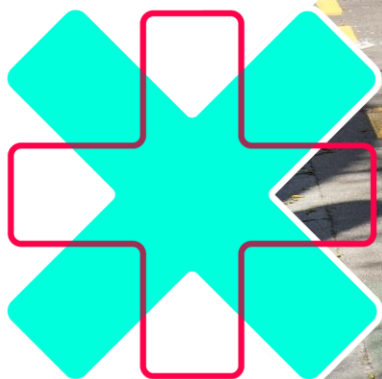
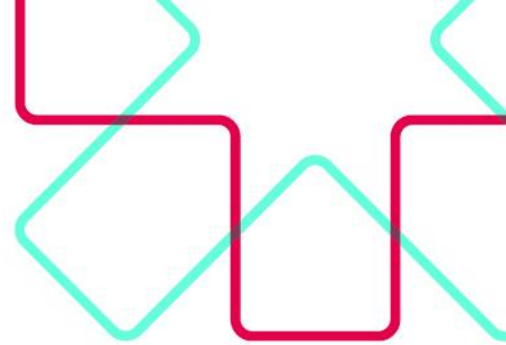


WELLINGTON REGION TRANSPORT INDICATIVE BUSINESS CASE

Final Report

21 October 2016





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PREFACE

This report has been prepared for the Local Government Commission by MartinJenkins, Cranleigh, and TDG.

MartinJenkins

For more than two decades MartinJenkins has specialised in providing high calibre evaluation, public policy and organisational strategy and design services to clients in New Zealand and beyond.

The company's team of 40 consultants has a wealth of in-depth knowledge and skills in economics, financial and organisational management, employment relations, public policy, and evaluation and research.

Cranleigh

Cranleigh is a leading Australasian advisory firm which has strong company valuation and commercial structuring skills. The firm also includes a specialist infrastructure advisory team. Cranleigh advise both public and private sector organisations to develop large-scale infrastructure projects across multiple sectors.

TDG

TDG is New Zealand's largest specialist transportation engineering consultancy, with offices throughout the country and 40 years of experience in a full range of professional services in transportation: engineering, planning, modelling, analysis and design.



FOREWORD FROM THE LOCAL GOVERNMENT COMMISSION

The Local Government Commission has been working with Wellington councils and the New Zealand Transport Agency to explore whether the region's transport system is governed and delivered in the best way to meet future challenges. This indicative business case report tests a range of options to improve the current system.

This work began following public opposition to a proposal to combine all of the region's councils. About 40 percent of submissions on the merger proposal suggested alternatives such as smaller mergers or more shared services. The Commission and councils committed to work together, initially through the Wellington Mayoral Forum, to investigate options that could improve the effectiveness of councils and strengthen the region. It was agreed that the region's transport system is a priority area for consideration and this report is the second in a series looking at challenges, opportunities and options.

The Commission met with councils and a range of interest groups to ground the indicative business case in the real experiences of transport system users. We held two workshops with councillors to help shape the options, the investment objectives, and the critical success factors. We also held workshops in Kāpiti, Wairarapa, Lower Hutt and Wellington City to test the problem definition and the four options. Attendees included groups interested in disability access, public transport, cycling, sustainability, urban design, road freight, rail, farming, and forestry. We are very grateful to these groups for their thoughtful and constructive contributions during the workshops.

The Commission and councils are now considering the next steps for this work. If there is support for change from councils, we will commission a further detailed business case and carry out public consultation.

Dr Suzanne Doig
Chief Executive Officer
Local Government Commission



List of abbreviations

CBD	central business district
CCO	council controlled organisations
CE	Chief Executive
CDC	Carterton District Council
GPS	Government Policy Statement on Land Transport
GWRC	Greater Wellington Regional Council
HCC	Hutt City Council
KCDC	Kāpiti Coast District Council
KiwiRail	New Zealand Railways Corporation
LGA	Local Government Act 2002
LGC	Local Government Commission
LTMA	Land Transport Management Act 2003
LTP	Long Term Plan
MDC	Masterton District Council
MoT	Ministry of Transport
NLTF	National Land Transport Fund
NLTP	National Land Transport Programme
NZTA	NZ Transport Agency
ONRC	One Network Road Classification
PCC	Porirua City Council
PGG	Project Governance Group
PMG	Project Management Group
PTOM	Public Transport Operating Model
PTT	Public Transport Transformation
RONs	Road of National Significance
RLTP	Regional Land Transport Plan
RMA	Resource Management Act 1991
RPTP	Regional Public Transport Plan
RTC	Regional Transport Committee
RTO	regional tourism organisation
SH	state highway
SLA	service level agreement
Sol	statement of intent
SWDC	South Wairarapa District Council
TA	territorial authority
UHCC	Upper Hutt City Council
WCC	Wellington City Council
WR	Wellington Roads
WT	Wellington Transport



1 EXECUTIVE SUMMARY

1.1 Introduction

MartinJenkins, Cranleigh and TDG were commissioned by the Local Government Commission to further develop and evaluate local government transport model options for the Wellington Region using business case methodology and to provide the findings in an indicative business case.

It is intended that this leads to a range of options to inform public engagement and targeted engagement with interested parties.

Scope and purpose

The purpose of this indicative business case is to provide an analysis of options for change in order to inform consideration by stakeholders.

As an indicative business case, it is intended to provide the basis for a decision on which options merit further consideration and analysis. The consultants were specifically instructed not to identify a preferred way forward. Accordingly, the assessment of options in the economic case is descriptive and does not attempt to rate or rank the options.

The scope of the work was the high-level arrangements for transport planning and service delivery in the region, covering: roads, paths, cycleways, public transport and state highways.

1.2 Strategic case

1.2.1 The outcomes to which transport contributes

Transport contributes to a range of high-level outcomes including:

- economic activity and economic development
- social and cultural activities
- place shaping.

By the nature of these outcomes, it is important that transport is aligned with a range of other activities for which councils in the region are responsible.

Important considerations in delivering these outcomes include:

- environmental impact and sustainability
- resilience – noting that Wellington faces particular challenges in this regard
- reliability
- safety
- affordability and financial sustainability.



There are inevitably trade-offs between these outcomes and considerations, and between these and other local authority responsibilities. It is not the purpose of this business case to determine the relative priorities given to these outcomes and considerations – which will inevitably change over time. Rather, it is to ensure that the region's transport governance and service delivery give effect to democratically determined priorities efficiently and effectively.

1.2.2 Current developments and future challenges

Expenditure on transport by councils in the region was around \$286 million in 2014/15. It is a major element of spending by local authorities. Forty-one percent of this comes from National Land Transport Fund (NLTF) subsidies with the balance from general and targeted rates, debt and other sources.

Total transport assets (excluding land) owned by councils and the NZ Transport Agency (NZTA) in the region are valued at \$4 billion.

Several major initiatives are currently underway:

- upgrades to the SH1 Wellington Northern Corridor relating to its status as a Road of National Significance (RONS)
- a joint Wellington City Council (WCC), Greater Wellington Regional Council (GWRC) and NZTA Let's Get Wellington Moving initiative, which focuses on upgrades on the SH1 RONS corridor and adjoining roads south of the Wellington central business district (CBD)
- NZTA construction of a new interchange at the junction of SH2 and SH58, and planning for a new Petone to Grenada Link Road between SH1 and SH2
- GWRC/KiwiRail rail upgrades, which include ongoing infrastructure renewals, capacity enhancements, and new rolling stock.

Transport investment is inherently long term in nature. Over the next 25 years, there will be significant drivers of change to transport in the region including:

- demographic change, with expected population growth of up to 20 percent in some council areas
- technological changes and technology-enabled changes to business models that will disrupt transport patterns and practices, e.g. ride sharing apps, electric and autonomous vehicles, and better use of data for decision making
- environmental changes and the drive to a reduction in transport carbon emissions.

These changes are likely to require a significant response. It is important that the arrangements for transport planning and delivery are able to cope not only with present challenges but future ones. Given the number of major projects underway, the region may be in a period of focusing on the delivery of major projects, but critical strategic choices will need to be made in the future.



1.2.3 Problem definition

Problem 1: There is poor alignment and integration between transport activities in the region

This covers a range of dimensions but notably includes alignment and integration:

- between local and regional transport priorities (e.g. in considering local place shaping versus arterial regional connections)
- between local roads and state highways
- between roads and public transport
- between transport and other land uses and priorities.

It is inevitable that there are tensions between these priorities and activities. However, there are cases where there was a general view amongst stakeholders spoken to that the solutions struck were less than ideal. That said, it is also inevitable that there will be a range of views.

There are two main factors contributing to this problem:

- Because of the roles of territorial authorities in decision making, present arrangements tend to favour local priorities over regional ones where the two are in conflict. This is particularly the case where local place shaping is in tension with regional connections.
- There appear to be a number of instances where there has been insufficient engagement with other agencies' perspectives in reaching decisions.

'Poor' in this context is a relative term. The size of the problem is not quantifiable. It is ultimately a matter of judgement as to whether alternative arrangements can deliver better outcomes in the future, or would have avoided a number of present problems and issues if instituted earlier.

Alignment and integration matters. Without it, investment in transport can be less than ideal, take a long time to decide on and implement, or be done inefficiently. Even small gains in efficiency can be important given the level of expenditure. Delays can have wide-ranging impacts on outcomes.

Examples of issues include:

- new (sub-urban) developments not being suited to public transport access or blocking future by-passes
- delays in implementing enhanced public transport arrangements
- delays in corridor development providing arterial access across the region.

Councillors and council staff expressed a range of views as to the importance of this problem, including some individuals who did not see it as an issue at all. For those that did, there was a range of perspectives as to where the emphasis lies across the different dimensions.

Problem 2: Constraints on capability for strategic advice, planning and service delivery by agencies

Interpreted broadly in this context, 'capability' covers people, systems, structures, processes and other technical assets needed by agencies to undertake their functions.

Retaining and attracting suitable senior staff is a current issue for some councils and a potential risk for others. The extent of this issue varies considerably by council and is generally more acute for the



smaller territorial authorities, but is not noted as being a significant issue by the largest one – WCC, or by KCDC.

The underlying driver of this situation is the small scale of the transport units at some councils. This makes it harder to attract senior staff and leads to diseconomies of scale in investing in technical capabilities.

There are a number of potential consequences of this situation including:

- constraints in transport planning at the territorial authority level
- difficulty in meeting planning and funding compliance requirements, which tend to increase over time
- constraints on strategic advice to councils, e.g. relating to asset management
- risks to the efficient management of service delivery
- constraints on access to specialist technical services (although these can often be bought in)
- the region does not offer a transport organisation of sufficient scale to offer career opportunities to attract new talent.



1.3 Economic case

1.3.1 Short list options

A number of options for change were identified as set out in Table 1.

Table 1: Short-list options overview

Option	Description	Functions consolidated
A: Status quo	The present arrangements.	
B: Non-structural measures to improve alignment	<p>Improved reporting on regional transport outcomes.</p> <p>Possible improvements (subject to necessary policy and legislative changes) to:</p> <ul style="list-style-type: none"> • RLTP project identification options • alignment between the LTMA and RMA. <p>Greater use of formal working arrangements for inter-agency projects.</p>	None
C: Pooled planning support	Planning, management, and related information functions and analytical capabilities pooled under a shared service arrangement – or small council controlled organisation (CCO). Covers all networks and modes other than state highways, although could include some services on state highways, such as traffic management.	Some technical planning and management and operations management services
D: Wellington Roads	<p>CCO pools roading capability to develop, maintain and operate roads, paths and cycleways. Existing planning and funding arrangements remain.</p> <p>Services provided to territorial authorities under service level agreements.</p> <p>Public transport stays with GWRC.</p> <p>Only includes councils west of the Rimutaka Range (but could include Wairarapa councils should they wish to participate). Could be scaled down further.</p>	<p>For roads, paths and cycleways:</p> <ul style="list-style-type: none"> • project planning • operations management • asset management • relevant road controlling authority functions • some technical planning and management functions.



Option	Description	Functions consolidated
E: Wellington Transport	<p>Single agency (a CCO) with responsibility for programming and operations for all modes in the region (local roads, public transport, walking and cycling, and some aspects of state highways).</p> <p>An analogue of Auckland Transport but existing Regional Transport Committee (RTC) is retained¹. Other modifications to take into account local context and lessons learned.</p> <p>Regionally funded.</p> <p>Includes all councils in the region. The Wairarapa would participate in respect of public transport but not local roads. A sub-option has the Wairarapa also participating in respect of local roads.</p>	<p>Strategic planning and prioritisation.</p> <p>For roads, paths and cycleways, and public transport:</p> <ul style="list-style-type: none"> • technical planning and management • project planning • operations management • asset management • relevant road controlling authority functions. <p>For state highways:</p> <ul style="list-style-type: none"> • operations management • asset management • relevant road controlling authority functions.

¹ The Board of Auckland Transport is the Regional Transport Committee. The proposal here is that the existing Regional Transport Committee is retained and the board of Wellington Transport is a separate body.



The Wellington Roads (WR) and Wellington Transport (WT) options should be regarded as points on a spectrum of options that involve varying degrees of regional consolidation of modes, functions and responsibilities. The Wellington Roads option has been positioned as the option that sits at the low end of the spectrum in terms of regional consolidation of functions. Wellington Transport is near the other end of the spectrum. There are many intermediate possibilities. It would also be possible to scale down Wellington Roads. A range of working arrangements involving two or three councils could be plausible solutions to specific capacity or capability issues.

Perhaps the most important difference between Options D and E, is that while Option D is funded through service level agreements (effectively meaning that councils' funding of transport goes to their council area). Option E moves to a regional approach to funding. This has significant implications for the governance arrangements and the balance of local and regional voice.

There are other opportunities to combine options. Option C could, with minor changes, be combined with Option D. Option E subsumes Option C. Elements of Option B could be combined with Options C, D and E.



Table 2: Short-list options: practical impact on councils

Option	Impact on territorial authorities	Impact on GRWC	Impact on NZTA
B: Non-structural measures to improve alignment	Possible additional reporting requirements	Possible additional reporting requirements	Possible additional reporting requirements
C: Pooled planning support and traffic management functions and capabilities	Transfer of some specialist staff – primarily affecting WCC Relatively minor funding obligation	Transfer of some specialist staff Relatively minor funding obligation	Possible transfer of some specialist staff – depending on final scope Possible minor funding obligation
D: Wellington Roads	Transfer of existing roading staff to WR Asset management planning and service delivery functions transferred to WR <i>No change to high-level funding arrangements</i> <i>No change to decision making rights</i>	<i>No direct impact</i> <i>There would be one road agency (rather than multiple councils) to engage with in the first instance. However, critical decisions would still be referred to territorial authorities.</i>	<i>No direct impact</i> <i>There would be one road agency (rather than multiple councils) to engage with in the first instance. However, critical decisions would still be referred to territorial authorities.</i>



Option	Impact on territorial authorities	Impact on GRWC	Impact on NZTA
E: Wellington Transport	<p>Councils would be less directly involved in certain decisions. Their involvement in decision making would be through participation in a joint shareholders committee and through formal consultation processes.</p> <p>Existing roading staff would be transferred to Wellington Transport.</p> <p>Responsibility for managing roading assets would be transferred to Wellington Transport. Council involvement would be through engaging in consultation and its governance and monitoring functions.</p> <p>Roading in each council area would no longer be directly funded by the territorial authority. Instead each territorial authority would contribute to the Wellington Transport budget through a funding formula.</p> <p>Councils would have an additional ownership and governance interest in public transport and state highway maintenance and operations (but not planning of new state highway construction or developments).</p> <p><i>Would not affect the Wairarapa councils in respect of roading unless the sub-option to include their local roads was chosen.</i></p>	<p>Staff responsible for public transport would be transferred to Wellington Transport.</p> <p>Staff responsible for servicing the RTC would be transferred to Wellington Transport.</p> <p>Under a possible sub-option, would no longer be involved in funding of public transport.</p>	<p>Staff responsible for state highway maintenance and operations would be transferred to Wellington Transport.</p> <p>Funding for state highway maintenance and operations would be channelled through Wellington Transport.</p>



1.3.2 Assessment of short-list options

Options were assessed against:

1 Two investment objectives to specifically address the problem definition:

a Improve alignment and integration of transport activities across the region.

Improved alignment means that transport planning and programming are aligned with regional priorities (across a range of outcomes including land use and urban development) and that delivery reflects planning and programming.

It also means that there is alignment:

- between roads and public transport (bus and rail)
- between local roads and state highways.

b Build capability to manage transport planning and service delivery – both locally and regionally.

2 Five critical success factors

- local and regional voice
- effective governance
- achievability
- long-term value for money
- alignment with other council functions.

In keeping with the intention not to identify a preferred way forward, the assessment of options is descriptive and does not attempt to identify ratings or rankings of options.

Key points arising from the assessment are summarised in Table 3.



Table 3: Short-list options: summary assessment

Option	Benefits	Disadvantages and risks	Other points of note
B: Non-structural measures to improve alignment	Better information and reporting on transport outcomes is potentially powerful, and could give a greater focus on regional transport issues. High-level design of the outcomes and outcome measures would need to be done to assess the likely potential scale of impact.	Option is problematic. It identifies a number of policy issues regarding the LTMA and its interaction with the RMA. Addressing these issues is beyond the scope of this business case, and the result uncertain. What remains is limited in scope.	Has negligible impact on the build capability investment objective. Could potentially include a regional spatial plan.
C: Pooled planning support and traffic management functions and capabilities	Provides improved access to traffic modelling and other data analysis by councils in the region, and builds models on common sets of assumptions. This allows for more consistent basis for prioritisation across the region. Ultimately this allows for better optimisation of spending in the region. Provides common standards across the region. Where contractors are dealing with different councils this potentially leads to efficiencies in service delivery. Provides improved access to specialist technical skills – though this may only apply in limited circumstances. Potentially provides a cost effective platform to manage traffic across the region – avoiding duplication of effort and providing an easier pathway to traffic management capability for those councils that do not yet have it. These impacts support both investment objectives.	Cost of establishment	A relatively small structural change limited to technical services. Does not affect key decision making rights nor local and regional voice.



Option	Benefits	Disadvantages and risks	Other points of note
D: Wellington Roads	<p>Creates an attractive employer so addresses difficulties some councils have in attracting staff.</p> <p>Pooled capabilities should provide improved access by councils to, for example, better strategic advice on asset management, and greater capability to engage with other agencies (NZTA and GWRC), which should help alignment with state highways and public transport.</p> <p>Potential commercial benefits through providing more contracting options for road maintenance etc.</p> <p>Bringing responsibility for roading into one organisation provides an opportunity to take a regional perspective in the identification and prioritisation of roading projects.</p>	<p>Cost and potential disruption of implementing change.</p> <p>Concerns re implication for local voice. The governance, funding and operating models proposed are intended to address this but will require careful attention in detailed design.</p> <p>Risk that councils will not support because of concerns about local voice.</p> <p>Impact on councils of removing functions, with possible viability issues for smaller councils.</p>	
E: Wellington Transport	<p>Improves alignment and integration between roading, public transport and state highways.</p> <p>Provides significant improvement in capability to manage the planning and delivery of roading, cycleways and paths.</p> <p>Places a stronger emphasis on regional objectives in decision making (which potentially means less emphasis on local objectives where the two are in tension).</p> <p>Supports long-term value of money through:</p> <ul style="list-style-type: none"> making it easier to prioritise the highest value projects across the region and modes potential economies in service delivery through providing more options regarding contracting arrangements. 	<p>Cost and potential disruption of implementing change – greater than in Option D.</p> <p>Complex governance and decision making arrangements – detailed design of these and funding arrangements will be critical.</p> <p>Councillors' input into key decisions will be less direct with implications for local voice.</p> <p>Risk that councils will not support because of concerns about local voice.</p> <p>There are risks of a loss of alignment with other council functions – although formal consultation requirements should largely be able to manage those risks.</p> <p>Impact on councils of removing functions, with possible viability issues for smaller councils.</p>	The stronger emphasis on regional objectives may be constrained by RMA processes.



Options B to E can be considered as being on a spectrum. As you move from B to E, the potential benefits increase but so does the complexity of change, with increasing risks. Options D, and to a greater extent E, would involve significant disruption. This would be particularly problematic for councils managing major projects – for example, Kāpiti Coast District Council and the new expressway.

1.3.3 Governance and accountability to the community

Good governance of any council controlled organisation (CCO) is a key part of aligning the actions of the CCO with the interests of its owning councils and making sure they meet the expectations of the communities in which they operate. There are four main mechanisms through which councils can seek to ensure effective governance of a newly formed Wellington Roads or Wellington Transport CCO.

1. Joint shareholders committee

A joint shareholders committee brings the owners together into a common forum to provide a common point of reference for the board of the CCO. The Wellington Water Committee does this in respect of Wellington Water Limited. Its roles would include:

- setting expectations (through the statement of intent and other instruments) and monitoring performance
- appointing the board
- recommending changes to the shareholders agreement and constitution
- providing recommendations to shareholders regarding transport matters.

For Option E, where they would have common membership there is an issue as to whether the joint shareholders committee is the same as the RTC. There are arguments for and against:

- having both the same simplifies structures
- having separate bodies allows there to be different voting rights
- having separate bodies separates the responsibilities for giving clear direction to the CCO from the role of prioritising functions.

On balance, separating the bodies is cleaner, but having only one body is possible.

The apportionment of voting rights will be a substantive matter for negotiation should a decision be made to proceed with either Option D or E. Options include: based on some size metric; one council one vote; or a hybrid of these.

2. Constitution

The constitution is the document through which the rules governing the actions of the CCO are set. The constitution is about the operation of the organisation as an entity (i.e. the mechanics of the entity) rather than about the operations of the business, its performance objectives or its deliverables as such. In general, the constitution sets out the rights, powers, duties, and obligations of the CCO, its board of directors and its shareholder/s. It may provide that for certain matters, such as a change of purpose, ownership, or admission of a new shareholder that a specified super-majority is required.



3. Director appointment

The appointment of directors is an important role for shareholders, because it is one of the principal means through which they can influence the performance of a CCO.

An issue that often arises regarding director appointments is whether elected members should be appointed to CCO boards. The proposal for Options D and E is that they should not. This is for a number of reasons, including:

- The Controller and Auditor-General has recommended that appointing elected members to CCO boards should be the exception².
- The proposed amendments to the Local Government Act 2002 do not permit council members on substantive CCOs.
- Given there are multiple councils involved, participation on the board by elected members would lead to excessively large boards which, of itself, is not conducive to effective governance. This factor is less important in Option D.

4 Direction setting, monitoring and accountability

The formal and main elements of the monitoring regime are well established. They include: the statement of intent (Sol), a letter of expectations, and formal planning and reporting requirements.

Other less formal, but important, aspects of the monitoring regime can include one or more of:

- meetings between the CCO and councils at chair/mayor and chief executive levels
- involving CCOs in council strategic planning processes
- reporting over and above the statutory requirements.

5. Funding and budgetary control

The fee for service model proposed for Wellington Roads would give councils significant budgetary control.

In the case of Wellington Transport, budget approval will give councils a high degree of control, including over major investments. However, it will primarily be exercised through the joint committee. This is potentially problematic where councils have radically different views regarding key financial matters.

6. Issues to be resolved in a detailed business case

Should either of Options D or E be selected for further consideration, the key features of the governance arrangements (summarised as part of Table 48 on page 116 in Appendix 3) would be confirmed as part of a detailed business case.

² Controller and Auditor-General (2015) "Governance and accountability of council-controlled organisations" (Office of the Auditor-General, Wellington) p33.



The detailed business case would also need to resolve a number of specific matters such as shareholding percentages and cost allocations, which are potentially contentious.

1.3.4 Community voice

There are concerns that the establishment of a CCO would lead to a situation where there was less responsiveness to, and account taken of, community needs and preferences.

For several reasons, a CCO can be expected to have strong incentives to be highly responsive to community needs and preferences and there is a range of steps that can be taken to strengthen responsiveness to community views and preferences:

- accountability measures ensure that they deliver on councils' priorities – these can drive community responsiveness
- the transport focus is likely to strengthen responsiveness to the transport needs of the communities they serve
- more capacity and specialist capability (e.g. accessibility for disabled people) should improve the ability to assess and respond to community preferences.

Several steps could be taken to strengthen responsiveness to community views if necessary; for example, a CCO could be required to give effect to the long-term plans of councils, consult with councils on specific issues, or consult with communities as part of the development of their infrastructure and service delivery plans.

The proposal in Option D that all services are provided under service level agreements (SLAs) between the councils and the CCO is very powerful. It effectively gives councils the same level of control over decision making as at present.

In Option E, community input into decision making would be largely unchanged, but councillors' input would be through the joint committee of shareholders (at the regional level) rather than at the city or district level.

The joint committee of shareholders would set the direction and strategy for transport after consultation with the public. The CCO board would then make decisions to achieve the outcomes set by councils. The joint committee of shareholders would also approve the budget of the CCO. This is a powerful tool that would give the committee control over decisions on major new investments.

As at present, community influence on decision making would primarily be at the planning stage, rather than when operational decisions are made. Operational decisions currently made by council officers would become the responsibility of CCO staff.

However, a key aim of Option E is to strengthen regional integration and prioritise regionally important transport issues. The trade-off under this option, in cases where local priorities are in tension with regional ones, is the potential for decisions to put greater emphasis on regional matters than would be the case under existing arrangements.



1.3.5 Developing a regional spatial plan

The development of a regional spatial plan was not considered in this indicative business case as the purpose of the case is to identify options for further consideration: work to consider a regional spatial plan is currently underway with the LGC recently receiving a report on this issue.

Several participants in the business case process have identified the value that a regional spatial plan would provide, both from a transport perspective and more broadly, and one would potentially be an important element of Option B.

1.4 Commercial case

1.4.1 Transactions in setting up each option

The broad approach that the councils would need to follow to coordinate or merge their transport services under the short-list options (including the transaction structure and procurement matters) is summarised in Table 4.

Table 4: Establishment actions

Short-list option	Actions
Option B: Non-structural measures	None
Option C: Pooled planning support	<p>Formation of the legal entity (if not hosted in one council)</p> <p>Appointment of a board or technical oversight committee by a joint shareholders committee or forum.</p> <p>Service Level Agreements agreed with each council. These would set out service standards and processes to agree priorities, work programmes, budgets and performance monitoring arrangements.</p> <p>Intellectual property and related assets (not land or roads) sold or leased to entity or hosting council.</p> <p>Relevant staff transfer to the new entity or hosting council.</p> <p>Councils contribute funds on a pro rata basis to cover establishment and initial operating costs. This could be in the form of loans or equity contributions.</p>
Option D: Wellington Roads	<p>Establishment of a councils' joint shareholders committee.</p> <p>Formation of the legal entity.</p> <p>Appointment of a board or by the joint shareholders committee.</p> <p>Service Level Agreements agreed with each council. These would set out service standards and processes to agree priorities, work programmes, budgets and performance monitoring arrangements.</p> <p>Intellectual property and related assets (not land or roads) sold or leased to CCO in consideration for shares in the CCO.</p> <p>Relevant staff transfer to the new entity or hosting council.</p> <p>Transferring existing service contracts.</p>



Short-list option	Actions
Option E: Wellington Transport.	As for Option D plus: <ul style="list-style-type: none"> • bringing in GWRC as a shareholder • transferring public transport operating contracts • transferring infrastructure assets.

NZ Transport Agency

Option E proposes incorporating the maintenance and operation of state highways so it involves NZTA. (This is also a plausible sub-option of Option D). This could involve NZTA becoming a shareholder in the CCO, having a board appointment and/or some form of joint venture or co-management arrangement. The alternatives would need to be explored as part of a detailed business case.

1.4.2 Impact on commercial arrangements

Much of the work involved in investigating changes to, designing, constructing, improving and maintaining roads is contracted out to third party consultants and contractors. Similarly for public transport operations. The formation of a CCO to take responsibility for some or all of these functions (Options D and E) is unlikely to have an adverse impact on the ability to contract, though there will be transition arrangements.

The transfer of road responsibilities (as in Options D and E) is likely to open up opportunities to capture efficiencies by, for example, combining contracts together, adopting common and standardised procurement practices, reducing the number of contractual relationships that need to be maintained and so on. The actual benefits would be assessed in a detailed business case and would be subject to a degree of uncertainty until tested in the market. However, we would expect 1–2 percent cost savings on infrastructure capital expenditure under a CCO model to be achievable. As an example, for Option E, 1–2 percent on capital expenditure would equate to \$1.1m – \$2.2m in annual savings.

