

Response to the LGC's Draft Proposal for Reorganisation in the Wellington Region

February 27th, 2015

A Joint Submission from:

Carterton District Council

Hutt City Council

Masterton District Council

South Wairarapa District Council

Foreword

The residents of Wellington and the Wairarapa do not want a single council for the two regions. Numerous surveys over several years demonstrate that clearly.

We have always said we will support the views of our communities. We strongly favour smart change for the Wellington and Wairarapa regions.

The Local Government Commission (LGC) has statutory obligations under the Local Government Act 2002 (the Act) to promote:

- cost-effective delivery of (local government) services;
- local democracy; and
- improved (regional and local) economic performance.

The Draft Reorganisation Proposal (DRP) for Local Government in Wellington is deeply flawed. This is because the proposed super-city:

- would not, in the LGC's own assessment, be the most cost-effective means of delivering local government services;
- undermines rather than promotes local democracy by transferring power and decision-making away from the local communities; and
- is not supported by any evidence indicating a super-city will materially change the prospects for the Wellington regional economy.

We absolutely support and promote change where the change makes sense and is backed by the local communities. Such smart change could include two options which the LGC has rejected without good reason: having a single unitary authority in the Wairarapa and investigating the integration of the public transport and roading systems across the Wellington and Wairarapa regions.

We wish to be heard in support of this written submission and contact details can be found at the end of the submission.

This submission is made by the following:

Carterton District Council;
Hutt City Council;
Masterton District Council; and
South Wairarapa District Council.

The concerns raised in this submission are supported by Wellington City Council and Upper Hutt City Council.

Contents of the application

| | |
|---|----|
| Foreword | 2 |
| 1. Executive summary | 4 |
| 2. The LGC's proposal | 5 |
| 3. What is the problem?..... | 6 |
| 4. Determining a preferred option..... | 8 |
| 5. Wairarapa - a reasonably practicable option? | 13 |
| 6. Conclusions | 20 |

1. Executive summary

This submission is from four councils of the Wellington and Wairarapa regions. The councils are Carterton District Council, Hutt City Council, Masterton District Council and Wairarapa District Council.

Wellington City Council and Upper Hutt City Council support the concerns raised in this submission.

We are united in our concerns about the serious adverse implications for local democracy and the people of the Wellington and Wairarapa of the Local Government Commission's (LGC's) draft proposal of establishing a super-city. As numerous surveys have consistently shown, the people in our communities do not support a super-city.

1.1 Weaknesses in the LGC's proposal

The LGC's draft proposal is fundamentally flawed because:

- the draft proposal does not identify significant problems with the current structure and performance of local government in the greater Wellington and Wairarapa regions;
- the linkages between the problems the LGC identifies – e.g. ageing population, ageing infrastructure – and the solution the LGC comes up with are weak;
- the LGC has rejected a single unitary authority in the Wairarapa when it clearly meets the legislative criteria of being a reasonably practicable option;
- the LGC fails to apply the criteria it is required to use under the legislation when determining its preferred option. Instead, the LGC has designed its own criteria that justify its apparent pre-determined position of rolling out “super-cities” across the country;
- the LGC's solution – one unitary council for the Wellington and Wairarapa regions with local boards – is a high-cost, high-risk strategy. The LGC's own financial analysis ranks it fifth of the eight options in its assessment;
- the LGC's solution undermines local democracy – the local boards will have limited budgets and responsibilities and are subservient to the central council. The regions of Wellington and rural and provincial Wairarapa are too diverse and too far apart to be adequately represented by a single large council headquartered in downtown Wellington;
- amalgamating the councils across the Wellington and Wairarapa regions will be a highly costly exercise with little or no evidence of benefit. Even on the LGC's figures, the costs of transition will exceed \$200m. The experience with large-scale council amalgamations in Auckland and overseas suggests the costs of the change will be greater and the benefits fewer than anticipated by those promoting change;
- the experience in Auckland demonstrates the risks with a super-city, with rates and debt rising rapidly and the Council's costs seemingly out of control. For example, in the last two years, the number of staff employed by Auckland Council earning over \$100,000 has increased by 53%; and

- there are other, smarter solutions that involve less change, less risk and greater benefits.

The LGC's report lacks credibility. The draft proposal continues the LGC's track record of recommending a 'super-city'-type solution regardless of the local circumstances. The report is also unbalanced: it provides no evidence to demonstrate that its preferred option meets the statutory criteria; it omits a key word – that of "local" – from the statutory criteria of "democratic local decision-making" when assessing the options;¹ it contains numerical errors that have had to be subsequently corrected by the LGC;² it provides a partial and misleading summary of its own consultant's report;³ and it omits highly relevant official data.⁴

1.2 Smart change

The councils in the Wellington and Wairarapa regions are undertaking and promoting smart change. This change involves:

- continuing to work together in areas where we already collaborate actively including freshwater supply, wastewater and sewerage disposal, economic development and emergency management;
- uniting the Masterton, Carterton and South Wairarapa district councils and establishing a single unitary authority in the Wairarapa, as sought by the three Wairarapa councils in their joint application to the LGC. This option clearly meets the criteria in the legislation of being a practical option and is the option preferred by the vast majority of people in the Wairarapa;
- further integration of network services across the Wellington and Wairarapa regions in areas like public transport and roading so that key infrastructure projects can be progressed rapidly and efficiently for the benefit of the region as a whole;
- permitting people in each community to determine the local government arrangements that work best for them; and
- investigating other options for smarter governance across the region.

2. The LGC's proposal

The LGC's proposal involves a single unitary council encompassing the Wellington and the Wairarapa regions. There would be one Mayor with 21 Councillors. There would be eight local boards, a Maori board and a Natural Resources Management Committee.

¹ Refer section 4.2 below.

² In December 2014 the LGC incorrectly estimated the transition costs to be \$184m. In February 2015 this figure was amended to \$210m. Experience suggests the true costs will be much higher.

