

## NZ TRANSPORT AGENCY INVESTMENT AUDIT REPORT

### Monitoring Investment Performance

This is the report of an investment audit we carried out under section 95(1)(e)(ii) of the Land Transport Management Act 2003.

<b>Approved Organisation (AO):</b>	Greater Wellington Regional Council
<b>Date of investment audit:</b>	10-14 June 2019
<b>Programme Value (2018 - 2021 NLTP) – NZTA Investment</b>	\$361,806,200
<b>Investment Auditors:</b>	Glenn McGregor and Tony Pinn
<b>Report No:</b>	RAGMI -1822

#### OBJECTIVE

The objective of this audit is to provide assurance that the NZ Transport Agency's (the Transport Agency) investment in Greater Wellington Regional Council's land transport programme is being well managed and delivering value for money. We also sought assurance that the Council is appropriately managing risk associated with the Transport Agency's investment. We recommend improvements where appropriate.

#### EXECUTIVE SUMMARY

From April 2018 Greater Wellington Regional Council (GWRC) commenced a staged roll-out of new PTOM contracts – starting with Wairarapa and ending with Wellington City contracts on 15 July. GWRC implemented a number of changes at the same time as the new contracts including new fares and ticketing products, new timetables, new infrastructure and new routes. While successful elsewhere in the region, Council has struggled to deliver the intended bus services for Wellington City to the standard expected by customers and GWRC. Council has initiated several reviews and initiatives to address these problems. Key concerns of bus reliability and timeliness have still not been resolved. This has been exacerbated by a shortage of suitable buses and drivers.

Council has sound financial systems in place to manage its land transport disbursement account. Supporting documentation provided a clear audit trail between the general ledger and the claims for funding assistance.

There is a lack of documentation supporting direct appointments of professional services suppliers where the contract's estimated value was more than \$200,000. Council's procurement strategy (2014) needs updating and when completed, endorsement by the Transport Agency.

The Total Mobility Scheme continues to be well managed.

#### DISCLAIMER

While every effort has been made to ensure the accuracy of this report, the findings, opinions, and recommendations are based on an examination of a sample only and may not address all issues existing at the time of the audit. The report is made available strictly on the basis that anyone relying on it does so at their own risk, therefore readers are advised to seek advice on specific content.

**AUDIT RATING ASSESSMENT**

	<b>Issue</b>	<b>Risk Assessment*</b>
1	Previous audit issues	N/A
2	Financial management	Effective
3	Procurement	Some improvement needed
4	Contract management	Significant improvement needed
5	Total Mobility and SuperGold Schemes	Effective
Overall rating		Some improvement needed

\* Key to rating assessment – refer appendix B

**RECOMMENDATIONS SUMMARY**

That Greater Wellington Regional Council:

	<b>Recommendations</b>	<b>Implementation target date</b>
3	a) Complies with the Transport Agency's requirements for procuring suppliers by direct appointment and; b) Updates its Procurement Strategy and seeks endorsement from the Transport Agency.	
4	a) Urgently develops bus service auditing and inspection processes as per the contract provisions; and b) Advises the Transport Agency of the outcomes of the network design review, how the recommendations from this review are being addressed; and when any improvements are planned to come into effect.	

Before being finalised this report was referred to Greater Wellington Regional Council for comment. Council's comments have been considered and are included in the body of the report.

**FINDINGS**

**1: What issues if any remain unresolved from the previous audit?**

Findings	There were no recommendations arising from the previous March 2017 investment audit.
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<b>2: Financial processes</b>	<b>Effective</b>
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Findings	<p>GWRC continues to have sound financial management processes to effectively manage the Transport Agency's investment in its land transport programme.</p> <p>Claims for funding assistance for the 2016/17 and 2017/18 financial years were reconciled against Council's general ledger records and financial records were well presented to facilitate the audit.</p> <p>The setup of the land transport disbursement account and the supporting worksheets provided a clear audit trail from the general ledger to the funding claims. There are strong controls in place to ensure SAP totals balance to worksheets which build up the claims.</p> <p>The previous audit identified several historical funding arrangements which were recorded by a series of comments attached to cells in the claims worksheet. We suggested that Council review this process to ensure these arrangements are captured in one place and adequately documented. This has been addressed.</p> <p>The Transport Agency has a funding agreement in place with Council for the procurement of 35 2-car Matangi Units (Matangi 2). The capital cost is debt funded with Transport Agency contributing to the loan repayments over a 25 year period from the 2012/15 NLTP. Interest and principal payments are funded through work category 515 "Passenger rail services" at the funding assistance rate applicable to each year. We confirmed that the funding conditions of this agreement were being correctly applied.</p>
GWRC response	Greater Wellington have put in place a robust process to review the claims for funding worksheet and document the procedures we follow to complete a claim. This has been demonstrated through the NZTA financial process findings.

