

**To:** Local Government Commission

---

**From:** Renata Sain, Lead Advisor Auckland

---

**Date:** 3 November 2017

---

**Meeting:** 10 November 2017

---

**Subject:** Auckland reorganisation process: decision on the reasonably practicable options and the preferred option

## **1. Purpose**

1. This paper seeks statutory decisions on the reasonably practicable options and preferred option in the Auckland reorganisation process as specified under clauses 11 and 12 of schedule 3 of the Local Government Act 2002 (the Act).

## **2. Executive Summary**

2. In 2013, the Commission received a local government reorganisation application from the Northern Action Group proposing the constitution of a North Rodney Unitary Authority. This instigated the Auckland reorganisation process covering the Auckland Council affected area.
3. The Commission received a subsequent application from the group Our Waiheke for a Waiheke Unitary Authority. The Commission determined this was an alternative application relating to the Auckland reorganisation process.
4. The Commission must now make three decisions:
  - a) The extent to which it identifies the reasonably practicable options for potential reorganisation (i.e. how wide it casts the net)
  - b) The reasonably practicable options for potential reorganisation
  - c) If there are two or more reasonably practicable options, the preferred option

### ***The extent of reasonably practicable options***

5. The extent to which the Commission identifies the reasonably practicable options should be limited to options that meet the following criteria:
  - They have a scale and scope specific to the Rodney and Waiheke local board areas of Auckland Council
  - They provide early certainty given the length of the process to date and the legislative constraints in pursuing some options
  - Some community support for the option has been demonstrated to the Commission

6. On this basis, the following options have been assessed against legislative criteria under clause 11(5) of schedule 3 to determine whether they are reasonably practicable options:
  - Two local boards for the current Rodney Local Board area
  - A North Rodney Unitary Authority
  - A Waiheke Unitary Authority
7. Officers have not included options that are out of scope of local government reorganisation as defined in the Act, relate to the entire Auckland region or its neighbouring regions, would lead to undue delay, and/or where little to no community support has been demonstrated to the Commission.

#### ***Identification of reasonably practicable options***

8. Our assessment of options against clause 11(5) of schedule 3 and including 11(4)(a) is that we consider there are only two reasonably practicable options: the status quo and two local boards in Rodney. The status quo is always a reasonably practicable option.
9. An additional local board in Rodney is considered affordable as Auckland Council would still have the resources necessary to enable it to carry out its responsibilities, duties and powers. This option would also meet the requirement for a region that is appropriate for the efficient performance of its role, contains one or more distinct communities of interest and would enable catchment-based flooding and water management. This is primarily because, as with the status quo option (which is deemed reasonably practicable), there is no change to the regional boundary under this option.

#### ***The proposed North Rodney and Waiheke unitary authorities are not reasonably practicable options***

10. The proposed North Rodney and Waiheke unitary authorities would not have a district or region that is appropriate for the efficient performance of their role. This is because they would both be of insufficient size for a unitary authority with responsibilities for regional functions including those related to large sensitive marine environments (i.e. Kaipara Harbour and/or the Hauraki Gulf) and, in the case of North Rodney, expected significant urban growth:
  - The proposed North Rodney Unitary Authority would have a population of approximately 24,000. This is a sufficient size for a district council but is too small for a unitary authority which must also perform the functions of a regional council.
  - The proposed Waiheke Unitary Authority would have a population of approximately 9,000. This would make it one of the smallest councils in New Zealand and about one fifth the size of the smallest unitary council.<sup>1</sup> This would make it too small to perform the functions of a regional council.

---

<sup>1</sup> Excluding the Chatham Islands Council, which is governed by separate legislation, receives direct funding from the Crown, and receives external operational support (e.g. Wellington City Council and Environment Canterbury are both building consent authorities for the Chatham Islands Council).

