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| **REPORT TO THE LOCAL GOVERNMENT COMMISSION ON POTENTIAL SAVINGS ON A RANGE OF OPTIONS FOR RE-ORGANISATION OF LOCAL GOVERNMENT IN THE WELLINGTON REGION** |

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**Purpose and scope of this report**

This report is for the Local Government Commission (LGC). It is part of a package of reports on reasonably practicable options for Wellington Region local government reorganisation.

The package of reports is as follows:

* McGredy Winder Ltd- consulting team lead and overview report.
* Stimpson & Co Ltd - analysis of transition costs to achieve cost efficiencies and summary of net costs and benefits.
* Deloitte report on IT implementation costs. IT Implementation costs are those costs (primarily IT but also other expenses) that allow the new entity to function on day one.
* This report from Brian Smith Advisory Services Limited on the analysis of potential cost efficiencies on reasonably practicable options.

**Approach**

This report has been prepared by Brian Smith Advisory Services Ltd in collaboration with McGredy Winder and Stimpson & Co Ltd. Key assumptions were developed in August 2014 and have been agreed by this team with input from LGC staff.

**Reasonably Practicable Options**

The reasonably practicable options have been established as;

***Option1 – Status Quo***

Where the existing Council boundaries and services are retained.

***Option2- Enhanced Local Efficiency***

This option is split into three component options;

* One Wairarapa Council – comprising of the existing Masterton, Carterton and South Wairarapa Districts (option 2.1)
* One Hutt Council – comprising of the existing Hutt and Upper Hutt Cities (option 2.2)
* One Western and North Council – comprising of the existing Kapiti and Porirua and Wellington Cities(option 2.3)

***Option 3 – Stronger Regional Delivery; transfer of major obligations to the Greater Wellington Regional Council***

***Option 4 – One Wellington Unitary Council (with the sub options of local boards and without local boards)***

In this report Options 2 through 4 are analysed for potential cost savings. No analysis is relevant for Option 1 – status quo

**Overarching Assumptions and Basis of Analysis**

In approaching this analysis the following general concepts and assumptions were applied;

* The analysis considers expenditure only – no review was made of future levels of revenue or funding sources.
* Councils’ expenditure has been classified, for analysis purposes, into the following areas;
* Activity operating payments
* Activity capital payments
* Corporate internal charges and overheads – personnel costs
* Corporate internal charges and overheads – non-personnel costs
* Governance personnel costs – this included Mayoral, Chair, elected member and CEO remuneration
* External audit costs
* There will be a three year transition period; potential savings are graduated to reach the full savings from year four onwards. It is understood that this transition period may be shortened.
* The base information used for this analysis are councils’ 2012-22 Long Term Plans (LTPs). This was augmented by responses to requests for information sent by the Commission to Councils.
* The potential savings identified are based on a reasonable interpretation of what is considered achievable on the basis of the methodology and assumptions adopted. However there is no ‘guarantee’ that these savings will transpire. It is a “conservative should” rather than a “definite will”.

**Format of Report**

The information on potential savings is set out separately for each option (excepting option 1). Each option outlines;

* The methodology and basis of preparation used to arrive at the savings
* The assumptions made to arrive at the savings
* The summary table of potential savings for transition years 1-3 and from year 4 onwards
* Commentary on the savings

**Analysis of Cost Savings under Option 2 – Enhanced Local Efficiency**

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| This option is split into three component options;   * One Wairarapa Council – comprising of the existing Masterton, Carterton and South Wairarapa Districts (option 2.1) * One Hutt Council – comprising of the existing Hutt and Upper Hutt Cities (option 2.2) * One Western and North Council – comprising of the existing Kapiti and Porirua and Wellington Cities (option 2.3) * There is no change to the Wellington Regional Council under this option |

