

**Report to Local Government Commission on Wellington  
reorganisation transition costs**

***28 November 2014***

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**A.) EXECUTIVE SUMMARY**

a) Five practicable options are analysed in this report for the reorganisation of local government services across the Wellington region. These comprise Status Quo plus:

- Option 2.1. Enhanced local delivery – One Wairarapa Council
- Option 2.2. Enhanced local delivery – One Hutt Council
- Option 2.3. Enhanced local delivery – One Western and North Wellington
- Option 3.0. Stronger regional delivery by transferring some obligations to Greater Wellington
- Option 4.1. One Wellington Council - no local boards
- Option 4.2 One Wellington Council - with local boards

b) The results in **Table 1**, assuming mid-range IT costs, show reorganisation options are economically viable for all options except One Wairarapa. In this case, IT timeframes would need to be lengthened and existing systems utilised to the extent necessary to contain IT costs to no more than \$11 million. At this level a One Wairarapa reorganisation would likely become viable.

**Table 1. NPV over 22 years and payback periods for options**

Option	NPV (\$M)	Payback period (Years)
Option 2.1 One Wairarapa.	<b>\$-14</b>	25
Option 2.2 One Hutt Valley.	\$7	10
Option 2.3 One North & Western Wellington	\$143	5
Option 3.0 Transfer of obligations to GW.	\$199	5
Option 4.1. One Wellington. No local boards	\$175	6
Option 4.2 One Wellington. With local boards	\$79	8

c) By far the most significant upfront reorganisation transition costs are IT systems design and delivery to achieve both amalgamation on *Day One* and then consolidation of systems from *Day Two*. The Deloitte estimates for total Day One and Day Two IT investment out to year five are shown in **Table 2**.

**Table 2 Low and high range IT cost estimates from Deloitte**

Option	Low \$M	Mid point \$M	High \$M
Option 2.1 One Wairarapa.	21	25.5	30
Option 2.2 One Hutt Valley.	33	40.0	47
Option 2.3 One North & Western Wellington	55	67.5	80
Option 3.0 Transfer of obligations to GW.	70	80.0	90
Option 4.1. One Wellington. No local boards	105	127.0	150
Option 4.2. One Wellington. With local boards	105	127.0	150

- d) IT costs are the most significant influencing factor on the economic attractiveness of options. The relativity of IT costs for One Wellington and Transfer of obligations to GW options is therefore important for assessing the relative attractiveness of these two large scale reorganisation alternatives. **Table 3** shows *what if* the costs of Option 3.0, Transfer of obligations to GW and Option 4.1, One Wellington - No local boards, were significantly closer together. Taking the high and low end estimates of IT costs for each of these two options respectively, and assuming business process redesign costs of 30% of IT costs for both options, indicates that the NPV and payback periods would be much the same - at around \$200 million NPV and 5-6 years payback period.

**Table 3. Sensitivity analysis on IT costs for One Wellington and Transfer of obligations to GW options**

	Low IT cost \$M		High IT cost \$M
Option 3.0 Transfer of obligations to GW.			\$90M IT cost \$199 NPV 5 year payback
Option 4.1. One Wellington. No local boards	\$105m IT cost \$201 NPV 6 year payback		

- e) Associated with IT systems deployment are the costs of redesigning business processes. These costs could be the order of a further 30% of the IT system costs.
- f) The total of six transition costs (including the IT costs above) to achieve reorganisation gains are listed below:
- (i) Transition Agency own costs (includes wide range of change management work streams).

**Implementation costs**

- (ii) Information technology costs to underpin service on 1 November 2016. (“Day one” costs) and investment required over a total of three to five years for all Councils to be served by common systems (“Day two” costs).
- (iii) Costs of redesigning business processes to integrate with IT systems.
- (iv) Accommodation, signage and costs of interim management.

**Human resource transition costs**

- (v) Redundancy costs.
- (vi) Remuneration cost harmonisation.

g) Brian Smith Advisory Services (BSAS) estimates annual costs savings, relative to the status quo option from year four, as follows:

• Option 2.1 One Wairarapa.	\$1.3 million
• Option 2.2 One Hutt Valley.	\$5.5 million
• Option 2.3 One North & Western Wellington.	\$24.8 million
• Option 3.0 Transfer of obligations to GW.	\$36.3 million
• Option 4.0. One Wellington. No local boards.	\$40.4 million
• Option 4.2. One Wellington with boards	\$30.4 million

h) Analysis of the transition costs and benefits for the reasonably practicable options for reorganisation of local authorities in the Wellington region is summarised in Table 14.

