

Service Delivery Review

(prepared under section 17A of the Local Government Act 2002)

Environment Canterbury

Public Transport

May 2017

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Executive Summary

This review considers alternative governance, funding and delivery options for Environment Canterbury's public transport service. The options considered align with those set out in section 17A of the Local Government Act (the Act). Public transport in the greater Christchurch area is already governed by a joint committee in most respects, however funding continues to be gathered by Environment Canterbury, which it uses to also deliver the service. In the rest of the region public transport is governed, funded and delivered by Environment Canterbury.

This review draws extensively on a review of public transport governance and delivery completed by McGredy Winder in late 2015, particularly with regard to delivery options. It found that transfer or delegation of Environment Canterbury's public transport delivery functions is not currently possible under the Local Government Act 2002 (sections 17 and 32) and the Land Transport Management Act 2003. Whilst a reorganisation proposal through the Local Government Commission or a legislative change are identified as ways to overcome these barriers, completing such processes within a two-year timeframe are not considered achievable. This two-year timeframe is the limit anticipated in the LGA for any changes to take place, so effectively rules them out as feasible options.

These factors apply to eight of the nine options that need to be considered under the Act. Nevertheless this report considers the practical implications of all the options, were they possible now or if the legislative barriers could be quickly overcome. This analysis is found in Appendix 1. It finds that a joint committee remains the optimum governance arrangement for greater Christchurch in order to deliver enhanced alignment and integration of decision making, whilst the need to retain institutional knowledge and scale efficiencies via the regional council delivering the service work against the notion of a CCO, outsourcing or transfer / delegation to another local authority.

This report notes that legislation is before parliament to amend the Local Government Act 2002 to enable pre-approved forms of transport CCO's. Developments in this area of legislation should be monitored to see if it offers benefits to greater Christchurch in due course, since the optimum form of public transport delivery identified in this report and the McGredy Winder report is a joint committee with governance and funding oversight of an "all of land transport" CCO responsible for delivery of all roading and public transport infrastructure and services. This would deliver integrated governance, funding and delivery of transport across greater Christchurch, and overcome the competing strategic and investment objectives held by greater Christchurch councils over the years.

Introduction

This document has been prepared to meet the requirements of section 17A of the Local Government Act 2002, which requires all Councils to review the governance, funding and delivery of all their services¹ by August 2017.

Following an evaluation of all services to identify exclusions from the requirements of section 17A in August 2016, the public transport service, along with a number of others, was identified as a service that does require review in line with the Act. Council considered that the potential benefits of completing the review outweigh the likely costs.

Accordingly, this review has analysed each option for governance, funding and delivery identified in the Act, of which there are nine; and has compared these to the status quo, identified in this report as option 10. These are shown below.

This arrangement (specific to greater Christchurch) was implemented in 2016 as a result of a governance and delivery review conducted in 2015. Much of this service delivery review therefore draws on this earlier work, which remains relevant today.

| Option | governance & funding | delivery |
|--------|--|---|
| 1 | ECan | |
| 2 | ECan | CCO owned by ECan |
| 3 | ECan | CCO owned by ECan and 1 or more other council |
| 4 | ECan | another council |
| 5 | ECan | another agency |
| 6 | Joint Committee or other shared governance arrangement | CCO owned by ECan |
| 7 | Joint Committee or other shared governance arrangement | CCO owned by ECan and 1 or more other council |
| 8 | Joint Committee or other shared governance arrangement | another council |
| 9 | Joint Committee or other shared governance arrangement | another agency |
| 10 | Joint Committee or other shared governance arrangement | ECan |

¹ Subject to certain exceptions set out in the Act.

Name of the service and scope

This service delivery review is for the Public Transport service (the service) at Environment Canterbury. The service sits within the Transport, Greater Christchurch Rebuild and Urban Development group of activities in the 2015-25 Long Term Plan and comprises one programme with three separate work streams:

- **Greater Christchurch Metro** - strategy, policy, planning, procurement, operations, customer services, and marketing of the greater Christchurch Metro public transport network
- **South Canterbury Metro** - strategy, policy, planning, procurement, operations, customer services, and marketing of the Timaru Metro public transport network and associated bus services
- **Community Transport** - financial support to access the Total Mobility scheme for people with a health impairment that prevents them using public transport. Financial support to community trusts to own and operate voluntary services in communities is too small for public transport.

The scope of this service delivery review is the governance, funding and delivery of these three work streams.

The reader should note that a Joint Committee provides most² governance to the Greater Christchurch Metro Programme, with Environment Canterbury funding and delivering it. Environment Canterbury alone governs, funds and delivers the other two programmes.

In terms of materiality, the focus of the options analyses has been on the governance, funding and delivery of the Greater Christchurch Metro Programme, since it represents over 90% of the annual public transport expenditure. Where applicable, other relevant matters have been noted in the analyses in relation to the other programmes of work.

² Environment Canterbury has delegated governance of most aspects of the greater Christchurch Metro programme to the joint committee but has retained funding and delivery of the service.

Rationale for service provision

Environment Canterbury became the entity responsible for public transport when it inherited the role and service contracts from former entities, including the Christchurch Transport Board, as a result of local government amalgamation in 1989. Subsequent legislation has consolidated Environment Canterbury's role as well as altered it, with changes in government policy over the years placing more or less control in the hands of regional councils³.