***Options 2.1- 2.3 Assessment methodology***

* We categorised council operations into six aspects – Council activities operational expenditure (opex), Council activities capital expenditure (capex), corporate and internal support personnel costs, other non-personnel corporate costs, governance costs (elected members and CEO remuneration) and Audit costs.
* The Council activities, both opex and capex, were further categorised into;
* Regulatory
* Water, Wastewater and Stormwater (three waters)
* Roading
* Solid Waste
* Property services (where separately identifiable)
* Harbour and Coastal
* Economic Development and promotions
* Other activities, which mainly comprised parks and open spaces, community facilities etc
* To arrive at an appropriate expenditure base for activities, we used Council LTPs for the 2012-22 period. For each activity opex we;
* Summed the 10 year payments to staff and suppliers as recorded in the forecast Funding Impact Statements. These payments exclude finance costs, depreciation and internal charges. The rationale for excluding finance costs and depreciation expenses is that these costs will be largely unaffected (at least for the foreseeable future) by any reorganisation proposal. Internal charges are analysed separately.
* Averaged the summation (total cost divided by 10 years)
* Discounted the average back to 2014 dollars using a 3% discount factor (reflecting the approximate inflation used in LTP preparation).
* A similar methodology was applied to activities capex, but the source of information was the payments for purchase of plant, property and equipment (i.e. physical assets) from the forecast Statement of cash Flows in the Council LTPs
* The rationale for using LTP forecast figures for activities, and averaging process, is that it overcomes the lumpiness that might occur if only one or two years were taken. The forecast figures were seen as a more appropriate base rather than historical figures, as these represent the councils’ intentions in the next 10 years.
* Corporate personnel costs represents the payroll costs of support and internal services functions within councils. This information was supplied by each council to the Commission in April 2014. The information supplied was the budget figures for the 2013-14 financial year and also included the Full Time Equivalent (FTE) staff numbers as at 30 June 2013.
* Corporate costs other than personnel costs were sourced from LTP Funding Impact Statements – payments for internal charges. From this figure the corporate personnel costs were deducted.
* Governance costs represent the elected members, mayoral and CEO remuneration as identified in the 2012-13 annual reports of each council
* Audit costs represent the costs of the annual audit of each council and a proportion of the costs of auditing the LTPs (prepared triennially). The costs were sourced from Council annual reports for 2012-13.

***Options 2.1-2.3 Assumptions underpinning Savings Assessments***

1. *Assumptions on Activity Opex*

*Table 1 – Option 2.1-2.3 Assumptions on Activity opex savings*

|  |  |
| --- | --- |
| Regulatory | Graduated savings on base regulatory expenditure of 5% by year 4 will result from one District Plan and centralised RMA administration. |
| Community Facilities[[1]](#footnote-1) | Graduated savings of 1% on base expenditure will result from streamlined management, economies of scale and rationalised operating and maintenance contracts. |
| Water, Wastewater and Stormwater | Graduated savings by year 4 of 2% of base expenditure will result from;   * streamlined management * economies of scale (especially asset management) * rationalised operating and maintenance contracts. * Unified and integrated asset management |
| Roading | Graduated savings by year 4 of 1% of base expenditure will result from;   * streamlined management * economies of scale (especially asset management) * rationalised operating and maintenance contracts. * Unified and integrated asset manage   Lesser savings are assumed for roading compared to the three Waters due to efficiencies already driven via NZTA processes |
| Solid Waste | No savings assumed given the increased focus on recycling and recovery |
| Property | No savings assumed due to uncertainty of future property needs. In some councils property activity is not separately identified |
| Harbour/Coastal | No savings assumed due to increased environmental considerations |
| Economic Development | No savings assumed |

1. *Assumptions on Activity Capex*

*Table 2 – Option 2.1-2.3 ; Assumptions on Activity capex savings*

|  |  |
| --- | --- |
| Regulatory | No savings assumed. Present capex predictions are small. There may need to be investment in new IT systems |
| Community Facilities | Graduated savings of 1% of base capex by year 4 will likely result from better and integrated capex project planning and delivery |
| Water, Wastewater and Stormwater | Graduated savings of 1% of base capex by year 4 will likely result from;   * Better capex project planning and delivery * Network approach to renewals * Centralised administration of contracts |
| Roading | Graduated savings of 1% of base capex by year4 will likely result from;   * better capex project planning and delivery * network approach to renewals * Centralised administration of contracts |
| Solid Waste | No change assumed given the increased focus on recycling and recovery |
| Property | No change due to uncertainty of future property needs. In some councils property activity not separately identified |
| Harbour/Coastal | No change due to environmental considerations |
| Economic Development | No change assumed |

