

Assessment of the viability of a Wairarapa Unitary Authority

8 April 2013

Report to the Wairarapa Councils

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Preface

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We have not been required, or sought, to independently verify the accuracy of information provided to us. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise. We reserve the right, but will be under no obligation, to review or amend this Report, if any additional information, which was in existence on the date of this Report, was not brought to our attention, or subsequently comes to light.

This Report is issued pursuant to the terms and conditions set out in our Letter of Engagement dated 21 January 2013.

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Executive summary

- There is a strong strategic and economic (cost effectiveness) case for a Wairarapa Unitary Authority
- From Wairarapa's perspective, the additional strategic and economic benefits for a Supercity that includes Wairarapa are unproven and there are significant financial risks associated with the Supercity option
- A Wairarapa Unitary Authority would be financially viable.

Introduction

Wairarapa Councils¹ have been considering governance options for the Wairarapa. The Councils have previously arrived at an "in principle" decision that a Wairarapa Unitary Authority² would best provide for the interests of Wairarapa. Feedback from communities on this option was sought and this raised questions from some stakeholders as to whether the Unitary Authority option is viable and whether a better option would be for Wairarapa to join a region-wide Supercity.³

In light of this, Wairarapa Councils have sought advice regarding the issue of viability and they have also sought comment on how the Unitary Authority Option compares to the Supercity option. This report assesses these issues from strategic, economic and financial perspectives. Our report is based on information available as at March 2013.

Context

It is useful to begin by outlining some of the characteristics of Wairarapa and the Western Area.⁴ In geographic, demographic and economic terms, the two areas are quite distinct. They are separated by a clear boundary formed by the Rimutaka and Tararua mountain ranges. Wairarapa is a widely spread, low population rural/provincial community. The Western Area has a much larger population (around 450,000 compared to about 40,000 in Wairarapa) and is, for the most part, a densely populated urban zone.

¹ Carterton District Council, Masterton District Council and South Wairarapa District Council.

² A Wairarapa Unitary Authority would involve forming a single Council for Wairarapa and it would have responsibility for the territorial functions currently undertaken by the Wairarapa Councils and the regional functions (as they apply to Wairarapa) currently undertaken by the Greater Wellington Regional Council.

³ The Supercity option would involve establishing a single unitary authority for the whole of the greater Wellington region including Wairarapa.

⁴ Defined as the area within the greater Wellington region but excluding Wairarapa and the small section of Tararua district north-east of Masterton district.

Economic activity in Wairarapa is predominantly rural and the primary sector is the single largest source of employment. In contrast, the major areas of employment in the Western Area are public administration and other service industries.

Strategic and economic assessment of the options

If there are to be changes to governance arrangements, applications need to be made to the Local Government Commission (the Commission). Under the Local Government Act, the Commission is required to satisfy itself that any proposed new arrangement will meet a number of requirements including, for example, the proposed local authority will have the resources to effectively carry out its responsibilities, the purposes of local government will be promoted (including enabling democratic decision making and meeting current and future needs of communities) and arrangements will facilitate improved economic performance (including efficiencies and cost savings).

We have had regard to these requirements and our assessment of the options, from strategic and economic perspectives, is structured in general around the requirements outlined above.

Local democracy

We conclude that, from Wairarapa's perspective, an independent Wairarapa Unitary Authority is the preferred governance structure in terms of engagement with, and representing the needs of, the local community.

We would expect a Wairarapa Unitary Authority to be more approachable, find it easier to engage and consult with the local community and be more in tune with the needs and desires of local Wairarapa residents and businesses than a Supercity council. Wairarapa would have minority representation on a Supercity Council and most of the important decisions will be made centrally rather than through, for example, a local board. There is a significant risk that under a Supercity option the voices of the 40,000-strong population of the Wairarapa will be drowned out by those of the 450,000 people in the Western Area.

A Wairarapa Unitary Authority would provide Wairarapa's community with strategic control over land use, environmental management, asset management and water use policies.

Communities of interest

While there are economic and social relationships and interdependencies between the Wairarapa and the Western Area, these do not of themselves provide a rationale for co-governance of the areas. Moreover, the inter-dependencies and relationships are not wholly reliant on, or necessarily impacted by, local governance arrangements.

For several reasons, we conclude that communities of interest are likely to be better recognised and served under the Wairarapa Unitary Authority option than they are the Supercity option.

The assessment of population, economic and geographic characteristics of Wairarapa and Western Area indicate there is a stronger argument for differences in community of interest than there is for commonality of interest. In terms of these characteristics, it could be argued that Wairarapa shares more in common with communities to its north than it does with those to the West.

Reflecting the different characteristics, specific preferences regarding land use planning, environmental management and water use are likely to differ significantly between Wairarapa and the Western Area.

There is alignment of Wairarapa governance boundaries with rohe of Ngāti Kahungunu⁵ under the Wairarapa Unitary Authority and this is likely to facilitate closer cooperation between local government and matters of special interest and importance to Māori (a Wairarapa Council would also want to have strong links and participation with Rangitane o Wairarapa).

Implications for major strategic and economic issues facing Wairarapa

There are three main aspects of local government functions that are particularly important in terms of their impact on strategic and/or economic issues facing Wairarapa. These are the provision of public transport services (mainly commuter rail services), environmental regulation and management and economic strategy and development.

- The provision of public transport services between Wairarapa and the Western Area confer benefits on both areas. Reflecting this, the services and the benefits they confer should continue to exist irrespective of any changes to local government governance structures. A pan-region approach to the funding and provision of public transport is, therefore, highly desirable and a key part of this is ensuring that the public transport services continue to be eligible for funding from the New Zealand Transport Agency (NZTA). Public transport funding and provision arrangements would not be affected by the Supercity option. We understand that mechanisms exist to enable continuation of NZTA funding under a Unitary Authority option (this would require a joint arrangement between the Wairarapa Unitary Authority and whatever local government structure emerges for the Western Area).
- Specialist personnel are needed for environmental regulation and management functions. Many of these are currently located in Wairarapa and it is assumed that they would continue to be willing to work in Wairarapa if governance arrangements changed. There are significant differences in economic activities between Wairarapa and the Western Area. Furthermore, Wairarapa has its own water catchments and shares no water connections with the west. Reflecting these and other differences between the two areas, planning and

⁵ The larger of the Wairarapa iwi in terms of population.

policy preferences and priorities relating to land use, environmental management and water use are likely to differ between Wairarapa and the Western Area. A Wairarapa Unitary Authority is likely to be better placed than a Supercity to take account of the interests and needs that are specific to Wairarapa.

- There are many factors bearing on the economic health and development of Wairarapa. Important among these from a Wairarapa perspective is irrigation, tourism and local roads. In each of these areas, Wairarapa is likely to have preferences and priorities that are different to those of the Western Area and we doubt that these would be adequately recognised under a Supercity option. Irrigation is a major issue for Wairarapa but much less so for the Western Area. From a Wairarapa perspective, the risk is that under a Supercity option, the focus is directed toward local roads in densely populated urban areas (because these are used by many people) at the expense of lightly used, but nonetheless vital, rural roads. In terms of what drives tourism, there are differences between Wairarapa and the Western Area but, there are also overlaps (eg some international tourists who come to Wellington also visit Wairarapa and many domestic tourists to Wairarapa come from Wellington). There is, therefore, a case for joint destination marketing but this can be achieved through contract with Positively Wellington Tourism without the need for changed governance arrangements.

Cost effectiveness of service delivery

Many people would expect there to be economies from joining councils together. Economies of scope⁶ are likely to be realised by bringing together the territorial functions performed by the Wairarapa Councils with the regional functions performed by the Greater Wellington Regional Council (GWRC) including, for example, regulatory and policy functions. We would also expect there to be some economies of scale⁷ compared to the status quo.

Evidence from a joint New Zealand/Australia study into local government consolidation⁸ indicates that economies of scope are likely to be more significant than economies of scale. Moreover, evidence and common sense points to economies of scale and scope diminishing the greater are the physical distances between the parts of the overall organisation. For example, it is hard to see how economies in sports field administration and management would be achieved in situations where fields are over 100 kilometres apart.

The evidence points, therefore, to a situation where economies of scope and scale should be expected for the Unitary Authority option. It is much less clear, however, whether there would

⁶ Economies of scope refer to a situation where it is more cost efficient for one organisation to undertake two functions rather than have each function performed by a separate organisation.

⁷ Economies of scale exist where the average cost of providing a service falls as the quantity of service increases.

⁸ Aulich, C., et al (May 2011) "Consolidation in Local Government: A Fresh Look" Vol 2 report prepared for Australian Centre of Excellence for Local Government, Local Government Association of South Australia and Local Government New Zealand p17.

be any additional economies for Wairarapa from going to the next level and becoming part of a Supercity. Possible additional benefits stemming from the larger size of a Supercity include greater purchasing power (leading to lower costs) and increased ability to undertake more large-scale projects. There is, however, a risk that economies of scale and scope under the Supercity option may be less compared to the Unitary Authority option when distance is taken into account. In short, there is a case on cost effectiveness grounds for a unitary authority, but whether there are additional benefits for Wairarapa from moving to the next level and being part of a Supercity is not proven.

Financial viability

Compared to the status quo, there will be several factors impacting on costs under a Unitary Authority option. We have made a number of assumptions.

The first of these relates to the “subsidy” associated with regional functions that are undertaken by the GWRC and that benefit residents of the Wairarapa. The GWRC has previously stated the value of the subsidy is estimated to be \$11.2 million.⁹ GWRC’s advisers - PwC – have subsequently revised this estimate to \$8.0 million as a result of excluding the “subsidy” associated with public transport and making adjustments to various income and expenditure items (a reconciliation is provided in Appendix 1).

We agree that public transport should be excluded from the subsidy figure because funding arrangements reflect a balance of who benefits and who should pay. We see no reason why this should change because of changes in local government structures.

We have made some adjustments to the \$8.0 million subsidy figure. Among these, we have:

- eliminated costs attributed to Wairarapa forests because cutting rights are in the process of being sold by GWRC (which means no ongoing cost and may mean there are net sale proceeds that should be attributed to the Wairarapa)
- reduced costs associated with environmental policy, regulation and science activities as we consider a review of the scope of these services and the way they are provided is warranted.

We have also assumed that cost efficiencies can be achieved under a Unitary Authority option across the territorial functions performed by the Wairarapa Councils. Evidence from New Zealand and overseas indicate a 3% saving is realistic.¹⁰ A modest amount (\$400,000) has been allowed for to cover the costs of maintaining a pan-region approach to the funding and provision of public transport services. The impact of these adjustments is summarised in Figure 1 below.

⁹ GWRC press release dated 13 December 2012. <http://www.gw.govt.nz/wairarapa-subsidy-figures-released>.

¹⁰ Refer to section 2 (paragraph 99) for a summary of the evidence.

Figure 1: Wairarapa Unitary Authority income and costs

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Overall, we estimate a deficit in the region of \$2.0 million under a Unitary Authority option. There are several options for addressing this including reprioritising existing plans, seeking to achieve further efficiency gains, implementing a phased rates adjustment (rather than one-off change), borrowing, or do nothing. Any one of these options would, in our view, render the Unitary Authority option financially viable.