**Table 14. (Repeated in executive summary)**  
**Summary of total transition costs and cost saving benefits by option**

Summary	Total	Y-2	Y-1	Y+1	Y+2	Y+3	Y+4	Y+5	Y+6	Y+20
		2014/15	2015/16	2016/17	2017/18 Nov16 start	2018/19	2019/20	2020/21	2021/22	36/37
<b>Enhanced efficiency options (2.1-2.3)</b>		(\$M)								(\$M)
<b>Option 2.1</b>	a) Transition Planning & Mgt costs	2.01	-	-	-	-	-	-	-	-
<b>One Wairarapa</b>	(i) Met by Trans Agency		-	1.01	-	-	-	-	-	-
	(ii) Met by new entity		-	-	1.01	-	-	-	-	-
	b) (i) ICT total systems delivery	25.50	-	2.64	2.64	6.22	7.00	7.00	-	-
	(ii) Total IT business process change	4.15	-	0.79	0.79	1.17	0.70	0.70	-	-
	c) Other(Accom,signs,interim mgt)	0.20	-	0.20	-	-	-	-	-	-
	d) HR costs									
	(i) Total redundancy	0.05	-	-	0.04	0.01	-	-	-	-
	(ii) Remuneration harmonisation	-	-	-	-	-	-	-	-	-
	Total costs	31.91	-	4.64	4.48	7.40	7.70	7.70	-	-
	Total savings (from Brian Smith)	-	-	-	-	0.96	1.21	1.33	1.33	1.33
	Net Cashflow	-	-	4.64	4.48	6.19	6.37	6.37	1.33	1.33
<b>NPV: Go decision Y-1 to Y+20</b>		- 13.7	\$M	<b>Payback period (years from Y+1)</b>				25	<b>Years</b>	
<b>Option 2.2</b>	a) Transition Planning & Mgt costs	4.03	-	-	-	-	-	-	-	-
<b>One Hutt</b>	(i) Met by Trans Agency		-	2.01	-	-	-	-	-	-
	(ii) Met by new entity		-	-	2.01	-	-	-	-	-
	b) (i) ICT total systems delivery	40.00	-	3.30	3.30	9.40	12.00	12.00	-	-
	(ii) Total IT business process change	6.00	-	0.99	0.99	1.62	1.20	1.20	-	-
	c) Other(Accom,signs,interim mgt)	0.40	-	0.40	-	-	-	-	-	-
	d) HR costs									
	(i) Total redundancy	1.56	-	-	1.37	0.19	-	-	-	-
	(ii) Remuneration harmonisation	-	-	-	-	-	-	-	-	-
	Total costs	51.99	-	6.70	7.67	11.21	13.20	13.20	-	-
	Total savings (from Brian Smith)	-	-	-	-	4.08	5.31	5.57	5.57	5.57
	Net Cashflow	-	-	6.70	7.67	7.13	7.89	7.63	5.57	5.57
<b>NPV: Go decision Y-1 to Y+20</b>		7	\$M	<b>Payback period (years from Y+1)</b>				10	<b>Years</b>	
<b>Option 2.3</b>	a) Transition Planning & Mgt costs	10.07	-	-	-	-	-	-	-	-
<b>One West &amp; North Wellington</b>	(i) Met by Trans Agency		-	5.04	-	-	-	-	-	-
	(ii) Met by new entity		-	-	5.04	-	-	-	-	-
	b) (i) ICT total systems delivery	67.50	-	4.95	4.95	15.60	21.00	21.00	-	-
	(ii) Total IT business process change	9.75	-	1.49	1.49	2.58	2.10	2.10	-	-
	c) Other(Accom,signs,interim mgt)	1.00	-	1.00	-	-	-	-	-	-
	d) HR costs									
	(i) Total redundancy	6.59	-	-	5.48	1.11	-	-	-	-
	(ii) Remuneration harmonisation	-	-	-	-	-	-	-	-	-
	Total costs	94.91	-	12.47	16.95	19.29	23.10	23.10	-	-
	Total savings (from Brian Smith)	-	-	-	-	18.74	24.23	24.88	24.88	24.88
	Net Cashflow	-	-	12.47	16.95	0.55	1.13	1.78	24.88	24.88
<b>NPV: Go decision Y-1 to Y+20</b>		143	\$M	<b>Payback period (years from Y+1)</b>				5	<b>Years</b>	
<b>Option 3.0</b>	a) Transition Planning & Mgt costs	15.11	-	-	-	-	-	-	-	-
<b>Stronger Regional Delivery</b>	(i) Met by Trans Agency		-	7.55	-	-	-	-	-	-
	(ii) Met by new entity		-	-	7.55	-	-	-	-	-
	b) (i) ICT total systems delivery	79.00	-	5.61	5.61	18.18	24.80	24.80	-	-
	(ii) Total IT business process change	23.70	-	1.68	1.68	5.45	7.44	7.44	-	-
	c) Other(Accom,signs,interim mgt)	1.50	-	1.50	-	-	-	-	-	-
	d) HR costs									
	(i) Total redundancy	9.15	-	-	5.88	1.38	1.03	0.85	-	-
	(ii) Remuneration harmonisation	-	-	-	-	-	-	-	-	-
	Total costs	128.46	-	16.35	20.73	25.02	33.27	33.09	-	-
	Total savings (from Brian Smith)	-	-	-	-	20.05	26.79	31.84	35.96	35.96
	Net Cashflow	-	-	16.35	20.73	4.97	6.48	1.25	35.96	35.96
<b>NPV: Go decision Y-1 to Y+20</b>		199	\$M	<b>Payback period (years from Y+1)</b>				5	<b>Years</b>	

**Table 14. (repeated in Executive Summary)**  
**Summary of total transition costs and cost saving benefits by option**

Summary (continued)			Y-2	Y-1	Y+1	Y+2	Y+3	Y+4	Y+5	Y+6	Y+20
		Total	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	36/37
			(\$M)						(\$M)		(\$M)
<b>Option 4.1</b>	a) Transition Planning & Mgt costs	20.14	-	-	-	-	-	-	-	-	-
<b>One</b>	(i) Met by Trans Agency		-	10.07	-	-	-	-	-	-	-
<b>Wellington:</b>	(ii) Met by new entity		-	-	10.07	-	-	-	-	-	-
<b>No local</b>	b) (i) ICT total systems delivery	105.00	-	8.25	24.25	40.50	32.00	-	-	-	-
<b>Boards</b>	(ii) Total IT business process change	45.15	-	6.98	11.78	16.79	9.60	-	-	-	-
	c) Other(Accom,signs,interim mgt)	2.00	-	2.00	-	-	-	-	-	-	-
	d) HR costs										
	(i) Total redundancy	10.25	-	-	6.11	1.55	1.66	0.92	-	-	-
	(ii) Remuneration harmonisation	1.00	-	-	1.00	-	-	-	-	-	-
	Total costs	183.54	-	27.30	53.21	58.84	43.26	0.92	-	-	-
	Total savings (from Brian Smith)		-	-	-	15.38	25.64	34.59	40.44	40.44	40.44
	Net Cashflow		-	27.30	53.21	43.46	17.62	33.67	40.44	40.44	40.44
NPV: Go decision Y-1 to Y+20		175	\$M	Payback period (years from Y+1)				6	Years		
<b>Option 4.2</b>	a) Transition Planning & Mgt costs	20.64	-	-	-	-	-	-	-	-	-
<b>One</b>	(i) Met by Trans Agency		-	10.32	-	-	-	-	-	-	-
<b>Wellington:</b>	(ii) Met by new entity		-	-	10.32	-	-	-	-	-	-
<b>With local</b>	b) (i) ICT total systems delivery	105.00	-	8.25	24.25	40.50	32.00	-	-	-	-
<b>boards</b>	(ii) Total IT business process change	45.15	-	6.98	11.78	16.79	9.60	-	-	-	-
	c) Other(Accom,signs,interim mgt)	2.00	-	2.00	-	-	-	-	-	-	-
	d) HR costs										
	(i) Total redundancy	10.25	-	-	6.11	1.55	1.66	0.92	-	-	-
	(ii) Remuneration harmonisation	1.00	-	-	1.00	-	-	-	-	-	-
	Total transition costs	184.04	-	27.55	53.46	58.84	43.26	0.92	-	-	-
	Total savings (from Brian Smith)	-	-	-	-	15.38	25.64	34.59	40.44	40.44	40.44
	Ongoing cost of local boards	-	-	-	6.67	10.00	10.00	10.00	10.00	10.00	10.00
	Net Cashflow	-	-	27.55	60.13	53.46	27.62	23.67	30.44	30.44	30.44
NPV: Go decision Y-1 to Y+20		\$79	\$M	Payback period (years from Y+1)				8	Years		

## B.) BACKGROUND

### Purpose and scope of this report.

1. This report is for the Local Government Commission (LGC). It is part of a package of reports on the reasonably practicable options for Wellington Region local government reorganisation. The structure of the package of reports is as follows:
  - McGredy Winder Ltd- consulting team lead and overview report.
  - Brian Smith Advisory Services Ltd (BSAS) - analysis of cost efficiencies.
  - Stimpson & Co Ltd (this report) - analysis of transition costs to achieve cost efficiencies and summary of net costs and benefits.
  - Deloitte report on IT implementation costs. IT Implementation costs are those costs (primarily IT but also other business process redesign expenses) that allow the new entity to function on day one.
2. The purpose of this report is to identify and estimate the costs of transition from the current state of nine local and regional authorities in the Wellington region to each of four key options. Detailed cost calculations are set out in appendix one.

### Our approach

3. Stimpson & Co collaborated closely with McGredy Winder and BSAS to define each option and along with Deloitte and LGC staff to agree the key assumptions. The Auckland Council / Auckland Transition Agency (ATA) experience has been a useful benchmark for assessment of Wellington costs.
4. Based on these assumptions, Stimpson & Co. have prepared transition cost estimates for each option and, in conjunction with the benefits analysis undertaken by BSAS, prepared a cost benefit analysis and the net present value and payback period analysis for each option.