1. *Assumptions on Corporate Personnel savings*

*Table 3 Options 2.1-2.3; Assumptions on Corporate Support personnel savings*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| ***Corporate Function*** | *One Wairarapa Council*  *Corporate FTEs*  *June 2013* | *One Wairarapa Council*  *Corporate*  *Assessed*  *FTEs*  *Future* | *One Hutt Council*  *Corporate FTEs*  *June 2013* | *One Hutt Council*  *Corporate FTEs*  *Future* | *One Northern*  *Western Council*  *FTEs*  *June 2013* | *One Northern*  *Western Council*  *FTEs*  *Future* |
| Finance | 15.2 | **13** | 27 | **20** | 91.3 | **55** |
| IT | 2.2 | **4** | 26.2 | **20** | 56.6 | **80** |
| Communications | 1 | **1.5** | 8.3 | **5** | 30.3 | **15** |
| HR | 0.4 | **2.5** | 5.5 | **5** | 43 | **28** |
| Records | 1.6 | **3** | 14.4 | **10** | 25.4 | **20** |
| Customer Service | 7 | **4** | 15.6 | **12** | 59.1 | **45** |
| Mayoral/CEO support staff | 2 | **2** | 3.6 | **3** | 14 | **7** |
| Corporate executive support staff | 1.7 | **2.5** | 4.5 | **5** | 23 | **12** |
| Council and Committees secretarial support | 1.5 | **2.5** | 7.8 | **5** | 11 | **10** |
| Other specialist functions[[2]](#footnote-2) | 1.4 | **2** | 17.6 | **10** | 77 | **40** |
| Total Existing FTEs | **34** |  | **131** |  | **531** |  |
| Existing $ cost | **$2.1m** |  | **$9m** |  | **$37.4m** |  |
| **Assessed future FTEs** |  | **37** |  | **95** |  | **312** |
| **Total $ assessed** |  | **$2.1 m** |  | **$6.5m** |  | **$21.5m** |
| **Savings- from year 4 onwards** |  | **0** |  | **$2.5m** |  | **$15.9m** |

The summary table shows savings in years 1-3. It is assumed that about 70% of the staff rationalisation will occur in year 1.

It is considered that the existing Wairarapa councils are minimal in corporate support numbers. We do not see any potential savings in corporate support costs in a future ‘One Wairarapa’ council.

1. *Assumptions on Corporate savings other than personnel costs*

*Table 4 Options 2.1-2.3; Assumptions on Corporate Support non- personnel savings*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| *Option 2.1- 2.3* | *Transition Years*  *Yr 1 Yr 2 Yr3* | | | *Year 4 onwards* | *Comments/rationale* |
| One Wairarapa Council  (option 2.1) | 0.5% | 1% | 1.5% | 1.5% | Longer term reduction of 1.5% is less than other scenarios given that existing corporate support numbers are minimal.  Graduated reduction over three years. |
| One Hutt Council  (option 2.2) | 2% | 3% | 3% | 3% | Rationalisation is expected to be quicker and deeper due to contiguous nature of two urban councils |
| One Northern/Western Council  (option 2.3) | 2% | 3% | 3% | 3% | Significant rationalisation here is consistent with a reduction of corporate support FTEs of 41% from the existing level |

1. *Assumptions on governance cost savings*

*Table 5 Options 2.1-2.3; Assumptions on Governance cost savings*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| *Options 2.1-2.3* | *Transition Years Savings $m*  *Yr 1 Yr 2 Yr3* | | | *Year 4 onwards*  *Savings$m* | *Comments/rationale* |
| One Wairarapa Council  (option 2.1) | 0.31 | 0.31 | 0.31 | 0.31 | Assumed that the new Council will have;   * A Mayor (remuneration $100k a year) * 14 Councillors (yearly remuneration average $50 k each) * CEO (yearly remuneration package $350k).   No local/community boards are assumed. |
| One Hutt Council  (option 2.2) | 0.31 | 0.31 | 0.31 | 0.31 | Assumed that the new Council will have;   * A Mayor (remuneration $140k a year) * 14 Councillors (yearly remuneration average $60 k each) * CEO (yearly remuneration package $400k).   No local/community boards are assumed. |
| One Northern/Western Council (no local boards)  (option 2.3) | 0.88 | 0.88 | 0.88 | 0.88 | Assumed that the new Council will have;   * A Mayor (remuneration $180k a year) * 21 Councillors (yearly remuneration average $95k each) * CEO (yearly remuneration package $450k). |

