



Performance audit report

Assessing  
arrangements for  
jointly  
maintaining state  
highways and local  
roads





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# Assessing arrangements for jointly maintaining state highways and local roads

This is the report of a performance  
audit we carried out under section  
16 of the Public Audit Act 2001.

June 2007

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## Foreword

How well work on our state highways and local roads is managed, and how well these roads are maintained, affect many of us every day when travelling.

Transit New Zealand (Transit) and district councils have separate statutory responsibilities for state highways and local roads respectively. In three districts, they have joined forces in different ways to manage and maintain local roads and state highways passing through the districts as a single road network.

I have looked at how well these collaborative agreements between Transit and district councils are working, and what cost savings and other benefits they bring.

The district councils are getting greater savings and more non-financial benefits than Transit from these agreements. They give the councils more co-ordinated and locally responsive integrated management of local road and state highway activities. On the other hand, Transit sees significant drawbacks to the agreements from a national perspective, believing that under such agreements management of state highways as a national network is fragmented and less efficient.

Transit has decided not to pursue further collaborative agreements. However, Transit has not thoroughly assessed the merits of current collaborative agreements and the drawbacks that it sees to the agreements.

To avoid the risk of discounting collaborative agreements as a potentially viable and worthwhile option for managing and maintaining state highways and local roads, Transit needs to more fully assess the value of current collaborative agreements. This assessment should form a robust basis for informing future decisions on whether and how to collaborate.

I thank Transit staff and the staff and councillors from the local authorities that we spoke to and others we consulted during my audit.

A handwritten signature in black ink, consisting of a horizontal line that curves upwards and loops back to the left, ending in a small flourish.

K B Brady  
Controller and Auditor-General

19 June 2007

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## Summary

Transit New Zealand (Transit) is responsible for maintaining state highways, and district councils are responsible for maintaining local roads. In most districts, Transit and district councils carry out their respective road maintenance responsibilities separately.

Three district councils (Rotorua, Marlborough, and Western Bay of Plenty) have entered into different types of collaborative agreements with Transit to work on cost-effective ways to maintain local roads and state highways in their districts as a single district roading network (a combined network of state highways and local roads within the area covered by a district council). Several other collaborative agreements between local authorities and Transit have been proposed but have not proceeded.

In our audit, we looked at whether the three existing collaborative agreements between district councils and Transit were set up in a robust way, were working well, and were resulting in effective maintenance of local roads and state highways at lower cost. We also looked at the reasons four other proposed collaborative agreements between Transit and district councils in Central Otago, Taranaki, Southland, and Tasman had not proceeded. We drew together views on the lessons learned and on what made collaborative agreements more likely to succeed.

We did not compare how cost-effectively local roads and state highways were being maintained under the existing collaborative agreements with how cost-effectively they might otherwise have been maintained had the district councils and Transit worked either separately or under different joint arrangements. A robust analysis of the relative cost-effectiveness of alternative scenarios was beyond the scope of our audit. Therefore, we have not formed a view on whether the existing collaborative agreements represent the most cost-effective means of maintaining roads in the districts they cover.

### Our findings and conclusions

Our overall conclusion is that collaborative agreements between Transit and district councils can be an effective means of maintaining local roads and state highways. In some instances, they have resulted in cost savings and more co-ordinated and locally responsive management of local roads and state highways as a single district roading network. However, from Transit's national perspective, there are significant drawbacks to collaborative agreements as they can lead to fragmented and less efficient management of state highways as a national network.

## On how the existing agreements had been set up and their objectives

We found that each of the three existing collaborative agreements had been set up in different but robust ways. The district council had initiated the agreement in all three cases. While the specific objectives of the district councils and Transit were different, for each agreement they were aligned on effective joint management of local roads and state highways in the districts and, for two of the agreements, on reducing maintenance costs.

## On the benefits of the existing agreements

The district councils were getting greater benefits from the agreements than Transit. For the two agreements where cost savings were expected, the savings for the district councils were expected to be greater than those for Transit. The district councils and Transit were not comprehensively tracking actual savings and how they were being applied, but available evidence suggested that the district councils were realising greater savings than Transit. In all three cases, the district councils were also noticing more non-financial benefits than Transit through their greater input to more co-ordinated and locally responsive integrated management of local road and state highway activities.

The balance of opinion among the district councils was that roads in their districts were being well managed and kept in a mostly stable condition. Our high-level analysis of the main Land Transport New Zealand (the Crown entity set up under the Land Transport Management Amendment Act 2004 to promote land transport sustainability and safety, and allocate government funding for land transport) and Transit road condition indicators showed that, generally, most of the road condition indicators remained steady. Individual indicators for particular districts pointed to specific aspects of road condition improving or deteriorating and being above or below average. There was no general pattern to suggest that road condition in the districts covered by the agreements was discernibly different from, or improving more than, the road condition in other districts.

Transit had gained some initial benefits from the existing agreements but believed that its cost savings were not substantial from a national state highway viewpoint. It also believed that it spent more time involved in managing the agreements than the time it spent managing other parts of the network.

Transit saw significant drawbacks to wider collaboration, both in achievement of its responsibilities under the Land Transport Management Act 2003 and in gaining efficiencies across the network. It had decided not to pursue further collaborations.



Transit had not formally compared the costs and benefits of collaborative agreements with other network management approaches, as it had difficulty quantifying many of the variables contributing to such an assessment. However, its view was that collaborative agreements potentially limited the size of contracts to packages of work consisting of small lengths of state highway and large lengths of local roads within council boundaries and that this may disadvantage Transit's purchasing power. It believed that, from the perspective of a national roading network, these packages of work may not be the most effective or efficient packages to put to the market. In Transit's experience, the most efficient and effective networks generally covered more than one local authority. Its view was that collaborative agreements in the form of shared services arrangements with adjacent local authorities would result in savings.

### **On proposed agreements that had not proceeded**

We found that no new collaborative agreements between Transit and local authorities had been set up since 2002, although several had been proposed. Of the four proposed collaborative agreements that we looked at, we found that one was stopped at an early stage. The remaining three went through a feasibility stage. In each case, the feasibility stage concluded that there were benefits to collaboration, including cost savings that we note were forecast using models with varying degrees of accuracy. Two of these three proposed agreements involved a group of district councils coming together to enter into a collaborative agreement with Transit.

While the specific reasons that the proposed agreements did not proceed were different in each case, differences in view between Transit and the district councils on their preferred model for collaboration were an important factor. These differences centred on whether Transit or the district councils would give authority to the other party to act on their behalf. Each preferred to be acting on behalf of the other party rather than giving authority to the other party. As well as this matter of trust, doubts about the extent of the likely cost savings and other benefits contributed to the proposed agreements not proceeding.

### **On lessons learned and the factors underpinning successful collaboration**

From those involved in the existing agreements and the proposed agreements that had not proceeded, we drew together views on lessons learned and what made collaborative agreements more likely to succeed. These views highlighted that commitment and trust combined with sound preparation underpinned successful collaboration. The lessons learned and factors underpinning successful

collaboration presented in Part 7 of this report are consistent with the findings of our May 2004 report *Local Authorities Working Together*, which, together with the brochure that accompanies it, offers guidance to local authorities on identifying opportunities and preparing proposals for working together.

## Our recommendations

In making our recommendations, we note that in May 2007 the State Services Commission released a land transport sector review (*Next Steps in the Land Transport Review*) that recommended Transit and Land Transport New Zealand be merged.

We recommend that Transit and Rotorua District Council:

- review the operation of the delegation in the next year, as it was last reviewed in 2000 (Recommendation 1, page 30);
- consider, as part of the review of the delegation in the next year, how arrangements for governance of the delegation might be further strengthened (Recommendation 2, page 30);
- consider, as part of the review of the delegation in the next year, whether additional savings might be made by combining maintenance contracts for local roads and state highways (Recommendation 6, page 44); and
- review the delegation at three-yearly intervals, as specified in the delegation agreement, to ensure that it continues to operate cost-effectively for both parties (Recommendation 3, page 30).

We recommend that Transit (Marlborough Roads office) and Marlborough District Council:

- prepare a succession plan for the Marlborough Roads office that covers how the capability of the organisation will be maintained in the future as staff change (Recommendation 4, page 34); and
- devise more specific targets for the council's service expectations from Marlborough Roads and build these into their reporting process to provide a clearer picture of ongoing performance under the agreement (Recommendation 5, page 35).

We recommend that Transit and Western Bay of Plenty District Council introduce a more comprehensive system for tracking whether the 10-year performance-based contract is realising the expected savings and, if so, how they are being used (Recommendation 7, page 46).

We recommend that Transit, in consultation with local authorities and Land Transport New Zealand:

- more fully assess the value of collaborative agreements with local authorities, including how they affect efficient and effective management of the state highway national network as part of an integrated land transport system (Recommendation 8, page 60); and
- use the assessment of collaborative agreements that we have recommended as a robust basis for informing future decisions on whether and how to collaborate (Recommendation 9, page 60).

We recommend that Transit and local authorities, if pursuing future opportunities for collaboration, refer to the success factors identified in Part 7 of our report as a guideline to help them make well-informed decisions on whether and how to collaborate (Recommendation 10, page 75).



# Part 1

## Introduction

- 1.1 In this Part, we discuss:
- the scope of our audit; and
  - how we carried out our audit.

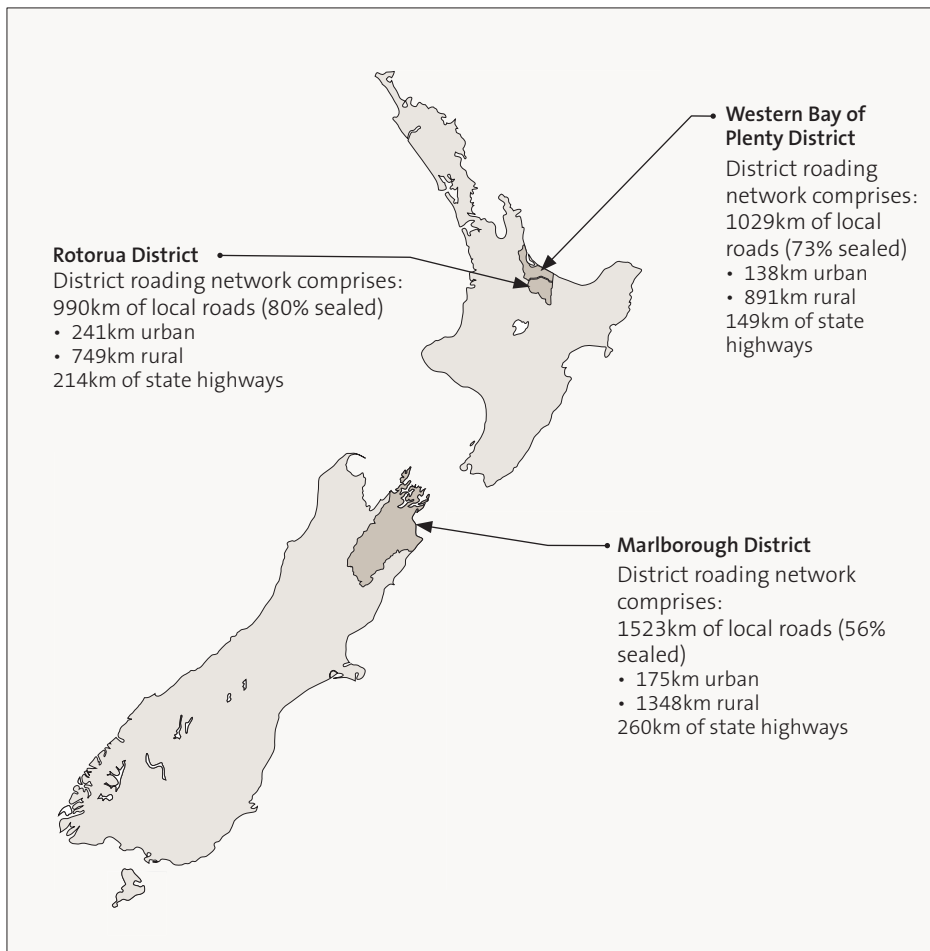
### The scope of our audit

- 1.2 Responsibilities for maintaining roads in New Zealand are primarily split between Transit New Zealand (Transit<sup>1</sup>) and local authorities. Under the Transit New Zealand Act 1989 and the Land Transport Management Act 2003, Transit's main objective is to operate the state highway system in a way that contributes to an integrated, safe, responsive, and sustainable land transport system. Transit is responsible for maintaining state highways. Under the Local Government Act 1974, district councils are responsible for administering the networks of local roads within their districts, which includes maintaining local roads.
- 1.3 In most districts, Transit and the district councils carry out their respective road maintenance responsibilities separately. However, three district councils have entered into collaborative agreements with Transit to jointly maintain local roads and state highways. Each agreement is different in how it was set up and the specific objectives of Transit and the district councils involved. Nevertheless, all of the agreements were expected to result in cost-effective maintenance of both local roads and state highways as a single district roading network.<sup>2</sup> Several collaborative agreements between other local authorities and Transit have been proposed but have not proceeded.
- 1.4 In our audit, we looked at whether the three existing collaborative agreements between district councils and Transit were set up in a robust way (see Parts 2 to 3), were functioning well (see Part 4), and were resulting in effective maintenance of local roads and state highways at lower cost (see Part 5). We also looked at the reasons four other proposed collaborative agreements had not proceeded (see Part 6). We drew together views on lessons learned and what made collaborative agreements more likely to be successful (see Part 7).
- 1.5 The three existing collaborative agreements between Transit and district councils that we looked at were in the Marlborough, Rotorua, and Western Bay of Plenty districts. Figure 1 shows the districts, together with information on the local roads and state highways that make up the district roading networks.

1 We note that in May 2007 the State Services Commission released a land transport sector review that recommended Transit and Land Transport New Zealand be merged – State Services Commission (2007), *Next Steps in the Land Transport Review*, Wellington, page 6.

2 Throughout this report, we use the term “district roading network” to mean the combined network of state highways and local roads within the geographical area covered by a district council.

**Figure 1**  
Districts where the three collaborative agreements were operating



Source: Map of councils – Local Government New Zealand  
District roading network information – Land Transport New Zealand and Transit data

1.6 The three agreements were:

- a delegation from Transit to Rotorua District Council under the Transit New Zealand Act 1989;
- a contractual agreement between Marlborough District Council and Transit; and
- a 10-year performance-based contract let jointly by Western Bay of Plenty District Council and Transit.