The primary piece of legislation currently directing ECan's role in public transport is the Land Transport Management Act 2003. This states that if the regional council intends to contract public transport services using public funds then it must do so in line with the provisions of the Act. These provisions confer responsibilities on the regional council in relation to planning, funding, procuring, and managing public transport. Significantly, it directs the development and regular review of a Regional Public Transport Plan, which is intended as a vehicle to promote discussion and co-operation with public transport operators and the general public, as well as be a place to state the policies and procedures it will follow in providing public transport.

Aside from these statutory drivers, the rationale for ECan providing the service is a long standing history and community support for public transport services in the region. Prior to the acceleration of urban land use in Christchurch and the widespread availability and affordability of automobiles from the 1950's, the city enjoyed very high levels of use of its tram and bus networks. Cycling was also a very well used mode of transport. Over time however private transportation has become the mode of choice for 80% to 90% of all trips made, with walking, cycling and public transport making up the balance. Nevertheless, regional and local transport strategies over the decades since have held fast to a desire to see higher levels of public transport use once again and continue to support investment in services and infrastructure.

The Canterbury earthquakes of 2010 and 2011 have had the greatest single impact on public transport use, with patronage severely impacted and still only at 80% of pre-earthquake levels. Yet there remains a commitment in greater Christchurch to reaching and exceeding former levels of use as part of a wider growth management strategy for the greater Christchurch area.

³ In particular the passing and subsequent repeal of the Public Transport Management Act 2008.

Present arrangements

Governance

A joint committee of Environment Canterbury, Christchurch City Council, Selwyn District Council, and Waimakariri District Council governs the Greater Christchurch Metro programme. Representatives of the New Zealand Transport Agency and Canterbury District Health Board also attend in an observer capacity, but do not have voting rights.

The Committee has governance responsibility for most aspects of the service, but is not involved in procurement, which remains an ECan matter. This is to ensure there is no perceived conflict of interest between CCC's governance role and its ownership of Red Bus Ltd.

ECan has sole governance responsibility for South Canterbury Metro and Community Transport.

Funding

ECan funds the service through targeted rates levied on property in areas benefitting from public transport (and total mobility and community vehicle trusts). It also applies for and receives grants from the National Land Transport Fund, via the New Zealand Transport Agency.

Funding also comes from fares paid by passengers. A National Farebox Recovery Policy developed by NZTA seeks to achieve a fare revenue level of 50% of the total cost of services by the end of the 2017/18 year. Canterbury has been given dispensation in light of the Canterbury earthquakes to reach this goal by 2020/21. Metro services in greater Christchurch and Timaru overall are achieving just over 40% Farebox recovery currently.

Delivery

ECan delivers the Metro components of the service through contracts with bus operators and this represents by far the greatest proportion of total expenditure.

In addition, ECan has a team of 40 FTE staff providing the management around service delivery; such as strategy, planning, operations, procurement, marketing, and customer services.

Community transport is a very small component of the service and involves only 2-3 FTE staff. Delivery of total mobility is primarily through taxi companies who offer accessible vehicles and wheelchair hoists, whilst community vehicle trusts are managed locally with ECan only providing funding and technical support.

Performance

The Environment Canterbury Long term Plan 2015-25 sets out the following measures and targets for the Public Transport service.

| Measures | Targets |
|--|--|
| Provide quality public transport services that take people where they want to go. | 95% of passengers are satisfied or better with the overall service. |
| The number of passenger boardings per year in greater Christchurch and Timaru. | 20 million trips by 2020 and 35 million trips by 2030. |
| Proportion of total trips made by public transport in greater Christchurch. | 3% of total trips by 2020 and 5% of total trips by 2030. |
| Proportion of costs covered by passenger fares. | 50% cost recovery in Canterbury in 2020. |
| Provide Total Mobility scheme for transport-disadvantaged people. | Less than 5% of registered Total Mobility passengers make a complaint to Environment Canterbury about the service they received. |
| Number of communities who receive support from Environment Canterbury to establish Community Vehicle Trusts where conventional public transport services are not feasible. | 100% – all communities who approach Environment Canterbury regarding Vehicle Trusts are offered support. |

The stated objective of the service is to “deliver quality public transport services that meet the needs of the community and result in increased patronage”.

Reviews of annual reports for 2012/13, 2013/14, 2014/15, and 2015/16 show that in general the service has achieved its performance targets and objectives where these relate to customer satisfaction. However, patronage of Metro services in both Christchurch and Timaru have fallen behind targets. Aside from national trends in low fuel prices and increasing car ownership rates, which have driven declines in bus use throughout New Zealand (except Auckland), Christchurch is still undergoing a recovery from the earthquakes and Timaru has an ageing population.

A new network has been put in place in Christchurch that has required customers to use it differently and this is taking time to settle down. In addition, land use is still changing and the central city is only just starting to be repopulated with a significant number of employees. This is traditionally a strong market for public transport, and over time we will see patronage recover to pre-earthquake levels.

Cost

The service has both operational (opex) and capital (capex) expenditure. Operational expenditure is primarily associated with payments to operators for contracted services. Capital expenditure is associated with the purchase of new and improved information technology systems such as ticketing systems and real time information systems.

Opex and capex costs for the three years preceding, and the ten years commencing 2015/16 are shown below.

Values for 2012/13 to 2015/16 are actuals. Values for 2016/17 onwards are from the Long Term Plan 2015-25.

Capex in 2016/17 is for a ticketing system improvement and a replacement real time information system. Capex for 2020/21 represents best available information on the timing and cost of the introduction of a next generation ticketing system.