The Councils have roughly \$10 million in cash and investments and these are forecast to increase in value steadily over the 10 year horizon of the long term plan. Councils have debt totalling around \$70 million. The net cost of servicing this amounts to only 5% of total operating expenditure – a very manageable level. Reflecting these points, we consider that the combined Councils are in a reasonably good financial position with an ability to withstand financial shocks, which is an important feature of viability.

As a further check on the viability of a Wairarapa Unitary Authority, we have benchmarked other existing unitary authorities. The graphs in Figure 2 below are based on 2012/13 budgets and do not take into account adjustments to the Wairarapa Council or GWRC costs described earlier. They indicate that the cost level for a Wairarapa Unitary Authority would be within the norms of other unitary authorities.

Figure 2: Benchmarking against other unitary authorities

The graphs also illustrate that, in size terms, a Wairarapa Unitary Authority would be comparable with other existing unitary authorities. This helps to provide confidence that a Wairarapa Unitary Authority would have the scale and critical mass to manage, and secure technical and other capabilities needed for, major projects such as the Wairarapa Water Use project (for which funding has been allocated by the GWRC and Ministry for Primary Industries).

In summary, from a financial perspective we consider that the Wairarapa Unitary Authority is a viable option.

It is harder to assess in a quantitative sense the financial implications of the Supercity option. Possibly, the Wairarapa subsidy might be retained for the benefit of Wairarapa under a Supercity option, but there can be no guarantee of this. From Wairarapa's perspective, there are several financial risks associated with the Supercity option.

- Wairarapa would probably face the cost of supporting a local board. The annual cost of this could be anywhere between \$0.5 million (based on an estimate by the joint Working Party on Local Government Reform) and \$1.0 million (based on Auckland experience).
- There would be an exposure to liabilities (and assets) of other territorial authorities and costs associated with major capital projects.
- Financial Assistance Rates (FARs) provided by the NZTA for roads is likely to fall under a Supercity option. Preliminary indications are that this could involve a reduction from around 52% under a Unitary Authority option to 47% under a Supercity option. The extra contribution required from Wairarapa would amount to around \$1.0 million per year. Moreover, policy decisions regarding standards and priorities for Wairarapa roads would no longer be within the full control of Wairarapa.
- It is likely that Wairarapa would be required to increase its financial contribution to regional amenities. We have estimated this could be an additional \$0.5 million per year.

Financial comparisons with the Wairarapa's fate under a Supercity is difficult, not least because no one can say how a future Supercity would recalibrate its rating and funding policies as required when it merges all the current policies together. This has the potential to completely

overwhelm any other factors, such as additional efficiencies or whether the 'Wairarapa subsidy' is continued or not, for individual ratepayers.

In summary, while we consider that the case for a Wairarapa Unitary Authority to be strong, and that it would be financially viable, it is ultimately up to people of Wairarapa and, potentially, the Local Government Commission to decide whether Wairarapa should form a Wairarapa Unitary Authority, retain the status quo, or join a region-wide Supercity.

1. Introduction

Background and context

- 1 Councils within the greater Wellington region are investigating options for local government reform in the region. A recent Report of the Wellington Region Local Government Review Panel set out a case for change – in particular, for stronger regional leadership and shared responsibilities for planning and infrastructure.
- 2 The three Wairarapa Councils have also been considering the case for reform of local government. The Wairarapa Governance Review Working Party (the Working Party) has been formed to ensure that the Wairarapa Councils and their communities are well positioned and informed, to consider governance choices and identify a preferred option for Wairarapa.
- 3 Much work and consultation has been done. The three Wairarapa Councils have arrived at the ‘in principle’ decision that a Wairarapa Unitary Authority, combining the three territorial authorities and the regional functions for the Wairarapa currently undertaken by the GWRC, is the governance model that will best provide for the interests of their constituents. The Wairarapa Councils have recently sought feedback from their communities on this preferred option, with a view to submitting an application for reform to the Local Government Commission (the Commission) at the appropriate time in 2013.
- 4 During the course of consultation, some residents and stakeholder groups questioned whether a Wairarapa Unitary Authority is viable. Some have a view that a better option is for Wairarapa to join a region-wide Supercity structure (or remain with the status quo, or adopt some other option).
- 5 In short, there is a need for advice on the viability of a Wairarapa Unitary Authority and what, if any, conditions or compromises this might involve. There is also a need to consider whether the case for an independent Wairarapa is stronger than the alternatives including, in particular, a Supercity option.

Viability defined

- 6 Viability has several components. There is a financial dimension which we have defined as being the ability to meet the cost of day-to-day operations, to fund larger, less frequent investments in assets and debt repayment and to withstand large financial shocks (such as a large capital investment that fails).

- 7 Viability can also be defined in organisational terms. That is, would a Wairarapa Unitary Authority have the appropriate capacity and capability to be an efficient, effective and sustainable organisation that best promotes good local government? In this respect, consideration needs to be given to a series of requirements set out in section 10 and Schedule 3 of the Local Government Amendment Act (these relate to the reorganisation of local authorities). Among other things, in considering a proposal to establish a unitary authority, the Commission must be satisfied that the proposed unitary authority will have the resources necessary to enable it to carry out effectively its responsibilities, duties and powers.
- 8 Ultimately, the key question of interest is whether Wairarapa benefits from, or is disadvantaged by, alternative governance arrangements in terms of the major strategic and economic issues facing Wairarapa.

Report structure

- 9 Beyond this introduction section, the report is structured into two main parts. The next section considers governance options from strategic and economic perspectives. To put the assessment into context, we provide an overview of key population, economic and geographic characteristics of Wairarapa and the Western Area. We then assess the Unitary Authority and Supercity options in terms of local democracy, community of interest, the implications for major strategic and economic issues facing Wairarapa and cost effectiveness.
- 10 Section three of the report considers viability from a financial perspective. It starts with the current situation and considers the potential financial implications of the Unitary Authority and Supercity options.

2. Strategic and economic viability assessment

Introduction

Purpose

11 In this section of the report, we consider the strategic and economic case for Wairarapa being an independent unit of local government that is separate from the rest of the greater Wellington region. We assess whether Wairarapa can reasonably expect to be better off retaining full decision-making and democratic input into local government functions as it affects Wairarapa residents, businesses and stakeholders.

Scope and approach

12 Consistent with our terms of reference, we have focused on two main governance options for Wairarapa: a Wairarapa Unitary Authority or a Supercity. We consider which of the two options offers the greatest net benefits, strategically and economically, for Wairarapa.

13 In assessing the options, we have given consideration to various requirements under the Local Government Act (the Act). Clause 12 of Schedule 3 of the Act identifies that the preferred option will:

- best promote in the affected area the purpose of local government as specified in Section 10 of the Act
- will facilitate, in the affected area, improved economic performance, which may (without limitation) include:
 - efficiencies and cost savings
 - productivity improvements, both within the local authorities and for businesses and households that interact with those local authorities
 - simplified planning processes within and across the affected area through, for example, the integration of statutory plans or a reduction in the number of plans to be prepared or approved by a local authority.

14 The purpose of local government, as laid out in Section 10 of the Act, is as follows:

“(a) to enable democratic local decision-making and action by, and on behalf of, communities; and

(b) to meet the current and future needs of communities for good-quality local infrastructure, local public services and performance of regulatory functions in a way that is most cost-effective for households and businesses.”

- 15 Having regard to the legislative requirements outlined above, our strategic and economic assessment of the options focuses on the implications for:
- enabling local democracy and decision making
 - communities of interest and the extent to which these are recognised and served
 - the extent to which Wairarapa benefits from, or is disadvantaged by, alternative governance arrangements in terms of the major strategic and economic issues facing Wairarapa
 - the cost effectiveness of service delivery (this aspect of the assessment crosses over into the assessment of financial viability that is discussed further in section 3).
- 16 To put the assessment of these elements into context, we begin by comparing and contrasting Wairarapa with the Western Area in terms of their population, economic and geographic characteristics.

Information sources

- 17 In undertaking our assessment, we have drawn on:
- a MartinJenkins report (2012) commissioned by GWRC on “Economic Interdependence between the Western Area of the Wellington Region and Wairarapa”
 - an undated presentation prepared by Wellington City Council (WCC) regarding Wellington regional governance and covering a functional assessment of local government roles and responsibilities
 - a joint NZ/Australia review (2011) of consolidation in local government undertaken by the Australian Centre of Excellence for Local Government
 - the Wellington Region Local Government Review Panel report (2012) “Future Wellington – Proud, Prosperous and Resilient”
 - a report by Morrison Low (2012) commissioned by the three Wairarapa Councils: “Investigation into the formation of an Amalgamated Wairarapa District Council and a Wairarapa Unitary Authority”.

Overview of Wairarapa and Western Area

Population

- 18 The Western Area has a population of approximately 450,000 people and over 45,000 businesses. There are over 193 people per square kilometre in this area. The demographics of Wairarapa are markedly different with approximately 40,000 people in an area that makes up 74% of the total greater Wellington region land area, resulting in a population density of only 6.5 people per square kilometre. Wairarapa has over 5,500 businesses. Overall, the Western Area is a well-populated urban region while Wairarapa is a rural/provincial community.

Industry employment

- 19 The largest industries in the two areas by employment count are a strong indication of the differences between the Western Area and Wairarapa. There are some similarities between the two areas in that both have significant numbers employed in the retail trade, education and training and health care and social assistance industries. Wairarapa is, however, a relatively rural community with the agriculture, forestry and fishing and manufacturing industries being large employers. The Western Area is dominated by the public sector and highly skilled service provision.

Table 1: Top five industries by employment

Western Area			Wairarapa		
Industry	Rank	Employment	Employment	Rank	Industry
Public administration & safety	1	30,030	2,590	1	Agriculture, forestry & fishing
Professional, scientific & technical services	2	25,320	2,000	2	Retail trade
Health care and social assistance	3	22,200	1,960	3	Health care & social assistance
Education & training	4	20,380	1,680	4	Manufacturing
Retail trade	5	19,720	1,510	5	Education & training
Total Employed		214,500	19,101		

- 20 As can be seen from Table 1, the labour force in the Western Area is significantly larger than in Wairarapa. The top two industries in the Western Area are not among the top five in Wairarapa. Similarly, the largest employment sector in Wairarapa does not feature in the Western Area. In short, the two areas have markedly different employment bases.
- 21 Given the relative sizes of the labour force in both areas, downturns in the economy in the Western Area are likely to impact on Wairarapa but downturns in Wairarapa's economy are unlikely to have a significant impact on the Western Area.

Commuting

- 22 The greater the number of people living in one area but working in another, the more likely it is that council services provided in one area will benefit residents of another area.
- 23 According to the most recent census data (2006), 680 Western Area residents regularly commute to the Wairarapa while 1,400 Wairarapa residents commute to the Western Area. The majority of the Wairarapa commuters live in the South Wairarapa district and most are employed in Wellington City. Over 7% of people who live in Wairarapa and are employed commute to the Western Area (the majority of these take the train). Only 0.3% of those who live in the Western Area and are employed make the commute in the other direction (ie to Wairarapa) and of these the majority travel by private passenger car.