³ For example, the Draft report, quoting a BERL study states that the Wellington economy has been performing below the national average but fails to include the BERL caveat that the differences are marginal.

⁴ The report claims that the Wellington economy has been underperforming but official statistics show that Wellington's per capita GDP is well above the national average and that per capita GDP in Wellington has grown faster than that in Auckland over the seven years for which the data is available (refer section 3 of this submission).

In our assessment of the LGC's proposal we follow the key principles of good public policy design. Does the LGC's draft proposal:

- define the problem it is seeking to address;
- apply the criteria it is required to by statute when assessing the options; and
- provide an evidence-based recommendation for its preferred option?

3. What is the problem?

The perceived problem the LGC is seeking to address is not clear.

Wellington is a vibrant city. The 2014 Quality of Life survey rated Wellington as the number one place to live in the country based on resident responses. The 2013 census indicated that Wellington had the most highly educated workforce in New Zealand. The city regularly receives high ratings from internationally respected commentators.⁵

The LGC's Draft Proposal, however, quotes selectively from a BERL report to seek to demonstrate that the Wellington economy is performing poorly. The LGC's Volume 1 bluntly states:

“In the ten years to 2013, Wellington Region performed worse than the national economy on all indicators except employment growth and business unit growth.”⁶

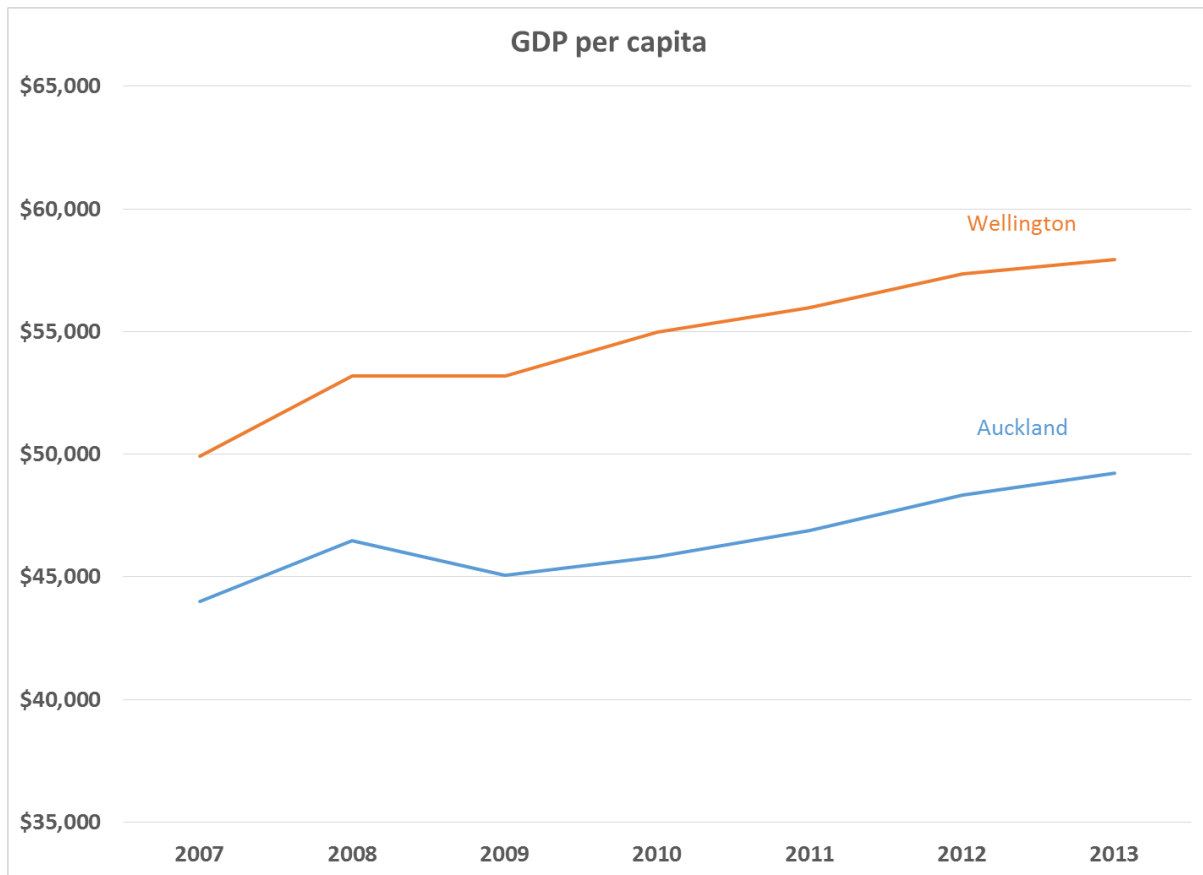
It is not till Volume 2 that the caveat that BERL puts on its statement that “the difference is marginal” is noted.⁷ To the extent that Wellington's performance has been below average at periods is largely due to cyclical reasons (e.g. surrounding different central governments' preferences for increasing or decreasing government spending) and measurement issues (Wellington is largely a services-based economy and productivity improvements in services, while real, are notoriously difficult to capture in macro-economic statistics).

Further, the BERL economic indicators are partial in themselves. Most notably, they do not refer to the official Statistics NZ data on regional GDP. The graph below presents the relative economic performance (as measured by GDP per capita) of the Wellington and Auckland regions over seven years for which official Statistics NZ data is available (2007 to 2013).

⁵ For example, Vogue magazine recently called Wellington the “coolest little city in the world”. In Lonely Planet's 2011 'Best in Travel', Wellington was named the fourth best city in the world and “it might just be the best little capital in the world”.

⁶ LGC (2014) – *Draft Proposal for Reorganisation of Local Government in Wellington, Volume 1*, p.8.

⁷ LGC, op. cit., Vol. 2, p.32.