### Reasonably practicable options

5. Table 4 lists the reasonably practicable options under analysis in this report.

**Table 4. Reasonably practicable options**

Option number	Option title	
1.0	Status quo	No transition costs - Not analysed here
2.0	Enhanced local efficiency	
2.1	One Wairarapa Council (Masterton, Carterton and South Wairarapa)	
2.2	One Hutt Council (Hutt and Upper Hutt)	
2.3	One Western & North Wellington	
3.0	Stronger regional delivery - Transfer of some obligations to Greater Wellington	
4.1	One Wellington Council. No local boards	
4.2	One Wellington. With local boards	

### Definitions

6. "Transition costs" is the term used in this report to describe the one off restructuring costs of establishing the new entity or entities. They include the entire short to medium term capital and operating costs of transition and implementation to allow the new entity to function on day one. These temporary costs would not be found in the budgets of the

existing entities -or in the new entity/ies. For the purposes of this report, the term “transition costs” is interchangeable with “integration costs”.<sup>1</sup>

### The assumed approach to transition

7. The assumptions about transition and short-term efficiency gains are set out below. Our comments on the implications follow each of these assumptions (in italics).
  - a. **The transition path will follow a commercial approach of rapid transition. This will include early changes in staffing levels that result in any redundancy costs falling within six months of the establishment of the new organisation. We note that the BSAS benefits analysis extends to year four. Our analysis is therefore somewhat outside this parameter as some redundancy costs extend beyond Year +1.**
  - b. **It will be possible to select the best of breed of current systems within the merged councils and expand them to support the new council, or to adopt a new system (i.e. the Selwyn Building Consent Authority system) within a short period of time. These assumptions have been addressed by Deloitte. We note however that the IT costs for some of the smaller reorganisation options would not be affordable in practice. Actual practice would therefore likely require even greater focus on the use of existing Council systems and longer implementation timeframes than assumed by Deloitte.**
  - c. **Critical systems requiring integration early in the transition period are: payroll, finance, HR, and resource and building consents. These assumptions have been addressed by Deloitte.**
  - d. **Other key systems that should be able to be migrated using adoption of best available systems assumption are: asset management, RAMM, and GIS. These assumptions have been addressed by Deloitte.**
  - e. **There must be a transition cost associated with each area of potential saving. We have assessed the following transition costs:**
    - i. Transition Agency own costs (includes wide range of change management work streams).
    - Implementation costs**
    - ii. Information technology costs to underpin service on 1 November 2016. (“Day one” costs) and investment required over a total of three to five years for all Councils to be served by common systems (“Day two” costs).
    - iii. Costs of redesigning business processes to integrate with IT systems.
    - iv. Accommodation, signage and costs of interim management
    - Human resource transition costs**
    - v. Redundancy costs
    - vi. Remuneration cost harmonisation

*These costs are discussed further below. By way of comparison, we note that the 2009 TDB work for the Royal Commission on Auckland Governance assessed, at a high level, six activity areas (water & wastewater, stormwater, solid waste, transport,*

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1. In addition to its own costs of operation, the ATA also reported “Implementation” costs. These were operating and capital costs of staff, IT, communications, offices and signage for the new Auckland Council prior to its start date on 1 November 2010. These expenses are included in this report as part of Transition costs. The term “Integration costs” has been used by others to describe the “one off costs above, and also the “Temporary parallel costs of running essential activities to ensure business continuity”. It is assumed any such parallel costs are also new costs not found in existing council budgets and would be largely represented by the “implementation” costs discussed above. An example of these costs would be the ATA’s “implementation” costs of employing a senior management team prior to the start of the new Auckland Council entity. In this circumstance there was a senior management team running in parallel with existing senior management teams for a short period. These costs are included in the “Implementation - other” cost category of this report



*community asset and regulatory & governance) for efficiency gains. There was no attempt made to assess the costs of change at any further “line by line” detail for each of these activities. With the efficiencies estimated in this way, costs of change / transition or “integration costs were assessed at an even higher level. The midpoint of savings estimates was simply multiplied by a range of 1.0, 1.5 or 2.0 times for optimistic, base and pessimistic scenarios respectively. The subsequent ATA plan for Auckland Council targeted costs savings of \$95m in three years. These cost savings were largely from reduced staff (\$91m) and removal of duplicated services (\$4m).*

- f. No change to CCOs.** *This fits with assumption a) above that both transition costs and benefits are those achievable in the short term - say 1-3 years. This assumption limits the extent of the benefits to those gained early in transition.*
- g. There will be no changes in the level of service or changes in the long-term capital works programme as a result of the reorganisation changes.** *This fits with assumption a) above that both transition costs and benefits are those achievable in the short term - say 1-3 years.*

### Transition cost rule of thumb

8. The merger or integration examples shown in Table 5 indicates that integration costs usually amount to a least one, and up to two, times the annual efficiency gains once fully realised.

**Table 5 Transition / integration cost benchmarks**

<b>Merger / reorganisation examples</b>	<b>Ratio of integration costs to annual efficiency gains</b>
ANZ acquisition of National Bank of New Zealand.	2.1 times
Westpac acquisition of St George	2.0 times
Suncorp / Promina merger	1.6 to 1.8
Bendigo / ADB	1.0
Office of the Deputy First Minister in Northern Ireland - study of education, health and local council entities	1.9
Cornwall Council amalgamation 2009	1.6
Deloitte 2008, - “full integration” <sup>2</sup>	2.3
TDB desktop forecast for Royal Commission’s preferred option	1.0 - 2.0

### Auckland experience

9. Testing this rule of thumb with the Auckland experience is problematic due to the difficulties on locating actual costs across existing Councils, the ATA and the new Auckland Council. Work by TDB identified \$95m of targeted first year savings of which the vast majority were staff cost savings. Costs to achieve these targeted savings included the costs of the ATA, in kind contribution to ATA work streams, upfront IT investment and redundancy costs. The actual savings budget eventually contained in the First Auckland Council Annual Plan prepared for it by the ATA was \$81m.

### Cost methodology - summary of transition costs estimated for Wellington reorganisation options

10. Rather than use rule of thumb ratios of transition costs to cost savings, this report estimates five transition costs comprising:
  - Transition Agency own costs (includes wide range of change management work streams).
  - Implementation costs - comprising:

<sup>2</sup> p. 22 TDB 2009 ibid

- Information technology costs to underpin acceptable levels of service on day one, and investment required over a total of three to five years for all Councils to be served by common systems (“Day two” costs). These costs would be incurred by the Transition Agency on behalf of the new entity (ies).
- Accommodation, signage and costs of interim management signed up before the entity start date.
- Human resource transition costs - consisting of:
  - Redundancy costs (largely met by the existing Councils).
  - Remuneration cost harmonisation (includes terms and conditions).

### Wellington reorganisation timeline for all options

11. Table 6 summarises the timeline assumed for the One Wellington option. This option along with the “*Stronger regional delivery*” Option 3.0 is considered to require the longest planning and implementation period. For simplicity of analysis this timeline is also used for all other options, although they could require shorter periods for planning and implementation.