1.5 Financial case

Table 5 shows current expenditure on transport in the Wellington Region.

Table 5: Current transport expenditure

Year to 30 June 2015 \$ million	Operating expenditure	Capital expenditure	Opex and capex
Territorial authorities	68	79	147
GWRC	111	28	139
NZTA	44	362	407
Total	224	469	693



Option B is assumed to have no financial impact – although in practice there may be some relatively minor additional costs.

The financial impacts of Options C to E comprise:

- Transfer of relevant operating costs from councils to the new entity. Estimated costs are based on the actual costs for the councils in 2015. In practice, there may be some operational savings that result from the integration of services across councils; however, any potential savings would need to be worked through as part of a detailed business case. Savings may also be used to provide more or improved services, rather than reducing the overall cost of service provision.
- Relevant capital expenditure previously channelled through councils would now be channelled through the new entity. For Options C and D, this would be restricted mainly to investment in office equipment and systems, and be relatively minor. For Option E, this would be much larger and include expenditure of infrastructure development.
- Relevant assets currently owned by councils would be transferred to the new entity. Again, for Options C and D, this would be restricted mainly to existing office equipment and systems, and be relatively minor. For Option E, this would be much larger and include transfer of infrastructure assets (although a viable sub-option is not to make that transfer).
- Transition costs, which are summarised in Table 7 below.
- Potential savings in costs of transport contracts, as discussed in 1.4.2 Impact on commercial arrangements above.

In addition there may be changes to transport decisions that have financial implications as a result of the new arrangements. This cannot be quantified at this stage.

Estimated annual costs of the new entities in Options C – E (Option B is assumed to have no costs) are shown in Table 6. These costs are based on the actual costs of councils in 2015. These are financial metrics of the new entities – not additional expenditure.

Table 6: Estimated annual costs of new entities in short-list options

Cost components \$ thousands	C: Pooled planning support	D: Wellington Roads	E: Wellington Transport	E: Wellington Transport without infrastructure assets
Total operating expenditure	5,350	49,301	213,088	199,146
Total capital expenditure	300	1,000	99,309	1,500

The transfer of operating expenditure to the new entities accounts for approximately 25 percent of councils' expenditure in Options D and E. There would be stranded overheads and councils would have to manage the reconfiguration of their operations under these options.

Estimated transition costs are expected to be as shown in Table 7 and would be incurred over a period of up to three years. Actual costs will vary based on detailed design and implementation choices. The estimates assume that the best of current systems used by councils will be used. Development of new bespoke systems would be substantially more.



Table 7: Indicative costs of transition

Transition and establishment costs \$ million	C: Pooled planning support	D: Wellington Roads	E: Wellington Transport
Costs	3.0	9.8	10.8

The costs of transition to the new entity in Options D and E are approximately 10 percent of the total capital expenditure. This could be expected to be recovered within five to ten years of capital expenditure savings, but would be quicker to the extent there were also savings in operational expenditure. Details would be worked through in a detailed business case.

It is important to note that the problem definition (1.2.3 Problem definition on page 5) is not concerned with financial matters, and the primary objective of the options is improved transport outcomes, not cost savings. The financial impacts need to be considered alongside the other impacts assessed in Table 3.

1.6 Management case

Currently, a CCO owned by multiple councils as envisaged in Options C, D and E, could be established by agreement between participating councils, after consultation with the community.

Proposed amendments to the Local Government Act 2002 are currently being considered by Parliament – as the Local Government Act 2002 Amendment Bill (No 2). Should the proposed amendments be adopted, local government legislation would make provision for multiply-owned CCOs, including providing for two possible transport CCO models. The amendments would enable the Local Government Commission (LGC) to establish a CCO outside of a wider reorganisation proposal.

Establishment of a transport CCO is a major transformational programme of work. Robust project management and governance structures will be required. Formalising a decision to proceed and establishment could take up to three years.



2 INTRODUCTION

Background

The Local Government Commission (LGC) and Wellington Mayoral Forum have been working together to identify opportunities to improve the region's transport governance and service delivery.

A first report to the LGC, *Wellington Regional Transport: Options for Change*, prepared by Castalia, identified problems with current arrangements and described high-level local government transport model options for change.

Subsequently, MartinJenkins, Cranleigh and TDG were commissioned by the LGC to further develop and evaluate local government transport model options using better business case methodology and to provide the findings in an indicative business case.

It is intended that this leads to a range of options to inform public engagement and targeted engagement with interested parties.

Scope and purpose

The purpose of this indicative business case is to provide an analysis of the options for change in order to inform consideration by stakeholders.

As an indicative business case, it is intended that the analysis provided supports a decision on which options merit further consideration and analysis.

The scope of the work was the high-level arrangements for transport planning and service delivery in the region, covering: roads, paths, cycleways, public transport and state highways.

The consultants were specifically instructed not to identify a preferred way forward. To this end, the assessment of options in the economic case is descriptive and does not attempt to identify ratings or rankings of options.

Methodology

This indicative business case draws on:

- The report: *Wellington Regional Transport: Options for Change*.
- Interviews with senior officials from each of the nine councils in the region and from the NZTA.
- A range of information provided by each of the councils.
- Feedback from presentations to mayors and councillors of each of the district and city councils. These presentations were undertaken at various stages of the development of the business case.
- Two economic case workshops attended by delegates at councillor and official level from the nine councils and NZTA. The purpose of the workshops was to analyse the options for change using agreed criteria to inform the business case. This included identifying where there are a range of perspectives across the region. The workshops were not intended to be decision making, and it is



acknowledged that the delegates' views were not official representations of their council's position.

- Discussion with the Ministry of Transport.
- Feedback from targeted consultation with stakeholder (user) groups by LGC.

The approach was based on Better Business Case methodology, but the work undertaken by MartinJenkins, Cranleigh and TDG differed from it in two important respects:

- To avoid repeating the work done by Castalia workshops were not held to develop the problem definition, investment objectives and benefits. Instead, the *Wellington Regional Transport: Options for Change* was built on, using input from interviews and then tested in meetings and workshops.
- The economic case workshops did not apply ratings to options.

Contents of indicative business case

- This report comprises the five cases of the Better Business Cases methodology:
- **Strategic case** (Section 3) sets out the case for change, problem definition, investment objectives and critical success factors.
- **Economic case** (Section 4) set out the options for change, and analyses them against the investment objectives and critical success factors.
- **Commercial case** (Section 5) sets out the transactions that would be required to implement any change and the impact of changes on the commercial arrangements for service delivery.
- **Financial case** (Section 6) sets out the financial impact of any change and the high-level funding arrangements of any changed arrangements.
- **Management case** (Section 7) sets out overall transition management and governance arrangements for any change, high-level timing, and future decision making requirements.



3 STRATEGIC CASE

3.1 Outcomes to which transport contributes

In general terms, transport contributes to a range of high-level outcomes including:

- economic activity and economic development
- social and cultural activities
- place shaping.

By the nature of these outcomes, it is important that transport is aligned with a range of other activities for which councils in the region are responsible. Important considerations in delivering these outcomes include:

- environmental impact and sustainability
- resilience – noting that Wellington faces particular challenges in this regard
- reliability
- safety
- affordability and financial sustainability.

In determining transport arrangements there are inevitably trade-offs across the dimensions above. The Wellington Region's geography can exacerbate this. So, for example:

- buses, cycles, pedestrians and cars compete for space in a tight urban environment
- the development of arterial roads competes with other land uses and local priorities
- most key corridors are vulnerable to resilience issues
- changing rural land use is changing demand on infrastructure
- budgetary constraints limit options – especially high cost infrastructure such as road tunnels – and drive a strong focus on efficiency.

There are trade-offs between the listed outcomes and considerations that planning processes need to address. In determining trade-offs, local voice is important, particularly with reference to high-level resource allocation decisions and service levels. It is less critical with reference to more technical decision making.

It is not the purpose of this business case to determine the relative priorities given to these outcomes and considerations – which will inevitably change over time. Rather, it is to ensure that the region's transport governance and service delivery give effect to democratically determined priorities efficiently and effectively.



3.1.1 Transport and other council functions

A number of other council functions also contribute to the outcomes above.

Land use planning

The location and configuration of land uses and intensity of activities is a primary driver of demands on the transport network. Equally, the nature of transport connections is a driver of demand for land uses. For example, while a new area of development or intensification will place additional pressures on the transport network, the quality of connections will influence demand for land uses in proximity of those connections – they are reciprocal. Together they determine the quality of access to markets, employment, education, civic amenities, and recreational, social and cultural opportunities.

It is therefore of critical importance that land use and transport planning are well aligned.

Mechanisms for alignment

Councils perform their land use planning functions under the Resource Management Act 1991 (RMA). Transport planning is primarily undertaken under the Land Transport Management Act 2003 (LTMA). There are several points of interaction between the two that can facilitate alignment:

- There is a reciprocal requirement in the two statutes for regional policy statements and plans prepared by councils under the RMA and plans prepared under the LTMA to consider each other when they are being prepared.
- Under the RMA, in preparing policy statements and plans councils must have regard to plans and strategies prepared under other Acts – this includes plans prepared under the LTMA. District Plans prepared by territorial authorities must also have regard to regional policy statements. Regional Land Transport Plans (RLTPs) and Regional Public Transport Plans (RPTPs) prepared under the LTMA must take into account regional policy statements and plans prepared under the RMA.
- RTCs who are responsible for preparing RLTPs are required to be comprised of two representatives of the regional council and one from each of the territorial authorities in the region.
- At an implementation level, infrastructure (including roading) authorities, can require that councils make a designation of land. A designation over-rides the requirements of the District Plan and so provides route protection as well as enabling a process of compulsory acquisition of land.

Strategic planning and funding

The key strategic planning document for councils is the Long Term Plan (LTP) prepared under the LGA. An LTP sets out a council's priorities, levels of service, and how they will be funded over a 10-year timeframe, including in relation to the provision of roads and footpaths. The LTP also includes a 30-year infrastructure strategy.

As this is the process for making important funding decisions, there is alignment between the LTPs of the regional and district councils and the two regional transport plans (the RLTP and RPTP) to ensure that planned works are funded and those plans are able to be delivered.



Mechanism for alignment

In preparing an LTP, a council is required to identify any inconsistency, or decisions that will have consequences that are inconsistent with plans prepared under any other Act – this includes plans under both the LTMA and RMA.

Stormwater drainage

Stormwater draining is a core function of territorial authorities (TAs) under the LGA. In urban areas, the roading network, its channels, catch-pits and pipes are a major and integrated part of the stormwater network.

The discharge of stormwater into fresh water and coastal receiving environment can have significant environmental effects and is regulated by regional plans prepared under the RMA. Generally liability for these discharges is at the 'end of pipe' rather than 'at source'. This sets up a tension between the roading authority and the territorial authority functions if these are different at either end of the pipe.

Mechanisms for alignment

TAs can set standards for roads and other infrastructure within their jurisdiction. This provides an avenue for territorial authorities to ensure that roads, including their stormwater management components, are designed in a manner that enable the TA to meet their regional plan requirements.

Parks and reserves

As well as being potential destinations, parks and reserves often form important parts of transport networks, particularly for walking and cycling.

Mechanisms for alignment

While there is no requirement for plans for parks and reserves under the Reserves Act 1977 to consider plans under the LTMA or RMA. LTMA and RMA plans potentially usefully inform parks and reserves plans, and management decisions.

Economic development

The activities of councils have a direct impact on economic activity and economic development. Either in performing core functions – for example, regulating land uses and environmental effects – or the provision of infrastructure, or through activities such as facilitating industry collaboration and sector capacity building and promoting tourism. The latter occurs through economic development agencies (EDAs) and regional tourism organisations (RTOs) such as the Wellington Regional Economic Development Agency, which is a council controlled organisation (CCO) of the Wellington City (80 percent) and Greater Wellington Regional Councils (20 percent).

Mechanisms for alignment

In respect of the activities of CCOs including the Wellington Regional Economic Development Agency, the main mechanism for achieving alignment with the strategic direction of shareholding councils is through the CCO's Sol.

In respect of the performance of core functions, these are discussed above.



3.2 National transport management arrangements

The following organisations have key statutory policy, planning, funding and delivery roles within the New Zealand land transport sector:

- the Ministry of Transport (MoT), which provides policy advice to government on legislative, regulatory and policy settings; funding levels and priorities; and Crown agency governance, performance and accountability
- NZTA, which is a Crown entity that allocates funding for land transport infrastructure and services through the National Land Transport Programme (NLTP); manages access to the transport system through driver and vehicle licensing, vehicle inspections and rules development; provides land transport safety and sustainability information and education; and is the road controlling authority that manages and operates the state highway network
- New Zealand Railways Corporation (KiwiRail), which is a state-owned enterprise that owns the rail network and manages government-owned rail and ferry businesses
- local authorities, which include regional councils, city and district councils (territorial authorities), unitary authorities, and CCOs that have varying responsibilities for transport and land use policy and planning; managing and operating their relevant local road networks as road controlling authorities; regulatory functions related to the local road network; and planning and contracting of public transport services.

National strategic direction is set by the government of the day, and is currently articulated through three main government documents:

- Connecting New Zealand, a 2011 document that summarises the overall policy direction for transport
- the National Infrastructure Plan, which is periodically updated (most recently in 2015) and outlines a 30-year vision for all types of infrastructure, including transport infrastructure
- the Government Policy Statement on Land Transport (GPS), which is issued every three years (most recently in 2015) and sets out the government priorities for expenditure from the NLTF over the subsequent 10 years, between activities such as road safety policing, state highways, local roads and public transport.

The last of these, the GPS, is of most significance to the transport planning process, as it articulates government land transport priorities on a regular cycle. The GPS priorities are then used by the NZTA to develop the NLTP, which allocates NLTF funding to improvements, maintenance and operations across the country on a similar cycle, and can thus be regarded as the principal government land transport planning tool. The NLTP is developed in parallel with each region's RLTP, which prioritises local improvements, maintenance and operations investment. Local authorities co-fund transport investment with the NZTA.

The RLTP prioritises proposed projects with a value of \$5 million or greater. Actual implementation may vary for a number of reasons including:

- funding may not be available
- projects may be cancelled or deferred because of consenting, design or other issues.



3.3 Overview of transport in the Wellington Region

Characteristics of the region

The Wellington Region comprises a population of 497,000³ over a land area of 8049 square kilometres. Administratively this comprises eight district and city councils and one regional council. Compared with other parts of New Zealand this is a relatively large number of councils for the area.

Economic activity is strongly concentrated in Wellington City with large daily commuter flows within the city and from other parts of the region. Wellington also has an international airport and is the inter-island ferry terminal providing important passenger and freight links. As a result, there is a strong regional and national interest in access to and from Wellington City.

Other cross-regional transport movements are important too. Land suitable for commercial and industrial use is dispersed throughout the region, requiring cross-regional connections, for example to Seaview, and significant numbers of people commute within and between the western corridor (Kāpiti Coast District and Porirua City), Hutt corridor (Upper Hutt and Hutt Cities), and Wairarapa corridor (Masterton District, Carterton District and South Wairarapa District).

In practice regional connections are constrained by topography. In most cases, there is only one arterial road (if any) between adjacent council areas and that is a state highway. Very few other roads cross district boundaries. However, the region does have two key rail corridors that link the region with other regions to the north, and support freight services and an important commuter rail network running in and out of Wellington, which contributes to a high rate of public transport use (for example, 7.4 percent of total journeys on census day 2013 were by train).

East of the Rimutaka Range, the road networks of the three Wairarapa councils support the predominantly rural economy of that part of the region. Connections to the rest of the region are limited to SH2 and a rail link.

Resilience

One consequence of the geography and the current strategic road network is that resilience issues are of particular concern. This is not just about a major earthquake. In the last year, the commuter rail network from Wellington City to the Hutt Valley, alongside Wellington Harbour, has been cut as a result of storm damage and SH2 has been cut at Petone as a result of flooding. Also in the last year, SH1 has been closed in both directions in the Ngauranga Gorge as a result of a traffic accident.

In the event that such incidents were to be repeated on the same day, Wellington could be cut off, with the potential for very large numbers of commuters to be stranded.

This is an issue that cuts across territorial authority boundaries and transport modes.

³ 2015 estimate. Source: Statistics New Zealand



Transport infrastructure and expenditure

The Wellington regional transport network comprises 4,130 km of roads⁴, 2,400 km of paths, four rail lines, and bus, train, ferry and cable car public transport services. Total budgeted operating and capital expenditure in 2014/15 was as shown in Table 8.

Table 8: Transport spending 2014/2015

	Operating expenditure \$ million	Capital expenditure \$ million
GWRC	111	28
Territorial authorities	68	79
NZTA	44	362
Total	224	469

Further details on future expenditure and funding sources are provided in Table 43, Table 44 and Table 45 on pages 104 to 106.

The value of transport assets (excluding land) is \$4 billion (see Table 46 on page 107).

Regional management and planning arrangements

The Wellington RTC is chaired by GWRC, which has two RTC representatives that include the GWRC Chair, and includes the mayor of each of the eight territorial authorities and the NZTA Regional Director. The 10 agencies that participate in the RTC have the following transport roles within the region:

- GWRC has a strategic transport planning and coordination role, and ensures that the RTC prepares the RLTP with support of the other nine agencies. GWRC is also responsible for planning and contracting most aspects of public transport and for preparing the RPTP. Its public transport responsibility covers bus, train and ferry and is funded through a targeted transport rate.
- The four city and four district councils are the road controlling authorities responsible for managing their local road networks, which includes walking and cycling facilities along and across local roads, and the provision of bus priority lanes and facilities on the local road network. All eight councils set some transport requirements (such as parking and road standards) and all land use requirements through their relevant District Plan.
- The NZTA is the road controlling authority responsible for managing the state highway network, which is funded through the NLTF, and includes walking and cycling facilities along and across the state highway corridor and any bus lanes or facilities on the state highway network. Within the Wellington Region, this includes parts of SH1 and SH2, some of which operate as motorways, and all of SH53 and SH58, the latter of which provides a key cross-region link. The NZTA also allocates NLTF funding in accordance with its investment role.

A list of the transport functions carried out by each agency is provided in Table 39 on page 98.

⁴ 2007 estimate. Sourced from <http://www.nzta.govt.nz/assets/resources/regional-summaries/wellington/docs/regional-summary-wellington-region.pdf>



The nine local authorities produce the required statutory plans for each area of responsibility, and participate in some joint initiatives that have a transport impact, such as the Wellington Regional Strategy, which includes a number of transport and land use aspects in its building world-class infrastructure focus area. They also produce a number of non-statutory plans that contribute to transport. A list of relevant plans that have been identified is included in Table 38 on page 97.

The councils collaborate on a case-by-case basis on particular projects that cross into joint areas of responsibility, such as with the current Let's Get Wellington Moving joint initiative between WCC, GWRC and the NZTA described on page 30.

Several councils also make use of shared service arrangements, which include a combined District Plan for all three Wairarapa district councils, an arrangement where Carterton District Council contracts Masterton District Council to oversee its transport function, and joint contracting of some services, such as road marking, corridor management, and street lighting.

Little use is currently made of transport CCOs within the region. That approach is limited to Wellington Cable Car Limited, which is a WCC-owned CCO that operates and maintains the Wellington Cable Car and the trolley bus overhead electrical network, and Greater Wellington Rail Limited, which is a GWRC-owned CCO that owns GWRC's investments in rail assets.

Two current initiatives may affect the future state of transport delivery in the region. One is the implementation of the NZTA's One Network Road Classification (ONRC) initiative, which involves the classification of roads according to their function within the national network. The ONRC project has three elements: the classification process, which was completed in 2013; definition of customer levels of service (outcomes); and the development of the performance measures and targets. It is still unclear what this will mean for local authorities in practice over the longer term, but it is expected to bring more standardisation over time.

The other initiative is a joint project to develop a Programme Business Case on Transport Analytics, which involves all local authorities and the NZTA. This project is in its very early stages, but is tasked with looking at the future form, content and institutional arrangements for transport modelling, other information and data, and its interpretation.

The region does not currently have a spatial plan to provide the framework within which transport and land use can be planned and delivered in an integrated way across the region.

Let's Get Wellington Moving

The Let's Get Wellington Moving initiative is an example of multiple agencies in the region establishing formal governance and project management arrangements to work together to address a specific transport issue. It has been noted as a possible model for other collaborations across the region.

It is a joint initiative of Wellington City Council, Greater Wellington Regional Council and the NZ Transport Agency, established in the wake of the Basin Bridge decision⁵. The focus is the area from Ngauranga Gorge to the Airport, encompassing the Wellington Urban Motorway and connections to

⁵ This was the decision not to proceed with proposals for new developments to remove congestion on SH1 around Wellington's Basin Reserve.



Wellington Hospital and eastern and southern suburbs. It is developing a long term multi-modal strategic plan in more detail than set out in the RLTP.

It places a strong emphasis on community engagement and has recently (September 2016) completed a round of consultation to develop guiding urban design and transport principles. It is intended to consult on scenarios developed in accordance with those principles in early 2017.

The joint initiative was formally established by a Memorandum of Understanding between the three parties in 2014.

It is governed by the Ngauranga to Airport Governance Group consisting of two senior political representatives from each of the councils and two senior NZTA officials. It is managed by an Alliance Board consisting of a senior official from each of the partner organisations.

3.4 Other contextual matters

3.4.1 Current transport initiatives

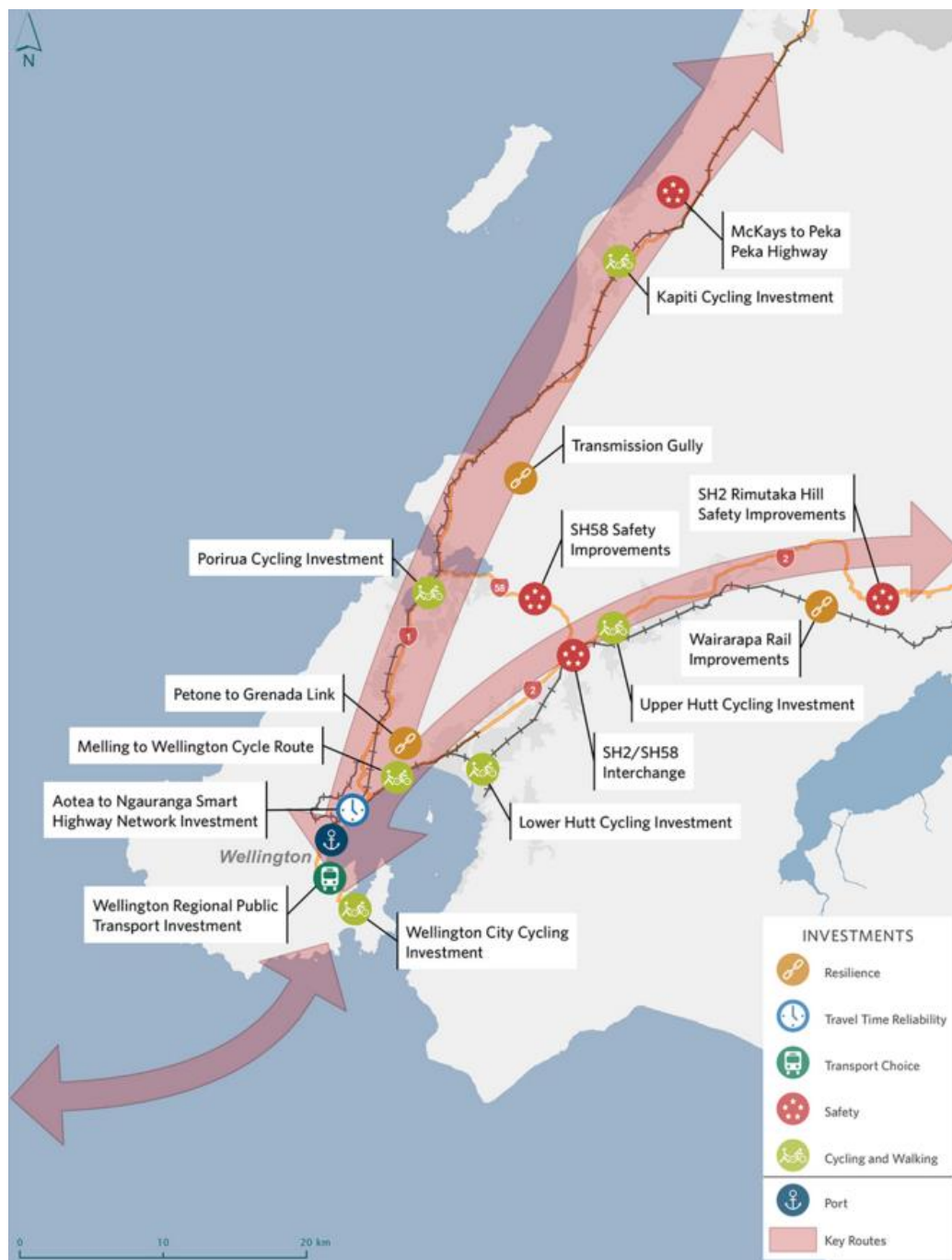
A number of major initiatives are currently underway to renew, upgrade and extend existing infrastructure and services across the region. These include:

- NZTA upgrades to the SH1 Wellington Northern Corridor, relating this corridor's status as a RONS. This includes enhancements to the Wellington Urban Motorway and the Ōtaki–Levin sections of the route, and construction of the Transmission Gully motorway, and MacKays–Peka Peka and Peka Peka–Ōtaki expressways.
- The joint WCC, GWRC and NZTA Let's Get Wellington Moving initiative, which focuses on upgrades on the SH1 RONS corridor and adjoining roads south of the Wellington CBD.
- NZTA construction of a new interchange at the junction of SH2 and SH58.
- NZTA planning for a new Petone to Grenada Link Road between SH1 and SH2.
- GWRC/KiwiRail rail upgrades, which include ongoing infrastructure renewals, capacity enhancements, and new rolling stock.
- GWRC re-contracting of bus and train services, which are expected to bring service and quality enhancements.
- GWRC plans for public transport integrated fares and ticketing.
- Several cycle network initiatives.

An overview of key regional investments is given in Figure 1 and a list of major projects is in Table 41 on page 100.



Figure 1: NZTA Land Transport Programme: Wellington key routes and investments 2015–18



Source: NZTA. <https://www.nzta.govt.nz/planning-and-investment/2015-18-national-land-transport-programme/nltip-in-the-regions/wellington/>



3.4.2 Longer term change

Transport investment is inherently long term in nature. Over the next 25 years, there will be significant drivers of change to transport in the region.

The RLTP notes the following key trends will affect the region's transport out to 2041:

- continued population growth (see following discussion)
- continued steady economic growth, with Wellington CBD continuing to dominate regional employment
- continued fuel price increases that could outweigh future vehicle efficiency improvements and vehicle fleet composition changes
- increased active mode use, boosted by the growth of inner city living and other lifestyle changes
- increased public transport use and vehicle travel, in line with growth in population and employment
- reduced congestion, reflecting planned and ongoing capacity and efficiency improvements to the state highway network
- an ageing population, people working later in life, and a trend by younger people away from reliance on travel by private car, which will impact on travel requirements
- increased national freight volumes, with Wellington continuing as a major freight hub
- improved road safety
- a steadily decreasing trend in per capita emissions (see following discussion).