A variation on the Northern/Western Council (option 2.3) is to have five local/community boards. The additional cost of this is $6.25m a year proportionately based on the LGC paper for eight Boards ($10 -$12m). The first year is an eight month period and the costs have been shown proportionately for year 1.

**Summary tables of potential yearly cost savings under Option 2 – Enhanced Local Efficiency**

***Option 2.1***  *One Wairarapa Territorial Authority (Masterton, Carterton and South Wairarapa Councils into one Council)*

*Table 6 Option 2.1 One Wairarapa Council potential cost savings*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Aspect* | *Transition Years ($m)*  *Yr 1 Yr 2 Yr 3* | | | *Year 4*  *onwards*  *($m)* |
| Activities - Opex | 0.45 | 0.56 | 0.56 | 0.56 |
| Activities - Capex | 0 | 0.10 | 0.19 | 0.19 |
| Corporate personnel costs | 0 | 0 | 0 | 0 |
| Corporate and internal charges – other costs | .04 | .08 | 0.11 | 0.11 |
| Governance | 0.31 | 0.31 | 0.31 | 0.31 |
| Audit | 0.16 | 0.16 | 0.16 | 0.16 |
| **Estimated yearly savings** | **$0.96** | **$1.21** | **$1.33** | **$1.33m** |

***Option 2.2***  *One Hutt Territorial Authority (Hutt and Upper Hutt City Councils into one Council)*

*Table 7 Option 2.2 One Hutt Council potential cost savings*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Aspect* | *Transition Years ($m)*  *Yr 1 Yr 2 Yr 3* | | | *Year 4*  *onwards*  *($m)* |
| Activities - Opex | 1.36 | 1.70 | 1.70 | 1.70 |
| Activities - Capex | 0 | 0.26 | 0.52 | 0.52 |
| Corporate and internal charges – personnel costs | 2.00 | 2.50 | 2.50 | 2.50 |
| Corporate and internal charges – other costs | 0.27 | 0.40 | 0.40 | 0.40 |
| Governance | 0.31 | 0.31 | 0.31 | 0.31 |
| Audit | 0.14 | 0.14 | 0.14 | 0.14 |
| **Estimated yearly savings** | **$4.08m** | **$5.31m** | **$5.57m** | **$5.57m** |

***Option 2.3***  *One Western and North Wellington Territorial Authority (Wellington and Porirua City, and Kapiti District Councils into one Council)*

*Table 8 Option 2.3 ; One Western and North Wellington potential cost savings*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Aspect* | *Transition Years ($m)*  *Yr 1 Yr 2 Yr 3* | | | *Year 4 onwards*  *($m)* |
| Activities - Opex | 2.96 | 3.70 | 3.70 | 3.70 |
| Activities - Capex | 0 | 0.65 | 1.30 | 1.30 |
| Corporate and internal charges – personnel costs | 12.72 | 15.90 | 15.90 | 15.90 |
| Corporate and internal charges – other costs | 1.88 | 2.80 | 2.80 | 2.80 |
| Governance | 0.88 | 0.88 | 0.88 | 0.88 |
| Audit | 0.30 | 0.30 | 0.30 | 0.30 |
| **Estimated yearly savings - no local Boards** | **$18.74m** | **$24.23m** | **$24.88m** | **$24.88m** |
| Additional cost – 5 local/community boards | (4.2) | (6.25) | (6.25) | (6.25) |
| **Estimated yearly savings with local Boards** | **$14.54m** | **$17.98m** | **$18.63m** | **$18.63m** |

**Summary Comments on Option2 – Enhanced Local Efficiency**

***One Wairarapa***

* Long term potential yearly savings for amalgamating the three existing Wairarapa councils into one council are assessed at $1.33 million.
* About 56% of the $1.33 million is estimated to be savings in activity opex and capex expenditure
* There will also be savings in governance and audit costs – these are estimated at $0.47 million a year or 35% of the total assessed savings
* There will be little in savings in corporate support costs, as the three Wairarapa councils have minimal corporate costs at present.