Of the total expenditure, 90%-95% is for the greater Christchurch system, 4%-5% is for community transport and 1%-2% for south Canterbury. Approximately 96% of all expenditure is on contractor payments. Expenditure is funded by passenger fares (50% target), government grants (51% of the balance) and regional rates (49% of the balance).

| Year | opex (\$000) | capex (\$000) |
|---------|--------------|---------------|
| 2012/13 | 60,574 | |
| 2013/14 | 62,119 | |
| 2014/15 | 64,238 | |
| 2015/16 | 64,040 | |
| 2016/17 | 67,745 | 3,700 |
| 2017/18 | 72,209 | |
| 2018/19 | 74,792 | |
| 2019/20 | 77,227 | |
| 2020/21 | 81,163 | 7,000 |
| 2021/22 | 84,169 | |
| 2022/23 | 87,297 | |
| 2023/24 | 90,584 | |
| 2024/25 | 93,568 | |

Summary of analysis

See appendix 1 for a more detailed analysis of each option.

1. Governance, funding, and delivery by Environment Canterbury.

This was the service delivery model until mid-2016, when a governance and delivery model review (see Appendix 1) resulted in an agreement being signed by ECan, CCC, SDC and WDC⁴ that established a joint committee under clause 30A of schedule 7 of the Local Government Act 2002. Under this agreement, ECan delegated to the Committee responsibility for developing and implementing the Regional Public Transport Plan as it relates to greater Christchurch. This is covered further under option 10 below.

The main reason ECan chose to move away from this delivery model was to better integrate service planning and delivery with the infrastructure planning and delivery by the territorial local authorities, principally Christchurch City Council.

This option is cheaper than the status quo due to lower governance costs and marginally lower delivery costs (reduced levels of joint officials group work). However, over time these are likely to be offset by the benefits of the status quo of enhanced alignment at a governance level and improved integration of service delivery. So that service and infrastructure investments are better aligned and more cost-effective, leading to higher patronage and fare revenue, and reduced levels of public subsidies (rates and government grants).

The South Canterbury and Community Transport programmes continue to be delivered in this way and are working satisfactorily, though South Canterbury Metro patronage has been declining for some time as a result of demographic and economic factors that other parts of New Zealand are also experiencing. Total Mobility demand and customer satisfaction remain at high levels and community vehicle trusts continue to remain a popular solution for rural communities and are a growing area of work for Environment Canterbury.

2. Governance and funding by Environment Canterbury with delivery by a CCO wholly owned by Environment Canterbury.

The governance and funding option is feasible, but unlikely in the current climate. Environment Canterbury made a decision in 2016 to delegate most of its governance role to a joint committee covering the greater Christchurch public transport system, in order to improve integration and cost effectiveness of services and infrastructure decisions. To return to the former governance arrangements would not be acceptable to the other local authorities who are members of the joint committee and would not result in more cost-effective governance arrangement. In other parts of the region this governance and funding option prevails.

⁴ Environment Canterbury, Christchurch City Council, Selwyn District Council, Waimakariri District Council.

Environment Canterbury retains the funding role in public transport services by setting rates through its Long Term Plan and Annual Plans, which also identifies grant funding from the NZTA, via the Regional Land Transport Programme. The quantum of funding needed is identified through the joint committee (for greater Christchurch) through the development and implementation of the Regional Public Transport Plan, but it is ECan who approves these Plans and strikes the rates and applies for grants that funds the services.

The establishment of a CCO for the delivery of ECan's public transport functions is not possible under current legislation. It would require legislation or a reorganisation proposal via the Local Government Commission, and given the timescales involved would not be more cost-effective than current arrangements. This process could take over two years and possibly rule the option out on the basis of section 17A (3)(a)⁵.

A Bill currently before Parliament (Local Government Act 2002 Amendment Bill (No. 2)) would allow the current joint committee (or a form of it) to establish a multiply owned CCO to deliver integrated public services and infrastructure. This is prevented under the current form of the Act and is explained in detail in the McGredy Winder report of November 2015⁶.

3. Governance and funding by Environment Canterbury with delivery by a CCO partly owned by Environment Canterbury and partly owned by other local authorities.

The governance option is feasible, but unlikely for the reasons outlined in option 2 above.

The delivery option is not currently possible under current legislation, as outlined under option 2.

4. Governance and funding by Environment Canterbury with delivery by another local authority.

This governance option is feasible, but unlikely for the reasons outlined in option 2.

The delivery option is not possible under the Land Transport Management Act 2003 (LTMA). This is a factor identified in the McGredy Winder public transport review.

5. Governance and funding by Environment Canterbury with delivery by a person or agency not listed above.

This governance option is feasible, but not likely for the reasons outlined in option 2.

⁵ This section allows for an option to be discounted if it is likely to take more than two years to implement.

⁶ Review of governance and delivery arrangements for public transport in greater Christchurch. McGredy Winder, November 2015.

The delivery option is not possible under the Land Transport Management Act 2003 (LTMA). This is a factor identified in the McGredy Winder public transport review.

6. Governance and funding by joint committee or other shared governance with delivery by a CCO wholly owned by Environment Canterbury.

A joint committee already oversees the greater Christchurch public transport system. The rest of the region is small and does not justify, and will not be more cost-effective, than the current ECan arrangements.

The delivery option is not currently possible under current legislation, as outlined under option 2.

7. Governance and funding by joint committee or other shared governance with delivery by a CCO partly owned by Environment Canterbury and partly owned by other local authorities.

A joint committee already oversees the greater Christchurch public transport system. The rest of the region is small and does not justify, and will not be more cost-effective, than the current ECan arrangements.

The delivery option is not currently possible under current legislation, as outlined under option 2.