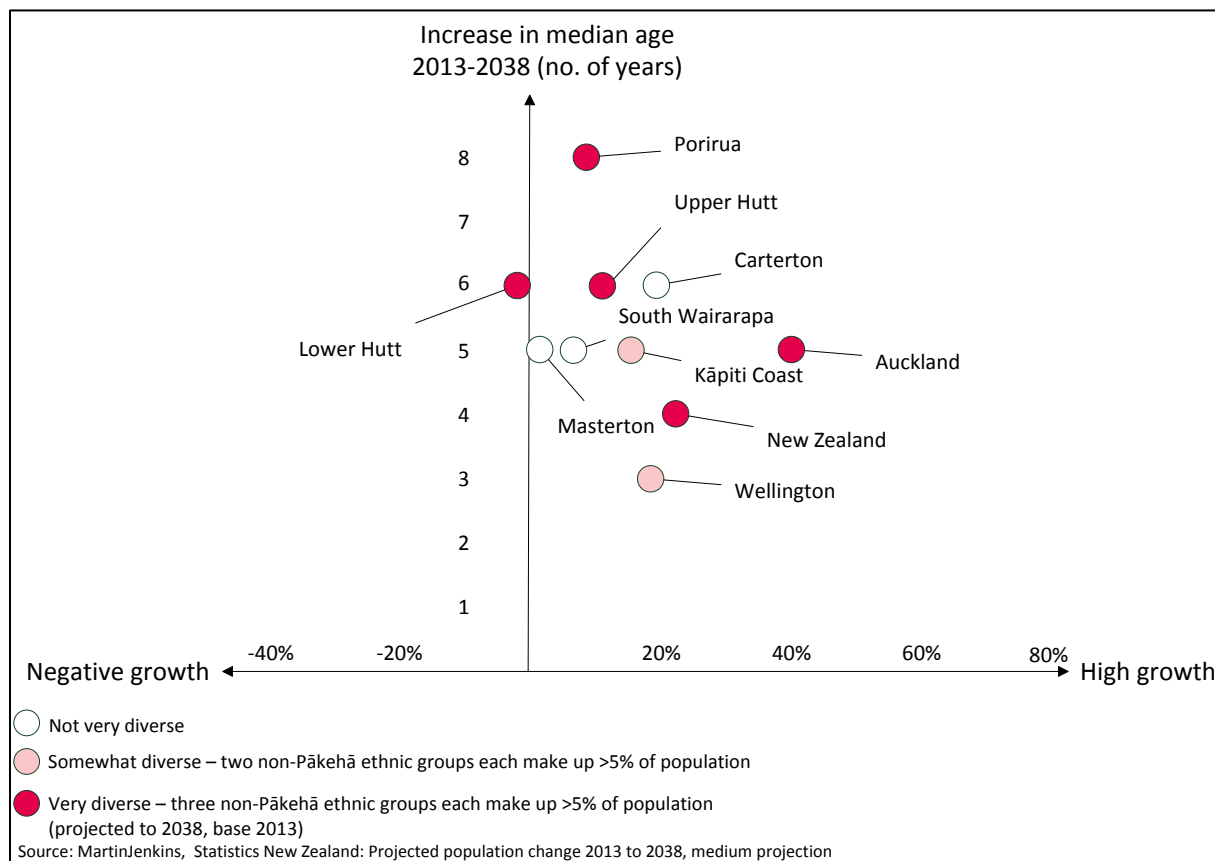
Demographic change

Figure 2 shows that the Wellington Region is expected to grow to 544,700 by 2038. Auckland is shown for comparison. The rate of growth varies across the region, varying from -0.3 percent over the 25 years to 2038 in Lower Hutt to over 19 percent in Wellington and Carterton. These rates are below the national average (and well below high growth areas such as Auckland and Queenstown) and slower than over the last 20 years.

The population is expected to age, relatively sharply in Porirua, less so in Wellington City (which has the lowest median age in the region).

Diversity will also vary across the region, with highly diverse populations in Porirua, Upper and Lower Hutt, and not very diverse populations in the Wairarapa.



Figure 2: Wellington Region demographic change

These changes are expected to lead to new urban development, requiring new roads and new transport services, and changing expectations and patterns of use.

Technology

Technological changes and technology-enabled changes to business models will disrupt transport patterns. Examples include ride sharing apps, electric and autonomous vehicles, and the better use of data to drive more effective use of existing infrastructure and services.

These changes may require significantly new or different capability to deliver transport services and infrastructure requirements.

Environment

Policy responses to climate change potentially will drive a reduction in transport carbon emissions. These are likely to further drive changes in patterns of usage generally, and increases in public transport and electric vehicles.



3.4.3 Better Local Services Reforms

Proposed amendments to the Local Government Act 2002 (Local Government Act 2002 Amendment Bill (No 2)), known as the Better Local Services Reforms, were introduced into Parliament in June 2016 and are currently under consideration. If the amendments are adopted there would be important implications for some of the options in this business case.

The Amendment Bill provides for:

- Greater flexibility for councils to collaborate to deliver services and infrastructure. This includes:
 - provisions for joint council-controlled organisations with improved council oversight, with a focus on enabling joint water, transport and economic development activities
 - greater ability to transfer functions between councils – both statutory and non-statutory functions and between territorial authorities and regional councils
 - joint shareholders committees to oversee shared services and infrastructure.
- A new process for council-led reorganisations rather than a single LGC-led option.
- Powers for the LGC to establish CCOs, including multiply-owned CCOs, even when no other change is proposed and without recourse to a poll.
- The Amendment Bill proposes two preferred transport CCO models:
 - a regional transport CCO responsible for local roads, public transport (including public transport services contracting), and transport planning
 - a roading-only CCO responsible for local road maintenance, control and regulation, and improvements (under this model regional transport planning and public transport contracting and funding would remain with the regional council).

Other models would also be acceptable provided there is agreement from the Minister of Transport. Further details of the proposed transport CCO models are attached in Appendix 2.

The proposals cover strengthening the accountability arrangements for multiply-owned CCOs. This includes:

- joint committees being responsible for recommending directors' appointments to shareholding local authorities
- a prohibition on local authority elected members sitting on multiply-owned substantive CCOs boards
- a range of provisions to integrate CCO and council planning
- prescriptions regarding CCO accountability documents and financial management arrangements.

The full proposals for strengthened accountability arrangements for CCOs are set out in Schedule D of the Better Local Services Cabinet Paper⁶ and attached at Appendix 2.

⁶ Available at <https://www.dia.govt.nz/Better-Local-Services>



Legislation⁷ to give effect to these changes was introduced into Parliament in June 2016 and it is anticipated that it will be passed by the end of the 2016, although delay is possible.

3.5 Problem definition

Problem 1: There is poor alignment and integration between transport activities in the region.

This covers a range of dimensions but notably includes alignment and integration:

- Between local roads and state highways. Issues include:
 - intersections with state highways not being suitable or safe for the volume of vehicles flowing from new developments (eg Riverstone Terraces⁸)
 - intersections with local arterial roads causing undue congestion – e.g. intersections with SH1 between the end of the Terrace Tunnel and the Basin Reserve.
- Between roads and public transport. Issues include:
 - new developments not being suited to public transport access (e.g. Riverstone Terraces, developments in Waikanae)
 - prolonged processes in getting agreement to changes to roading to support the use of buses, e.g. instituting bus lanes, introducing heavy duty buses
 - differing priorities regarding the location of bus stops and bus priority improvements.
- Between local and regional transport objectives. Examples include:
 - delays to improvements to the Ngauranga to Airport Corridor, particularly between the Terrace and Mount Victoria tunnels, affecting regional access to the airport and Wellington Hospital
 - prioritisation of improvements to cross-regional links such as the Petone to Grenada Link Road and SH58.
 - the region's lack of resilience (see page 28).
- Between transport and other land uses and priorities – e.g. difficulties in getting NZTA agreement to planned development at Wallaceville and Maymorn – though some instances where this is an issue could also be characterised as tension between regional and local priorities.
- Between transport and wider regional objectives such as economic development, or environmental sustainability, e.g. road and rail improvements to support freight movement to the port.

In general this leads to:

- transport delivery that is not well matched with high-level community and regional outcomes

⁷Local Government Act 2002 Amendment Bill (No 2)

⁸ Proposals to improve this intersection have been incorporated into the RLTP but have not proceeded because of national funding restrictions.



- high transaction costs and delays in agreeing and implementing improvements
- poor trade-offs between projects, modes and land use, resulting in less than ideal solutions
- poor sequencing of programmes.

Several factors contribute to this situation:

- Fragmentation of responsibilities between territorial authorities, the regional council and NZTA. Fragmentation can be a barrier to integration, although it is not without some benefits (each priority has its champion). A particular issue is that the present arrangements tend to favour local priorities over regional ones where they are in conflict. This is particularly the case where local place shaping is in tension with regional connections. It also limits the ability of the region to influence transport planning and prioritisation at the national level. Fragmentation can be overcome by satisfactory engagement between agencies, but this can be time consuming and it is not clear that this always happens as well as it might.
- Subsequent funding decisions can mean that programmes in the RLTP are not delivered as envisaged. Whilst there can be good reason for this, it does mean that the RLTP is not as strong as it might be in establishing priorities.

'Poor' in this context should be taken as a relative term. The size of the problem is not quantifiable, and it is ultimately a matter of judgement as to whether alternative arrangements can deliver better outcomes in the future, or would have avoided a number of present problems and issues if instituted earlier.

Councillors and council staff expressed a range of views as to the importance and scale of this problem, including some who did not see it as an issue at all. For those that did, there was a range of perspectives as to where the emphasis lies across the different activities – influenced by the specific issues that had arisen in a territorial authority area or affecting its connectivity to other parts of the region. Several informants suggested that relationships between agencies were much better now than several years ago.

In considering the importance of the problem it is helpful to:

- Take a long view. Arrangements need to be durable and work in such contexts and for such key decisions as might arise in the future. For example, working relationships for the *implementation* of the Kāpiti Coast expressway and associated local roading changes are reported to be good and this is a current focus. However, arrangements need to cover a broad range of strategic network planning, more local planning, and service delivery issues.
- Focus on how trade-offs are resolved in practice. It is inevitable in transport decision making that trade-offs have to be made between competing objectives. However, it is important that they are:
 - made without undue delay
 - struck in a manner that reflects the balance of opinion regarding priorities and not an artefact of the institutional arrangements.
- Consider missed opportunities. The examples noted above relate to issues that have arisen in practice, but better integration potentially provides for new opportunities.



The examples given are ones where there was a general view amongst stakeholders spoken to that the solutions struck were less than ideal. It is inevitable that some will disagree. Funding and operational issues will have also been factors in determining the outcomes.

Problem 2: Constraints on capability for strategic advice, planning and service delivery by agencies

Interpreted broadly, in this context 'capability' covers people, systems, structures, processes and other technical assets needed by agencies to undertake their functions.

Retaining and attracting suitable staff is a current issue for some councils and a potential risk for some others – though its extent varies considerably by council

At the same time, capability demands are increasing. For example, all councils noted an increasing compliance burden, particularly relating to NZTA funding requirements, which is putting different and additional pressure on capability.

The underlying driver of this situation is the small scale of the transport units at some councils, making them less attractive for staff, particularly those looking to build a career path, and leading to diseconomies of scale in investing in technical capabilities.

There are a number of potential consequences of this situation including:

- constraints in transport planning at the territorial authority level
- difficulty in meeting formal planning and funding compliance requirements
- constraints on strategic advice to councils on, for example, asset management
- risks to the efficient management of service delivery
- constraints on access to specialist technical services (although these can often be bought in)
- the region does not offer a transport organisation of sufficient scale to offer career opportunities to attract new talent.

3.6 Investment objectives

The investment objectives are the specific objectives of any change. They are derived directly from the problem definition. They are key criteria in assessing the options for change identified in a business case.

The investment objectives were considered to be “very important” at the economic case workshops. Better Business Case practice is to develop relative weightings of the factors. This has not been done, recognising that different stakeholders have different priorities.

1. Improve alignment and integration of transport activities across the region

Improved alignment means that transport planning and programming are aligned with regional priorities (across a range of outcomes including resilience, land use and urban development) and that delivery reflects planning and programming.



It also means that there is alignment:

- between roads and public transport (bus, rail, and the harbour ferry)
 - between local roads and state highways.
2. **Build capability to manage transport planning and service delivery** – both locally and regionally



4 ECONOMIC CASE

4.1 Introduction

The purpose of the economic case is to present the assessment of a range of options with the objective of informing consideration of which options to take forward for more detailed analysis and consideration. To this end, the economic case is structured as follows.

Table 9: Economic case structure

Section	Section purpose	Page reference
Option dimensions	To explain the eight dimensions that help to define the options	41
Long list of options	To present the various options in relation to each of the eight dimensions and rate each option in terms of whether each is discounted, preferred or possible. Preferred and possible options are taken through into the short list of options. Readers can skip this section if their main interest is in the short-list options. Note that Appendix 3 an overview the long list of options.	41 Appendix 3
Short-list options description	To describe the short-list options in terms of each of the eight dimensions	53
Critical success factors	To define the critical success factors that are used, in conjunction with investment objectives, to assess the short-list options (with a view to identifying the preferred option)	62
Short-list options assessment	To present the assessment of short-list options including their benefits and costs	69
Governance and accountability to the community	To provide greater detail on the governance and accountability arrangements for the short-list options involving the most significant structural change	69
Transport options and the Wairarapa	To indicate how the short-list options potentially impact the Wairarapa under different proposals for local government reorganisation and vice versa	78
Overview of economics of impacts	To summarise the financial and economic impacts (with greater detail of the financial impacts provided in the financial case)	79
Trade-offs between the options	To provide a framework for comparing the options	81

In developing the short list, consideration has been given to the need to present a range of options that present a range of degrees of institutional change, from non-structural initiatives to major structural change.

The development of the economic case was supported by two economic case workshops which:

- considered the importance of the investment objectives (see page 38) and critical success factors (see page 62)
- considered the short-list options against the investment objectives and critical success factors.

The workshops were used to help identify the advantages and disadvantages of the options. As a result of these inputs and subsequent feedback and analysis, further changes have been made to the options themselves, and the analysis of advantages and disadvantages.



4.1.1 Option dimensions

Following the Better Business Cases guidelines, options for arrangements for transport governance and management arrangements in the Wellington Region can be defined with reference to the following dimensions:

- institutional form of any new entities
- governance arrangements of any new entity, broken down into:
 - ownership
 - voting rights
 - board
- range of modes affected
- range of high-level functions affected
- funding arrangements
- non-structural changes
- which councils participate
- asset holding.

4.2 Long list of options

Within each of the dimensions, there are several possible options. Moreover, options within each dimension can be matched with multiple options for other dimensions. By implication, there are many possible combinations of options that could form a long list.

A process was followed to assess, in high-level terms, the options identified for each dimension against the investment objectives described earlier and any potential barriers to realisation. This process resulted in some options being discounted, and provided an initial view of the options that should be considered.

The long list of options has been assessed and the results of this are described below. An overview of long-list options is provided in Table 47 on page 114. Each option has been given one of the following ratings:

- discounted – there are reasons why it does not make sense to include the option within the short list of options for further assessment
- possible – the option makes some contribution to one or more investment objectives and so should be included in the short list for further assessment although, subject to further analysis, the option is not viewed as being the best option
- preferred – the option should be included in the short list of options.

It should be noted that relatively few options were discounted at the long-list stage.



Institutional form

Table 10: Institutional form long-list options

Option	Description	Rating
Amalgamation: Merged territorial authorities	Amalgamation of territorial authorities into a single authority for the region	Discounted
Amalgamation: Unitary authority	Amalgamation of territorial authorities and regional council into a unitary authority	Discounted
Establishment of CCO	A CCO owned by the councils in the region	Preferred for arrangements where there is large-scale consolidation of functions Possible where consolidation is more restricted, e.g. to more technical functions
Commercial contract	Services/functions provided under a commercial arrangement with a third party	Possible for specific technical services
Shared service agreement	Services/functions hosted by one council on behalf of the councils in the region	Possible for more specific technical services

Amalgamation options are discounted as they do not have community support.

If substantive functions from several councils are to be combined into one entity, a CCO is the only possible option giving the appropriate degree of council control for the functions. There are obvious precedents in the region (Wellington Water) and in transport (Auckland Transport).

For arrangements involving a number of councils or involving more limited technical support functions, shared services. In limited circumstances a commercial contract with an independent company may also be possible.

Governance

Ownership and voting rights

Table 11: Ownership and voting rights long-list options

Option	Description	Rating
Shares based on size metric	Ownership and based on measures such as population, rating base, traffic	Possible
One share for each council	Each participating council has one vote	Possible
Negotiated/hybrid option	Negotiated shares giving greater weight to larger councils, but not as much weight as when based on a size metric	Preferred where there is significant consolidation of functions



Option	Description	Rating
Separate voting and non-voting shares	Non-voting shares based on assets contributed Voting shares based on one of previous options	Preferred where significant assets are contributed
Super-majority required for certain decisions	75 percent (for example) majority required for certain decisions	Preferred for decisions regarding ownership or constitutional changes

There is a range of options for sharing ownership interest in any new entity, none of which are discounted. In practice any voting rights would need to find a balance between reflecting the greater contribution of the larger councils and likely greater uptake of services, and protecting the interests of the smaller councils on the other – so a negotiated/hybrid option is preferred for cases where there is significant consolidation of functions.

If any new entity were to own major assets, it would be appropriate to have non-voting shares that reflect the transfer of council assets to that entity, so as to minimise the impact of the transfer on council balance sheets.

Board

Options for the appointment and composition of the board apply principally where there is a substantive CCO.

Table 12: Board long-list options

Option	Description	Rating
Regional Transport Committee	The Regional Transport Committee acts as the board	Discounted
Joint committee of councils	A committee of representatives from councils acts as the board	Discounted
Independent professional directors	Board members appointed based on governance skills and experience (as opposed to basing on representation)	Preferred
Community representatives	Community representatives from around the region are appointed	Discounted
Officials	Officials from owning councils are appointed to the board	Discounted
Mixed model	A mixed model with some councillors and independent directors, and possibly with community representatives	Discounted

The issue of whether elected members and/or officials should be appointed to CCO boards commonly arises.

The Controller and Auditor-General has considered both cases in a report published in 2015⁹. The

⁹ Controller and Auditor-General (2015) "Governance and accountability of council-controlled organisations" (Office of the Auditor-General, Wellington).



report notes arguments for and against having councillors as directors of CCOs. The Controller and Auditor-General concluded that appointing elected members to CCO boards should be the exception. The report noted the importance of having directors who are independent of council and it also noted the experience of CCO board chairs who believed that the disadvantages of councillor appointments outweighed the benefits. Other mechanisms, including those set out in section 4.6 can be put in place to achieve the benefits sought from having councillors on the board. The board of Wellington Water Limited does not include councillors.

Auckland Council has adopted a policy of not appointing councillors to its CCOs such as Auckland Transport. We understand this applies to new appointments – there are currently two councillors serving on the board of Auckland Transport.

The proposed amendments to the LGA include provisions prohibiting elected members from sitting on substantive multiply-owned CCO boards, for the reason that where there are multiple councils involved, participation on the board by elected members would lead to excessively large boards which, of itself, is not conducive to effective governance.

The Controller and Auditor-General also indicated it would not, on balance, be a good idea to have local authority managers as directors of CCOs because of the potential for conflict between the manager's role as adviser to the council and their obligations as a CCO director.¹⁰

The option of community representatives is discounted for the reason that the board is responsible for delivering on the high-level direction set by the owning councils on behalf of the community. Community representation is more appropriately achieved through engagement in that direction setting and through consultation mechanisms. Again section 4.6 discusses this further.

While the board is normally appointed by the shareholders in accordance with voting rights, it would be possible to have separate arrangements. This may be appropriate where a range of key decisions are reserved for shareholders, but otherwise would be a complication.

The issue of board appointment is discussed further in relation to specific short-list options on page 73.

Modes

All transport modes are possible for inclusion into any new entity. For the purposes of short-list options it makes sense to group them as follows:

Table 13: Mode long-list options

Modes	Rating
Local arterial roads, local roads, paths and cycleways	Possible
State highway – operation and maintenance	Possible
State highway – development and improvement	Discounted
Public transport – passenger rail, bus, and local ferry	Possible

¹⁰ Ibid p34



Roads, paths and cycleways are taken together because issues often arise when they compete for the same space and any other treatment would increase rather than reduce fragmentation.

The development and improvement of state highways is discounted because NZTA has indicated that related decisions will always be made from a national perspective.

Functions

There is a large range of functions involved in planning and delivering transport in the Wellington region. For simplicity, they have been grouped as shown in Table 14. All are 'possible' candidates for inclusion in any new entity.



Table 14: Function categories

Function	Description	Comment
Strategic planning and prioritisation	Preparation of the RLTP and RPTP Other network and corridor planning	Regional consolidation is not expected to have a significant impact, but may improve coordination between the modes.
Technical planning and management	Modelling and other data and analytical functions Standards setting Data gathering and condition assessment Sustainable and safe transport planning and promotion Public transport service planning	Regional consolidation may build technical capability in some areas, and provide a common platform on which to make funding decisions. Common technical standards should reduce procurement costs over time, and simplify project costing.
Project planning	Project identification, design, assessment	Functions currently held by GRWC, NZTA and the territorial authorities. Regional consolidation likely to be more effective if combined with consolidated funding arrangements.
Operations management	Maintenance Travel information Traffic management Public transport service delivery	Regional consolidation of service delivery functions would potentially improve capability across the region and provide more opportunities for commercial arrangements due to scale (public transport is already provided on a regional basis.). Could be combined with a regional approach to funding but does not need to be.
Asset management	Asset management plan preparation Asset management systems	Regional consolidation would potentially improve capability across the region. Could be combined with a regional approach to funding but does not need to be. Common data standards assist benchmarking and optimised maintenance and capex.
Road controlling authority	Powers conferred on territorial authorities and NZTA in relation to formation, alteration, stopping and closing of roads	Regional consolidation may provide consistent and efficient road management and regulation.



Funding

Current funding sources are primarily general rates, regional targeted rates, developer contributions, the NLTF administered by NZTA, passenger fares and debt.

These funding sources are earmarked as shown in Table 15.

Table 15: Transport funding sources and current earmarking

Source	Earmarking
General rates	Budget portions to local roads, paths and cycleways in each council area and regional transport planning and programmes
Regional targeted rate	Public transport
Passenger fares	Public transport
NZTA (NLTF)	State highways Council transport functions at Funding Assistance Rate
Developer contributions	Local roads, paths and cycleways in developed areas
Debt (including internal debt)	None, though typically reserved for capital expenditure

Future options for funding any new entity revolve around the extent to which this extent of earmarking remains, and whether there is an increase in the regional approach to funding with some or all of the contribution currently being made through local rates being transferred to a regional basis.

Table 16: Funding long-list options

Option	Description	Rating
Fee for service	Each council pays for services provided in its area, for example under a SLA	Possible
Targeted regional rate	The existing arrangements whereby GWRC raises funding for public transport – possibly expanded to include other modes	Possible
Funding allocation formula	Sharing of budget amongst participating councils according to an agreed formula	Possible
Hybrid option	A mixture of the above, for example whereby roading is funded through a SLA or funding allocation formula and public transport is funded through a targeted regional rate	Possible

To the extent that a fee for service model is adopted for roading, territorial authorities would effectively fund costs in their area on the same basis as at present. A fee for service model could also be applied to GWRC for regional transport planning and programmes and for public transport. A targeted regional rate and a funding allocation formula move to a more regional approach to funding.



A funding allocation formula mechanism would work this way: the board of any CCO would propose a budget which would then be agreed by shareholders. In the event that shareholders were unable to agree, provision could be made in the constitution for budget to be rolled over from the previous year with an allowance for inflation as a default. The formula would need to be agreed when the CCO is established, but would most likely be based on a number of metrics so the actual proportions paid by each council would vary over time in response to factors such as growth.

An increased regional approach to funding supports an increased regional approach to planning, but likely leads to cross-subsidisation across the region. This could happen, for example, in relation to past disparities in maintenance levels where one council's roads are in poorer condition than others'.

This might be managed through two mechanisms:

- limiting the regional approach to funding of major infrastructure developments that benefit travel across boundaries
- requiring additional contributions from councils over a period of several years based on a measure of deferred maintenance.

In addition to the options discussed, the proposed amendments to the LGA will also give certain CCOs the ability to charge developer contributions under strict oversight from parent councils.

Asset ownership

Where functions are consolidated into a new entity, it makes sense for any relevant non-infrastructure assets (such as office equipment) to be consolidated into that entity. The financial implications are relatively small.

Infrastructure assets are more problematic. There is a good case, for governance and accountability reasons, to transfer assets to the agency responsible for maintaining them. That agency can then be held accountable for their condition. Accountability for their condition becomes less clear in a situation where, for example, a council owns an asset but another agency is responsible for planning and delivering asset management. In such circumstances decision making can be more complicated.

However, there is sensitivity about transferring assets owned by councils to CCOs based on perceptions about possible future privatisation. Any benefits from consolidation of responsibility for asset management are likely to outweigh the possible accountability issues of not also consolidating asset ownership. So models where assets are not transferred are 'possible'.

Participating councils

In principle, some or all of the region's councils could participate in any new entity with responsibility for transport functions.

The situation is complicated because of discussions regarding amalgamation in the Wairarapa. It would be appropriate to defer any decision regarding the participation of the Wairarapa councils in most consolidation options until any amalgamation decisions have been made.

In general the benefits of regional consolidation of functions are likely to increase as more councils participate. From this perspective, other less inclusive options are best seen as possible pathways to wider consolidation.



A possible exception to this perspective is the Wairarapa roading. Given the physical separation, it is plausible to have separate agencies for roading on either side of the Rimutaka Range.

Further details of the Wairarapa amalgamation options and their interplay with short-list options of this business case are given on page 78.

Non-structural options for change

Table 17 provides an overview of non-structural options, with further details of each provided in turn. They are not mutually exclusive.

Table 17: Non-structural long-list options

Option	Proposal	Rating
1 Additional project identification options	Changes to the LTMA to allow a more regional approach to the proposal of transport projects	Possible
2 Requirements for greater transparency as to how territorial authorities give effect to the RLTP	Add a requirement under the LTMA that all local authorities and the NZTA submit to the RTC a statement of how their overall proposed programme of transport activities will 'give effect' or 'contribute' to the objectives and policies in the RLTP	Discounted
3 Improve reporting on transport outcomes	Develop formalised reporting requirements with standard outcomes against which councils and NZTA would report. Reporting would have a regional component.	Possible
4 Greater use of formalised working arrangements between agencies/authorities for major projects	Greater and consistent use of formalised governance and working arrangements for major transport projects	Preferred
5 Develop a regional spatial plan	Develop an integrated spatial plan to inform transport and other planning	Discounted for the purposes of this business case as more appropriately progressed through existing separate workstream
6 More balanced alignment between the LTMA and RMA	Policy changes to reduce conflict between LTMA and RMA planning approaches and provide improved clarity on regional investment priorities	Possible
7 Greater emphasis on regional outcomes as part of the NLTP decision making process	Amend the definition of strategic fit used in prioritising the NLTP to recognise national and regional outcomes	Discounted

1. Additional project identification options

Transport projects in the RLTP are proposed by approved organisations (those eligible for NLTF funding). A requirement is that the organisation may only propose an activity if it or another



organisation accepts financial responsibility. This can result in gaps where possible regional priorities are never proposed. A suggested example of this is improvements to Kent Terrace in Wellington.

There is a case for additional opportunities to put forward into the RLTP projects which support regional objectives. However, for such additional proposals to be meaningful in the context of the RLTP, there would have to be a concomitant obligation to back them financially.

It is not obvious how this would work under the present funding arrangements relating to the RLTP set out in the LTMA. Potentially it would require changes to the LTMA and the underlying policy.

The proposal is to seek changes to the LTMA to allow a more regional approach to the proposal of transport projects.

It is rated as 'possible'. However, it is something that is beyond the scope of what could be achieved through the mandate of councils in the region and LGC.

2. Requirements for greater transparency as to how territorial authorities give effect to the RLTP

Although there is no statutory requirement for local authorities to prepare a local transport plan, some do produce transport plans or incorporate aspects of transport planning into other local plans and priorities. These can form the base of transport planning that flows into the RLTP and ultimately the NLTP. This relationship is informal, and there is no mechanism to ensure that local transport planning is appropriately informed by the RLTP. As a result, regional priorities identified in the RLTP may not be implemented.

Under section 16(3)(e) of the LTMA, an activity proposed by an organisation for inclusion into a RLTP must have an assessment of the objective or policy to which the activity will contribute. This limits required consideration of the RLTP to the activities that organisations are seeking to specifically include in the RLTP. However, there are a much wider range of local land transport planning decisions that have regional implications, even if they may be minor in some cases.

The proposal is to add a requirement under the LTMA that all local authorities and the NZTA submit to the RTC a statement of how their overall proposed programme of transport activities will 'give effect' or 'contribute' to the objectives and policies in the RLTP. This would support a more comprehensive approach to aligning local and regional planning.

This would be analogous to the requirement that District Plans are prepared consistent with the Regional Policy Statement. It would provide a specific mechanism for the RTC to consider alignment between local transport plans and regional transport priorities.

However, the RLTP is intended primarily as a prioritisation document and features quite high-level objectives. (The current Wellington RLTP is more specific than most in that it has corridor strategies.) It is therefore not necessarily fit for purpose as an accountability document, and adjustments may be required if this sub-option is taken forward.

A further difficulty is that the RLTP is intended to be a collaborative exercise amongst the councils in a region and it seems rather circular to establish a mechanism to hold councils to account in this way.

As a result, this option is discounted.



