



Local Government
Commission

Mana Kāwanatanga ā Rohe



MorrisonLow



Update to combined Wairarapa District Council costs

Local Government Commission

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Introduction

The Local Government Commission has commissioned Morrison Low to provide an update to the forecast financial information for a potential combined Wairarapa District Council (WDC). This was assessed as Option B in Morrison Low’s ‘Assessment of Options for Wairarapa Local Government’ report dated June 2016¹.

This update incorporates newly available information regarding the potential IT transition costs.

For the purposes of consistency, all other information remains unchanged from the 2016 report, including the base financial year of 2016/17. This addendum should be read in conjunction with the main report, particularly the sections addressing assumptions and clarifications.

The information in this report has been provided by Masterton District Council (MDC), Carterton District Council (CDC), South Wairarapa District Council (SWDC) and MAGIQ Software Ltd (“MagiQ”).

Current IT systems and support

The three councils currently use a range of software systems, from different providers, as shown in the Table below.

Table 1: Current IT systems

| Software | Masterton District Council | Carterton District Council | South Wairarapa District Council |
|----------------------------------|--|---|---|
| Enterprise system | MagiQ Enterprise | MagiQ Enterprise | MagiQ Enterprise |
| Document management | MagiQ Documents | MagiQ Documents | Vault |
| Performance/reporting management | MagiQ Performance | MagiQ Performance | MagiQ Performance |
| Asset Management (excl. roads) | MagiQ Assetic | MagiQ Assetic | Moloney |
| Asset Management – roading | RAMM | RAMM | RAMM |
| Regulatory | MagiQ/GoGet | MagiQ/GoGet/Trapeze/ DEMS Reveal | MaqiQ/GoGet |
| GIS | ArcGIS (shared service) | ArcGIS(shared service) | ArcGIS (shared service)/ ESRI |
| Library services | Civica (shared service) ² | Kotui | Kotui |
| Community services | | UngerBoeck | |
| Others | Microsoft, Adobe, Shadow Protect, Antivirus | Microsoft, Shadow Protect, Fortinet, Symantec, Prophecy, Adobe | MYOB (payroll) Microsoft, Adobe, Shadow Protect, Firewall, Antivirus, Terranet |

¹ Morrison Low, ‘Assessment of Options for Wairarapa Local Government’, 3 June 2016.

² Shared service with a number of other councils in the Wellington Region

Table 2: Current IT support

| Support | Masterton District Council | Carterton District Council | South Wairarapa District Council |
|--------------------------------|---------------------------------|----------------------------|----------------------------------|
| IT support- internal | 2.1 FTEs | 0.5 FTE | 0.1 FTE |
| IT support – external general | Technology Solutions | Computercare NZ Ltd | Technology Solutions |
| IT support - software specific | MagiQ Eagle Technology (GIS) | MagiQ, GoGet | MagiQ |

IT transition costs

The IT transition costs estimated in the 2016 report were \$10 million. In its 2014 report to the Local Government Commission³, Deloitte estimated that the cost to transition the three Wairarapa Councils to a single IT system would be in the order of \$21-30 million. The Project Control Group proposed that a lower figure of \$10 million be used for the purposes of the financial modelling. A sensitivity analysis comparing the impact of a \$10 million cost versus a \$5, \$15 and \$21 million cost was carried out.

For the purposes of this report, we have considered the following IT costs, as set out in the sections below:

- Implementation – vendor costs
- Implementation – internal costs
- Ongoing software licensing costs
- Ongoing support costs

Implementation – vendor costs

At the request of the Local Government Commission, MagiQ has provided an estimate for the amalgamation of its systems for a combined Wairarapa District Council. MagiQ has noted that its estimates are ‘high level indicative budgetary pricing’. The estimate covers the four modules that MagiQ currently has deployed at MDC and CDC (Enterprise system, Document management, Performance/reporting management and Asset Management excluding roads) and includes an allowance for migrating and integrating the SWDC data.

The three councils currently all utilise a number of other software packages including RAMM, GoGet, Microsoft and Adobe. While these are the same systems, they are likely to have been small differences in implementation. For some applications, the councils are using different systems and it is assumed that a new WDC will assess these, select the systems that best meet its needs and then implement them.

Currently SWDC and CDC have a joint library service utilizing the Kotui, a shared library management and resource discovery service available to New Zealand public libraries on subscription, owned and operated by the National Library of New Zealand. MDC uses the Civica shared service with a number of the other councils in the Wellington Region. A new WDC would need to investigate options for the integration of the two library services.