8. Governance and funding by joint committee or other shared governance with delivery by another local authority.

A joint committee already oversees the greater Christchurch public transport system. The rest of the region is small and does not justify, and will not be more cost-effective, than the current ECan arrangements.

The delivery option is not possible under the Land Transport Management Act 2003 (LTMA). This is a factor identified in the McGredy Winder public transport review.

9. Governance and funding by joint committee or other shared governance with delivery by a person or agency not listed above.

A joint committee already oversees the greater Christchurch public transport system. The rest of the region is small and does not justify, and will not be more cost-effective, than the current ECan arrangements.

The delivery option is not possible under the Land Transport Management Act 2003 (LTMA). This is a factor identified in the McGredy Winder public transport review.

10. Governance and funding by joint committee or other shared governance with delivery by Environment Canterbury.

This is essentially the status quo for the delivery of public transport in the greater Christchurch area. Funding is ultimately confirmed and gathered by ECan, however this is significantly guided by the joint committee via the development and implementation role it has in the greater Christchurch components of the Regional Public Transport Plan.

ECan has the role of delivering what the joint committee decides, via its own operations (strategy, planning, policy, operations, customer services, marketing and procurement), whilst on the ground delivery is through contracts with bus companies who provide the drivers and vehicles. This forms the largest share of operational costs and is strictly regulated by NZTA procurement rules. The remaining internal ECan costs are primarily staff costs and technology systems costs. Their scale is relatively small and unlikely to be of a size where a CCO could unlock significant cost-effectiveness gains. This is why a CCO with a broader all of transport remit across the greater Christchurch area provides the greatest scope for cost-effectiveness gains, as discussed above under option 7. Its scale and scope for integration of resources and processes offers the greatest potential to streamline delivery in a cost-effective way.

In other parts of the region, the scale of services are small and generally local authorities have little involvement in them. It would not be any more cost-effective to get them more involved than they need or want to be through a joint committee. In greater Christchurch most delivery costs are contractor payments, which means the residual internal costs are very low and offer limited room for meaningful savings that would outweigh the costs and risks of establishing and operating a CCO or an outsourced contract.

Conclusion and recommendations

Based on the analysis completed of the nine LGA options and the tenth status quo option it is concluded that the status quo offers the best cost-effectiveness of available options. It is recommended that council retain the status quo.

Present governance arrangements outside greater Christchurch make sense given the small scale of operations and cost. Liaison with local authorities is undertaken informally and works well. The new joint committee established for greater Christchurch is in its infancy, but it is working well, and improved integration in decision making is bringing councils together and ultimately this will result in greater cost-effectiveness in the delivery of services and infrastructure.

The joint committee also has an advisory role in funding, making recommendations to Environment Canterbury since it cannot levy rates itself. Time will tell if this aspect of the governance arrangement will be successful, however with Environment Canterbury represented on the committee there is a strong likelihood that the committee will make funding recommendations in line with all council expectations.

For the time being delivery by Environment Canterbury should continue, with a focus on process improvement and embracing business intelligence technologies that will release staff to focus on higher value tasks. Currently some staff are tied up in laborious analysis that offers limited value to the service and which should be automated.

Ultimately, a more cost-effective delivery model will be for all land transport activities to be delivered by a single organisation over a suitably large area in order to realise the cost and process efficiencies of large organisations with large annual expenditures. The Local Government Act 2002 Amendment Bill (No.2) currently before the Local Government and Transport select committee offers the potential to one day progress, this option in the form of a CCO in a pre-approved format should two or more councils in the greater Christchurch area agree to progress it.

APPENDIX 1

options analysis evidence base

Option: 1 - Environment Canterbury governs, funds and delivers the service.

This option corresponds with section 17A(4)(a) of the Local Government Act 2002. This was formerly the status quo for Greater Christchurch Metro and is the status quo for the remaining two programmes.

Feasibility

This option is feasible if unlikely, insofar as the greater Christchurch councils are unlikely to return to the former status quo where ECan governed, funded and delivered the service. Progress is being made on the integration of public transport services and infrastructure and in time this will lead to improved cost-effectiveness of ratepayer and tax payer investment in the service.

Community views and preferences

Multiple responsibilities and organisations across the transport sector mean public awareness of who does what is relatively low. This means the degree of interest in who governs, funds and delivers the service is probably minimal.

There is a perception among non-users that public transport use is low and over-subsidised by rate payers, however this is an occasional and not persistent issue. Customer surveys of those who actually use the service shows consistently high levels of satisfaction. This applies to greater Christchurch, south Canterbury, Total Mobility and Community Transport services.

Assessment of the effectiveness of this option

How would this option impact on:

(i) the achievement of the council's objective(s) for the service

There has been a historical tension and lack of alignment in the provision of services by ECan and infrastructure by Christchurch City Council. This gave rise to the establishment of a joint committee to improve alignment, so returning to the former status quo under this option would work against the councils objectives.

(ii) the use of, experience of, or benefit received by the users or beneficiaries of the service?

There would be little direct impact in the short term but lack of alignment in the medium and long term would delay the required investment in services and infrastructure and impact upon the benefits received by users and ratepayers.

Cost of the option

Annual costs of this option would be marginally lower than under a joint committee due to reduced costs running the committee itself.

In a broader sense this option would return to a situation where the investment in services and infrastructure lacks alignment and this would represent a less cost-effective way to deliver public transport.

Overall assessment of cost-effectiveness

For the reasons above this option is considered to be less cost-effective than the status quo.