3. Improve reporting on regional transport outcomes

While there is significant reporting on land transport planning and delivery, there is relatively little standard reporting on regional transport outcomes.

The proposal is to formalise reporting involving creating standard outcomes against which councils and NZTA would report. Reporting would have a regional component.

Ideally this would be a mix of general outcomes that could be compared across regions, as well as some specific enduring outcomes specific to a region. The specific outcomes could potentially be agreed by the RTC, possibly within a set of categories standardised across regions.

Common reported regional outcomes could provide a unifying goal around which to coordinate, without being overly prescriptive as to the solution. This would most likely be done by adding a requirement in the LTMA, but could possibly be done in the Wellington Region alone by mutual agreement. The impact on councils would largely be around helping to identify outcomes, and supporting data gathering and reporting exercises. If done without change to the LTMA, the RTC could be given responsibility for agreeing the reporting framework.

There is a risk, however, that the outcomes reported do not represent regional priorities (possibly as a result of changes over time) and that this adds to councils' compliance burden. It would therefore be appropriate to scope this option further.

This option is rated 'possible'.

4. Greater use of formalised working arrangements between transport authorities for major regional projects

One of the identified barriers to improved integration and delivery of major projects is the lack of formalised working arrangements between the parties. Instead programme/project-specific arrangements are used and typically only constituted once issues have emerged (e.g. the Let's Get Wellington Moving initiative described on page 30).

Many programmes include two or more organisations having to work together at an official and political level. More formalised and consistent working arrangements for major transport projects could reduce conflict, increase alignment and reduce complications later on in the project.

There is obviously an opportunity to make use of such arrangements as a matter of good practice. With Let's Get Wellington Moving there is an opportunity to extend the scope of the present arrangements from strategic planning to delivery and strengthen the relationships with other territorial authorities.

The proposal is to go further and develop a general framework between NZTA and all councils (that choose to participate) to describe the appropriate form and approach to collaborative arrangements for different types of projects. Specific agreements based on that framework would then be made at the outset of programmes. It is not proposed that there is any formal agreement (eg through a memorandum of understanding) to such a framework – every situation is different so it may be difficult to be prescriptive, and such an agreement risks becoming an agreement to have an agreement.

The impact on councils would be limited to the incorporation of these processes into their project planning and management approaches.

This option is rated 'preferred'.



5. Develop a regional spatial plan

Several participants in the business case process have identified the value that a regional spatial plan would provide both from a transport perspective and more broadly. An integrated spatial plan could better connect transport planning to planned future location, form and mix of residential, business and amenity development. The absence of such a plan creates risk that major transport infrastructure choices end up mistimed or failing to respond to emerging demands.

Work to consider a regional spatial plan is currently underway with the LGC recently receiving a report on this issue. Transport is a consideration in deciding to develop a spatial plan, but there are several other planning areas to consider as well. The decision to advance this is out of the scope of this business case, but we nevertheless note its importance and potential to contribute to the investment objectives being sought.

Depending on the scope of a spatial plan, it could address some of the issues around integrated planning that other sub-options seek to. Any decisions made regarding option B should be made in alignment with decisions around the development or role of a spatial plan.

While there are a number of transport integration and alignment issues that could usefully be informed by a regional spatial plan (for example investment in new arterial connections such as the cross valley link and access to new developments), there are many opportunities for improvement that are not contingent on a regional spatial plan (for example, removing congestion points on existing corridors, integration of public transport with other modes). A spatial plan is therefore not essential to realising benefits from better alignment and integration.

This option is 'discounted' for the purposes of this long list for the reason that a regional spatial plan has wider ramifications than transport and so it is better progressed through the separate workstream referred to above.

6. More balanced alignment between the LTMA and RMA

The recent Board of Inquiry decision on Basin Reserve Bridge effectively put low weight on the Regional Land Transport Strategy (now succeeded by the RLTP). A practical implication of the decision is that any future proposals to improve access along SH1 from the Basin Reserve would need to provide more specific proposals of improvements along that entire corridor in order to demonstrate benefit, than had previously been supposed.

Decisions made under the RMA and LTMA involve trade-offs and processes under both Acts are intended to strike those trade-offs appropriately. However, there is a suggestion the processes for RMA decision making may not align well with the practicalities of transport planning. One result is that there can be a lack of clarity on regional investment priorities.

One option to help resolve this would be that the RMA includes a specific requirement to have regard to a relevant RLTP. In fact there is already a requirement under the RMA to have regard to plans prepared under other Acts (s74(2)(b)(i)) so the impact of the change may be slight. Another option would be to elevate the status of the RLTP above that of the Regional Policy Statement when it comes to decisions affecting transport. The Ministry of Transport (MoT) has indicated it is unlikely there will be support for a change that significantly changes the symbiotic relationship between the two Acts.



A more comprehensive solution to this issue may be difficult and potentially raises complex policy issues with regard to the RMA. As such it is beyond the scope of this business case to propose a particular solution, but it may be worth engaging with the Ministry for the Environment (as the department responsible for administering the RMA) and MoT to consider whether change might be considered.

Such engagement is rated 'possible'.

7. Greater emphasis on regional outcomes as part of the NLTP decision making process

There is concern that the NLTP decision making process does not give due consideration to regional priorities particularly with regard to such issues such as road safety (outside infrastructure improvements) or congestion pricing.

The proposal is for NZTA to amend the definition of strategic fit used in prioritising the NLTP to recognise national and regional outcomes.

However, initial indications from the MoT are that the case for change is not made, given the extent to which the RLTPs are taken into account. For this reason the option is discounted.

However, it may be worth further discussion between GWRC and MoT to identify whether there are any underlying issues that lead to under-prioritisation of certain types of issues. It is conceivable that there may be some appropriate policy changes. However, they would be beyond the scope of what could be achieved through the mandate of councils in the region and LGC.

4.3 Short-list option descriptions

4.3.1 Overview of options

The short-list options combine the long-list options to provide a high-level description of possible future models for transport management and service delivery in the Wellington Region.

Five options were identified and are summarised in Table 18 and then described in turn. They are ordered according to the size of impact on current structures.

A more detailed description is provided in Table 48 in Appendix 3.

For the purpose of these options, it is assumed that there is no reorganisation of local government in the Wairarapa. The implications of any reorganisation are discussed in Section 4.7 on page 78 below.



Table 18: Short-list options overview

Option	Description	Functions consolidated
A: Status quo	The present arrangements	
B: Non-structural measures to improve alignment	<p>Improved reporting on regional transport outcomes.</p> <p>Possible improvements (subject to necessary policy and legislative changes) to:</p> <ul style="list-style-type: none"> • RLTP project identification options • alignment between the LTMA and RMA. <p>Greater use of formal working arrangements for inter-agency projects.</p>	None
C: Pooled planning support	<p>Planning, management, and related information functions and analytical capabilities pooled under a shared service arrangement (or small CCO). Covers all networks and modes other than state highways, although could include some services on state highways, such as traffic management.</p>	Some technical planning and management and operations management services
D: Wellington Roads	<p>CCO pools roading capability to develop, maintain and operate roads, paths and cycleways. Existing planning and funding arrangements remain.</p> <p>Services provided to territorial authorities under SLAs.</p> <p>Public transport stays with GWRC.</p> <p>Only includes councils west of the Rimutaka Range (but could include Wairarapa councils should they wish to participate).</p>	<p>For roads, paths and cycleways:</p> <ul style="list-style-type: none"> • project planning • operations management • asset management • relevant road controlling authority functions • some technical planning and management functions.
E: Wellington Transport	<p>Single agency (a CCO) with responsibility for programming and operations for all modes in the region (local roads, public transport, walking and cycling, and some aspects of state highways).</p> <p>An analogue of Auckland Transport but existing RTC is retained. Other modifications to take into account local context and lessons learned.</p> <p>Regionally funded.</p> <p>Includes all councils in the region. The Wairarapa would participate in respect of public transport but not local roads. A sub-option has the Wairarapa also participating in respect of local roads.</p>	<p>Strategic planning and prioritisation.</p> <p>For roads, paths and cycleways, and public transport:</p> <ul style="list-style-type: none"> • technical planning and management • project planning • operations management • asset management • relevant road controlling authority functions. <p>For state highways:</p> <ul style="list-style-type: none"> • operations management • asset management • relevant road controlling authority functions.



Opportunities to combine options

Elements of Option B can be combined with Options C, D and E, although some of the mooted policy changes become less relevant for Option E.

Option C could be combined with Option D, but in that case, some of the functions envisaged under C (specifically some standards setting and implementation and specialist functions) would better be transferred to Wellington Roads, leaving the entity proposed under Option C focusing on traffic modelling and any cross-modal capability that is usefully centralised.

Options D and E sit on a spectrum and have many sub-options

Given that there are many plausible combinations of the long-list options, the Wellington Roads and Wellington Transport options should be regarded as representative points on a spectrum of options of varying degrees of regional consolidation of functions. The Wellington Roads option has been positioned as the option that sits at the low end of the spectrum in terms of regional consolidation of functions. Wellington Transport is near the other end of the spectrum.

Wellington Transport takes on additional functions, but a key point of difference is the change in the funding arrangements. The differences are summarised in the following table.

Table 19: Comparison of Options D and E

Dimension	D: Wellington Roads	E: Wellington Transport	Comments/other options
Strategic planning and prioritisation	Some network and corridor planning	All (except planning of the national state highway network)	Wellington Transport could take on the planning functions of the RTC
Roads, paths and cycleways functions	<ul style="list-style-type: none"> • Technical planning and management • Project planning • Operations management • Asset management 	<ul style="list-style-type: none"> • Technical planning and management • Project planning • Operations management • Asset management 	
State highway functions	None (Optionally include operations and asset management)	<ul style="list-style-type: none"> • Operations management • Asset management 	NZTA has indicated it is unlikely to agree to devolution of responsibility for major capital investment in state highways
Public transport functions	None	<ul style="list-style-type: none"> • Technical planning and management services • Project planning • Operations management • Asset management 	
Road controlling authority functions	Some as appropriate	Some as appropriate	



Dimension	D: Wellington Roads	E: Wellington Transport	Comments/other options
Participating councils	TAs west of the Rimutaka Range (unless the Wairarapa councils choose to participate)	All	
Funding arrangements	Fee for service: no change to extent of regional funding basis	Targeted regional rate for public transport Funding for remaining functions shared amongst territorial authorities according to a funding formula	Intermediate option is possible with some hypothecation of local road funding
Ownership of infrastructure assets	No	Yes	Ownership of assets is not integral to the Wellington Transport model

As noted, full details of the options are set out in Table 48. Key points are highlighted here, including their immediate practical effect on councils' existing arrangements. The impact of the options are discussed on page 62 below.

4.3.2 Option A: The status quo

Key elements of the status quo have been provided on page 29 above. Any change should be assessed in comparison to the status quo.

Although the status quo option provides for no structural or legal changes, incremental efforts to improve planning and capability would continue to occur through informal coordination and internal efforts.

4.3.3 Option B: Non-structural measures to improve alignment

Option B consists of 'non-structural' changes classified in the long list as 'possible' or 'preferred'.

The changes involve no new entities being established, and no significant transferring of functions from one organisation to another. In general Option B seeks to make changes to planning, oversight and monitoring arrangements to better align transport delivery with regional transport priorities.

The changes are:

- Improved reporting on regional transport outcomes. The RTC would be responsible for agreeing the outcomes framework used. This could be done voluntarily in the region, although it would have strong impact if there were legislative change to mandate it.
- Greater used of formalised working arrangements.

These are both described further under the long-list non-structural options for change on page 49.



In addition, the long list identified a number of policy issues that could usefully be discussed with MoT and NZTA, but fall beyond the scope of this indicative business case:

- additional project identification options
- stronger requirements for alignment between the LTMA and RMA
- changes to NZTA's definition of strategic fit to give greater attention to regional priorities.

Practical effect on councils

The impact of the non-structural measures on councils would generally be relatively minor with some increase in compliance requirements.

4.3.4 Option C: Pooled planning support

Option C brings together a range of technical functions that support transport planning and delivery:

- traffic modelling and other data and analytics functions
- standard setting and support for implementation of ONRC
- traffic management
- common procurement standards and processes
- technical specialists.

The intent is to provide a common platform on which planning, asset management, and service delivery decisions are made.

With regard to standard setting, NZTA's ONRC is expected to bring more standardisation over time, but there may be opportunities to provide specialist assistance with the development and implementation of the ONRC standards, to develop consistent interim standards if required, and to develop standards for modes and or characteristics not covered by ONRC.

If Option C were to be advanced, further scoping would be required to confirm which functions would be included in the first instance.

There are several sub-options as to institutional form:

- shared service arrangement hosted by GRWC – which would help ensure that the requirements were aligned with the needs to support RLTP processes – and builds on GRWC's existing pool of capability, notably modelling
- hosted by WCC – which would build on its existing pool of capability
- a small CCO owned by the councils in the region (and possibly NZTA) which provides a degree of mode independence (depending on shareholding arrangements)
- a contract for services arrangement funded by the councils in the region (and possibly NZTA).

Decisions on institutional form would best be made once the functions have been confirmed. Subject to this, the function would be governed by a technical oversight committee appointed by a forum of council representatives.



The RTC would retain responsibility for the RLTP and service delivery functions would stay with individual councils. The function would receive stable funding from a formula based on size metrics. It could include all councils, but a sub-set would also be viable.

Practical effect on councils

The immediate practical effect on the councils in the region would be:

- loss of some staff to the new arrangement – this would primarily affect WCC and GWRC, the others to lesser extent if at all.
- relatively minor funding obligations.

4.3.5 Option D: Wellington Roads

This option pools the current capability in the territorial authorities to plan, manage and deliver services relating to roads, paths and cycleways into a new CCO: Wellington Roads. Those functions would be provided to individual councils under a fee for service arrangement implemented through a SLA.

It is primarily a response to capability issues, but it potentially has integration impacts too. These impacts are discussed on page 65.

The governance and community voice dimensions of Options D and E are discussed on page 69.

Councils would delegate to the CCO relevant road controlling authority powers.

The option is inherently scalable and it is possible to envisage variations with only a sub-set of councils participating. Indeed, there are a range of working arrangements involving only two or three councils that are plausible solutions to specific capacity or capability issues.

Practical effect on councils

The immediate practical effect on the territorial authorities would be:

- existing roading and related staff would be transferred to Wellington Roads
- asset management planning and service delivery functions currently carried out by council staff would be carried out by Wellington Roads
- there would be no change to funding arrangements or councils' ability to approve transport related plans or budgets
- councils would want capability to review plans and proposed budgets – it is likely that this can be done through their existing strategic planning capability.

The immediate impact on the GWRC would be:

- There would be one road agency to engage with in the first instance. However, critical decisions would still be referred to parent councils.



4.3.6 Option E: Wellington Transport

This option brings most transport functions and modes in the region into one CCO: Wellington Transport. Excluded are:

- State highway planning, as NZTA would want to retain responsibility for managing the development of the national state highway network. (Highway maintenance and operations would be included in the CCO's responsibilities.)
- The planning responsibilities of the RTC, which would be retained as is – but the RTC would now be serviced by Wellington Transport not GWRC.

The exclusion of the RTC responsibilities is an important point of difference between Auckland Transport and this proposal. The board of Auckland Transport is Auckland's Regional Transport Committee. The proposal for Wellington Transport is that its board is a separate body. The reason for this is that the roles are different and it provides clearer accountabilities:

- The primary role of the RTC is to develop the RLTP. That is primarily a prioritisation exercise and appropriately undertaken by elected representatives.
- Whilst the role of Wellington Transport would include advising on priorities, its primary function would be to deliver on them. The role of the board includes ensuring that adequate capability is in place for this.

Further work would be needed to develop the structure and operating model of Wellington Transport. However, an important feature would be capability to engage with each council to ensure alignment with other council functions and to give effect to local voice.

The option includes all councils in the region. The Wairarapa would participate in respect of public transport but not local roads because of the different nature of their roading (a large rural network). This does complicate the governance arrangements. A sub-option has the Wairarapa also participating in respect of local roads.

Councils would delegate to the CCO relevant road controlling authority powers.

A key feature is that funding would be on a regional basis. Public funding would be raised principally through:

- existing targeted regional rate mechanisms – for public transport
- contributions from territorial authorities based on a funding allocation formula (which could in turn be met through the councils' funding sources).

NLTF and fare sources would be unchanged.

Agreeing the actual basis of funding allocation would be challenging and a matter for detailed consideration should this option be considered further.

The option is a response to both capability and alignment issues. The actual impacts are discussed on page 67.

The governance and community voice dimensions of Options D and E are discussed on page 69.



Practical effect on councils

The immediate practical effect on the territorial authorities would be:

- Councils would be less directly involved in certain decisions. Their involvement in decision making would be through participation in the joint shareholders committee and through formal consultation processes.
- Existing transport staff would be transferred to Wellington Transport.
- Responsibility for managing transport assets would be transferred to Wellington Transport. Council involvement would be through engaging in consultation and its governance and monitoring functions.
- Transport in each council area would no longer be funded by the territorial authority. Instead each territorial authority would pay a contribution to Wellington Transport based on a funding allocation formula.
- Councils would have an additional ownership and governance interest in public transport and state highway maintenance and operations (but not planning of new state highway construction or developments).

The option would not affect the Wairarapa councils in respect of roading unless the sub-option to include their local roads was chosen.

The immediate practical effect on the GWRC would be:

- staff responsible for public transport would be transferred to Wellington Transport
- staff responsible for regional transport planning and programmes would be transferred to Wellington Transport
- a new ownership interest in a CCO with responsibility for a broad range of transport functions.

The immediate practical effect on NZTA would be that:

- staff responsible for state highway maintenance and operations would be transferred to Wellington Transport
- funding for state highway maintenance and operations would be channelled through Wellington Transport.

Alignment with other territorial authority functions

Suggested mechanisms by which Wellington Transport's activities are aligned with other territorial authority functions are outlined in Table 20.

Table 20: Option E: Mechanisms for alignment with other territorial authority functions

Function	Alignment mechanism
Land use planning	Reciprocal statutory requirements that plans prepared under the RMA are consistent with LTMA plans and vice versa will remain. Resource consenting requirements will continue to apply to transport developments.



Function	Alignment mechanism
Strategic planning and funding	Any plans prepared by Wellington Transport will be required to be consistent with council LTPs including the 30-year infrastructure plan.
Stormwater drainage	A requirement in Wellington Transport's Sol could require that roading gives effect to council's stormwater requirements. This may have funding implications that will need to be worked through.
Parks and reserves (use for paths and cycleways)	Consultation.
Economic development	A requirement in Wellington Transport's Sol that regard is had to economic development plans. More specific direction could be given through letters of expectation.

Alternative sub-options regarding funding and involvement of GWRC

The base option involves GWRC as a shareholder and conduit of funding for public transport and for regional transport planning and programmes. This has the advantages of:

- avoiding the complexity of having to rework the public transport funding arrangements
- supporting links with the Wellington Regional Strategy (which GWRC hosts).

However, this has the disadvantage of potentially retaining existing rigidities as to the balance of expenditure on public transport compared with other modes. It also has potential issues with funding allocation.

There are two alternative options, both of which address the rigidities issue, and both of which have major implications for the roles of GWRC and the territorial authorities.

Exclusion of GWRC

This alternative option excludes GWRC, both as a shareholder and a conduit of funding. Public transport would be funded by the levy on territorial authorities. GWRC would then effectively have no public transport responsibilities. Links with the GWRC would be through consultation arrangements. The cost of regional transport planning and programmes would be transferred to the territorial authorities. However, there are legislative constraints that would make this option problematic, and it would lose the overview of transport in the region held by GWRC.

Funding through a regional rate

This option introduces a regional rate for all transport activities (excluding NZTA maintenance). This could be a general rate for cross-network activities and targeted rates for the actual cost of planned activities to be applied to each territorial authority area.

This option is straightforward in a number of respects, but removes the territorial authorities from the funding process. They would still have influence over the budget through their membership of the joint committee, but means they would not have a say as to how their communities' contribution to the budget would be met. One advantage is that it sidesteps the problem that could arise in the base option should one council not agree to meet its funding obligations to Wellington Transport.



4.4 Criteria by which to assess change options

Two sets of criteria by which to assess change options have been identified:

- the ‘investment objectives’ – the specific objectives of any change are set out on page 38
- “critical success factors” – other factors which are essential to the success of any change – set out in Table 21 below.

The first four critical success factors were considered to be “important” or “very important” at the economic case workshops. The fifth critical success factor has been added subsequently in response to subsequent consultation. Better Business Case practice is to develop relative weightings of the factors. This has not been done, recognising that different stakeholders have different priorities.

Table 21: Critical success factors

Critical success factor	Description
1 Local and regional voice	Are there appropriate mechanisms to give sufficient voice to local communities, taking into account: <ul style="list-style-type: none"> • different mechanisms will be appropriate for different levels of engagement • balance should be given to regional and local considerations – recognising that where to strike the balance will typically be a delicate judgement?
2 Effective governance	Are the arrangements for the governance of any entities established clear and effective: <ul style="list-style-type: none"> • Are there mechanisms to ensure that mandate and objectives are clear? • Do objectives avoid any conflict of interest (such as can happen when one entity has dual funder and provider roles)? • Are there effective mechanisms to hold entities to account? This is a relatively narrow interpretation of governance – chosen to avoid overlap with the concept of local and regional voice.
3 Achievability	Is there a realistic pathway to proposed future arrangements? Likely issues will be: <ul style="list-style-type: none"> • Is there likely to be sufficient mandate for change across the region? • If any legislative change required, is it plausibly forthcoming? • Are there any hurdles to implementation, eg costs, disruption of other processes? • Are there significant risks?
4 Long-term value for money	Will the arrangements deliver better value over the longer term, taking into account the economic, social and environmental impacts of transport? This might arise from better decision making regarding major transport investments, or from more efficient service delivery.
5 Alignment with other council functions	Are there sufficient mechanisms to ensure that transport decision making is aligned with other council functions and supports wider council plans and strategies?

4.5 Assessment of short-list options

This section assesses the options against the investment objectives and critical success factors and identifies any other key benefits and issues.



4.5.1 Option B: Non-structural measures to improve alignment

Option B seeks to deliver a more regional approach by increasing the status, influence and breadth of regional transport planning and providing for stronger collaborative working arrangements. However, it is problematic. It identifies a number of policy issues regarding the LTMA and its interaction with the RMA. Addressing these issues is beyond the scope of this business case, and it is uncertain to what extent there would be a willingness to consider these issues and the possible legislative change that might be required. If there were a willingness, the outcome of consequent policy processes is uncertain and may or may not lead to significant change. For this reason, these policy issues are not considered in the assessment tables below.

What remains is limited in scope. Better information and reporting on transport outcomes is potentially powerful, and could give a greater focus on regional transport issues. This would create a greater incentive to address those issues, which can be helpful but does not remove the present barriers to alignment and integration. High-level design of the outcomes and outcome measures would need to be done to assess the likely potential scale of impact.

Greater use of formalised working arrangements could also be helpful in addressing the barriers to alignment and integration. However, the extent to which this happens in practice is likely to be driven by the extent to which stakeholders find the arrangements helpful in practice. There is little more that can be done to drive use.

As noted on page 52, the idea of developing a regional spatial plan is being considered separately to this business case and could add to the non-structural changes.

The option is expected to have no direct impact on capability or costs.

Table 22: Assessment of Option B against investment objectives

Critical success factor	Assessment
Improve alignment and integration of transport activities across the region	<p>Option B has the potential to make a contribution to some portions of this investment objective. In particular, it could contribute to improving alignment and integration across local and regional objectives and between programming and regional priorities.</p> <p>It will do this primarily by creating a stronger incentive for regional collaboration to address regional issues. It does not, however, remove the underlying barriers to alignment and integration.</p>
Build capability to manage transport planning and service delivery – both locally and regionally	<p>Option B would have a negligible direct impact on this investment objective. It does not address the underlying issue of fragmentation. There would be no change in the quantity or organisation of planning and service delivery resource.</p> <p>Nevertheless changes are possible if the changes create a greater incentive to invest in capability.</p>



Table 23: Assessment of Option B against critical success factors

Critical success factor	Assessment
Local and regional voice	<p>There would be no major change in structural, governance or planning arrangements as a result of this approach.</p> <p>Overall, voice should be improved through better information about outcomes. Local voice might be diminished to the extent there is greater emphasis on regional outcomes. A regional focus means considering a wider group of people, and thus individual communities may have less influence. However, this seems an unavoidable consequence in any approach that would seek to increase alignment between regional and local priorities and programming.</p>
Effective governance	<p>Option B requires no new governance arrangements, nor does it change existing governance arrangements.</p>
Achievability	<p>Better information on regional transport outcomes is certainly achievable for the Wellington Region. However the approach may benefit from being a statutory requirement and done across the country. The extent to which there would be support for this is uncertain.</p> <p>Greater use of formalised working arrangements is achievable if the agencies involved are keen, but would be impractical to mandate.</p>
Long-term value for money	<p>To the extent that better information on outcomes drives improved planning decisions, the option should increase long-term value for money. Any benefits are likely to outweigh the costs of information provision.</p> <p>Greater use of formalised working arrangements should lead to efficiencies in detailed planning and implementation, which also improve long-term value for money. The formal governance arrangements involved will have a minor cost impact.</p>
Alignment with other council functions	<p>Any impact on alignment with other council functions would be negligible. No planning functions or powers are shifting that would affect alignment.</p>

4.5.2 Option C: Pooled planning support

Option C is a structural change, but a relatively small one. The principal benefits are:

- Providing improved access to traffic modelling and other data analysis by councils in the region, and building models on common sets of assumptions. This allows for a more consistent basis for prioritisation across the region. Ultimately this allows for better optimisation of spending in the region.
- Providing common standards across the region. Where contractors are dealing with different councils this potentially leads to efficiencies in service delivery.
- Providing improved access to specialist technical skills – though this may only apply in limited circumstances; in a number of instances those skills might more appropriately be brought in than housed in the unit.
- Potentially providing a cost-effective platform to manage traffic across the region – avoiding duplication of effort and providing an easier pathway to traffic management capability for those councils that do not yet have it.

The option has commonalities with proposals in the Regional Transport Analytics Programme Business Case currently underway, and it may be appropriate to take that the findings of that business case into account in any decision to progress this option.



There are limited dis-benefits, principally the cost involved in establishment.

Table 24: Assessment of Option C against investment objectives

Investment objective	Assessment of impacts
Improve alignment and integration of transport activities across the region	This would not have an impact on a number of dimensions of alignment. However, it would provide a common platform on which to base transport planning decisions. This should lead to better decision making around major resource allocation choices and more efficient decision making.
Build capability to manage transport planning and service delivery – both locally and regionally	The unit builds capability in the region for a specific set of technical functions.

Table 25: Assessment of Option C against critical success factors

Critical success factor	Assessment of impacts
Local and regional voice	As the unit provides specific technical inputs to transport planning and management, there are unlikely to be impacts on local and regional voice.
Effective governance	Given the nature of the functions, there are unlikely to be significant barriers to effective governance of the unit.
Achievability	There are no significant barriers to implementation provided councils in the region support the idea. The economic case workshops suggested that there may be a reasonable level of support, but this would need to be confirmed by the individual councils.
Long-term value for money	The option supports long-term value of money through a number of mechanisms: <ul style="list-style-type: none"> • economies of scale and improved quality of the functions provided • potential to accelerate multi-agency decision making through common information and functions • standardisation across the region potentially saves money through contractors not having to deal with different standards.
Alignment with other council functions	No impact.

4.5.3 Option D: Wellington Roads

The main impact of this option is to pool local roading and related capability across the region. Reported experience with Wellington Water and Auckland Transport suggests that this potentially would make the CCO an attractive employer, which would help address staffing concerns.

However, the benefits of pooling of capability potentially go further by providing improved access by councils to, for example, better strategic advice on asset management, and greater capability to engage with other agencies (notably NZTA).

The funding model proposed for Option D means that territorial authorities would retain a similar level of control over service provision as in practice currently.



The option has potential commercial benefits. Councils in the region have a small number of contractors (and sometimes only one) servicing local roads. This situation means there is limited contestability on specific jobs and barriers to entry. The option provides more options and greater flexibility in the contracting arrangements, which is likely to lead to lower costs.

The option is scalable, so variations with only a sub-set (including just two) of territorial authorities participating can be envisaged, though this would limit the benefits.

For some of the smaller councils there may be viability issues resulting from the removal of functions. Some councils will be impacted because transport engineers support other services. For all councils there may be an impact on overall planning capability resulting from the transfer of some senior staff.