The official Statistics NZ regional GDP data show clearly that:

- Wellington's GDP per capita (\$58,000) is higher than the national average (\$48,000) and higher than Auckland's (\$49,000);
- Wellington's total GDP has grown slightly slower than Auckland over the last seven years (3.3% p.a. vs 3.5% p.a.); while
- GDP per capita has grown faster in Wellington than in Auckland (2.5% p.a. vs 1.9% p.a.).

The draft proposal also asserts that the region is facing an oncoming wave of unbudgeted water, wastewater and sewage infrastructure renewals. This is untrue and the LGC is simply scaremongering. Wellington Water and the Wairarapa councils manage a steady programme of replacing and upgrading pipes as required based on examination of their condition.

The LGC reports that \$1,769m+ will be required to fund pipe replacements over the next 30 years. It is suggested that these replacements are largely unbudgeted. However, the Commission reports a renewals and replacement budget of \$587m⁸ which only applies to the next ten years of replacements. The Commission disingenuously presents a 10-year budget alongside a 30-year asset renewal requirement. This is not an indication that there is a major funding deficit.

⁸ LGC, op. cit., Vol. 2, p.69.

The LGC indicates that 50% of water pipes and 40% of wastewater pipes are in need of replacement across the region. These numbers are presented by MWH in a report on asset conditions across the region and they are very misleading as presented in the LGC's draft proposal. In MWH's assessment "poor-quality pipes" are defined as "asbestos cement pipework or other 'poor to very poor' condition pipework". It is incorrect that all asbestos pipework is in poor to very poor condition. Some of the pipework "in need of replacement" may not actually require replacing for another thirty years; only 1%-2% of pipework needs replacing at the present time.

Another problem that is sometimes pointed to with the status quo is a perceived lack of co-operation between councils in the region. The LGC acknowledges, however, that there is a relatively high level of co-operation between the councils in the Wellington and Wairarapa regions already. For example:

- the Wellington councils share water services, from collection to delivery;
- a combined Wellington Region Economic Development Agency has been established;
- there is an integrated emergency management plan and office; and
- there are numerous other examples of shared services, such as the Silverstream and Spicer landfills; animal services etc.

The main area where better co-operation is needed is roading and public transport. We, the councils submitting this joint submission, are committed to integrating these activities across the region.

4. Determining a preferred option

The criteria that the LGC must follow in determining its preferred option are clearly laid out in the Local Government Act 2002.⁹ The three criteria the LGC must use are which option best promotes:

1. democratic local decision-making;
2. efficient, effective, and appropriate delivery of local infrastructure, services and regulation (cost-effectiveness); and
3. improved economic performance in the affected area.

The LGC, however:

- amends the first key legislative criteria by omitting the key word "local", both when it quotes the legislation¹⁰ and when it applies the criteria;¹¹ and
- devises its own complicated set of assessment criteria that encompass the following criteria: "communities and issues"; "democratic decision-making" (note not "democratic *local* decision-making"); "improved economic performance"; "achieving the objectives of other

⁹ Local Government Act 2002 Schedule 3, clauses 11(8) and 12(1), and section 10(1).

¹⁰ LGC, op. cit., Vol.2, p.110.

¹¹ Ibid, pp. 157 – 169.

legislation”; “improved provision of core services”; and “overall savings and cost of transition”.

While some of the LGC’s own criteria relate to the three statutory criteria, the LGC has not done the simple and clear task that Parliament requires it to do. It has interpreted and applied the criteria in a way that favours amalgamation.

We, therefore, assess below the LGC’s options against the three criteria the LGC is required by statute to follow. Our conclusion, using the three statutory criteria, is in favour of a markedly different option to the option the LGC proposes. Indeed, it is difficult to see how the LGC could conclude in favour of a super-city if it followed the criteria Parliament lays out.

4.1 Local democracy

As noted above, the LGC has presented an unbalanced report. It has omitted the key word “local” from the critical part of its assessment of the options for local government.

This omission allows the LGC to reach unbalanced and erroneous conclusions. For example, it allows the LGC to conclude that the option of a super-city without local boards would score better under the criterion that is ostensibly about local democracy than the current situation of eight territorial authorities spread across the Wellington and Wairarapa regions.

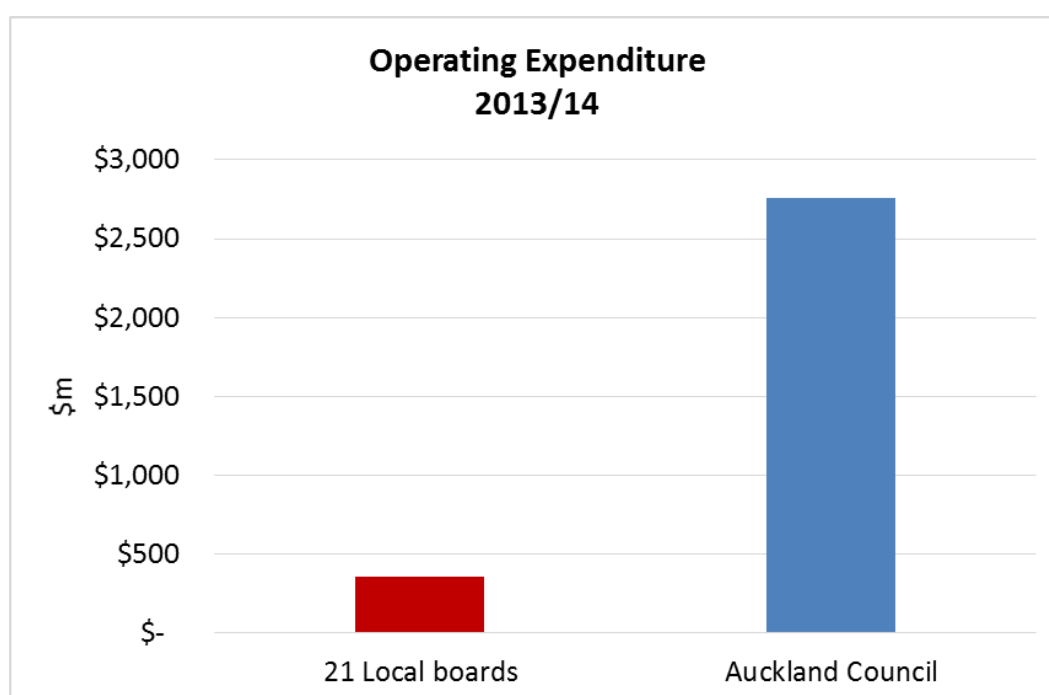
A proper assessment of the options against the “democratic local decision-making” criterion makes it difficult to see how the LGC proposal promotes local democracy:

- nine local councils are being merged into one super-city;
- local boards are established which will hold very limited budget and power, and the few non-regulatory decisions they can make are “subject to approval” from the central council;
- New Zealand already has councils that are relatively large by western standards and the proposed amalgamation will increase the size further;¹²
- councillors will be more distanced from the people they represent;
- key policy decisions on local government activities and services will be made by a council in the Wellington CBD remote from rural areas; and
- if a Wellington super-city is established, almost half the country’s population will be governed by two councils.

¹² New Zealand has an average population per council of 67,000 people. This is larger than almost all other Western nations. England and Wales have an average of 123,000 people per municipality but all other countries in Europe have a lower ratio than New Zealand with France and the Czech Republic as low as 1,300 and 1,700 people respectively. Australia sits at around 37,000 people per local council and in the USA there is fewer than 9,000 people per local government entity. Refer TDB Advisory (2013), *Governance Options for the Wellington and Wairarapa Regions: An Economic and Financial Assessment*, <http://tdb.co.nz/documents/050813-TDB-assessing-regional-governance-options.pdf>, p. 26.

Under the LGC's proposal, local boards are seen as preserving local democracy. However, the local boards would have very little power relative to the Councils they would replace (refer Schedule C of the LGC's report). In particular, local boards would have:

- no ability to raise rates, other than from minor local revenue sources;
- no ability to own property;
- no ability to raise debt;
- no regulatory decision-making powers; and
- very limited budgets. As the graph below highlights, in Auckland the combined budgets of all 21 local boards account for less than 15% of the Auckland Council's budget and even then the boards have little discretion over the use of their budgets.



Source: Auckland 2013/14 Annual Report.

Even on matters of local bylaws the local boards' powers would be restrained. The local boards would be able to identify and develop local bylaws and make proposals to the council but it would be the council that makes the final decisions.

Two examples can be used to illustrate the likely decision-making powers of the local boards in practice:

- in relation to swimming pools, the super-city Council would decide how many swimming pools there are and where they are located. The local board may decide what hours a pool is open; and
- in relation to heritage policy, the super-city Council would decide policies (such as whether heritage listing is compulsory) and which properties would be listed in the Annual Plan and a local board may identify possible heritage sites.

The Council may decide to allocate decision-making responsibility on a range of local issues (e.g. in the development of local plans) but the decisions are subject to the Council's control. Further, all such delegated powers are able to be revoked by the Council if it chooses.

There has been growing dissatisfaction with the way Auckland Council has been performing in terms of 'local democracy':

- all 21 boards wrote to the Mayor late last year expressing their dissatisfaction with local funding cuts, their lack of voice and policies that have ignored local board feedback;
- the North Rodney community has applied to the LGC formally to be separated from Auckland Council (this is the subject of a High Court proceeding);
- the Waiheke community has indicated that it would like to do the same; and
- there is a huge number of submissions against the Proposed Auckland Unitary Plan which applies 'one-size-fits-all' type rules across diverse areas.

4.2 Cost-effectiveness

The LGC's own financial analysis indicates a super-city does not meet the statutory criteria of being cost-effective. As the table below indicates, the LGC's preferred option of a single council with local boards ranks fifth of the eight options examined by the LGC.

| Option | Net benefits (NPV, \$m) | Payback period (years) | Transition costs (\$m) |
|--|----------------------------|---------------------------|---------------------------|
| Stronger Regional Delivery | 199 | 5 | 129 |
| One Wellington Council (no boards) | 154 | 7 | 209 |
| One Western TA | 143 | 5 | 95 |
| Three TAs | 136 | 6 | 179 |
| One Wellington Council (with local boards) | 58 | 9 | 210 |
| One Hutt Valley TA | 8 | 10 | 52 |
| One Wair, one HV plus WCC, PCC, KCC | 7 | 12 | 84 |
| One Wairarapa TA | -13.7 ¹³ | 25 | 32 |

¹³ The LGC has grossly overestimated the IT costs of transition for the Wairarapa. This issue is discussed in Section 5.2.1 below.

In December 2014, the LGC incorrectly reported the transition costs of its preferred super-city option to be \$184m. In February 2015, this figure was corrected to \$210m.

The super-city is a high-risk option as it has the highest transition costs at \$210m of any of the options and it is projected to take nine years before the benefits start to outweigh the costs. In fact, experience with council amalgamations in New Zealand and overseas indicates the costs are likely to be higher than projected and the benefits lower.

For example in Auckland:

- one Auckland IT project budgeted to cost \$70m and completed by June 2016 has an updated estimated cost of \$140-\$170m and a 12-month delay;
- the hoped-for efficiency improvements in Auckland have not been realised yet. Instead, rates and debt levels are rising rapidly; and
- one of the key areas where cost savings were expected were in reduced personnel costs. Rather than generate savings Auckland Council has experienced significant increases in its staffing expenses:

| Auckland Council | Staff numbers | Staff costs |
|-----------------------|------------------|------------------------|
| ATA projection (2009) | Decline by 1,200 | Decline by \$100m p.a. |
| Outturn (2014) | No change | Increase by \$90m p.a. |

The amalgamated Auckland Council may only have a single CEO to pay, but the number of staff paid over \$100,000 a year has risen by an incredible 53% over the past two years. The wage bill today is \$190m higher than the Auckland Transition Agency had hoped.