In addition, a lot of political effort and energy has been invested in bringing together the key agencies responsible for public transport. Whilst the joint committee has only been in place for a little under a year, the benefits of greater alignment at governance and delivery levels is clear and moving away from this in the short term is not realistic or desirable.

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Option 2 - Governance and funding by Environment Canterbury with delivery by an Environment Canterbury owned CCO

This option corresponds with section 17A(4)(b)(i) of the Local Government Act 2002.

Feasibility

The governance arrangement is unlikely for the reasons set out in option 1 above.

This delivery option is not feasible under current law because ECan cannot delegate or transfer this responsibility to a CCO or any other person or agency. Despite this, the following analysis has been completed.

Community views and preferences

Multiple responsibilities and organisations across the transport sector mean public awareness of who does what is relatively low. This means the degree of interest in who governs, funds and delivers the service is probably minimal.

There is a perception among non-users that public transport use is low and over-subsidised by rate payers, however this is an occasional and not persistent issue. Customer surveys of those who actually use the service shows consistently high levels of satisfaction. This applies to greater Christchurch, south Canterbury, Total Mobility and Community Transport services.

Assessment of the effectiveness of this option

How would this option impact on:

- (i) the achievement of the council's objective(s) for the service

The impacts of the governance arrangement are set out in option 1 above.

Regardless of its legality, delivery through a CCO owned by ECan and only focussed on public transport would probably have no greater impact on delivery than the status quo where delivery is through council staff and service contracts with commercial operators (which would remain the case).

The cost of a CCO would possibly increase due to the addition of fees for Board members, as well as the additional compliance costs not currently borne by the business unit within ECan delivering the service. The management and reporting controls around the business unit are not especially onerous on staff time, and are efficient and well established.

The service is highly reliant on public input to consultation processes such as for the development of strategy and service plans. CCO's in this situation have been accused⁷ of being less community focussed and this would be an intangible cost for council to consider as well a question mark against whether such an approach aligns with council's objectives.

- (ii) the use of, experience of, or benefit received by the users or beneficiaries of the service?

In terms of governance impacts, reference is made to option 1 above.

In terms of delivery, users and ratepayers would be unlikely to see a material change in benefits as a result of the CCO delivering the service. Commercial operators would remain the customer facing component of the service. A CCO can be less connected to community than council staff, and customers interfacing with it may experience a change in the degree of customer focus and service and this would need to be clearly managed in any statement of intent prepared by the CCO and reviewed by Council.

Cost of the option

Annual governance costs of this option would be marginally lower than under a joint committee due to reduced costs running the committee itself.

In a broader sense this option would return to a situation where the investment in services and infrastructure lacks alignment and this would represent a less cost-effective way to deliver public transport.

⁷ Governance and Accountability of Council Controlled Organisations, Controller and Auditor General, 2015

Over 95% of the cost of the service is payments to external service providers and is already subject to rigorous procurement procedures prescribed by the New Zealand Transport Agency, and strategically aligned⁸ to improved cost-effectiveness over time. This would not change under a CCO, leaving a small residual sum that covers payments for some 40 FTE staff. These positions have recently been confirmed through an organisational review process, and whilst the development of improved technology and processes is underway to enhance the effectiveness of the business unit. It is unclear that a CCO could unlock any efficiencies of a scale to justify its extra costs, such as fees and compliance costs, or the costs of establishment. The additional oversight costs that council will need to incur to effectively manage a CCO, which it does not currently have.

Overall assessment of cost-effectiveness

For the reasons set out above this option is not considered to be more cost-effective than the status quo. It is also not possible under current legislation.

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Option 3 - Governance and funding by Environment Canterbury with delivery by a multiply owned CCO, of which Environment Canterbury is a shareholder

This option corresponds with section 17A(4)(b)(ii) of the Local Government Act 2002.

Feasibility

The governance arrangement is unlikely for the reasons set out in option 1 above.

This delivery option is not feasible under current law, because ECan cannot delegate or transfer this responsibility to a CCO or any other person or agency. Despite this, the following analysis has been completed.

Community views and preferences

Multiple responsibilities and organisations across the transport sector mean public awareness of who does what is relatively low. This means the degree of interest in who governs, funds and delivers the service is probably minimal.

There is a perception among non-users that public transport use is low and over-subsidised by rate payers, however this is an occasional and not persistent issue. Customer surveys of those who actually use the service shows consistently high levels of satisfaction. This applies to greater Christchurch, south Canterbury, Total Mobility and Community Transport services.

⁸ Public Transport Operating Model. See <http://www.transport.govt.nz/land/ptom/>.

Assessment of the effectiveness of this option

How would this option impact on:

- (i) the achievement of the council's objective(s) for the service

The impacts of the governance arrangement are set out in option 1 above.

The concerns with CCO's and achievement of council objectives are set out in the option 2 above. A key question is whether the CCO in multiple ownership remained focussed only on public transport or if it also delivered the other transport functions of its shareholders, who would likely be Christchurch, Selwyn and Waimakariri districts. This integration could result in improved integration and more cost-effective delivery of the councils transport objectives. It would be likely however that such arrangement could only occur under a joint committee governance arrangement.

- (ii) the use of, experience of, or benefit received by the users or beneficiaries of the service?

In terms of governance impacts, reference is made to option 1 above.

If the CCO had a broader transport delivery role, users and ratepayers could expect to see a more integrated transport system, of which public transport would be a part. As set out in option 2, CCO's have been known to be less community / customer focussed, but this could be managed through clear direction from council to the CCO. If it were simply a public transport CCO, users and ratepayers would see minimal difference, as described in option 2 above.