The majority of other services are externally managed through service providers, with the exception of CDC whose parks and utilities maintenance function is in-house. We do not anticipate there will be significant IT costs related to these as part of the amalgamation.

³ Deloitte, Wellington Local Government Reorganisation Options, Transition Costs and Benefits for Technology Changes, September 2014

An allowance has been made for the vendors to integrate the systems, based on previous discussions with vendors operating in the Local Government market and on publically available information on implementation costs. The Auckland Council amalgamation is not relevant due to the different scale and complexity. As there is no firm scope of work and there are no comparator examples of this work this should be considered a high level preliminary allowance only.

The new WDC will require a new website and intranet, with information combined from the three current council websites and intranets. The costs associated with this will be primarily for the creation of new content. Functionality of a similar level to the current MDC website has been assumed. To develop a fully functional website integrated to the enterprise and regulatory system that allowed online submission of consents, LIM requests and payment of rates, fees and charges would be significantly more expensive. MDC is currently upgrading its website and some of this functionality may be able to be utilized by a new WDC. Full online functionality is considered an increased level of service so has not been included in the modelling.

A new WDC would need to assess the capacity of the existing councils' servers and determine if new hardware was required to support the combined council. We have made an allowance for an upgrade to the existing servers in the mid-point and high scenarios.

Implementation - internal costs

A significant IT transition of this type requires proper project management disciplines and we have assumed that there would be one Project Manager managing the IT implementation full time over an 18 month period.

We have assumed that module champions would be required in approximately eight core areas (e.g. financial, regulatory, asset management, records, web/intranet, GIS, libraries, other), who would on average require 25% of their time for this work. We have made an allowance for their roles to be back-filled, as it is unlikely that there will be significant additional capacity in the departments during the amalgamation phase.

In addition there will be costs associated with other staff supporting the scoping and testing of the new systems, as well as training costs for all staff.

Ongoing software licencing costs

We have considered whether there is likely to be any substantial change in ongoing software licencing costs. The three councils have provided information on their current costs and MagiQ has provided an estimate of licencing costs for its systems. As software licences are typically charged on a per-user, per- asset or turnover basis, we do not anticipate that there will be any material differences in the annual cost.

Ongoing support costs

Internal IT support is anticipated to remain the same. External IT support costs are likely to decrease slightly through the efficiency of purchasing one support agreement only. This is likely to be balanced by an increase in complexity and the need to develop a WAN network between the offices and service centres of the combined District Council.

Total IT transition costs

The mid-point estimate for the total IT transition costs is estimated at \$2.3 million. This is based on a range of assumptions as described above and should be considered a high level preliminary allowance only. The sensitivity analysis also considers two other scenarios at \$1.15 and \$3.3 million.

Update to financial model

We have used the same assumption regarding the capitalization of IT costs as in the main report. IT costs have been capitalised and incurred evenly over the first three years. This cost has then been amortised over a seven year period (from years 4 to 10). This provides consistency with the modelling in the main report and also recognizes that the project may span three financial years.

Operating Result

For comparison purposes we have included below Table 20: Net Operating Result under Option B as was reported in the main report.

Table 3: (Table 20 in main report): Net Operating Results including \$10 million in IT transition costs (\$M)⁴

| \$M | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | Total |
|----------------------------------|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|
| Revenue | 72.8 | 75.0 | 77.5 | 79.0 | 81.8 | 84.4 | 86.9 | 89.3 | 91.5 | 94.6 | 833 |
| Costs | (70.6) | (73.0) | (74.0) | (75.5) | (78.1) | (79.0) | (80.6) | (83.2) | (84.5) | (87.5) | (786) |
| Net Efficiencies = saving (cost) | (2.4) | (0.3) | 1.4 | (0.2) | (0.1) | 0.1 | 0.2 | 0.4 | 0.5 | 0.7 | |
| Operating Result | (0.2) | 1.7 | 4.8 | 3.2 | 3.6 | 5.5 | 6.5 | 6.4 | 7.5 | 7.8 | 47.0 |

The net operating result for the combined WDC under Option B with the revised IT transition costs of \$2.3 million is shown below. The net efficiencies are the estimated efficiencies less the transition and ongoing costs (incorporating the revised IT costs) as identified on page 50 of the main report.