***One Hutt***

* Long term potential yearly savings for amalgamating the two existing Hutt Councils into one Council are assessed at $5.57 million.
* About half of the assessed savings are from rationalisation of corporate support costs.
* About 40% of the $1.33 million is estimated to be savings in activity opex and capex expenditure
* There will be relatively minor savings in governance and audit costs

***One Western and North Wellington Council***

* Long term potential yearly savings for amalgamating Wellington City, Porirua City and Kapiti District are assessed at $18.6 million on the assumption that the new council will have five local boards.
* The bulk of the estimated savings is in rationalisation of corporate costs.
* About $5 million is estimated to be yearly savings in activity opex and capex expenditure

**Summary yearly savings table – Option 2 – Enhanced Local Efficiency**

*Table 9 Option 2 Cost Savings Summary*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *New territorial council* | *Transition Years ($m)*  *Yr 1 Yr 2 Yr 3* | | | *Year 4 onwards*  *($m)* |
| One Wairarapa | 0.96 | 1.21 | 1.33 | 1.33 |
| One Hutt | 4.08 | 5.31 | 5.57 | 5.57 |
| One North/Western Council (with local boards) | 14.54 | 17.98 | 18.63 | 18.63 |
| Estimated yearly savings | $19.58m | $24.5m | $25.53m | $25.53m |

**Analysis of Cost Savings under option 3 – Stronger Regional Delivery**

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| This option envisages the transfer of all current activities, responsibilities, assets and relevant liabilities to the Regional Council in respect of;   * Transport, including roading and footpaths * Three waters (water, wastewater and stormwater) * RMA policy and regulatory activity; and building consent * Economic Development   Territorial councils would retain responsibility and ownership of solid waste, housing and community activities such as parks and reserves, recreation facilities, cemeteries. |

***Option 3 Basis of Assessment***

* Under this option the region’s major infrastructure activities would be owned and managed by the enlarged regional council. These activities include roading, the three waters and economic development.
* The enlarged regional council would also administer economic development activities for the entire region as well as manage the activities that are currently managed by the existing regional council.
* In respect of regulatory activities, the enlarged regional council would administer the Regional Plan, RMA policy and all resource consenting. The regional council would also become the building consent authority for the region. The territorial councils would remain responsible for all other “local” regulatory functions such as liquor licensing, health inspections, noise control, rural fire, emergency management, civil defence, animal control etc.
* The territorial councils would remain responsible for owning and managing;
* Parks, open spaces and reserves
* Community amenities – libraries, community centres, halls etc
* Recreation, aquatic and events centres
* Cemeteries
* Public toilets
* Community and pensioner housing
* Solid waste, recycling
* Under this option it is envisaged that the enlarged regional council would administer the rating function for all councils i.e. a reversal of the existing arrangements.
* It would be expected, under this option, that there would be a proportionate split of assets and liabilities between the enlarged regional council and the territorial councils. However this analysis does not seek to value the assets or partition the debt.