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3. Procurement procedures		Some improvement needed
Findings	<p>Council's Procurement Strategy (2014) needs updating and when completed, endorsement by the Transport Agency. At the time of the endorsement of this Strategy by the Transport Agency on 8 July 2014 the bus, ferry and Total Mobility strategies had not been developed or incorporated in the strategy.</p> <p>We reviewed eight professional services contracts, two physical works contracts and one public transport partnering contract covering nine units (refer appendix C).</p> <p>There is a lack of documentation supporting direct appointments of professional services suppliers where the contract estimated value is more than \$200,000. The Transport Agency requires all contracts with an estimated value of more than \$200,000 to go out for open tender unless there is a good reason not to. There were two examples identified where expedited procedures were adopted by GWRC to appoint consultancy service providers without a documented reason for doing so.</p> <p>Every supplier selection process must commence as an open competitive process in which all potential suppliers are invited to engage. Notwithstanding this, procurement activity that meets the requirements for direct appointment is exempt from this requirement. Council needs to document its reasons for directly appointing suppliers for these contracts rather than go to open tender.</p>	
Recommendations	<p>That the Greater Wellington Regional Council:</p> <ul style="list-style-type: none"> <li>a) Complies with the Transport Agency's requirements for procuring suppliers by direct appointment and;</li> <li>b) Updates its Procurement Strategy and seeks endorsement from the Transport Agency.</li> </ul>	
GWRC response	<p>GWRC have reviewed the three examples and agree that two of them did not have documentation completed at the time of engagement to support direct appointment that is exempt from an open competitive process. Although these two professional services suppliers were specialist in their fields and procurement was fast tracked due to urgent resource needs, appropriate paperwork should have been completed. GWRC will review its procurement practices and training to ensure all staff are aware of Transport Agency's requirements for procuring suppliers by direct appointment.</p>	

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<b>4: Contract management and patronage and revenue collection processes</b>	<b>Significant improvement needed</b>
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Findings	<p>On 15 April 2018 GWRC launched revamped bus services for the Wellington region. Tenders were let under the Public Transport Operating Model (PTOM). New services were successfully implemented in Kapiti, the Hutt Valley, the Wairarapa and Porirua areas. However, from the onset it became apparent in Wellington City that the two operators, Tranzurban (The Tranzit Group) and NZ Bus, were not able to deliver the contracted services to the standard expected by customers and GWRC.</p> <p>GWRC and the Transport Agency commissioned an implementation review (LEK Consulting, December 2018) which concluded the following:</p> <p>“The simultaneous implementation of new operators (with new fleets, drivers, Key Performance Indicators (KPIs) reporting regime), new network (with new routes and timetables), new fares and ticketing system resulted in a number of failures coinciding with each other and amplifying each other’s effect on customer experience. This created a significant challenge for operators and GWRC to respond to. The decision to go-live in winter also exacerbated the impact on customers.”</p> <p>Council staff, with limited resources, are actively endeavouring to improve the Wellington bus services.</p> <p>Despite these efforts the bus contractors have been unable to deliver Wellington bus services as per contract conditions. This has been exacerbated by the national shortage of both drivers and suitable buses.</p> <p>To address this situation GWRC has entered into a series of transitional agreements (performance waivers) with the bus operators, temporarily reducing the contract KPIs each time. Council staff believe they had no choice but to do this, as enforcing the penalty provisions of the contracts would have severely impacted on the financial viability of the bus companies (potentially resulting in no Wellington City bus services). Council is carrying out a comprehensive review of the KPIs to deliver improved services.</p> <p>Evidence was provided to show the withholding of payments (deductions) for services not delivered against agreed KPIs. GWRC has been restricted in its ability to accurately measure contract compliance due to ongoing issues with the bus performance technology. Council has advised us that it is seeking to remedy this situation by utilising both RTI and Snapper on-board systems to cross-match performance on all services delivered.</p> <p><b>Current performance</b></p> <p>Council data indicates patronage growth and reliability is now improving.</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th>Month/year</th> <th>Bus (Metlink)</th> <th>Rail</th> <th>Ferry</th> <th>Total monthly</th> </tr> </thead> <tbody> <tr> <td>May 2018</td> <td>2,351,044</td> <td>1,306,439</td> <td>14,271</td> <td>3,671,754</td> </tr> </tbody> </table>	Month/year	Bus (Metlink)	Rail	Ferry	Total monthly	May 2018	2,351,044	1,306,439	14,271	3,671,754
Month/year	Bus (Metlink)	Rail	Ferry	Total monthly							
May 2018	2,351,044	1,306,439	14,271	3,671,754							