Migrants

- 24 Between the 2001 and 2006 censuses, a similar number of people migrated between Wairarapa and the Western Area: 2,400 migrated from the Western Area to Wairarapa, while 2,166 migrated from Wairarapa to the Western Area. To put this into context, between 2001 and 2006, 9,330 people migrated to Wairarapa of whom, approximately 26% previously lived in the Western Area. Over the same time period, 99,300 people migrated to the Western Area, but only 2% of these originated from Wairarapa.
- 25 The most common motivation for those moving from the Western Area to Wairarapa was a change in lifestyle. The main reason migrants shifted from Wairarapa to the Western Area was to pursue better work and training opportunities.

Economic linkages

Freight and distribution

- 26 CentrePort and Wellington airport make Wellington City an important distribution hub for goods entering and leaving the greater Wellington region. These distribution channels provide relatively easy access to national and international markets for businesses operating in Wairarapa. Annually, 249,000 heavy vehicles originating from Wairarapa travel to the Western Area, while 227,000 make the opposite trip.
- 27 Table 2 below provides details of the net product weight in tonnes transported by rail to and from Wairarapa from 2007 to 2011.

Table 2: Rail freight (net product weight, tonnes)

		Financial Year				
Direction	Origin/Destination	2007	2008	2009	2010	2011
To Wairarapa	From outside Western Area	3,589	2,828	1,441	1,986	3,029
	From within Western Area	2,436	5,147	7,117	2,751	5,530
Total		6,025	7,975	8,558	4,737	8,559
From Wairarapa	To outside Western Area	25,154	13,524	9,498	15,240	25,306
	To within Western Area	52,561	43,866	48,122	41,226	42,438
Total		77,715	57,390	57,620	56,466	67,744

- 28 Table 2 indicates that significantly more rail freight, by total weight, travels from Wairarapa to the Western Area and beyond (mostly forestry products) than travels the other way. For example, in 2011 only 8,559 tonnes (5,530 tonnes from the Western Area) of product was transported via rail to Wairarapa compared with 67,744 tonnes (42,438 tonnes bound for the Western Area) originating from Wairarapa. This comparison should be treated with some caution as only product weight, not value, has been considered. Nevertheless, both the rail freight volumes and the annual heavy vehicle traffic are higher from Wairarapa to the Western Area. This suggests that Wairarapa is far more reliant on the Western Area as a customer base and as a distribution channel than the reverse.

Domestic tourism

- 29 Intra-regional tourist trips occur regularly in both directions between the Western Area and Wairarapa. The MartinJenkins Economic Interdependence report uses BNZ cardholder transactions as a proxy for domestic tourism across the greater Wellington region. In 2011, almost 80% of Wairarapa cardholders made transactions in the Western Area, spending a total of \$66.4 million. However, these cardholders made up only 3% of out-of-region New Zealand cardholders that made transactions in the Western Area, and about 5% of the total tourism spend. In contrast, approximately 25% of Western Area cardholders made transactions in Wairarapa in 2011. They spent a total of \$39.7 million. These cardholders accounted for approximately 50% of all out-of-region cardholders making transactions in Wairarapa and their transactions accounted for around 50% of total tourist spend in the area. On average, the total spend per cardholder from Wairarapa in the Western Area was more than five times greater than the average cardholder spend by Western Area residents visiting Wairarapa.

- 30 For those tourists originating from further afield than the lower North Island, Wellington City tends to be the primary focus of a trip to the region. This is true for domestic tourists but even more so for international tourists. In this respect, the Western Area acts as a tourist gateway to the Wairarapa. In terms of generating tourism spending, the Wairarapa benefits from the proximity of the Western Area to a far greater extent than vice versa. Judging from the average spend per person the Western Area is also a far more popular tourism destination for Wairarapa residents than vice versa.

Production inputs

- 31 The Western Area is a densely populated urban region with key economic infrastructure in place: the distribution networks, educational institutions, professional services, and the expertise and variety a large city population attracts are all present in the Western Area. Although Wairarapa makes much use of the transport networks in place in the Western Area and to a lesser extent the business services and expertise available, most production inputs are not produced in the Western Area.
- 32 Wairarapa is a rural community reliant on its primary industries and provides a recreational option for those living in the Western Area. A small reliance in the Western Area on inputs from Wairarapa exists including primary industry goods used in construction and others sold at retail outlets. However, Wairarapa is not a significant source of production inputs for businesses in the Western Area.

Training

- 33 Wairarapa and the Western Area both have training and educational institutions. The Western Area is an important source of education for Wairarapa. The scale and expertise of tertiary institutions, private training providers and professional associations found in the Western Area can only be delivered where there is a population sizeable enough to attract such services. In many instances the training needs of Wairarapa cannot be met within the region because it is a relatively small, rural community and the Western Area is a convenient and important source for the provision of these training services.

Geographic linkages

Natural boundary

- 34 Wairarapa and the Western Area are separated by the Rimutaka and Tararua mountain ranges. This is a distinct physical boundary that clearly defines the two areas, but also ensures that the two areas are unlikely to encroach on the territory of the other as they develop and spread.

Water catchments

- 35 Wairarapa and the Western Area have separate water catchments and there is no shared connection between the two regions. Within the Western Area there are common catchment sources and infrastructure networks and a shared receiving environment for discharged water (except for Kapiti). The same overlap does not exist between the Western Area and Wairarapa so it would be unlikely to lead to significant problems if the water sources continue to be managed separately.

Assessment of the options

Local democracy

- 36 The relationship between the size of a local council and its ability to enable democratic local decision making that best addresses the needs of the local community is generally considered an inverse one. We would expect a Wairarapa Unitary Authority to be more approachable, find it easier to engage and consult with the local community and be more in tune with the needs and desires of local Wairarapa residents and businesses than a Supercity council. Central decision-making under a Wairarapa Unitary Authority, compared to a Supercity council, would be impacting a much smaller, more closely-related, constituent base.
- 37 The important and difficult question is then: to what extent would local representation be lost if Wairarapa were to become part of a Wellington Supercity?
- 38 It is difficult to predict how effectively a proposed Supercity will meet the needs of the Wairarapa region. The greater the size and more diverse the constituency the more difficult the task facing the Supercity council. In terms of service provision, perhaps the majority of residents or businesses in Wairarapa will have a different or opposite preference to those constituents in the Western Area. How well a single unitary authority will adapt to different needs across the region will depend on its structure and the procedures set up concerning public consultation and service provision across the region.
- 39 There is a risk that within a Supercity, the voices of the 40,000-strong population of Wairarapa will be drowned out by the 450,000 in the Western Area. This risk may be the main reason behind 95% of Wairarapa's community saying 'no' to becoming part of a Wellington Supercity.¹¹ The larger local government becomes, the greater the risk local residents feel disempowered or dissatisfied because of the perceived

¹¹ Colmar Brunton poll of 3,300 residents, including 1,200 Wairarapa residents, undertaken in 2012 for all territorial authorities across the Wellington region.

distance between decision-makers and those affected by the decisions. It may not be in the best interests of Wairarapa residents and businesses for councillors in the urbanised Western Area determining policy and making decisions for a rural community.

- 40 We note that local government legislation provides for a two tier system of governance under which local boards can be formed to provide for aspects of local decision making. Although local boards would more than likely be established under a Supercity, we also note that local boards are intended for only urban or predominantly urban areas.
- 41 We question whether a local Wairarapa board would have anywhere near the same level of control or decision making power on issues affecting the Wairarapa as a Wairarapa Unitary Authority. For example, in the context of proposals developed by a Joint Working Party on Local Government Reform, the Wellington City Council (WCC) have estimated that less than 5% of the budget in the Wellington area would be under the control of a local board. It is reasonable to assume that the same could apply in the case of Wairarapa.
- 42 Many important decisions under a Supercity will be made centrally with Wairarapa having a minority representation. Unifying under a Supercity effectively outsources major environmental, land and water use decisions to a central urban decision-maker. Such a loss of autonomy and strategic control may have a significant negative impact on day-to-day democratic local decision-making in Wairarapa region.
- 43 In contrast, a Wairarapa Unitary Authority would provide Wairarapa's community with strategic control over land use, environmental management, asset management and water use policies. This would make integrated decision making possible and allow policies and procedures to be implemented that best suit the needs of Wairarapa businesses and residents.
- 44 Reflecting the points above, a Wairarapa Unitary Authority is the preferred option in terms of providing a governance structure that will best engage with, and represent the needs of, the local community.

Communities of interest

- 45 The Act suggests that council jurisdictions should coincide with common communities of interest. There are economic and social linkages between Wairarapa and the Western Area. Notwithstanding this, however, the comparisons described earlier regarding demographic, economic and geographic characteristics of Wairarapa and the Western Area indicate there is a stronger argument for the differences in community of interest between the two regions as evidenced by:

- Wairarapa is a rural community; the Western Area is predominantly urban.
 - Wairarapa covers around 74% of the greater Wellington region but is sparsely populated with around 40,000 people (a population density of about 6.5 people per square kilometre). In contrast, there are over 450,000 people living in the Western Area with a population density of 193 people per square kilometre.
 - Wairarapa has a heavy reliance on primary industries for employment whereas employment in the Western Area is predominantly government and services sector oriented.
 - The Rimutaka and Tararua mountain ranges physically separate the two regions.
- 46 The differences between Wairarapa and the Western Area are quite stark. The values, preferences and lifestyles may differ significantly between a rural community and a metropolitan community so it may not be in the best interests of the region as a whole for councillors with a metropolitan lifestyle to be making decisions for a rural community, or vice versa. Specific preferences regarding land use planning, environmental management and water use are likely to differ significantly between Wairarapa and the Western Area.
- 47 There is alignment of Wairarapa governance boundaries with rohe of Ngāti Kahungunu under the Wairarapa Unitary Authority and this is likely to facilitate closer cooperation between local government and matters of special interest and importance to Maori.¹²
- 48 From a communities of interest perspective, the factors above lead us to conclude that an independent Wairarapa Unitary Authority would better reflect where the boundaries of common interest lie and ensure decision makers are more in tune with the local culture and preferences.

Implications for major strategic and economic issues facing Wairarapa

- 49 There are three main aspects of local government functions that are particularly important in terms of their impact on strategic and/or economic issues facing Wairarapa. These aspects are the provision of public transport services (mainly commuter rail services), environmental regulation and management and regional economic strategy and development. We consider the implications of the two main governance options in each of these areas.

¹² A Wairarapa Council would also want to have strong links and participation with Rangitane o Wairarapa.

Public transport

- 50 Although the commuter numbers are relatively modest, there is no doubt that the provision of public transport services between Wairarapa and the Western Area confer benefits for both areas. For example, from the perspective of the Western Area, commuter train services assist in broadening the labour pool available to businesses in that area. Wairarapa benefits from having residents who work in the Western Area but spend at least part of their incomes in Wairarapa.
- 51 The benefits that are conferred on the Western Area and Wairarapa as a result of having public transport services will not disappear if there are changes to local government structures in the greater Wellington region. The benefits will still exist. What is important in terms of maintaining those benefits is that there continues to be a coordinated approach across the greater Wellington region to the provision and funding of public transport services. This can be achieved under a Supercity. We are not aware of any legislative impediment to also achieving this under a Wairarapa Unitary Authority option (by, for example, formation of a Council Controlled Organisation with whatever form of council structure emerges in the metropolitan area).
- 52 In short, public transport is a significant issue, but it is not an issue that is impacted one way or the other by either of the two governance options.