The option makes only limited contribution to improving alignment and integration issues.

Table 26: Assessment of Option D against investment objectives

Investment objective	Assessment of impacts
Improve alignment and integration of transport activities across the region	<p>The option provides some support for alignment and integration through a number of mechanisms:</p> <ul style="list-style-type: none"> • improved capability to engage with NZTA (on funding and state highway matters) and GWRC (on public transport and regional transport planning and programme matters) • region-wide perspective to the identification and prioritisation of roading projects.
Build capability to manage transport planning and service delivery – both locally and regionally	<p>The option provides for significant improvement in the capability to manage the planning and delivery of roading, paths and cycleways.</p> <p>It does not improve capability re public transport or state highways.</p>

Table 27: Assessment of Option D against critical success factors

Critical success factor	Assessment of impacts
Local and regional voice	<p>Consultation processes would remain the same, though for purely roading, path or cycleway matters they would be managed by the CCO rather than the relevant territorial authority.</p> <p>A full discussion of governance and voice issues for this option is given on page 69 below.</p>
Effective governance	<p>A critical issue regarding governance is the extent to which councils would be able to give effective direction to the CCO. Because councils would still approve the same plans and approve service delivery budgets there would be minimal impact.</p> <p>There are benefits in having a board to hold to account for performance – though this is partially contingent on owning councils having an effective mechanism to coordinate their oversight.</p> <p>There is a risk that owning councils have different perspectives as to what is appropriate for CCO management. Administration costs would need to be agreed centrally (as opposed to direct service delivery costs which would be met by each council).</p> <p>A full discussion of governance and voice issues for this option is given on page 69.</p>
Achievability	<p>The option would involve significant disruption because capability from the territorial authorities would be transferred to a new entity. This</p>



Critical success factor	Assessment of impacts
	<p>would be particularly disruptive for councils with major projects underway, such as Kāpiti Coast District Council and the new expressway.</p> <p>A critical issue with respect to achievability is the extent to which there is mandate for the option.</p> <p>There are two routes by which the option could be decided on:</p> <ol style="list-style-type: none"> 1 through agreement amongst the councils of the region to form the CCO 2 through the LGC as part of a reorganization proposal. <p>The economic case workshops suggested that there may be significant concerns by councils about the option because of concerns about impact on local and regional voice. This view would need to be confirmed by the individual councils. Even if councils were to agree in principle to the value of a CCO, there is a risk that there may be failure to reach agreement on ownership shares and voting rights.</p> <p>No requirement for legislation to implement this option has been identified.</p> <p>No significant other barriers have been identified.</p>
Long-term value for money	<p>The option supports long-term value of money through:</p> <ul style="list-style-type: none"> • providing councils better access to strategic advice on asset management and planning of local roads, paths and cycleways • potential economies in service delivery through providing more options regarding contracting arrangements for local roads, paths and cycleways.
Alignment with other council functions	No impact

4.5.4 Option E: Wellington Transport

This option is clearly a major change in the institutional arrangements for transport in the Wellington Region. As noted on page 55, it is a step up from Option D across several dimensions.

The option pools roading capability across the region both from the territorial authorities and NZTA. This should make the CCO an attractive employer, which would help address staffing concerns. It potentially goes further with respect to bringing in public transport and regional transport planning and programmes, and so creates more opportunities for senior staff.

By bringing strategic transport planning, local roading, public transport, and state highways together, the option reduces transaction costs in decision making and should improve alignment and integration.

The changes to planning and funding arrangements bring a stronger emphasis to regional transport objectives in decision making (which potentially means less emphasis on local objectives where the two are in tension). However, this stronger emphasis may be constrained by RMA processes.

The option has potential commercial benefits. Councils in the region have a small number of contractors (and sometimes only one) servicing local roads. This situation means there is limited contestability on specific jobs and barriers to entry. The option provides more options and greater flexibility in the contracting arrangements, which is likely to lead to lower costs.

Compared with Option D, Option E has greater potential to improve alignment and integration, between public transport and roads, paths and cycleways and gives a stronger focus to regional objectives. It goes further than Option D in improving capability.



However, it involves more cost and disruption in implementation. While the governance arrangements proposed are formally similar to those proposed for Option D, the joint committee would have a significantly greater role in decision making. This makes the effective operation of the joint committee more critical.

For some of the smaller councils there may be viability issues resulting from the removal of functions. Some councils will be impacted because transport engineers support other services. For all councils there may be an impact on overall planning capability resulting from the transfer of some senior staff.

Because Wellington Transport covers all modes, scaling back to a sub-set of territorial authorities would be much more problematic than in the case of Wellington Roads. The specific issue of the inclusion of the Wairarapa Councils is discussed in Section 4.7 on page 78.

Table 28: Assessment of Option E against investment objectives

Investment objective	Assessment of impacts
Improve alignment and integration of transport activities across the region	The option improves alignment and integration between strategic transport planning, local roading, public transport, and state highways. It gives a stronger emphasis to regional objectives in decision making.
Build capability to manage transport planning and service delivery – both locally and regionally	The option provides for significant improvement in the capability to manage the planning and delivery of roading, cycleways and paths. The option potentially provides for improvement in public transport and strategic transport planning capability through improved access to wider transport expertise. However, any such impact is likely to be minor and it should be noted that neither has been noted as a particular issue.

Table 29: Assessment of Option E against critical success factors

Critical success factor	Assessment of impacts
Local and regional voice	The option gives greater emphasis to regional voice over local voice. Consultation processes with local communities would remain similar to present. Councillors input into decision making would be less direct.
Effective governance	A critical issue regarding governance is the extent to which councils would be able to give effective direction to the CCO. Because councils would still approve the same plans and approve service delivery budgets there would be minimal impact on this ability. There are benefits in having a board to hold to account for performance – though this is partially contingent on owning councils having an effective mechanism to coordinate their oversight. There is a risk that owning councils have different perspectives as to what is appropriate for CCO management, and administration costs would need to be agreed centrally (as opposed to direct service delivery costs which would be met by each council). A full discussion of governance and voice issues for this option is given on page 69 below.
Achievability	The option would involve significant disruption because capability from the councils would be transferred to a new entity. This would be particularly disruptive for councils with major projects underway, such as Kāpiti Coast District Council and the expressway integration.



Critical success factor	Assessment of impacts
	<p>This option is not achievable under current legislation. Under the proposed amendments to the LGA (see Better Local Services Reforms on page 35 above) it could be achieved by agreement amongst the councils of the region or by the LGC.</p> <p>The economic case workshops suggested that there may be significant concerns from councils about the option because of the impact on local and regional voice. This view would need to be confirmed by the individual councils. Even if councils were to agree in principle to the value of a CCO, there is a risk that there may be failure to reach agreement on ownership shares and voting rights. Given the greater powers of the CCO, this risk is relatively high compared with Option D.</p> <p>If the amendments to the LGA are enacted as expected, then it is likely that no additional legislation would be required.</p> <p>No significant other barriers have been identified.</p>
Long-term value for money	<p>The option supports long-term value of money through:</p> <ul style="list-style-type: none"> making it easier to prioritise the highest value projects across the region and modes potential economies in service delivery through providing more options regarding contracting arrangements.
Alignment with other council functions	<p>Formal and informal mechanisms (as suggested in Table 20) work to ensure alignment with other council functions. In practice, it will be important that Wellington Transport's operating model provides for appropriate levels of engagement with individual councils.</p> <p>While these mechanisms should be sufficient to ensure alignment, there remains the point that greater emphasis on regional transport objectives will lead to some changes to decisions in practice.</p>

4.6 Governance and accountability to the community

4.6.1 Introduction

The assessment of short-listed options has included consideration of several critical success factors. Two of these have been identified as being very important:

- ensuring there is appropriate regard to community voice (local and regional) particularly when it comes to determining the strategic direction for road and public transport services and how these contribute to wider land use and development plans and strategies and to prioritising between projects that are competing for scarce funds
- ensuring there is effective governance in place so that the council controlled organisation (CCO) meets the expectations of its council shareholders and communities and so that the councils are accountable to their communities for the performance of the CCO.

Both of these critical success factors are viewed by councils as taking on even greater importance in the context of Options D and E, which involve the formation of a roads CCO or a transport CCO respectively.

Feedback from workshops conducted as part of the development of this business case was clear: unless sound arrangements for effective governance exist and unless there are mechanisms in place



to ensure that community voices are heard, the CCO options are unlikely to achieve all of the benefits that are capable of being delivered. Examples of the range of issues raised in connection with the CCO options include:

- less ability for councils to influence, or align, transport's contribution to wider community goals and objectives (eg around land use development, economic growth, environmental and social objectives)
- when issues or problems arise in relation to a CCO's activities, the public and media hold elected members to account and not the CCO board of directors
- the potential for a weakening of connections with the community and diminished responsiveness to community needs and priorities
- a lack of clarity regarding the allocation of decision making rights (eg what decisions would the CCO have responsibility for and which would continue to vest with the councils) and concerns that decision making might be devolved too far to the CCO to the point where councils lose sufficient ability to influence decisions in favour of their ratepayers
- the importance of CCO board appointments and how these are determined.

The challenge is to make the CCO (Option D or E) work well. Good governance and strong accountability to the community (which includes responsiveness to community voice) are vital in this respect. Loss of responsiveness to local communities poses considerable reputational risks for councils and can severely damage relationships between councils and communities.

Below, some possible approaches to meeting the need for effective governance and responsiveness to community voice are described. These build on:

- existing requirements under the LGA
- changes that have been proposed as part of the Local Government Act 2002 Amendment Bill (No 2)
- good governance principles and practices.

The approaches are described in two main parts. The first of these focuses on the governance of the CCO. Secondly, the mechanisms for ensuring community voice is heard are described.

4.6.2 Mechanisms for ensuring effective governance

Governance matters. There are few who would argue with the proposition that effective governance is an important contributor to organisational performance. Good governance is a key part of aligning the actions of agents (the CCO) with the interests of principals (the councils). Ineffective governance opens the door to poor alignment and under-achievement of desired outcomes.

CCOs operate in an inherently complex environment. They must meet the expectations of the communities within which they operate as well as meeting the needs of their owners (i.e. councils).

In the case of the road and transport CCO options, there is, arguably, a greater than normal governance challenge. Transport is something that most people in the community have an opinion on because it affects almost everyone's daily life and most people utilise transport services (roads and/or public transport) on a regular basis. The CCO, if established, would operate in a highly political



environment and would be accountable for a substantial community asset (roads and public transport infrastructure) which, in the Wellington context, are valued at around \$4 billion.

All of these factors increase the need for effective governance and, at the same time, make the goal of effective governance all the more challenging.

The main features of the governance arrangements proposed for Options D and E are summarised as part of Table 48 on page 116 in Appendix 3. In practice there are four main mechanisms through which councils can seek to ensure effective governance of a newly formed Wellington Roads or Wellington Transport CCO.

1 Joint committee of shareholders

A CCO under Option D will have multiple councils as owner (although not necessarily all of the district and city councils, at least at the outset). Under Option E, the CCO could have all district and city councils plus the regional council as owners, and NZTA as well.

Good governance is unlikely to be well served if the board of the CCO has to deal with each of the owners separately from the others. A more joined-up approach is needed that brings the owners together into a common forum. This is not an issue specific to roads/transport. The same situation exists, for example, in respect of Wellington Water.

The mechanism for achieving a joined-up approach is the establishment of a joint shareholders committee. The Wellington Water Committee serves this purpose in respect of Wellington Water. The terms of reference for that committee include a range of governance oversight responsibilities. The committee discharges those responsibilities by:¹¹

- receiving and considering the half-yearly and annual reports of Wellington Water Limited
- receiving and considering such other information from Wellington Water Limited as the committee may request on behalf of the shareholders and/or receive from time to time
- undertaking performance and other monitoring of Wellington Water Limited
- considering and providing recommendations to the shareholders on proposals from Wellington Water Limited
- providing co-ordinated feedback, and recommendations as needed, on any matters requested by Wellington Water Limited or any shareholder
- providing recommendations to the shareholders regarding the relevant network infrastructure owned by each shareholder
- providing recommendations to the shareholders regarding water conservation
- agreeing the annual Letter of Expectation to Wellington Water Limited
- receiving, considering and providing agreed feedback and recommendations to Wellington Water Limited on its draft Sol
- receiving, considering and providing recommendations to the shareholders regarding Wellington Water Limited's final Sol

¹¹ http://www.gw.govt.nz/assets/council-reports/Report_PDFs/2015.383a3.pdf



- agreeing when shareholder meetings, or resolutions in lieu of shareholder meetings, are required, without prejudice to shareholder and board rights to call meetings under Wellington Water Limited's constitution
- seeking and interviewing candidates for Wellington Water Limited's board as needed and approving director appointments and/or removals
- approving the remuneration of directors of Wellington Water Limited
- monitoring the performance of the board of Wellington Water Limited
- providing recommendations to the shareholders regarding changes to these terms of reference, the shareholders agreement and the constitution of Wellington Water Limited.

A joint shareholders committee would be needed to provide a central focal point for exercising oversight over a roads or transport CCO. The Wellington Water example provides a useful precedent in this respect and, as indicated above, the committee would have a key role to play in respect of the three other main mechanisms (described below) through which effective governance is achieved.

For Option E, where they potentially have common membership, there is a question as to whether the roles for the joint shareholders committee could be or should be incorporated into the RTC (and modify the roles of the RTC accordingly to include, for example, director appointments). An argument in favour of doing this is that it avoids creating new structures and the RTC is a well-established mechanism for bringing multiple views together into one place.

However, there are also arguments the other way. The RTC has a prioritisation role, but the role of the joint shareholders committee would go beyond this to also including giving direction to the CCO as to the sorts of transport options it should be looking at and developing and submitting into the RLTP process. The roles of giving direction and, at the same time, prioritising between competing demands do not sit easily together. They would be better kept separate in which case the joint shareholders committee would be distinct from the RTC.

As set out on page 76, there are several issues relating to governance that would be need to resolved in a detailed business case, should a decision be made to consider options further. Agreeing the composition and voting rights of the joint shareholders committee would be potentially time consuming.

2 Constitution

A CCO must act in accordance with its constitution. It is normal practice for councils to prepare the constitution (or operating rules) for the CCOs they own. In the case of the transport CCO (Option D or E), the owning councils (and NZTA in the case of Option E) would need to jointly agree this and the joint shareholders committee would be the mechanism for facilitating this.

The constitution is the document through which the rules governing the actions of the CCO are set. The constitution is about the operation of the organisation as an entity (i.e. the mechanics of the entity) rather than about the operations of the business, its performance objectives or its deliverables as such. In general, the constitution sets out the rights, powers, duties, and obligations of the CCO, its board of directors and its shareholder/s.

The constitution of a CCO normally also sets out the powers of directors. However, these are usually described in general terms and typically will cross reference relevant legislation (e.g. the Companies



Act if the CCO is a company, and the Local Government Act) and the So which is discussed further below in the context of monitoring. Accordingly, although the constitution is an important element of the machinery of effective governance, the constitution generally will not define with any degree of specificity, what type of decisions need to be referred to the joint shareholders committee (assuming there is one) or councils, and/or what sort of controls councils can use to ensure the CCO operates in alignment with council objectives. The Sol, which is discussed below under the heading of monitoring and accountability, is better suited to these purposes.

3 Director appointment

The appointment of directors is an important role for shareholders because it is one of the principal means through which they can influence the performance of a CCO. Section 57 of the LGA requires councils to have objective and transparent processes for director appointments. Further, the legislation requires that somebody can only be appointed as a CCO director if they have the skills, knowledge or experience to guide the organisation (given the nature and scope of its activities) and contribute to the achievement of the objectives of the organisation.

There are some important principles relevant to director appointments which are implicit in the legislative requirements outlined above. These include:

- effective governance is likely to be best achieved if the board comprises people with complementary skills and experience
- appointments should be merit based (ie based on the skills and experience candidates bring to the board table rather than reflecting roles they may perform in other capacities)
- the directors' role is to govern and not to advocate on behalf of specific councils or constituencies
- directors need to be of independent mind if they are to be effective in challenging each other and the executives of the CCO.

The joint shareholder group can manage the director nomination process, be involved in candidate assessment and preparing recommendations on appointments for consideration by the councils.

Given there are multiple councils involved, and assuming it would be inefficient for every council to each have their "own" director on the board, members of the joint shareholders committee will need to exercise a vote when it comes to approving board nominations. This raises the issue of the voting rights conferred on each council. There are options in this respect.

One option is to allocate voting rights in proportion to the size of the council. Proxy measures for size can take many forms including, for example, population or the number of ratepayers, the value of assets managed by the CCO and rating base. Another option is to adopt the principle of one council one vote (implying joint and equal owners when it comes to director appointments). This is the model used, for example, in the case of Wellington Water. The Wellington Water Committee has, among others, the role of seeking and interviewing candidates for Wellington Water's board and approving director appointments (and removals). The committee operates on a one council, one vote basis. Under its constitution, the committee strives to make all decisions by consensus but each member of the committee has an entitlement to vote and each member's vote ranks equally with all others (ie there is no proportionality involved).



4 Direction setting, monitoring and accountability

There is a requirement under section 65 of the LGA on councils to monitor the performance of their CCOs. Monitoring is a fundamental part of holding the CCOs to account and of the accountability of councils to their communities. Monitoring provides assurance that the CCO is meeting the objectives set for it by its owners. The way in which monitoring is conducted can have a significant influence on the effectiveness of the relationship between the CCO and its owners and the effectiveness of the governance exercised in respect of the CCO.

The formal and main elements of the monitoring regime are well established. They include:

- the Sol (a statutory requirement)
- a letter of expectations, which tends to focus on articulating the owners' priorities that they want the organisation to focus on (not mandatory but relatively commonplace)
- a shareholders' expectations manual which sets out the behaviours and performance expected from the CCO and its owners (the manual tends to be enduring rather than time specific as tends to be the case with the letter of expectation)
- an annual report including audited financial statements (a statutory requirement) plus a half-yearly report (also a statutory requirement)
- other reporting as may be agreed between the CCO and its owners (not mandated but often provided for in Sols).

There are also formal requirements on councils as owners of CCOs. They must:

- include significant objectives and policies for ownership and control of CCOs in LTPs (and any significant changes to these in annual plans)
- include in their annual report a comparison of actual against expected CCO performance.

In addition, councils may include forecast financial statements for their CCOs in LTPs and annual plans.

The less formal, but nevertheless very important, aspects of the monitoring regime can include one or more of:

- meetings between the CCO and councils at chair/mayor and chief executive levels
- involving CCOs in council strategic planning processes
- reporting over and above the statutory requirements.

Statement of intent

The Sol is a key part of the monitoring and accountability machinery. It can be used to address many of the issues in relation to governance and community voice that have been raised by councils. In particular, it can be used as a mechanism for:

- determining the scope of decision making that is within the roles and responsibilities of the CCO and the types of decision that need to be referred to the councils for decision
- requiring the CCO to give effect to, or have regard to, councils' LTPs and, more generally, articulating any priorities the councils have in terms of how they expect the board to manage the CCO (eg requirements to collaborate with councils on a particular issue)



- stipulating requirements to produce long-term infrastructure strategies and service delivery plans (if any different to statutory requirements)
- setting out the nature of the briefings which the shareholding councils might require from time to time over and above the formal quarterly or half-yearly reporting provisions which are normally included in the Sol
- describing the councils' expectations regarding how the CCO will engage with the communities it serves
- placing requirements on the CCO to adopt a community charter and performance targets in respect of user and community-related matters.

The issue of where decision making rights should lie has arisen as an important issue during the course of workshops held as part of the process of developing this business case. Ultimately, the allocation of decision making rights is something for the councils to agree, but a few principles, and regard to existing practices, can help with determining an effective allocation.

- In general, decision making should be devolved as far as possible and to those that have the best information and incentives to make those decisions.
- Consistent with the first point, it is normally expected that operational decisions would be the preserve of the CCO.
- Decisions that need to be referred to council(s) should be relatively few and strategic in their nature. Examples can include material changes to the nature or scope of the CCO's activities, major acquisitions or disposals, and major projects.

Shareholders agreement

The Sol is a key part of establishing effective governance between the councils and the CCO. In addition, effective governance rests on having mechanisms by which the shareholders can come together and work with one another, and the CCO board, to make the CCO successful. The Sol is not the appropriate document for spelling out coordination arrangements between the shareholders because the Sol is the directors' document. Rather, a shareholders agreement is needed.

The shareholders agreement can be used to describe:

- the process and criteria for selecting directors for the CCO
- how to deal with shareholding matters such as:
 - dealing with requests for increases in capital or other financial matters that affect the councils
 - adding other councils as an owner of the CCO (or dealing with the withdrawal of an existing council)
- the allocation and exercise of voting rights, and this can include rules regarding the level of shareholder support needed – such as, for example, simple majority for most decisions, 75 percent (or higher) for major decisions and so on
- the nature of the monitoring arrangements, including who would have responsibility for managing those
- the process by which councils provide feedback on and ultimately agree Sols submitted by the CCO and the process by which they provide feedback regarding the performance of the CCO



- the process by which letters of expectation and shareholders expectations manual are developed and agreed.

Good governance is just as much about the way in which the owners interact as it is about the interface between the CCO and its owners.

5. Funding and budgetary control

The fee for service model proposed for Wellington Roads would give councils significant budgetary control.

Budgetary control has been an important lever for Auckland Council over Auckland Transport. It effectively gives control over all major investments. With Wellington Transport, budget approval will give councils similar control. However, it will be exercised through the joint committee. This is potentially problematic where councils have radically different views regarding key financial matters.

6. Governance issues to be resolved in a detailed business case

Should either of Options D or E be selected for further consideration, the key features of the governance arrangements described above (and summarised as part of Table 48 on page 116 in Appendix 3) would be confirmed as part of a detailed business case.

The detailed business case would also need to resolve a number of specific matters, some of which are potentially contentious:

- **Shareholding percentages:** likely to be a compromise between one council-one vote and voting based on size metrics. Several size metrics are possible, though could be complicated.
- **Composition of joint committee of councils/participating agencies** and its voting rights (if different from shareholding percentages). Consideration would also have to be given to how the committee works in practice, particularly in balancing regional and local issues.
- **Resolutions requiring a super-majority** – normally relate to high-level constitutional changes.
- **Size and composition of board.**
- **Funding model and allocation formula and budgetary processes** – for overheads of Wellington Roads or all costs of Wellington Transport. This would include further consideration of the funding model sub-options described on page 61.
- **Budgeting and planning arrangements.**

4.6.3 Community voice

There are concerns that the establishment of a CCO would lead to a situation where there was less responsiveness to, and account taken of, community needs and preferences. For several reasons, such concerns may be more perception than reality and, in any event, various mechanisms can be put in place to guard against the risk that such perception becomes reality. However, community voice would, in some circumstances, extend beyond local to regional, so there would be an important change in the dynamics.



For several reasons, a CCO can be expected to have strong incentives to be highly responsive to community needs and preferences.

- There are well established processes and mechanisms for holding CCOs to account for their performance. Performance requirements can include meeting the needs of communities. The stronger the level of accountability, the greater the incentives on the CCO to achieve the objectives set for it.
- A roads or transport CCO has a strong focus on these modes that is not diluted by having to focus on other areas of activity. The single focus nature of the CCO is likely to strengthen responsiveness to the road/transport needs of the communities it serves.
- A roads or transport CCO is more likely to be able to attract and retain capabilities, including specialist capabilities (e.g. accessibility for disabled people), which means the CCO has more capacity, and ability, to assess and respond to community preferences.

The experience with Auckland Transport suggests that having an appropriate operating model can be helpful in ensuring good engagement with communities.

Even if the power of incentives is somehow compromised, there are various other steps that can be taken to strengthen responsiveness to community views and preferences, several of which overlap with points made above in relation to the Sol. These can include:

- requiring the CCO to give effect to the LTPs of councils and/or the RLTP
- requiring the CCO to prepare, and then obtain the agreement of their owners to, 30-year infrastructure strategies and 10-year service delivery plans (as provided for in proposed legislative amendments)
- requiring the CCO to consult with councils on specific issues
- requiring CCOs to consult with communities as part of the development of their long-term infrastructure and service delivery plans (it is likely the CCO would do this anyway)
- entering into SLAs between the councils and the CCO (this applies more to Option D).

The last of these, in the case of Option D, is very powerful. It effectively gives councils the same level of control over decision making as at present.

In Option E, community input into decision making would be largely unchanged, but councillors' input would be through the joint committee of shareholders (at the regional level) rather than at the city or district level.

The joint committee of shareholders would set the direction and strategy for transport after consultation with the public. The CCO boards would then make decisions to achieve the outcomes set by councils. The joint committee of shareholders would also approve the budget of the CCO. This is a powerful tool that would give the committee control over decisions on major new investments.

As at present, community influence on decision making would primarily be at the planning stage, rather than when operational decisions are made. Operational decisions currently made by council officers would become the responsibility of CCO staff.

There are opportunities to strengthen engagement in the planning stages, for example:

- a comprehensive community engagement process to develop the RLTP



- an annual network implementation plan, developed by the CCO, to show what project programming is proposed for the year ahead and how the community will be consulted on those projects.

However, a key aim of Option E is to strengthen regional integration and prioritise regionally important transport issues. The trade-off under this option in cases where local priorities are in tension with regional ones, is the potential for decisions to put greater emphasis on regional matters than would be the case under existing arrangements.

What this means in practice

Based on what is set out above, and using the example of a proposed cycle/pathway (and T2 lane) on the Hutt Road (north of the end of Thorndon Quay), aspects of the process for progressing this initiative under Option E could include one or more of the following:

- comment in the letter of expectations from the joint shareholders committee to the CCO indicating that this is viewed as being a priority and should be reflected in the CCO's infrastructure plan
- requirements placed on the CCO to consult with the councils whose constituents would be most affected by the development (this would include WCC and neighbouring councils who are likely to have constituents that would use the cycleway)
- a requirement on the CCO to bring an investment proposal to the joint shareholders committee before committing the project to the RLTP – this would give the owners the opportunity to provide input to the design of the proposed cycle/pathway taking into account consultation that councils may initiate with their constituents
- requirements on the CCO to issue a public consultation document on a preferred option or short-list options.

All of these mechanisms directly or indirectly enable community voice to be heard and factored into the design and development of the cycle/pathway.

4.7 Transport options and the Wairarapa

The LGC is working with the Wairarapa community on options to strengthen the Wairarapa's local government arrangements, to find an option that the community supports.

Three broad options are being discussed with the community:

- *No change.*
- *Wairarapa District Council:* The three existing councils (Masterton, Carterton and South Wairarapa District Councils) become one district council (Wairarapa District Council). There are various sub-options as to how the new district council engages with GWRC.
- *Wairarapa Unitary Council:* The three existing councils become the Wairarapa Unitary Council, which takes over all regional council responsibilities for the Wairarapa.

Which of these options is chosen impacts on how the transport Options B–E could involve the Wairarapa. In this regard though, the 'no change' and Wairarapa District Council options are similar. The impacts are summarised in Table 30.



Table 30: Transport options and the Wairarapa

Transport Option	Wairarapa Options	
	No change or Wairarapa District Council	Wairarapa Unitary Council
B: Non-structural	The option would impact the Wairarapa in the same way that it impacts other councils.	To the extent there are statutory changes there may be compliance impact on the Wairarapa. The practical effect is likely to be slight as the changes principally affect the interface between the regional and local councils.
C: Pooled	<p>It is assumed that the Wairarapa would participate, as the benefits of this option are likely to apply similarly as for other councils. However, this would need to be tested when a final decision on which functions to include had been made.</p> <p>The option would not be significantly less viable without participation of the Wairarapa.</p>	<p>It is assumed that the Wairarapa would not participate as it is no longer part of the region.</p> <p>However, it is possible that the unitary council could participate either as a shareholder, or through a SLA.</p>
D: Wellington Roads	<p>It is assumed that the Wairarapa would not participate because of the physical separation and different nature of the roading issues.</p> <p>However, the option could relatively easily be extended to include the Wairarapa.</p> <p>There is a slightly stronger case to extend in the no change option compared with the district council option – as roading capability in the Wairarapa will remain fragmented. The difference is minor though, given the existing cooperation between CDC and MDC.</p> <p>Including the Wairarapa would increase the potential benefits of the option.</p>	<p>It is assumed that the Wairarapa would not participate because of the physical separation and different nature of the roading issues.</p> <p>However, it is possible that the unitary council could participate either as a shareholder, or through a SLA.</p>
E: Wellington Transport	<p>It is assumed that the Wairarapa would participate in respect of public transport but not roading due to the different nature of local roads. However, excluding roads creates awkward ownership, governance and funding arrangements.</p> <p>Possible alternatives include that the Wairarapa:</p> <ul style="list-style-type: none"> • does not participate at all – in which case alternative arrangements would need to be made for public transport • participates fully, which would simplify governance and funding arrangements and provide further benefits of integration for strategic transport planning. 	<p>It is assumed that the Wairarapa would not participate as it would no longer be part of the Greater Wellington Region.</p> <p>It is possible that Wellington Transport could provide public transport under a SLA. This would need to be funded by the unitary authority.</p> <p>The decision to form a unitary authority would have a significant impact on public transport under any option:</p> <ul style="list-style-type: none"> • Wairarapa public transport subsidies would, as a default, be funded from Wairarapa rates and not Greater Wellington regional rates • commuter services to Wellington fall across two authorities.