- 1.7 Under the delegation to Rotorua District Council, the council, on Transit's behalf, performs certain functions and duties, and exercises certain powers, for state highways that pass through the district, including managing their maintenance.
- 1.8 Under the agreement between Marlborough District Council and Transit, Transit provides roading management services to the council. This includes managing the maintenance of local roads and providing other services, such as parking control, on the council's behalf. A local Transit office, known as the Marlborough Roads office, has been set up to jointly manage roading services for local roads and state highways.
- 1.9 Under the 10-year performance-based contract in the Western Bay of Plenty district, a consortium of contractors provides all products and services associated with planning and delivering network maintenance activities for the combined Western Bay of Plenty District Council and Transit district roading network.
- 1.10 The four proposed collaborative agreements that did not proceed that we looked at were between Transit and district councils in Central Otago, Taranaki, Southland, and Tasman.

### How we carried out our audit

- 1.11 For the three existing collaborative agreements, we interviewed Transit head office and regional managers with responsibilities covering the agreements. We visited each of the district councils. During our visits to the councils, we interviewed council officials and elected members with responsibilities covering roading matters, some roading contractors, and representatives from the New Zealand Police, New Zealand Automobile Association, and the New Zealand Road Transport Association.<sup>3</sup> We also reviewed Transit and district council documents relating to the set up and ongoing operation of the collaborative agreements, and analysed Transit and Land Transport New Zealand<sup>4</sup> data on the condition of the district roading networks.
- 1.12 For the four proposed collaborative agreements that did not proceed that we looked at, we interviewed some Transit staff involved in negotiations and conducted telephone interviews with representatives from the district councils. We also reviewed documents, including agreements, feasibility reports, and other papers leading up to the decision not to proceed in each case.

3 The New Zealand Road Transport Association represents the road transport industry in New Zealand. Its mission is to create and sustain an environment within New Zealand in which the road transport industry can grow and prosper, and to assist members to realise their business goals.

4 Land Transport New Zealand is the Crown entity set up under the Land Transport Management Amendment Act 2004 to promote land transport sustainability and safety. It also allocates government funding for land transport – a function formerly carried out by Transfund. In this report, we refer to Transfund for activities carried out before November 2004, when Transfund was disbanded and its functions were transferred to the new Land Transport New Zealand.





## Part 2

### The three collaborative agreements

- 2.1 We focused our audit on three different collaborative agreements between Transit and district councils for managing maintenance of state highways and local roads. In this Part, we describe how these agreements were set up. The agreements are:
- a delegation from Transit to Rotorua District Council for the council to manage the maintenance of state highways with the maintenance of local roads;
  - an agreement between Transit and Marlborough District Council for Transit to manage the maintenance of local roads with the maintenance of state highways; and
  - a 10-year performance-based contract that Transit and Western Bay of Plenty District Council have jointly let for the maintenance of both state highways and local roads.

#### The delegation from Transit to Rotorua District Council

- 2.2 Transit has delegated authority for managing the maintenance of state highways in the Rotorua district to Rotorua District Council. The delegation from Transit to Rotorua District Council was the first of the three collaborative agreements to be set up.

#### Operating since 1990

- 2.3 Before July 1991, there was an agreement between the National Roads Board (Transit New Zealand's predecessor) and some local authorities, including Rotorua District Council, for these local authorities to manage the construction and maintenance of state highways. In August 1990, pending the end of this agreement in June 1991, Rotorua District Council resolved to advise Transit that the council wished to control and manage all state highways within the Rotorua district. The council resolved to hold negotiations with Transit to determine how such control would affect the council.
- 2.4 The council's district engineer led negotiations with Transit. They were extended while the then Transfund board was being set up to oversee Transit's programming and funding. The council operated an informal delegation to determine the benefit and effect of managing state highway activities until December 1996, when the council and Transit signed a formal delegation agreement.

#### Scope of the delegation

- 2.5 Transit had delegated a range of functions, duties, and powers to the council. The council acted as the client on Transit's behalf for the whole of the state highway

network in the district and managed maintenance programmes and capital projects, as well as other activities. Transit paid the council an administration fee.

- 2.6 Transit retained full power and control over state highway policy. Transit has also retained responsibility for planning and access control and other activities, such as commissioning programmes, bridge inspections, traffic counting, and issuing permits for overweight loads.

### Administration of the delegation

- 2.7 The council told us that, for administration purposes, state highways and local roads were treated separately. For example, there were separate financial streams and works programmes for state highways and local roads. Separate highway and local roads managers managed the main road maintenance and professional services<sup>1</sup> contracts for state highways and local roads, although the council had some combined contracts for activities such as street lighting, traffic signals, street sweeping, and electricity supply.
- 2.8 The council told us that, despite the administrative separation, the highway manager and local roads manager planned and managed state highway and local road activities as if for one network. The two managers told us that they were located in offices next to each other and worked together as required on projects and activities that affected both state highways and local roads, such as works projects on local roads near a state highway intersection. The highway manager was responsible for road safety and education for both state highways and local roads.

## The agreement between Transit and Marlborough District Council

- 2.9 In about 1999, Marlborough District Council approached Transit with a view to entering a form of alliance for managing the maintenance of local roads and state highways together.

### Operating since July 2000

- 2.10 Marlborough District Council entered into a five-year agreement with Transit on 1 July 2000 for Transit to manage the council's roads on its behalf. The contract, known as the Local Roads Asset Management Agreement (the agreement), was renewed for a second term of five years from 1 July 2005.

1 In the context of this report, the term "professional services" refers to technical services provided by an independent contractor to support effective management of roading assets. Such services include developing road network management strategies, drafting asset management plans, checking and approving maintenance contractors' work programmes, monitoring contractors' operations, and auditing contractors' work.

- 2.11 Under the agreement, the council retained control of local roads and the associated roading budget, and Transit became a supplier of roading management services to the council.

### **Feasibility project before entering into the agreement**

- 2.12 The council and Transit conducted a joint feasibility project in 1999 to assess the costs and benefits of an alliance.
- 2.13 The feasibility project was divided into seven workstreams:
- a financial workstream to map the cash flows and set up accounting and reporting systems for the alliance;
  - an office establishment workstream to consider the office facilities the alliance would need to deliver the functions and levels of service required;
  - an assets and services workstream to prepare a schedule of functions to be performed by the alliance, resourcing levels, and indicators for levels of service;
  - a contract terms and conditions workstream to consider options for the form of contract between the council and Transit;
  - a supplier restructuring workstream to consider what form of maintenance contracts the alliance should enter into, and to report on the level of savings restructuring supplier contracts would achieve;
  - a customer focus workstream to develop a brand name, a customer service strategy, and an implementation plan for the alliance; and
  - an organisational structure and staffing workstream to consider options for structuring the alliance and a basis for employment contracts and human resource services.

- 2.14 A joint venture was ruled out because of tax and other complications.

### **Local Transit office set up**

- 2.15 Under the agreement, a local Transit office was set up in Blenheim to jointly manage both local roads and state highways passing through the district. The Transit office is called the Marlborough Roads office and was opened on 1 December 2000.
- 2.16 Transit and the council retained their respective statutory responsibilities for the state highways and local roads in Marlborough, but jointly managed the state highways and local roads as an integrated district roading network through the Marlborough Roads office. Combined contracts for maintaining both state highways and local roads had been awarded, with Transit as the principal party.

## The joint contract let by Transit and Western Bay of Plenty District Council

- 2.17 Western Bay of Plenty District Council and Transit have joined together in contracting for maintenance of both state highways and local roads. The Western Bay of Plenty district is the only place where Transit and a local authority have joined together to award a long-term performance-based maintenance contract.

### Awarded for 10 years from 1 October 2002

- 2.18 In August 2002, Western Bay of Plenty District Council and Transit jointly awarded a 10-year contract for planning and delivering network maintenance activities for the combined council and Transit district roading network in the Western Bay of Plenty district. The contract started on 1 October 2002 and was performance-based, with specified outcomes underpinned by performance criteria.

### Lead-in to the contract

- 2.19 There was a lead-in time of between three and four years before the contract was awarded. This time was used to gather data, develop performance standards and measures, and prepare the documentation.
- 2.20 The council first considered the concept of a performance-based contract in May 1999, when it looked for alternative service delivery options for roading. The council told us that it collected a lot of data on the condition of local roads and believed that its asset management planning was more advanced than other local authorities. This meant that it was well positioned to specify what it wanted from a performance-based contract. The council decided to let a professional services contract to develop key performance measures appropriate for a rural roading authority.
- 2.21 The council recognised that Transit had a growing body of experience in performance-based contracting and approached Transit. The council wanted to share the set-up costs and believed that Transit was keen to set up a contract in the Western Bay of Plenty district that would cover both state highways and local roads, to gain advantages of scale. It also believed that Transit thought the council was one of the few local authorities in a position to develop a performance-based contract proposal. The council told us that it had tested how well it and Transit worked together by sharing a network safety contract and that it had a roading manager who Transit had confidence in and who led the setting up of the performance-based maintenance contract.

- 2.22 In October 2000, the council and Transit formally agreed a protocol for developing a proposal to more efficiently manage roads in the Western Bay of Plenty district through joint contracts. The goals of the project under the protocol were to develop a proposal for a joint 10-year performance-based contract and an associated structure for managing roads in the area and to implement the proposal if both organisations endorsed it.
- 2.23 A joint council and Transit management board was set up to oversee the project and to seek policy direction where necessary. Both organisations agreed to cover the costs involved, including the costs of any external service providers.
- 2.24 The main activities involved agreeing on funding assistance for the 10-year contract with Transfund, drafting the necessary contract documentation, and consulting with industry. Industry workshops were held during 2000 and 2001 to explore interest, service delivery options, and performance criteria, before tender documents were finalised.

### Joint management structure

- 2.25 Before entering into the contract as joint principals, the council and Transit drew up and signed a Principals Agreement as a basis for managing the contract. The Principals Agreement sets out their respective rights and liabilities, and the basis of their relationship with the contractor and third parties.
- 2.26 The council and Transit agreed to work co-operatively and in good faith to get the most efficiencies and highest quality of outcomes possible and to minimise the costs of managing the district roading network in the Western Bay of Plenty district.
- 2.27 A joint management structure was set up by the Principals Agreement. It comprised:
- a Joint Client Panel to oversee performance of the contract;
  - a Management Board to oversee implementation of the contract; and
  - an independent contract superintendent to administer the contract on behalf of the council and Transit, in accordance with the contract conditions.

### Summary of the three agreements

- 2.28 In this Part, we have described how the three collaborative agreements that we examined were set up. Figure 2 shows the differences in term, scope, contractual arrangements, and management structures between the three agreements.

**Figure 2**  
Summary of how the three collaborative agreements were set up

Set-up	Delegation from Transit to Rotorua District Council	Agreement between Transit and Marlborough District Council	Joint contract let by Transit and Western Bay of Plenty District Council
<b>Term</b>	<i>Open ended</i> Term not specified.  Operating since 1990. Operated informally before being formally agreed in 1996.	<i>Shorter term</i> Initial five-year term running from 1 July 2000. Renewed for a second five-year term from 1 July 2005.	<i>Longer term</i> Ten years from 1 October 2002.
<b>Scope</b>	<i>Operational activities</i>  On behalf of Transit, the council carries out activities such as: <ul style="list-style-type: none"> <li>• maintenance contract and capital project management;</li> <li>• management of certain records and surveys;</li> <li>• administering licences; and</li> <li>• traffic management advice and fatal accident reporting.</li> </ul> Policy, strategic, and specialist activities such as planning and access control, and programme and project commissioning, are not delegated.	<i>All main roading functions</i>  On behalf of the council, Transit carries out activities such as: <ul style="list-style-type: none"> <li>• strategic planning;</li> <li>• management of road operations, including maintenance</li> <li>• management of road safety and car parking activities;</li> <li>• Resource Management Act planning activities;</li> <li>• consultation activities;</li> <li>• maintenance of information databases; and</li> <li>• monthly, quarterly, and annual reporting.</li> </ul>	<i>Maintenance and some construction</i>  Covers provision of all products and services associated with the planning and delivery of network maintenance activities for the combined Western Bay of Plenty District Council and Transit district roading networks in the Western Bay of Plenty district.  The Western Bay of Plenty District Council part of the contract also included some construction work to seal 50km of unsealed roads and widen the seal on 76km of existing sealed roads.
<b>Contractual arrangements</b>	<i>Separate contracts</i>  Main maintenance and professional services contracts for state highways and local roads awarded separately by Transit and the council respectively.	<i>Combined contracts</i>  Combined contracts for maintenance of both state highways and local roads, and for professional services for both. Contracts awarded by Transit.	<i>Single performance-based contract</i>  A single performance-based contract for all maintenance services for both state highways and local roads awarded to a consortium of contractors by Transit and the council as joint principals.
<b>Management structures</b>	<i>Separate managers within the council</i>  Separate highway and local roads managers within the council, and both employed by the council.	<i>Local Transit office</i>  Local Transit office (known as Marlborough Roads) set up.	<i>Joint management structure</i>  Transit, the council and the consortium of contractors work together, with a joint management structure.

Source: Office of the Auditor-General

## Part 3

# What the agreements were designed to achieve

- 3.1 In this Part, we explain how the three agreements were all designed to provide cost-effective management of the district roading networks by discussing:
- the objectives of Transit and the councils when entering into the agreements; and
  - the main features of each of the agreements.

### Objectives of Transit and the councils

- 3.2 Transit and local authorities have to balance national transport requirements and local needs in following their different statutory objectives as road controlling authorities. Transit's main objective is to operate the state highway system in a way that contributes to an integrated, safe, responsive, and sustainable land transport system. Local authorities administer their networks of local roads in the interests of their ratepayers and manage local development. Development alongside state highways leads to local traffic using state highways in urban areas more, which affects the efficiency and effectiveness of the national transport network. Transit and local authorities have to work in partnership to resolve the implications of land-use planning on state highways and to achieve greater integration of high-level planning for transport and land use.
- 3.3 A common theme in the objectives of Transit and the councils when entering into the collaborative agreements was that they wanted cost-effective management of the state highways and local roads within the districts as a single district roading network.