***Option 3 Assessment Methodology***

* In a similar fashion to option 2, the existing functions of all councils were analysed into activities, corporate support costs and governance costs.
* Council activities were analysed, for both opex and capex, by
* Community support activities
* “Local regulatory” activities (as denoted above)
* Solid waste
* To arrive at an appropriate expenditure base for council activities, we used Council LTPs for the 2012-22 period. For each activity opex we;
* Summed the 10 year payments to staff and suppliers as recorded in the forecast Funding Impact Statements. These payments exclude finance costs, depreciation and internal charges. The rationale for excluding finance costs and depreciation expenses is that these costs will be largely unaffected (at least for the foreseeable future) by any reorganisation proposal.
* Averaged the summation (total cost divided by 10 years)
* Discounted the average back to 2014 dollars using a 3% discount factor (reflecting the approximate inflation used in LTP preparation).
* A similar methodology was used for activity capex costs. Information was sourced from forecast Funding Impact Statement funding for capital expenditure.
* For regulatory activities it was not always possible to isolate “local” regulatory functions from District Planning and resource and building consenting. In these cases we assumed an even split of costs.
* The rationale for using LTP forecast figures for activities, and averaging process, is that it overcomes the lumpiness that might occur if only one or two years were taken. The forecast figures were seen as a more appropriate base rather than historical figures, as these represent the councils’ intentions in the next 10 years
* Corporate support costs represent the payroll costs of support and internal services functions within councils. This information was supplied by each council to the Commission in April 2014. The information supplied was the budget figures for the 2013-14 financial year and also included the Full Time Equivalent (FTE) staff numbers as at 30 June 2013.
* Governance costs represent the elected members, mayoral and CEO remuneration as identified in the 2012-13 annual reports of each council. In this option we also included the annual audit of each council and a proportion of the costs of auditing the LTPs (prepared triennially). The audit costs were also sourced from Council annual reports for 2012-13.
* We made the assumption, under this option, that the three existing Wairarapa district councils – Carterton, South Wairarapa and Masterton would amalgamate. The rationale for this assumption was that if the existing councils were to be retained, the costs of corporate support and governance would be high in proportion to the quantum and number of activities administered. Our analysis indicated that, if the three existing Wairarapa councils were retained, yearly corporate and governance costs could be as high as 40-50% of the yearly payments made to staff and suppliers for the activities administered by the two smallest Wairarapa councils.

***Option3 - Assumptions on Potential Savings***

1. *Assumptions of potential savings for Council activities*

* We assumed that there would no savings on remaining activities carried out territorial councils. This applies to both opex and capex. The rationale is that the councils have a reduced activity portfolio and savings on a lower expenditure base will be difficult to achieve.
* For the enlarged regional council, no opex or capex savings are assumed for the following activities;
* Public Transport
* Environment
* Economic Development
* Flood Protection
* Regional Parks

;

* For the enlarged regional council, savings are assumed for the following activities;
* Roading - graduated savings of 1% by year 4 on base expenditure savings (both opex and capex)
* Three waters – graduated savings by year 4 of 2% on opex and 1% on capex
* Regulatory (regional functions) – graduated savings on opex of 5% by year 4

1. *Assumptions of savings for Council Corporate Support Costs*

*Table 10 Option 3* - *Assumptions of savings for Council Corporate Support Costs*



The above assessment assumes there will be a significant reduction in corporate support FTEs needed for territorial councils because of the reduced number of activities, and a moderate increase needed for the enlarged regional council because of the inclusion of all transportation and the three waters activities.

Also, as noted previously, the regional council will be responsible for collecting rates on behalf of the territorial councils.

The greatest reduction is Wellington City with an anticipated reduction of nearly 300s FTEs at a long term annual saving of $20 million.

1. *Assumptions of savings for Council Governance Costs*

*Table 11 Option 3**Assumptions of savings for Council Governance Costs*



We assumed that each territorial council will have a Mayor, an elected council and no local boards.

The Mayoral yearly remuneration will vary from $70k to $120k; the elected councils will vary from 6 members for the smaller councils to 14 councillors for Wellington City. The enlarged regional council will have 20 members and a Chair at an assumed yearly remuneration of $200k.

The assumed CEOs remuneration ranges from $200k to $450k.

Audit costs are based on a reduced number and quantum of activities for both the annual audit and the LTP audits for territorial councils but an increase for the enlarged regional council.

***Option 3 Summary of Assessed Yearly savings***

*Table 12 Option 3 Savings analysis by function*



*Table 13 Option 3 Savings analysis by Council*



**Option 3 Commentary on assessed savings**

* Under option 3 the overall assessed annual savings by Year 4 is just under $36 million
* By function, the greatest savings are assessed in corporate support costs. This amounts to 72% of total savings or $26 million.
* Savings in activity opex and capex amount to $8 million yearly, or 22% of total savings
* Savings in governance costs are relatively minor at just under $2 million
* By Council Wellington City would be expected to see the largest cost savings, through rationalisation of corporate support costs to service a reduced number of activities
* The enlarged Regional Council would initially need more corporate support resource to service an increased number of activities and responsibilities.