Cost of the option

Annual governance costs of this option would be marginally lower than under a joint committee due to reduced costs running the committee itself. In a broader sense this option would return to a situation where the investment in services and infrastructure lacks alignment and this would represent a less cost-effective way to deliver public transport.

A multiply owned CCO would possibly be more expensive than an ECan owned one. This would be as a result of a greater number of Directors required on the Board and the multiple reporting lines back to shareholder organisations. The broader cost comparison of a CCO to the status quo is set out in option 2 above.

Overall assessment of cost-effectiveness

Overall, governance costs would be lower and delivery costs higher under this option.

Delivery costs under a CCO would probably be higher due to additional Board and compliance costs. Whilst, most of the delivery cost is in external contracts already subject to commercial pressures, offering limited scope to find efficiencies in operational budgets.

This option overall would be less effective in delivering the service than the status quo due to the loss of integration at a governance level. The commercial disciplines of a CCO may make staffing more effective, however process and technology improvements are already underway within the ECan business unit to deliver this.

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Option 4 - Governance and funding by Environment Canterbury with delivery by another local authority

This option corresponds with section 17A(4)(b)(iii) of the Local Government Act 2002.

Feasibility

This option is not feasible. Environment Canterbury is unable to transfer its public transport delivery role to another local authority. This matter is covered in detail in the McGredy Winder Report on public transport governance of 2015⁹.

A change to the current Local Government Act 2002 (section 17) would be required or perhaps a reorganisation proposal under section 24 via the Local Government Commission, but both would be costly, complex and time-consuming.

Community views and preferences

This option would be highly controversial even if possible, and would leave open the question of who delivers public transport outside of Christchurch, as it is only Christchurch City Council who has the scale and probable interest to take on the role.

Other districts would look to ECan to remain the provider in their areas, yet the loss of the majority of the role would leave a skeleton operation for the rest of the region and introduce inefficiencies.

The governance arrangement would make for a difficult relationship and would not be an option Christchurch City Council would agree to.

Assessment of the effectiveness of this option

Not assessed as the option is not feasible.

⁹ Review of governance and delivery arrangements for public transport in greater Christchurch. McGredy Winder, November 2015.

Cost of the options

Not assessed as the option is not feasible.

Overall assessment of cost-effectiveness

Not assessed as the option is not feasible.

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Option 5 - Governance and funding by Environment Canterbury with delivery by another agency

This option corresponds with section 17A(4)(b)(iv) of the Local Government Act 2002.

Feasibility

This option is not feasible. Environment Canterbury is unable to transfer its public transport delivery role to another agency under the Land Transport Management Act 2003. This matter is covered in detail in the McGredy Winder Report on public transport governance of 2015¹⁰.

Were it possible, Council would need to retain some in-house capability in a smart buyer role to oversee the agency and provide assurance to Council that its objectives were being achieved. This, in effect, would be a variation on the status quo with more emphasis on outsourcing staff roles, and not a true transfer or delegation of delivery intended by the LGA under this option. In-house capacity would also have to be retained to exercise financial delegations, which could not be extended to personnel outside of Environment Canterbury for the large amount of procurement that takes place.

A further concern with this option would be the risk of the agency ceasing to trade, and the subsequent need for ECan to take the service back in-house or bring in another agency at short notice. Both would have serious consequences for the continuity of the service to rate-payers and customers, since there is limited expertise specific to this role outside of ECan currently.

Community views and preferences

This option presents similar community concerns to the CCO options. The loss of front line council staff could result in less customer focus unless clear expectations are established within the agency contract.

¹⁰ Review of governance and delivery arrangements for public transport in greater Christchurch. McGredy Winder, November 2015.

Assessment of the effectiveness of this option

Not assessed further as the option is not feasible.

Cost of the options

Not assessed further as the option is not feasible.

Overall assessment of cost-effectiveness

Not assessed further as the option is not feasible.

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Option 6 - Governance and funding by a joint committee or other shared governance with delivery by an ECan owned CCO

This option corresponds with section 17A(4)(c) of the Local Government Act 2002.

Feasibility

This option is feasible under current law.

Community views and preferences

Multiple responsibilities and organisations across the transport sector mean public awareness of who does what is relatively low. This means the degree of interest in who governs, funds, and delivers the service is probably minimal.

There is a perception among non-users that public transport use is low and over-subsidised by rate payers, however this is an occasional and not persistent issue. Customer surveys of those who actually use the service shows consistently high levels of satisfaction. This applies to greater Christchurch, south Canterbury, Total Mobility, and Community Transport services.

Assessment of the effectiveness of this option

How would this option impact on:

- (i) the achievement of the council's objective(s) for the service

The governance arrangement under this option is the status quo and is believed to remain the most effective in achieving the councils objectives.

Delivery through a CCO owned by ECan and only focussed on public transport would probably have no greater impact on delivery than the status quo, where delivery is through council staff and service contracts with commercial operators (which would remain the case).

The cost of a CCO would possibly be higher due to the addition of fees for Board members, as well as the additional compliance costs not currently borne by the business unit within ECan delivering the service. The management and reporting controls around the business unit are not especially onerous on staff time, and are efficient and well established.

The service is highly reliant on public input to consultation processes such as for the development of strategy and service plans. CCO's in this situation have been accused¹¹ of being less community focussed, and this would be an intangible cost for council to consider. As well as, a question mark against whether such an approach aligns with council's objectives.

(ii) the use of, experience of, or benefit received by the users or beneficiaries of the service?

In terms of governance impacts, this option offers the best opportunity to create alignment in the delivery of services and infrastructure, and thus benefits to ratepayers and customers.