### Objectives of delegation from Transit to Rotorua District Council

- 3.4 Rotorua District Council and Transit sought locally accessible and integrated delivery of roading services at no additional cost.
- 3.5 In approaching Transit in 1990 to request the delegation, Rotorua District Council saw the main advantage as the public having to go to only one organisation for district roading matters.
- 3.6 After operating the delegation informally until mid-1996, the council noted that the benefits for it had included the council's staff and consultants dealing with local problems at a local level through a "one-stop shop" for district roading matters. The council noted that benefits had come at no additional costs to the council, as an administration fee paid by Transit covered staff time and expenses for administering state highway activities.

- 3.7 During negotiations to formalise the delegation, the council provided Transit with evidence of the council's resources and capability to deliver the required services for state highways. The formal delegation from Transit noted that Transit considered the council to have the resources and capability to exercise the delegation. It also noted that Transit had determined that the delegation would not result in an increased cost to the state highway account.
- 3.8 The council's chief executive told us that the main reasons for formalising the delegation were the better services provided by the "one-stop shop" approach and improvements to the network, rather than cost savings.

### **Objectives of agreement between Transit and Marlborough District Council**

- 3.9 Marlborough District Council and Transit sought improvements in service delivery and cost savings.
- 3.10 The main objective of the Local Roads Asset Management Agreement between Marlborough District Council and Transit is to get "the most cost effective delivery and maintenance of roading services in Marlborough through an alliance that enables them to work together in a co-operative environment".<sup>1</sup>
- 3.11 The council and Transit identified other objectives and benefits of collaboration as:
- cost savings to both parties through better buying power with suppliers and contractors, and less administration by centralising processes and removing duplication of effort;
  - maintaining service levels at least to existing standards; and
  - the advantage to ratepayers from combining the expertise of Transit and council staff, setting up a Marlborough Roads office in Blenheim, and keeping the focus on local road customers.

### **Objectives of joint contract let by Transit and Western Bay of Plenty District Council**

- 3.12 Western Bay of Plenty District Council and Transit sought efficiencies through joint management of roads.
- 3.13 Western Bay of Plenty District Council approached Transit because it believed that the district roading network could be more efficiently managed through joint maintenance contracts for local roads and state highways. This was because local roads and state highways in the Western Bay of Plenty district are formed in a "fish bone" design, with state highways running down the centre and local roads connecting to the state highways as spines, with few interconnections between the local roads.

<sup>1</sup> Local Roads Asset Management Agreement, 17 November 2000, page 17.



- 3.14 By entering into a joint 10-year performance-based contract, the council and Transit aimed to:
- manage the effect of growth on district roads without increasing the roading rate levied by the council;
  - reduce maintenance expenditure on state highways in the district and achieve net savings to Transit;
  - at least maintain current levels of service;
  - enhance the identity of both the council and Transit as road controlling authorities; and
  - maintain the management identity of each party.
- 3.15 At the time, Transit saw wide-ranging benefits, including significant efficiencies, from being able to develop and implement effective alliances with local authorities. Transit saw Western Bay of Plenty District Council as a good potential alliance partner because of the council's willingness to form an alliance and the good relationship that Transit had with it.

### **Main features of the delegation from Transit to Rotorua District Council**

- 3.16 The delegation from Transit to Rotorua District Council focuses on protecting the quality and cost of existing service delivery through regular review. The delegation also allows some flexibility to improve the standard of maintenance.

#### **Regular review of the delegation**

- 3.17 The delegation specifies that Transit will review the delegation at three-yearly intervals to consider the council's performance, the council's resources and capacity to continue exercising the delegation, and the costs to the state highway account. It also specifies that Transit can revoke the delegation if, following a review, it finds that the delegation results in an increase in cost to the state highway account or that the council no longer has the resources and capacity to exercise the delegation.

#### **Flexibility to improve the standard of maintenance**

- 3.18 Within the main payment clause of the delegation, there is flexibility for the council to decide to do maintenance work on state highways that is of a higher standard than that prescribed by Transit or that is in addition to work required to comply with Transit standards. The clause notes that Transit will contribute only such costs for above-standard work that it thinks fit.

## Main features of the agreement between Transit and Marlborough District Council

- 3.19 The agreement between Transit and Marlborough District Council incorporates features designed to achieve cost savings and better management of the district roading network.

### Consolidation of maintenance contracts

- 3.20 The council and Transit anticipated that cost savings would principally come from restructuring existing maintenance contracts. They planned to let combined contracts for maintaining both state highways and locals roads. They also planned to reduce the geographical areas covered by the contracts so that there would be only two contracts – a northern contract and a southern contract covering areas north and south of the Wairau River respectively.
- 3.21 At an early stage of considerations to set up an agreement, the Ministry of Transport advised Transit and the council that they would need to show, with some certainty, that the projected savings would be achieved before the Minister's notice would be published in the *New Zealand Gazette*, as required under the Transit New Zealand Act 1989, to allow Transit to participate in the agreement.
- 3.22 Transit and the council decided to advertise the maintenance contract for the northern area before the agreement was set up. The tenders received showed that they could expect to make savings. Based on the tenders for the northern area maintenance contract and a prediction of similar levels of savings from tendering the southern area maintenance contract, Marlborough District Council expected to achieve annual savings of \$718,000 and Transit expected to achieve annual savings of \$300,000. They also predicted annual savings of about \$660,000 to Transfund for subsidised work.
- 3.23 Both the northern and southern area maintenance contracts were successfully let. The northern contract was let from 1 July 2000, and the southern contract was let from 1 July 2001. Both contracts were re-tendered at the end of their term, and new contracts are now in place. We discuss the savings achieved in Part 5 (paragraphs 5.8 to 5.11).
- 3.24 Transit and the council also expected to make further savings by consolidating the provision of professional services that support the management of the network. Transit estimated that it would save around \$140,000 annually. A single contract for the provision of professional services for the management of both state highways and local roads within the Marlborough area was let from 1 July 2001.

- 3.25 The Transit business case for entering into the agreement noted that the savings in the state highway programme from the combined contracts more than covered the start-up and ongoing costs for the Marlborough Roads office.

### **Bringing together of Transit and council expertise**

- 3.26 When the Marlborough Roads office was set up, it was staffed by bringing together the council's and Transit's staff with expertise in the areas of asset management, project management, planning and network protection, customer service, and administrative and financial support.
- 3.27 Staff employed by the council became employees of Transit in the Marlborough Roads office. The council wanted to retain the local knowledge and credibility that these employees had with the councillors, council staff, and the community. A clause in the agreement prevented Transit from transferring these staff on a permanent basis to any location outside the Marlborough district in the first two years.
- 3.28 Since the Marlborough Roads office was set up, staffing has been stable and none of the former council employees have left.

### **Separate identity and customer focus for Marlborough Roads**

- 3.29 Part of the agreement was for the Marlborough Roads office to be set up as a local Transit office, but with its own identity separate from that of the council and Transit. Transit and the council considered that this was important for the office to have a customer focus.
- 3.30 The agreement provides for the Marlborough Roads office to be a single point of contact for day-to-day enquiries from the public and representatives of the council about the status, ownership, and use of the district roading network.
- 3.31 Representatives from the Marlborough Roads office are also required to meet regularly or to have routine contact with community groups and other organisations with a stake in the district roading network.

### **Close working between the council and the Marlborough Roads office**

- 3.32 The agreement provides for Transit and the council to each appoint and make available a person designated as their representative for all matters concerning the agreement and dealings with the other party.
- 3.33 The agreement specifies requirements for Marlborough Roads office staff to report to the council on the functions they carry out on the council's behalf,

together with requirements for consultation between the council and the Marlborough Roads office. Consultation requirements include representatives from Marlborough Roads attending council meetings and liaising regularly with the council's staff and councillors.

- 3.34 Transit was keen to include a relationship-based aspect to the agreement to recognise that the outcome would be enhanced if communication, trust, and openness were developed and maintained between Transit and the council. A partnering charter was proposed during the feasibility stage, along with specific actions and a mechanism for monitoring the ongoing relationship and high-level outcomes. A charter was never drawn up, but the council believed that the agreement with Transit was, in practice, operating as a partnering agreement.

### **Main features of the joint contract let by Transit and Western Bay of Plenty District Council**

- 3.35 The Western Bay of Plenty contract has been designed to achieve better management of the district roading network and cost savings.

#### **Tendered costs lower than estimated costs**

- 3.36 For a contract to be awarded, the tender cost had to be at least 9% lower than the estimated cost of continuing with the current situation. The ability to reduce costs was based on the efficiencies expected from a long-term performance-based contract.
- 3.37 The level of expenditure after savings of 9% was considered to still be enough to:
- bring the roading assets up to the specified contract standards;
  - maintain the assets to the contract standards for the next 10 years; and
  - enhance and develop the network as specified.
- 3.38 The cost of the winning tender was more than 9% lower than the estimated cost of continuing with the traditional maintenance and contract system. We discuss the savings achieved in Part 5 (paragraphs 5.12 to 5.15).

#### **Ten-year contract**

- 3.39 The 10-year term of the contract is longer than that for traditional maintenance contracts, which mostly cover three to five years. The contractor told us that the 10-year term of the contract was important in enabling savings through efficiencies – for example, by allowing it to put more sophisticated systems and processes for planning work over an extended period in place.

### Performance-based contract for a set sum

- 3.40 The overall objective of the contract is to provide a safe and efficient network. Contract outcomes specified under this objective are underpinned by the expected performance standards and the measures to assess performance against expectations.
- 3.41 The contract is for a set sum over the 10-year term to provide all products and services to meet the performance standards and contract outcomes. Getting the most profit possible from the set sum acts as an incentive for the contractor to manage and deliver network maintenance activities efficiently and effectively.

### Some specific risks transferred to the contractor

- 3.42 The contract seeks to allocate risks to the party best able to manage them. Specifically, the contract transfers risk to the contractor for the first \$800,000 of emergency works in any one year following certain natural events, such as a major slip or road wash out.

### Identifying improvements

- 3.43 The contract requires that, throughout its term, the contractor must explore, develop, and present to the Management Board potential improvements. The contractor must also look into potential improvements suggested by the council or Transit.
- 3.44 The contract indicates that improvement initiatives may, for example, lead to reduced costs, improved levels of service, improved safety performance, more features to meet road user needs, or increased life of the roading assets.

### A co-operative approach

- 3.45 The contract notes that a co-operative approach by the contracting parties is fundamental to the concept of performance-based contracting. It states that the conditions of the contract seek to remove traditional adversarial relationships.

## Summary of objectives and main features of the three agreements

- 3.46 In this Part, we have described the objectives and main features of the three collaborative agreements that we examined. All of the agreements have been designed to achieve cost-effective management of the relevant district roading network. Figure 3 summarises the objectives and main features of the three agreements.

**Figure 3**  
Summary of the objectives and main features of the three agreements

	Delegation from Transit to Rotorua District Council	Agreement between Transit and Marlborough District Council	Joint contract let by Transit and Western Bay of Plenty District Council
<b>Objectives</b>	Locally accessible and integrated delivery of roading services at no additional cost	The most cost-effective delivery and maintenance of roading services in Marlborough through an alliance that enables Transit and the council to work together in a co-operative environment	A safe and efficient network with the highest level of availability to road users and which satisfies stakeholder expectations
<b>Main features</b>	<ul style="list-style-type: none"> <li>• Provision for regular review of the delegation</li> <li>• Flexibility for the standard of road maintenance to be improved</li> </ul>	<ul style="list-style-type: none"> <li>• Consolidated maintenance contracts combining state highways and local roads and rationalising the geographical areas covered</li> <li>• Council and Transit expertise brought together to staff the new local Transit office</li> <li>• A separate identity for the new local Transit office (Marlborough Roads) and a customer focus</li> <li>• Provision for close working between the council and Transit's Marlborough Roads office</li> </ul>	<ul style="list-style-type: none"> <li>• Costs tendered for the contract had to be lower than current costs</li> <li>• Long-term (10-year) contract</li> <li>• Performance-based and for a set sum</li> <li>• Transfers some specific risks to the contractor</li> <li>• Requires improvement initiatives to be identified and pursued</li> <li>• Encourages a co-operative approach by the contracting parties</li> </ul>

Source: Office of the Auditor-General

## Part 4

### How the agreements were working

4.1 In this Part, we report on how well the agreements were working when we examined them at the end of 2006. For the agreements to be functioning well, we expected to find:

- effective governance of the agreements;
- effective management of risks on entering into the agreements and effective ongoing management of risks;
- effective communication and reporting between Transit and the district councils; and
- effective contractual arrangements underpinning the collaborative agreements.

4.2 We did not conduct a financial audit of all contractual arrangements underpinning the collaborative agreements. We looked at whether the main contractual arrangements were operating effectively by examining whether:

- roles and responsibilities had been clearly defined in contracts and were functioning as intended;
- risks had been clearly allocated through contracts;
- contracts had been awarded for an appropriate length of time;
- there were adequate arrangements for monitoring and reporting contract performance; and
- there had been any major problems with contract variations and payments.

#### **The delegation from Transit to Rotorua District Council**

4.3 The delegation to Rotorua District Council was working well, with little ongoing management input from Transit.

#### **Governance**

4.4 Governance was working well, although the informality of arrangements and infrequent reviews meant that there was a risk of governance issues not being picked up early.

4.5 Governance of the delegation was mainly through quarterly meetings between the council's district engineer and Transit's area manager. No minutes were produced for these meetings. Transit's regional manager raised issues with the council's district engineer and the council's highway manager as they arose, rather than through any regular formal governance forum. The regional manager was very much on the sidelines of the delegation. Transit told us that bringing the council into the chain between Transit as the ultimate asset manager for state

highways and the state highway maintenance contractors lengthened it and that Transit was more distant from the decision-making process. The council told us that governance was being strengthened by the council establishing a stronger relationship with Transit's regional office in Tauranga.

- 4.6 The formal agreement provides for the delegation to be reviewed every three years. The last review was in 2000 and concluded that there was reasonable confidence that performance expectations had been met and the main requirements of the delegation complied with.

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**Recommendation 1**

We recommend that Transit and Rotorua District Council review the operation of the delegation in the next year, as it was last reviewed in 2000.

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**Recommendation 2**

We recommend that Transit and Rotorua District Council consider, as part of the review of the delegation in the next year, how arrangements for governance of the delegation might be further strengthened.

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**Recommendation 3**

We recommend that Transit and Rotorua District Council review the delegation at three-yearly intervals, as specified in the delegation agreement, to ensure that it continues to operate cost-effectively for both parties.