The Commission's analysis also ignores the perverse incentives resulting from amalgamation:

- prior to an amalgamation, territorial authorities are incentivised to borrow and spend up on their local communities as assets and debt are simply pooled together following the merge;
- 'service creep': prior to an amalgamation, councils will have a variety of service levels for different council functions. Once the amalgamation takes place it is very difficult to reduce service levels in communities that have become used to them. It is also difficult to justify varying levels of service across the region under a single unitary authority. Therefore, the new super-city is encouraged to roll out the highest-quality, most-expensive service levels region wide;
- 'wage and salary creep': similar roles across territorial authorities may have varying levels of compensation. Once a super-city is created though it is very difficult to reduce people's wages. In order to normalise wages they tend to increase to the highest level; and
- competition is lost and the incentive to innovate is weakened as the super-city council will have no other councils in the region to compete with for residents and businesses.

4.3 Economic performance

No evidence is presented by the LGC of a relationship between the structure of local government and a region's economic performance. This is not surprising because the drivers of economic performance are largely outside the control of local government.

Council policies matter. But what evidence is there that bigger councils will have better policies leading to better economic performance over time?

In theory, a single unitary plan might mean lower compliance costs and lower rates but this has not been the experience of Auckland, with a 7000-page draft Auckland Unitary Plan (including appendices). Such a plan is incredibly complex and time-consuming and expensive to create.

Moreover, contestability of policy decision-making between councils is lost when local governments are amalgamated.

As noted in section 3 above, Wellington is already doing well in such key measures of per capita income, rates of business formation and high technology exports. A super-city with less flexibility and years of difficult transition may have a negative impact on the region.

Finally, we note the important financial impacts on local communities that would arise with a super-city. The LGC notes that residents in the Wellington region will see their rates rise with a super-city as the current cross-subsidy they receive from the CBD area is spread across the region as a whole. But this is only half the story. In Auckland, some communities have seen their rates increase by 10% p.a. in each of the last three years and they are still facing continued large rises. Moreover, the super-city proposed by the LGC will not have debt ring-fenced, despite the fact that regions like Hutt City and Upper Hutt have strong infrastructure that is more than adequately funded with their current low debt levels.¹⁴

5. Wairarapa - a reasonably practicable option?

5.1 Introduction

This section of our submission considers whether a separate unitary authority in the Wairarapa region is a "reasonably practicable option", as is required by the Local Government Act.

5.2 The statutory criteria

The statutory criteria, under the Local Government Act 2002, for a Wairarapa unitary authority to be a reasonably practicable option are:

¹⁴ Refer to the evidence provided in the respective submissions of Hutt City and Upper Hutt.

“The Commission must be satisfied that any local authority proposed to be established or changed under a reasonably practicable option will-

- a) have the resources necessary to enable it to carry out effectively its responsibilities, duties and powers;
- b) have a district or region that is appropriate for the efficient performance of its role;
- c) contain within its district or region one or more communities of interest, but only if they are distinct communities of interest; and
- d) in the case of a regional council or unitary authority, enable catchment-based flooding and water management issues to be dealt with effectively by the regional council or unitary authority.”¹⁵

We evaluate below a separate Wairarapa unitary council against each of the four statutory criteria.

5.2.1 Will it have the necessary resources?

A Wairarapa unitary would be of a very similar scale to the existing four unitaries in rural and provincial New Zealand. There is no reason to believe a Wairarapa unitary would have any less access to resources than these four unitaries that serve similar-sized populations, often in rural areas. Other than Nelson, the other existing unitary councils have noticeably larger areas to cover than Wairarapa.

| Region | Population 2014 |
|-------------|-----------------|
| Wairarapa | 42,800 |
| Tasman | 49,100 |
| Marlborough | 44,800 |
| Gisborne | 47,100 |
| Nelson | 49,300 |

Source: Statistics New Zealand

Firstly, and most importantly, we note the LGC has significantly overestimated the transition costs of establishing a combined council in the Wairarapa. In the LGC’s report, the IT costs for establishing a Wairarapa territorial authority are forecast to be \$25.5 million. However, all three Wairarapa councils are already largely on the same IT system. The LGC dismissed a Wairarapa unitary authority as a viable option and so did not provide a cost estimate for establishing one. However, the \$25.5m IT cost estimate for establishing a territorial authority is a gross overestimate.

A written estimate received by South Wairarapa District Council from local government back-office specialists NCS Chameleon gives a cost estimate of \$300k to \$500k for amalgamating the three Wairarapa councils’ ICT systems. While this estimate does not include the integration of regional council data, the overall ICT transition cost will be under \$1 million. On this basis the financial payback period of a Wairarapa unitary authority, would be five to six years, not the 25 years estimated in the LGC report.

¹⁵ Local Government Act, 2002, Schedule 3, Section 11 (5).

According to the draft proposal, the Wairarapa unitary authority may struggle to attract the skills and expertise necessary to carry out the regional council's operations because of a lack of skilled specialist workers in the Wairarapa.¹⁶ However, this concern does not stand up to scrutiny. The Wairarapa unitary would be able to obtain the necessary skills in a variety of ways, including by:

- engaging the current pool of personnel employed by the Regional Council in the Wairarapa;
- recruiting from outside the Wairarapa, including from Wellington, the Manawatu and the Hawkes' Bay;
- entering into shared services arrangements/contracts with the neighbouring regional/unitary authorities for specialised services; and
- by contracting specialised consultants where necessary in the same way the GWRC does currently.

