MARTIN JENKINS

3 May 2013

Lyn Patterson
Chair
Wairarapa Governance Review Working Party

Dear Lyn

Greater Wellington Regional Council Review of Viability Report

On behalf of the Wairarapa Councils, you have asked us to review an assessment, prepared by the Greater Wellington Regional Council (GWRC), of the report that we recently prepared on the viability of a Wairarapa Unitary Authority. Specifically, you have asked us to indicate whether, in light of GWRC's comments, we consider there is a need to revise any of the analysis in our report and/or its findings and conclusions.

We welcome GWRC's review of our report. The future governance of the Wairarapa is a significant issue. It is important and desirable that the Wairarapa Councils and their constituents are presented with a range of perspectives on the future implications of the governance options. Determining how future governance arrangements will play out is unknown and, accordingly, assessment of the future options has to rely on the exercise of informed judgement. In this regard, we view GWRC's comments as being a useful contribution to challenging the judgements that we have set out in our report.

Having carefully considered GWRC's comments, we conclude that the findings of our original report still stand. In short, we have not identified anything in GWRC's comments that would materially affect our key finding that a Wairarapa Unitary Authority would be financially viable and that there is a strong strategic and economic case for this governance option – stronger than the case for its inclusion as part of region-wide super city.

Below, we respond to issues raised by GWRC that are in our view most material to the findings in our earlier report and that, by implication, are most critical to the assessment of the two main governance options that formed our brief.

As indicated in our original report (page 19), there are three main aspects of local government functions that are particularly important in terms of assessing the strategic, economic and financial case for the governance options. We comment on each in light of GWRC's comments.

Public transport

GWRC concludes that under a Wairarapa Unitary Authority "in all likelihood Wairarapa residents would pay significantly more in rates, or Wairarapa fares would have to be increased substantially". We are not convinced that this would be the case. There are two main issues involved with public transport. One of these is the mechanics of enabling a regional approach to funding if governance arrangements change. GWRC indicates this may not be straightforward. We agree but, equally, GWRC appears to concede that there are ways of addressing this, such as by an Order in Council. The second issue is whether the allocation of funding responsibility would change as a result of changes in governance arrangements. The GWRC seem to think they would. We are not convinced by this for the following reasoning.

GWRC has indicated that current funding policy for public transport focuses on requiring payment for causing disbenefits (ie the amount of congestion otherwise caused if public transport is not used). That being the case, it is not obvious to us why the level of disbenefit changes as a result of modifying local government governance arrangements. Congestion (and, hence, disbenefit) is a function of the amount of traffic on the road network – keeping nearly 1,000 Wairarapa commuters off the road by using the train benefits Hutt Valley and Wellington city road commuters, who experience commensurately lower congestion. We do not see how changes in governance structures impact on these congestion levels. Accordingly, we struggle to understand why funding arrangements would change. We accept that funding arrangements could change as a result of a change in funding policy, but that could happen anyway irrespective of any change to governance arrangements.

Environmental regulation and management

GWRC has taken issue with the $1 million saving we estimate in relation to environmental regulation. Before commenting on this further, we note that GWRC has mistakenly assumed that the saving spans the areas of environmental regulation *and* land and water management. That is not correct. The savings we assumed related to environmental regulation only. GWRC also appears to believe that the savings relate solely to the functions currently performed by the GWRC. That is also not a correct interpretation of our report. The $1 million figure was based on benchmarking the costs of the relevant environmental functions of the combined Wairarapa Councils *and* the GWRC; not the GWRC in isolation.

Several concerns have been raised by the GWRC in terms of the possible impact of the assumed savings. Our responses to a summary of these are as follows.

GWRC concern	Our response
Councils cannot opt out of their obligations under the Resource Management Act	Nowhere in our report do we suggest that Councils could opt out, nor that they would be under pressure to do so. Statutory obligations must be met.
Service levels will drop	Our report said that given the size of costs, a review of environmental regulation services would be warranted to assess whether the services are appropriately aligned to the needs of the Wairarapa and delivered in a cost-efficient way. That does not necessarily mean service levels would drop, particularly if they are found to be cost inefficient.
The benchmarking is meaningless	Comparing apples with apples is always a challenge. The benchmarking that we and Morrison Low performed identified environmental regulation as an area where cost levels appeared to be out of line. The review is the mechanism through which the appropriate level of cost would be determined.

GWRC concern	Our response
Loss of regional rate contribution to land and water management functions would mean Wairarapa ratepayers having to contribute more	There are several functions currently performed by GWRC for which there is a regional rates contribution, and land and water management is among these. Our report makes clear that even if the loss of the regional rates contribution in the area of land and water management occurs, a Wairarapa Unitary Authority is financially viable and capable of ensuring the delivery of services to its constituents.