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- 4.7 Under the delegation agreement, Transit paid the council an administration fee. The fee was to cover the council's state highway management costs (mainly the costs of employing the highway manager). It was made up of a percentage of annual expenditure on the state highways plus a charge for each kilometre of highway. The council told us that, because expenditure on the state highways fluctuated from year to year, there was sometimes a small surplus or deficit to the council at the end of any one year. This balanced out over a number of years. The council reported state highway management costs in its Long-Term Council Community Plan, and the plan for 2006-2016 shows that costs and the administration fee are expected to broadly balance over time.

**Risk management**

- 4.8 Transit had not delegated responsibility to the council for planning and access control for state highways to avoid potential conflicts of interest Transit thought



might arise. Transit believed that the council could have a conflict in balancing ratepayer interests with protecting the state highway network.

- 4.9 The council's highway manager told us that there was potential for conflicts of interest to arise for him in public meetings (for example, when planning consents were discussed). He always made it clear that, although he was not a Transit employee, he was giving Transit's view. He also said that the council had managed this risk by separating responsibility for state highways and locals roads between himself and the local roads manager.
- 4.10 The Transit regional manager told us that a potential risk, particularly if important staff within the council changed, was that the council did not manage the delegation in accordance with Transit's policy and procedures. He said that this risk was managed through contract management reviews by Transit. Under the delegation, the council is also required to notify Transit of any changes in important staff that would affect its ability to exercise the delegation.

### Communication and reporting

- 4.11 Within the council, the highway manager had regular contact with councillors. The councillor that we spoke to valued the highway manager's excellent knowledge of district roading matters and how he used it in managing state highway activities. The highway manager also had regular contact with the council's local roads manager on specific projects.
- 4.12 The highway manager's main contact with Transit was through the Transit regional office. He had quarterly meetings at the Transit regional office, with other communication driven by issues as they arose. The highway manager told us that he was in frequent contact with staff in the Transit regional office about planning consents, capital projects, and other matters.
- 4.13 The highway manager also communicated regularly with the public and the New Zealand Police, and liaised with local roading organisations (such as "Drivewise", a road safety trust), who believed that the highway manager kept them well informed about roading issues.
- 4.14 The highway manager told us that he reported regularly to Transit on state highway contracts, projects, and finances using Transit's standard reporting system, which he had a direct link to. He monitored standard Transit key performance measures for state highway condition. The highway manager and the local roading manager also reported to the council's Works Committee every six weeks.

### Contractual arrangements for state highway professional services

- 4.15 The council administered nine separate or combined state highway maintenance contracts and one state highway professional services contract. We focused on the contractual arrangement with the state highway professional services contractor because professional services support effective management of roading assets and include monitoring the operations of maintenance contractors. We did not examine the maintenance contracts themselves. Contractual arrangements managed by the council for state highway professional services appeared to be functioning well.

#### Roles and responsibilities

- 4.16 The state highway professional services contract was a traditional contract with defined roles and responsibilities. However, a representative for the professional services contractor told us that, in practice, a partnership arrangement was operating between the contractor and the council that went beyond the state highways contract. The representative said that there was a good understanding between the contractor and the council based on mutual respect and an open, honest relationship. The representative also said that the contractor and the council jointly worked together and took pride in maintaining the state highways.

#### Allocation of risks

- 4.17 The contract was for a set sum. Some known risks were allocated to partners through the contract, but the contractor carried the risk of staying within the set sum.

#### Length of contract

- 4.18 The contract was for an initial term of three years and could be extended by two periods of one year. The contractor told us that the term of the contract was not a problem, although a longer contract would provide more certainty and reduce re-tendering costs.

#### Performance monitoring and reporting

- 4.19 Adequate performance monitoring and reporting arrangements were in place. The representative for the contractor told us that the council's highway manager evaluated the performance of the contractor every month using Transit's standard performance assessment system. Performance was discussed at weekly liaison meetings between the contractor and the council, and action was taken where needed. The representative also told us that Transit reviewed the contractor every few years for compliance with Transit's policies and procedures.

**Variations and payments**

- 4.20 There was a clear process for approving contract variations. Variations to the scope of the state highways professional services contract went to Transit for approval. Once variations had been approved by Transit, they were also presented to the council's Works Committee for approval.
- 4.21 The contractor told us that payment claims were submitted to the council's highway manager, and the process ran smoothly.

**The agreement between Transit and Marlborough District Council**

- 4.22 Transit's agreement with Marlborough District Council was working well.

**Governance**

- 4.23 Governance was working well. The manager of Transit's Marlborough Roads office and the council's assets and services manager had formal responsibility for governance.
- 4.24 A procedural audit of the Marlborough Roads office by Land Transport New Zealand in late 2004 concluded that, overall, Marlborough Roads was well managed, with appropriate governance structures in place.
- 4.25 The agreement provides for Transit and the council to split the administration costs of running the Marlborough Roads office. Transit covers 40% of the administration costs, and the council pays Transit a management fee to cover the remaining 60%.
- 4.26 The Marlborough Roads office analyses timesheets annually to ensure that the split of administration costs between Transit and the council remains fair and reasonable. The procedural audit by Land Transport New Zealand in late 2004 reviewed the timesheet analysis for the year ended 30 June 2004 and found that the split of administration costs was still reasonable.
- 4.27 During the five years of the initial agreement, the management fee paid by the council to Transit remained the same. It was increased when the agreement was renewed from 1 July 2005 to cover increased staffing, administrative, and rental costs since 2000.

**Risk management**

- 4.28 When setting up the agreement, Transit and the council jointly identified and managed risks. There was no formal risk management plan for the ongoing

operation of the agreement, although the agreement itself provides a level of protection for both parties, including conditions for terminating the agreement. The people from Transit and the council that we spoke to were also alert to potential ongoing risks, and the risks were being managed.

- 4.29 A loss of council support through changing membership was recognised as a risk. There was strong ongoing commitment to the agreement from the council staff and councillors that we spoke to.
- 4.30 Potential conflicts of interest were recognised as a risk. As an ex-council employee, the manager of Marlborough Roads was very aware of the need to retain independence to avoid potential conflicts of interest where Transit and the council had different views on issues.
- 4.31 Staff turnover that led to a loss of local expertise within Marlborough Roads was also recognised as a risk. The council had already identified a potential replacement for an important staff member of Marlborough Roads who might retire in the near future and was taking steps to equip the potential replacement with the necessary skills and experience for the Marlborough Roads role. The council recognised that Transit would be responsible for appointing any replacement and was not bound to consult the council.

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**Recommendation 4**

We recommend that Transit (Marlborough Roads) and Marlborough District Council prepare a succession plan for the Marlborough Roads office that covers how the capability of the organisation will be maintained in the future as staff change.

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**Communication and reporting**

- 4.32 Communication between Marlborough Roads staff and the council's staff and councillors was considered to be excellent. Having the Marlborough Roads office close to the council was helpful. The council told us that there had been few formal meetings between the council and Marlborough Roads in recent months, but informal contact continued almost daily and formal meetings were held as required. The procedural audit by Land Transport New Zealand in late 2004 concluded that the relationship between the parties was co-operative and was based on open and honest communication, both formal and informal.
- 4.33 Communication between the Marlborough Roads office and the other roading stakeholder groups that we spoke to was also considered to be good in most cases. The New Zealand Automobile Association and the New Zealand Police

believed that communication with them was useful and that they were listened to. The chairman of the regional branch of the New Zealand Road Transport Association (which represents road haulage companies) said that he would like more regular round-table discussions involving road user groups.

- 4.34 The Marlborough Roads office produced regular reports for the council covering finances, operations, communications (including complaints), and safety. These reported issues on an exception basis. The council had to approve variations from the council's roading budget, and the council told us that the Marlborough Roads office was good at staying within budget. Marlborough Roads also produced an annual report and used standard Land Transport New Zealand and Transit indicators to report to the council and Transit on the condition of the district roading network. The council was very happy with the level of information that it received.
- 4.35 The manager of the Marlborough Roads office told us that the council's performance indicators for Marlborough Roads were not well defined in the agreement, and we agree with this assessment. One of the feasibility project workstreams leading up to the establishment of the Marlborough Roads office recommended that specific performance targets be developed to ensure that service expectations were clear.

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#### **Recommendation 5**

We recommend that Transit (Marlborough Roads office) and Marlborough District Council devise more specific targets for the council's service expectations from Marlborough Roads and build these into their reporting process to provide a clearer picture of ongoing performance under the agreement.

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#### **Contractual arrangements for joint professional services**

- 4.36 Transit's Marlborough Roads office contracted separately for professional services and physical works on the district roading network. There was a single professional services contract that covered state highways and local roads, and we focused our examination on the contractual arrangement between Marlborough Roads and the professional services contractor. As noted earlier, professional services support effective management of roading assets and include monitoring the operations of maintenance contractors. We did not examine contractual arrangements between Marlborough Roads and the maintenance contractors. The contractual arrangement for joint professional services appeared to be functioning well.

**Roles and responsibilities**

- 4.37 The professional services contract defined the main roles and responsibilities of the professional services contractor. They were to ensure that optimal levels of service and investment in the network were achieved and to audit the maintenance contractor's systems to ensure that they demonstrated fulfilment of their contractual requirements. The professional services contractor told us that, over time, the relationship with Marlborough Roads had become more of a partnership that went beyond the roles and responsibilities defined in the contract. The professional services contractor had effectively become part of Marlborough Roads and was able to respond flexibly to requirements – for example, by stepping in to provide customer support if Marlborough Roads staff were not available.

**Allocation of risks**

- 4.38 The professional services contractor carried the risk of staying within the sum agreed for the professional services contract. The risks that Transit's Marlborough Roads office retained as the client were specified in the contract.

**Length of contract**

- 4.39 The professional services contract was for an initial term of three years and could be extended by two periods of one year. The initial contract for joint professional services ran for five years and at the end this term was extended by another year to provide continuity for the new contractor who took over the southern area maintenance contract. The professional services contract for services from 1 July 2007 was to be re-tendered.
- 4.40 The professional services contractor told us that a longer term contract would be useful to fit in with the contractor's responsibility for long-term management of the network over the next 10 to 20 years.

**Performance monitoring and reporting**

- 4.41 Performance monitoring and reporting arrangements were adequate. Performance of the professional services contractor was assessed against the overall desired outcome of providing a safe and efficient roading network. The professional services contractor was required to report monthly to Marlborough Roads using a roading network scorecard, which tracked eight network performance criteria. Marlborough Roads' representatives also held regular meetings with the professional services contractor to review performance. No performance issues were brought to our attention.
- 4.42 The opportunity to be a preferred supplier for the Marlborough Roads office acted as an incentive for the professional services contractor to score well. There had been no formal disputes with Marlborough Roads.

**Variations and payments**

- 4.43 The professional services contractor told us that there had been no formal variations to the contract. The contractor had not asked for extra payments for performing additional activities under the partnership approach that had evolved. In the contractor's opinion, the relationship with Marlborough Roads would have become dysfunctional if the contractor had sought variations to the contract for these activities.
- 4.44 Payment arrangements appeared to be working well. Marlborough Roads invoiced the council monthly for the management fee to cover the office's administrative costs, payments claimed by contractors, and the costs of other functions that it managed such as parking. The professional services contractor checked payment claims made by maintenance contractors.

**The joint contract let by Transit and Western Bay of Plenty District Council**

- 4.45 The Western Bay of Plenty joint contract had been independently reviewed twice to assess how well it was working and the progress in achieving the specified outcomes. The first review was conducted in May 2004 and the second in August 2006. We have drawn on these independent reviews and our own interviews and examination of documents in making our assessment of the contract. The contract and arrangements for managing it were working better over time. Arrangements for governance of the contract, joint working within the consortium of contractors, and monitoring and reporting contract performance were improving as they were refined.

**Governance**

- 4.46 Governance had improved over time and was working well. The August 2006 independent review of the contract concluded that there was appropriate representation from the council and Transit on both the Joint Client Panel and the Management Board, which are responsible for overseeing performance and implementation of the contract respectively. It noted that the Management Board was working effectively in its role of governance, addressing the interests of both parties. However, the Transit regional office was not represented on the Management Board, and its integration into the contract management arrangements had not been totally successful. The review recommended that action was required to improve the Transit regional office's "buy-in" to the contract.

- 4.47 We agree with this assessment. Representatives from the council, Transit, and the contractor, including the contract superintendent who administered the contract on behalf of the council and Transit, told us that the Joint Client Panel and the Management Board were working well. Governance roles and responsibilities had recently been clarified, and operation of the Joint Client Panel had improved. The chairman of the Management Board and the superintendent now attended meetings of the Joint Client Panel, and the Joint Client Panel received a two-page summary report of Management Board meetings. A new Transit regional asset manager had also been appointed, and more regular meetings were now taking place between the regional asset manager and the contractor.

### Risk management

- 4.48 Risks outside of those covered by the contract were not being formally managed through a risk management plan, but the superintendent and representatives of the council and contractor that we spoke to were aware of them and they were being managed informally.
- 4.49 One risk was that any changes in personnel might lead to a lack of ongoing commitment to the contract. The council told us that new councillors were briefed on the philosophy and operation of the contract.
- 4.50 Failure to build and maintain co-operative relationships was also recognised as a risk. The contract manager for the consortium of contractors (known as *In<sup>3</sup>roads*) told us that the less adversarial and more co-operative approach embodied in the contract required a different mindset. It had taken about three years to set up joint working arrangements among the contractors making up *In<sup>3</sup>roads*, and working arrangements within *In<sup>3</sup>roads* had improved. One of the *In<sup>3</sup>roads* contractors told us that the contract would operate more effectively if a formal alliance was in place.
- 4.51 The independence of the superintendent being compromised was raised as a potential risk in the August 2006 review of the contract. The review noted that having the superintendent's office in the same location as the contractor's may promote a more open and positive relationship and greater administrative efficiency but that there was also a risk that this could be seen by others as compromising the superintendent's independence. The review recommended that consideration be given as to how to address any negative perceptions of the independence of the superintendent's role. In response, the Management Board said that they would keep perceptions of the independence of the superintendent's role under review. We found that the superintendent was alert to the need to maintain independence and balance in performing his role.