In terms of delivery, users and ratepayers would be unlikely to see a material change in benefits as a result of the CCO delivering the service. Commercial operators would remain the customer facing component of the service. A CCO can be less connected to the community than council staff, and customers interfacing with it may experience a change in the degree of customer focus and service. This would need to be clearly managed in any statement of intent prepared by the CCO and reviewed by Council.

Cost of the options

The key difference between the status quo and this option is the establishment of a CCO for delivery of the service.

Over 95% of the cost of the service is payments to external service providers, and is already subject to rigorous procurement procedures prescribed by the New Zealand Transport Agency, and strategically aligned¹² to improved cost-effectiveness over time. This would not change under a CCO, leaving a small residual sum that covers payments for some 40 FTE staff.

These positions have recently been confirmed through an organisational review process. Whilst, the development of improved technology and processes is underway to enhance the effectiveness of the business unit. It is not clear that a CCO could unlock any efficiencies of

¹¹ Governance and Accountability of Council Controlled Organisations, Controller and Auditor General, 2015

¹² Public Transport Operating Model. See <http://www.transport.govt.nz/land/ptom/>.

a scale to justify its extra costs, such as fees and compliance costs, or the costs of establishment and the additional oversight costs that council will need to incur to effectively manage a CCO, which it does not currently have.

Overall assessment of cost-effectiveness

For the reasons set out above this option it is not considered to be more cost-effective than the status quo. There appears to be insufficient scope for the CCO to achieve efficiency savings, whilst plans are already in hand to realise the benefits of enhanced processes and technology.

A CCO with a single focus on public transport would not realise the scale and integration benefits a CCO with a broader remit of all land transport could achieve, whether just in Christchurch City or more broadly. Such a CCO would be made possible by the passing of the Local Government Act 2002 Amendment Bill (No.2), which contains pre-approved transport CCO provisions. This is currently before the Local Government and Environment select committee.

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Option 7 - Governance and funding by a joint committee or other shared governance with delivery by a multiply owned CCO, of which Environment Canterbury is a shareholder

This option corresponds with section 17A(4)(c) of the Local Government Act 2002.

Feasibility

This option is feasible under current law.

Community views and preferences

Multiple responsibilities and organisations across the transport sector mean public awareness of who does what is relatively low. This means the degree of interest in who governs, funds, and delivers the service is probably minimal.

There is a perception among non-users that public transport use is low and over-subsidised by rate payers, however this is an occasional and not persistent issue. Customer surveys of those who actually use the service shows consistently high levels of satisfaction. This applies to greater Christchurch, south Canterbury, Total Mobility, and Community Transport services.

Assessment of the effectiveness of this option

How would this option impact on:

(i) the achievement of the council's objective(s) for the service

The governance arrangement under this option is the status quo and is believed to remain the most effective in achieving the council's objectives.

Delivery through a multiply owned CCO and only focussed on public transport would probably have no greater impact on delivery than the status quo, where delivery is through council staff and service contracts with commercial operators (which would remain the case). The benefits of scale and integration would be significant, however if the CCO has a broader all of land transport focus, as is the case in Auckland.

The cost of a CCO would possibly be higher due to the addition of fees for Board members, as well as the additional compliance costs not currently borne by the business unit within ECan delivering the service. The management and reporting controls around the business unit are not especially onerous on staff time, and are efficient and well established.

The service is highly reliant on public input to consultation processes, such as for the development of strategy and service plans. CCO's in this situation have been accused¹³ of being less community focussed and this would be an intangible cost for council to consider as well as a question mark against whether such an approach aligns with council's objectives.

(ii) the use of, experience of, or benefit received by the users or beneficiaries of the service?

In terms of governance impacts, this option is the governance status quo and remains the best opportunity to create alignment in the delivery of services and infrastructure and thus benefits to ratepayers and customers.

In terms of delivery, users and ratepayers would be unlikely to see a material change in benefits as a result of the CCO delivering the service. Commercial operators would remain the customer facing component of the service. A CCO can be less connected to community than council staff, and customers interfacing with it may experience a change in the degree of customer focus and service and this would need to be clearly managed in any statement of intent prepared by the CCO and reviewed by Council.

Cost of the option

A multiply owned CCO would possibly be more expensive than an ECan owned one. This would be as a result of the greater number of Directors required on the Board and the multiple reporting lines back to shareholder organisations.

¹³ Governance and Accountability of Council Controlled Organisations, Controller and Auditor General, 2015

The broader cost comparison of a CCO to the status quo is set out in option 2 above.

Overall assessment of cost-effectiveness

Overall, governance costs would be equal to the status quo.

Delivery costs under a multiply owned CCO would probably be higher due to additional Board and compliance costs, as well as the costs borne by individual shareholders managing their interests.

Most of the delivery cost is in external contracts already subject to commercial pressures, offering limited scope to find efficiencies in operational expenditure budgets. The commercial disciplines and determination of purpose of a CCO may make staffing more effective, however process and technology improvements are already underway within the ECan business unit to deliver this. Concerns remain around how community focussed a CCO is and this would require special oversight by the shareholders.

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Option 8 - Governance and funding by a joint committee or other shared governance with delivery by another local authority

This option corresponds with section 17A(4)(c) of the Local Government Act 2002.

Feasibility

This option is not feasible. Environment Canterbury is unable to transfer its public transport delivery role. This matter is covered in detail the McGredy Winder Report on public transport governance of 2015¹⁴.