Economic development

Irrigation

GWRC takes issue with our proposition that irrigation could be of relatively lesser priority under a Supercity than it would a predominantly rural Wairarapa Unitary Authority. This is clearly an area of judgement but we note that, under a Supercity unitary council covering the Wellington region, territorial functions would make up over 75% (measured in cost terms) of total activity, with regional functions making up less than 25%. We also note that Section 5 of the Local Government Act 2002 defines a unitary authority as:

> ***a territorial authority*** *that has the responsibilities, duties, and powers of a regional council conferred on it under-*
>
> *(a) the provisions of any Act; or*
>
> *(b) an Order in Council giving effect to a reorganisation scheme.*

Even if irrigation is the uppermost priority from a current regional council perspective, it does not follow that it will be the top priority once priorities associated with territorial functions are added into the mix. Furthermore, as emphasised in our report, under a Wairarapa Unitary Authority, Wairarapa can decide for itself to make irrigation the top priority. It cannot unilaterally do this under a Supercity option.

Tourism

GWRC interprets our position as saying that an integrated tourism strategy that takes the best opportunities from both metropolitan Wellington and Wairarapa is not possible. We do not accept this as an accurate representation of what we say in our report. What we do say in our report is that a Wairarapa Unitary Authority, more so than a Supercity council, would be likely to give more focus to a tourism strategy that benefits Wairarapa. Moreover, we also say that if it makes sense, as seems likely, to leverage work on developing a tourism strategy for metropolitan Wellington, then it would be sensible to enter into a contract with Positively Wellington Tourism to bring this about.

Local roads

The key issues we raised in our report are that under a Supercity there is a likelihood that NZTA’s financial assistance rates would fall and there is a risk that the focus will be directed more toward urban roads than rural roads. GWRC contends that a Wairarapa Unitary Authority would struggle to influence the NZTA and the government. That's a matter of judgement but we note that GWRC has not challenged our concern regarding financial assistance rates.

Local democracy

GWRC makes a number of comments in relation to our assessment that local democracy is better served under a Wairarapa Unitary Authority than under the Supercity option.

We reiterate our findings that, taken on the whole, the Wairarapa is a distinct community of interest from the western area of Wellington: it has a predominately rural economy, significantly more sparsely populated land area, and a border with the western area that is demarcated by the Rimutaka and Tararua ranges. We cannot agree with GWRC's implication that because Wellington City has a large (and largely unpopulated) rural landmass it is comparable to the Wairarapa.

We also confirm our assessment that a Wairarapa local board, under the Supercity option, would have significantly reduced direct, accountable control over policy and fiscal decisions. At present, the three Wairarapa councils directly control over 80% of all local government expenditure in the Wairarapa. This figure drops to somewhere in the region of 5% for a local board, and around 10% influence on the parent body of a Supercity Council. There may be arguments for trading off direct control in order to capture other perceived benefits, but the analysis is very clear that direct control of local democracy is greatly reduced for the Wairarapa under a Supercity option.

Other issues

There are other issues raised by GWRC in its assessment of our report but, in our view, these do not go to the core of the issue of the viability of a Wairarapa Unitary Authority.

We note that GWRC alleges we have made errors of fact. We firmly reject that. We note a couple of examples provided by GWRC:

- Regarding the ownership shares of Centreport, the 2012 Annual Report for Horizons-Manawatu (page 127) makes clear that it has a 3/13ths share of the port company and its share of the Company's dividend is determined on this basis. This is confirmed by the Local Government Commission's report on the final reorganisation scheme for the Wellington region. Our report calculated Wairarapa's share of dividends using the Centreport's 2011/12 dividend of $5.2 million and on that basis, a 2/13ths share equals $800,000 and not the figure of $615,000 asserted by GWRC.
- GWRC states that PwC has allocated the benefits of Centreport dividends based on relative population. That is not what PwC states in its reports to the GWRC. The PwC reports make it clear that the allocation has been made on the basis of relative shares of general rates.

Concluding comment

We continue to be very comfortable with the analysis and judgements contained in our report to the Wairarapa Councils. We acknowledge that, because we have been tasked with assessing future states of the world, inevitably reliance has had to be placed on the exercise of judgement. In that regard, we welcome GWRC's comments because judgement necessarily implies the possibility of more than one view on a matter.

Clearly, it is up to the Wairarapa Councils to determine the merits of our original advice and the further advice contained in this letter. We support the Councils' decision to make our report public as this assists in informing public debate on governance issues facing Wairarapa. In this regard, we have no issue with this letter also being made public if that is the wish of the Wairarapa Councils.

If there are any other matters that you would like us to consider, we would be pleased to assist further.

Yours sincerely

Doug Martin
Director, MartinJenkins

Phil Barry
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