### Communication and reporting

- 4.52 Communication across the parties to the contract was good. The August 2006 independent review concluded that there was a high standard of information to the Management Board and that sound relationships existed across all parties at all levels. Our interviews with the superintendent and representatives from the council and the contractor indicated that regular and useful meetings were taking place and that communication was good.

### Contractual arrangements for the performance-based contract

- 4.53 Contractual arrangements for the performance-based contract were working well and were being refined over time.

#### Roles and responsibilities

- 4.54 The Principals Agreement and the contract defined roles and responsibilities. Our interviews with the superintendent and representatives from the council and the contractor showed that roles and responsibilities were generally well understood.

#### Allocation of risks

- 4.55 An appendix to the contract allocates risks between the parties to the contract. As the contract is for a set sum, the contractor is responsible for covering the additional costs of dealing with any uncertain events or circumstances affecting performance of the services, unless specified otherwise in the contract.

#### Length of contract

- 4.56 The *In<sup>3</sup>roads* contract manager told us that the 10-year contract term had allowed useful lead-in time to put systems and processes in place to support the road maintenance services. The August 2006 independent review report noted that *In<sup>3</sup>roads* were to be commended for continually improving their systems. The council also told us that the contract remained flexible enough to accommodate changes.

#### Performance monitoring and reporting

- 4.57 Performance monitoring and reporting arrangements were being refined over time to be more effective.
- 4.58 The contract included a large number of performance measures some of which were split between local roads and state highways. Levels of service for local roads were based on the council's 1998 Road Asset Management Plan and 2002/03 District Roading Programme. The measures comprised:
- management performance measures covering the contractor's reporting and communications, quality systems, management plans, and the delivery of professional services;

- key performance measures covering the overall condition of the roading assets and the overall safety of the network; and
- operational performance measures covering road users' expectations about the district roading network's day-to-day serviceability.

- 4.59 Compliance with the measures by the contractor was monitored through a jointly administered independent data collection contract and through observation and audit by the council and Transit as they saw fit. Performance was regularly reported to the Management Board, Joint Client Panel, and the council's Operations Committee. The Joint Client Panel and Management Board also received reports on potential improvement initiatives that were required to be explored and developed under the contract. Procedures for handling poor performance and disputes were set out in the contract. There had been no serious disputes.
- 4.60 The accuracy of reporting was being refined over time. In the past, the Management Board had expressed concerns about the accuracy of the data on which reported performance was based. The August 2006 independent review concluded that compliance with the key performance measures was being accurately reported.
- 4.61 For the operational performance measures, the August 2006 independent review found that in the past there had been problems with assessing compliance with the measures and that how compliance was reported could be improved. The review recommended that the council and Transit conduct random targeted audits of compliance, that *In<sup>3</sup>roads* develop a means of demonstrating compliance with operational performance measures for state highways, and that *In<sup>3</sup>roads* consider improving the means by which it reported compliance.
- 4.62 *In<sup>3</sup>roads* was taking steps to improve the clarity and completeness of reporting. *In<sup>3</sup>roads* was developing a balanced scorecard to show the health of the contract through a series of "traffic light" indicators and supporting information that covered indicators of people and knowledge, network quality, management of risks, value for money, stakeholder satisfaction, and financial health. The Joint Client Panel had asked the superintendent to consider whether other contract well-being indicators that traced features such as morale, teamwork, communication, and technical competency could be developed.
- 4.63 The number and relevance of measures was also being reviewed. The August 2006 independent review found that the number of measures, particularly for the council's roading assets, meant that the Management Board was distracted by too much detail from time to time. Representatives from the contractor had

also told the review team that some of the measures were stifling innovation. The review recommended that the Management Board review the effectiveness of the measures in demonstrating outcomes.

4.64 The Management Board was looking at reducing the number of key performance measures for the contract. The parties to the contract met on a number of occasions in the latter half of 2006 to discuss measures that ought to be changed in their and road users' interests. Reasons for changing the measures included:

- The level of service provided was not meeting road users' expectations.
- The measure was not driving In<sup>3</sup>roads to carry out work in areas of perceived need.
- The measure was having no influence on In<sup>3</sup>roads' decision-making, and the data gathering and reporting was a wasted expense.
- Data collected at different times were showing such large swings as to lack credibility.
- Contract requirements were no longer aligned with changing state highway standards.

4.65 Proposed improvements to levels of service and revisions of performance measures had been identified, some of which required additional input from, or incurred additional costs for, In<sup>3</sup>roads. Areas where other contract requirements could be relaxed to produce enough savings to offset the cost of the proposed improvements without having any detrimental effect were being identified at the time of our audit.

#### **Variations and payments**

4.66 The contract superintendent told us that about 120 variations had been negotiated to the contract since it was awarded. The August 2006 independent review examined the system for processing variations and found that the system was sound, although the tracking and reporting of total costs of completed and committed variations needed to be improved.

4.67 Arrangements for payments were set out in the contract. Essentially, the set sum was spread across the 10-year term of the contract, and the amount due for each year was paid to the contractor by equal monthly instalments. The In<sup>3</sup>roads contract manager told us that the payment process worked smoothly.



## Part 5

### Benefits from the agreements

- 5.1 In this Part, we report on whether the agreements have led to more cost-effective maintenance of roads and other benefits. We discuss whether:
- the district councils and Transit have achieved savings on road maintenance costs through the agreements;
  - the condition of roads in the districts covered by the agreements has improved;
  - the district councils have noticed other benefits or drawbacks from the agreements; and
  - Transit has noticed other benefits or drawbacks from the agreements.
- 5.2 Overall, the district councils were noticing greater benefits from the agreements than Transit. The district councils were achieving greater cost savings than Transit, and the balance of opinion among the district councils was that roads were being well managed and kept in a mostly stable condition. The district councils were also getting other benefits from the agreements more than Transit.
- 5.3 Transit had gained some initial benefits from the existing agreements but saw significant drawbacks to wider collaboration and had decided not to pursue further collaborative agreements.
- 5.4 We did not attempt to compare the cost-effectiveness of maintaining local roads and state highways under the existing collaborative agreements with the cost-effectiveness of the district councils and Transit working either separately or under different joint arrangements to maintain them. An analysis of the relative cost-effectiveness of alternative scenarios was beyond the scope of our audit. Therefore, we have not drawn any conclusions on whether the existing collaborative agreements represent the most cost-effective means of maintaining roads in the areas they cover.

#### **Cost savings achieved by the district councils and Transit**

- 5.5 We expected that district councils and Transit would be tracking the cost savings realised through the collaborative agreements against those estimated when entering into them, together with how the savings were being spent. While there was some tracking of savings, this was not enough to accurately determine the total level of savings achieved and how they were being spent. Available evidence suggested that district councils were realising greater savings than Transit.

#### **Cost savings achieved by Rotorua District Council and Transit**

- 5.6 Rotorua District Council had achieved savings on its local roads maintenance contract by putting it out to tender with the state highways maintenance

contract. The winning contractor had bid for both contracts and offered a discount if it won both, on the basis that it would be able to better use its resources. The council told us that it had achieved a discount on the cost of its local roads maintenance contract, giving a saving of around \$50,000 to \$60,000 a year over five years.

- 5.7 The council told us that there could be further savings through combining both local road and state highway maintenance into one contract, similar to the contracts in the Marlborough and Western Bay of Plenty districts. The council had considered this but had not combined the contracts for local roads and state highways, because it:
- wanted to keep reporting and financial streams for local roads and state highways separate;
  - was concerned about the complexity of a combined contract; and
  - did not want to reduce competition by potentially excluding some local providers.

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#### **Recommendation 6**

We recommend that Transit and Rotorua District Council consider, as part of the review of the delegation in the next year, whether additional savings might be made by combining maintenance contracts for local roads and state highways.

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#### **Cost savings achieved by Marlborough District Council and Transit**

- 5.8 Marlborough District Council believed that it had achieved greater cost savings than Transit through the agreement in Marlborough. The exact amount that had been saved by the council during the agreement was not clear. The council had reinvested some of the savings in increased expenditure on local roads. We were not able to verify how all of the savings had been spent.
- 5.9 An internal report to the council in February 2001 reported annual contract savings of \$574,000 from consolidating road maintenance contracts when the Marlborough Roads office was set up. The report noted that contract savings totalled \$686,245 for each year (close to the \$718,000 estimated) but had been offset by a loss of subsidy of \$112,245 for each year because of reduced spending. It also noted that additional expenditure of \$213,000 had been incorporated into the council's budget for 2001/02 for items including street cleaning and increased bitumen costs. The report identified other items that could be incorporated in the budget for the council's consideration.

- 5.10 A technical audit of the council's road operations by Land Transport New Zealand in late 2004 found that total cost savings in the range \$900,000 to \$1,000,000 had been achieved consistently in each year since Marlborough Roads was set up. These included savings of around \$400,000 to Land Transport New Zealand on subsidised work, against \$660,000 estimated. The audit noted that savings had been realised in maintenance contracts and that the auditors believed that asset management and professional services costs had not changed significantly.
- 5.11 We were unable to find any quantitative assessment of the actual cost savings realised by Transit against the estimated \$300,000 a year or identify how the savings were used. A report to the Transit Board in June 2005, at the time the Marlborough agreement was extended by another five years, noted that management of the combined district roading network continued to offer economies of scale for both parties to the agreement.

### Cost savings achieved by Western Bay of Plenty District Council and Transit

- 5.12 Figure 4 shows forecast savings from the 10-year performance-based contract, divided between council and Transit services. The forecast savings are the difference between the contract price for the services and the estimated cost of the services by continuing with a traditional maintenance regime and traditional contract formats.

**Figure 4**  
Forecast savings from the 10-year performance-based contract split between council and Transit services

	Estimated cost of services	Contract price for services	Forecast savings	
			Total	Split
<b>Council services</b>	\$135,350,000 <sup>1</sup>	\$105,015,077	\$30,334,923 (22.4% of estimate)	\$19m to council \$11m to Land Transport New Zealand <sup>3</sup>
<b>Transit services</b>	\$39,500,000 <sup>2</sup>	\$33,210,513	\$6,289,487 (15.9% of estimate)	All to Transit
<b>All services</b>	\$174,850,000	\$138,225,590 <sup>4</sup>	\$36,624,410	

Source: Western Bay of Plenty District Council documents and the report of the latest independent review of the contract in August 2006

- Notes: 1 Council estimate.  
2 Transit estimate.  
3 Based on the council's estimate at the time the contract was announced that Land Transport New Zealand funded approximately 36% of council services.  
4 The total contract price was \$140,225,590 including an additional provisional sum of \$2,000,000 for the data collection contract.

- 5.13 Over the 10-year term of the contract, Western Bay of Plenty District Council is forecast to save more than Transit. The contract is forecast to save the council around \$19 million (about 22% of the estimated cost of services) and Transit around \$6 million (about 16% of the estimated cost of services). Land Transport New Zealand is also forecast to save around \$11 million on its share of the funding of council services. The contract superintendent told us that he believed Transit did not enjoy the same level of savings as the council because Transit had not specified key performance measures and other standards for state highways in the contract in terms of desired outcomes as much as the council had for local roads. This reduced the scope for efficiencies in how work was planned and completed.
- 5.14 The August 2006 independent review of the contract concluded that the intent of the contract, which was to provide the required services for the sum set, was intact, with no variation to the sum set for the original scope. If this is the case, then the forecast savings should be being made. The council was investing the bulk of its savings during the contract in a programme to seal some of the unsealed local roads in the district.
- 5.15 We were unable to find any comprehensive quantitative assessment of the actual cost savings being realised by Transit and Western Bay of Plenty District Council and how they were being used.

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**Recommendation 7**

We recommend that Transit and Western Bay of Plenty District Council introduce a more comprehensive system for tracking whether the 10-year performance-based contract is realising the expected savings and, if so, how they are being used.

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**Roads condition benefits**

- 5.16 The balance of opinion among the district councils was that roads were being well managed and kept in a mostly stable condition. Our high-level analysis of the main Land Transport New Zealand and Transit road condition indicators showed that, for all the districts generally, most of the road condition indicators remained steady. Individual indicators for particular districts pointed to specific aspects of road condition improving or deteriorating and being above or below average. There was no general pattern to suggest that road condition in the districts covered by the agreements was discernibly different to, or improving more than, that in other districts.



### Opinion in the Rotorua district

- 5.17 The balance of opinion in the Rotorua district was that the delegation had improved the management of roads through better co-ordination of activities rather than by improving the condition of the roads. The representatives of the council that we spoke to were very happy with the delegation and reported a lot of benefits from managing the state highways within the council. There was not a strong perception that having the delegation had improved the condition of the roads, although this may be because the delegation has been operating for many years.

### Opinion in the Marlborough district

- 5.18 A report to Marlborough District Council by officials in 2005 noted that staff at Marlborough Roads continued to actively support the council and provide a good level of service. It said that Marlborough Roads had helped the council respond to pressures on the roading infrastructure and meet demands for higher levels of service at an affordable price.
- 5.19 The council had carried out random road customer surveys for the past eight years. The most recent customer survey showed that the majority of motorists believed that the roads were of good or acceptable quality and that 80% of those surveyed were satisfied with the management of road maintenance and construction.
- 5.20 A Land Transport New Zealand procedural audit in late 2004 concluded that Marlborough Roads had been successful in achieving efficient and effective management of the state highways and local roads in the area. A Land Transport New Zealand technical audit around the same time also found that the local roads had been well maintained and that both the surface condition and smoothness of the council's sealed roads appeared to be better than the networks of other authorities. The technical audit noted that, overall, the condition of local roads was stable over time.
- 5.21 The New Zealand Automobile Association representative for the area believed that the condition of the roads was much the same as before the agreement between the council and Transit, and the chairman of the regional branch of the New Zealand Road Transport Association believed that the condition of the roads had not improved.

### Opinion in the Western Bay of Plenty district

- 5.22 The August 2006 independent review of the 10-year performance-based contract in the Western Bay of Plenty district reported that elected members of the council

perceived that the condition of the district roading network had improved. It also reported that a representative from the Transit regional office perceived that the condition of the state highway network had improved under the contract. The Transit representative had said that the improvement may also have occurred under the traditional maintenance model, given the same level of funding.