Environmental regulation and management

- 53 The provision of environmental regulation and management services relies on relatively specialist capabilities. For example, pest control, environmental science and land management services are currently conducted by specialist staff at the GWRC to serve the entire region. A possible view is that it would be harder to attract specialist capabilities to a Wairarapa Unitary Authority than it would a Supercity council.
- 54 While this is a risk, we note that some of these specialist services are already based in the Wairarapa (eg pest control and land management). We understand that GWRC has around 85-90 staff in Wairarapa working on regional functions and we assume most of these staff would continue to be willing to work in the Wairarapa even if there are changes in local government governance structures.
- 55 As noted earlier, there are significant differences in economic activities between Wairarapa and the Western Area. Furthermore, Wairarapa has its own water catchments and shares no water connections with the west. Reflecting these and other differences between the two areas, we consider it reasonable to expect that planning and policy preferences and priorities relating to land use, environmental management and water use differ between Wairarapa and the Western Area. The issue then becomes one of whether a Wairarapa Unitary Authority is likely to better

reflect and take into account different preferences and priorities than is a Supercity. We consider that the Unitary Authority option is likely to serve better Wairarapa interests than would a Supercity.

Economic development

- 56 There are many factors that impact on Wairarapa's economic health and development, but from a Wairarapa perspective, irrigation, tourism promotion and maintenance of the local road network are particularly important.

Irrigation

- 57 Irrigation is a major issue for Wairarapa reflecting the heavy dependence on primary industries. As part of its regional strategy, the GWRC has irrigation as an issue for focus. Benefit cost analysis indicates that there is the potential to transform Wairarapa's land use and rural productivity if irrigation projects were to proceed.
- 58 Under a Unitary Authority option, irrigation is likely to be a high priority issue. It is less certain how high a priority would be given to irrigation, compared to other drivers of economic development, under a Supercity option. Reflecting the urbanised and services oriented nature of the Western Area, it is reasonable to assume that irrigation would be of relatively lesser priority under a Supercity than it would under a predominantly rural Wairarapa Unitary Authority.

Tourism

- 59 Wairarapa has interest in regional tourism promotion. There are likely to be differences between the interests of Wairarapa and the Western Area in terms of the focus for tourism promotion. The Western Area (and Wellington City in particular) has several cultural and sporting facilities that, in addition to the city itself, are important to tourism development. Wairarapa has greater focus on outdoor recreation. The composition of tourists visiting Wellington City is generally different to that visiting the Wairarapa. For example, international tourists visiting the greater Wellington region tend to focus on the city with relatively few also including Wairarapa in their itinerary.
- 60 It is reasonable to assume that a tourism strategy developed by a Wairarapa Unitary Authority is likely to give stronger focus than is a Supercity to the factors that attract tourists to the Wairarapa as distinct from Wellington City.
- 61 Notwithstanding that there are some differences between Wairarapa and the Western Area in terms of what drives tourism in each area, equally there are also overlaps. Some international tourists who come to Wellington also visit Wairarapa and many domestic tourists to Wairarapa come from Wellington. There is, therefore, a case for

joint destination marketing in some respects but this can be achieved through contract with Positively Wellington Tourism without the need for changed governance arrangements.

Local roads

- 62 Local roading is by far the single largest area of expenditure across the three Wairarapa Councils accounting for approximately a quarter of operating expenditure and much of the asset base. From a Wairarapa perspective, the risk is that under a Supercity option, the focus is directed toward local roads in densely populated urban areas (because these are used by many people) at the expense of lightly used, but nonetheless vital, rural roads.

Cost effectiveness of service delivery

- 63 One justification for increasing the size of local councils is that cost savings may be possible where services can be delivered to a larger consumer base by the same provider. Cost savings can arise because of economies of scale and/or economies of scope. Economies of scale exist when average costs fall as production levels increase. Economies of scope refers to lowering the average cost in producing two or more products when production is combined within a single organisation. In the context of local government, the key issue is whether there are scope economies in combining regional council roles with those of territorial authorities.
- 64 Scale and scope economies may be achievable for particular services under both the Unitary Authority and Supercity options. This would improve the cost-effectiveness of local council activity and result in either savings to ratepayers or a more comprehensive provision of services for a given level of rate payments.
- 65 It is likely that some cost savings will be made possible through merging governing bodies under a single unitary authority. This issue is discussed further in the section dealing with financial viability but, in general, evidence from here and overseas indicates that cost savings in the order of at least 3% should be achievable by amalgamating local councils.
- 66 What is less clear is whether the savings from a Wairarapa perspective would be more under a Supercity or a Wairarapa Unitary Authority, or about the same under either option. Possible additional benefits stemming from the larger size of a Supercity include greater purchasing power (leading to lower costs) and increased ability to undertake more large-scale projects. It is unclear, however, whether economies of scale and scope under the Supercity option would be greater than, about the same as, or less than those under a Unitary Authority option.

- 67 Evidence from a joint New Zealand/Australia study into local government consolidation¹³ indicates that economies of scope may be a more important and likely benefit than economies of scale. By implication, combining the functions of territorial authorities with those of regional council should confer some cost and capability advantages. The Unitary Authority and Supercity options should, therefore, both provide the opportunity for economies of scope. The Australian evidence also means that, for Wairarapa, there is probably not a lot of additional scale advantage in the Supercity option over and above the Unitary Authority option. There are several possible reasons for this but we note the following points.
- Not all services will be prone to economies of scale through increasing the scale of operations.
 - If the new governing structure is made too complex, or suffers from coordination issues and confusion then possibly the potential cost-savings will not be realised due to increased bureaucracy. From the Wairarapa's perspective, we would assess this risk as being more likely under the Supercity option.
 - The addition of the 40,000 people in the Wairarapa is likely to have a relatively immaterial impact on cost-effectiveness of a structure governing 450,000 people in the remainder of the greater Wellington region.
- 68 In conclusion, from a cost effectiveness viewpoint, we would expect the Unitary Authority and Supercity options to have some cost advantage compared to the status quo but it is less clear that there would be any greater cost efficiency from Wairarapa's perspective under Supercity compared to the Unitary Authority option. By way of final comment on this issue, we note that if the desire for cost effectiveness leads to homogenised service provision across the greater Wellington region, then in some respects the Western Area and Wairarapa may be worse off if local desires are not being met.

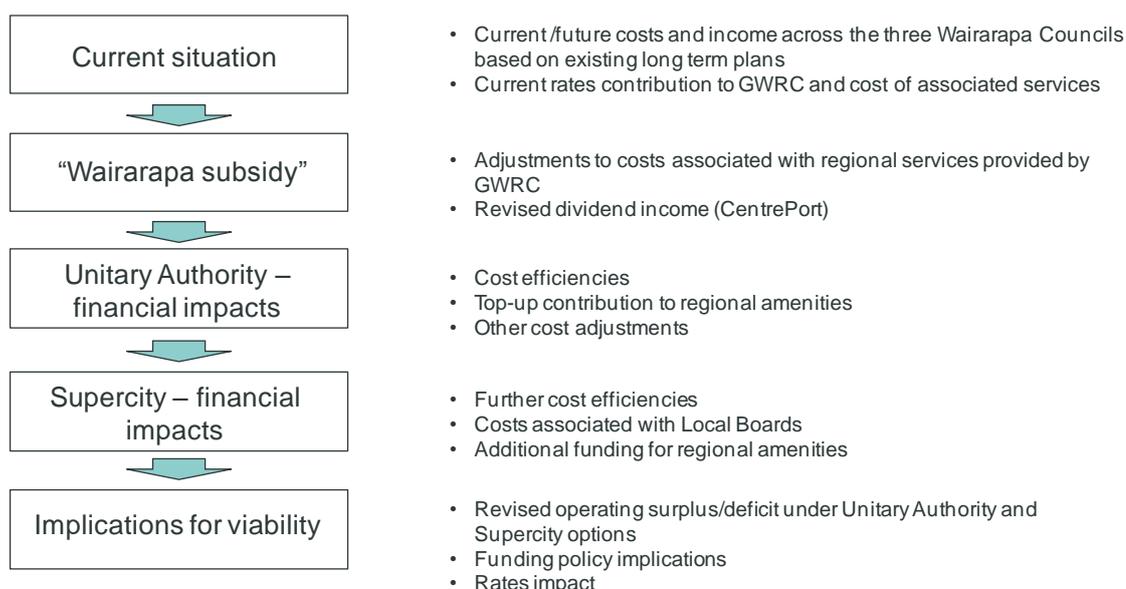
¹³ Aulich, C., et al (May 2011) Consolidation in Local Government: A Fresh Look Vol 2 report prepared for Australian Centre of Excellence for Local Government, Local Government Association of South Australia and Local Government New Zealand p17.

3. Financial viability assessment

Approach

69 The assessment of financial viability has involved five main steps as illustrated in Figure 3 below. The objective has been to estimate the impact on Wairarapa ratepayers under the Wairarapa Unitary Authority and Supercity options. This has involved assessing changes to the level of costs under both options and how resulting levels of cost compare to revenues (including rates) based on forecasts contained in the long term plans for each of the three Wairarapa Councils. Based on this comparison, conclusions have been formed on the need for rates adjustments, if any, under the Unitary Authority and Supercity options.

Figure 3: Approach to assessing viability



70 It is important to note that it has not been our role to undertake a detailed assessment of the costs associated with the Supercity option as this is something that is being worked on by others. Accordingly, we have had to rely on making some assumptions regarding the possible costs of the Supercity option (the assumptions are described later in this section under the heading of Supercity option).

Current state

Wairarapa Councils

- 71 The first step has been to define existing costs under the current state. This has two components. The first of these is the costs associated with services provided by the three Wairarapa Councils based on the forecasts contained in the Long Term Plan (LTP) of each Council. Figure 4 summarises the income and expenditure (2013/14) for each of the three Wairarapa Councils (and summed across the three Councils) based on current LTPs for the three Councils.

Figure 4: 2013/14 Income and Expenditure

Carterton		Masterton		South Wairarapa		Combined	
Rates	\$9.0m	Rates	\$24.8m	Rates	\$11.5m	Rates	\$45.3m
Other income	\$4.2m	Other income	\$11.7m	Other income	\$5.4m	Other income	\$21.2m
Total income	\$13.2m	Total income	\$36.5m	Total income	\$16.9m	Total income	\$66.6m
Expenditure	\$12.9m	Expenditure	\$36.5m	Expenditure	\$16.5m	Expenditure	\$66.0m
Surplus	\$0.3m	Surplus	\$0.0m	Surplus	\$0.3m	Surplus	\$0.6m

- 72 Figure 5 below presents the aggregated forecast statement of financial performance for the three Wairarapa Councils as shown in the latest LTP for each (the LTPs cover the period 2012/13- 2021/22). As can be seen, across the three Councils, income is expected to exceed costs in every year covered by the 10-year LTP with a peak operating surplus in 2019/20 of \$5.8 million.

