

A Wairarapa Unitary Authority – a comparison of cost estimates and associated issues

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Executive summary

The Local Government Commission commissioned BERL to produce “an assessment of the likely levels of costs to any future Wairarapa unitary authority of undertaking the roles and responsibilities of a regional council for the Wairarapa¹”. In particular, we were asked to explain the differences in two existing sets of estimates related to Wairarapa; namely

- the PricewaterhouseCoopers (PwC) estimate of the cost of delivering current regional services in Wairarapa and
- the Martin Jenkins (MJ) estimate of the net operating cost of running a proposed WUA.

In addition, we explored the scope of the roles and activities that a Wairarapa unitary authority would need to undertake; the current scale of Greater Wellington Regional Council activities in the Wairarapa and future resource requirements.

Despite the different concepts underlying the two sets of estimates, we have compared the two as part of the larger debate on the viability of a proposed independent Wairarapa Unitary Authority (WUA).

There are significant numerical differences between the two estimates. PwC estimate the net operational cost of GWRC delivering services in Wairarapa is \$7.9 million plus public transport (\$2.6 million) by PwC. Whereas MJ estimates a deficit of \$2.0 million with a WUA in place.

The purpose of this analysis is to provide information on the key differences between the two sets of estimates. This report explains the different concepts underlying the two sets of estimates and highlights the key subject areas where the two estimates differ, as well as the assumptions inherent in each set. We also highlight some of the key issues associated with the debate and discuss the implications for levels of services and rate payments.

The two estimates are not directly comparable

The two estimates are not directly comparable due to their different areas of focus, but we note the numerical differences to assist in discussing critical assumptions. The two estimates are founded on different underlying concepts. We suggest a cautious interpretation of their numerical differences. Any comparison of the two estimates needs to be put in the wider regulatory and policy contexts in order to draw meaningful conclusions.

Key numerical differences concentrate on public transport, environmental services, forestry costs and loan repayment, cost efficiency and flood protection. This is due to different assumptions of policy framework, administrative arrangements, and the level of services required.

Overall the two estimates are insufficient for the Commission to conclude whether or not a WUA is financially viable

The two estimates offer insufficient information on the financial viability of a WUA due to several reasons: (1) the PwC is not an estimate of a WUA's financial viability; (2) MJ concludes a WUA will be viable with a net operating cost of \$2 million, but the estimate lacks in detailing the level of services required for a WUA. The MJ estimate is largely about adjusting costs to the

¹ Request for proposal from LGC, 12 August 2013.

estimates made by PwC; and (3) Also, the MJ estimate mainly reflects status quo and does not consider sufficiently likely future policy changes and capital investments.

The PwC estimate is not an estimate of a WUA's financial viability

The estimate by PwC is an allocation of the regional costs associated with the three Wairarapa District Councils. It is part of an exercise requested by Greater Wellington Regional Council (GWRC) to allocate the operational costs across the territorial authorities within the Wellington region. In this exercise, the three Wairarapa District Councils are treated as one unit. The PwC estimate is therefore not an estimate of the financial viability of a proposed WUA (unlike the MJ estimate); rather it is a reflection of the status quo at the regional level.

Gaps remain to be filled in the MJ estimate

The MJ estimate investigates whether a WUA is financially viable and concludes a WUA will be viable with a net operating cost of \$2 million. It considers the revenue and costs associated with both local and regional services. However two key issues that remain to be addressed in the MJ estimate:

- It lacks in detail the level of services required and implications for rate payments. Detailed discussion of levels of services and implications for ratepayers remain as a gap in available analysis and information. It is critical to discuss them in some detail.
- The MJ estimates have been based on adjusting the cost estimates undertaken by PwC, which reflects the costs of delivering services under current governance and is not about a WUA's financial viability. The differentiating factor is that these cost adjustments have been based on MJ's own assumptions, interpretations and selected benchmarking.

In addition, the MJ estimate adopts most of the PwC underlying assumptions in allocating costs to Wairarapa associated regional services without discussing them in detail. Although it is informative, the PwC summary of the allocation methodologies by activity area needs more details to allow for a good understanding of how the exact allocation is done and thus a good assessment whether the allocation is properly justified.

Future changes should be sufficiently considered

The MJ estimate has been based mainly on the status quo lacking exploring in detail what future changes might affect a WUA's financial viability. Likely changes in the future include future capital investments required, and associated policy changes in public transport, environmental requirements as well as policy changes due to the change of local and regional governance structures. It is challenging to take future changes into account in the overall estimate but the estimate should quantify the implications when possible. At the very least, the estimate should note the likely changes that may affect the WUA financial viability.

BERL conclusion on financial viability

BERL concludes that a Wairarapa Unitary Authority is unlikely to be financially viable in the long term.

- the best case scenario posited by the Martin Jenkins analysis, leaves a \$1.8m shortfall for the subsequent Wairarapa Unitary Authority.
 - across the approximately 23,000 rateable properties in the Wairarapa, this is the equivalent of an additional \$78 each per year.
- the PwC allocation of existing GWRC spending indicates a shortfall of \$7.9m across the Wairarapa local authority areas, or of \$10.5m if public transport spending is included.
 - this is the equivalent of an additional \$344 to \$457 per rateable property per year.
- alternatively, observing that rates across the three Wairarapa Local Authorities including GWRC rates totalled \$53.5m in 2013, these shortfalls would require
 - a rates increase of the order of 3.5% in the best case scenario
 - a rates increase in the range of 15% or 19.5% if the PwC allocations are accepted

BERL has concerns that the best case scenario is reliant on some treatments for which robust evidence is absent.

- efficiency gains are claimed in bringing together the three District Councils functions together into one authority. However
 - there is no allowance for potential reduced efficiencies with those services in the Wairarapa currently provided by GWRC being transferred to a smaller Wairarapa Unitary Authority
 - we suspect there is some double-counting of efficiency gains present in the analysis, in terms of posited efficiency gains in environmental services along with efficiency gains across all cost categories
 - it is unclear how much of the cost reduction in environmental services is related to efficiencies and how much is related to reduced service levels.
- the funding of public transport is 'isolated', with the solution requiring legislation or other administrative changes and agreements between various bodies.
- the funding of future capital spending for the Wairarapa area will be challenging given a smaller rating base.

There are a number of changes that could arguably make a Wairarapa Unitary Authority viable in the long term. These include policy priority changes, service level changes or rating changes. However, the balance of probability is that these changes are unlikely to be sufficient to enable a Wairarapa Unitary Authority to ensure

- acceptable adherence to policy
- acceptable and permissible level of services
- an acceptable level of rating increases

The fingerprint

A WUA may significantly affect rate payment through changes in delivering public transport and environmental services.

While there may be changes in rates, neither of the estimates provide sufficient information as to future rate changes should a WUA be established. Further knowledge is required for understanding the impact on rate payment. The two estimates do not contain sufficient information how public transport and environmental services, the two main categories of services up for change, will affect rate payment on both sides of the hill. The MJ estimate lacks how these services are delivered at what levels. There are also gaps in terms of how changes will happen, and how these changes will affect rate payment.

Assessing the costs of public transport and environmental services requires exploring future policy changes in detail

Public transport

The PwC estimates the current net cost for delivering the public transport services in Wairarapa is \$2.6 million. MJ assumes the current mechanism carries on irrespective of administrative changes.

There are several issues with the MJ estimate of public transport costs: (1) gaps remain to be filled in the MJ estimate in terms of the required and preferred service levels when a WUA is formed; and (2) future changes create uncertainties and may impact on the net operating cost. These changes include NZTA change of funding assistance rates, a pan-region approach with new administrative change and different charging methods on the net operating cost.

Public transport costs are significant and closely associated to rate payments. Because it relies heavily on understanding better likely future policy changes, it is challenging yet necessary to assess their impacts on the costs.

Environmental services

MJ estimate is \$1 million less than that from PwC (\$3.7 million as compared to \$4.7 million by PwC).

The MJ and PwC estimates are not comparable from the start. Environmental services in a WUA will take a totally different shape with the services both at the regional level and TA level combined. The PwC estimate only covers the environmental services currently allocated to the regional services in Wairarapa. It does not include the services at the TA level (those currently delivered by the three District Councils in Wairarapa).

MJ lacks clarity on the level of services required by a WUA. Its benchmarking against Marlborough District Council has some merit but requires further investigation. Also, MJ's assessment seems to have created certain double counting with cost efficiency gains when environmental services at both regional and local levels are amalgamated under a WUA regime.

There is scope for a detailed study of how the new administrative change would impact on the current level of services (as compared to the required level of services). In addition, the financial implications of future planning – noting likely national government requirements in terms of improved standards for water and land management projects – should form part of any financial viability assessment.

Like public transport, environmental services are complex and also depend on future policy changes (including policy changes due to the new administrative change and policy changes imposed by the Central government in relation to environmental protection and management). Any estimate should indicate the level of required services for a WUA.

A WUA will achieve cost efficiency with the aggregated services of the three District Councils, but it is unclear the size of cost savings and whether this outweighs likely diseconomies of delivering existing GWRC services separately.

MJ estimates \$2 million saved (3% cost savings of the current Opex). This item does not apply to the PwC estimate given the different focus, as discussed previously.