**Table 6. Option 4.1 and 4.2 - One Wellington option timeline**

	Y-2	Y-1	Y+1	Y+2	Y+3	Y+4
	July 2014 - June 2015	July 2015 - June 2016	July 2016 - June 2017	July 2017 - June 2018	2018/19	2019/20
Draft proposal						
Submissions						
Final proposal						
Poll						
Final LGC decision						
Transition governance body & project team						
Interim CEO (must terminate Y+3)			9 months			
New management team (ongoing)						
Window for IT and other transition planning only						
Window for <b>pre-start transition</b> binding IT decisions & investments (22 months)			9 months			
Start of new "One Wellington" entity <b>1 Nov 2016</b>						
<b>Start year transition</b> for IT						
<b>Post start year transition</b> for IT (Day 2 costs)						

12. The “go live” date for any new entity is assumed to be 1 November 2016. This allows a period of approximately 9 months in which an interim CEO is in place and able to make the binding IT decisions necessary to achieve minimum acceptable levels of amalgamation on day one.

13. Efficiency gains detailed in the BSAS report are noted as taking effect from year +1. The timeline in Table 6 shows year -3 through year +4. The go live date of November 2016 is approximately midway through year +1. Year +1 is therefore a period in which there are both transition costs and efficiency gains.

14. The analysis in this report was first completed in August 2014. The timing assumption at that time was a 1 November 2017 start date for any new entity. The Local Government Commission subsequently requested we model a start date advanced to 1 November 2016. The cost efficiency gains modelled by BSAS have not been changed - except as far as their timing is concerned in this report. The Deloitte IT cost assumptions have also remained unchanged except as far as their timing is concerned in this report. The implication of these changed IT timing assumptions is that the extent of integrated service delivery assumed by Deloitte as achievable by day one will be reduced if the start date

advances by one year. We have therefore assumed that 50% of Deloitte's understanding of "Day one" IT investment will be achievable by the time of the advanced start date. This investment would be managed by the transition agency. The 50% balance of "day one" investment estimated by Deloitte would be made by the new entity.

## C.) WELLINGTON TRANSITION PLANNING AND MANAGEMENT COSTS

### ATA costs as a benchmark for Wellington Transition costs

15. The Auckland Transition Agency (ATA) experience has been used as a starting point for the possible Option 4.0 - One Wellington Option Transition Agency (WTA) costs. **Table 7** contains the ATA report on actual costs. The table shows the cost categories and assumptions made on the percentage of ATA that might apply in Wellington. These costs have been inflated 6 years to the present day at 2% per year.
16. The ATA report covers a 17-month period. It is assumed that the percentage cost estimated to apply to a WTA would be compressed into a nine-month period. This assumes a final LGC decision on October 2015 and a new entity start on 1 November 2016. This compressed preparation time could mean that a reduced level of integration on day one could be apparent in comparison to the Auckland experience. This timetable also means that the transition body is assumed to be in existence long enough to spend 50% of the transition management budget we prepared in August 2014. The 50% balance of this budget would be spent by the new entity in year +1.
17. A critical budget item is the cost of the work streams, which totalled \$16m for the ATA. These work streams also received very substantial secondment of staff from existing Auckland Councils at their cost. This same availability of seconded existing council staff is assumed in Wellington. The costs of these secondments are not counted in financial terms. The costs would be in the form of work delayed or foregone in the existing Councils.

**Table 7 Wellington transition management costs based on ATA benchmarks**

ATA operating statement - 25 May 2009 - 31 October 2010	ATA (17 months)	Wellington Transition Management (24 months)		
	Actual (\$000s)	WTA as % of ATA	Budget (\$000s)	Inflated 6yrs to 2014
Administration costs (Accommodation rental & supplies)	4.6060	50%	2.303	2.594
Audit fees- ATA	0.0800	100%	0.080	0.090
Audit - planning document assurance	0.3940	0%	-	-
Audit - assurance services on workstreams	0.3000	100%	0.300	0.338
DIA support - financial, IT, Telecom	0.7410	75%	0.556	0.626
Election costs	3.7630	0%	-	-
Finance charges (mainly interest to the Crown)	1.0150		2.000	2.252
New Organisation recruitment & senior staff costs (where employed prior to 1/11/2010).	2.2530		4.957	5.583
Employee benefit costs (Staff - mainly \$838,000 Executive Chairman and \$126,000 non executive board members)	1.0590	0	0.900	1.014
Workstreams (13 projects) - almost entirely professional services. Many staff were made available from former councils at no cost to ATA - possibly a further 100% of actual costs. Workstreams consisted of the following:	16.8450	40%	6.738	7.588
1) Business processes and systems				
2) Communications & public affairs				
3) Community services				
4) Council controlled organisations				
5) Customer services				
6) Environmental services				
7) Policy & planning				
8) Regulatory				
9) Finance and Treasury				
10) Governance				
11) Legal				
12) Property & assets				
13) Workforce and human resources				
Depreciation & amortisation	0.1300	40%	0.052	0.059
Total ATA actual operating costs over the 17-month period 25 May 2009 to 31 October 201 (Actual was 90% of \$34,364,000 budget)	30.8260		17.886	20.142
Implementation operating expenditure (there was a further \$39,089,000 of capital expenditure).	5.5090	Say >	0.89	1.000
<b>Total transition management costs</b>	<b>36.2090</b>		<b>18.886</b>	<b>21.269</b>
<i>Source: Page 431, Report of the Auckland Transition Agency.</i>			<i>Inflated 6 years at 2%</i>	

18. The \$20.1 million transition management cost estimate built for the One Wellington - no local boards, option 4.1 is assumed to apply to the other reasonably practicable options as follows in terms of percentage of One Wellington transition management costs:

- One Wairarapa - 10%.
- One Hutt Valley - 20%.
- One North & Western Wellington - 50%.
- Transfer of some obligations to Greater Wellington - 75%.
- One Wellington with local boards. An additional \$500,000 provided in the Governance work stream for the initial establishment of the local boards.

19. Table 8 shows total transition management cost estimates for each option. The timing of these costs is estimated spread across two years spanning financial years -1 and +1. It is assumed that 50% of these costs would be met by a transition agency and 50% by the new entity.

**Table 8. Wellington transition management costs and timing**

a) Total Transition Management costs		Y-2	Y-1	Y+1	Y+2	Y+3
	Total	July14 - June15	July15 - June16	July16 - June17	July17 - June18	2018/19
	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)
Option 2.1 One Wairarapa	2.01	0.00	1.01	1.01	0.00	0.00
Option 2.2 One Hutt	4.03	0.00	2.01	2.01	0.00	0.00
Option 2.3 One North & Western	10.07	0.00	5.04	5.04	0.00	0.00
Option 3.0 Stronger regional delivery	15.11	0.00	7.55	7.55	0.00	0.00
Option 4.1 One Wellington-no local boards	20.14	0.00	10.07	10.07	0.00	0.00
Option 4.2 One Wellington - local boards	20.64	0.00	10.32	10.32	0.00	0.00

## D.) IMPLEMENTATION COSTS

20. The ATA incurred a range of operating and capital costs on behalf of the new Auckland Council before it came into existence. These were called “implementation” costs in the ATA financial reports. This expenditure was mainly IT and on a far smaller scale - accommodation and signage. These costs were incurred in order to allow the new entity to function with minimum acceptable levels of amalgamated service from day one.