**Figure 5: Prospective statement of financial performance 2012 – 2022
aggregated across the three Wairarapa Councils**

PROSPECTIVE STATEMENT OF FINANCIAL PERFORMANCE	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Income										
Rates	43,103	44,941	47,100	49,127	50,717	52,450	53,924	55,674	57,128	58,290
Rates penalties	343	354	366	378	391	405	418	432	447	463
Finance income	1,025	1,095	1,209	1,308	1,465	1,708	1,894	2,055	2,214	2,415
Internal interest loans	38	38	38	38	21	21	21	21	21	21
Fees and charges	5,821	5,999	6,196	6,385	6,585	6,788	6,977	7,172	7,391	7,618
Recoveries	1,232	1,202	1,232	1,272	1,314	1,356	1,397	1,440	1,488	1,537
Commissions	105	108	112	116	120	124	128	132	137	141
LTA subsidy	8,371	7,955	8,205	8,373	8,573	8,813	8,991	10,825	9,460	9,668
Petrol tax	311	315	321	326	331	336	342	349	355	362
Grants, subsidies and donations	305	238	239	246	252	259	265	271	278	285
Rental income	1,509	1,558	1,614	1,662	1,713	1,764	1,811	1,860	1,914	1,971
Development and financial contributions	996	1,005	1,025	1,080	1,131	1,168	1,221	1,326	1,344	1,390
Forestry harvest			186		197			146		
Assets vested in council	850	800	800	800		800	800		800	800
Profit on sale of assets		57								
Share revaluation										
Revaluation gains	41	41	41	41	41	42	42	42	42	43
Miscellaneous income	1,271	1,348	1,334	1,254	1,337	1,323	1,357	1,447	1,430	1,469
Internal charges	(64)	(66)	(68)	(70)	(73)	(75)	(78)	(80)	(83)	(86)
Total income	65,256	66,989	69,950	72,334	74,915	77,281	79,510	83,911	84,366	86,367
Expenditure										
Governance	2,476	2,106	2,077	2,142	2,300	2,226	2,277	2,435	2,392	2,454
Internal functions	3,746	3,833	3,928	4,023	4,125	4,227	4,319	4,409	4,511	4,617
Roads and footpaths	16,823	17,123	18,018	18,358	18,780	19,797	20,202	20,621	21,751	22,143
Water supply	6,681	6,879	7,110	7,258	7,669	8,154	8,303	8,493	8,788	8,968
Sewerage	7,705	8,508	8,841	8,925	9,042	9,236	9,207	9,311	9,599	9,660
Stormwater	1,011	1,055	1,108	1,110	1,132	1,190	1,204	1,237	1,296	1,332
Waste management	4,856	5,018	5,193	5,345	5,450	5,621	5,756	5,903	6,048	6,210
Community support - community development	1,856	1,935	1,990	2,026	2,082	2,126	2,177	2,227	2,282	2,343
Community support - parks and reserves	3,678	3,700	3,815	3,998	4,065	4,177	4,295	4,388	4,465	4,605
Community support - community amenities	9,652	10,082	10,486	10,698	11,106	11,445	11,693	11,934	12,138	12,455
Regulatory and planning	6,167	6,149	6,339	6,564	6,706	6,876	7,046	7,130	7,388	7,533
Bad debts	54	56	58	60	62	64	66	68	71	73
Loss on sale of assets										
Revaluation losses										
Internal charges	(62)	(64)	(66)	(68)	(71)	(73)	(76)	(78)	(81)	(84)
Total expenditure	64,642	66,379	68,898	70,438	72,447	75,066	76,470	78,078	80,648	82,308
Surplus/(deficit)	614	609	1,053	1,895	2,468	2,215	3,040	5,833	3,719	4,059

Greater Wellington Regional Council

- 73 The second component of the current state is the costs of services currently provided by the GWRC and the rates contributed by Wairarapa toward the funding of those services. We have focused on the costs and rates associated with those services provided by, or arranged through, the GWRC that confer benefits on the Wairarapa (among other areas). Examples of the main services include environmental services, flood protection and public transport.
- 74 Estimating the costs of GWRC services is not straightforward. Because the services confer benefits on the Wairarapa and other areas within the greater Wellington region, some way of allocating costs between the Wairarapa and other areas has to be found. In this regard, we have relied on cost allocations developed by PricewaterhouseCoopers (PwC) for the GWRC. The PwC advice contains a description of the approach taken to allocating the costs associated with GWRC services across the councils within the greater Wellington region. We do not repeat the approach to allocation here, but we do note and concur with PwC's advice that

there is “not a single right approach to the allocations”. Below, we adopt different assumptions with respect to some of the services.¹⁴

- 75 In summary, PwC has estimated that the Wairarapa’s share of costs associated with GWRC services amounts to approximately \$14 million.¹⁵ Wairarapa residents contribute approximately \$4.6 million in GWRC rates and there is a further \$1.4 million in other revenue attributed to the Wairarapa Councils (this comprises PwC’s estimate of the Wairarapa Councils’ share of CentrePort dividends and other investment income). Figure 6 summarises the revenue and cost estimate developed by PwC. It should be noted that the estimates are derived from the GWRC’s financial accounts for the year ending June 2012.¹⁶

Figure 6: PwC estimate of GWRC revenue and costs attributable to Wairarapa Councils (excluding public transport)

Revenue	
	\$m
Rates	4.6
CentrePort dividend	0.4
Investment/other income	1.1
Sub-total	6.1
Costs	
Land management	1.6
Flood protection	2.7
Pest control / biosecurity	1.0
Biodiversity	0.8
Environmental science	2.4
Environmental regulation	1.2
Environmental policy	1.1
Other	1.0
Forestry	2.2
Sub-total	14.0
PwC Funding Deficit	(8.0)

- 76 The funding deficit is, in effect, a subsidy that is conferred on Wairarapa. For the purposes of assessing financial viability, we have assumed that under the Unitary Authority option, Wairarapa would lose the subsidy. In other words, if a Wairarapa Unitary Authority wanted to continue to obtain the same services as currently provided

¹⁴ We note that we have not been required to, or sought to, review the way in which the GWRC’s overheads are allocated across services.

¹⁵ PwC letter to GWRC dated 15 February 2013.

¹⁶ PwC have not updated the figures above for 2013/14 revenues and costs.

by the GWRC, the starting point assumes that it would have to pay \$14.0 million (ie \$8.0 million more than under current arrangements).¹⁷

77 It should be noted that the numbers in Figure 6 exclude costs and revenue associated with public transport. GWRC has previously estimated the costs of public transport that can be attributed to Wairarapa Councils at \$3.32 million.¹⁸ This figure was included in PwC's initial report to the GWRC¹⁹ (but not estimated by PwC) and that earlier report indicated the cost of public transport net of the Wairarapa Regional Transport rate (\$0.7 million) was \$2.64 million.

78 We consider it appropriate, as GWRC and PwC have also concluded, to exclude public transport from the estimation of the "Wairarapa subsidy". Our main reason for this is that current public transport service levels and funding arrangements recognise that the provision of public transport, linking Wairarapa to the Wellington urban area, confers economic and other benefits on Wellington (eg access to a broader labour market, the output produced by Wairarapa-based employees, spending by Wairarapa commuters in Wellington and so on). Those benefits will not disappear if there are changes to local government structures in the greater Wellington region. The benefits will still exist and, accordingly, we have no grounds to assume that the share of public transport revenues and costs attributed to the Wairarapa would change under the Unitary Authority (or Supercity) options. Reflecting this line of argument, the current state numbers used in this report exclude public transport.

Summary – current state of Wairarapa territorial and regional services

79 Figure 7 below summarises the current state combining the operating surplus across the three Wairarapa Councils and the deficit (Wairarapa subsidy) associated with GWRC services. The overall net deficit is approximately \$7.3 million assuming that Wairarapa loses the subsidy.

¹⁷ GWRC has previously indicated (13 December 2012) that the value of the subsidy is \$11.2 million <http://www.gw.govt.nz/wairarapa-subsidy-figures-released>. That press release noted that the figures underpinning the deficit had been reviewed by PwC. PwC has reviewed its original advice to the GWRC and have modified some of the income and expenditure estimates and excluded public transport. The deficit of \$8.0 million reflects PwC's updated advice. Refer to Appendix 1 for a reconciliation.

¹⁸ Quoted in Joint Working Party on Local Government Reform (March 2013) "Realising the potential of the Wellington region" page 49.

¹⁹ The PwC report dated 30 January 2013.

Figure 7: Current state (2013/14) with and without the GWRC view of the subsidy

CURRENT STATE WITH GWRC SUBSIDY		CURRENT STATE WITHOUT GWRC SUBSIDY	
Local Rates	\$45.3m	Local Rates	\$45.3m
Other Local	\$21.2m	Other Local	\$21.2m
Local Income	\$66.6m	Local Income	\$66.6m
GWRC Income	\$6.1m	GWRC Income	\$6.1m
Total Income	\$72.7m	Total Income	\$72.7m
Local Costs	\$66.0m	Local Costs	\$66.0m
Regional Costs ⁽¹⁾	\$6.1m	Regional Costs ⁽²⁾	\$14.0m
Total Costs	\$72.1m	Total Costs	\$80.0m
Local surplus	\$0.6m	Local surplus	\$0.6m
Regional deficit	\$0.0m	Regional deficit	(\$8.0m)
Net Surplus	\$0.6m	Net Deficit	(\$7.3m)

⁽¹⁾ Effective costs to Wairarapa rate-payers after subsidy provided by GWRC

⁽²⁾ Full costs to Wairarapa rate-payers with no subsidy from GWRC

Unitary Authority option

80 Taking the current state as a starting point, we have sought to assess the financial implications of establishing a Unitary Authority for the Wairarapa (the Supercity option is considered later in this section). Several adjustments need to be made to the current state under a Unitary Authority option. These include adjustments to the Wairarapa subsidy as well as adjustments to the costs associated with each of the existing Wairarapa Councils.

Adjustments to the “Wairarapa subsidy”

81 We concur with the view expressed by PwC that there is no single right way of allocating the costs associated with GWRC services across the Councils.²⁰ There are several legitimate approaches that could be taken. Reflecting this, there are four adjustments to the estimated subsidy figures that we consider can be made. The first three of these arise irrespective of whether there are any changes to local government arrangements in the greater Wellington region.

²⁰ As noted earlier, we have not sought to review the GWRC’s approach to the allocation of its overheads.

Forestry

- 82 The subsidy estimated by PwC includes \$2.156 million relating to forestry. We understand that this includes operating and debt servicing costs associated with forests located on reserve land in the Wairarapa.²¹
- 83 Steps are being taken by the GWRC to sell the cutting rights associated with these forests.²² The proceeds from sale will be used to repay all outstanding forest-related debt. For the purposes of analysis, we have assumed there is no surplus, or deficit, of sale proceeds following that repayment (and, for the purposes of analysis, we have ignored whether there is any residual value in the Wairarapa's share of the underlying land asset). We have also assumed that the day-to-day management and operation of the forests will pass to whoever is successful in acquiring the cutting rights. Based on these assumptions, and following the sale of the cutting rights, there will no longer be any operating or debt servicing costs incurred by the GWRC and, hence, no need to allocate these costs to Wairarapa (and other areas). The subsidy estimate should be adjusted to reflect this. Even if GWRC did not complete the sale, we assume that any future Wairarapa Unitary Authority would seek to complete the sale process.