4.8 Overview of economic and financial impacts

Options B to D have a range of impacts compared with the status quo. The economics of these are summarised in Table 31 overleaf. Table 31 is intended to cover net impacts. There are additional financial impacts where activities currently carried out by councils are transferred to a CCO – as is the case in Options C, D and E. These additional financial impacts are considered in the financial case.



Table 31: Overview of economic and financial impacts resulting from Options B to E

Category	Description	Comment	Application to Options
Benefits of improved outcomes	<p>The benefits of any improved transport outcomes resulting from changes to transport arrangements.</p> <p>These cover a range of dimensions potentially including:</p> <ul style="list-style-type: none"> • impacts on the regional economy • social and cultural benefits • environmental benefit • quality improvements such as reliability, safety and resilience. 	<p>Improved outcomes come from better alignment of decisions with outcomes, and from improved timeliness of decision making.</p> <p>In economic terms, potentially the largest impact, but impossible to quantify as:</p> <ul style="list-style-type: none"> • outcomes are not currently quantified and may vary with time • one cannot say with certainty what alternative transport planning and management decisions would be made under alternative options. 	Applies to all Options B to E. Potentially relatively larger for D and E compared with B and C.
Cost of transition	The costs of any structural change.	Estimated costs of transition are included in the financial case. They are subject to a high degree of uncertainty with exact costs depending on detailed design and operating decisions.	Does not apply to Option B.
Changes to general planning, administration and oversight costs	Changes to the costs of activities currently primarily carried out by council staff. Excludes transport infrastructure development, operations and maintenance.	<p>Likely to be small and assumed to be nil in this indicative business case.</p> <p>For general operating costs, there may be a potential saving due to economies of scale. However, there could also be an offsetting increase in costs due to:</p> <ul style="list-style-type: none"> • investment in greater capability • dis-economies for residual council functions (for example where a senior engineer becomes responsible for a reduced set of assets). <p>The exact costs are dependent on detailed design decisions.</p>	<p>Applies to all options, but for Options B and C impact is likely to be restricted:</p> <ul style="list-style-type: none"> • for Option B impact is likely to be administrative costs of meeting additional compliance obligations • for Option C impact is likely to be mainly the cost implications of an increase in the overall level of capability.
Commercial savings from transport infrastructure development, operations and maintenance	Savings to the cost of contracts for infrastructure development and maintenance (and also operations to the extent that this is outsourced).	<p>Savings primarily arise from having more contracting options and are considered further in the commercial case.</p> <p>Such savings will only be known when any new arrangements are actually tested in the market, but are potentially significant.</p>	Applies primarily to Options D and especially E. May be some benefits under Option C resulting from standardisation across the region.
Other efficiency savings	Savings from reduced transaction costs relating to decision making. Direct benefits to transport agencies and other stakeholders.		Applies to Options C, D and E.



4.9 Trade-offs between the options

Table 32 below schematically summarises the trade-offs between the options. Progressing from Option A to Option E provides potentially greater benefits but potentially greater challenges to implementation. The implementation of Options D and, to a greater extent, E could be quite disruptive.

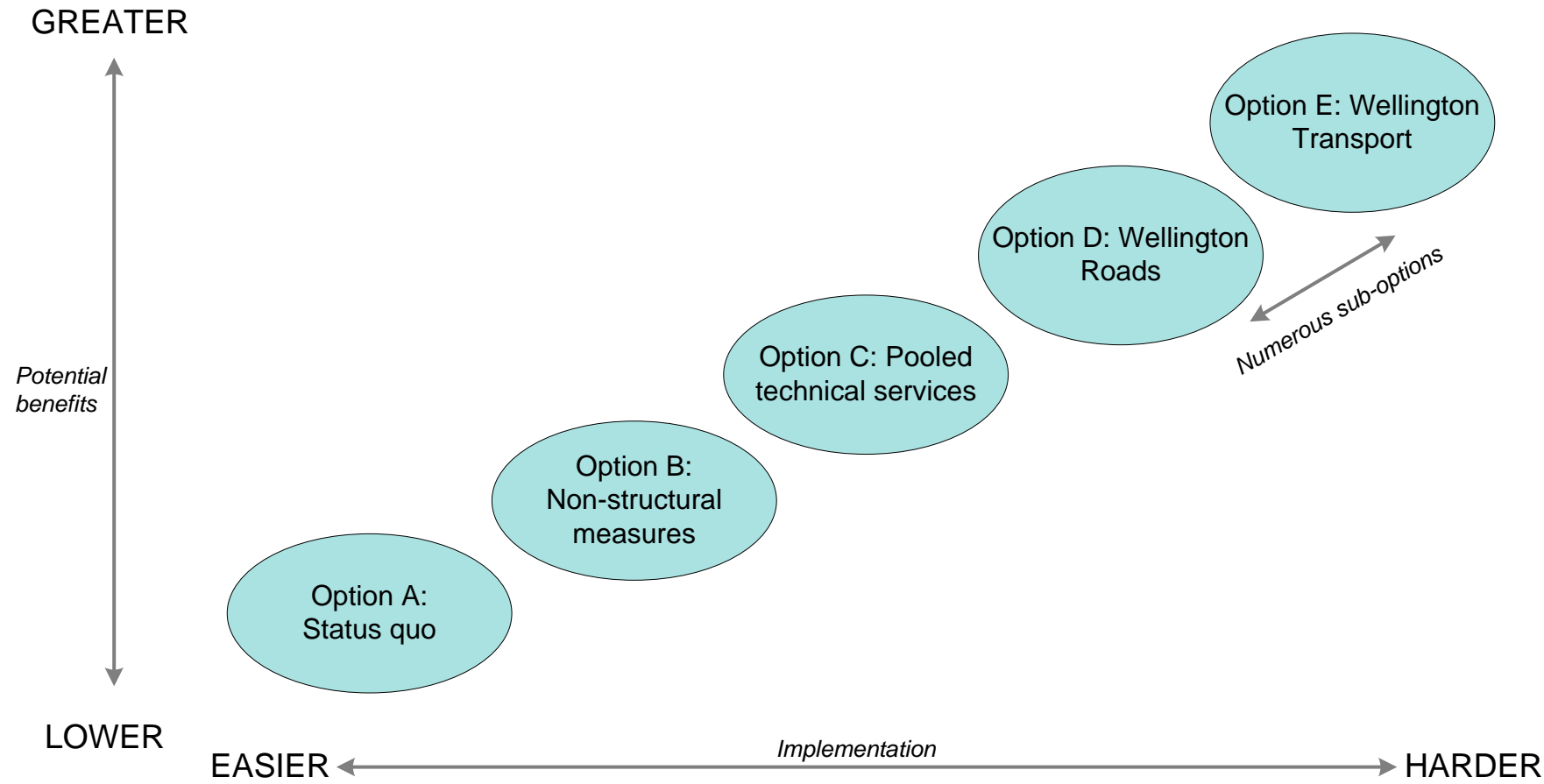
Neither the benefits nor the challenges are one-dimensional so the diagram is inevitably a simplification. The presentation of the options in a straight line is in keeping with the instruction to the consultants not to identify a preferred way forward. It should not be taken as an assertion that cost-benefit trade-offs are the same for each option. Depending on stakeholders' priorities, the options will vary from the straight line trend shown. As noted, the purpose of this indicative business case is to provide the basis for a decision on which options merit further consideration and analysis.

Several points can be noted:

- As noted in Table 19 on page 55, there are a number of dimensions by which Option E is different to Option D. The most significant of these is that Option E features a regional approach to funding. The governance implications of this significantly add to the challenges of Option E.
- If the necessary statutory changes for Option B can be secured, it faces very few barriers to implementation.
- Option C also has relatively few barriers to implementation – there is a significant step up in moving from Option C to D.
- The greater complexity of Options D and E makes it hard to assess the options – particularly at this stage of an indicative business case.



Table 32: Trade-offs between options (schematic)



5 COMMERCIAL CASE

5.1 Transactions in setting up each option

This section outlines the broad approach that the councils would need to follow to coordinate or merge their transport services under the identified options. This includes the transaction structure and procurement matters.

Option B: Non-structural measures

Under this option there are unlikely to be any actual transactions required as the option is focused largely on better coordinating mechanisms.

Option C: Pooled planning support

The establishment of this option will require the pooling of certain specialised staff and associated equipment. There will be no transfer of roading, land or other substantial council assets. These staff and associated equipment will need to sit within a legal entity of some form. This could be being hosted by one council under a shared services arrangement or a jointly owned CCO or other council controlled organisation. Key transactions would be:

- Formation of the legal entity (if not hosted in one council).
- Appointment of a board or technical oversight committee by a joint shareholders committee or forum.
- SLAs agreed with each council. These would set out service standards and processes to agree priorities, work programmes, budgets and performance monitoring arrangements.
- Intellectual property and related assets (not land or roads) sold or leased to the new entity or hosting council.
- Relevant staff transfer to the new entity or hosting council.
- Councils contribute funds on a pro rata basis to cover establishment and initial operating costs. This could be in the form of loans or equity contributions.

Option D: Wellington Roads

The Wellington Roads option requires the establishment of a new CCO entity owned by all the councils. This could take a number of forms, but subject to tax and legal advice would most likely be a company or limited partnership. While most assets will remain with councils a much greater proportion of council staff will transfer to the CCO. This together with the wide scope of roles being undertaken will require a fully-fledged governance and management structure. Key transactions would be:

- establishment of a joint shareholders committee or forum
- formation of the legal entity
- appointment of a board by the joint shareholders committee or forum
- SLAs agreed with each council – these would set out service standards and processes to agree priorities, work programmes, budgets and performance monitoring arrangements



- intellectual property and related assets (not land or roads) sold or leased to the CCO in consideration for shares in the CCO
- relevant staff transfer to the new entity or hosting council
- transfer of existing service contracts.

Option E: Wellington Transport

The structures and establishment transactions required for this option are very similar to those required for Option D: Wellington Roads. The differences principally involve:

- Transfer of infrastructure assets.
- Bringing in GWRC as a shareholder or partner and need to transfer public transport operating contracts to the CCO.
- Bringing in NZTA. This could involve NZTA becoming a shareholder in the CCO, having a board appointment, and/or some form of joint venture or co-management arrangement. The alternatives would need to be explored as part of a detailed business case.

5.2 Impact on commercial arrangements

Much of the work involved in investigating changes to, designing, constructing, improving and maintaining roads is contracted out to third party consultants and contractors. None of the main options discussed in this business case are likely to have any adverse impact on these arrangements. At a minimum, and subject to any limitations on the ability to assign, contracts for services could simply transfer from the councils to the CCO. The market can be expected to continue to have interest in performing road-related work.

In all likelihood, the transfer of road responsibilities to the CCO (as in Options D and E) would open up opportunities to capture efficiencies by, for example, combining contracts together, adopting common and standardised procurement practices, reducing the number of contractual relationships that need to be maintained and so on. From the market's perspective, this might confer benefits in terms of dealing with one rather than multiple commissioning agents and adopting standardised tender approaches and contractual terms (leaving aside any impact on the volume and timing of work).

The actual benefits would be assessed in a detailed business case and would be subject to a degree of uncertainty until tested in the market. However, it is possible to envisage savings of the order of 1–2 percent of infrastructure costs.

Under Option E, contractual responsibilities would shift from GWRC to the CCO. All other things being equal, this would have no lasting impact on the market other than it would be dealing with a different commissioning agent. In the short term, new relationships between the CCO and providers need to be developed but that is a transition issue.



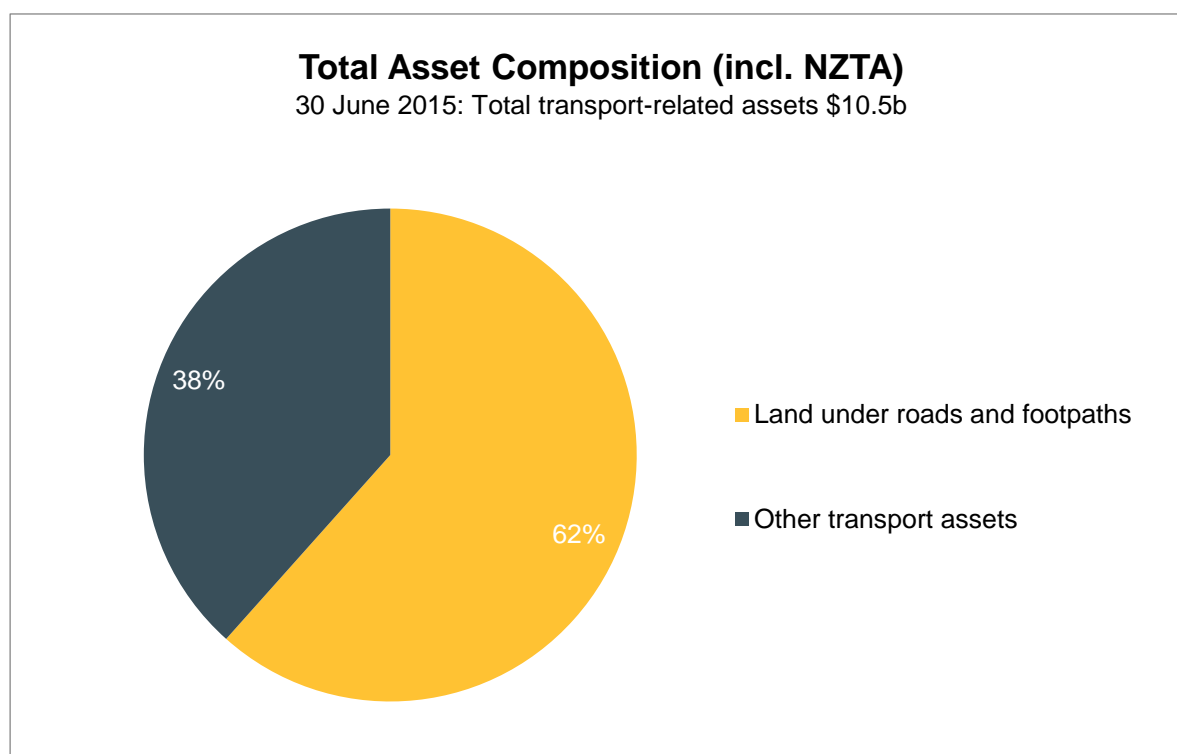
6 FINANCIAL CASE

6.1 Financial summary of present arrangements

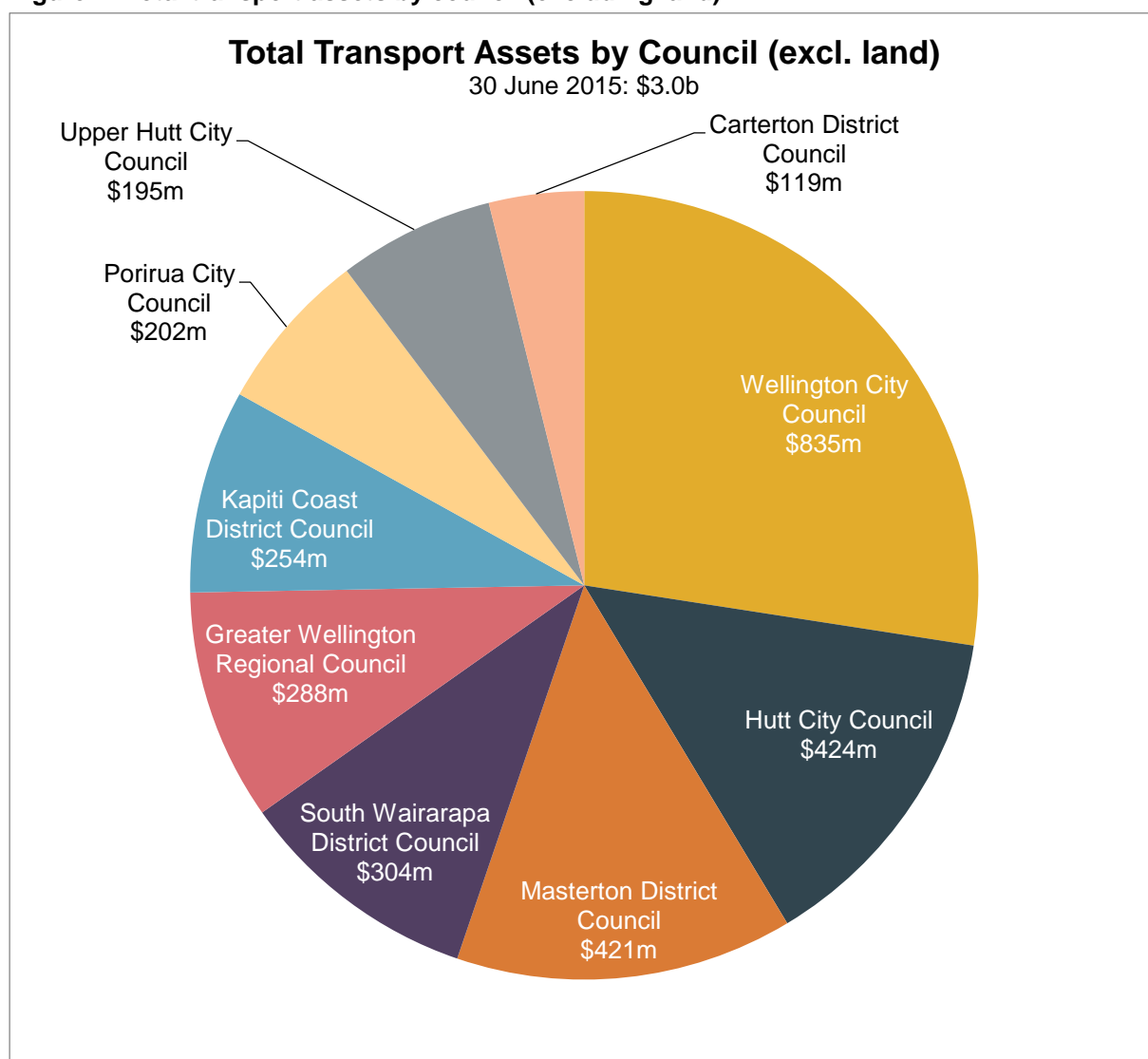
6.1.1 Value of assets

Transport assets represent the accumulation of major ongoing investment by councils and NZTA over many years. The total value of transport-related assets owned by the councils and NZTA is approximately \$10.5 billion (with NZTA assets of \$3.0 billion). The majority of this value, however, is comprised of the land underlying the roads, cycleways and footpaths. While land is assigned a value for accounting purposes, in practice the great majority of it will never be sold. In addition, it does not incur maintenance or renewal costs; however, from time to time new land is acquired or some sold. The financing of transport is largely about the non-land assets. Figure 3 below outlines the split between the land and other components of the total assets.

Figure 3: Composition of total transport-related assets



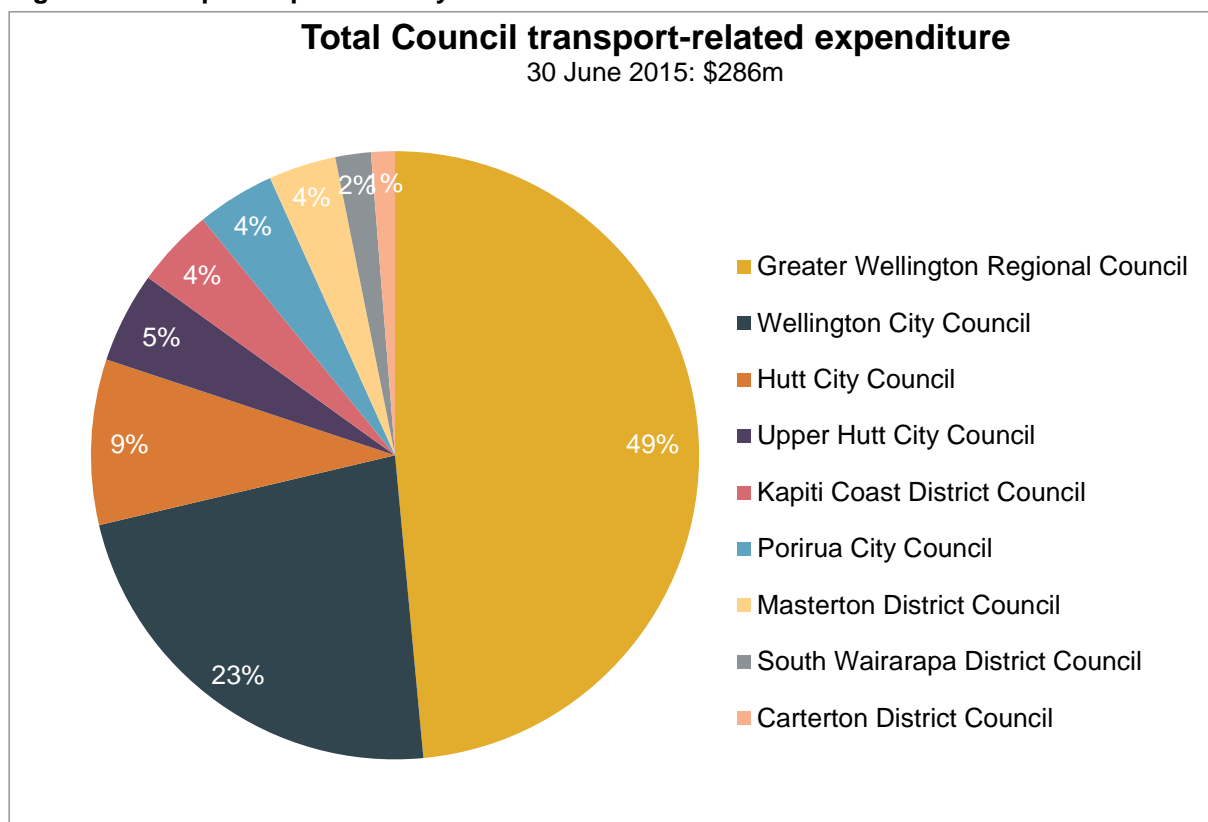
Excluding the land component, the transport assets (valued at depreciated replacement cost) owned by each council as a percentage of the overall total are shown in Figure 4. Clearly population size and urban density are big influences of the transport infrastructure for councils. A major component of GWRC assets is metro rail rolling stock.

Figure 4: Total transport assets by council (excluding land)

6.1.2 Expenditure by region and activity

The total transport-related operating and capital expenditure across all councils in 2015 was approximately \$286 million. The split between the councils is shown in Figure 5 below. The 2015 figures have been used as these are the latest available actual figures across the councils (we note that most councils have provided forward-looking estimates of costs in their long-term plans). A summary of these estimates can be found in Table 30 and Table 31 in Appendix 1).



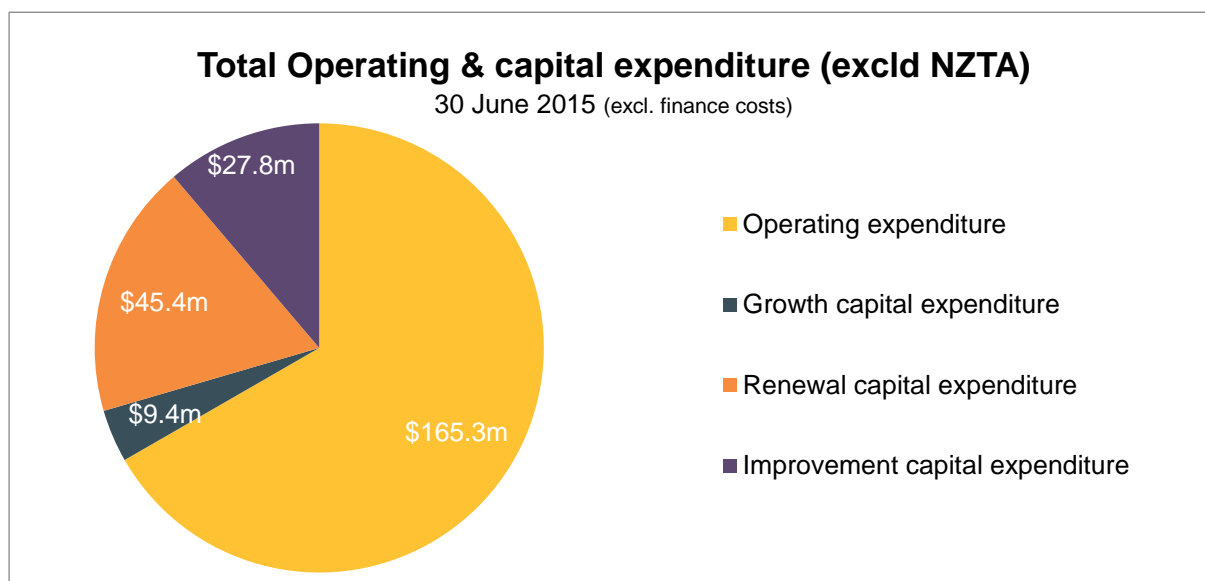
Figure 5: Transport expenditure by council

We note that the above expenditure relates solely to the operating and capital expenditure for the year ending 30 June 2015. Future expenditure forecasts show that the councils will have relatively consistent expenditure, with the exception of GWRC which has large capital expenditure on public transport in the next few years. Table 30 and Table 31 in Appendix 1 provide more information on the forecast expenditure of the councils.

Operating expenditure was primarily made up of payments to staff and suppliers, with finance costs and internal charges making up the remainder. Capital expenditure was mainly comprised of asset renewal costs, with the remaining costs related to growth and improvement capital expenditure and financing costs.

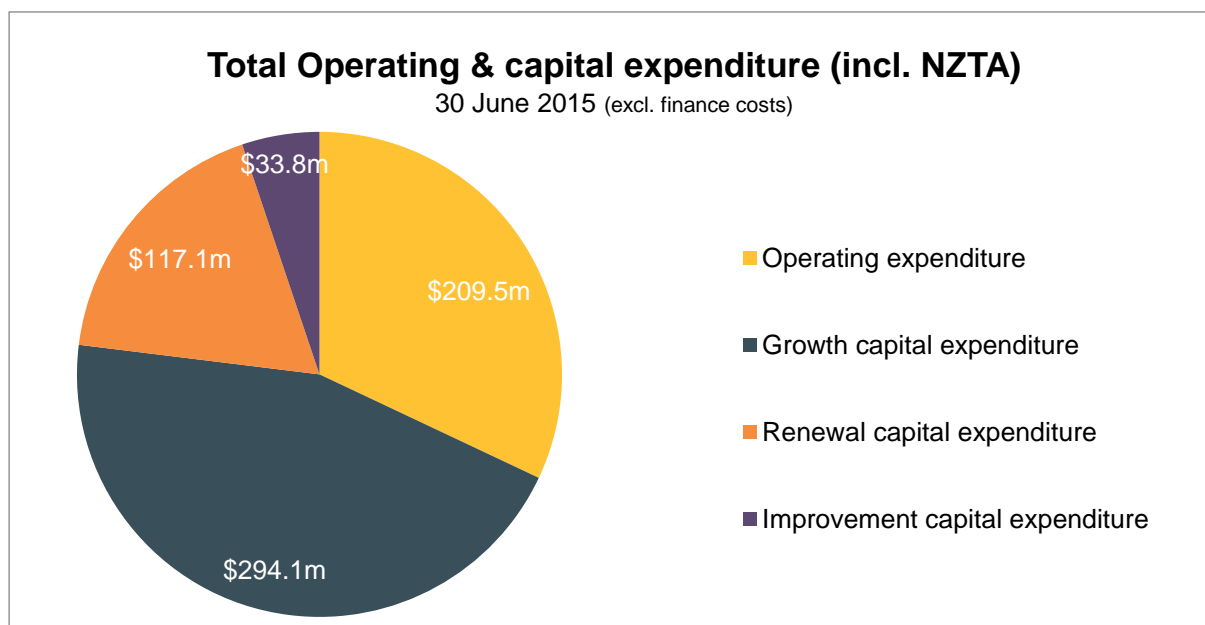
The split between operating and capital expenditure is shown in Figure 6 and Figure 7 below (excluding any finance costs). For the councils themselves, the great majority of annual expenditure is on business as usual, ie opex and capex to renew worn-out assets. Only a small part of expenditure is to allow for growth. The picture changes markedly once NZTA expenditures are included, reflecting NZTA's ongoing investment on substantial new projects.