The draft proposal also asserts that a Wairarapa unitary would not have the capacity to carry out future cumulative capital expenditure of \$250 million as a unitary authority. However, the draft proposal states that, "none of the Wellington councils is in financial difficulty. All operate within the bounds of accepted financial prudence and most (but probably not Kapiti Coast) have continued headroom for borrowing if that should prove necessary".¹⁷

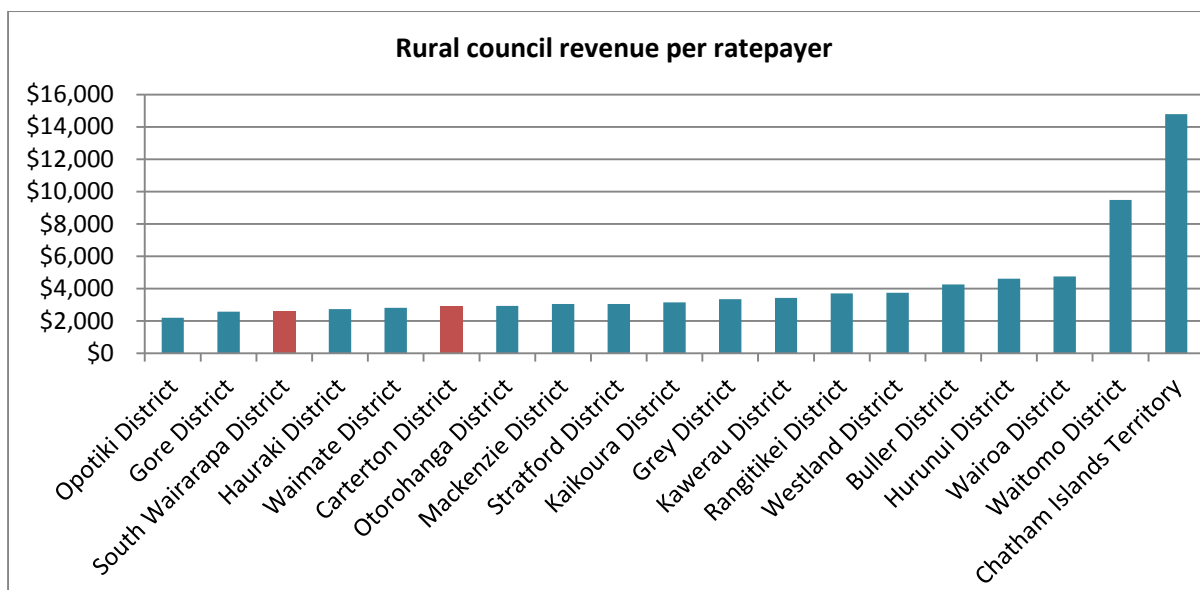
As a unitary authority, Wairarapa would also have to fund the activities formerly undertaken by the GWRC in the region. However, there are good reasons to believe the GWRC's expenditure in the region is somewhat gold-plated and can be adjusted downward to better suit the needs of the region. The LGC's \$250m estimate is an overestimate of the required future capital spend in the region. For example, the LGC's projections for flood-management capital expenditure in the Wairarapa applies a much higher standard of protection than currently exists and local committees consider the proposed future capital expenditure very hard to justify. There is a higher standard of protection associated with the residential areas of the greater Wellington region that is not required in much of the rural area in the Wairarapa. A lower level of required protection implies lower costs.

Further, the Wairarapa councils have considerable financial flexibility, having a combined debt of \$65.6 million, which is favourable when compared to other unitary authorities and councils in New Zealand. This puts a Wairarapa unitary authority in a better financial position to fund its own operations and investments sufficiently.

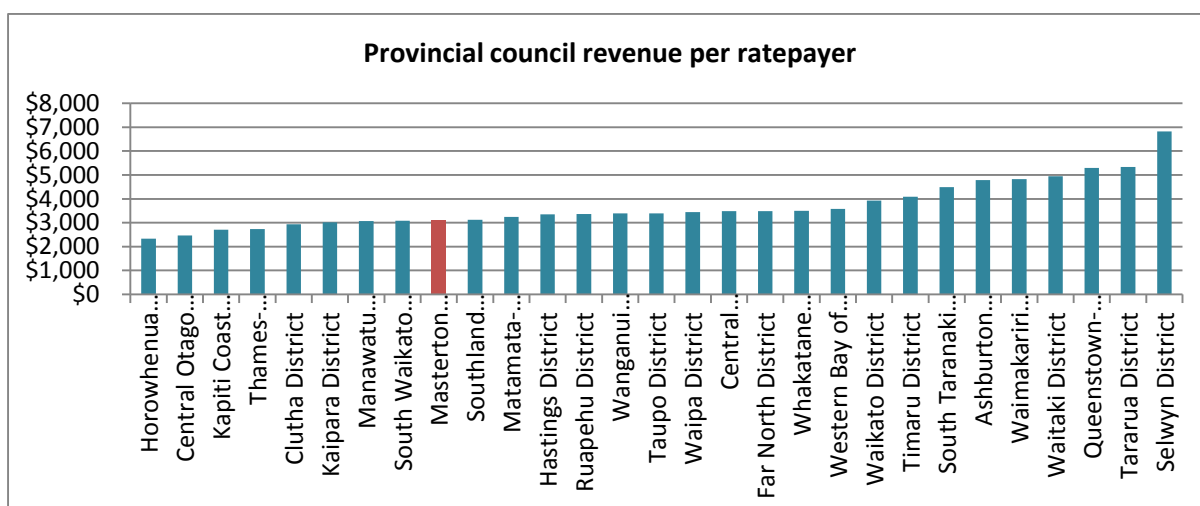
In addition, as the charts below illustrate, when compared to similar councils across New Zealand, the Wairarapa councils currently collect relatively low levels of revenue from their ratepayers and have considerable headroom in that regard also, should it be needed.