CentrePort dividends

- 84 Ordinary shares in CentrePort are held by GWRC (76.9%) and the Manawatu-Wanganui Regional Council (23.1%). The relative shareholdings reflect a Local Government Commission decision that Manawatu-Wanganui Regional Council would have 3/13ths of the ownership of CentrePort (and GWRC the balance). The allocation of ownership was based on the number of members each region had on the former Harbour Board immediately prior to its disestablishment (and formation of CentrePort).
- 85 PwC have estimated the Wairarapa share of CentrePort dividends in proportion to the general rates paid by the councils in the greater Wellington region. On this basis, they have attributed a dividend of \$0.4 million to the Wairarapa Councils.
- 86 We consider that the allocation should be made on the basis of the Local Government Commission precedent established when conferring ownership rights in favour of the Manawatu-Wanganui Regional Council. At the time that CentrePort was established, Wairarapa had two members on the 13-member Harbour Board. Accordingly, we have assumed that the Wairarapa Councils are entitled to a 2/13ths ownership share of CentrePort. On this basis, the Wairarapa's share of CentrePort's 2012 dividend (\$5.2 million) should be \$0.8 million (ie twice the amount estimated by PwC).

²¹ There are approximately 1700 ha of GWRC-owned forest located in Wairarapa. GWRC's total forest holding amounts to about 5500 hectares.

²² GWRC Long-term Plan 2012-2022 page 122 and GWRC media release 17 December 2012.

Resource management

- 87 In its report to the GWRC, PwC have estimated that Wairarapa's share of the net costs associated with resource management amounts to about \$4.8 million (or about 55% of the total net cost of around \$8.8 million). In the PwC advice, resource management comprises activities in relation to resource policy, consents management and resource investigation (science and monitoring). The costs associated with resource management functions therefore represent slightly over a third of all costs attributed by the GWRC to the Wairarapa Councils. Reflecting this, the costs associated with resource management functions warrant close scrutiny.
- 88 Morrison Low have previously estimated the costs of planning and regulatory services for a Wairarapa Unitary Council and benchmarked these against the cost of the functions for other unitary authorities. In summary, costs, expressed in per capita terms, are shown in Table 3 below.

Table 3: Benchmarking of unitary authority planning and regulatory costs (rating cost per capita)

Gisborne	Marlborough	Tasman	Wairarapa Unitary
\$73	\$107	\$66	\$170

Source: Morrison Low (2012) Investigation into the formation of an Amalgamated Wairarapa District Council and a Wairarapa Unitary Authority p36.

Note: The estimates are based on Statistics NZ Local Authority Financial Data for the year ending June 2011.

- 89 The figures in Table 3 above are net costs (ie after deducting revenues from fees and charges and grants and subsidies). It is worth considering also gross costs. Data provided to us by Morrison Low indicates that for 2012/13, the gross operating costs for regulatory and planning functions in Wairarapa, including a share of the GWRC's costs associated with these functions, amounts to \$11.4 million. On a per head of population basis, that amounts to approximately \$282.²³
- 90 We have compared this cost against that of the Marlborough District Council (MDC) as reported in the MDC's current LTP. We have chosen the MDC because the way in which functions are reported in its LTP appear to be reasonably well aligned with scope of regulatory and planning functions used in the Wairarapa context (there is not

²³ We have not sought to verify Morrison Low's estimates and do not have details as to how the estimates for Wairarapa were determined.

the same degree of alignment in the case of the Gisborne District Council or Tasman District Council).

- 91 Based on its LTP, the cost of regulatory functions²⁴ performed by the MDC in 2012/13 is approximately \$164 per person. In short, there is a large difference between this figure and that of \$282 per person relating to Wairarapa. Given the size of the difference we consider there is a case for reviewing expenditure in the area of regulatory and planning functions with a view to assessing whether the scope of services is appropriate to the needs of Wairarapa and whether arrangements for the provision of services are as efficient as possible.
- 92 For the purposes of assessing financial viability, we have assumed that the review would assess whether the services are appropriately aligned to the needs of the Wairarapa and delivered in a cost efficient way. Furthermore, we have assumed that the outcome of the review process would be a reduction in costs of between \$0.5 and \$1.0 million (a reduction of this magnitude would still result in costs well above the level in the MDC and, reflecting this, the assumed reduction in cost could be viewed as being conservative).

Other adjustment

- 93 In addition to the adjustments above, there is one further adjustment that should be made to the Wairarapa subsidy numbers. This relates to the cost of providing “democratic services”. A figure of \$236,000 has been included in the subsidy numbers estimated by PwC. The need for adjustment arises if a Wairarapa Unitary Authority is to be established.
- 94 Democratic services are essentially the costs of supporting the governance of the GWRC. Under the Unitary Authority scenario, Wairarapa would no longer be a part of the GWRC. Moreover, the cost of democratic services has been included in our estimates of the costs of a Wairarapa Unitary Authority (on the basis that there would be 12 councillors).²⁵ Given this, there is no case for continuing to attribute a part of GWRC costs to Wairarapa ratepayers.

²⁴ These functions comprise environmental policy, environmental science and monitoring, resource consents and various environmental protection activities (eg monitoring of activities with significant environmental impact and dealing with alleged breaches of the Resource Management Act).

²⁵ The costs of supporting governance of a Wairarapa Unitary Authority will be lower than the current level of cost incurred by the three Wairarapa Councils reflecting fewer councillors and this has been taken into account of cost efficiencies discussed below.

Adjustments to Wairarapa Councils' costs

Cost efficiencies

- 95 One of the drivers for local government reform is to achieve increased cost efficiency through a number of mechanisms including:
- economies through combining back-office functions and achieving greater scale economy
 - adopting common regulatory systems and processes that, in addition to reducing administrative costs, would also help to reduce compliance costs and deliver more effective and consistent services
 - being able to exercise greater buying power as a result of amalgamating councils into larger entities
 - enabling more efficient utilisation of staff (more ability to align staff resources with areas of work demand).
- 96 Under a Unitary Authority option, there will be cost savings in some fairly obvious areas. For example, under a Unitary Authority, there would be one rather than three mayors and the number of councillors will reduce from 27 currently to 12 plus 21 community board members. Morrison Low have estimated that these changes would yield savings of \$140,000 per annum.²⁶
- 97 Similarly, there will be one chief executive rather than three and fewer senior managers (but with some offset of increased remuneration for at least some of the positions in the new organisation). Morrison Low have estimated these savings to be in the region of \$1 million per annum.²⁷
- 98 The scale of potential savings across all areas of council activities is difficult to know with certainty. There will be significant savings in some areas (such as governance/corporate noted above) but, equally, there are likely to be areas of little or no saving. For example, there is already a single contract across the three councils for solid waste management and, accordingly, it is much less likely that there is scope for further savings in this particular area of activity.
- 99 For the purposes of the viability assessment, it is sensible to take a global view across all of the council activities and make an informed assumption regarding the overall level of saving. In this regard, we consider that a 3% saving in operating expenditure

²⁶ Morrison Low (September 2012) "Phase Three Report: Investigation into the formation of an Amalgamated Wairarapa District Council and Wairarapa Unitary Authority" p24.

²⁷ Ibid, p13.

is an appropriate and defensible assumption to make. We have settled on the 3% figure based on the following considerations.

- Advice presented to the Royal Commission on Auckland Governance indicated that in the context of the Auckland reforms efficiency gains in the range of 2.5% - 3.5% of total expenditure could be achieved. This comprised gains of around 3% - 4% in operating expenditure and 2% - 3% for capital expenditures.²⁸ The information presented to the Commission cited reviews of Australian local government reorganisations where savings of between 2% and 8.5% have been achieved. Reference was also made to 5% savings in operating expenditure in the United Kingdom.²⁹
- The Wellington Region Local Government Review Panel (the Palmer report) noted estimated efficiency savings of between 2.5% and 3.5% arising from local government reform and noted that Auckland Council has recently reported that it is on track to achieve the forecast level of savings and efficiencies.³⁰
- The Joint Working Party examining local government reform options in Wellington is assuming operating expenditure savings in the range of 3% - 4%.³¹
- Analysis undertaken by Morrison Low for the Wairarapa Councils indicated the potential for cost efficiencies of between 2% and 20% for expenditure on road materials and contracts³² and 2% for materials and contracts for other services other than solid waste management.³³
- There is considerable evidence from the UK of savings in local government through sharing of back-office functions well in excess of the 3%-4% figures referred to above.³⁴

100 We note the evidence presented to the Royal Commission on Auckland Governance that savings in capital expenditure of around 2% - 3% could also be expected. We have chosen not to include this (our main focus has been on operating expenditure) because it would risk an element of double counting savings relating to depreciation that have already been taken into account.

²⁸ Royal Commission on Auckland Governance (March 2009) page 751.

²⁹ Sir Peter Gershon, CBE (July 2004) "Releasing resources to the front line; Independent review of public sector efficiency".

³⁰ Wellington Region Local Government Review Panel (October 2012) p 66.

³¹ Joint Working Party on Local Government Reform (March 2013) "Realising the potential of the Wellington region" p42.

³² Morrison Low (September 2012) "Phase Three Report: Investigation into the formation of an Amalgamated Wairarapa District Council and Wairarapa Unitary Authority" p18.

³³ Ibid, p22.

³⁴ Audit Commission (October 2008) "back to front: efficiency of back office functions in local government.

Potential diseconomies

- 101 Notwithstanding the evidence that significant savings are achievable, it is possible that there may be areas of diseconomy under a Unitary Authority option. Regional functions currently undertaken by the GWRC would, under a Unitary Authority option, become the responsibility of the Wairarapa Unitary Authority. There is a likelihood of losing some economy of scale in functions currently performed by the GWRC. Offsetting this, however, there is potential for economy of scope by combining regional and territorial authority functions under a single unitary authority (eg the ability to more efficiently utilise staff across land management and natural resource management functions rather than having these functions split between the Wairarapa Councils and the GWRC as is currently the case). There is also the travel time inefficiencies with Wellington based staff travelling frequently to the Wairarapa.
- 102 As noted earlier from the joint NZ/Australia study into local government consolidation, economies of scope may be more significant than economies of scale. Accordingly, compared to the status quo, we consider that the risk of overall diseconomy arising from a Wairarapa Unitary Authority taking on the functions of the GWRC to be relatively low. Furthermore, based on the findings from the joint study, we doubt that there is a significant diseconomy of scale associated with the Unitary Authority option relative to the Supercity option.

Additional costs

Public transport planning and procurement

- 103 We consider it prudent to allow for additional costs, under the Wairarapa Unitary Authority option, in two respects. The first of these relates to public transport. The provision of public transport services confers region-wide benefits and, as noted above, we consider that these warrant continuation of the existing public transport funding arrangements. Under a Unitary Authority option, it would not make sense for the Wairarapa Unitary Authority and its Wellington counterpart to separately negotiate with the NZTA terms for the provision and funding of public transport services. A pan-region approach to the funding and provision of public transport is highly desirable and a key part of this is ensuring that the public transport services continue to be eligible for funding from the New Zealand Transport Agency (NZTA).
- 104 We understand that mechanisms exist to enable continuation of funding under a Unitary Authority option. This would require a joint arrangement between the Wairarapa Unitary Authority and whatever local government structure emerges for the Western Area. We consider it prudent to allow a modest amount for the costs of establishing and maintaining the mechanisms for a pan-region approach to the

provision and funding of passenger transport. We have allowed \$400,000 for the administration costs associated with this.