This is a debate that needs serious consideration in order to establish if a unitary authority would run effectively. It would be challenging to validate MJ's arguments without further evidence on whether a trade-off exists between the economies of scale of putting the three TAs together and the diseconomies (costs of delivering the existing level of GWRC for WUA) due to the separation of Wairarapa councils from GWRC. Also, MJ's argument would need to be further investigated considering all the amalgamation examples (except WUA done by Morrison Low) at a larger scale.

Cost efficiency is a significant issue in assessing the WUA financial viability and therefore has to be assessed in further details before making any sound judgement. It is challenging to reach any conclusions on the proper size of a unitary authority. This is because regions are different in many ways, ranging from topography to economic structure. This however does not discount the value of conducting detailed research of the likely sources of cost efficiency. Benchmarking can be a useful tool to understand the likely cost efficiency but the estimate has to present sufficient arguments for selecting benchmarking cases.

Forestry costs are a short-term issue. However, these costs will continue if the sale does not go ahead, which affects the WUA's long-term financial viability

MJ estimates that there are no costs in this regard (zero as compared to approximately \$2.5 million).

MJ looks at the viability issue in the long run when forestry costs and loan repayments will be gone. It may however also need to note the short-term financial risks associated with the sales process, including servicing debt and/or deficit of sale proceeds. Acknowledgement of the financial risks involved would be appropriate.

Forest costs and associated loan repayments are significant and therefore need to be addressed in detail as to how the costs should be handled. The cost estimates could consider exploring short-term and long-term scenarios and investigate the costs for each scenario. If it is a quick sale, the estimate should indicate if there will be costs to be carried over by a WUA and by how much and for how long. If the sale does not happen quickly (e.g. in the next year or two), the assessment of the WUA financial viability should consider factoring the costs associated with the management and debt into the total cost estimate.

Costs for flood protection is also significant, which requires further investigation of how it is allocated and what is planned for the future

MJ agrees with PwC on the estimate it has obtained from PwC (\$2.5 million). The difference comes from the two PwC estimates we have obtained from MJ and PwC. It is not clear to us whether or not the difference has been caused by changes in PwC's allocation methods.

The cost is significant. It therefore needs further investigation including the assumptions made for allocating the cost to Wairarapa.

The assessment should also consider the added future costs in flood protection in order to get a full picture. GWRC has several flood management projects planned in Wairarapa both in the short and long terms. It gives an indication of the extra a WUA would carry forward.

New administrative change means potential changes in regional priorities for Wairarapa, as compared to the current funding priorities in Greater Wellington. These changes may affect funding arrangements and hence a WUA's financial viability

Funding priorities may change with WUA in place. The debate needs to consider wider rates and associated spending structures in Greater Wellington, i.e. how Greater Wellington prioritises its actions across its economic, environmental and infrastructure portfolio. This will provide a better picture of how much Wairarapa is contributing to Greater Wellington. A WUA may prioritise its actions differently, which allows flexibility to fund allocations.

The likely main change in the scope of the roles and activities a WUA would undertake as a regional council concentrates in environmental services and resource management

The overall scope will not change significantly. The main areas where we will expect increased responsibilities are environmental services and managing resource consents. Again, though, the critical questions around policy changes/choices as well as service level assumptions remain unanswered. Specifying the level of services requires working with policy makers to investigate in detail the likely policy outcomes.

It is unclear what resources will be required to undertake the current scale of Greater Wellington Regional Council activities in Wairarapa over the next 20 years, which largely depend on future policy changes, particularly how the services at local and regional levels will be combined.

Estimating the resources required also depends on future policy changes. It is not certain how a WUA will deliver the required services and whether or not WUA will need additional resources to fully function as required for the next 20 years. A WUA will not only undertake most of these responsibilities but also pick up additional ones especially in environmental services and resource management.

The current contribution from Wairarapa to the costs of the Greater Wellington Regional Council compared to the expenditure by Greater Wellington Regional Council in Wairarapa, and an estimate of how this may change over the next 20 years

Allocating costs to Wairarapa is not straightforward given the services GWRC provides in Wairarapa are linked with services provided in the rest of Greater Wellington (both financial resources and staffing). Two estimates have been done for the current costs and contribution from Wairarapa to GWRC:

- GWRC estimates that the overall GWRC spend in Wairarapa for 2012/13 was \$16.9 million (excluding corporate overheads and net of external revenue) compared to a total rates contribution of Wairarapa of \$5.7 million.

- With its own allocation assumptions, PwC estimates a total of \$17.3 million for the operating costs associated with Wairarapa (excluding public transport, including interest costs) for 2011-2012, compared to the rates contribution of \$4.6 million in the same year.
- Public transport is complex. PwC provides a separate cost of \$2.6 million for delivering public transport services to Wairarapa in 2011/12.

GWRC estimates that the current costs and rates contribution may change in the future. The cost changes include changes to existing services and to future capital investments. For these future cost changes, particularly future capital investments, priorities may change with a WUA in place. This may affect the estimate of total future cost.

Future capital investments will add to the cost of a WUA performing those roles and responsibilities over the next 20 years

In addition to the operating costs, future capital investments in Wairarapa will also add to the costs for WUA. Both GWRC and Wairarapa District Councils have planned significant capital investments in Wairarapa in the year 2012-2022. However, 20 years is a long-term horizon during which policies may shift significantly. For GWRC capital investments, some may not go ahead if a new administrative structure is established. This would be subject to how a WUA prioritises anticipated capital investments. Assuming the investments will go as planned, WUA will pick up the costs of these projects. There may be further costs in investing in capital projects over an even longer term (e.g. 20 years). The extent to which WUA's rates revenue would help recover these costs requires detailed financial analysis, and further investigation on the feasibility of loan funding is also warranted.

The difference over time of the estimated costs of the regional council role being undertaken by a WUA compared to present regional costs for the region

A precise difference is not available, as it largely depends on how the cost efficiency achieved by combining the three Wairarapa District Councils balance off the likely diseconomies of delivering the services with its regional council role. The increase of required environmental services and resource management will make it more challenging for WUA to balance the trade-off.

The implications for undertaking regional council responsibilities across the remainder of the Wellington region of any reduction in scale arising from the separation of Wairarapa

The new administrative change (i.e. WUA) will require GWRC to reprioritise its work in the rest of the Wellington region. The new adjustment may require working with Wairarapa closely in services that are closely linked such as public transport and environmental services. For public transport, a collaborative approach seems to be a feasible option. GWRC will need to work with WUA to develop a mechanism to deliver the joint public transport services. For environmental services, GWRC will need to adjust and may significantly reduce its environmental services, particularly in land management, water use and flood protection. These services are largely applied to Wairarapa.

GWRC is expected to reduce its scale of services significantly. GWRC provides a rough estimate of the FTEs associated with the Wairarapa services it provides (approximately 124 FTEs). The FTEs will no longer be required for GWRC.

1 Introduction

The Local Government Commission commissioned BERL to compare the two sets of cost estimates relating to local authority services in the Wairarapa - the PricewaterhouseCoopers (PwC) estimate of the costs of delivering current regional services in Wairarapa and the Martin Jenkins (MJ) estimate of the net operating costs of running a proposed Wairarapa Unitary Authority (WUA).

The two estimates have different areas of focus. The PwC estimate is to understand the operating costs across individual territorial authority areas within Greater Wellington (including Wairarapa). It did not investigate whether or not it is financially viable to have a Wairarapa Unitary Authority independent of the rest of Greater Wellington. Whereas the Martin-Jenkins estimate is part of its viability assessment requested by the three Wairarapa district councils (through a Wairarapa Governance Review Working Party). It assesses whether or not it is viable to run a stand-alone Wairarapa Unitary Authority.

Despite their different areas of focus, the two estimates have been compared as part of the larger debate on the viability of an independent Wairarapa Unitary Authority (WUA). This has largely been due to the numerical differences between the two estimates. The net operating costs are approximately \$10.6 million for PwC and \$2.0 million by MJ respectively.

The purpose of the comparison in this report is to inform the public on the key differences of the two estimates and facilitate informed public debate and consultation. It highlights our assessment of the key areas in the two estimates but does not include our estimate of the costs, which requires additional resources over a longer timeframe.

Specifically, the report explains the different natures (or areas of focus) of the two estimates and highlights the key subject areas where the two estimates differ, as well as their underlying assumptions. We will also highlight some key issues associated with the debate and discuss the implications for levels of services and rate payment.

The report also provides a general discussion on the level of services and financial impacts as compared to the current scale of services delivered by GWRC for Wairarapa. The discussion of the level of services and financial implications will require discussing associated policy changes in detail in order to better inform the debate.

The analysis involves desktop research and consultation of key parties involved. The desktop research has been focussed on reviewing documents related to and background materials referenced by the two estimates. In comparing the two estimates and provide a general discussion of the WUA impacts, we have consulted with MJ, PwC, GWRC and three Wairarapa District councils.

We are grateful for the effort and patience these key parties have shown in explaining the different estimates and their underlying assumptions, and providing additional information we have asked for.

2 Comparing the PwC and MJ estimates

2.1 Different natures of the two estimates

2.1.1 Summary

The comparison is made between the PwC estimate of the costs of delivering current regional services in Wairarapa and the Martin Jenkins (MJ) estimate of the net operating costs of running a proposed WUA.

It is important to note that the two sets of estimates serve different purposes. This has made the comparison not straightforward. The different natures of the two sets of estimates mean that the comparison needs to be put in the wider regulatory and policy contexts in order to draw meaningful conclusions:

- PwC's estimate is to understand the operating costs across individual territorial authority areas within Greater Wellington (including Wairarapa). It is not to investigate whether or not it is financially viable to have a Wairarapa Unitary Authority independent of the rest of Greater Wellington.