### Implementation costs - IT systems design & delivery

21. IT cost data from Deloitte<sup>3</sup> is summarised in Table 9. Deloitte provided two sets of IT costs. First, the investment required to achieve reorganisation of Councils and core systems by “Day One”. This assumed a working period of around 25 months. As noted further above, the work by Deloitte assumed a start date on 1 November 2017. Given the current start on 1 November 2016 we have not changed the scope of IT work, but have assumed 50% of this investment would be completed by the new entity in year +1. The second cost category is the investment required over a total of three to five years for all Councils to be served by common systems (“Day two” costs). Deloitte have provided costs in a low to high estimation range.

<sup>3</sup> Page 4, Deloitte, 2 September 2014, Wellington Local Government Reorganisation Options. Transition Costs and Benefits for Technology Changes.

**Table 9. ICT systems design & delivery costs from Deloitte**

ICT data from Deloitte	Day One		Day Two		Total	
	Low	High	Low	High	Low	High
	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)
Option 2.1 One Wairarapa	6	10	15	20	21	30
Option 2.2 One Hutt	8	12	25	35	33	47
Option 2.3 One North & Western	10	20	45	60	55	80
Option 3.0 Stronger regional delivery	15	19	55	69	70	90
Option 4.1 One Wellington-no local boards	25	50	80	100	105	150
Option 4.2 One Wellington - local boards	25	50	80	100	105	150

22. We have taken a mid-point from the low to high range of Deloitte data for the purpose of our analysis. To these IT delivery costs we have provided a further allowance for associated business process redesign costs - discussed further below.

23. Table 10 shows total midpoint costs of \$150 million for One Wellington systems and \$103 million for Stronger Regional Delivery. The relatively lower cost for Stronger Regional Delivery is because Greater Wellington Regional Council has the territorial authorities' infrastructure activities integrated into its existing IT systems requiring significantly less additional investment.

24. We have assumed Day one IT costs are incurred 33%, 33% and 34% in year's -1, +1 and +2 respectively for all options.

25. We have further assumed Day two IT costs are incurred 20%, 40% and 40% in year's +1, +2 and +3 respectively for the One Wellington options 4.1 and 4.2.<sup>4</sup> This three-year period is at the most rapid end of the 3-5 year implementation period suggested by Deloitte for the Day two costs. The One Wellington options however are in the greatest need of rapidly deployed and comprehensive new systems. The remaining options have greater ability to use existing systems and to follow a less pressured implementation timetable. Therefore, Day two IT costs for the remaining options are timed 20%, 40% and 40% in years +2, +3 and +4 respectively<sup>5</sup>.

**Table 10. Deloitte mid-point IT systems design & delivery total costs (Day One + Day Two + business process changes) as interpreted by Stimpson & Co.**

b) Transition implementation costs		Y-2	Y-1	Y+1	Y+2	Y+3	Y+4
(i) ICT total (Deloitte mid-range + Business process redesign costs)	Total	July14 - June15	July15 - June16	July16 - June17	July17 - June18	2018/19	2019/20
	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)
Option 2.1 One Wairarapa	30	0	3	3	7	8	8
Option 2.2 One Hutt	46	0	4	4	11	13	13
Option 2.3 One North & Western	77	0	6	6	18	23	23
Option 3.0 Stronger regional delivery	103	0	7	7	24	32	32
Option 4.1 One Wellington-no local boards	150	0	15	36	57	42	0
Option 4.2 One Wellington - local boards	150	0	15	36	57	42	0

<sup>4</sup> See the *transition cost timing* and *IT sheets* for each option in appendix one of this report for more details

<sup>5</sup> Page 9, Deloitte *ibid*.

26. In order to reduce the significant IT costs for the One Wairarapa, Hutt and North/Western Wellington options these assumed Day two IT deployment periods would most likely be significantly further extended and existing systems utilised to the extent necessary to contain IT costs. In the case of One Wairarapa, NPV analysis indicates that total IT delivery costs of no more than \$11 million would be required for reorganisation to be financially attractive.
27. The Deloitte report notes<sup>6</sup> that the costs of organisational design and business process re-engineering in Table 11 are not included in their analysis. The right column of Table 11 discusses where these costs are covered in our analysis.

**Table 11. Cost items excluded from Deloitte analysis of IT systems design and delivery**

<b>Cost items excluded by Deloitte</b>	<b>Location of these excluded costs in our analysis</b>
<ul style="list-style-type: none"> <li>End to end business process analysis and implementation of process change.</li> <li>Organisation design</li> </ul>	<p><b>The ATA work streams did significant amounts of process design with contracted and seconded resources. The transition management budget also provides for these inputs. In addition - a further provision of 30% to 85% of the IT design and delivery cost is made for business process change. These costs are provided for in</b></p> <ul style="list-style-type: none"> <li>Table 10.</li> </ul>
<ul style="list-style-type: none"> <li>Business as usual IT costs during transition</li> </ul>	<ul style="list-style-type: none"> <li>Covered by existing Council budgets.</li> </ul>
<ul style="list-style-type: none"> <li>Ongoing application licences and support</li> </ul>	<ul style="list-style-type: none"> <li>Covered by existing Council budgets.</li> </ul>
<ul style="list-style-type: none"> <li>Ongoing IT staff costs following system transition</li> </ul>	<ul style="list-style-type: none"> <li>Covered by existing Council budgets.</li> </ul>

**End to end business process analysis and implementation of process change.**

28. Deloitte advised a very approximate range of business process change costs based on the Auckland experience<sup>7</sup>. The results are summarised in Table 12. An estimate of \$21.15 million is made for the business process change costs associated with the IT systems design and delivery on Day One. This \$21.15 million cost is 56% of the \$37.5 million mid-point estimate of One Wellington IT delivery costs. Deloitte have advised that this ratio would likely be substantially less for the other options for which we have applied a “what if” assumption of 30% of Day One costs.
29. The Deloitte assessment of additional projects also noted a number of business process change tasks for which costs are unknown. Where these costs are unknown for projects associated with Day One costs, we have assumed these are covered in the work stream budgets. The ATA experience was that the work streams conducted significant organisation and business process design of this nature.

<sup>6</sup> Page 3 Deloitte, *ibid*.

<sup>7</sup> Spreadsheet from Deloitte: “Additional Projects – Wellington Local Government Review V4.xls”. See this data in Appendix One of this report in sheet: 4.1D) IT.