Funding for regional amenities

105 In 2011, the territorial authorities in the greater Wellington region considered options for the development of a regional amenities fund. The purpose of the fund was to provide additional financial support for entities of regional significance with day-to-day operational expenses and innovative projects that contribute to regional outcomes. The focus was on entities in the arts and culture sector, environmental attractions and events. The top-up funding contribution from the Wairarapa Councils summed to 3.8% of the value of the fund. This amounted to \$38,000 in 2012/13 increasing year-by-year as the size of the top-up fund increased.

106 The Masterton District Council is already contributing its share of top-up funding and has incorporated this into its LTP budgets. In contrast, Carterton and South Wairarapa District Councils have yet to incorporate the top-up funding into their budgets. For the purposes of assessing financial viability, we have adjusted the budgets of these two Councils to incorporate the top-up funding. The impact of doing this is small. However as stated this is only top-up funding. Under a Supercity, Wairarapa would risk having to pay a more significant contribution as it would be part of the one entity.

Summary of cost changes under Unitary Authority option

107 Figure 8 below summarises the:

- current state after removing the GWRC/PwC view of the “Wairarapa subsidy”
- the adjustments to the “Wairarapa subsidy” cost estimates (ie regional costs) and adjustments to the costs associated with the Wairarapa Councils (ie local costs) that we consider are warranted
- the costs of a Wairarapa Unitary Authority and how these compare to rates and other income.

Figure 8: Wairarapa Unitary Authority compared to current state

<u>Current State 2013/14</u>	<u>Adjustments</u>	<u>Future State 2013/14</u>
CURRENT STATE WITHOUT GWRC SUBSIDY		UNITARY AUTHORITY
Local Rates \$45.3m	Remove democratic services cost (\$0.2m)	Local Rates \$45.3m
Other Local \$21.2m	Reduce environmental policy, regulation and science costs (\$1.0m)	Other Local \$21.2m
Local Income \$66.6m	Remove net forestry cost (to be sold) (\$2.2m)	Local Income \$66.6m
GWRC Income \$6.1m	Increase Port Dividend (additional income) (\$0.4m)	Regional Income \$6.5m
Total Income \$72.7m	Net reduction in regional costs (\$3.8m)	Total Income \$73.1m
Local Costs \$66.0m	Cost efficiencies (3% of local opex) (\$2.0m)	Local Costs \$64.4m
Regional Costs \$14.0m	Admin costs relating to public transport \$0.4m	Regional Costs \$10.6m
Total Costs \$80.0m	Contribution to funding amenities currently funded by other TAs \$0.04m	Total Costs \$75.1m
Local surplus \$0.6m	Net reduction in local costs (\$1.5m)	Local surplus \$2.2m
Regional deficit (\$8.0m)		Regional deficit (\$4.2m)
Net Deficit (\$7.3m)		Net Deficit (\$2.0m)

108 It is important to note that the numbers in Figure 8 above assume no change in rates and other income. The only changes have been with respect to costs.

109 Overall, the changes in costs would result in the Wairarapa Unitary Authority having a deficit of around \$2.0 million compared to the surplus (expected for 2013/14) across the three Wairarapa Councils of \$0.6 million. The difference between these two figures comprises the removal of the Wairarapa subsidy (\$8.0 million) offset by the reduction in regional and local costs (\$3.8 million and \$1.5 million respectively).

Funding implications

110 The adjustments noted above coupled with the impact of losing the “Wairarapa subsidy” results in a notional deficit of \$2.0 million.³⁵ A Wairarapa Unitary Authority would have a number of options for addressing this as outlined below.

³⁵ For the purposes of describing the options, we have assumed that the Unitary Authority would be established with effect from 1 July 2013.

No further change to rates

111 One option is to review and reprioritise existing plans, and further explore opportunities for improved cost efficiency, with a view to retaining the current profile of rates adjustments that are foreshadowed in the LTP of each of the Wairarapa Councils (ie no change to rates over and above those already planned). The annual rates change across the three Wairarapa Councils based on current LTPs is summarised in Table 4 below.

Table 4: Annual change in rates income - status quo

Status Quo	2014	2015	2016	2017	2018	2019	2020	2021	2022
Percentage annual change in rates income	5.1%	4.8%	4.2%	3.2%	3.4%	2.7%	3.2%	2.6%	1.9%

112 The review of existing plans could include a review of service levels and funding policies across all functions; for example, flood management and land management funding policies that are currently far more beneficial to individuals than elsewhere in the country.

113 In theory, there is also a “do nothing” option of retaining the current profile of rates adjustments and not undertaking a review of existing plans. All other things remaining the same, the impact of this would be to result in an operating deficit over the next six years but no additional rate impact from forming a unitary authority.³⁶ In 2018/19, the Wairarapa Unitary Authority operating balance would turn to surplus. Table 5 below summarises the financial outlook under the “do nothing” option.

Table 5: Financial impact – no further change in rates

Wairarapa Unitary Authority option	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Current LTP Rates Forecast	43,155	45,344	47,500	49,494	51,061	52,791	54,226	55,940	57,377	58,485
Current LTP Surplus	614	609	1,053	1,895	2,468	2,215	3,040	5,833	3,719	4,059
Cost efficiency savings by the three Wairarapa District Councils	0	1,979	2,055	2,100	2,160	2,238	2,279	2,326	2,403	2,451
Cost of establishing a CCO for purposes of Public Transport	0	(400)	(410)	(419)	(430)	(442)	(452)	(463)	(475)	(487)
Removal of GWRC subsidy	0	(4,158)	(4,285)	(4,408)	(4,540)	(4,681)	(4,818)	(4,961)	(5,124)	(5,300)
Contribution to funding the cost of amenities currently funded by other TAs	0	(36)	(40)	(45)	(50)	(52)	(53)	(55)	(57)	(59)
Total change to costs & income compared to LTP	0	(2,615)	(2,679)	(2,772)	(2,861)	(2,936)	(3,045)	(3,152)	(3,252)	(3,396)
New Unitary Authority Surplus / (Deficit)	614	(2,005)	(1,627)	(876)	(392)	(721)	(5)	2,681	466	664

³⁶ These would be funded from debt, and could be repaid from forecast future surpluses in the LTPs.

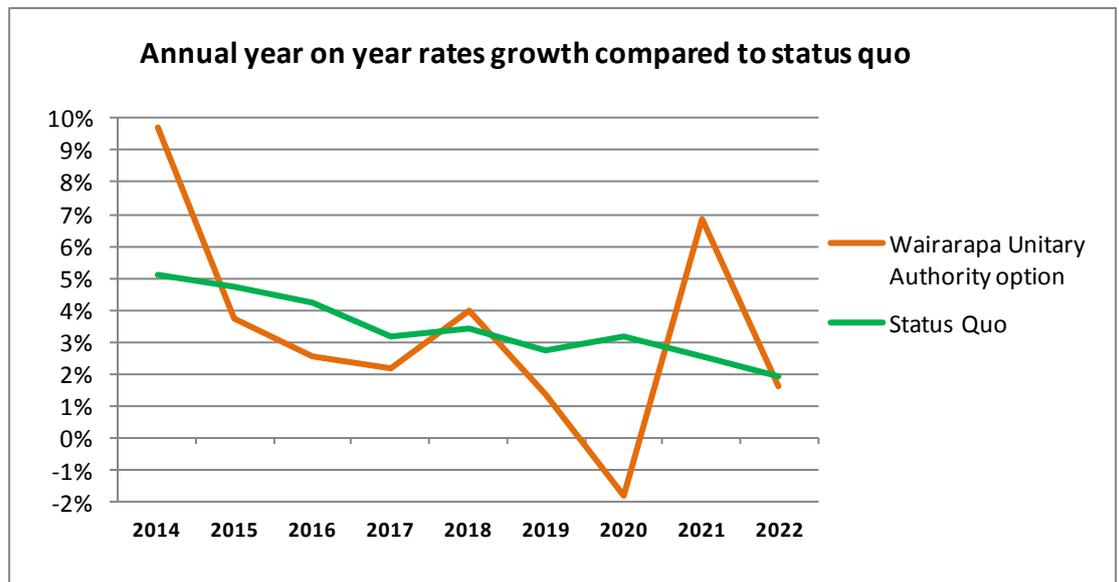
114 Although a period of operating deficits is not desirable (and we do not advocate the “do nothing” option), we note that the combined Wairarapa Councils have significant cash balances and investments to fund deficits over the next few years. Potentially, consideration could be given to drawing down on these to fund the deficit pending the return to surplus.

Adjust rates to achieve breakeven in operating terms

115 Under the current state, the combined Wairarapa Councils have budgeted for an operating surplus of about \$0.6 million for the current and next financial year. The surplus is expected to increase in most years reaching a peak of \$5.8 million in 2019/2020.

116 A Unitary Wairarapa Authority could budget for a breakeven rather than surplus. The impact of this would be a rates increase in 2013/14 of 9.7%. In out-years, the rates increases needed will generally be less than those that would otherwise have occurred under the status quo as shown in Figure 9 below.

Figure 9: Rates growth – breakeven scenario

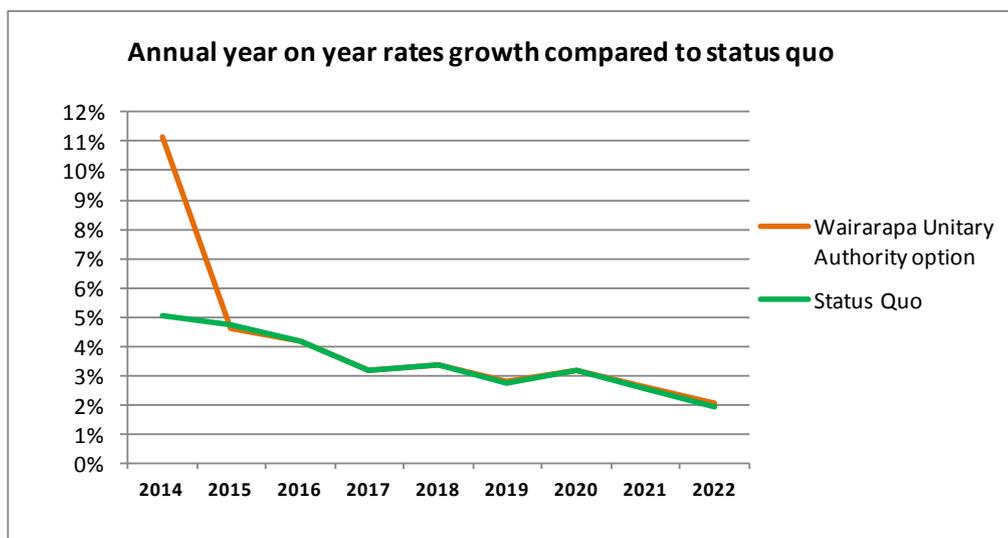


117 Under a scenario where a Wairarapa Unitary Authority budgets for breakeven, rather than surplus, cash balances and investments would not accumulate to the same level as that foreshadowed in the existing LTPs. We have not sought to further explore the ramifications of this.

Adjust rates to restore current projected surpluses

118 To restore the operating balance to the surpluses currently projected in the LTPs, rates revenue would have to increase in 2013/14 by approximately 6% (one-off) over and above the 5.1% that, on average, is incorporated in the LTPs of the three Wairarapa Councils. Beyond 2013/14, the percentage increase in rates year-by-year would be the same as that projected for the combined Wairarapa Councils (ie the status quo). This is shown in Figure 10 below.