The PwC estimate may function as a reference, but should not be treated as an estimate of the financial viability of a WUA. It is essentially based on a separation of existing revenues and costs associated with Wairarapa. It does not include other generic costs an independent unitary authority normally covers, such as the costs of developing a regional plan and costs of advocacy and participation highlighted in the GWRC response to the Martin-Jenkins report. In this context, the concept of cost efficiencies (economies or diseconomies of scale) is not relevant to this set of estimates.

- As requested by the three Wairarapa District Councils, the MJ set of estimates looks at whether or not a WUA is financially viable by considering the overall costs of, and revenue generation (both at local and regional levels). The MJ estimate has been done by readjusting the revenue and cost breakdowns developed by PwC. It therefore shares many assumptions with the PwC estimates. Two distinctive elements with this approach are the inclusion of local surplus/deficit (\$0.6 million in 2013-14), and 3% cost efficiency (\$2 million).

It is important to note that the MJ viability estimate has been mainly based on the 2011-12 financial results. This does not automatically translate into future viability. It is necessary to consider financial implications of potential future projects, as well as the impact of potential policy changes should a WUA be established. This will be discussed in Chapter 4.

In summary, the two estimates offer insufficient information on the financial viability of a WUA due to several reasons: (1) the PwC is not an estimate of a WUA's financial viability; (2) MJ concludes a WUA will be viable with a net operating cost of \$2 million, but the estimate lacks in detailing the level of services required for a WUA. The MJ estimate is largely about adjusting costs to the estimates made by PwC; and (3) Also, the MJ estimate mainly reflects status quo and does not consider sufficiently likely future policy changes and capital investments.

In particular, the two estimates do not contain sufficient information how public transport and environmental services, the two main categories of services up for change, will affect rate

payment on both sides of the hill. The MJ estimate lacks how these services are delivered and at what levels. There are also gaps in terms of how changes will happen, and how the rate payment can be affected.

2.1.2 The PwC approach: existing costs for regional services in Wairarapa

The PwC approach is to estimate the existing costs for services GWRC currently provides in Wairarapa. The estimate is done by allocating its total revenues, costs, assets and liabilities across the territorial authority areas included in Greater Wellington. The assessment is an estimate of the status quo at the regional level and does not involve potential policy changes when a WUA is formed.

The estimation has involved two steps:

- *Allocating costs across the territorial authority areas in Greater Wellington.* Greater Wellington includes 8 territorial authority areas. In addition to South Wairarapa, Carterton and Masterton District Councils, other territorial authority areas include Wellington city, Lower Hutt, Upper Hutt, Porirua and Kapiti. In doing so,
 - The three Wairarapa District Councils have been treated as a group in the allocation.
 - PwC uses GWRC's financial statements for the 30 June 2012 financial year in the allocation.
 - PwC provides an initial estimate of the costs and revenue across the six geographic areas. It provides an alternative estimate later with different assumptions around flood protection. The revised/alternative estimate has been requested by the Wellington City Council. The new estimate has been used to develop the breakdown costs for regional services in both PwC and MJ estimates.
- *Breaking down costs for individual regional services in Wairarapa:* once the costs and revenue have been allocated across the six geographic areas (the revised figures), PwC then breaks down the costs for individual services it provides in Wairarapa as shown in Table 2.1.

As a result, the total net cost is \$7.9 million plus public transport (\$2.6 million).

- PwC notes that the estimate is an allocation of existing costs and revenue and should not be treated as the net cost "required to provide the same level of service in each area under an alternative stand-alone governance structure".
- PwC has allocated the costs following allocation principles PwC and GWRC have jointly developed. The allocation principles have been listed as an appendix in the PwC's allocation letter to GWRC on 30 January 2013. PwC however notes that there is no "right" basis for the allocation and there are different justifiable methods, which can generate quite different results.
- PwC considers public transport costs as part of the overall cost estimate. PwC lists the net public transport cost as it considers the cost easily identifiable for Wairarapa largely due to its distinctive rail line services. It argues however that the public transport network has an

integrated nature and it would be difficult to allocate to particular TA districts the public transport revenues, costs, assets and liabilities.

2.1.3 The Martin-Jenkins approach: future financial viability for WUA

The Martin-Jenkins estimate is part of its viability assessment requested by the three Wairarapa district councils (through the Wairarapa Governance Review Working Party). It assesses whether or not it is viable to run a stand-alone Wairarapa Unitary Authority. The assessment includes both strategic and economic assessment of the governance options² and financial viability assessment where the estimate is developed.

The financial viability assessment is to investigate the costs of services a WUA would need to provide and whether there would be the surplus or deficit under the assumption of maintaining current rating income. The assessment includes not only estimating the costs and revenue provided at the wide-Wairarapa level but also local income and costs of three Wairarapa District Councils.

Overall, MJ concludes that a WUA is financially viable. Although it estimates a deficit of \$2.0 million with a WUA, MJ argues that the deficit will disappear if the WUA takes such actions such as reprioritising existing plans and seeking to achieve further efficiency gains, implementing a phased rates adjustment (rather than one-off change), or borrowing.

The actual estimation involves three steps:

- *Estimating the current incomes and costs (both at local and regional levels) without GWRC subsidy:* MJ has gone through the balance sheet of the three Wairarapa District Councils. It adds up the costs and revenues across the three councils as the status quo for the whole Wairarapa region.
- *Adjusting the costs and revenues for individual regional services with a proposed stand-alone unitary authority:* the regional services refer to the services delivered at the wider Wairarapa level. MJ readjusts the PwC estimates of the breakdown revenues and costs to obtain their own estimates. Therefore, MJ estimates in most cases share the same allocation principles with the PwC estimates³.
- *Estimating the incomes and costs (both at local and regional levels) for a proposed WUA following the adjustments:* at this step, the revenue and cost adjustments are aggregated with the current state of incomes and costs (both at local and regional levels). The net cost of 2 million reflects the net financial cost for WUA instead of the net cost of delivering the regional services for WUA.

The MJ approach does not take into account public transport costs. It assumes that the funding mechanism will remain the same regardless of future governance structure in Wairarapa and the

² The strategy and economic viability assessment investigates which one of the two main governance options: a Wairarapa Unitary Authority or a Supercity yields greater net benefits, strategically and economically, for Wairarapa. Clause 12 of Schedule 3 the Local Government Act identified that the preferred option will best promote the purpose of local government in the affected area as specified in Section 10 of the Act and facilitate improved economic performance (MJ report 2013).

³ We note here that we have obtained two sets of breakdown costs and revenues – one was directly provided by PwC and the other was provided by MJ but also developed by PwC. The two sets are similar with some minor discrepancies exist. It is not clear to us what has led to the discrepancies. It however does affect our overall assessment.

rest of Greater Wellington. Based on our conversations with MJ, it does recognise that potential policy changes may change the existing funding mechanism.

2.2 Review of the key differences

2.2.1 Summary

The chapter outlines the key numerical differences between the two estimates and is followed by a further comparison of the underlying assumptions. By comparing the numbers, the numerical differences are in the following areas:

- CentrePort dividend
- public transport
- environmental services
- forestry costs and loan repayments
- cost efficiency
- other (including democratic services)
- flood protection

Table 2.1 summarises the numerical differences between the two sets of estimates.

Table 2.1: Summary comparison of cost estimates (\$millions)

\$m	PwC	MJ	Difference (MJ-PwC)
Revenue			
Rates	4.6	4.6	0.0
CentrePort dividend	0.4	0.8	0.4
Investment/other income	1.1	1.1	0.0
Subtotal	6.1	6.5	0.4
Cost			
Land management	1.6	1.6	0.0
Flood protection	2.5	2.7	0.2
Pest control / biosecurity	1.0	1.0	0.0
Biodiversity	0.8	0.8	0.0
Environmental services	4.7	3.7	-1.0
Forestry	0.8	0.0	-0.8
Other	0.9	0.7	-0.2
Funding amenities	na	0.0	0.0
Loan repayment	1.7	na	-1.7
Cost efficiencies	na	-2.0	-2.0
Subtotal	14.0	8.5	-5.5
Operating balance (excl public transp & loc surplus)	-7.9	-2.0	5.9
Local surplus	na	0.6	0.6
Operating balance (excl public transport)	-7.9	-1.4	6.5
Public transport	2.6	na	-2.6
Admin cost for public transp	na	0.4	0.4
Operating balance including public transport	-10.5	-1.8	8.7

Note: the MJ estimate includes the costs of funding amenities (\$0.04m). The top funding is part of the regional amenities fund, a partnership across councils in Greater Wellington. The PwC estimate does not include this.

MJ adjustments

MJ has made following adjustments to the PwC estimates that have led to the key differences. In its adjustments, MJ estimates that local income will remain the same. The MJ estimate has been vague about the level of services and implications for rate changes.

On the revenue side, the only difference is about the CentrePort dividend. MJ assumes that Wairarapa's dividend will rise by \$0.4 million if the three District Councils are separated from Greater Wellington. The figure however is not significant compared to the operating cost expenditures. We will discuss this in detail in sub-section 2.2.2.

MJ divides its cost adjustments into two categories, local level adjustments and regional level adjustments. At the local level, MJ expects a total \$1.6 million saved from cost efficiency minus its envisaged administrative costs for public transport and contribution to funding amenities. At the regional level, MJ expects a total of \$3.4 million saved from removal of net forestry costs, reduced costs for environmental services and removal of democratic services costs (i.e. council membership).