**Analysis of Cost Savings under Option 4 – One Wellington Council**

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| This option envisages a single unitary council for the whole of the Wellington Region either with or without local boards  The Council will have a number of local service centres but to the extent possible the administration of the council would be centralised. |

***Option 4 - Assessment Basis***

* We categorised council operations into six aspects – Council activities operational expenditure (opex), Council activities capital expenditure (capex), corporate and internal support personnel costs, other non-personnel corporate costs, governance costs (elected members and CEO remuneration) and Audit costs.
* The Council activities, both opex and capex, were further categorised into;
* Regulatory
* Water, Wastewater and Stormwater (three waters)
* Roading
* Solid Waste
* Public Transport
* Economic Development and promotions
* Other activities, which mainly comprised parks and open spaces, community facilities etc
* To arrive at an appropriate expenditure base for activities, we used Council LTPs for the 2012-22 period. For each activity opex we;
* Summed the 10 year payments to staff and suppliers as recorded in the forecast Funding Impact Statements. These payments exclude finance costs, depreciation and internal charges. The rationale for excluding finance costs and depreciation expenses is that these costs will be largely unaffected (at least for the foreseeable future) by any reorganisation proposal. Internal charges are analysed separately.
* Averaged the summation (total cost divided by 10 years)
* Discounted the average back to 2014 dollars using a 3% discount factor (reflecting the approximate inflation used in LTP preparation).
* A similar methodology was applied to activities capex, but the source of information was the payments for purchase of plant, property and equipment (i.e. physical assets) from the forecast Statement of cash Flows in the Council LTPs
* The rationale for using LTP forecast figures for activities, and averaging process, is that it overcomes the lumpiness that might occur if only one or two years were taken. The forecast figures were seen as a more appropriate base rather than historical figures, as these represent the councils’ intentions in the next 10 years.
* Corporate personnel costs represents the payroll costs of support and internal services functions within councils. This information was supplied by each council to the Commission in April 2014. The information supplied was the budget figures for the 2013-14 financial year and also included the Full Time Equivalent (FTE) staff numbers as at 30 June 2013.
* Corporate costs other than personnel costs were sourced from LTP Funding Impact Statements – payments for internal charges. From this figure the corporate personnel costs were deducted.
* Governance costs represent the elected members, mayoral and CEO remuneration as identified in the 2012-13 annual reports of each council
* Audit costs represent the costs of the annual audit of each council and a proportion of the costs of auditing the LTPs (prepared triennially). The costs were sourced from Council annual reports for 2012-13.

***Option 4 - Assumptions on Savings***

1. *Assumptions on savings on Council activities*

*Table 14 Option 4 Savings assumptions on activities opex*

|  |  |
| --- | --- |
| Regulatory | Graduated savings on base regulatory expenditure of 5% by year 4 will result from one Regional Plan and centralised RMA administration. |
| Water, Wastewater and Stormwater (three waters) | Graduated savings by year 4 of 2% of base expenditure will result from;   * streamlined management * economies of scale (especially asset management) * rationalised operating and maintenance contracts. * Unified and integrated asset management |
| Transportation | Graduated savings on roading and footpaths by year 4 of 1% of base expenditure will result from;   * streamlined management * economies of scale (especially asset management) * rationalised operating and maintenance contracts. * Unified and integrated asset manage   Lesser savings are assumed for roading compared to the three Waters due to efficiencies already driven via NZTA processes. No savings are expected for public transport payments. |
| Solid Waste | No savings assumed given the increased focus on recycling and recovery |
| Economic Development | No savings assumed |
| Community Facilities and other activities | Graduated savings of 1% on base expenditure will result from streamlined management, economies of scale and rationalised operating and maintenance contracts. |