Figure 10: Rates growth to maintain projected surpluses



Adopt a phased approach to rates adjustment

119 Taking into account the current balance sheet position of the three Councils and the expected net cash flows (under the current state), there would be scope to adjust to the higher level of rates over a two or three year period rather than make the adjustment in a single step. For example, this could take the form of adjusting rates by an additional 2% each year for three years. Beyond the period of adjustment, the year-by-year increases in rates would be the same as that projected for the combined Wairarapa Councils.

Supercity option

- 120 Although the main focus of this report is on the viability of a Wairarapa Unitary Authority, it is likely that some residents and stakeholder groups will view the Supercity option as being a more attractive proposition. There are several possible reasons for this including the following.
- From a whole-of-region perspective, there is an expectation that it costs more in total to have two unitary authorities than it costs to have one (ie the Supercity council) for the whole region reflecting the need for two sets of systems, structures, policies, plans, governance and so on.
 - There is a risk of some diseconomies of scale from splitting the functions, currently performed by the GWRC, across two unitary authorities.
 - A larger single unitary authority could be perceived as providing more financial security for its constituent areas.
 - Under the Supercity option, there could be an expectation that Wairarapa might keep its subsidy.
- 121 On the last of the points above, we caution against assuming that the subsidy will be retained. There is no guarantee of this in a situation where Wairarapa has around 10% of the voting rights in a Supercity council.
- 122 It has not been within the scope of our terms of reference to estimate the costs associated with a Supercity option. This is a task that is being undertaken by other councils in the Western Area. Notwithstanding that, we have given qualitative consideration to the points above and the possible cost impacts under a Supercity option compared to the Unitary Authority option.

Cost efficiencies

- 123 The greater scale of the Supercity option could be seen as providing scope for additional cost efficiencies over and above the Unitary Authority option. In some respects, there will clearly be some additional savings under the Supercity option compared to a Wairarapa Unitary Authority. For example, under a Supercity, it is assumed that there would be two councillors representing the Wairarapa. The cost of this would obviously be less than that associated with a Unitary Authority comprising a Mayor and 12 councillors (and leaving aside the more than offsetting additional cost of a local board as discussed below). Furthermore, the larger size of a Supercity council may confer financial benefits in terms of greater buying power.

- 124 Overall, however, we are not convinced that the Supercity option would deliver material cost efficiencies for the Wairarapa over and above the Unitary Authority option. Our reasons for this are as follows.
- 125 Compared to the Unitary Authority option, it is unclear to us whether there would be additional scope economies under the Supercity option compared to those that can be captured through the Unitary Authority option. The economies that come from combining regional council and territorial authority functions are, from a Wairarapa perspective, captured anyway under the Unitary Authority option. Any scope economies that come from combining regional and territorial authority functions for the other councils in the greater Wellington region would, we assume, be largely to the benefit of those other regions. Moreover, the benefits of scope (and scale) economies are likely to diminish the greater is the distance between the area receiving services and the principal location of the council (which, under the Supercity option, we assume would be Wellington). By implication, the economies of scope that come from combining territorial and regional functions are likely to be more pronounced for Wairarapa under the Unitary Authority option (based in the Wairarapa) than the Supercity option (based in Wellington).
- 126 With respect to economies of scale, the larger size of the Supercity may confer benefits over and above those achievable under a Unitary Authority. This could also include greater capacity and capability to undertake larger scale projects and developments. The magnitude of economies of scale are, however, uncertain and they potentially diminish for the distance reason noted above. Moreover, we note the evidence from amalgamation, contained in a joint New Zealand and Australian study, that economies of scope are likely to be more significant than economies of scale.³⁷
- 127 It is reasonable to infer from this that economies of scale tend to diminish as the size of an organisation increases, implying that while economies of scale are relevant when amalgamating small entities, they are less material when merging larger entities. In other words, there will be greater economies of scale when combining small councils in Wairarapa than combining much larger councils in the metropolitan area.
- 128 We note that the joint Working Party on Local Government Reform has recently reported on options for changes to governance in the greater Wellington region. The Working Party's report appears to suggest that having one governance structure (under a Supercity) would save up to \$7 million annually compared to a situation of having two governance structures (ie a Wairarapa Unitary Authority).³⁸ Although the

³⁷ Aulich, C., et al (May 2011) Consolidation in Local Government: A Fresh Look Vol 2 report prepared for Australian Centre of Excellence for Local Government, Local Government Association of South Australia and Local Government New Zealand.

³⁸ Joint Working Party on Local Government Reform (March 2013) "Realising the potential of the Wellington region" p42.

basis for this estimate is not discussed in any detail in the report of the Working Party, we assume it reflects assumptions regarding the savings expected from having a one, rather than two governance and administration structures. We question the level of saving expected from moving to a single governance structure because it looks excessive when compared against the savings expected in the Auckland context.

Cost increases

- 129 The possibility that there may be cost efficiencies with the Supercity option need to be balanced by the potential for increased costs in some areas.

Local boards

- 130 One of the two Supercity governance options being consulted on by the Joint Working Party on Local Government Reform proposes a local board for the Wairarapa. Costs would need to be incurred to support the local board as well as the cost of the Board itself. These could be in the region of anywhere between \$0.5 million (we understand this is the figure being assumed by the Joint Working Party on Local Government Reform) and \$1.0 million (which we understand is emerging experience with local boards in Auckland). Costs of this magnitude are likely to largely, if not completely, offset any additional economies of scope and scale that come with the Supercity option over and above the Unitary Authority option.

Regional amenities

- 131 If the Wairarapa was to form part of a Supercity, we consider there is a realistic possibility that Wairarapa ratepayers would be asked to contribute more to funding those amenities that confer regional benefits. As noted earlier, there is already a mechanism for top-up funding for regional amenities. The risk is that Wairarapa ratepayers would end up being required to contribute to the full cost of regional amenities and not just the top-up fund.
- 132 We have estimated the additional cost to Wairarapa ratepayers could be in the order of \$0.5 million per year based on the following assumptions.
- Contributions are required for Te Papa, Wellington Zoo, convention centres and events attraction (eg for events such as the New Zealand International Festival of the Arts). These regional amenities have been chosen on the basis that they feature prominently in a Colmar Brunton survey³⁹ that asked respondents to

³⁹ Colmar Brunton (March 2011) "Regional Residents Survey on Regional Amenities".

identify amenities of regional importance and consider that regional contributions should be made to fund the cost of these amenities.

- Regional contributions would be made in place of existing general ratepayer funding (levied on Wellington City ratepayers) rather than in place of user charges, commercial targeted rates or the downtown rate (for example, convention venues are funded 55% from general rates and the rest is from user charges and the downtown rate).
- The assumed \$0.5 million contribution from Wairarapa ratepayers is set at 3.8% of the cost of the regional amenity (ie based on the existing top-up rate of funding).

Other considerations

Exposure to assets and liabilities of other territorial authorities

133 Under a Supercity option, Wairarapa ratepayers gain exposure to the assets and liabilities of the other territorial authorities in the wider Wellington region. We have not been required to undertake any analysis of the implications of this. We note, however, that this potentially means having to share in any uninsured costs associated with large and not yet fully quantified liabilities in such areas as leaky buildings and strengthening of earthquake-prone buildings (and possibly the flow-on consequences for communities associated with these liabilities). More generally, Wairarapa ratepayers would be exposed to the risk of having to contribute to the cost of major future capital works. While it is true that the other territorial authorities would gain exposure to the assets and liabilities of the three Wairarapa Councils, we suggest that any gains from sharing risk in this regard are likely to be outweighed by the exposure that Wairarapa would have to the liabilities of the other territorial authorities.

Impact of changes in approach to funding/rates policy

134 From a financial perspective, a key difference between the Supercity and Unitary Authority options is that under the Supercity option Wairarapa will no longer have control over funding and rates policies. The issue extends well beyond the implications this would have for the future of the “Wairarapa subsidy” although this, of itself, is potentially a significant issue.

135 For example, under a Supercity there is the potential for wide-ranging changes to the mix of funding sources (eg rates versus user charges), the mix of rate types (general versus targeted) and fixed/uniform charges versus in proportion to property value, the attitude toward debt and so on. Changes in any of these areas could have the potential to substantially impact the level of rates paid by Wairarapa ratepayers for the

better or worse. Moreover, the size of impact arising from any changes to funding/rates policies would almost certainly far outweigh the financial impact associated with differences in economies of scale and scope between the Supercity and Unitary Authority options and/or any of the other cost adjustments discussed earlier.

- 136 Any changes in funding and rates policies under the Supercity option would almost certainly result in some groups of ratepayers paying more and others less. By implication, the impact of funding policy changes is likely to be more variable and pronounced at the individual ratepayer level than is true for Wairarapa as a whole.
- 137 In short, the Supercity option introduces a level of financial uncertainty for Wairarapa ratepayers over and above that associated with the Unitary Authority option.

Appendix 1 Reconciliation of the Wairarapa subsidy

Late last year, the GWRC released a media statement indicating that the subsidy provided to the Wairarapa amounts to \$11.2 million. Advice received by GWRC from PricewaterhouseCoopers has resulted in some modifications to the initial figures indicated by the GWRC. As a result of these, and excluding public transport, the subsidy is estimated by PwC to be \$8.0 million. A reconciliation between the two figures is provided below.

RECONCILIATION OF GWRC WAIRARAPA SUBSIDY	
	\$m
GWRC reported subsidy 13 December 2012	11.2
Change in expenditure ⁽¹⁾	(0.3)
Change in income ⁽²⁾	(0.4)
Removal of Public Transport	(2.6)
Funding Surplus / (Deficit) excl Public Transport	\$8.0m

⁽¹⁾ Difference to GWRC per PwC, partially relating to re-allocation of flood protection; and better GWRC data for the river rate, democratic and emergency services costs

⁽²⁾ Difference to GWRC per PwC, relating to CentrePort dividend

Appendix 2 Glossary of terms

Term	Description
ACELG	Australian Centre of Excellence for Local Government
(the) Commission	Local Government Commission
Economy of scale	As output increases, the average cost of production falls
Economy of scope	It is more cost efficient for one organisation to undertake two functions rather than have each function performed by a separate organisation
FAR	Financial Assistance Rate – the proportion of funding contributed by the NZTA to the funding of local roads (ie roads under the control of the three Wairarapa Councils)
GWRC	Greater Wellington Regional Council
Joint Working Party on Local Government Reform	A working party comprising representatives from Kapiti Coast District Council, Porirua City Council, Wellington City Council and Greater Wellington Regional Council. The Working Party is also referred to as the Western Working Party
LGNZ	Local Government New Zealand
LTP	Long term plan
NZTA	New Zealand Transport Agency
PwC	PricewaterhouseCoopers
Supercity	The Supercity option would involve establishing a single unitary authority for the whole of the greater Wellington region including the Wairarapa that would undertake the roles currently performed by the territorial authorities and regional council
Wairarapa Unitary Authority	A Wairarapa Unitary Authority would involve forming a single Council for the Wairarapa and it would have responsibility for the territorial functions currently undertaken by the Wairarapa Councils and the regional functions (as they apply to the Wairarapa) currently undertaken by the Greater Wellington Regional Council
WCC	Wellington City Council
Western Area	The area within the greater Wellington region but <u>excluding</u> the Wairarapa and the small section of Tararua district north-east of Masterton district