Table 2.2: MJ cost adjustments (\$millions)

	Difference	Up/Down
Revenue		
CentrePort dividend	0.4	↑
Cost		
Local	1.6	
Cost efficiency	2.0	↓
Admin costs relating to public transport	0.4	↑
Contribution to funding amenities	0.04	↑
Regional	3.4	
Remove democratic services cost	0.2	↓
Reduce environmental policy, regulation and science costs	1.0	↓
Remove net forestry cost (to be sold)	2.2	↓

Note: the cost reduction for environmental services includes both regional and local costs.

Transition cost

In addition to the key differences, GWRC also note that there will be significant transition costs whereas MJ does not discuss this.

Transition cost is largely a short-term issue and it should not fundamentally affect the assessment of WUA's long-term viability. However, it should be investigated to better inform the debate.

2.2.2 CentrePort dividend

PwC

PwC estimates the revenue at \$0.4 million, assuming that the three District Councils in Wairarapa would in total receive a 10% share of CentrePort based on its relative share of the general rates.

Two main related concerns will affect the revenue generation for WUA from CentrePort:

- One is the likely loss of tax advantage. GWRC receives a tax advantage by virtue of its 76% shareholding in CentrePort. If this shareholding were diluted as a result of a transfer of some ownership to a WUA, these tax advantages would disappear. We understand that this tax advantage to GWRC would be lost should its shareholding fall below two-thirds (i.e. 66.7%).
- The other concern is associated with the loss of guarantee GWRC currently provides to CentrePort. GWRC guarantees the CentrePort debt to lower borrowing costs for the port and receives a guarantee fee in exchange for this. If GWRC shareholding was diluted it is unlikely that the guarantee would continue and that the fee to GWRC would be lost⁴. This would also result in a net increase in the costs of borrowing for CentrePort which would, in turn, affect the dividend.

Therefore, any calculation of a WUA share of GW's current total investment income (i.e. CentrePort dividend, other port income and cash investments income) therefore needs to consider the following:

- Percentage of CentrePort shares transferred to a WUA
- Impact on GWRC income through loss of current subvention payment
- Impact on GWRC income through loss of guarantee fee (shown by PwC/GWRC in its "Investment/other income" category)
- Impact on the actual CentrePort dividend by increased borrowing costs.

MJ

MJ estimates the figure is \$0.8 million, \$0.4 million more than the MJ estimate. MJ assumes that WUA is getting 15.4% of the total dividend GWRC receives. The figure is based on the share of the number of Wairarapa members in the former Harbour Board (2 out of 13).

BERL comments

Both approaches seem to be valid. However, MJ's approach would seem in principle more appropriate by following a precedent. MJ provided the report on LGC final reorganisation scheme for the Wellington region where 3/13th of the total shares were allocated to Manawatu-Wanganui using the membership formula.

There is however a few issues associated with the membership formula:

- The membership is not clear cut. It is not clear to BERL how the number 13 was decided then. The rationale for the shareholding principle is not available. There were 16 members when the former Harbour Board was disestablished rather than 13.
- Recent changes of administrative boundaries have made the MJ approach less straightforward. Two members from "Wairarapa" were elected from the Counties of Wairarapa South, Masterton, Pahiatua, Akitio, Eketahuna, Featherston, and of the Boroughs of Martinborough, Greytown, Carterton, Masterton, Eketahuna, Featherston, and Pahiatua. Areas such as Eketahuna and Pahiatua now fall within the Manawatu-Wanganui Region.

⁴ The Guarantee is based on the facility size irrespective of the size of the loan. The facility is currently worth \$150 million. The fee is variable and will be about \$500k in 2012-13.

The debate should delve into the risks associated with the change of shareholding with a WUA in place (i.e. tax advantage and guarantee). As previously noted, the tax advantage GWRC enjoys will be gone with the separation of Wairarapa from Wellington if the shareholding falls below 66.7%. This will affect GWRC and CentrePort's net revenue/cost, which may also have trickling down effect on the services GWRC delivers. Also, the loss of GWRC guarantee will mean financial loss for both CentrePort and GWRC. CentrePort will have to borrow at a higher cost, which affect the total dividend. GWRC will also lose the guarantee fee. These risks should be assessed particularly with regards to how they will affect the CentrePort Dividend.

Summary

A WUA will change the shareholding structure in CentrePort, which will bring risks that may affect CentrePort dividend. However the CentrePort dividend is not a significant number compared to such costs as public transport and environmental services.

2.2.3 Public transport

PwC

PwC estimates the net transport cost is \$2.641 million (in addition to NZTA funding). The estimate includes rail operating costs, associated debt servicing costs, costs for bus services, associated debt servicing costs, and costs for mobility services (cost of providing services for those who are unable to use public transport) less Greater Wellington reserve transfer⁵.

MJ

As mentioned in Chapter 2, MJ's estimate does not include public transport costs. It assumes no change in the current funding arrangements with a proposed WUA. Instead, it adds \$0.4 million to the estimate for the costs of establishing and maintaining the mechanism associated with taking a pan-region approach when a WUA is formed.

MJ argues that the provision of public transport services between Wairarapa and the Western area should continue for the following reasons. The first reason is that the services deliver benefits on both areas and a pan-region approach is "highly desirable". The other reason is that there is a mechanism to enable continuation of NZTA funding under a Unitary Authority option (this would need a joint arrangement between the WUA and the governing body for the western area).

BERL comments

Gaps remain to be filled in the MJ estimate in terms of the required and preferred service levels when a WUA is formed.

Future changes create uncertainties for the costs:

- NZTA has been planning to reduce its funding level from the current 50-60% to 50%. It is necessary to discuss the funding implications of this reduction for GWRC and the proposed WUA.

⁵ Not sure what this is, small number (0.145 mil with the updated estimate based on proposed 2012-13 annual plan).

- While a pan-region approach to public transport is eminently sensible, a change in the governance structure may well require legislative changes to facilitate such a pan-region approach.
- Also different methods may affect the net costs of public transport differently. Currently, GWRC charges rates based on congestion, that is, requiring payment for causing disbenefits rather than for benefits. The costs will likely be different if the charging method changes to focusing on paying for benefits on rail line between Wairarapa and Wellington City.

Summary

Public transport costs are significant and closely associated to rate payments. A pan-region approach will be feasible if there is a will. Because it relies heavily on understanding better likely future policy changes, it is challenging yet necessary to assess their impacts on the costs. We will further discuss these issues in the next section.

2.2.4 Environmental services

PwC

PwC's estimate is \$4.7 million. The environmental services include environmental science, regulation and policy.

MJ

MJ estimates the cost is \$3.7 million, with \$1 million drop from the PwC estimate. It considers the cost reduction is still conservative when benchmarked against the Marlborough District Council (MDC). The services performed by the MDC in 2012-13 are achieved at a cost of approximately \$164 per person, as compared to that of \$282 per person for WUA without the cost reduction⁶. MJ does not provide an exact number, but argues that the costs will still be well above the level in the MDC even with the cost reduction.

The estimate has been vague about the level of services associated with the cost estimates, but MJ argues that there is a case for reviewing expenditure in regulatory and planning functions to assess whether the current scope of services is appropriate in addressing the needs in Wairarapa and whether or not the provision of services is efficient.

MJ considers that MDC is a good example for benchmarking because the way in which functions are reported in its long-term plan are similar to the scope of regulatory and planning functions used in Wairarapa. Specific reasons for selecting MDC include:

- It's a unitary authority
- Same mix of functions
- Ease of comparability (they report their functions in a way that closely aligns with the Wairarapa Councils whereas other unitary authorities adopt a different segmentation)
- Fairly similar population base (45k versus about 40k)
- Fairly similar number of rateable properties (24k v 23k)

⁶ Morrison Low's estimate.

- Largely rural (no cities)
- MDC didn't look to be out of line with several other unitary authorities we looked at including Gisborne, Nelson and Tasman.

BERL comments

The MJ estimate and the PwC estimate are not comparable from the start. Environmental services in a WUA will take a totally different shape with the services both at the regional level and TA level combined. The PwC estimate only covers the environmental services currently allocated to the regional services in Wairarapa. It does not include the services at the TA level (those currently delivered by the three District Councils in Wairarapa).

In making its estimate, MJ needs to be clearer about the level of services required by a WUA. It is not clear about the level of services that renders the estimated costs. On the one hand, the WUA uses benchmarking against MDC. On the other hand, the cost adjustment has been based on the cost estimate only for delivering the regional services.

MJ's benchmarking against MDC has some merit, but will need further investigation. In its long-term plan, MDC reports the types of environmental services in a similar structure (environmental policy, regulation and monitoring as well as land management, biosecurity and biodiversity). MJ does the benchmarking with the assumption that MDC's environmental services are functioning well.

MJ's assessment seems to have created certain double counting. The cost reduction in environmental services may have been included in the cost efficiency estimate. The cost efficiency considers economies of scope by integrating the functions of three TAs together. This involves aggregating the environmental services across the three TAs and regional functions. Under a WUA scenario, the environmental services at the regional and local levels will amalgamated.

