

CREATING A SUPER CITY: INTEGRATION ISSUES

PART 3: FINDING EFFICIENCIES AMONGST A MULTITUDE OF RELATIONSHIPS

integrate /in-ti-greyt/ verb (-ting) to make up, combine, or complete to produce a whole or a larger unit

The government has now established the Auckland Transition Agency (Transition Agency) which will be responsible for rationalisation and transition to the new Auckland governance arrangements.

There is an expectation that structural change for Auckland will ultimately deliver efficiency savings, with the Royal Commission suggesting that these gains could be in an indicative range of 2.5% to 3.5% of total expenditure of the Auckland councils (with total expenditure in 2008/09 being around \$3.2 billion). However, securing the anticipated savings will require excellent transition and management arrangements going forward.

The Royal Commission noted that one of the many tasks to be undertaken by the Transition Agency over the next 17 months will be a due diligence audit of current councils and relevant council controlled organisations including records, funding arrangements, land, assets, liabilities, commitments, litigation, claims and contingencies.

All councils and entities involved run significant businesses, and most involve a multitude of contractual relationships with third parties, many being long term and complex in nature. These are not simple businesses, with the bigger councils effectively managing a vast range of commitments across many areas including management of council owned recreation and sports facilities, asset management, construction services, operational services, professional services, the provision of grant funding, sponsorship, and the list goes on.

Section 35 of the Local Government (Tamaki Makaurau Reorganisation) Act 2009 (the Act) provides for the dissolution of existing local authorities on 1 November 2010, and the transfer of all rights, liabilities, contracts, entitlements and engagements to the Auckland Council. While the legislative pen can and will deliver the safe transfer of these relationships to the new Auckland Council, that is only one small step in the long journey towards aligning commitments and achieving efficiencies.

Before external commitments can be aligned, the basis on which they might be merged, terminated or renegotiated must be understood. Notwithstanding the sweeping nature of the transfer arrangements, the Act does not provide any “super powers” enabling the Auckland Council to run roughshod over the rights of external parties in its drive to achieve efficiencies.

The tasks ahead for the Transition Agency include reviewing and assessing thousands of contractual commitments across all the entities involved, identifying ways in which those relationships can be aligned, introducing competitive tension where it may not have previously existed, and encouraging greater pricing rigour into the mix. Decisions around which contractual relationships should be retained and combined, what should be renegotiated or terminated, and when and how to take those steps, will not be straightforward.

In an attempt to limit the Auckland Council’s exposure to new long term or significant contracts, section 31 of the Act will impose an obligation on existing local government organisations to obtain confirmation from the Transition Agency of any decision to enter into a contract that extends beyond 30 June 2011 where the consideration payable under the contract is \$20,000 or more.

The speed at which efficiencies will ultimately be delivered for the benefit of ratepayers will depend on many things, including:

- The extent to which each of the various current councils and council controlled organisations runs a “tidy ship”, with contract management systems already in place to assist with the merging of those arrangements by the new Auckland Council
- Whether appropriate files and records have been maintained and can be passed over, including clear records of performance or non-performance of contractual obligations
- The ability of the Transition Agency to gather and review key commitments in the time available, and to provide a suggested framework for integrating the commitments and prioritising commitments for review and alignment
- The extent of differences in the approach taken by the various current councils and organisations to current contracts, with major differences in fundamentals like pricing, risk allocation and terms under arrangements adding complexity when it comes to aligning arrangements
- Whether knowledge and understanding (at a practical operational level) of relationships and commitments that is currently held by officers and employees of the various councils can be captured and not lost in the mix of transition.

Where commitments exist between the various councils, there is no doubt that efficiencies might well be delivered sooner rather than later. Similarly, short term commitments will not cause headaches.

The longer term commitments will take more time to align, and the key to achieving efficiencies is likely to be in setting up a good framework for prioritising areas of focus, ensuring people inside and outside Auckland Council understand the scale of the tasks ahead, securing and maintaining knowledge of key commitments, and approaching significant external suppliers in a logical and consistent manner.

As with much of what lies ahead for the new Super City, setting and managing expectations will be key, and the lack of current comment regarding efficiency gains is understandable.

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