*Table 15 Option 4 Assessed activity opex savings*



*Table 16 Option 4 Savings assumptions on activities capex*

|  |  |
| --- | --- |
| Regulatory | No savings assumed. Present capex predictions are small. There may need to be investment in new IT systems |
| Community Facilities | Graduated savings of 1% of base capex by year 4 will likely result from better and integrated capex project planning and delivery |
| Water, Wastewater and Stormwater (three waters) | Graduated savings of 1% of base capex by year 4 will likely result from;   * Better capex project planning and delivery * Network approach to renewals * Centralised administration of contracts |
| Roading | Graduated savings of 1% of base capex by year4 will likely result from;   * better capex project planning and delivery * network approach to renewals * Centralised administration of contracts |
| Solid Waste | No change assumed given the increased focus on recycling and recovery |
| Community Facilities and other activities | Graduated savings of 1% of base capex by year 4 will likely result from better and integrated capex project planning and delivery |

*Table 17 Option 4 Assessed activity capex savings*



1. *Assumptions on savings on Council corporate costs- personnel*

*Table 18 Option 4 Savings on Corporate Support personnel*



The assumptions underpinning the above savings include;

* A significant reduction in Finance corporate costs with centralised administration of rates, accounts receivable, accounts payable and payroll. There will also be rationalisation of external and internal financial reporting and financial planning with one LTP, one annual plan and one annual report.
* IT FTEs would be expected to decrease, over time, by 40% commensurate with fewer IT applications and systems
* Communications FTEs will decrease with the lesser number of required external reports (from nine councils to one), one web site and a more integrated approach to communication activities
* Future HR FTEs are based on industry benchmarks
* Customer Service FTE numbers will reduce for back office functions such as customer call centres, but no reductions are assumed for “front of house” customer services for all existing service centres
* Future Mayoral and CEO support is estimated on the basis of nine staff for the Mayor and six for the CEO/Chief Operating Officer.

1. *Assumptions on corporate savings other than personnel*

We assessed the total corporate costs by adding the internal charges of all nine councils and averaging these for a typical year of the LTP period 2012-22. These were discounted to 2014 dollars. We deducted from this total the budgeted corporate support personnel costs for 2013-14 to get a base expenditure of ‘other’ corporate costs.

We assumed that there would be efficiencies in purchasing and rationalisation of other corporate costs resulting from nine councils reducing to one council.

We assumed that there should be a 3% saving on the base expenditure by year 4. In earlier years there would be a graduated saving;

*Table 19 Option 4 Savings on corporate costs other than personnel*



1. *Assumptions on Governance savings (no local boards)*

*Table 20 Option 4 Assessed Savings on Governance (no local boards)*



Notes

* At the time of the preparation of this report it was assumed that there would be 19 Councillors. This may change in the formal LGC proposal.
* For the 19 councillors assumed, six will be committee chairs at an annual remuneration of $110k each. The remaining councillors are assumed to have annual remuneration of $95k

1. *Assumptions on Audit Cost savings*

*Table 21 Option 4 Expected Savings on audit costs*



Notes

* The above table reflects there will be one annual audit rather the ptesent nine
* The cost of LTP audits have been annualised as they are prepared and audited every three years

**Option 4 Summary of potential cost savings**

*Table 22 Option 4 Summary of Potential Savings (no local boards)*



*Table 23 Option 4 Summary of Potential Savings (with local boards)*



This option assumes there will be eight local boards in addition to the elected council.

The estimate of the yearly cost of the local boards is taken from the paper dated 1 August 2014 prepared by the Commission CEO that an indicative cost range was $10-$12 million. This analysis has used the $10 million figure. Year 1 costs are $6.7m as this is likely to be an eight month transition period.

**Option 4 Commentary on Potential Savings**

* The major proportion of the potential annual savings is from rationalisation of corporate support costs. These total $22.7 million or about 56% of the total (based on no local boards). These savings will be reduced if it is proposed to have local boards as the servicing of the boards will incur costs.
* Savings from council activities opex and capex is expected to be around $12 million annually
* Governance and audit costs annual savings is expected to be just under $6 million.

1. Community Facilities includes libraries, pools, parks and reserves, recreation centres, toilets, cemeteries [↑](#footnote-ref-1)
2. Specialist corporate functions include legal, internal audit, performance analysts, monitoring of CCOs [↑](#footnote-ref-2)