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	May 2019	2,490,800	1,416,307	16,752	3,923,859
	Difference	+5.9%	+8.4%	+17.4%	+6.49%
	<p>GWRC now validates performance reliability information through the Snapper and RTI systems. For May 2019, GWRC data shows bus reliability (punctuality) at 93% for scheduled services. By contrast, for May 2018 reliability was recorded as 99%. It is difficult to draw conclusions from these data sets as the older information was not able to be verified.</p> <p>Rail patronage continues to grow but reliability issues are a concern. This is attributed to carriages being out of service for maintenance, infrastructure failures and staffing issues.</p> <p><b>Auditing and inspection</b></p> <p>Council's partnering contracts for the delivery of bus services makes provision for GWRC to audit and inspect bus services. Council has yet to develop its approach to this provision and no audits or inspections have been carried out to date.</p> <p><b>Bus Network Review</b></p> <p>GWRC has also commissioned a post implementation bus network design review of the Metlink network implemented in 2018 by the Greater Wellington Public Transport Transformation Programme. The final report for the Wellington City network is expected in early 2020.</p> <p><b>Patronage and revenue collection processes</b></p> <p>Processes for receipting fare box revenue from the rail gross contract were reviewed and a sample month was validated against general ledger records. We confirmed that fare revenue was netted off against the claims to the Transport Agency under the gross PTOM contracts.</p> <p>Overall patronage and revenue systems are correctly reported and accounted for under the current ticketing system. A further enhancement is the NZ National Ticketing Programme called the NEXT project. It is being developed with the Transport Agency and a consortium of councils who deliver public transport services.</p>				
Recommendations	<p>That the Greater Wellington Regional Council:</p> <ul style="list-style-type: none"> <li>a) Urgently develops bus service auditing and inspection processes as per the contract provisions; and</li> <li>b) Advises the Transport Agency of the outcomes of the network design review, how the recommendations from this review are being addressed; and when any improvements are planned to come into effect.</li> </ul>				
GWRC response	<p>GWRC are progressing with plans to increase Metlink resources to meet the increased demand created by the introduction of multiple performance-based operator contracts.</p> <p>GWRC considers that the rating for Contract management and patronage and revenue collection processes should be 'Some improvement needed'. We have set out our rationale below in line with the definitions in the NZTA Audit Rating Table.</p>				

	<p><b>Investment management</b> -GWRC's investment management is based on acceptable systems, processes and management practices however there are opportunities for improvement.</p> <p>The key opportunities identified by NZTA include bus service reviews that are currently being carried out. We want to ensure that customers, stakeholders and NZTA are consulted to obtain their views on opportunities for improvement prior to implementation. The jointly commissioned LEK report identified a number of recommendations, which are being implemented through various operational decisions.</p> <p><b>Compliance</b> – some omissions with Transport Agency requirements. No known breaches of legislative requirements.</p> <p>GWRC are not aware of any omissions against NZTA requirements nor legislative breaches.</p> <p><b>Findings/deficiencies</b> – error and omission issues identified which need to be addressed.</p> <p>GWRC can see no evidence that NZTA has made Findings/deficiencies in relation to any error or omission by GWRC.</p> <p>On the basis of the above, we accept that the audit can reasonably reach a conclusion that 'some improvement' is required, and the recommendations fall into this category also.</p>
Auditors response	<p>If GWRC are able to address the current challenges inhibiting the delivery of its Wellington bus services, it will lead to a significant improvement.</p>

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5: Total Mobility and SuperGold Schemes	Effective
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Findings	<p>The Total Mobility Scheme continues to be well managed. Robust processes are in place to assess potential clients and monitor compliance with the schemes requirements. Scheme membership has increased by 1500 (13%) in the last year. Council believe this is due to enhanced service provisions being provided by Council. Scheme members are now eligible for a 50% fare concession on buses and trains. We confirmed that the extended use of the Total Mobility card for public transport use has not compromised the scheme's intended purpose or funding. A breakdown of Total Mobility and public transport patronage information showed that there was no cross subsidisation occurring. The maximum subsidy available to Total Mobility users in the Wellington region is \$40 per trip. The average subsidy paid in 2017/18 was \$9.12.</p> <p>Annual SuperGold patronage is accurately reported to the Transport Agency and SuperGold revenue is correctly offset against claims made under the public transport services activity class.</p>
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GWRC response	We accept these findings
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We would like to acknowledge the availability and openness of Council staff over the course of the audit. This was much appreciated given the operational issues they were working through with the implementation of the new bus contracts. The determination of staff to resolve the concerns of the community was clearly evident.