¹⁶ LGC, op. cit., Vol. 2, p. 119.

¹⁷ Ibid, p.64.



Source: Ratepayers' Report



Source: Ratepayers' Report

Overall, it is clear that a Wairarapa unitary authority would have the necessary resources to enable it to effectively carry out its responsibilities.

5.2.2 Will it have a district or region that is appropriate for the efficient performance of its role?

The courts in New Zealand have long held efficiency to be an economic concept. In *Marlborough Ridge Ltd v Marlborough District Council* [1998] NZRMA 73, for example, the court noted that all aspects of efficiency are “economic” by definition because economics is about the use of resources generally.¹⁸

¹⁸ *Marlborough Ridge Ltd v Marlborough District Council* (1998), NZRMA 73.

Economists discuss economic efficiency in relation to three distinct concepts:

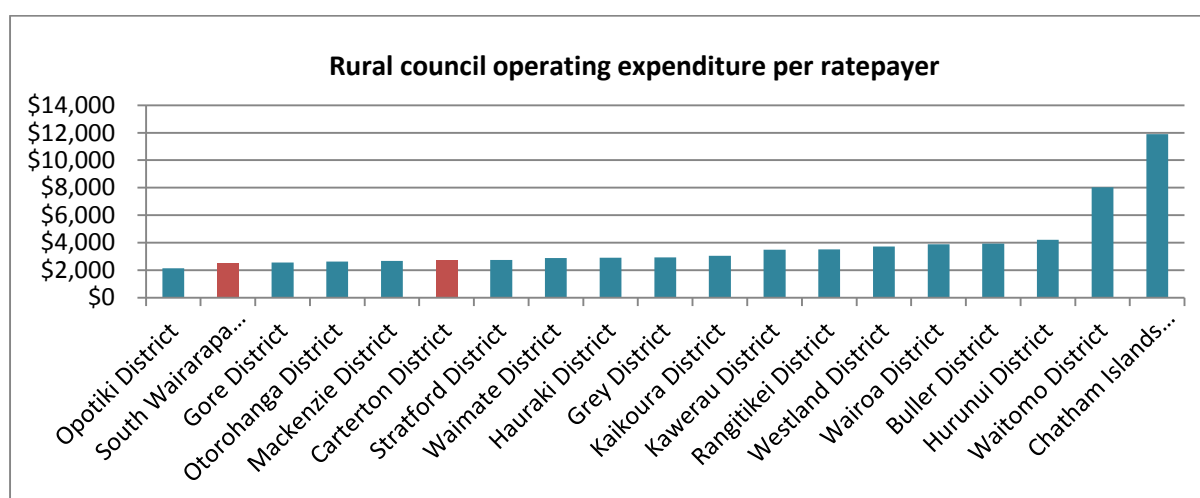
Allocative efficiency is concerned with whether the economy is producing the goods and services that match people's changing needs and preferences and which they place the greatest value upon. Allocative efficiency is also about matching cost and quality to individuals' preferences.

The LGC's proposal for a combined Wellington/Wairarapa is based on the premise of a continued cross-subsidisation of the Wairarapa region by residents of Wellington. Cross-subsidisation, however, is inconsistent with allocative efficiency as it encourages excess demand for the subsidised activity and thus promotes a misallocation of the economy's resources. It is not efficient for the ratepayers in the greater Wellington region to fund operations like water management, land management and flood protection in the Wairarapa when the benefits of those activities are largely realised by the residents in that region alone.

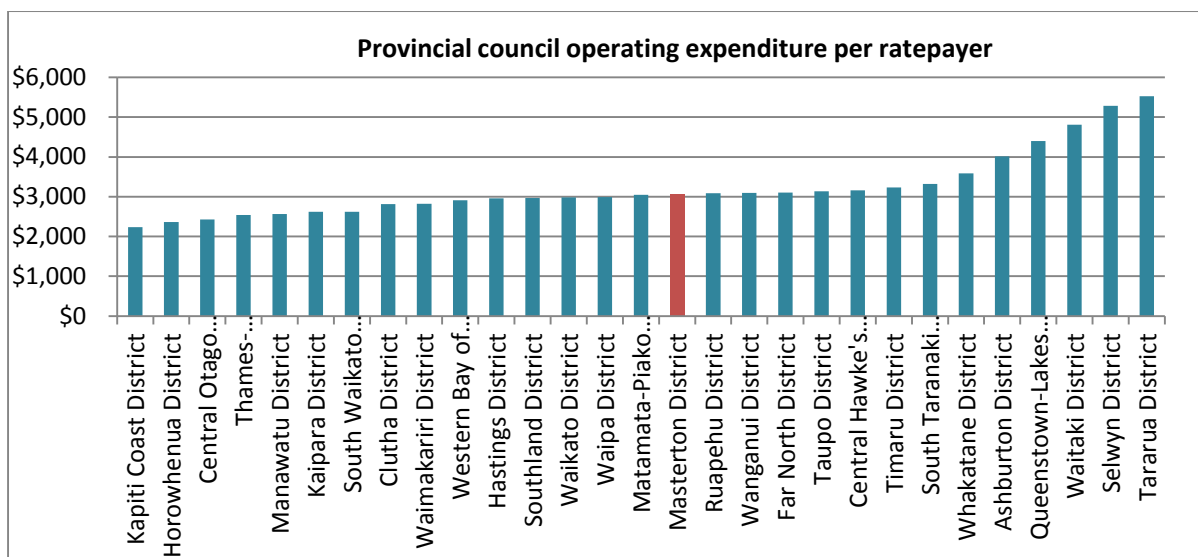
A number of rural and provincial areas in New Zealand are expected to experience declining populations over the next 20 years (around 40 percent). The LGC's proposed solution to this concern, at least for the Wairarapa, is to attach the region to a large urban centre that can provide some form of cross-subsidisation. This is unlikely to be a beneficial long-term solution for New Zealand. Some rural councils end up having policies dictated to them from a distant urban super-city office while others around the country will be left to fend for themselves. Local Government New Zealand and central government are considering how to best manage declining populations in the future; this issue requires careful thought and the LGC's 'quick-fix' solution of lumping some rural communities with nearby metropolitan areas is not a viable long-term solution.