MJ argues that there is a case to assess the costs associated with the appropriate scope of services for WUA, but has been vague about the level of services associated with its estimated costs. This needs to be placed alongside the current level of services GWRC provides in Wairarapa. This comparison should highlight the differences both in terms of level of services for similar functions and new services a WUA needs to deliver (e.g. regional strategy). We however recognise that it is a challenging job to estimate the costs at a very detailed level given the uncertainty of policy changes when a WUA is in place.

MJ does not include the costs of developing a regional plan and the costs of advocacy and participation at the national level.

Summary

Like public transport, environmental services are complex and also depend on future policy changes. Any estimate should indicate the level of required services for a WUA particularly when the regional services and local services are combined. We will further discuss this subject in the next chapter.

2.2.5 Forestry costs and loan repayments

PwC

PwC's estimate appears to be \$0.8 million cost plus the \$1.7 million loan repayment. We understand that forestry constitutes the majority of the loan repayment category. GWRC argues that the sale of forestry cutting rights is still at its early stage. There is a risk that the sale may not happen, which means the WUA will service the debt at \$2 million per annum (this appears inconsistent with the \$1.7 million noted above). Even if the sale does go ahead, the revenue may not completely cover the current debt due to the forestry's soil conservation/land management roles.

MJ

MJ estimates that the cost will be zero with the likely sale of the forestry cutting rights. MJ assumes that either GWRC or future Wairarapa Unitary authority would seek to complete the sale process.

BERL comments

Both appear to be valid. MJ looks at the viability issue in the long run. It may however also need to note the short-term financial risks associated with the sales process, including servicing debt and/or deficit of sale proceeds, particularly if the sale does not happen quickly. Addressing the risks requires knowledge of the sale process and status of the negotiations. Confirmation of the current progress on the sale negotiation will provide a better sense of the costs involved for the proposed WUA.

Summary

Forest costs and associated loan repayments are significant and therefore needs to address in detail how the cost should be handled. The cost estimates could consider exploring short-term and long-term scenarios and investigate the costs for each scenario. If it is a quick sale, the estimate should indicate if there will be costs to be carried over by a WUA and by how much and for how long. If the sale does not happen quickly (e.g. in the next year or two), the assessment of the WUA financial viability should consider factoring the costs associated with the management and debt into the total cost estimate.

2.2.6 Cost efficiency

PwC

PwC's estimate is about allocating the costs and therefore does not touch upon whether is the cost efficiency issue associated with the amalgamation of the three Wairarapa District Councils. Further, although not included in its estimate, GWRC argues that diseconomies would exist due to the lack of scale in running the regional services it currently provides in Wairarapa were these to be transferred to a separate WUA.

MJ

MJ assumes 3% cost efficiency can be achieved by the proposed WUA. The cost efficiency refers to the efficiency gain in the operating costs by putting the three District Councils together. The cost reduction may come from reduced numbers of mayors, councillors and senior

managers etc. The Opex efficiency gain is \$2 million based on 3% of the sum of Opex for the three Wairarapa Councils 2013-14 (\$65.983m). The 3% figure has been developed based on various reports on the amalgamation examples quoted in the MJ report.

MJ argues that cost efficiency can be achieved through a number of mechanisms including:

- Economies through combining back-office functions
- Reducing compliance costs and delivering more effect and consistent services, in addition to reducing administrative costs
- Exercising greater buying power
- Enabling more efficient utilisation of staff

In addition, the report also discusses the likely diseconomies due to reduced economies of scale (operating at a smaller Wairarapa scale as compared to Greater Wellington) when delivering regional services in Wairarapa. The report however argues that the economy of scope by combining the functions of the three District Councils together may be more significant than economies of scale. No number is attached to the level of diseconomies.

BERL Comments

This is a debate on the proper scale for a unitary authority or WUA to be running effectively. It would be challenging to validate arguments from either side without further evidence on whether a trade-off exists between the economies of scale of putting the three TAs together and the diseconomies (costs of delivering the existing level of GWRC for WUA) due to the separation of Wairarapa councils from GWRC. There will be cost efficiency with the three TAs merged. However, diseconomies may also exist when WUA delivers the regional services currently funded by GWRC. The trade-off can be better analysed by going through the costs for delivering the services with officials on both sides (e.g. the level of services, staff members hired to deliver the services and required facilities).

MJ's argument would need to be further investigated. As noted by GWRC, all the amalgamation examples (except WUA done by Morrison Low) quoted in the MJ report are around consolidations at a larger scale. It is possible that the level of cost efficiency can be lower than what has been evidenced in those larger-scale amalgamations. The MJ report also does not address in detail why there is a low risk of diseconomies.

Summary

Cost efficiency is a significant issue in assessing the WUA financial viability and therefore has to be assessed in further details before making any sound judgement. It is challenging to reach any conclusions on the proper size of a unitary authority. This is because regions are different in many ways, ranging from topography to economic structure. This however does not discount the value of conducting detailed research of the likely sources of cost efficiency. Benchmarking can be a useful tool to understand the likely cost efficiency but the estimate has to present sufficient arguments for selecting benchmarking cases.

2.2.7 Other (including democratic services)

The difference in this category is because of different assumptions regarding the costs of providing democratic services. PwC estimate \$0.236 million for this cost. MJ argues that these costs should be removed from the WUA costing because they are no longer relevant.

The original MJ report consequently shows other costs reducing from \$1.0 million to \$0.8 million. However, our correspondence with PwC indicates that other costs (including democratic services) should be \$0.912 million. As a result, Table 1.1 shows the MJ estimate for other costs as amended to \$0.7 million.

BERL Comments

We agree with MJ that once a WUA is formed, the costs of delivering such democratic services as regional council engagement for GWRC will be gone given the single-tier arrangement.

Summary

The estimate is relatively straightforward, but it is not a significant part of the assessment similar to CentrePort dividend in understanding the WUA financial viability. We list it here to illustrate the numerical difference.

2.2.8 Flood protection

PwC's estimate is \$2.5 million as compared to \$2.7 million stated in the MJ report. The difference comes from the two different PwC estimates – one PwC provided to BERL (\$2.5 million) and the other PwC estimate used by MJ (\$2.7 million).

We understand the difference may possibly arise from different allocation scenarios and assumptions requested by Wellington City Council in response to PwC's initial allocation letter.

MJ has not made adjustments to the cost. The interview with MJ suggests that MJ accepts the cost estimation for flood protection.

BERL comments

MJ agrees with PwC on the estimate. The difference comes from the two PwC estimates we have obtained from MJ and PwC. It is not clear to us whether or not the difference has been caused by changes in its allocation methods.

Summary

These costs are significant. They therefore need further investigation including the assumptions made for allocating the cost to Wairarapa.

The assessment should also consider the added future costs of flood protection in order to get a full picture. GWRC has several flood management projects planned in Wairarapa both in the short and long terms. It gives an indication of the extra costs a WUA will carry forward.

2.3 Further discussion on public transport and environmental services

The MJ estimate provides a useful snapshot of the likely costs but lacks in detail the level of services required and implications for rates. MJ has not discussed in detail what the key differences mean for ratepayers in Wairarapa and what level of services is expected (whether or not there will be a reduction in services) with a WUA in place. Detailed discussion of the levels of services and implications for ratepayers remain an information gap.

2.3.1 Potential impacts on public transport services

The debate concentrates in a few areas:

What would be the appropriate level of services?

Questions that remain unanswered include what would be the appropriate level of services and whether or not this means a reduced level of services. MJ has assumed that the existing level of services will continue with a WUA. This may not be the case. A WUA may affect the current commuting patterns as well as people flows between the two areas. The new dynamics will have to be analysed in order to provide a solid argument on both sides.

What would a pan-region approach mean for ratepayers?

Both PwC and MJ agree that public transport services have an integrated nature and should function as an integrated system. The issue is who should be paying for this and whether or not it means rate increase for Wairarapa residents. It is clear that public transport benefits residents in both Wairarapa and the Western area. The question is whether or not the separation would mean ratepayers in the Western area carry unjustifiable burdens if the current funding structure continued. Also, the magnitude of the pan-region 'public good' benefit remains a point of conjecture.

In addition, NZTA's FAR rate regime change may also render significant impacts on rate payments. MJ expects NZTA to support the pan-region approach. However, NZTA can only partially fund it. Currently, NZTA funds between 50-60% of this expenditure depending on the funding assistance rate (FAR) category and rate. It has planned to reduce at 1% per annum until each FAR rate reaches 50%. This will mean either increasing rates to the community, reducing the level of services provided or increasing fare levels that accrue to GWRC.

Table 2.3: NZTA Financial Assistance Rates change scheme

FAR category	Change scheme
FAR for passenger rail services	<ul style="list-style-type: none"> 60% of the Approved Organisation's expenditure for providing the services for 2009-12, reducing to 50% over ten years (i.e. 59% for 2012/13, 58% for 2013/14 and 57% for 2014/15, etc) – reducing by 1% per annum until the base level of 50% is reached. Approved commitments in the 2009-12 National Land Transport Programme (NLTP) that extend beyond 30 June 2012 continue at the previously approved rate of 60%.
FAR for public transport facilities operations and maintenance category	<ul style="list-style-type: none"> 60% of the Approved Organisation's expenditure for 2009-12, reducing to 50% over ten years (i.e. 59% for 2012/13, 58% for 2013/14 and 57% for 2014/15, etc) – reducing by 1% per annum until the base level of 50% is reached. Approved commitments in the 2009-12 NLTP that extend beyond 30 June 2012 continue at the previously approved rate of 60%.

Source: NZTA

Do different charging methods matter?