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**AUDIT PROGRAMME**

1. Previous audit March 2017
2. Final claims for 2016/17 and 2017/18
3. Reconciliation between ledgers supporting final claim and the audited financial statements
4. Transactions (accounts payable)
5. Procurement Procedures
6. Contract Management and Administration
7. Patronage validation
8. Total Mobility Scheme
9. SuperGold Scheme
10. Passenger transport infrastructure – bus centres and shelters
11. Road safety promotion
12. Transport Investment On-line (TIO) Reporting
13. Other issues that may be raised during the audit
14. Close out meeting

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**AUDIT RATING TABLE**

Rating	Definition
<p><b>Effective</b></p>	<p><b>Investment management</b> – effective systems, processes and management practices used.</p> <p><b>Compliance</b> – Transport Agency and legislative requirements met.</p> <p><b>Findings/deficiencies</b> – opportunities for improvement may be identified for consideration.</p>
<p><b>Some improvement needed</b></p>	<p><b>Investment management</b> – acceptable systems, processes and management practices but opportunities for improvement.</p> <p><b>Compliance</b> – some omissions with Transport Agency requirements. No known breaches of legislative requirements.</p> <p><b>Findings/deficiencies</b> - error and omission issues identified which need to be addressed</p>
<p><b>Significant improvement needed</b></p>	<p><b>Investment management</b> – systems, processes and management practices require improvement.</p> <p><b>Compliance</b> – significant breaches of Transport Agency and/or legislative requirements.</p> <p><b>Findings/deficiencies</b> – issues and/or breaches must be addressed or on-going Transport Agency funding may be at risk.</p>
<p><b>Unsatisfactory</b></p>	<p><b>Investment management</b> – inadequate systems, processes and management practices.</p> <p><b>Compliance</b> – multiple and/or serious breaches of Transport Agency or legislative requirements.</p> <p><b>Findings/deficiencies</b> – systemic and/or serious issues must be urgently addressed or on-going Transport Agency funding will be at risk.</p>

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CONTRACTS AUDITED

Contract Number	Tenders Received	Date Let	Description	Contractor		
			<b>Public Transport</b>			
PT605-614	86	May 2017	Partnering contracts (PTOM, 9 units covering Wellington region)	Tranzit Group (8 units)	Let Price (p.a)	\$37,200,000
				Madge Coachlines) (1 unit)	Let Price (p.a)	\$3,200,000
			<b>Professional Services</b>			
PT593	1	Mar 2017	Community engagement advisor – bus interchange	Harley Thorpe	Estimate Let Price Final Cost	\$280,135 \$280,135 Current
PT624	1	Jun 2017	Service design planning tool	Remix	Estimate Let Price Final Cost	\$529,000 \$529,000 Current
PT628	1	Sep 2017	Omnibus test lead	Testing Consultancy Ltd	Estimate Let Price Final Cost	\$1,000* \$1,000* Current
PT655	1	Nov 2017	PT and PTT Customer programme leader	Serene Ambler People & Co	Estimate Let Price Final Cost	\$298,000 \$298,000 Current
PT708	1	Jul 2018	Managing operational support for procurement process under Project NEXT	Millennium Trust Management	Estimate Let Price Final Cost	\$360,000 \$360,000 Current
PT711	1	Jul 2018	PTTP operations consultant	Seamus O'Sullivan	Estimate Let Price Final Cost	\$42,200 ** Current
PT769	1	Mar 2018	Seismic strengthening design services	Harrison Grierson	Estimate Let Price Final Cost	\$143,000 \$143,000 Current
PT741	1	Oct 2018	Network design consultant	Barry Watkins & Assoc.	Estimate Let Price Final Cost	\$280,000 \$280,000 Current
			<b>Physical Works</b>			
PT671	1	Jan 2018	Bus Hub shelter fabrication and installation	Metco Engineering	Estimate Let Price Final Cost	\$2,000,000 \$1,894,030 Current

PT672	1	Feb 2018	Bus Hub civil works	Higgins	Estimate	\$2,000,000
					Let Price	\$2,936,365
					Final Cost	Current

\*Per day

\*\*\$200 per hour, Max \$1,600 per day

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August 2019

**Investment Audit of Greater Wellington Regional Council**

Report Number: RAGMI - 1822

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