately in advance of Council's consideration on 4 May 2017 of the Preferred Tenders recommendations.

Conclusion

This procurement process relates to a high profile and high value contract. Consequently, the probity of the process is an important consideration. The process has been lengthy and has required considerable planning effort with associated costs to GWRC and industry operators. We are of the view that the procurement process has been well managed by GWRC.

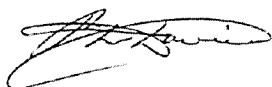
In reaching our conclusion at this stage of the procurement process, we have taken into account the advice and information provided by GWRC and we have made our own enquiries as set out in this report. We have considered whether or not the procurement process has been conducted in accordance with GWRC's planning and with good practice and with due regard to probity. Nothing has come to our attention to indicate that this has not been achieved in relation to the identification of a Preferred Tenders outcome.

Confidential

Way forward

If there are aspects of this report that you wish to discuss further, please feel free to contact me (phone 021 222 4824), or e-mail peter.davies@auditnz.govt.nz.

Yours sincerely



Peter Davies
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cc Andrew Cooper, Programme Director – Bus Services Transformation, GWRC
Andy Burns, Audit Director