Also different methods may affect the net costs of public transport differently. Currently, GWRC charges rates based on congestion, that is, requiring payment for causing disbenefits rather than for benefits. The costs will possibly be different if the charging method changes to focusing on paying for benefits on the rail line between Wairarapa and Wellington City.

2.3.2 Potential impacts on environmental services

We here refer environmental services in a broader term including environmental science, regulation and policy, land management, flood protection, biosecurity and biodiversity.

What would be the appropriate level of services?

Questions that remain unanswered include what would the appropriate level of services and whether or not a WUA means a reduced or increased level of services. The benchmarking using MDC may only provide an initial indication of the likely costs. There is scope for a detailed study of how this would impact on the current level of services (i.e the range of services required and staff requirement).

What are the financial implications of future planning?

The assessment should also consider future planning actions in the foreseeable future.

- The central government requirements of regional and unitary authorities are increasing, thus adding more costs. These may include:
 - Costs of working on non-regulatory programmes are not included in the MJ calculation. The non-regulatory approach is being discussed at the government level. This approach requires investment in working with communities and stakeholders.
 - Costs of forward work programme such as increased cost of water management due to RMA changes and costs of servicing future consents through the Board of Enquiry (BOI) process⁷. The BOI process may render significant costs for WUA but it is a decision by the Minister to determine whether or not to start the process.
- Costs for additional water and land management projects such as the development of a floodplain management plan for the Wairarapa Valley funded by GWRC in 2012/13 is not included in the MJ estimate. An indication of the future investment is discussed in the next section.
- We also understand that irrigation is a significant issue in Wairarapa. We have obtained no planning information on this matter, but it could well have significant financial implications on a proposed WUA if priorities remain unchanged.

⁷ This is a relatively new mechanism. For details of the process, please refer to the EPA website <http://www.epa.govt.nz/Resource-management/about-rm/Pages/Boards-of-inquiry.aspx>.

3 WUA's roles, responsibilities and financial implications

The discussion of the level of services and financial implications will require discussing associated policy changes in detail in order to better inform the debate. This chapter provides a general discussion to facilitate the debate. We look at the impacts of a WUA on regional priorities and the levels of services as compared to what is currently funded by GWRC.

3.1 Current costs and contributions from Wairarapa to GWRC

3.1.1 Costs and contributions from Wairarapa

Allocating costs to Wairarapa is not straightforward given the services GWRC provides in Wairarapa are linked with services provided in the rest of Greater Wellington (both financial resources and staffing). Different allocation methods affect the cost estimation differently. Staffing is also tricky, in addition to staff or contractors located in GWRC's Masterton office (who also deliver wider Wellington services), the Wellington staff are also connected to Wairarapa, delivering joint services.

The contribution from Wairarapa includes both general rates and targeted rates and levies. In addition to the rates for general purposes, transport, economic development, stadium and river management, GWRC also applies Wairarapa river schemes, catchment/drainage schemes, Bovine Tb and Possum/Predator rates to certain parts of Wairarapa. GWRC provides a snapshot of targeted rates from Wairarapa.

Table 3.1: Targeted rates contribution from Wairarapa (\$000s)

Targeted rates 2012/13	Rates (1000s)
Transport	\$700
River Schemes	\$942
Catchment / Drainage Schemes	\$385
Bovine Tb	\$255
Regional Possum Control	\$161
Stadium	\$100
Wellington Regional Strategy (WRS)	\$460
Total	\$3,003

Source: GWRC

Two estimates have been done for the current costs and contributions from Wairarapa to GWRC, which may provide an indicative scale of the cost and contribution from Wairarapa:

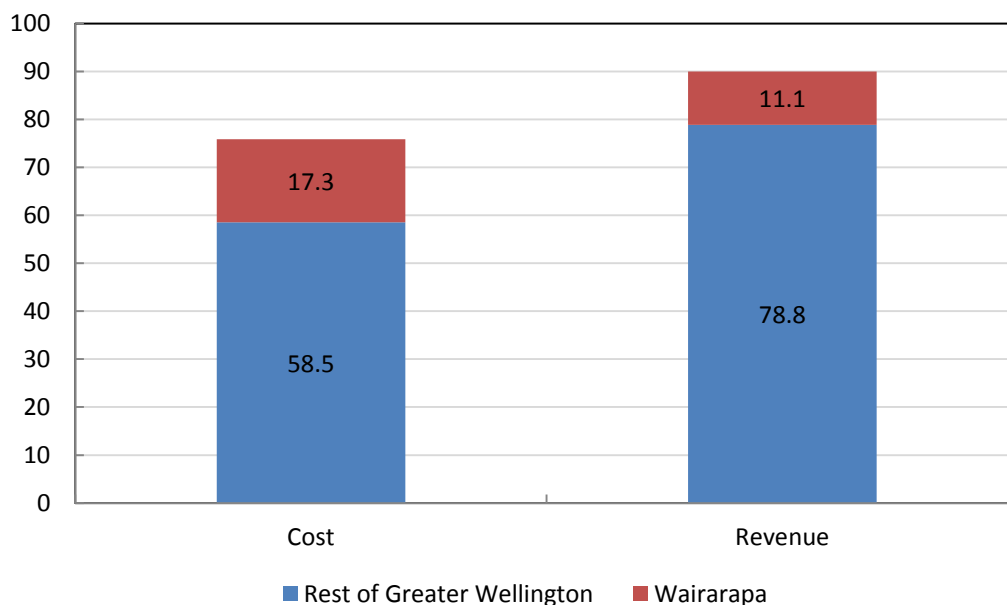
- GWRC estimates that the overall GWRC spend in Wairarapa for 2012/13 was \$16.9 million (excluding corporate overheads and net of external revenue) compared to a total rates contribution of Wairarapa of \$5.7 million.

- With its own allocation assumptions, PwC estimates a total of \$17.3 million for the operating costs associated with Wairarapa (excluding public transport, including interest costs) for 2011-2012, compared to the rates contribution of \$4.6 million in the same year.
- Public transport is complex. As noted in the earlier chapter, PwC provides a separate cost of \$2.6 million for delivering public transport services to Wairarapa in 2011/12.

3.1.2 Wairarapa versus the rest of Greater Wellington

Significant differences exist between the operating costs associated with the Wairarapa and its revenue contribution to Greater Wellington. The current costs outweigh the revenue collected for the regional services in Wairarapa (Figure 3.1). The costs refer to total operating costs including interest, but excluding public transport. The revenue includes both rates collected and external revenue, including Port dividend, grant & subsidies revenue, other investment revenue and other external revenue.

Figure 3.1 Operating cost and revenue contributions, Wairarapa versus Rest of Greater Wellington (\$millions)



Source: PwC Revised allocation letter February 2013

Also, both costs associated with Wairarapa and revenue contributed from Wairarapa are significant to GWRC. Costs associated with the Wairarapa are 22.9% of Greater Wellington costs in 2011-12, second only to Wellington City (27.8%). The Wairarapa revenue contribution 2011-12 is less significant (12.4%), following Wellington City (42.6%) and Hutt City (21.3%).

3.1.3 Mandatory versus optional regional services

Optional regional services exist for WUA. Not all services GWRC provides in Wairarapa are mandatory. WUA may choose not to deliver or amend certain levels GWRC delivers. These optional services may be closely linked to those mandatory services, therefore becoming critical

for successful delivery of the mandatory services. It requires a detailed investigation to estimate what services can be discontinued and level of services needed for WUA.

Table 3.2 provides GWRC comments on the mandatory versus optional nature of regional services.

Table 3.2: Mandatory versus optional nature of regional services

Services	GWRC comment
Public transport	Public transport is highly regulated by the new Land Transport Management Act. The level of services could be reduced but is highly unlikely given that the region operates as one network. Breaking up the network may also encounter technical issues.
Land management	Land and Environmental plans are optional but considered fundamental for erosion control and water quality management.
Flood protection	Flood management plans are not mandatory but commonly used across New Zealand to manage risk in floodprone areas.
Wairarapa water use project	It is optional but considered a high priority by GWRC.
Biosecurity	A regional council has no legal obligation to manage pests. There is flexibility for changing the level of service.
Environmental monitoring, regulation and policy	This service is highly regulated and clearly defined by the RMA and associated policies, including National Policy Statements and National Objectives Framework. Limited flexibility exists in how a regional council develops and revises policy and engages with the public.
Biodiversity	It is a mandatory responsibility under the RMA. However, it is optional to develop a regional biodiversity strategy and how the services are delivered at what levels.
Economic development	It is optional under Local Government Act 2002. Current direct support include business growth support and assistance for the Wairarapa Water Use Project and on-demand investment funding.
Sustainable transport	It is a mix of mandatory and optional activities. Activities such as promotion of sustainable transport choices and carpooling is optional and subject to funding from NZTA.
Maori relations	It is mandatory but how activities are delivered is very flexible.

Source: GWRC

3.2 Future changes in costs

As has been noted throughout this report, changes in costs (and rates) over the future are heavily contingent on decisions as to priorities and funding policies. In terms of existing priorities

and assumed funding policies, Table 3.3 provides a GWRC perspective (or snapshot) of future changes in costs.