Table 4: Net Operating Results including \$2.3 million in IT transition costs (\$M)⁵

| \$M | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | Total |
|----------------------------------|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|
| Revenue | 72.8 | 75.0 | 77.5 | 79.0 | 81.8 | 84.4 | 86.9 | 89.3 | 91.5 | 94.6 | 833 |
| Costs | (70.6) | (73.0) | (74.0) | (75.5) | (78.1) | (79.0) | (80.6) | (83.2) | (84.5) | (87.3) | (786) |
| Net Efficiencies = saving (cost) | (2.3) | (0.1) | 1.7 | 1.3 | 1.4 | 1.5 | 1.5 | 1.6 | 1.7 | 1.8 | 10.1 |
| Operating Result | (0.2) | 1.9 | 5.2 | 4.8 | 5.1 | 6.9 | 7.9 | 7.7 | 8.7 | 9.0 | 56.9 |

In Table 5 below we have shown the breakdown of net efficiencies into efficiencies and transition costs. The rationale for the efficiencies and costs is provided in the main report.

⁴ The net operating result represents the annual increase or decrease in the net worth of the Council. This includes changes in cash and also changes in the value of assets owned and maintained on behalf of the ratepayers. Note figures in tables are rounded.

⁵ The net operating result represents the annual increase or decrease in the net worth of the Council. This includes changes in cash and also changes in the value of assets owned and maintained on behalf of the ratepayers. Note figures in tables are rounded.

Table 5: Breakdown of Net Efficiencies for Option B including \$2.3 million in IT transition costs (\$M)⁶

| \$M | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | Total |
|----------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|--------|
| Efficiencies | 2.4 | 2.8 | 3.0 | 3.0 | 3.1 | 3.2 | 3.3 | 3.4 | 3.4 | 3.5 | 31.0 |
| Transition Costs | (4.7) | (2.9) | (1.3) | (1.7) | (1.7) | (1.7) | (1.7) | (1.7) | (1.8) | (1.8) | (21.0) |
| Net Efficiencies = saving (cost) | (2.3) | (0.1) | 1.7 | 1.3 | 1.4 | 1.5 | 1.5 | 1.6 | 1.7 | 1.8 | 10.1 |

Sensitivity analysis

We have updated the sensitivity analysis performed in the main report. We have used the estimate of \$2.3 million as the mid-point, and have also considered scenarios with \$1.15 and \$3.3 million in IT transition costs. We have also included the \$5 and \$10 million costs used in the main report for comparison.

Table 6: Sensitivity analysis of Net Operating Results (ten year total (\$M))

| IT transition cost | Net operating result | |
|--------------------|-----------------------|-------------------------|
| | Option A (Status Quo) | Option B (Combined WDC) |
| \$1.15 million | \$46.9 million | \$58.5 million |
| \$2.3 million | \$46.9 million | \$56.9 million |
| \$3.3 million | \$46.9 million | \$55.6 million |
| \$5.0 million | \$46.9 million | \$53.3 million |
| \$10 million | \$46.9 million | \$46.6 million |

For the mid-point scenario (\$2.3 million), the net operating result for the Combined Wairarapa District Council option (Option B) is approximately \$10 million higher than the Status Quo (Option A) over the ten year period.

The effect of the interest charge on the capitalised IT cost means that for a \$1 million difference in costs, there is approximately a \$1.3 million difference in the net operating result over the ten year period.

⁶ Note: figures are rounded

Conclusion

We have looked at the potential IT transition costs for a combined Wairarapa District Council at a high level. This is based on further information received since the completion of the report 'Assessment of Options for Wairarapa Local Government'⁷. IT transition costs are anticipated to be in the range of \$1.15 to \$3.3 million. For the mid-point scenario (\$2.3 million), the net operating result for the Combined Wairarapa District Council option (Option B) is approximately \$10 million higher than the Status Quo (Option A) over the ten year period.

The estimates provided in this report are premised on MagiQ being chosen as the core financial and regulatory solution for the combined Wairarapa District Council and existing IT service levels being retained. The estimates are based on information supplied by MagiQ, the respective councils and publically available information. Should a combined Wairarapa District Council be progressed, we recommend that a full IT transition scoping and costing exercise be commissioned to provide more accurate costs.

⁷ Morrison Low, 'Assessment of Options for Wairarapa Local Government', 3 June 2016.