**Table 12. Deloitte estimates of business process change costs.** Source: Appendix One, Sheet 4.1D.)IT

Deloitte Wellington Council phase adapted from AC phase	Deloitte \$ estimate (\$M)	Notes on where Deloitte cost is included in Stimpson analysis
Pretransition - Corp Infrastructure	0.75	Assumed a sunk cost by WCC et al
Day 1 costs	21.15	Day 1 cost
Long term	10.5	Day 2 cost. However - there are many blank entries and uncertainties in Deloitte spreadsheet for Day two business process costs. It is considered more transparent to assume business process costs as a simple % of IT system costs.
Unknown or blank entry	\$0	All these items were associated with Day one costs -are assumed to be: a) BAU expense in existing / new Council entity, or b) WTA cash cost provided for in the WTA
n/a?	10.25	workstream budget, or c) WTA agency resource cost met by secondment of employees from existing Councils. Where these blanks are associated with Day two costs, these are estimated as for Day one costs as a simple % of IT system design & delivery costs

30. The Deloitte assessment in Table 12 of business process change costs associated with long-term, or Day-Two, costs noted unknown costs for many projects. To account for these uncertainties we have made a “what if” type of assumption for all reorganisation options that Day-Two business process change costs are 30% of IT systems design and delivery costs for the One Wellington Option. For the smaller reorganisation options (One Wairarapa, One Hutt and One West & Northern Wellington) we have assumed business process change at a far lesser scale and cost as a result of greater use of best existing platforms and processes. We assume in these circumstances that business process change is 10% of IT system costs.

**Other implementation costs (accommodation, signage & interim management team)**

31. In addition to IT, “other implementation costs” for the ATA were \$2.2m<sup>8</sup> on accommodation and signage. Existing accommodation is considered likely to be largely adequate for the One Wellington option.
32. Table 13 provides a nominal “*other implementation cost*” sum of \$2m for the One Wellington option. This sum is also assumed to include the costs of an interim management team. These costs are assumed in year -1 only. All other options have assumed the following percentages of the One Wellington option for these costs. These approximate costs reflect both a fixed element, but also a reduction in line with size of the organisations.
- One Wairarapa - 10%.
  - One Hutt Valley - 20%.
  - One North & Western Wellington - 50%.
  - Transfer of obligations to Greater Wellington - 75%.

<sup>8</sup> p444 Report of the ATA



**Table 13. Other implementation costs**

<b>b) Trans Agency implementation costs (cont)</b>			<b>Y-2</b>	<b>Y-1</b>	<b>Y+1</b>
<b>(ii) Other(Accom,signs,interim mgt)</b>		<b>Total</b>	<b>July14 - June15</b>	<b>July15 - June16</b>	<b>July16 - June17</b>
		<b>(\$M)</b>	<b>(\$M)</b>	<b>(\$M)</b>	<b>(\$M)</b>
Option 2.1	One Wairarapa	0.20	0.00	0.20	0.00
Option 2.2	One Hutt	0.40	0.00	0.40	0.00
Option 2.3	One North & Western	1.00	0.00	1.00	0.00
Option 3.0	Stronger regional delivery	1.50	0.00	1.50	0.00
Option 4.1	One Wellington-no local boards	2.00	0.00	2.00	0.00
Option 4.2	One Wellington - local boards	2.00	0.00	2.00	0.00

**E.) HUMAN RESOURCE TRANSITION COSTS**

33. Cost savings over four years have been estimated by BSAS for five categories of costs (see summary in **Table 18**). We have scheduled these savings over years two to six. The following three cost categories are assumed to involve staff cost reductions and therefore redundancy expenses:

- Activities opex
- Corporate - personnel
- Governance (includes elected members and Chief Executive.)

34. Cost saving categories for which no redundancy costs, or any other investment beyond upfront IT expenditure comprise:

- Corporate - non personnel
- Activities capex

35. Redundancy costs are assumed to be incurred the year prior to the year of saving (ie: years +1 to +5). Under the Auckland transition, redundancies were largely completed before the Auckland Council start date at a cost of around \$27million to the existing Councils<sup>9</sup>. Unlike the Auckland experience it is assumed that redundancy costs would be largely incurred by the new entity. Table 14 summarises redundancy costs and timing by option.

**Table 14. Summary of redundancy costs by option**

<b>c) HR costs</b>			<b>Y-2</b>	<b>Y-1</b>	<b>Y+1</b>	<b>Y+2</b>	<b>Y+3</b>	<b>Y+4</b>
<b>(i) Total redundancy</b>		<b>Total</b>	<b>July14 - June15</b>	<b>July15 - June16</b>	<b>July16 - June17</b>	<b>July17 - June18</b>	<b>2018/19</b>	<b>2019/20</b>
		<b>(\$M)</b>	<b>(\$M)</b>	<b>(\$M)</b>	<b>(\$M)</b>	<b>(\$M)</b>	<b>(\$M)</b>	<b>(\$M)</b>
Option 2.1	One Wairarapa	0.05	0.00	0.00	0.04	0.01	0.00	0.00
Option 2.2	One Hutt	1.56	0.00	0.00	1.37	0.19	0.00	0.00
Option 2.3	One North & Western	6.59	0.00	0.00	5.48	1.11	0.00	0.00
Option 3.0	Stronger regional delivery	9.15	0.00	0.00	5.88	1.38	1.03	0.85
Option 4.1	One Wellington-no local boards	10.25	0.00	0.00	6.11	1.55	1.66	0.92
Option 4.2	One Wellington - local boards	10.25	0.00	0.00	6.11	1.55	1.66	0.92

<sup>9</sup> Notes to financial statement in final Annual Reports for existing Auckland Councils at [www.aucklandcouncil.govt.nz](http://www.aucklandcouncil.govt.nz)

### **Redundancy costs as a ratio of staff cost savings**

36. Redundancy costs are assumed at 33% of staff cost savings. This is based on ATA experience and review of HR terms & conditions across the nine Wellington region local authorities. Auckland Council actual experience was that \$81m savings were identified in the first year. The vast majority of this saving came from staff cost reductions. The staff cost reduction itself is likely to have consisted of redundancies as well as positions deliberately unfilled in anticipation of reorganisation and decreased remuneration levels. Regardless of the source of the staff cost savings, the Auckland experience suggests that say \$80 million in staff cost savings were associated with \$27million in redundancies - a ratio of around 33%.
37. Analysis of Wellington region local authorities indicates the typical redundancy conditions in the major metro entities are 6 weeks salary plus two weeks for every year of service to a maximum of twenty years service. The approximate median staff tenures for all councils range from five to eleven years. Assuming average staff tenure of 8 years (see Appendix One "RegionTermsConditions" sheet), results in 20 weeks redundancy pay - or 38% of base salary. Assuming staff cost reductions also come from the other sources such as vacancies held open and reduced remuneration, redundancy costs at 33% of staff cost saving is considered reasonable.

### **Staff cost savings & redundancy expense in the "Activities opex" category**

38. BSAS analysed cost savings in the following functions within the "activities - opex" category:

- Rooding
- Three waters
- Solid waste
- GWRC - PT payments
- Economic Development
- **Regulatory**
- **Other activities**

39. It is assumed that staff costs savings form 75% of the cost savings for Regulatory and Other activities only. It is assumed staff cost savings do not form a material element of cost savings in the other four activities.

### **Staff cost savings and redundancy expense in the "corporate personnel support" cost category.**

40. BSAS has analysed corporate support activities and identified the personnel related costs for the following functions: finance, IT, communications, human resources, records, customer service, Mayoral/CEO support, other corporate support, council meeting and committee support, and other specialist support functions. Redundancy costs are assumed at 33% of the staff cost savings for all functions in the corporate personnel support cost category. This category does not include CEO costs, which are covered in the governance category discussed below.