Table 3.3: Future changes in costs

Services	Cost and rate contribution changes
Public transport	<ul style="list-style-type: none"> Cost will increase with the FAR reducing at 1% per annum The Crown interest free loan (\$26 million) becomes repayable in 2016. Most of the loan relates to the funding of the Wairarapa carriages
Land management	<ul style="list-style-type: none"> Hill Country Erosion Programme to increase by 2017/18, rates by \$63 k per year and cost by \$230k per year Land and Environmental Plans to increase by 2017/18, rates by \$120k per year and cost by \$240k per year Property Plan programmes to decrease by 2017/18, rates by \$40k per year and cost by \$115 per year
Flood protection	<ul style="list-style-type: none"> Debt servicing for FMP implementation increase from \$461k in 2013/14 to \$1,657k in 2021/22 Deb servicing for FP investigations increase from \$65.4k in 2013/14 to \$172.1k in 2012/22 Gaining consents for routine maintenance of Flood Protection structures costs \$500,000 Cost for undertaking maintenance activities, monitoring and consent compliance is \$530,000 per year Renewable of the Barrage Gates resource consent and the associated investigations required to review the Lower Wairarapa Valley Development Scheme operation is \$700,000 Cost for implementing the remainder of the Waiohine FMP: additional capital works for river management costs \$1.5 million Cost for implementing the outcomes for the Upper Wairarapa Floodplain Management Plan is \$ 6.4 million Other capital investments outlined in the LTP (see Table 3.5 for details)
Biosecurity	Rates to increase by at least \$380k per year by 2017/18.
Environmental monitoring, regulation and policy	Cost may change but it is too early to tell. It may be clearer when developing a new regional plan. The plan will involve setting water quality and quantity limits as required by the National Policy Statement for Freshwater.
Wairarapa water use	Cost may occur in the RMA consenting process but it is too early to tell. It may require pre-feasibility and feasibility studies.

Source: GWRC

3.3 WUA's role and responsibilities as a regional council

Overall, the main areas where we will expect increased responsibilities are environmental services and managing resource consents. This has been due to both recent policy developments and the population dynamics in Wairarapa. Specifying the level of services how requires working with policy makers to further investigate the likely policy outcomes in detail.

Environmental services

A WUA will have increased responsibilities in environmental services as compared to the existing administrative structure. Several developments have led to the increase:

- Policy developments such as freshwater reform seem to indicate increasing requirements for land and water management. This will increase any regional council's responsibilities.
- Population growth in Wairarapa present challenges for the region to strike balance between preserving the natural environment and accommodating needs for infrastructure facilities which tend to render adverse impacts on the environment. The population in Carterton has increased by 1,137 (16% over 2006-2013). South Wairarapa has also experienced accelerated growth (a total increase of 636, 7.2% over 2006-2013).
- A WUA may require additional staff capacity to monitor the environment and conduct research to identify and articulate issues ahead. With the separation from Greater Wellington, Wairarapa will lose an internal network of expertise in environmental science that can be utilised to deliver environmental science services. This may affect the quality of work in Wairarapa.

Resource management

Resource management responsibilities will increase regardless of the administrative changes. This again is strongly associated with the population growth in this area. There will be increased consent process associated with developing projects to accommodate population growth.

Public transport

Although public transport is the other big area of debate for new administrative change, a WUA's role and responsibilities may not change drastically if future governance on both sides of the hill agree to jointly deliver the services. Its impact will likely be more on fees and rate payment rather than actual services delivered.

3.4 Estimated future cost for a WUA to undertake a regional council role

3.4.1 Resources required to undertake current GWRC activities in Wairarapa

It is unclear what resources will be required to undertake the current scale of Greater Wellington Regional Council activities in Wairarapa over the next 20 years. A good estimate largely depends on future policy changes. With WUA, services at the regional and local levels will be combined. How the two levels of services are combined will affect the required resources and whether or not WUA will need additional resources to fully function as required for the next 20 years. Also, as mentioned earlier, a WUA will not only undertake most of these responsibilities

but also pick up additional responsibilities in environmental services and resource management. Developing policy scenarios to estimate the cost requires intensive engagement with policy makers, which could be another phase of the work.

3.4.2 Envisaged capital investments following Councils' Long-Term Plans

In addition to the operating costs, future capital investments in Wairarapa will also add to the cost for WUA. Both GWRC and Wairarapa District Councils have planned significant capital investments in Wairarapa in the year 2012-2022. However, 20 years is a long-term horizon during which policies may shift significantly. For GWRC capital investments, some may not go ahead with the new administrative change (i.e. WUA). This will be subject to how WUA prioritises these capital investments. Assuming the investments will go as planned, WUA will pick up the cost of these projects. There may be further cost in investing in capital projects in an even longer term (e.g. 20 years). WUA's revenue may help partially recover the cost but it requires detailed financial analysis on how much cost can be covered by revenue and feasible loan repayment options.

GWRC future capital investments in Wairarapa concentrate in public transport, flood protection and the Wairarapa water use project

Planned investments in public transport

Table 3.4: Future capital investments in public transport

Wairarapa Rail services capital expenditure 10 years				
Carriage heavy maintenance (includes periodic upgrades and interior fit outs)				
2013/14 to 2023/24				\$ 9,440,000
Network Renewals				
2013/14	STE - Location box renewals			\$ 85,193
	BR56			\$ 28,180
	BR65			\$ 281,856
2014/15	Sleepers			\$ 312,747
2015/16	BR49			\$ 623,750
2016/17	Track Rimutaka Tunnel			\$ 3,464,868
	BR56			\$ 387,500
2017/18	Rimutaka Tunnel communications			\$ 1,828,000
2019/20	BR63			\$ 623,750
2021/22	Track Rimutaka Tunnel			\$ 2,478,855
Railway Stations				
2013/14	Masterton electrics			\$ 39,250
2014/15	Woodside building repair / repaint			\$ 40,000
	Featherston building repair repaint			\$ 93,500
2015/16	Masterton internal structure			\$ 85,800
	Solway heritage shelter			\$ 35,000
	Carterton building repair repaint			\$ 156,500
	Masterton building repair repaint			\$ 225,000
2016/17	Carterton building repair repaint			\$ 156,500
	Masterton building repair repaint			\$ 225,000
10 year total				\$ 20,611,249

Source: GWRC

Planned investments in flood protection

Table 3.5: Future investments in flood protection in Wairarapa

	Current Year Inflated									
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Total Capex Expenditure	Total Capex Expenditure	Total Capex Expenditure	Total Capex Expenditure	Total Capex Expenditure	Total Capex Expenditure	Total Capex Expenditure	Total Capex Expenditure	Total Capex Expenditure	Total Capex Expenditure
LWVD River Scheme Capex	787,000	766,000	773,120	792,592	813,886	838,130	863,942	889,922	917,578	917,578
Waiohine rive scheme capex		300,000	2,760,000	2,826,240	0	0	0	0	0	0
Total implementation capex	787,000	1,066,000	3,533,120	3,618,832	813,886	838,130	863,942	889,922	917,578	917,578
Upper Wairarapa FMP Phase 1	461,000	300,000	100,000	0	0	0	0	0	0	0
Waiohine stopbank design	197,000	100,000	0	0	0	0	0	0	0	0
LWVD FMP Investigations				200,000	200,000	200,000	200,000			
Total investigation capex	658,000	400,000	100,000	200,000	200,000	200,000	200,000	0	0	0
Total Wairarapa capex	1,445,000	1,466,000	3,633,120	3,818,832	1,013,886	1,038,130	1,063,942	889,922	917,578	917,578

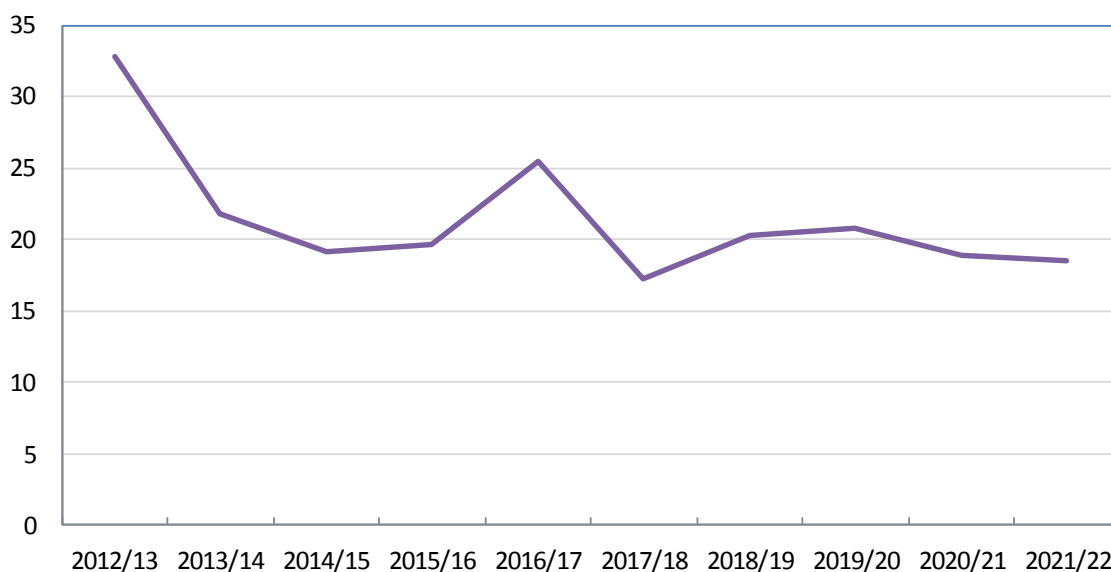
Source: GWRC

Future investments in the Wairarapa Water Use Project (WWUP)

WWUP is a regional economic initiative GWRC considers a top priority. The project may require significant cost and may seek public private partnership to meet the financial needs. However the priority may change with a WUA in place.