- 5.23 The review also concluded that *In<sup>3</sup>roads* was generally meeting its contractual obligations and was in some cases exceeding the council's and Transit's expectations. All the stakeholders who were consulted considered the contract to be largely successful and healthy. The review noted that there was evidence of a strong culture of continuous improvement within *In<sup>3</sup>roads*. The Management Board that oversaw the implementation of the contract has indicated in the past that it was generally happy with the results being reported against the key performance measures for the contract.
- 5.24 Some of the council staff whom we spoke to were unsure whether the condition of the roads had improved, and the Transit representative that we spoke to thought that it was too early to tell. As was the case in Marlborough, the New Zealand Road Transport Association said that it had not noticed a difference in the condition of the roads.

### Road condition indicators

- 5.25 To gain a high-level view of how well roads in the districts covered by the agreements were being maintained, we looked at the main indicators of road condition published by Land Transport New Zealand for local sealed roads and Transit for state highways. For local sealed roads, we looked at the full set of Land Transport New Zealand indicators, covering smoothness, surface condition, and structural integrity. For state highways, we looked at two Transit indicators covering smoothness and skid resistance. These state highway indicators are not the full set of indicators published by Transit, but Transit told us that they covered the most important aspects of state highway condition.
- 5.26 Figures 5 to 7 present our analysis of the most recently published indicators and historical trends in the indicators over time for the districts covered by the agreements. For each of the districts, we compared the district's indicator and the trend in the district's indicator with the average and trend for other districts on the same island and for all districts nationally. We also carried out some more detailed analysis (not shown in Figures 5 to 7) that compared trends in the indicators for the three districts covered by the agreements with trends in their neighbouring districts.

5.27 We wanted to establish whether the condition of roads in the group of districts covered by the agreements was discernibly different from that in other districts and whether there had been any discernibly greater improvement in road condition in these districts than in other districts. Our high-level view from our analysis is that, generally, the condition of the roads in the group of districts covered by the agreements was not discernibly different from that in other districts. There was also no discernible general pattern across the group to suggest that road condition was improving more in the districts covered by the agreements than in other districts. Across the districts covered by the agreements, most of the indicators pointed to the condition of the roads remaining steady.

**Figure 5**  
Analysis of road condition indicators for Rotorua District Council

Indicators of the condition of local (council) sealed roads			
	Rotorua District Council	All councils in North Island	All councils nationally
Smooth Travel Exposure (a higher value indicates smoother roads)			
2005/06	80%	82%	83%
5-year trend	Deteriorating	Steady for 39 Improving for 3 Deteriorating for 7	Steady for 60 Improving for 4 Deteriorating for 8
Condition Index (a lower value indicates the surface condition of roads is better e.g. fewer potholes)			
2005/06	1.6	2.9	3.0
5-year trend	Steady	Steady for 30 Improving for 17 Deteriorating for 2	Steady for 46 Improving for 22 Deteriorating for 4
Pavement Integrity Index (a lower value indicates the underlying condition of roads is better)			
2005/06	1.6	1.9	1.8
5-year trend	Steady	Steady for 20 Improving for 21 Deteriorating for 8	Steady for 34 Improving for 27 Deteriorating for 11

The high-level view we take from our analysis of the above indicators is that:

- the smoothness of the council's roads appears to be deteriorating and in 2005/06 was at a level slightly below the average for councils in the North Island and for councils nationally;
- the surface condition of the council's roads appears to be remaining steady and in 2005/06 was at a level above the average for councils in the North Island and for councils nationally;
- and
- the structural integrity of the council's roads also appears to be remaining steady and in 2005/06 was at a level above the average for councils in the North Island and for councils nationally.

## Indicators of the condition of state highways

	Rotorua state highway Network Management Area	All state highway Network Management Areas nationally
Smooth Travel Exposure (a higher value indicates smoother roads)		
2006	98.2%	98.8%
Trend	Deteriorating	Steady for 23 areas Improving for 0 areas Deteriorating for 2 areas
Skid Resistance (a lower value indicates roads with better skid resistance)		
2006	0.13%	1.08%
Trend	Improving	Steady for 15 areas Improving for 3 areas Deteriorating for 7 areas

The high-level view we take from our analysis of the above indicators is that:

- the smoothness of the state highways in the area, while high in 2006, appeared to be slightly below the average for other areas nationally and deteriorating; and
- the skid resistance of state highways in the area in 2006 appeared to be above the average for other areas nationally and improving.

Source: Land Transport New Zealand and Transit road condition data

**Figure 6****Analysis of road condition indicators for Marlborough District Council**

## Indicators of the condition of local (council) sealed roads

	Marlborough District Council	All councils in South Island	All councils nationally
Smooth Travel Exposure (a higher value indicates smoother roads)			
2005/06	88%	85%	83%
5-year trend	Deteriorating	Steady for 21 Improving for 1 Deteriorating for 1	Steady for 60 Improving for 4 Deteriorating for 8
Condition Index (a lower value indicates the surface condition of roads is better; e.g. fewer potholes)			
2005/06	2.7	3.0	3.0
5-year trend	Improving	Steady for 16 Improving for 5 Deteriorating for 2	Steady for 46 Improving for 22 Deteriorating for 4
Pavement Integrity Index (a lower value indicates the underlying condition of roads is better)			
2005/06	4.1	1.6	1.8
5-year trend	Steady	Steady for 14 Improving for 6 Deteriorating for 3	Steady for 34 Improving for 27 Deteriorating for 11

The high-level view we take from our analysis of the above indicators is that:

- the smoothness of the council’s roads appears to be deteriorating but in 2005/06 was at a level slightly above the average for councils in the South Island and for councils nationally;
- the surface condition of the council’s roads appears to be improving and in 2005/06 was at a level above the average for councils in the South Island and for councils nationally; and
- the structural integrity of the council’s roads appears to be remaining steady and in 2005/06 was at a level below the average the average for councils in the South Island and for councils nationally.

#### Indicators of the condition of state highways

	Marlborough state highway Network Management Area	All state highway Network Management Areas nationally
Smooth Travel Exposure (a higher value indicates smoother roads)		
2006	99.7%	98.8%
Trend	Steady	Steady for 23 Areas Improving for 0 Areas Deteriorating for 2 Areas
Skid Resistance (a lower value indicates roads with better skid resistance)		
2006	0.50%	1.08%
Trend	Steady	Steady for 15 Areas Improving for 3 Areas Deteriorating for 7 Areas

The high-level view we take from our analysis of the above indicators is that:

- the smoothness of the state highways in the area appeared to be remaining steady and in 2006 was at a level above the average for other areas nationally; and
- the skid resistance of state highways in the area also appeared to be remaining steady and in 2006 was at a level above the average for other areas nationally.

Source: Land Transport New Zealand and Transit road condition data

**Figure 7**  
**Analysis of road condition indicators for Western Bay of Plenty District Council**

Indicators of the condition of local (council) sealed roads			
	Western Bay of Plenty District Council	All councils in North Island	All councils nationally
Smooth Travel Exposure (a higher value indicates smoother roads)			
2005/06	95%	82%	83%
5-year trend	Steady	Steady for 39 Improving for 3 Deteriorating for 7	Steady for 60 Improving for 4 Deteriorating for 8
Condition Index (a lower value indicates the surface condition of roads is better; e.g. fewer potholes)			
2005/06	3.2	2.9	3.0
5-year trend	Steady	Steady for 30 Improving for 17 Deteriorating for 2	Steady for 46 Improving for 22 Deteriorating for 4
Pavement Integrity Index (a lower value indicates the underlying condition of roads is better)			
2005/06	3.0	1.9	1.8
5-year trend	Steady	Steady for 20 Improving for 21 Deteriorating for 8	Steady for 34 Improving for 27 Deteriorating for 11

The high-level view we take from our analysis of the above indicators is that:

- the smoothness of the council's roads appears to be remaining steady and in 2005/06 was at a level well above the average for councils in the North Island and for councils nationally;
- the surface condition of the council's roads appears to be remaining steady and in 2005/06 was at a level below the average for councils in the North Island and for councils nationally;
- and
- the structural integrity of the council's roads also appears to be remaining steady and in 2005/06 was at a level well below the average for councils in the North Island and for councils nationally.

## Indicators of the condition of state highways

	Western Bay of Plenty state highway Network Management Area	All state highway Network Management Areas nationally
Smooth Travel Exposure (a higher value indicates smoother roads)		
2006	96.8%	98.8%
Trend	Steady	Steady for 23 Areas Improving for 0 Areas Deteriorating for 2 Areas
Skid Resistance (a lower value indicates roads with better skid resistance)		
2006	0.42%	1.08%
Trend	Steady	Steady for 15 Areas Improving for 3 Areas Deteriorating for 7 Areas

The high-level view we take from our analysis of the above indicators is that:

- the smoothness of the state highways in the area, while high in 2006, appeared to be remaining steady at a level slightly below the average for other areas nationally; and
- the skid resistance of state highways in the area appeared to be remaining steady and in 2006 was at a level above the average for other areas nationally.

Source: Land Transport New Zealand and Transit road condition data

- 5.28 As we expected, individual indicators for particular districts pointed to specific aspects of road condition improving or deteriorating and being above or below average. For example:
- in the Rotorua district, the surface condition of the local roads and the skid resistance of the state highways were both above average;
  - in the Marlborough district, the structural integrity (underlying condition) of the local roads was below average; and
  - in the Western Bay of Plenty district, the smoothness of the local roads was above average.
- 5.29 We acknowledge that these comparisons give only a rudimentary high-level view. From our discussions with Land Transport New Zealand and Transit, we recognise that a range of factors will contribute to the road maintenance requirements in different areas and the condition of the roads. How efficiently and effectively road maintenance is managed is one important factor. Other factors include geological conditions (for example, the rock and soil types on which roads are laid), climatic conditions (for example, temperature ranges and rain levels), and the type and volume of road traffic using the roads. The reliability of the condition indicators is also dependent on the quality of the underlying data and the measurement techniques.

## Other benefits noticed by the district councils

- 5.30 The district councils have noticed other benefits from having the agreements in place.

### Other benefits noticed by Rotorua District Council

- 5.31 The representatives from Rotorua District Council that we spoke to had noticed many other benefits from integrated management of the district roading network through the delegation. These included:

- being able to feed local knowledge and issues raised by road users directly into state highway management;
- being able to advocate and drive state highway projects;
- having access to Transit's skills, systems, and procedures;
- promoting industry growth by being able to package state highway work to promote the participation of local contractors in competitive bids, which they otherwise would not be able to participate in under Transit's contractor pre-qualification process;
- having better knowledge of planned works on the state highway network, enabling integrated planning with works for local roads;
- being able to manage events and emergencies that affect both local roads and state highways in an integrated way;
- having more influence over state highway planning;
- having a one-stop shop for the public for dealing with both state highways and local roads;
- having direct access for councillors to a local Transit representative; and
- improved relationships with Transit.

### Other benefits noticed by Marlborough District Council

- 5.32 Marlborough District Council had noticed other benefits from the Marlborough agreement. The report to the council by staff in 2005 seeking approval to extend the agreement noted benefits against all of the fundamental objectives of the agreement. Apart from the cost savings already reported, these included:
- joint management of state highways and local roads having enabled a better understanding of, and influence on, the district's roading priorities;
  - a continuing strong customer service focus with the Marlborough Roads brand, which meant that many members of the public were unaware of the Transit and council roles in the structure and saw the office as a "one-stop roading shop"; and
  - service levels having improved in some respects because of the Marlborough Roads office.



- 5.33 The report considered two other options for performing the Marlborough Roads office's functions. These were tendering the local roads management function or taking it back in-house. It concluded that the reasons for setting up Marlborough Roads still applied and there seemed no justification for the other options.

#### **Other benefits noticed by Western Bay of Plenty District Council**

- 5.34 The representatives of Western Bay of Plenty District Council that we spoke to believed that, in addition to cost savings, the council had benefited through the 10-year performance-based contract by:
- having more influence over state highways that were critical to the movement of local traffic and economic development;
  - learning from Transit about the risks involved in contracting out roading maintenance using performance-based contracts;
  - focusing maintenance on outcomes;
  - having set levels of service, which meant less council involvement by staff and councillors in operations matters; and
  - having one point of contact for the public.
- 5.35 The representatives of the council also believed that the handling of complaints and ratepayers' satisfaction with the roading network had improved. They believed that ratepayers now expected higher levels of service. The contract includes a customer satisfaction performance measure that consistently averaged at about 90% customer satisfaction between early 2003 and the end of 2006. The measure is based on a customer survey, and the contractor has indicated that results must be treated with caution as they may be affected by an element of confusion caused by the design of the survey and the way that it is conducted. The August 2006 independent review of the contract also questioned the value of the measure.

#### **Benefits and drawbacks noticed by Transit**

- 5.36 Transit had gained some initial benefits from existing agreements but also saw significant drawbacks to wider collaboration, both in achieving its responsibility under the Land Transport Management Act 2003 and in gaining efficiencies across the network. Transit had decided not to pursue further collaborations at this time.

#### **Benefits from existing agreements noticed by Transit**

- 5.37 Transit told us that Rotorua District Council was managing the delegation in a highly competent way and that the council had been carrying out a significant amount of strategic planning for the district outside of the scope of the delegation.

- 5.38 One of the Transit regional managers responsible for the Marlborough area believed that there had been a number of benefits from setting up the Marlborough Roads office. These included Transit being able to:
- bring its nationwide experience and expertise in managing state highways to managing local roads;
  - assert more control over road management in the Marlborough district, as the Marlborough Roads office was part of Transit;
  - reach a shared understanding with the council on issues such as developing subdivisions along state highways;
  - learn how to deal with local authorities better;
  - gain a wider customer focus; and
  - reduce costs (although the manager said it was difficult to quantify this).
- 5.39 One of the Transit regional managers responsible for the Western Bay of Plenty district told us that it was too early to evaluate the 10-year performance-based contract to determine whether it was offering value for money, but that it was clear a good tender price had been received. In the future, it would be necessary to review the quality of the network, the extent to which the value of the road assets had changed, and whether there had been any variations to the contract that would affect the provision of the required services within the set sum. The Transit member on the Management Board for the contract told us that the contract had given some examples of innovation that Transit was considering using in other parts of its business – for example, the use of a balanced scorecard.