### **Staff cost savings and redundancy expense in the governance cost category**

41. This cost category includes reductions in the numbers of both Elected Members and Chief Executives. There is no redundancy cost associated with reductions in Elected Members. The redundancy provisions that apply to most staff including senior management do not apply to CEOs. They are on fixed term contracts with varying lengths of up to five years from 2014. Termination of these CEO contracts in a worst case could involve full payment to the end of the contract. In practice a negotiation is likely to result in some lesser payment for this early severance. Our analysis assumes an average payout of one year's full salary

totalling \$2.58 million across all nine councils (See Appendix One, sheet “4.1E.)RedundancyGovernance”

42. The assumptions for CEO redundancy payment for each options are:

- One Wairarapa: Zero redundancy costs. It is understood that all CEOs in the Wairarapa are on contracts that currently terminate before 1 November 2016.
- One Hutt Valley: One year salary for each of two CEOs.
- One North & Western Wellington: One year salary for each of three CEOs.
- Transfer of obligations to Greater Wellington: Zero CEO redundancy costs.

### Remuneration harmonisation

43. Table 15 shows the degree of variation in pay rates and conditions across the Wellington region. Material variation is seen particularly between the metro councils and the small Councils. However these metro/provincial variations only particularly impact the One Wellington option. All other options involve merger of similar scale councils in similar employment markets. Harmonisation costs in these options would be low or nil.

44. All Councils use “Strategic Pay”, a remuneration consulting firm, as their source of wage and salary benchmark data. All Councils report they target somewhere around the median of these benchmarks. It is understood that the Wairarapa Councils use a rural provincial data set from Strategic Pay however.

**Table 15. Regional variations in remuneration, terms and conditions** (Source: Appendix One: Sheet: RegionTermsConditions)

	Harmonisation costs							
	Average rates	Weeks leave		Sick leave (Days)	Terms & conditions			
		Mgrs	Others		Kiwisaver employer contribution	Medical insurance	Trauma insurance	Cars / other benefits
GW	Metro median	5	4. (5 after5)		6%	1000	440	Residual only
Wellington	Target 96% of median. Would vary across organisation - policy / works				3%	0	0	0
Hutt	Median				3%	0	0	Some cars
Porirua City	Complex. Generally less than WCC	5 at 3Y	5at3Y	10	3%	0	0	0
Upper Hutt								
Kapiti Coast	Provincial median. Substantially less than metro mgrs rates	4-5	4-5		3%	0	0	Any cars paid for
Masterton	Various benchmarks around 95% of median				5%	1700	0	No cars
Carterton	Median non metro	4 + 4 wks long service 5 year intervals			6%	0		
South Wairarapa	Median non metro	4?	4		3%	0	0	Residual only

45. The assumptions made for costs of harmonising remuneration and terms and conditions are as follows:
- One Wairarapa: Zero.
  - One Hutt Valley: Zero
  - One North & Western Wellington: Zero.
  - Transfer of obligations to Greater Wellington: Zero
  - One Wellington options: It is assumed Wairarapa remuneration may increase marginally as staff in these Councils join a larger metro based entity. There may be other costs of bringing all leave and employee contribution costs to a common region-wide standard. A nominal sum of \$1m is provided for these Wairarapa and other region wide harmonisation costs. This cost is assumed to be incurred in Year -1 as a one off payment to staff by the existing Councils.

## F.) RESULTS

### Summary of total transition costs and cost saving benefits by option

46. Table 18 shows total transition costs and cost saving benefits (from BSAS) for each option over four years. These savings have been scheduled from years +2 to +5. Annual ongoing savings climb to \$40.44 million in the case of the One Wellington option without local boards.
47. Table 18 also shows the payback period on investment and the net present value (NPV) of both costs and benefits over the period from an assumed “go decision” in year -1. These early benefits are then assumed to become embedded in the organisation and are calculated over a further period of twenty years. During this twenty year period a wide range of other costs and benefits would also come to bear on the new organisations. The NPV calculation is therefore over 21 years from year -1 to year +20.
48. The results summarised in **Table 16**, assuming mid-range IT costs, show reorganisation is economically viable for all options except One Wairarapa. In this case, IT timeframes would need to be lengthened and existing systems utilised to the extent necessary to contain IT costs to no more than \$11 million. At this level a One Wairarapa reorganisation would also likely become viable.

**Table 16. Payback period and 21 year net present value (NPV) of upfront reorganisation costs and ongoing saving benefits**

Option	NPV (\$M)	Payback period (Years)
Option 2.1 One Wairarapa.	\$-14	25
Option 2.2 One Hutt Valley.	\$7	10
Option 2.3 One North & Western Wellington	\$143	5
Option 3.0 Transfer of obligations to GW.	\$199	5
Option 4.1. One Wellington. No local boards	\$175	6
Option 4.2 One Wellington. With local boards	\$79	8

### Sensitivity analysis

49. IT costs are the most significant influencing factor on the economic attractiveness of options. The relativity of IT costs for One Wellington and Transfer of obligations to GW options is therefore important for assessing the relative attractiveness of these two large scale reorganisation alternatives.
50. Table 18 shows *what if* the costs of Option 3.0, Transfer of obligations to GW and Option 4.1, One Wellington - No local boards, were significantly closer together. We assume the High and Low end estimates of IT costs for each of these two options respectively, and business process redesign costs of 30% of IT costs. Under these assumptions the NPV and payback periods would be much the same at around \$200 million NPV and 5-6 years payback period.

**Table 17. Sensitivity analysis on IT costs for One Wellington and Transfer of obligations to GW options**

	Low IT cost \$M		High IT cost \$M
Option 3.0 Transfer of obligations to GW.			\$90M IT cost \$199 NPV 5 year payback
Option 4.1. One Wellington. No local boards	\$105m IT cost \$201 NPV 6 year payback		

### Conclusions

51. Reorganisation options are economically viable under mid-range IT cost assumptions for all options except One Wairarapa.
52. The economic attractiveness of all options is critically influenced by the extent and timing of information technology investment and associated business process change costs.