Major capital investments by the three Wairarapa District Councils will also add to the future cost of WUA

Future capital investments will also add to the cost of a WUA but will decrease over the 10-year period. The three Wairarapa councils have planned to invest in capital projects for the next 10 years with sewerage and roading being the two largest expenses. The total capital cost for the next 10 years is significant but will decline and then stabilise starting 2017/18. It will drop from around \$32.8 million in 2012/13 to \$18.5 million.

Figure 3.2: Future capital investments in Wairarapa 2012-2022 (\$millions)

Many key capital projects in Wairarapa will run through the next 10 years or even longer. In South Wairarapa, the major project is urban wastewater treatment with a total cost of \$6.1 million between 2012 and 2022. There is an estimated cost of \$9.3 million beyond the 10-year period. In Masterton, the two biggest projects come from urban sewerage and roading. The rural roading project runs through the 10-year period with a total estimated cost of \$25.7 million. The sewer reticulation renewals project has a total cost of \$14.1 million over the 10-year period. The reseals project in Carterton is expected to render a total cost of approximately \$5.1 million.

Short-term projects planned also render significant cost for particular years. For example, the Masterton homebush-ponds construction project with \$7.7 million for 2012/13 and 2013/14. It costs \$3.8 million to implement the other Masterton Homebush project (border strip irrigation system & Structural/Mechanical/Electrical works) in 2012/13, with an additional \$0.8 million in 2013/14.

3.4.3 Likely funding changes when reprioritising regional activities

Funding priorities may change with WUA in place. The debate needs to consider wider rates and associated spending structures in Greater Wellington, i.e. how Greater Wellington prioritises its actions across its economic, environmental and infrastructure portfolio. This will provide a better understanding of how much Wairarapa is contributing to Greater Wellington in total. Table 3.6 lists the rates contribution from Wairarapa. It is necessary to look at the overall contribution and cost in order to assess a WUA's overall financial viability.

Table 3.6: Wairarapa rates contribution in 2011-2012 (\$000s)

	Wairarapa	Greater Wellington	Share
General rates	2533	26041	10%
Targeted rates & levies	2108	37377	6%
Regional water supply levies	0	24164	0%
Regional Transport Rate	-	-	
River Rate	19	4152	0%
Stadium purposes rate	102	2676	4%
WRS rate	448	4500	10%
Bovine tuberculosis rate	138	143	97%
River Mangement plan	83	83	100%
Wairarapa scheme rate	1290	1290	100%
Warm Greater Wellington	29	371	8%

Source: PwC Revised allocation letter February 2013

3.4.4 Estimated future cost for WUA as compared to present regional cost

The difference between future cost for WUA and present region cost largely depends on how WUA will reshape its regional services function and how the services will be delivered and at what levels. As noted in Chapter 2, there is \$5.5 million difference between MJ estimate and PwC estimate (\$8.5 million for WUA as compared to \$14 million for the current service delivery). We however raised concerns as discussed in Chapter 2 about the MJ estimate of the future cost.

A critical component of the cost analysis is to determine how the cost efficiency achieved by combining the three Wairarapa District Councils balance off the likely diseconomies of delivering the services with its regional council role. The increase of required environmental services and resource management will make it more challenging for WUA to balance the trade-off.

3.5 Implications for regional council responsibilities for the rest of the Wellington region

The new administrative change (i.e. WUA) will require GWRC to reprioritise its work in the rest of the Wellington region. The new adjustment may require working with Wairarapa closely in services that are closely linked such as public transport and environmental services.

Public transport is a key area of concern with the administrative change. A collaborative approach seems to be a feasible option. GWRC will need to work with WUA to develop a mechanism to deliver the joint public transport services. The mechanism may involve agreeing on the form of collaboration (e.g. whether it is going to take the form of a Council Controlled Organisation or not), how the cost can be recovered through rate contribution and fares, what cost rendered by the joint approach mean for ratepayers on both sides of the hill), how to address financial challenges of NZTA's FAR reduction, and what level of services will be delivered between the two areas etc.

Environmental services are the other key area that the GWRC would need to adjust should a WUA be established. GWRC will need to adjust and may significantly reduce its environmental

services, particularly in land management, water use and flood protection as these services are currently largely applied to Wairarapa.

GWRC would be expected to reduce the scale of its operation and services significantly. GWRC provided a rough estimate of 124 FTE employment positions associated with the Wairarapa services it provides. GWRC has a total of 485 full-time employees as of 30 June 2013. This may well FTEs will no longer be required for GWRC. The estimate does not contractors. The services contractors deliver will also be gone.

Table 3.7: Number of GWRC FTEs for Wairarapa

Department	FTE estimate
Maori relations	0.5
Communications	1
Corporate and Transport Planning	0.2
Land Management and Forestry	13
Biodiversity	5
Flood Protection	17.8
Human Resources, Health & Safety	1.75
Catchment management specialist	1
WWUP	4
PT Bus & Project Planning & Customer service	0.35
PT Rail Ops and business	1.34
Environmental regulation	13.9
Environmental policy	7.3
Environmental science	18.5
Environmental support	4.9
Harbours	0
Parks	0
Biosecurity & bioworks team	16.5
Catchment Management finance	8.6
Democratic services	0.5
Strategic planning	1
Sustainable transport	1
Emergency Management	1.5
Finance	1
IT	3
Water supply	0
Total	123.64

Source: GWRC

4 Conclusions

This report compares two sets of estimates related to costs associated with the three Wairarapa District Councils and highlights several key issues associated with assessing the financial viability of a proposed Wairarapa Unitary Authority.

The two sets of estimates have different areas of focus. The different focus areas of the two estimates ask for a cautious interpretation of their numerical differences. Any comparison of the two estimates needs to be put in the wider regulatory and policy contexts in order to draw meaningful conclusions.

Key numerical differences between the two estimates concentrate in public transport, environmental services, forestry cost and loan repayment, cost efficiency and flood protection. This is due to different assumptions of policy framework, administrative arrangements, and the level of services required.

The report also provides a general discussion on the level of services and financial impacts as compared to the current scale of services delivered by GWRC for Wairarapa. The discussion of the level of services and financial implications will require discussing associated policy changes in detail in order to better inform the debate.

The report highlights several key issues associated with the debate, particularly impacts on rate payments:

- Public transport services – need to detail the appropriate level of services, a pan-region approach in the context of the NZTA change of funding assistance rates and impacts of different charging methods on the net operating cost.
- Environmental services – scope for a detailed study of how the new administrative change would impact on the current level of services (as compared to the required level of services). In addition, the financial implications of future planning – noting likely national government requirements in terms of improved standards for water and land management projects – should form part of any financial viability assessment.
- Future capital investments – needs to consider planned capital investments in Wairarapa in GWRC and the Wairarapa Councils have planned. GWRC has planned to invest in projects in public transport, flood protection and Wairarapa Water Use Project. The three Wairarapa councils have also planned to invest in capital projects for the next 10 years with sewerage and roading being the two largest expenses.
- Regional priorities – need to consider rates and associated wider spending structures in Greater Wellington, i.e. how Greater Wellington prioritises its actions across its economic, environmental and infrastructure portfolio. This will provide a better picture of how much Wairarapa is contributing to Greater Wellington in total. A WUA may prioritise its actions differently, which allows flexibility to fund allocations.

BERL conclusion on financial viability

BERL concludes that a Wairarapa Unitary Authority is unlikely to be financially viable in the long term.

- the best case scenario posited by the Martin Jenkins analysis, leaves a \$1.8m shortfall for the subsequent Wairarapa Unitary Authority.

- across the approximately 23,000 rateable properties in the Wairarapa, this is the equivalent of an additional \$78 each per year.
- the PwC allocation of existing GWRC spending indicates a shortfall of \$7.9m across the Wairarapa local authority areas, or of \$10.5m if public transport spending is included.
 - this is the equivalent of an additional \$344 to \$457 per rateable property per year.
- alternatively, observing that rates across the three Wairarapa Local Authorities including GWRC rates totalled \$53.5m in 2013, these shortfalls would require
 - a rates increase of the order of 3.5% in the best case scenario
 - a rates increase in the range of 15% or 19.5% if the PwC allocations are accepted

BERL has concerns that the best case scenario is reliant on some treatments for which robust evidence is absent.

- efficiency gains are claimed in bringing together the three District Councils functions together into one authority. However
 - there is no allowance for potential reduced efficiencies with those services in the Wairarapa currently provided by GWRC being transferred to a smaller Wairarapa Unitary Authority
 - we suspect there is some double-counting of efficiency gains present in the analysis, in terms of posited efficiency gains in environmental services along with efficiency gains across all cost categories
 - it is unclear how much of the cost reduction in environmental services is related to efficiencies and how much is related to reduced service levels.
- the funding of public transport is 'isolated', with the solution requiring legislation or other administrative changes and agreements between various bodies.
- the funding of future capital spending for the Wairarapa area will be challenging given a smaller rating base.

There are a number of changes that could arguably make a Wairarapa Unitary Authority viable in the long term. These include policy priority changes, service level changes or rating changes. However, the balance of probability is that these changes are unlikely to be sufficient to enable a Wairarapa Unitary Authority to ensure

- acceptable adherence to policy
- acceptable and permissible level of services
- an acceptable level of rating increases