A change to the current Local Government Act 2002 (section 17) would be required or perhaps a reorganisation proposal under section 24, but both would be costly, complex, and time-consuming.

Community views and preferences

This option would be highly controversial even if possible, and would leave open the question of who delivers public transport outside of Christchurch, as it is only Christchurch City Council who has the scale and probable interest to take on the role.

¹⁴ Review of governance and delivery arrangements for public transport in greater Christchurch. McGredy Winder, November 2015.

Other districts would look to ECan to remain the provider in their areas, yet the loss of the majority of the role would leave a skeleton operation for the rest of the region and introduce inefficiencies.

The governance arrangement would make for a difficult relationship and would not be an option Christchurch City Council would agree to.

Not assessed as the option is not feasible.

Cost of the options

Not assessed as the option is not feasible.

Overall assessment of cost-effectiveness

Not assessed as the option is not feasible.

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Option 9 - Governance and funding by a joint committee or other shared governance with delivery by another agency

This option corresponds with section 17A(4)(c) of the Local Government Act 2002.

Feasibility

This option is not feasible. Even if the ECan staff component of the delivery of the service were outsourced, ECan would always need to retain some in-house capability in a smart buyer role to oversee the agency and provide assurance to the joint committee that its objectives were being achieved. This, in effect, would be a variation on the status quo with more emphasis on outsourcing staff roles, and not a true transfer or delegation of delivery intended by the LGA under this option.

In-house capacity would also have to be retained to exercise financial delegations, which could not be extended to personnel outside of Environment Canterbury for the large amount of procurement that takes place.

A further concern with this option would be the risk of the agency ceasing to trade and the subsequent need for ECan to take the service back in-house or bring in another agency at short notice. Both would have serious consequences for the continuity of the service to rate-payers and customers, since there is limited expertise specific to this role outside of ECan currently.

Community views and preferences

This option presents similar community concerns to the CCO options. The loss of front line council staff could result in less customer focus unless clear expectations are established within the agency contract.

Assessment of the effectiveness of this option

Not assessed as the option is not feasible.

Cost of the options

Not assessed as the option is not feasible.

Overall assessment of cost-effectiveness

Not assessed as the option is not feasible.

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Option 10 - Governance and funding by a joint committee or other shared governance with delivery by Environment Canterbury

This option corresponds with section 17A(4) of the Local Government Act 2002, which allows consideration of any other option.

This is closest to the 'status quo' option where Environment Canterbury has delegated most governance roles for greater Christchurch public transport to a joint committee, in which Christchurch, Selwyn, and Waimakariri Councils share decision making on most things, except notably funding.

Feasibility

This option was established in mid-2016 when the partnership agreement was signed by each Council and the joint committee met for the first time.

Final funding decisions cannot be delegated to the joint committee since rates are levied under the LGA by Environment Canterbury. In practice Environment Canterbury would be unlikely to decline a funding request from the joint committee but this has not been tested.

Community views and preferences

Multiple responsibilities and organisations across the transport sector mean public awareness of who does what is relatively low, even since this new joint committee was established. This means the degree of interest in who governs, funds, and delivers the service is probably minimal.

There is a perception among non-users that public transport use is low and over-subsidised by rate payers, however this is an occasional issue. Customer surveys of those who actually use the service show consistently high levels of satisfaction. This applies to greater Christchurch, south Canterbury, Total Mobility, and Community Transport services.

Assessment of the effectiveness of this option

How does this option impact on:

(i) the achievement of the council's objective(s) for the service

The joint committee was established to enhance the alignment, integration of public transport services, and infrastructure delivery primarily to address historical misalignment between Environment Canterbury and Christchurch City Council. Whilst the committee has only been active since mid-2016, there are positive signs that this is being achieved and will continue to be achieved into the future.

Continued delivery by ECan allows for a continuity in the service that has been necessary to put in place a network better suited to the post-earthquake land use, and travel patterns that have emerged.

As set out in the McGredy Winder Report of 2015, a more optimum delivery mechanism would be a single entity responsible for all land transport delivery in the Christchurch or greater Christchurch area, as happens in Auckland. The status quo is most appropriate for the rest of the region, where the scale of operations is far smaller. A single CCO under a joint committee responsible for all land transport (~\$400m annual opex and capex) would introduce scale efficiencies, commercial disciplines, and a determination of purpose that would greatly accelerate delivery. This would most likely prove more cost-effective than the current delivery arrangements for transport, including those at Environment Canterbury.

(ii) the use of, experience of, or benefit received by the users or beneficiaries of the service?

The status quo governance and delivery option is a step forward for public transport in greater Christchurch, compared to the situation that existing prior to mid-2016, which was option 1. Ratepayers and customers in time will see the increased benefits of improved integration in service delivery and infrastructure. Currently their direct experience of the use of the service will be unchanged.

Cost of the option

This option is marginally more expensive than option 1 (the former status quo), however the benefits of the joint committee are improved integration and alignment in the provision of services, and infrastructure and this more than offsets the marginal additional governance costs.

Overall assessment of cost-effectiveness

This is the most cost-effective option feasible under current law.

Enhancements to status quo option

Changes to the law promulgated by the Local Government Act 2002 Amendment Bill (No.2) would enable a straight forward pathway to the creation of a transport CCO for Christchurch or greater Christchurch, overseen by a joint committee of the relevant shareholders. This would present the opportunity to integrate public transport delivery with the rest of land transport delivery, and to realise the associated financial benefits of scale.

In the meantime, Environment Canterbury should continue to pursue efficiency savings through process improvements and the development of business intelligence systems so that staff can focus on higher value tasks.