Figure 6: Transport expenditure by opex and capex (excluding NZTA)



Note: Excludes financing costs and changes in reserves

Figure 7: Transport expenditure by opex and capex (including NZTA)



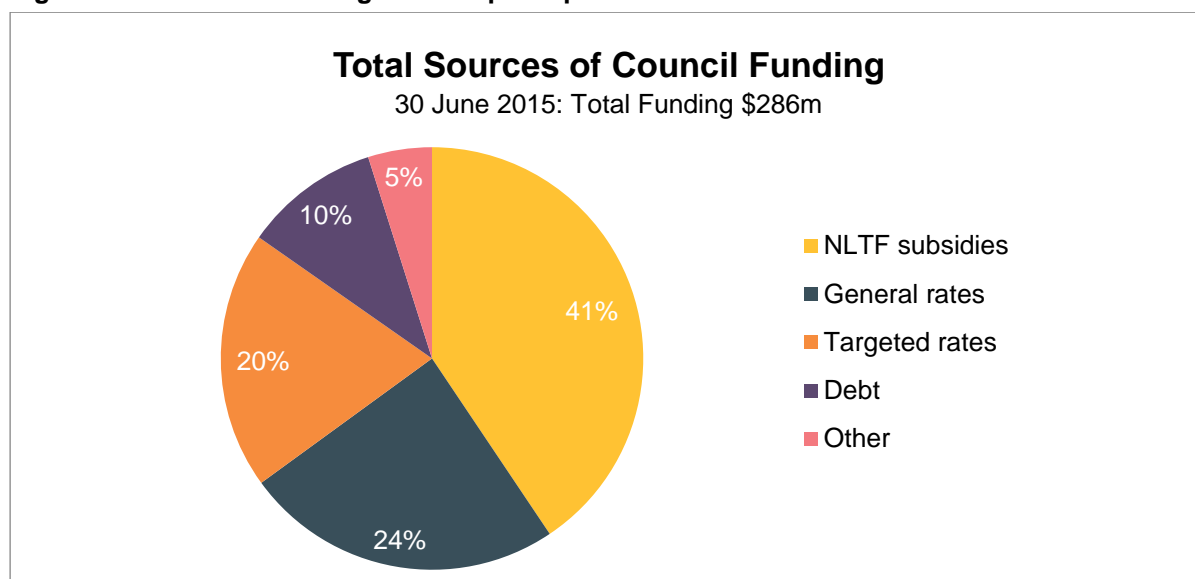
Note: Excludes financing costs and changes in reserves



6.2 Sources of funding

In order to maintain transport operations, the councils receive funding from a variety of sources. Outlined in Figure 8 below is the split of funding sources for transport operations. The great majority comes from either rates or NLTF contributions. Most NLTF monies are sourced from road users in the form of fuel excise duty (petrol tax), road user charges and vehicle registration fees.

Figure 8: Sources of funding for transport operations



6.3 Impact of options

6.3.1 Financial metrics of any new entity

1 Staffing levels

Under the pooled planning support option (Option C), we have assumed that 30 staff will be required in a “small CCO-type” arrangement. Under the full Wellington Transport CCO of Option E, we have assumed that 150 staff will be required to fully operate the business effectively, ie most council transport staff would transfer to the new entity. The Wellington Roads option excluding the councils east of the Rimutaka Range (Option D) is assumed to require similar staffing levels to the current situation (around 100 staff to operate the business effectively).

2 Expenditure

Option E has been assumed to require the total of the participating councils’ operating and capital expenditure for the year to 30 June 2015 to sustain activity; with Option D the costs will be equal to operating expenditure of the councils west of the Rimutaka Range for the year to 30 June 2015. While there may be some operational and capex cost savings, the case for the options is about more effective decision making and activity rather than financial savings. To operate effectively, Option C



has been assumed to require per annum approximately \$100,000 for each employee's costs, \$1 million of IT costs, \$350,000 of office/occupancy costs and communications/other costs of \$1 million.

3 Assets and debt

The only asset assumed for Options C and D is the fit-out required for the office. Under Option E, the transport-related assets and debt from the councils are transferred into the CCO. We have also included an option (a sub-option of Option E) that does not transfer the non-land transport assets and debt into the CCO (ie its assets would be the same as for Options C and D).

4 Estimated asset/debt components

Table 33 outlines the estimated asset/debt components of Options C, D and E, as well as for the sub-option of Option E (there are no asset/debt components for Option B). These amounts are based on the actual asset/debt amounts for the councils in 2015.

Table 33: Asset and debt components of short-list options

Asset and debt components \$ thousand	C: Pooled planning support	D: Wellington Roads	E: Wellington Transport	E: Wellington Transport without infrastructure assets
Non-land transport assets	-	-	2,197,978	-
Fit-out	300	1,000	1,500	1,500
Other assets	300	1,000	1,500	1,500
Total assets	600	2,000	2,200,978	3,000
Debt	-	-	252,630	-
Net equity	600	2,000	1,948,348	3,000

5 Summary of estimated costs

Table 34 outlines the estimated annual costs of Options C, D and E as well as for the sub-option of Option E. We note that these estimated costs are based on the actual costs for the councils in 2015. In practice, there may be some operational savings that result from the integration of services across councils; however, any potential savings would need to be worked through as part of a detailed business case. Savings may also be used to provide more or improved services, rather than reducing the overall cost of service provision.

Table 34 does not include capital expenditure that passes through the councils' books that would be managed by the new entity. In Option D, this is likely to be significant.



Table 34: Estimated annual costs of short-list options

Cost components \$ thousands	C: Pooled planning support	D: Wellington Roads	E: Wellington Transport	E: Wellington Transport without infrastructure assets
Payments to staff and suppliers	3,000	38,178	140,017	140,017
Finance costs	-	-	13,942	-
Internal charges	-	11,133	14,916	14,916
Operations and maintenance	-	-	41,044	41,044
Other operating expenditure	2,350	(10)	3,169	3,169
Total Operating Expenditure	5,350	49,301	213,088	199,146
Growth capex	-	-	8,924	-
Renewal capex	-	-	38,094	-
Improvement capex	300	1,000	28,702	1,500
Increase / (decrease) in reserves	-	-	(816)	-
Increase / (decrease) in investments	-	-	24,405	-
Total Capital Expenditure	300	1,000	99,309	1,500

Changes to balance sheet and expenditure of councils

Table 35 outlines what percentage transport assets (excluding land) comprise of total council and NZTA assets. Clearly transport forms an important part of council activity. The transport assets of councils with higher value land (eg WCC) tend to make up a substantially lower percentage of total assets than councils with lower value land (typically more rural councils).

Table 35: Balance sheet impact on councils

\$ millions	Transport assets (excl. land)	Total council assets	Transport assets (excl. land) % of total
Carterton District Council	\$118.6	\$174.1	68%
Hutt City Council	\$424.1	\$1,403.3	30%
Kāpiti Coast District Council	\$253.9	\$1,456.7	17%
Masterton District Council	\$420.9	\$749.2	56%
Porirua City Council	\$202.1	\$1,277.9	16%
South Wairarapa District Council	\$304.2	\$398.0	76%
Upper Hutt City Council	\$194.7	\$714.2	27%
Wellington City Council	\$834.8	\$7,115.3	12%
Greater Wellington Regional Council	\$288.4	\$1,665.9	17%
NZTA	\$1,022.0	\$3,000.0	34%



Estimated impacts for councils follow below.

Option B

No changes are expected.

Option C

A small reduction in office equipment, software assets and staff costs would occur as the relevant activities were transferred to the new entity. Councils will need to provide small amounts of establishment funds and ongoing operating funds. There should be little immediate change in the net operating costs for councils through this outsourcing arrangement. In the medium term there is likely to be some operational efficiency and procurement savings due to use of best practice standardised approaches to asset management, technical standards and planning systems.

Option D

Under Option D, there would be significant changes, not so much in the balance sheet (as assets are not transferred, except for a slight reduction in office equipment and other costs), but in council expenditure. For the councils that are participating in this option, there would be a significant reduction in staff costs and associated costs (eg occupancy, IT expenditure). The transport expenditure transferred from these councils to the new entity under Option D would be approximately 25 percent of their total expenditure budgets. There would also likely be some stranded overheads as operating divisions are a lot smaller. Councils would need to reconfigure operations to accommodate these changes.

Option E

Option E would have the same impacts as under Option D above, but extended to a wider range of councils (ie including GRWC and also potentially those councils located east of the Rimutaka Range – if that sub-option were chosen). If the transport-related assets (excluding land) and transport-related debt were transferred into the CCO, this would have a large impact on councils' balance sheets (in particular gearing, debt/revenue ratios etc). As well as having approximately 24–25 percent of funding and expenditure moved to the new entity, approximately 20 percent of councils' assets and 22 percent of councils' debt would be transferred into the new entity.

Councils would have to carefully manage the reconfiguration of their operations under such an option.

6.4 Indicative costs of transition

The establishment and transition costs of forming a full CCO (under Option E) includes the costs of set-up and the transitioning of staff and overheads from the councils to the new entity. This is estimated at \$10.8 million, spread over a three-year period from the date a decision to proceed is made. We have estimated that under Option D the costs of transition would be 10–15 percent lower given the smaller scale of the CCO. Under Option C, we have estimated that the costs of transition would be approximately 25 percent of those in a transition to a full CCO. The significant costs include the set-up of a new office, establishment and migration of IT systems and records, potential recruitment and redundancy costs, and legal costs. These are shown in Table 36.



Table 36: Indicative costs of transition

Transition and establishment costs	C: Pooled planning support	D: Wellington Roads	E: Wellington Transport
\$ million			
IT	0.5	2.7	3.0
Recruitment and redundancy	0.3	1.3	1.5
Office	0.3	1.3	1.5
Legal	0.2	0.7	0.8
Communications	0.1	0.5	0.6
Branding/signage	0.1	0.5	0.5
HR	0.2	0.3	0.3
Relocation	0.2	0.2	0.2
Governance	0.2	0.2	0.2
Other costs	0.5	0.8	0.8
Contingency (15%)	0.4	1.3	1.4
Total Costs	3.0	9.8	10.8

The IT establishment costs are a high-level estimate to include the cost of networking and hardware for the new organisation, software licences, integration and migration costs. There will be a number of drivers of IT costs including the degree of diversity of systems across the councils today, which will affect the amount of integration required.

We have assumed a low cost approach using the best of current systems used by the councils. Development of new bespoke systems would cost substantially more. The key IT systems include an asset management system with GIS capability, an accounting and billing system, and general office systems. There may be a number of IT solutions for the new CCO from migration to one of the existing council systems to, in time, a comprehensive enterprise system. This will be for the new board and management team to determine and we would recommend a detailed IT strategic review form part of the implementation programme.

The recruitment and redundancy provision is for the direct staffing within the CCO and any overhead staff made redundant within the councils.

The new office fit-out assumes a 2,500 square metre building to house 150 staff at an average cost of \$600 per square metre. Transition and establishment costs will be incurred both at a council level and directly by the CCO.

The costs of transition to the new entity in Options D and E are approximately 10 percent of the total capital expenditure. This could be expected to be recovered within five to ten years of capital expenditure savings, but this would be quicker to the extent there were also savings in operational expenditure. Details would be worked through in a detailed business case.



7 MANAGEMENT CASE

Power to establish a CCO

Under current law, councils may establish and become shareholders in a CCO generally as they see fit, subject to consultation requirements, such as Option C. Councils may also establish multiply-owned CCOs. However, the proposed amendments to local government legislation, currently being considered by Parliament, would mean councils would need to obtain written agreement of the LGC before undertaking formal consultation on a proposal to establish a multiply-owned CCO for transport services.

Should the proposed amendments be adopted, the LGC would be able to establish a CCO outside a wider reorganisation proposal.

Options D and E are similar but not identical to the two models of transport CCOs set out in the proposed legislative amendments:

- regional roading-only CCOs that undertake all functions currently undertaken by shareholding local authorities in relation to local roads
- regional transport CCOs that undertake all functions currently undertaken by shareholding local authorities in relation to local roads, public transport and planning.

Under the proposed amendments, transport CCOs that do not conform to either of the models provided for in the Bill can be established, but doing so will be subject to the agreement of the Minister of Transport.

Option E, which retains the planning functions with the existing RTC and therefore varies from the preferred models, may also require approval from the Minister of Transport, should the amendment be adopted.

Comprehensive implementation plan

A comprehensive implementation plan will be critical to ensuring the preferred option is properly established and can quickly and effectively commence operations. An important part of the implementation plan will be establishing a strong and cohesive change management programme.

The implementation plan would need to consider the extent to which all potentially participating councils join any arrangement at the outset, or whether there is a transitional model with some councils participating, as was the case with Wellington Water. There are arguments both ways. Transitional models allow councils that are less certain of the benefits to defer a decision until results are demonstrated. However, they potentially prolong the period of decision making and leave the 'first mover' councils with a disproportionate share of establishment costs.

As noted on page 55, Options D and E sit at ends of a spectrum of alternative options. From an implementation perspective, it is also possible to envisage starting with Wellington Roads and phasing to Wellington Transport over time. This would have a major disadvantage because it would prolong decision making over time, and carries risks of establishing governance and funding arrangements that may be sub-optimal for an eventual Wellington Transport.



Establishing a transport CCO is a major transformational programme of work and the councils and key stakeholders need assurance regarding the achievability of the CCO.

Key transitions/impacts on each council

Councils will need to manage a number of transition issues in proceeding with the more complex options. The transfer of staff and selected assets to a new regional entity will require councils to reconfigure their remaining operations to be effective. Inevitably some roles will need to be changed and responsibilities reassigned. While this can be disruptive, careful planning, management and good communication can minimise this.

For the Options D and E which entail major change, stranded overheads may become an issue as the activity base available to absorb organisational overheads shrinks. While these overheads may be managed down over time, some such as office space or governance costs may be more difficult to reduce.

While the councils would be outsourcing much activity to the new regional entity, there will still be a need to retain a small internal capability so as to be an effective buyer of services from the entity. At the same time, careful attention will need to be paid to the development of effective coordinating mechanisms between the regional entity and each council's remaining activities, such as local planning, social and community development.

Overall transition management and governance arrangements

Robust project management and governance structures will be required to effectively manage the transition to the new service delivery model ensuring benefits are realised. Key structures should include the establishment and appointment of a Project Governance Group (PGG), a Project Management Group (PMG) and a Project Manager. Their role will be to oversee the development of a detailed implementation plan and the migration of the councils' relevant transport activities into the new structure as required by the relevant option. The PGG would include both elected representatives and officials, while the PMG would consist of officials.

Timing and phasing, on and off ramps

Option B is the simplest and does not involve the formation of a new entity or the transfer of assets. As such public consultation should not be required, and work can commence as soon as the councils agree to proceed. However, if momentum is to be maintained, formal project structures as outlined above should be established, together with target dates for completion. A project plan will be required, identifying priorities and workstreams with regular reporting back to the PGG. A minimum of six to nine months will be required to establish this plan, with full implementation likely to take some years to fully develop. A longer period may be required if changes to legislation is needed.

The establishment of the CCO options (Options D or E) can be expected to take between 2.5 and 3 years. Key activities are as shown in Table 37.

Depending on the structure selected, Option C may not require public consultation. In addition, as the scope of activities is much less each phase can be expected to take significantly less time. In this case, establishment in 18 months to 2 years from decisions to proceed could be realistic.



Table 37: Indicative timetable for establishment of a substantive transport CCO

Time required	Activity
Day 1	Council approvals and allocation of a public consultation budget (if required)
1 month	Establish and appoint Project Governance Group, Project Management Group and a Project Manager
4 to 5 months	Community / stakeholder consultation
3 to 6 months	Councils approve CCO.
9 months	<p>Develop detailed implementation plan including operations, assets, HR, IT, finance and accounting, premises, communications and stakeholder engagement.</p> <ul style="list-style-type: none"> • Obtain necessary Audit New Zealand approvals • Development of key documents including: <ul style="list-style-type: none"> – initial Sol – constitution – governance – SLAs with councils for continuation of services • Development of initial annual budget, financial plan and cash flow forecast • Establishment of banking arrangements • Preparation of legal documents
1 year	<p>Operational establishment including the following key workstreams</p> <ul style="list-style-type: none"> • board of directors identified, interviewed and recruited • initial operational policies and procedures developed • IT evaluation and strategy including implementation plan and migration of key data to single operating systems • key staffing arrangements – organisational structure and key roles identified, staff transferred from councils in stages as functions are devolved to CCO • offices secured and fit-out completed



APPENDIX 1: TRANSPORT IN THE WELLINGTON REGION

This appendix comprises a series of tables on transport, its management and its costs in the Wellington Region.

Table 38: Plans and strategies

	Strategy/plan	Councils
Plans that "inform" transport strategy	LTPs	All
	Urban growth strategies	WCC, HCC, PCC
	Draft Low Carbon Capital Plan 2016	WCC
	Housing Accord	
	Wellington Towards 2040: Smart Capital	
	Significance and Engagement Policy	WCC, KCDC
	30 year infrastructure strategy (p 99–130 of LTP)	
	Vision Seaview/Gracefield 2030, Petone Vision 2027	HCC
	Land Use Strategy 2016–2043	UHCC
	Pauatahanui–Judgeford Structure Plan	PCC
Transport related	Northern Growth Area Structure Plan	
	Aotea Block Development Plan	
	Streetscape Strategy and Guidelines 2008	KCDC
	Walking and cycling policies	WCC, HCC, KCDC, MDC, SWDC, PCC
	Procurement policies	
	Accessible Wellington Action Plan 2012/15	WCC
	Footpath Management Policy, Parking Policy	
	Adelaide Road Framework	PCC
	Porirua Transportation Strategy 2012	
	Sustainable Transport Strategy 2008	KCDC
	Stride and Ride Funding Strategy (Urban Cycle Fund)	
	Roading Infrastructure Strategy 2015–2045	MDC
	Cape Palliser – Special purpose road transition plan	SWDC
	Wellington Regional Rail Plan 2010–2035	GWRC
	Wellington Regional Public Transport Plan 2014	
	Wellington Regional Land Transport Plan 2015	
	Ngauranga to Wellington Airport Corridor Strategy	
	Revenue and Financing Policy	
Operational	Asset management plans	All
	Maintenance Strategy and Renewals Interventions	MDC

Source: GWRC, WCC, HCC, UHCC, PCC, KCDC, MDC, SWDC, NZTA



Table 39: Transport functions

Transport functions	
GWRC	Regional transport and planning programmes <ul style="list-style-type: none"> Plan long-term development of the region's land transport network, including regionally significant roads, public transport and walking and cycling infrastructure Develop (RLTP, which documents the above plans and also outlines projects the region supports for central government co-funding through NZTA Monitoring and implementation of the RLTP Maintain, update and administer regional transport models Secretariat for the RTC Regional coordination and delivery of programmes and initiatives that promote and support sustainable and safe transport, eg walking, cycling, carpooling, public transport
	Public transport <ul style="list-style-type: none"> Planning and funding the Metlink public transport network Contract companies to run the train, bus and harbour ferry services on our behalf Own and maintain parts of the network, including trains and railway stations Provide customer information about Metlink services and run the Total Mobility scheme for people with disabilities
WCC	<ul style="list-style-type: none"> Transport planning
HCC	<ul style="list-style-type: none"> Vehicle network maintenance and improvements
PCC	<ul style="list-style-type: none"> Develop walking and cycling strategies
MDC	<ul style="list-style-type: none"> Cycle network maintenance and improvements
KCDC	<ul style="list-style-type: none"> Pedestrian network maintenance and improvements
UHCC	<ul style="list-style-type: none"> Network-wide control and management
CDC	<ul style="list-style-type: none"> Road safety
SWDC	<ul style="list-style-type: none"> Promotion of different travel modes Car parking Enforcement of traffic and transport regulations, standards and bylaws Public transport infrastructure
NZTA	<ul style="list-style-type: none"> Planning and investing in the land transport system Planning and management of the state highway system Delivering or managing the delivery of activities such as research, education and coastal shipping Advising and working with approved organisations, ie regional and territorial authorities Determine activities to be included in the NLTP Approve investment in activities as outlined in section 20 of LTMA Approve procurement procedures Produce guidelines for, and monitor development of, RPTPs Assess regional land transport strategies, programmes and implementation plans

Sources: GWRC: Long Term Plan 2015–2025, WCC: Long Term Plan 2015–2025

HCC: "Appendix One: Councils Roding Functions to be transferred to Wellington Transport" document

PCC: Long Term Plan – Statement of Service Provision

KCDC: Access and Transport Activity Management Plan 2015

MDC: Long Term Plan – Activity Statement 2015–2025

NZTA: <https://www.nzta.govt.nz/planning-and-investment/planning/our-role-in-planning/>



Table 40: Staffing

Area	Transport staff (FTEs)		
	Planning	Operations	Total
GWRC			
Strategy			
Sustainable transport	5.65		
Regional transport planning	8.9		
Public Transport Group			
General Manager	1		
Public transport planning	5		
Bus and ferry operations		13	
Rail operations		9	
Total	20.55	22	42.55
WCC			
Manager and Chief Advisor	2		
Transport planning	6		
Network development and implementation		7	
Network operations		22.25	
Transport assets		27.5	
Total	8	56.75	64.75
HCC			
Road and traffic	4	7	
Maintenance contracts		4	
Total	4	11	15
UHCC			
Manager	1		
Road safety	0.5		
Asset management		1	
Pavements		1	
Inspector		1	
Contracts		2	
Total	1.5	5	6.5
PCC			
Manager Roding		1	
Senior Asset Engineer – Roding		1	
Infrastructure Operations Engineer – Roding		1	
Special Projects Engineer	1		
Supervisor – Draughting		1	
Cadets		2	
Roding Administration Officer		0.6	
Contracts Officer		1	
Road Safety Co-ordinator (from 2016/17)			
Total	1	7.6	8.6
KCDC			
Manager	1		
Roding network planning	4		
Roding network performance		3	
Infrastructure programme delivery		4	
Admin	1		
Total	6	7	13



Area		Transport staff (FTEs)		
MDC	Manager	1		
	Project Engineer		0.75	
	Rural Road Engineering		1	
	Urban Road Engineering		1	
	Total	1	2.75	3.75
SWDC	GM infrastructure	0.15		
	Transport Manager	0.65		
	Network Officer		1	
	Asset and operations		0.95	
	Total	0.8	1.95	2.75
CDC	Not reported			
TOTAL		43.85	114.05	157.9

Source: GWRC, WCC, HCC, UHCC, PCC, KCDC, MDC, SWDC

Table 41: Projects

Major projects		Budget (\$)	Planned completion
GWRC	PTOM – Rail	Part of total approved PTOM/PTT projects, PTOM \$13.3m, PTT \$3.7m (incl RPMS, Customer Complaints, Metlink)	June 2016
	Bus Services Transformation – PTOM – Bus	As for PTOM – Rail Budget above (Consolidated programme funding)	January 2018
	Bus Services Transformation – Networks, Customer and Transition	As for PTOM – Rail Budget above (Consolidated programme funding)	January 2018
	Bus Services Transformation – Fleet	As for PTOM – Rail Budget above (Consolidated programme funding)	June 2018
	Integrated Fares and Ticketing – Fares Transition	Not budgeted yet	April 2018
	Integrated Fares and Ticketing – National Ticketing	51m	Unknown
	Integrated Fares and Ticketing – Interim Ticketing	4m	June 2017
	Matangi 2 and Matangi 1 Retrofit	170.2m	October 2016
	Business Readiness – Rail Performance Measurement	157.6k	July 2016
	Business Readiness – Customer Complaints	150k	June 2016
	Business Readiness – MetLink Website & SMS Gateway	112k	June 2016
	Driver Simulator for Matangi	2m (awaiting approval)	June 2017
	Rapid Bus Spine (part of N2A programme)	200k	2017-2022
	Rail Stations Renewals & Minor Improvements Programme	2.5m	April 2016

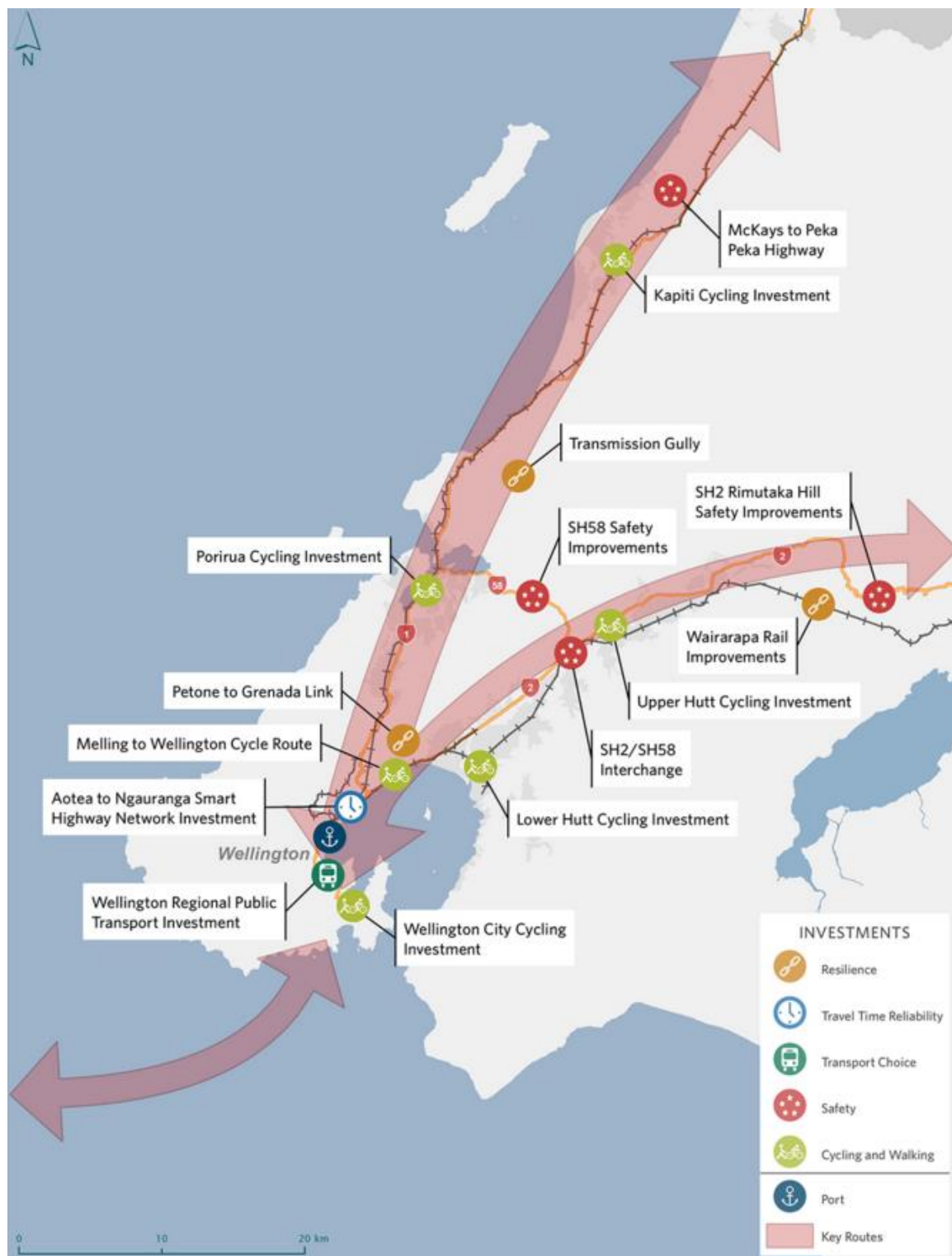


	Major projects	Budget (\$)	Planned completion
WCC	Vehicle network improvements and renewals total	23m	FY2015/16
	including:		
	Wall, bridge and tunnel renewals	2.5m	
	Tunnel and bridge improvements	1.8m	
	Rooding capacity projects	1.6m	
	Cycle network improvements total	5.7m	FY2015/16
	Bus priority planning	145k	FY2015/16
	Pedestrian network improvements and renewals total	4.6m	FY2015/16
	Transport projects total	38.6m	FY2015/16
HCC	Cycle network development	1.5m	FY2015/16
	Wainuiomata shared path	2.6m	FY2015/16
	Urban growth strategy roading improvements	1.5m	FY2015/16
UHCC	Enhance cycle and walkway – rail corridor	1.2m	FY2015/16
	Pedestrian link between railway station and Main St.	1m	FY2015/16
	Rural road upgrades (Moonshine, Whitemans Valley, Mangaroa) – High priority safety projects	0.9m	FY2015/16
PCC	None specified		
KCDC	Northern Corridor roads of national significance: MacKays to Peka Peka (M2PP) Peka Peka to Ōtaki (PPO) Ōtaki to Levin (not yet fully developed) Transmission Gully		
MDC	Nothing of note		
SWDC	Cycle trail from Cross Creek to Featherston		FY2015/16
CDC	Not reported		
NZTA	Public transport	456m	2015–2018
	Cycling and walking	49m	2015–2018
	Smart Motorway		Complete 2016
	RONs: MacKays to Peka Peka (M2PP) Peka Peka to Ōtaki (PPO) Ōtaki to Levin (not yet fully developed) Ngauranga to Airport Transmission Gully Petone to Grenada	630m	
	Total forecast investment in Wellington	1,439m	2015–2018