Table 18. Summary of total transition costs and cost saving benefits by option

Summary		Total	Y-2	Y-1	Y+1	Y+2	Y+3	Y+4	Y+5	Y+6	Y+20
			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	36/37
Enhanced efficiency options (2.1-2.3)			(\$M)			1 Nov 16 start					(\$M)
Option 2.1 One Wairarapa	a) Transition Planning & Mgt costs	2.01	-	-	-	-	-	-	-	-	-
	(i) Met by Trans Agency		-	1.01	-	-	-	-	-	-	-
	(ii) Met by new entity		-	-	1.01	-	-	-	-	-	-
	b) (i) ICT total systems delivery	25.50	-	2.64	2.64	6.22	7.00	7.00	-	-	-
	(ii) Total IT business process change	4.15	-	0.79	0.79	1.17	0.70	0.70	-	-	-
	c) Other(Accom,signs,interim mgt)	0.20	-	0.20	-	-	-	-	-	-	-
	d) HR costs										
	(i) Total redundancy	0.05	-	-	0.04	0.01	-	-	-	-	-
	(ii) Remuneration harmonisation	-	-	-	-	-	-	-	-	-	-
	Total costs	31.91	-	4.64	4.48	7.40	7.70	7.70	-	-	-
	Total savings (from Brian Smith)	-	-	-	-	0.96	1.21	1.33	1.33	1.33	1.33
	Net Cashflow	-	-	4.64	4.48	6.19	6.37	6.37	1.33	1.33	1.33
	NPV: Go decision Y-1 to Y+20	13.7	\$M					25			Years
	Payback period (years from Y+1)										
Option 2.2 One Hutt	a) Transition Planning & Mgt costs	4.03	-	-	-	-	-	-	-	-	-
	(i) Met by Trans Agency		-	2.01	-	-	-	-	-	-	-
	(ii) Met by new entity		-	-	2.01	-	-	-	-	-	-
	b) (i) ICT total systems delivery	40.00	-	3.30	3.30	9.40	12.00	12.00	-	-	-
	(ii) Total IT business process change	6.00	-	0.99	0.99	1.62	1.20	1.20	-	-	-
	c) Other(Accom,signs,interim mgt)	0.40	-	0.40	-	-	-	-	-	-	-
	d) HR costs										
	(i) Total redundancy	1.56	-	-	1.37	0.19	-	-	-	-	-
	(ii) Remuneration harmonisation	-	-	-	-	-	-	-	-	-	-
	Total costs	51.99	-	6.70	7.67	11.21	13.20	13.20	-	-	-
	Total savings (from Brian Smith)	-	-	-	-	4.08	5.31	5.57	5.57	5.57	5.57
	Net Cashflow	-	-	6.70	7.67	7.13	7.89	7.63	5.57	5.57	5.57
	NPV: Go decision Y-1 to Y+20	7	\$M					10			Years
	Payback period (years from Y+1)										
Option 2.3 One West & North Wellington	a) Transition Planning & Mgt costs	10.07	-	-	-	-	-	-	-	-	-
	(i) Met by Trans Agency		-	5.04	-	-	-	-	-	-	-
	(ii) Met by new entity		-	-	5.04	-	-	-	-	-	-
	b) (i) ICT total systems delivery	67.50	-	4.95	4.95	15.60	21.00	21.00	-	-	-
	(ii) Total IT business process change	9.75	-	1.49	1.49	2.58	2.10	2.10	-	-	-
	c) Other(Accom,signs,interim mgt)	1.00	-	1.00	-	-	-	-	-	-	-
	d) HR costs										
	(i) Total redundancy	6.59	-	-	5.48	1.11	-	-	-	-	-
	(ii) Remuneration harmonisation	-	-	-	-	-	-	-	-	-	-
	Total costs	94.91	-	12.47	16.95	19.29	23.10	23.10	-	-	-
	Total savings (from Brian Smith)	-	-	-	-	18.74	24.23	24.88	24.88	24.88	24.88
	Net Cashflow	-	-	12.47	16.95	0.55	1.13	1.78	24.88	24.88	24.88
	NPV: Go decision Y-1 to Y+20	143	\$M					5			Years
	Payback period (years from Y+1)										
Option 3.0 Stronger Regional Delivery	a) Transition Planning & Mgt costs	15.11	-	-	-	-	-	-	-	-	-
	(i) Met by Trans Agency		-	7.55	-	-	-	-	-	-	-
	(ii) Met by new entity		-	-	7.55	-	-	-	-	-	-
	b) (i) ICT total systems delivery	79.00	-	5.61	5.61	18.18	24.80	24.80	-	-	-
	(ii) Total IT business process change	23.70	-	1.68	1.68	5.45	7.44	7.44	-	-	-
	c) Other(Accom,signs,interim mgt)	1.50	-	1.50	-	-	-	-	-	-	-
	d) HR costs										
	(i) Total redundancy	9.15	-	-	5.88	1.38	1.03	0.85	-	-	-
	(ii) Remuneration harmonisation	-	-	-	-	-	-	-	-	-	-
	Total costs	128.46	-	16.35	20.73	25.02	33.27	33.09	-	-	-
	Total savings (from Brian Smith)	-	-	-	-	20.05	26.79	31.84	35.96	35.96	35.96
	Net Cashflow	-	-	16.35	20.73	4.97	6.48	1.25	35.96	35.96	35.96
	NPV: Go decision Y-1 to Y+20	199	\$M					5			Years
	Payback period (years from Y+1)										

Table 18. (continued) Summary of total transition costs and cost saving benefits by option

Summary (continued)			Y-2	Y-1	Y+1	Y+2	Y+3	Y+4	Y+5	Y+6	Y+20
		Total	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	36/37
			(\$M)						(\$M)		(\$M)
Option 4.1 One Wellington. No local Boards	a) Transition Planning & Mgt costs	20.14	-	-	-	-	-	-	-	-	-
	(i) Met by Trans Agency		-	10.07	-	-	-	-	-	-	-
	(ii) Met by new entity		-	-	10.07	-	-	-	-	-	-
	b) (i) ICT total systems delivery	105.00	-	8.25	24.25	40.50	32.00	-	-	-	-
	(ii) Total IT business process change	45.15	-	6.98	11.78	16.79	9.60	-	-	-	-
	c) Other(Accom,signs,interim mgt)	2.00	-	2.00	-	-	-	-	-	-	-
	d) HR costs										
	(i) Total redundancy	10.25	-	-	6.11	1.55	1.66	0.92	-	-	-
	(ii) Remuneration harmonisation	1.00	-	-	1.00	-	-	-	-	-	-
	Total costs	183.54	-	27.30	53.21	58.84	43.26	0.92	-	-	-
	Total savings (from Brian Smith)		-	-	-	15.38	25.64	34.59	40.44	40.44	40.44
	Net Cashflow		-	27.30	53.21	43.46	17.62	33.67	40.44	40.44	40.44
NPV: Go decision Y-1 to Y+20		175	\$M	Payback period (years from Y+1)				6			Years
Option 4.2 One Wellington. With local boards	a) Transition Planning & Mgt costs	20.64	-	-	-	-	-	-	-	-	-
	(i) Met by Trans Agency		-	10.32	-	-	-	-	-	-	-
	(ii) Met by new entity		-	-	10.32	-	-	-	-	-	-
	b) (i) ICT total systems delivery	105.00	-	8.25	24.25	40.50	32.00	-	-	-	-
	(ii) Total IT business process change	45.15	-	6.98	11.78	16.79	9.60	-	-	-	-
	c) Other(Accom,signs,interim mgt)	2.00	-	2.00	-	-	-	-	-	-	-
	d) HR costs										
	(i) Total redundancy	10.25	-	-	6.11	1.55	1.66	0.92	-	-	-
	(ii) Remuneration harmonisation	1.00	-	-	1.00	-	-	-	-	-	-
	Total transition costs	184.04	-	27.55	53.46	58.84	43.26	0.92	-	-	-
	Total savings (from Brian Smith)	-	-	-	-	15.38	25.64	34.59	40.44	40.44	40.44
	Ongoing cost of local boards	-	-	-	6.67	10.00	10.00	10.00	10.00	10.00	10.00
	Net Cashflow	-	-	27.55	60.13	53.46	27.62	23.67	30.44	30.44	30.44
NPV: Go decision Y-1 to Y+20		\$79	\$M	Payback period (years from Y+1)				8			Years

**Appendix One.**

Stimpson & Co spreadsheet - file:

*StimpsonReportOnWellingtonReorganisationTransitionCostsFinalV4.1 .docx*

This file contains supporting calculations and detailed assumptions for this report.