### **Drawbacks to wider collaboration noticed by Transit**

- 5.40 The Transit regional manager responsible for the Rotorua district told us that he would not like to see similar delegations being set up with other local authorities, because:
- it was important to retain staff expertise within Transit;
  - demands on state highways were very different from the demands on local roads, and there was a need to avoid any imbalance between local and national influence over decision-making; and
  - Transit felt distanced from the final customer and from what the local community thought about Transit's roads.
- 5.41 Transit told us that the concept of the Western Bay of Plenty performance-based contract was good but that too many separate contracts made managing the state highway national network difficult and inefficient. There were about eight different contracts in the Bay of Plenty region. From the viewpoint of a national

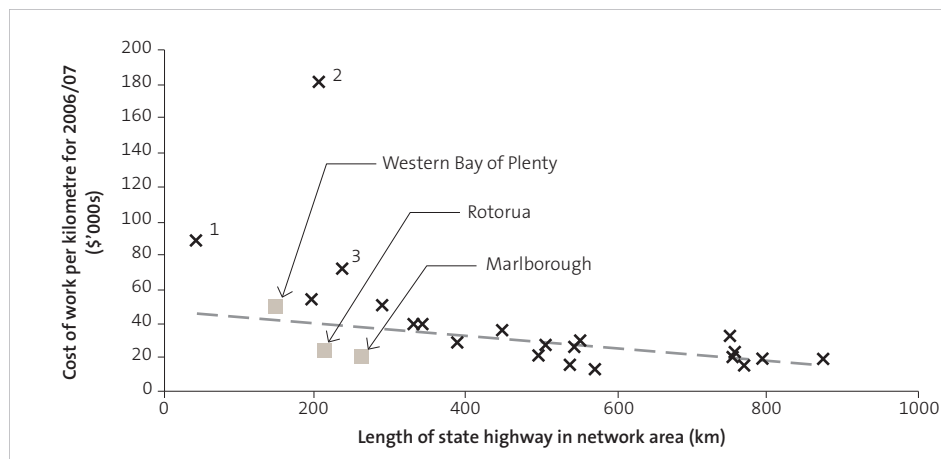
state highway network, Transit believed that the cost savings it was achieving from the contract and the other collaborative agreements did not appear substantial and that the time involved in managing the contract was significant and out of proportion to the time required for the rest of the network.

### Transit and further collaborative agreements

- 5.42 The formal delegation from Transit to Rotorua District Council in December 1996 noted that the functions, duties, and powers delegated to the council had not been delegated to any other council and that Transit was satisfied that they ought not to be.
- 5.43 In June 2001, Transit's board decided that its policy on wider collaborative agreements would be to:
- seek a clear advantage from any new arrangement over existing arrangements – for example, a more efficient form of management or cost savings;
  - ensure the technical and professional capability of any new arrangement;
  - satisfy itself about the processes, procedures, and systems, including quality management or assurance systems, under any new arrangement;
  - avoid conflicts of interest – for example, by not delegating planning and access control because of the conflict of interest in providing for the ratepayers' interests against protecting the state highway;
  - ensure appropriate accountability mechanisms between any new arrangement and Transit – for example, performance agreements, annual plans, and quarterly or annual reports;
  - recover or contribute to costs as appropriate;
  - ensure that flexibility was retained and incentives for an alliance to survive beyond its useful purpose were not created;
  - be aware of the danger of creating a road management monopoly without adequate accountabilities; and
  - retain responsibility for Transit's statutory function of deciding the State Highway Programme.
- 5.44 In late 2005, Transit concluded that there was not enough merit in the present collaborative agreements to warrant pursuing further collaborations. Transit concluded that collaborative agreements of this type required more complicated management regimes that directed the work of Transit staff away from the new objectives for Transit in the Land Transport Management Act 2003 and the New Zealand Transport Strategy.

- 5.45 Transit told us that collaboration had a strong local focus that was inconsistent with achieving Transit's strategic goals for a total transport network. These strategic goals were to:
- ensure that state highway corridors made the optimal contribution to an integrated multimodal transport system;
  - provide safe state highway corridors for all users and affected communities;
  - ensure that state highways enabled improved and more reliable access and mobility for people and freight;
  - improve the contribution of state highways to economic development; and
  - improve the contribution of state highways to the environmental and social well-being of New Zealand, including energy efficiency and public health.
- 5.46 Transit had not formally compared the costs and benefits of collaborative agreements with other network management approaches through cost-benefit analysis, as it had found it difficult to quantify many of the variables contributing to such an assessment. However, its view was that collaborative agreements potentially limited the size of contracts to packages of work consisting of small lengths of state highway and large lengths of local roads within council boundaries and that this might disadvantage Transit's purchasing power. It believed that these packages of work might not be the most effective or efficient packages to put to the market from a national state highway perspective. In Transit's experience, the most efficient and effective networks generally covered more than one local authority. Its view was that large-scale, collaborative agreements for shared services that involved adjacent local authorities would result in savings.
- 5.47 The national state highway network is split into network management areas covering different lengths of the network. Transit had analysed the costs of all work on state highways within the different network management areas to compare the cost of work for each kilometre of state highway across the areas. Figure 8 shows Transit's analysis of 2006/07 costs. We drew a trend line through the Transit data based on the assumption that there is a direct relationship between length of state highway covered by the network management area and the cost of work for each kilometre. This showed a general trend for the cost of work for each kilometre to be higher for areas covering shorter lengths of the network.

**Figure 8**  
The cost of work for each kilometre for 2006/07 for different areas of the state highway network



Note: The areas labelled 1, 2, and 3 were not included in drawing the trend line as the cost of work for each kilometre in these areas stood out as being much higher than in other areas. These areas were Tauranga City, Auckland South, and Wellington respectively. Tauranga City has the smallest network length. Auckland South and Wellington both cover large urban state highway networks.

Source: Transit data

- 5.48 A range of factors affect the costs of work across different areas of the state highway network. As we noted earlier (see paragraph 5.29), geological conditions, climatic conditions, and the type and volume of traffic using the network all contribute to road maintenance and other work requirements. Figure 8 indicates that how Transit and local authorities collaborate may also have an effect. It shows that the cost of work for each kilometre in the Western Bay of Plenty district is in line with the general trend and higher than for areas covering larger lengths of state highway. However, the cost of work for each kilometre in both the Marlborough and Rotorua districts is lower than in some other areas covering longer lengths of state highway.
- 5.49 The differences in cost of work for each kilometre between the Marlborough, Rotorua, and Western Bay of Plenty districts and the other network management areas in Figure 8 cannot be solely attributed to collaboration. This is because the costs used for the analysis in Figure 8 include the costs of activities outside the scope of the collaborative agreements in the Marlborough, Rotorua, and Western Bay of Plenty districts. For example, the costs for the Western Bay of Plenty district include the costs of the joint maintenance contact and also the costs of other work on the state highways in the area, such as additional road widening, structural bridge maintenance, and road improvements.

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**Recommendation 8**

We recommend that Transit, in consultation with local authorities and Land Transport New Zealand, more fully assess the value of collaborative agreements with local authorities, including how they affect efficient and effective management of the state highway national network as part of an integrated land transport system.

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**Recommendation 9**

We recommend that Transit, in consultation with local authorities and Land Transport New Zealand, use the assessment of collaborative agreements that we have recommended as a robust basis for informing future decisions on whether and how to collaborate.

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## Part 6

# Other agreements proposed since 2002

6.1 No new collaborative agreements have been set up between local authorities and Transit since the Western Bay of Plenty 10-year performance-based contract in 2002, although several agreements have been proposed. In this Part, we report on four collaborative agreements that have been proposed but that have not proceeded. For each proposed agreement, we:

- describe the proposal;
- outline the expected benefits; and
- discuss the reasons the agreement did not proceed.

### Central Otago region

6.2 A possible agreement between Transit, the Queenstown Lakes District Council, and the Central Otago District Council was explored between 2002 and 2005.

#### Proposed joint venture

6.3 In 2002, the Queenstown Lakes District Council, Central Otago District Council, and Transit (the authorities) started discussions on a proposed joint venture to more efficiently and effectively develop, operate, and maintain local roads and state highways in the Central Otago region. A small working party of staff considered the main roading issues facing the authorities and what each of the authorities wanted to get from the proposed joint venture.

6.4 The working party considered four possible governance models for the proposed joint venture:

- combining contracts for network management, maintenance, and capital works under a Joint Principals Agreement – this option was rejected as lacking a robust structure to generate long-term benefits;
- the Marlborough Roads model, with responsibility for local roads delegated by the district councils to Transit – this option was rejected on the basis that it did not achieve the important aim of each of the authorities maintaining the ability to influence service levels;
- setting up a joint governance board to manage roading services on behalf of the authorities – this option was preferred on the basis that it allowed each of the authorities to retain decision-making on service levels at the same time as setting up a robust structure with the critical mass for professional management of roading services; and
- the Western Bay of Plenty model, with responsibility for delivery of long-term roading outcomes passed to contractors and managed through a joint

governance board – this option was not considered feasible at the time, because of the lack of information on roading assets and future demands, but it was considered a possibility for the future.

- 6.5 In April 2003, the authorities signed a Heads of Agreement as the first step in formally coming together. The authorities had different goals (see Figure 9), but there was some common ground on improving efficiency and planning, keeping close contact with road users, making the best use of skills, and improving the quality of roads. The authorities agreed to jointly produce a feasibility report to evaluate setting up a single operating unit that would administer all road operations in the Central Otago region and then implement the recommended operational structure for the unit. The authorities agreed a timeline under which the unit would be operational by July 2004.

**Figure 9**

**The goals that Transit, Central Otago District Council, and Queenstown Lakes District Council sought to achieve by pursuing a joint venture**

Transit	Central Otago District Council	Queenstown Lakes District Council
<ul style="list-style-type: none"> <li>• To improve the efficiency of the network</li> <li>• To retain skilled asset management</li> <li>• To maintain closer contact with road users</li> <li>• To examine opportunities for strategic alliances as promoted in the New Zealand Transport Strategy</li> </ul>	<ul style="list-style-type: none"> <li>• To maintain the current cost levels for operating the network</li> <li>• To identify concerns about unsealed roads and improve them if realistic</li> <li>• To maintain contact with ratepayers and road users to ensure that their access to decision-making was retained</li> <li>• To improve asset management and information</li> <li>• To plan for the projected increase in demand</li> </ul>	<ul style="list-style-type: none"> <li>• To maintain and enhance the quality of roading through developing the ability as client to have more influence on funders, consultants and contractors through better specification of standards</li> <li>• To integrate state highways and other roads so that the road user does not distinguish between them.</li> <li>• To improve planning for roading demands expected because of predicted growth</li> <li>• To facilitate the movement of vehicles, cyclists, and pedestrians around the district and region</li> <li>• To build expertise enabling assured advice to be received that is in the long-term best interests of the council's network</li> </ul>

Source: Heads of Agreement between Transit, Queenstown Lakes District Council, and Central Otago District Council



### Expected benefits

- 6.6 A feasibility study<sup>1</sup> was completed in late 2003 and found that the authorities could develop a partnership to manage roads. It said that a joint management model, creating a virtual entity among the three authorities, could be expected to make it considerably easier for the authorities to meet their objectives for managing roads in the region. The study noted that there was support from the Government through the New Zealand Transport Strategy to seek and develop alliances such as the one proposed. It said that major stakeholders were positive that the proposal and joint management of the roads in the Central Otago region would increase effectiveness and efficiencies on the network and also increase economies of scale.
- 6.7 The feasibility study noted that the three authorities had recognised that the main benefits of a partnership were:
- developing an organisation with enough mass to attract and retain specialist skills in the management of roads;
  - the economies of scale and efficiencies that could be achieved by combining state highways and local roads; and
  - the organisation's access to Transit's national skill base for reference and advice on best procurement practice and technical aspects of roading management.
- 6.8 The study proposed an innovative contracting strategy that would involve consolidating existing maintenance contracts into output-based five-year contracts (similar to what had been done in Marlborough) and then moving to a 10-year outcome-based performance-specified maintenance contract (similar to the one operating in the Western Bay of Plenty district). Asset management information would be improved along the way to enable the transition.
- 6.9 The feasibility study estimated that the costs of operating the network could be reduced by between 5% and 10%, or \$16 million over 15 years, under the proposed contracting strategy. An indicative apportionment of reduced costs for each authority was \$8.5 million for Transit, \$4.5 million for Queenstown Lakes District Council, and \$3.0 million for Central Otago District Council. The study noted that the model used to predict the cost reductions was only as accurate as the data put into it and that, while every effort had been made to achieve high accuracy, the predictions were a "best guess".

1 *Feasibility Report for Public Consultation – Remarkable Roads* (2003), Transit New Zealand, Queenstown Lakes District Council, and Central Otago District Council.

### Reasons proposal did not proceed

- 6.10 The feasibility study identified some high-level risks, which it categorised as relating to:
- time and commitment;
  - industry and community consultation;
  - politics and lack of understanding influencing the decision-making process;
  - internal opposition within the authorities; and
  - accuracy of the modelling and the data input to it.
- 6.11 Some of these risks materialised. After the feasibility study, progress slowed considerably. The target date for setting up the organisation was extended to July 2007. Queenstown Lakes District Council told us that the authorities disagreed on the form of organisation they wanted. They told us that the councils wanted a limited liability company with independent directors providing arms length service, but Transit wanted an unincorporated joint venture with Transit having greater leverage on the board of the joint venture.
- 6.12 An internal report to Central Otago District Council in September 2005 noted that each of the authorities had changed its approach over the previous year and that, as a result, there were doubts about the ability to build an organisation to work as a joint roading authority. The council's opinion was that Transit had centralised planning in Wellington and was now less committed to the partnership, although it would maintain its interest if all other parties did. The report noted that Queenstown Lakes District Council now had other priorities for its limited roading resources, such as the council's recently issued congestion plan. The report also pointed to a feeling that the cultures of the authorities were different and growing apart, making it difficult for a joint organisation to act as a service provider to each.
- 6.13 The report concluded that Central Otago District Council would not be disadvantaged if it withdrew from the project. The council had decided to move to a more integrated decision-making approach, which meant that a single-focus roading organisation was now less relevant. In October 2005, Central Otago District Council withdrew from the project. A joint media release noted that the authorities agreed that the process had led to each of them gaining better knowledge of the road network and that it had cemented strong relationships between them. It also said that Transit had refrained from entering into any future joint ventures.

## Taranaki region

- 6.14 Setting up a collaborative agreement between Transit and district councils in the Taranaki region was explored between 2003 and 2005.