Source: GWRC, WCC, HCC, UHCC, PCC, KCDC, MDC, SWDC, NZTA



Figure 9: NZTA Land Transport Programme: Wellington key routes and investments 2015–18



Source: NZTA

<https://www.nzta.govt.nz/planning-and-investment/2015-18-national-land-transport-programme/nltip-in-the-regions/wellington/>



Table 42: Shared services

Source	Shared services	Other councils involved
GWRC	Bus stop installation and maintenance	
	Lambton bus exchange	built by GW, maintained by WCC
	Wayfinding signage	
	Bus priority measures	
	Traffic control system integration (SCATS and RTI)	
	Regional Transport Response Team	GWRC, WCC, NZTA, Police
	Wellington Transport Operations Centre	GWRC, WCC, NZTA
	Let's carpool website	GWRC, Auckland Council and other councils
HCC	Procurement strategy development	HCC, UHCC
	Joint meetings with utilities	HCC, UHCC
	Standard engineering plans	HCC, UHCC
	Information sharing (eg Alternating meeting attendance)	HCC, UHCC
	Coordination of calling for tenders	WCC instigated, HCC
PCC	Collaboration on community road safety	PCC, KCDC
KCDC	Wellington Traffic Signals Maintenance 2013–15 contract	KCDC, NZTA, WCC, PCC
Shared contracts – Wairarapa	Road maintenance	MDC, CDC, SWDC
	Street lights	MDC, CDC, SWDC
	Pavement marking	MDC, CDC
	Roadside forestry	MDC, SWDC

Source: GWRC, HCC, KCDC, MDC, SWDC



Table 43: Expenditure

(\$000)	Operational expenditure						Capital expenditure			Depreciation		
	2015/16		2024/25		Total 15/16 – 24/25		2015/16	2024/25	Total '15/16 – 24/25	2015/16	2024/25	Total '15/16 – 24/25
	Opex	Includes finance cost of:	Opex	Includes finance cost of:	Opex	Includes finance cost of:						
GWRC												
Public Transport	124,005	231	309,305	4	2,455,434	380	146,333	18,028	363,009			
Transport Planning	3,227	70	4,090	53	36,127	517	310	108	3,000	340	144	3,480
WCC	23,966	5,169	34,228	11,715	311,719	86,254	38,573	54,858	480,901	22,646	37,333	290,745
HCC	17,030	1,500	20,770	2,746	191,118	24,292	18,129	14,265	151,355	11,566	14,572	128,280
UHCC	5,726	608	7,294	1,062	64,710	9,051	6,480	4,385	56,328	4,077	4,769	44,262
PCC	5,107	406	8409	1,151	70,944	11,048	7,966	4,639	88,898	*	*	*
KCDC	6,209	1,482	6,895	1,482	65,899	14,824	6,507	4,706	62,802	4,724	7,949	61,813
MDC	5,563	*	6,967	*	61,832	*	5,456	4,971	51,978	4,725	5,881	52,394
SWDC	2,839	81	3,169	13	29,221	452	2,298	2,536	22,532	2,400	2,824	25,487
CDC												
TOTAL	185,726	9,141	392,718	17,075	3,216,060	135,769	224,086	103,858	1,191,905	50,478	73,471	606,461

*Not provided

Sources: GWRC: 6a GWRC LTP Financials.xlsx

WCC: Long Term Plan 2015–2025

HCC: Transport funding _exp and major projects.pdf

UHCC: Lachlan-Wlg Transport Business Case-UHCC Transport LTP 2015–2025.xlsx

PCC: Long Term Plan 2015–2025

KCDC: A&T Financial Data.xls

MDC: Masterton DC\Transport Funding and Expenditure – Asset Mgmt Condition.xlsx

SWDC: 20160510 South Wairarapa District Council Information to Council.docx



Table 44: Funding sources, FY 2015/16, city and district councils

(\$000)	WCC	HCC	UHCC	PCC	KCDC	MDC	CDC	SWDC	Total
Sources of operating funding									
General rates, uniform annual general charges, rates penalties	32,648	19,023		5,637	4,991	5,426*		2,752*	
Targeted rates	33			0					
Subsidies and grants for operating purposes	4,046	3,678		1,410	1,486	5,056*		2,600*	
Fees and charges	2,042	4,910		275	61				
Internal charges and overheads recovered				124					
Local authorities fuel tax, fines, infringement fees, and other		985			261			80*	
Capital grants to fund depreciation					993				
Unfunded depreciation					3,140	1,149		(1,200)*	
Total operating funding	38,769	28,596		7,446	10,932				
Sources of capital funding									
Subsidies and grants for capital expenditure	12,668	7,502		3,300	1,763				
Development and financial contributions	539	79		0	197				
Increase (decrease) in debt	10,563	(1,018)		2,328	4,547	384			
General rates									
Depreciation reserves								1,200*	
Reserve transfers								(662)*	
Other								457*	
Total capital funding	23,770	6,563		5,628	6,507				
TOTAL transport funding	62,539	35,159	11,477	13,074	17,439	12,015		5,227	156,930

* Figures include both operating and capital funding. The figures are not disaggregated in the accounts provided.

Sources: WCC: Long Term Plan 2015–2025



INDICATIVE BUSINESS CASE

HCC: Transport funding _exp and major projects.pdf

UHCC: Lachlan-Wlg Transport Business Case-UHCC Transport LTP 2015–2025.xlsx

PCC: Long Term Plan 2015–2025

KCDC: A&T Financial Data.xls

MDC: Masterton DC\Transport Funding and Expenditure – Asset Mgmt Condition.xlsx

SWDC: 20160510 South Wairarapa District Council Information to Council.docx

Table 45: Funding sources, Greater Wellington Regional Council, FY 2015/16

(\$000)	GWRC		Total
	Public transport	Transport planning	
External income			
Regional rates	54,940	1,959	
Government subsidies	80,210	1,171	
External revenue	1,971		
Total external income	137,121	3,130	
Reserve interest received	231	70	
Internal sales		100	
Cash proceeds asset disposals	10		
New internal loans	136,865	149	
Transfer from reserves	4,212	326	
Total transport funding	278,439	3,775	282,214

Source: GWRC: 6a GWRC LTP Financials.xlsx



Table 46: Transport assets, excluding land at 30 June 2015

\$ million	Land under roads and footpaths	Other transport assets	Total transport-related assets
Carterton District Council	5.7	118.6	124.3
Hutt City Council	144.9	424.1	569.0
Kāpiti Coast District Council	733.7	253.9	987.6
Masterton District Council	85.0	420.9	505.8
Porirua City Council	507.4	202.1	709.5
South Wairarapa District Council	24.9	304.2	329.1
Upper Hutt City Council	88.5	194.7	283.2
Wellington City Council	2,950.2	834.8	3,785.0
Greater Wellington Regional Council	0.0	288.4	288.4
NZTA	1,978.0	1,022.0	3,000.0
Total	6,518.3	4,063.7	10,581.9

Sources: Annual reports



APPENDIX 2: BETTER LOCAL SERVICES REFORMS

Establishing transport CCOs with statutory powers and responsibilities

The following is extracted from schedule C of the Cabinet Paper: Local Government – Better Local Services Reforms.

The LGC will have the responsibility to determine which of the following powers listed below should be transferred to a regional transport council controlled organisation where one is established through a reorganisation. Where the LGC establishes a roading only council controlled organisation all of the powers listed below will be transferred with the exception of a), e), g)ii and k). The LGC will have the responsibility to determine which of these powers should be transferred when it establishes other forms of transport council controlled organisations through a reorganisation. The Commission will not be permitted to allocate requiring authority status to a bespoke CCO. Such a CCO could apply for that status under standard RMA provisions.

- a) powers to prepare a RLTP in accordance with the LTMA;
- b) powers to act as a requiring authority under section 167 of the RMA and in accordance with conditions similar to those found in section 47 of the Local Government (Auckland Council) Act 2009;
- c) functions and powers of a local authority and an enforcement authority under the Land Transport Act 1998 for the purposes of prosecuting stationary vehicle offences;
- d) functions and powers of a council under Part 21 of the Local Government Act 1974, except sections 316(2), 319(j), 319A, 319B, and 347 to 352;
- e) powers of a council under section 591 of the Local Government Act 1974, except section 591(1)(a);
- f) functions and powers of a local authority, a territorial authority, and a controlling authority under Part 4 of the Government Rounding Powers Act 1989;
- g) functions and powers of an enforcement authority under the Land Transport Act 1998 in relation to prosecuting infringement offences under that Act that relate to:
 - i. the use of special vehicle lanes (including the appointment of enforcement officers in accordance with section 177 and 5(1) of the LGA); and
 - ii. a failure to pay a public transport service fare;
- h) functions and powers of a road controlling authority and a local authority under the Land Transport Act 1998 and any regulations or rules made under that Act;
- i) functions and powers of a local authority to make and enforce bylaws under subparts 1 and 2 of Part 8 of the LGA, except section 147;



- j) functions and powers of a public road controlling authority under Part 2 of the LTMA in relation to road tolling schemes;
- k) functions and powers of a regional council under Part 5 of the LTMA in relation to public transport planning and regulation;
- l) powers to give notice to shareholding councils requiring them to acquire or dispose of land for transport purposes under the Public Works Act 1981, and in accordance with conditions similar to those found in section 51 of the Local Government (Auckland Council) Act 2009; and
- m) As with water services CCOs, the results of the current review of the Public Works Act 1981 in relation to Māori freehold land would also apply to roading CCOs.

Proposed strengthened accountability arrangements for CCOs

The following is extracted from the Cabinet Paper: Local Government – Better Local Services Reforms.

Schedule D: Strengthened accountability arrangements for CCOs

The Local Government Act 2002 is to be amended to adopt the following provisions and requirements in order to strengthen the accountability arrangements for multiply-owned council-controlled CCOs.

Appointment of directors

- 1 The joint shareholders committee for a CCO should be responsible for developing a policy for the appointment of directors to a multiply-owned substantive CCO, and making recommendation on directors' appointments to shareholding local authorities.
- 2 Local authority elected members are to be prohibited from sitting on multiply-owned substantive CCOs boards. This prohibition applies only to multiply-owned CCOs. The risk is that that once one council had appointed a director to a multiply-owned CCO, all shareholding councils would expect to appoint a director. This would lead either to excessively large boards, or to boards lacking a suitable range of skilled independent directors. Integrated CCO planning and council planning
- 3 Where CCOs deliver core services their activities need to be closely integrated with council planning systems to ensure ratepayers receive efficient quality services.
- 4 The following provisions will apply to shareholding councils and CCOs:
 - a shareholding local authorities must discuss their long-term plans with CCOs before the plans are put out for public consultation;
 - b substantive CCOs must give effect to council long-term plans;
 - c substantive CCOs must act consistently with other plans and strategies agreed by shareholding local authorities;



- d water services and transport CCOs must prepare 30 year infrastructure strategies and 10 year service delivery plans with similar content to local authority infrastructure strategies and long-term plans;
 - e shareholding local authorities may require other substantive CCOs to prepare infrastructure strategies and 10 year service delivery plans;
 - f 30 year infrastructure strategies and 10 year service delivery plans must be agreed by the shareholders;
 - g CCOs having 30 year infrastructure strategies and 10 year service delivery plans must report on progress to achieve those strategies and plans in their annual reports; and
 - h substantive CCOs must give effect to shareholder comments on a draft Sol, 30 year infrastructure strategy, and 10 year service delivery plan unless:
 - i to do so would be contrary to the CCO constitution or objectives or would be unlawful; or
 - ii shareholder comments propose conflicting priorities for the CCO. Content of CCO accountability documents
- 5 The following requirements related to the content of CCO Statements of Intent and annual reports and their publication will apply:
- a the existing legislative requirements relating to the content of CCO statements of intent should be replaced with the separate prescription of: content required of all statements of intent, content for statements of not-for profit CCOs, and content of statements of council-controlled trading organisations (CCTOs);
 - b the required common content cover the objectives of the CCO; the board's approach to CCO governance; the nature and scope of the CCO's activities; the non-financial performance measures and targets of the CCO (if any); and other information required to be disclosed by shareholders;
 - c the required content for not-for profit CCOs should also include a summary of major accounting policies and prospective financial statements;
 - d the statements of intent for CCTOs should also be required to include a summary of major accounting policies, the ratio of shareholders' funds to assets; the projected return on shareholders' funds; any intended distributions to shareholders; and the commercial value of the shareholder's investment in the CCTO;
 - e the CCO annual reports contain similar information to statements of intent;
 - f the shareholding local authorities must publish CCO Sols, 30 year infrastructure strategies, 10 year service delivery plans and annual reports on their websites and make them available for seven years from the date of publication; and
 - g CCOs must make these documents available to their shareholders for the purpose of publication.

Financial management of CCOs

- 6 The following requirements related to financial management of substantive CCOs will apply:



- a CCOs must have as an objective an obligation to manage their finances in a manner that will enable long-term continuity of service delivery at the levels of service agreed by shareholders and required by Crown regulatory systems;
- b the 30-year infrastructure strategies that CCOs prepare must demonstrate how they intend to reliably deliver services in a financially sustainable manner; and
- c the prohibition in borrowing in foreign currencies should be extended from local authorities to CCOs.

CCO funding

- 7 The following requirements related to CCO funding will apply:
 - a The shareholders must pay a substantive CCO the level of operating funding agreed in the CCOs 10 year service delivery plan; except that:
 - i shareholders may pay less in total with the agreement of the CCO board; and
 - ii shareholders may pay more in total either if agreed by all shareholders, or if individual shareholders contract the CCO to provide additional services in their respective districts.
 - b The shareholders of multiply-owned CCOs must agree an operating funding allocation formula, which can be changed;
 - i by agreement of all shareholders; or
 - ii through the Local Government Commission's dispute resolution role, on application from any shareholder;
 - c The constitutions of substantive CCOs may not limit the use of particular funding tools by the CCO;
- 8 CCO debt has the potential to constrain shareholder local authority borrowing. It is important therefore that CCO borrowing is managed in accordance with agreed plans, with the oversight of the CCO board. Specifically a multiply-owned CCO may:
 - a borrow the amount agreed in its 10 year service delivery plan; and
 - b shareholders shall lend the CCO the amount agreed to be lent by shareholders in the 10 year service delivery plan; except that
 - c they may lend less if agreed by the CCO board; and
 - d they may lend more if agreed by all shareholders.

Capital charging

- 9 Local authorities have the ability under the LGA02 to require developers to contribute to capital costs necessary to enable development to occur. Recent reforms have provided an appeals process for that system. Development charges such as those imposed by private utilities companies are regulated through the relevant pricing system.



- 10 Using CCOs to deliver infrastructure potentially creates an unregulated capital charging system, with no checks and balances to protect developers from excessive use of monopoly pricing powers. There is also a fine line between a pricing power, seeking to achieve cost recovery, and a charging practice unrelated to cost, which becomes a de facto taxing practice.
- 11 Watercare is currently the only CCO assessing unregulated capital charges (infrastructure growth charges). The Productivity Commission considered its practices in its recent report Using land for housing. It recommended that Watercare should change its current approach, which is to apply the same charges throughout its region, so that charges reflected the actual costs of providing infrastructure in different parts of the region. It also recommended that Watercare's charges should be subject to the same appeal processes as for development contributions. The issue is significant. In 2015 Watercare derived \$50.187 million of its \$500.712 million revenue (10 percent) from infrastructure growth charges.
- 12 The following requirements related to capital charging by substantive CCOs will apply:
 - a CCOs wishing to collect capital charges will be required to prepare a development contributions policy;
 - b each local authority in the area serviced by the CCO will be required to adopt the policy unless it considers the policy to be unlawful;
 - c the local authorities affected will be required to administer the policy and transfer the development contributions collected to the CCO;
 - d Watercare Services Limited and Auckland Council will have 18 months from the commencement of the legislation to transition to the capital charging system set out above.
- 13 In addition, the LGA02 requires local authorities to consider proposals from developers for development agreements. These are contractual alternatives to development agreements. I propose that the development agreement provisions in the LGA02 be extended to CCOs and to three way agreements where circumstances are appropriate between the local authority, relevant CCOs and the developer or developers.

Monitoring CCO performance

- 14 The following requirements related to monitoring the performance of substantive CCOs will apply:
 - a local authorities may not hold their ownership interest in water services or transport CCOs indirectly, such as through a holding company; and
 - b every local authority will be required to publish CCO statements of intent, 30-year infrastructure strategies, 10-year service delivery plans and annual reports on its website for a period of seven years.



APPENDIX 3: FURTHER INFORMATION ON OPTIONS



Table 47: Long-list options

Discounted options in red.

Dimension	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7
Institutional form	Amalgamation: Merged territorial authorities	Amalgamation: unitary authority	Establishment of council controlled organisation (CCO)	Commercial contract	Shared service agreement		
Governance – ownership	Based on population	Based on rating base	Based on assets contributed	One council one share	Other size metrics	Hybrid option	
Governance – voting rights	Based on ownership	Voting rights based on some other formula (similar options to ownership)	Certain decisions require super- majority	2 classes of shares with A having voting rights and B reflecting assets contributed			
Governance – board	Present Regional Transport Committee	Joint committee (eg under LGA 2002)	Independent professional directors	Community representatives	Officials (possibly including NZTA)		
Modes	Local roads	Local arterial roads	State highways	Cycleways and paths	Buses	Passenger rail	Local ferry
Functions	Service delivery	Technical planning and management services	Development planning (including decision making)	Development planning support (ie excluding decision making)	Asset management planning	Road controlling authority	
Funding	Funding allocation formula to share costs amongst councils	Fee for service model	Targeted regional rate	Hybrid option			
Assets transferred to any new institution	Infrastructure assets	Non-infrastructure assets (eg office equipment)	No assets				



Dimension	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7
Participating councils	Entire Wellington Region	Entire Wellington Region except Wairarapa	Wellington, Hutt, Upper Hutt and Porirua	Smaller numbers of councils			
Other non-structural options for change	Additional project identification options	Requirements for greater transparency as to how territorial authorities give effect to the RLTP	Improve reporting on transport outcomes	Greater use of formalised working arrangements between agencies/authorities for major projects	Develop a regional spatial plan ¹²	Stronger requirements for alignment between the LTMA and RMA	Amend NZTA's definition of strategic fit to recognise national and regional priorities

Note: The options are alternatives for each of the dimensions shown in the left hand column. They are independent between dimensions – there is no suggestion that all the items in the Option 3 column (for example) fit together.

¹² Developing a regional spatial plan was discounted here as it has wider ramifications than transport and so it is better progressed through the separate LGC-supported workstream that is considering the matter. A regional spatial plan would have benefits for transport.



Table 48: Short-list options

Option dimension	A: Status quo	B: Non-structural measures to improve alignment	C: Pooled planning support	D: Wellington Roads	E: Wellington Transport
Overview	The present arrangements	A suite of non-structural changes to improve alignment between transport activities. Impacts on national frameworks and may require legislative change which may fall outside scope of LGC.	Planning, traffic and network management, and related information functions and analytical capabilities pooled under a shared service arrangement.	CCO pools roading capability to develop, maintain and operate roads, paths and cycleways. Existing planning arrangements remain. Focus on service delivery.	Single agency with responsibility for programming and operations for all modes in the region. An analogue of Auckland Transport but existing RTC is retained. Other modifications to take into account local context and lessons learned.
Institutional form	Functions distributed amongst regional council, territorial authorities and NZTA	No change	Pooled arrangement – final form to be determined when functions finalised	CCO owned by territorial authorities	CCO.
Governance – ownership	N/A	N/A	Owned by regional council and territorial authorities	Owned by territorial authorities	Owned by regional council, territorial authorities and NZTA Mix of voting and non-voting shares, with non-voting shares reflecting capital contributions
Governance – voting rights	N/A	N/A	Decision when functions have been confirmed	Agreed compromise between one council one vote, and voting based on size metrics Voting to be exercised by joint committee of councils Super-majority required for high-level constitutional changes	Agreed compromise between one council one vote, and voting based on size metrics Voting to be exercised by joint committee of participating agencies Super-majority required for high-level constitutional changes



Option dimension	A: Status quo	B: Non-structural measures to improve alignment	C: Pooled planning support	D: Wellington Roads	E: Wellington Transport
Governance – board	N/A	No changes to general arrangements but greater use of formal working arrangements for inter-agency projects.	Decision when functions have been confirmed	CCO governed by independent board of professional directors Board appointments made by a joint shareholders committee of territorial authorities	CCO governed by independent board of professional directors Board appointments made by a joint shareholders committee of territorial authorities, GWRC and NZTA
Modes	All networks and modes	All networks and modes	All networks and modes other than state highways Option to include state highways for traffic management	All networks and modes other than state highways and public transport Option to include state highways	All networks and modes, including some state highway functions
Functions	All land transport functions	All land transport functions Option to include greater use of formal mechanisms to coordinate programming and delivery between agencies	<ul style="list-style-type: none"> • Technical planning and operations management services, such as: • modelling and other data and analytics functions • standard setting and support for implementation of ONRC • common procurement standards and processes • sustainable and safe transport planning and promotion • travel information and traffic management 	<p>All functions related to the development and management of local roads (including arterial roads), paths and cycleways including</p> <ul style="list-style-type: none"> • project planning • operations management • asset management • some technical planning such as: <ul style="list-style-type: none"> – standard setting – sustainable and safe transport planning and promotion 	All strategic planning and prioritisation, all functions related to the development and management of local roads (including arterial roads), paths, cycleways and public transport, and state highway operations management and asset management



Option dimension	A: Status quo	B: Non-structural measures to improve alignment	C: Pooled planning support	D: Wellington Roads	E: Wellington Transport
Planning arrangements	RLTP plus range of local and regional plans and strategies	Improved reporting on regional transport outcomes Possible improvements (subject to necessary policy and legislative changes) to: <ul style="list-style-type: none"> • RLTP project identification options • alignment between the LTMA and RMA • NZTA's definition of strategic fit to give greater attention to regional priorities 	RTC retains responsibility for RLTP. GWRC services GWRC retains responsibility for RPTP Technical advice provided by shared service arrangement to councils	RTC retains responsibility for RLTP. GWRC services. WR provides input to along with other organisations. GWRC retains responsibility for RPTP TAs keep responsibility for planning activities and participating in regional processes	RTC retains responsibility for RLTP. WT services WT has responsibility for RPTP Mechanisms to engage WT in other planning exercises (eg economic development)
Funding	Rates, NLTF, user charges (eg passenger fares)	No change to existing arrangements	Funding for services provided Funding formula based on size metrics (eg rating base, transport activity)	Funding covers local roads (including local roads), paths and cycleway services Overhead budget agreed by shareholders Fee for service model paid by TAs (plus NLTF funding as available) Commitment by councils to use new entity exclusively for all services it was established to provide	Targeted regional rate for public transport Funding allocation formula for other costs. Allocates costs to councils who then meet requirements from their own sources (eg general rates) Supported by NLTF and user charges as appropriate Regional rate for all transport activities is also an option
Asset ownership	Assets owned by local authorities and NZTA	No change	May be transfer of assets related to specific technical capabilities to the overseeing organisation (GWRC, WCC or CCO as determined)	Transfer of assets related to specific technical capabilities to WR Infrastructure still owned by local authorities	Transfer of all relevant assets to WT. Infrastructure assets could optionally remain with councils



Option dimension	A: Status quo	B: Non-structural measures to improve alignment	C: Pooled planning support	D: Wellington Roads	E: Wellington Transport
			Infrastructure still owned by local authorities		
Participating councils	All of region	All of region	All of region or a sub-set of councils	Region west of Rimutaka Range or a sub-set of councils	All of region except Wairarapa for local roads
Non-structural changes		Suite of changes			
Road controlling authority powers	All powers vested in territorial authorities on local roads and NZTA on state highways	No change	Possibly delegate the relevant road controlling authority powers (eg to support traffic management)	Delegate the relevant road controlling authority powers of the shareholding territorial authorities	Delegated relevant road controlling authority powers of the shareholding territorial authorities and NZTA (as appropriate to the functions provided)



Table 49: Further details of allocation of functions under short-list options

Function	A: Status quo	B: Non-structural measures to improve alignment	C: Pooled planning support	D: Wellington Roads	E: Wellington Transport
Planning					
Preparation of RLTP	RTC on behalf of GWRC	RTC on behalf of GWRC	RTC on behalf of GWRC	RTC on behalf of GWRC	RTC on behalf of WT
Preparation of RPTP	GWRC	GWRC	GWRC	GWRC	WT
Local transport and asset management planning	TAs	TAs	TAs	WR	WT
Modelling	GWRC and TAs	GWRC and TAs	Pooled	GWRC and WR	WT
Roads					
Project management	TAs and NZTA	TAs and NZTA	TAs and NZTA	WR and NZTA	WT (and NZTA for national projects)
Contractor/consultant procurement and management	TAs and NZTA	TAs and NZTA	TAs and NZTA	WR and NZTA	WT (and NZTA for national projects)
Communications	TAs and NZTA	TAs and NZTA	TAs and NZTA	WR and NZTA	WT and NZTA
Manage parking, and enforce traffic regs	TAs	TAs	TAs	WR or TAs	WT
Manage traffic	NZTA and TAs	NZTA and TAs	Pooled	NZTA and WR	WT (possibly jointly with NZTA)



Function	A: Status quo	B: Non-structural measures to improve alignment	C: Pooled planning support	D: Wellington Roads	E: Wellington Transport
Delegated regulatory functions (eg oversize vehicles, permissions and approvals, road stopping)	TAs and NZTA	No	No	TAs remain road controlling authority but delegate some functions	TAs and NZTA remain road controlling authorities but delegate some functions
Sustainable and safe transport planning and promotion					
Improve environment for cycling and walking	GWRC and TAs	GWRC and TAs	GWRC and TAs	GWRC and WR or TAs	WT
Carry out market research, including customer surveys	GWRC and TAs	GWRC and TAs	Pooled	GWRC and TAs Option to delegate to WR	WT
Plan and co-ordinate transport safety activities	GWRC and TAs	GWRC and TAs	Pooled	GWRC and WR	WT
Educate adults and children about road safety	GWRC and TAs	GWRC and TAs	Pooled	GWRC and WR	WT
Develop school, community and workplace travel plans to encourage more people to catch the train, bus, ferry or walk, cycle, carpool	GWRC and TAs	GWRC and TAs	Pooled	GWRC and TAs	WT



Function	A: Status quo	B: Non-structural measures to improve alignment	C: Pooled planning support	D: Wellington Roads	E: Wellington Transport
Public transport					
Identify and review public transport (bus, train, harbour ferry) services	GWRC	GWRC	GWRC	GWRC	WT
Contract and monitor public transport services	GWRC	GWRC	GWRC	GWRC	WT
Develop and maintain bus stations, shelters and stops	GWRC and TAs	GWRC and TAs	GWRC and TAs	GWRC and TAs	WT
Develop and maintain train rolling stock, stations and facilities	GWRC and KiwiRail	GWRC and KiwiRail	GWRC and KiwiRail	GWRC and KiwiRail	WT and KiwiRail
Provide information about public transport	GWRC	GWRC	GWRC	GWRC	WT
Fund total mobility services	GWRC	GWRC	GWRC	GWRC	WT