Productive efficiency is achieved when the output is produced at minimum average total cost.

The graphs below illustrate the three Wairarapa councils are currently relatively efficient (as measured by operating expenditure per ratepayer) when compared to other rural/provincial councils in New Zealand.



Source: Ratepayers' Report



Source: Ratepayers' Report

This efficiency of production would not be lost if a Wairarapa unitary authority was formed. Instead, amalgamation would allow the three councils to further achieve production efficiency through cost reductions. There is evidence, both from New Zealand and overseas that a Wairarapa unitary with a population of around 42,000 would likely be in the "sweet zone" in terms of productive efficiency for a council.¹⁹

Dynamic efficiency is concerned with balancing the trade-offs between consumption and investment over time.

The removal of cross-subsidisation between the Wellington and Wairarapa regions will also improve dynamic efficiency as it incentivises the Wairarapa to minimise the use of inputs and to make better investment decisions that are suited to the local needs in the Wairarapa.

5.2.3 Will it contain within its district or region one or more distinct communities of interest?

The Wairarapa is clearly distinct because the Wairarapa is rural/provincial while Wellington is largely urban. It would hardly seem necessary to point out that the two regions are physically separated by the Rimutaka / Tararua mountain ranges. Wairarapa is a completely separate catchment with the only physical links to Wellington being one road and one railway line. The region has more road connections to the north.

Economic, cultural and social linkages exist of course between the Wairarapa and the Wellington region. A number of residents in the Wairarapa commute to Wellington for employment and a number of residents from the Wellington region visit the Wairarapa for leisure activities. Residents in the Wairarapa also interrelate with residents of the Tararua District, Manawatu, and Hawkes Bay but that

¹⁹ TDB Advisory, op. cit., p.23.

does not necessarily mean that Wairarapa's association with those regions should result in amalgamation of those councils as well.

The LGC's super-city proposal would result in the rural Wairarapa community being governed by a remote city-focussed council. Local circumstances become less important if the super-city takes a one-size-fits-all approach, as Auckland Council has with planning and regulatory issues.

5.2.4 Will it enable, in the case of regional councils and unitary authorities, effective catchment-based flooding and water management?

There are no physical interconnections between the water flows in the Wairarapa and those in the Wellington region that warrant joint water management.

It is also important to note that the flood-management systems in the Wairarapa require a different standard to those in Wellington. The Wairarapa region with its pastures and farming area surrounding its rivers warrants a much lower standard of flood protection than that of the residential areas in the Hutt. While the individual and social consequences of severe flooding will be just as traumatic in both regions the economic consequences in the Hutt Valley are likely to be much greater because the value of the property is much higher. The lower level of required protection in the Wairarapa implies lower capital expenditure that makes it even more manageable under a unitary authority.

The proposed Wairarapa council would have the capacity and capability to effectively deal with these issues directly using technical and service delivery resources already available in the Wairarapa region (including ex-Greater Wellington Regional Council staff), shared service arrangements with neighbouring councils, or out-sourcing arrangements. In addition, government-funding assistance for water management issues (e.g. irrigation scheme investigations) would continue to be available under the proposed Wairarapa council.²⁰

5.3 Conclusions on Wairarapa

Based on the above analysis, we conclude that a separate unitary authority in the Wairarapa clearly meets the statutory criteria for being a reasonably practicable option. There is no credible reason to believe a single Wairarapa unitary authority would lack the resources necessary to function effectively. Moreover, the evidence indicates a single Wairarapa unitary authority would be an efficient size; would promote allocative and dynamic efficiency (as it would be unlikely to receive a cross-subsidy from Wellington); would serve a distinct community; and its water catchments are physically separate from those in Wellington. A separate Wairarapa unitary authority should therefore have been included by the LGC in its assessment of its potential reorganisation options. Moreover, as a single unitary in the Wairarapa is a practical option, the other options for unitary authorities in the Wellington region (the so-called "multiple unitary authorities" options) should also have been assessed as practicable options.

²⁰ Wairarapa Review Governance Working Party, p. 48.

6. Conclusions

The Local Government Act 2002 is clear about how the LGC must assess options for local government reorganisation. The LGC, however, has ignored the legislation and chosen its own criteria that justify its apparently pre-determined position.

If the LGC had followed the three criteria stated in the Act, it would not have concluded in favour of a super-city for Wellington and the Wairarapa regions. In terms of the first legislative criteria, promoting local democracy, a government that is bigger and more remote from its residents can only be a backward step. Indeed, if the LGC's proposal for Wellington were to go ahead, New Zealand would have almost half its population governed by two councils. In terms of the second criteria, the cost-effective delivery of services, the LGC's preferred option ranks a lowly fifth out of eight options on the Commission's own financial analysis. Finally, in terms of wider economic efficiency, to the extent that councils can influence regional economic growth, it is council and central government policies, rather than the boundaries for local government that are drawn on a map, that are a key long-term determinant of success.

The structure the LGC proposes is an inferior and high-risk option. It has the highest transition costs and the net financial benefits, if any, are at least nine years away. The evidence clearly shows that bigger is not necessarily better when it comes to local government governance structures.

Any enhancements a super-city offers in terms of service efficiency or productivity can be achieved at lower cost and in less risky ways. Consolidation of some local government functions in the Wellington and Wairarapa regions makes good sense. In particular we support integrating public transport and roading networks across the greater Wellington region. We also support consolidating the three small Wairarapa councils and establishing a single unitary authority in the Wairarapa. These are smart changes.

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