### Proposed model similar to the Western Bay of Plenty agreement

- 6.15 In 2003, district councils in the Taranaki region jointly commissioned a report<sup>2</sup> to examine issues associated with setting up a Taranaki roading “cluster” with Transit, including options for the formation of the cluster. The aim of the cluster was collaborative management of roads within the region for better and more cost-effective administration, operation, and maintenance of roading networks. The district councils involved were New Plymouth District Council, South Taranaki District Council, and Stratford District Council. The report evaluated possible governance models for the cluster, based on the same models considered in the Central Otago region. It recommended a joint network management model, possibly combined with performance-based contracting, similar to the agreement in the Western Bay of Plenty district.

### Expected benefits

- 6.16 The report concluded that a roading cluster in the Taranaki region could deliver a number of positive outcomes with no downsides for the region. It identified that the main benefits included:
- a one-stop roading shop that was likely to improve customer service in important areas;
  - potentially significant savings from joining together and using performance-type contracts, based on a broad assumption that similar levels of saving would be made to those in the Marlborough and Western Bay of Plenty districts; and
  - the ability to attract, develop, and retain staff with technical and intellectual capacity in roading management and to develop speciality roading management systems.

### Reasons proposal did not proceed

- 6.17 A workshop in late 2004 resolved that Transit and the district councils should investigate setting up a cluster, and a Memorandum of Understanding was signed in early 2005. During 2005, Transit decided not to proceed with the cluster, because it had concluded that these types of collaborative agreement required more complicated management regimes and that they did not have enough merit to make it worth proceeding with them.

<sup>2</sup> *The Taranaki Mayoral Forum Roading Cluster Study* (November 2003), Synergine Strategic Limited, Auckland.

- 6.18 New Plymouth District Council drove the proposal. It told us that, before 1989, it had a delegated authority arrangement to maintain state highways similar to that in the Rotorua district. The council said that it would have liked a similar arrangement this time, as it believed that it had the capability to manage state highways and that a delegation would not have required another level of governance. The council told us that Transit had no presence in the Taranaki region to deal directly with issues about the five main streets in New Plymouth that were state highways.
- 6.19 Although not a road-controlling authority, Taranaki Regional Council was involved in discussions on the proposal. The regional council told us that it believed the report on setting up the cluster was light in detail and that the reasons for setting up the cluster did not reflect all of the realities. The council's opinion was that Transit felt there was little in the proposed arrangement for it, that some of the district councils had some concerns about their level of control over their roading assets in the future, and that some of the district councils did not share the same vision.

### Southland district

- 6.20 Southland District Council sought an agreement on closer working with Transit in late 2003.

### Proposed memorandum of understanding

- 6.21 Southland District Council told us that it and Transit had delegated specific responsibilities to one another for a number of years. For example, the council ran Transit's street light maintenance and noxious plant control contracts, and Transit carried out maintenance on a specific local road on the council's behalf.
- 6.22 In late 2003, Southland District Council and Transit sought to build on the good working relationship that existed between them by drawing up a Memorandum of Understanding to investigate a more collaborative working arrangement.

### Expected benefits

- 6.23 The draft Memorandum of Understanding listed the common goals of Transit and the council as being:
- to provide a progressive and robust response to the opportunities contained in the Land Transport Management Act 2003;
  - to use every opportunity to get maximum benefits from a collaborative relationship between them;

- to deliver the relevant outputs from the Southland Regional Transport Strategy; and
- to strive to improve safety on roads in Southland.

### Reasons proposal did not proceed

- 6.24 Early differences of view on the model for collaboration meant that the Memorandum of Understanding was not pursued. The council told us that Transit's head office stopped Transit's involvement in proceeding with a collaborative working arrangement. It said that Transit wanted autonomy through a Marlborough Roads-type model, but the council wanted a Rotorua-type delegation.
- 6.25 The council also told us that it was beginning to enter into alliance contracts with consultants and contractors without Transit's involvement. The council believed that Transit's involvement would be beneficial because of Transit's expertise.

### Tasman district

- 6.26 A possible partnership between Transit and Tasman District Council was explored between 2004 and 2005.

### Proposed partnership maintaining separate identities

- 6.27 At a workshop in December 2004, Transit and Tasman District Council held initial discussions on the potential for developing a partnership to combine the administration of local roads and state highways in the Tasman district. Transit and the council had already entered into a joint maintenance contract in 2004 for an isolated section of state highway in the Golden Bay area with local roads running off it. The council told us that, at the time, this was working well, and the council and Transit decided to explore the possibility of wider collaboration. Transit wanted greater physical presence and critical mass in the region and to be accessible to, and able to communicate with, road users.
- 6.28 Transit and the council drew up an agreement on how the partnership would be explored in January 2005. The agreement was never signed, but Transit and the council commissioned a feasibility study<sup>3</sup> to examine options for working together. Joint objectives for the collaborative initiative were agreed. These were to:
- maintain separate identities;
  - exclude capital works;
  - seek an improved level of service provision through joint operation;

<sup>3</sup> *Tasman District Council/Transit NZ Joint Road Network Management Feasibility Report*, (August 2005), MorrisonLow (report to Tasman District Council and Transit).

- make savings on professional and physical works services;
- have regional programming and implementation;
- develop the network for strategic advantage;
- improve the relationship between the council and Transit; and
- develop skilled asset management competitiveness in the region.

6.29 Transit and the council explored options for working together within the boundary of Transit and the council wanting to maintain separate identities. The feasibility study explored three different governance models:

- retaining the current situation of separate contracts – the study found that this model did not provide a viable platform on which to improve delivery and cost;
- entering joint contracts that streamlined the services provided – the study found that this model had the ability to provide a satisfactory balance between retaining the individuality of each party and having enough joint activities to make savings; and
- setting up a separate road management unit governed by a board of directors with an independent chairman – the study found that this model offered a single focus on roading in the region and the ability to get the most efficiencies.

### **Expected benefits**

6.30 Using financial modelling, the feasibility study estimated that the proposed joint contracting model for working together would yield cost reduction savings to Transit and the council of \$17 million over 16 years, split roughly evenly between Transit and the council. Two important assumptions were made in estimating the savings, which meant that the savings were potentially overstated:

- The financial modelling assumed that there would be one contract for physical works and one for professional services to cover the entire geographic area of the council – at the time, the council's maintenance contracts were divided into three geographic areas and the feasibility study acknowledged that the value of the estimated savings could be reduced by 20% if there were three contracts for three geographical areas rather than one.
- The financial modelling assumed that the savings from the proposed joint contracting would be similar to those from a performance-specified maintenance contract, based on the council and Transit constructing an extremely competent and robust contract.

### Reasons proposal did not proceed

- 6.31 From the views expressed in the feasibility study, there appeared to be differences between Transit and the council from the start, narrowing the options for collaboration. The first objective was to maintain separate identities. The council did not favour a model similar to the Marlborough Roads office. Also, the council had significant concerns about its ability to continue to exercise its current level of control if a separate road management unit was set up, especially if the manager of the unit was a Transit employee as Transit required. The council indicated during the feasibility study that these concerns precluded it from participating with Transit in a separate road management unit.
- 6.32 The proposal did not proceed after the feasibility study. The council told us that it sensed that Transit was not as keen to proceed as before. The council also told us that, in exploring the proposal, it saw collaboration as a possible opportunity only. It thought that existing arrangements worked well and that the network was well run. Also, existing maintenance contracts did not come up for renewal at the same time until mid-2009, which would have made proceeding with the proposal difficult. The council told us that it would be interested in exploring joint contracting again when the contracts came up for renewal.





## Part 7

# What makes collaboration successful

- 7.1 In this Part, we summarise the themes that emerged from our interviews with people from the three district councils with collaborative agreements. We also pull out some lessons from our findings in the earlier parts of this report.
- 7.2 The lessons in this report are consistent with the findings of other good practice guides and reports published by the Office of the Auditor-General in recent years on issues involving collaboration in local and central government.<sup>1</sup>

### Commitment and trust

- 7.3 A common point that emerged from the interviews was the importance of commitment and trust for a collaboration to be successful.

#### The need for support and commitment from council staff and councillors

- 7.4 The people we interviewed from the three councils indicated that collaboration needs the support and commitment of staff and councillors. For example:
- For one council, the successful establishment of the agreement was said to have a lot to do with the passion of individuals at the time, with the strong commitment of councillors considered very important in setting up the agreement.
  - In another council, there was cross-party political support when the agreement was proposed and there had been continuous support from changing chief executives. The commitment of the councillors was considered critical at the time the agreement was set up, and new councillors elected since had had the opportunity to question it but had not raised any issues.

#### Relationships must be based on confidence and trust in main personnel

- 7.5 The people we interviewed spoke of the need for relationships to be based on confidence and trust in important personnel. For example:
- In one council, the agreement was said to work because the people involved had good relationships and trust. The council staff were well respected for their roading expertise, which gave Transit confidence.
  - In another council, the success of the agreement was also said to rely heavily on good relationships, particularly between the council and Transit. It was noted that this arrangement could be different without the current personnel and that, if there were changes in personnel, the continued success of the agreement would depend on how those changes were managed.

<sup>1</sup> These include *Sustainable development: Implementation of the programme of action* (June 2007), *Achieving public sector outcomes with private sector partners* (February 2006), *Local Authorities Working Together* (May 2004), and *Co-ordination and Collaboration in the Criminal Justice Sector* (October 2003).

- That council was described as working hard on setting up a positive relationship with Transit long before the agreement was entered into, and it also had good working relationships with other roading agencies. The council had always seen Transit as a partner rather than an entity to battle with and considered it essential to establish relationships in the set-up phase.
- In the third council, those interviewed said Transit knew the council had good personnel leading the process, which influenced Transit's decision to be involved. This council had good working relationships with Transit and other roading agencies.
- A representative from one of the councils noted that a principal barrier for other local authorities wanting to set up collaborative agreements was their relationship with Transit, which was often narrowly based on issues about specific projects.

### Concerns about losing control need to be addressed

- 7.6 While the specific reasons that the proposed agreements discussed in Part 6 did not proceed were different in each case, whether Transit or the district councils were giving authority to the other party to act on their behalf was an important factor. Each preferred to be acting on behalf of the other party rather than giving authority to the other party.
- 7.7 Transit and district councils each need to resolve their concerns about losing control in collaborative agreements. The need for some councils to let go of some misconceptions about giving up control of roading assets for collaboration to be successful is illustrated by some comments from our interviews with people from the three district councils with collaborative agreements:
- The perception that a council's power and governance would be diminished was not backed up by the experience of one council. This council considered it was important for councils to overcome any prejudices they might hold about Transit representing central government. The mayor said he did not feel that he was losing any degree of control over local roads.
  - Another council also considered that any fear of loss of control was ill-founded.

### The importance of preparation

- 7.8 Another theme that emerged from the interviews was the importance of sound preparation in a successful collaboration. For example:
- One council experimented with sharing a network safety contract with Transit to test how well the two entities could work together as joint principals.

- This council also collected a lot of data on the condition of the roading network and had been thinking about what satisfied its customers. In-depth preparation took two years. The costs associated with developing the scope of the contract – data collection, drafting the specification, and other activities – were borne by the council. This council also had a good Asset Management Plan that was more advanced than other councils, and it went through an extensive process of setting service levels.
- For another council, it also took two years to set up the agreement and new contractual arrangements with roading contractors. An important lesson from this council was that setting up the framework for the collaborative agreement required a great deal of planning, and it was seen as important to address staff issues and get staff buy-in. The council considered the interests of the local community, and also held discussions with the Department of Conservation and roading contractors. Before the agreement was entered into, it was necessary to obtain Ministerial approval and Transfund's agreement. This council considered it was important that sound documentation underpinned the agreement.

### Choosing the right model and refining it over time

- 7.9 Disagreements between Transit and the councils on the appropriate model for collaboration were a contributory factor to some of the proposed agreements covered in Part 6 not going ahead.
- 7.10 One council emphasised the importance of choosing the right model for collaboration. It considered that:
- a performance-specified maintenance contract model would not have been appropriate; and
  - the joint network management model would have been too complex, particularly because of the number of steps needed to make decisions.
- 7.11 We noted in Part 4 that the Western Bay of Plenty contract was subject to regular independent review and that arrangements for managing the contract were being refined over time. We consider that this type of review and refinement is important for successful collaboration in any form to help ensure that collaboration effectively achieves the desired objectives.

### Being open to involving more than one local authority

- 7.12 The councils also noted a need to be open to involving other local authorities, while recognising that setting up successful collaborative agreements may be more difficult. For example:
- One council tried to involve neighbouring councils, but found that each considered itself unique and that, for many, roading was the reason they existed.
  - Another council also considered forming partnerships with neighbouring councils but saw a unilateral arrangement with Transit as the best way forward. One reason for not entering into agreements with neighbouring councils was that they had different issues with Transit.
  - The third council also approached neighbouring councils, but their existing contracts ended at different times and co-ordinating multiple agencies proved too difficult.

### Setting up a framework for working together

- 7.13 In Part 4, we reported on how well the three existing collaborative agreements were functioning against the four elements that we expected to find in place. These elements were:
- effective governance;
  - effective management of risks;
  - effective communication and reporting; and
  - effective contractual arrangements.
- 7.14 Our findings indicate that, for collaboration to be successful, Transit and councils need to ensure that a framework for collaboration is in place covering these four elements.
- 7.15 Governance arrangements need to promote effective joint management, enabling each partner to influence decision-making.
- 7.16 There needs to be awareness and ongoing management of risks, including succession planning for maintaining the effectiveness of agreements.
- 7.17 Communication and reporting needs to be aligned with meeting the requirements of the partners and providing accurate, clear, and relevant information.

- 7.18 Contractual arrangements need to be tailored to the circumstances and designed with savings and the interests of the partners in mind, taking advantage of longer-term performance-based contracting and specifying performance in terms of desired outcomes, to achieve efficiencies and better outcomes where feasible.

### **Analysing and tracking costs and benefits**

- 7.19 In Part 5, we reported on the savings and other benefits from the three existing collaborative agreements. Our findings indicate that, in assessing whether to enter into agreements, Transit and councils need to understand and quantify, where possible, the expected costs and benefits. They also need to keep track of the costs and benefits realised where agreements go ahead to ensure that agreements remain viable and worthwhile.

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#### **Recommendation 10**

We recommend that local authorities and Transit, if pursuing future opportunities for collaboration, refer to the success factors identified in Part 7 of our report as a guideline to help them make well-informed decisions on whether and how to collaborate.

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