11. The most critical consideration is access to the resources needed to undertake all the duties of a unitary authority. Both proposed unitary authorities would have significant challenges recruiting and retaining professional specialist staff to deliver their statutory regional functions. This is due to their proposed size relative to the technical scale and scope of regional functions, and labour market conditions for this type of capability.
12. The proposed North Rodney and Waiheke unitary authorities would also not have the financial resources to enable them to carry out effectively their responsibilities, duties and powers. This is because financial analysis reveals there is likely to be a significant annual deficit in each case:<sup>2</sup>
  - Financial analysis shows a probable net operating impact of between -\$7.6m and -\$5.6m for the proposed North Rodney Unitary Authority. Total rates would need to increase by 20 to 27 per cent in one year to offset this deficit if it were met entirely from rates revenue.
  - Financial analysis shows a probable net operating impact of between -\$2.0m and -\$1.2m for the proposed Waiheke Unitary Authority. Total rates would need to increase by 8 to 13 per cent in one year to offset this deficit if it were met entirely from rates revenue.
13. Significant operating deficits remain even if we allow for potential margin of error and different scenarios such as increased funding from the New Zealand Transport Agency.
14. While smaller councils are likely to have a lower unit cost for some functions, such as general corporate overheads, there are some areas where they would face significant diseconomies of scale, such as the environmental regulation and management responsibilities of a unitary authority. For example, Auckland Council's expenditure is highly likely to reflect economies of scale in delivering regional functions especially when compared to the proposed North Rodney and Waiheke unitary authorities, and when considering the significant challenges recruiting and retaining professional specialist staff to deliver their statutory regional functions (as outlined in paragraph 11).
15. The Act also requires the Commission to consider the effects on Auckland Council of the exclusion of any area from its region. The financial effects on Auckland Council from the exclusion of either North Rodney or Waiheke would likely be minimal. However, the exclusion of North Rodney would impact on Auckland Council's statutory responsibilities under the Resource Management Act 1991 (RMA) to manage land and infrastructure strategically and ensure there is sufficient development capacity to meet demand. This is because it would fragment the current and future metropolitan areas of Auckland and constrain the Council's ability to manage growth in an integrated way.

---

<sup>2</sup> The financial analysis is based on officers' consideration of Morrison Low's report *Auckland Reorganisation Process: Auckland Options Assessment*, feedback from the original applicant and alternative proposers on the report, an independent peer review process (which comprised a technical review, an expert panel review and involved a review of the feedback from the applicant and alternative proposers) and a review of the Auckland context. This resulted in material changes to the net operating deficits reported in Morrison Low's report.

### ***Determination of the preferred option***

16. The status quo and the option for two local boards in Rodney were further assessed against criteria in clause 12(1) to assist the Commission to determine its preferred option for local government in Auckland.<sup>3</sup> While there was no significant difference between the two options, we consider that of the two options the status quo best promotes the purpose of local government:

- It will best enable democratic decision-making and action by, and on behalf of, Auckland's communities. This is because current issues with local board effectiveness mean that a new local board is unlikely to enable additional democratic benefit and the status quo is fairer on the rest of Auckland (outside Rodney).
- It will best facilitate improved economic performance in the affected area. This is because an additional local board will result in additional direct costs to Auckland Council (and therefore its communities) of \$1m per annum.
- It will best meet the current and future needs of communities in the most cost-effective way. This is because the operational complexities of an additional local board will increase the indirect costs to Auckland Council (and therefore its communities).

### ***Next steps***

17. If the Commission determines its preferred option is the status quo then the next step is to give notice of that decision. It is intended that the Commission will announce the decision at meetings with the original applicant and alternative proposers, local elected representatives and iwi in Rodney and Waiheke. It will then issue a media release and make formal notification.
18. In addition, officers will provide advice to the Commission at the December meeting on the potential to use powers under section 31 of the Act to make non-binding recommendations to Auckland Council. Our advice will consider how the Commission may want to address a number of operational concerns raised by the applicants and the community which appear well-founded but do not fall within the scope of a reorganisation proposal.
19. If the preferred option is not the status quo, officers will provide further advice on the next steps to the Commission based on the precise decisions made.

---

<sup>3</sup> If the Commission determines that there are more than the two recommended reasonably practicable options, further analysis will need to be undertaken prior to the Commission's decision on its preferred option.

### 3. Recommendations

20. We recommend that the Commission:

#### *Previous considerations*

- a) **notes** an application made under clause 3, schedule 3 of the Local Government Act 2002 (the Act) for a North Rodney Unitary Authority was received from the Northern Action Group in November 2013;
- b) **notes** on 13 August 2015 the Commission agreed to assess the application following the submission of further information and a High Court decision;
- c) **notes** on 14 April 2016 the Commission decided that the affected area for the Northern Action Group's application is the Auckland Council area;
- d) **notes** on 29 May 2016 the Commission determined to treat the application from Our Waiheke for a Waiheke Unitary Authority as an alternative application for local government reorganisation in the Auckland Council area;
- e) **notes** the Commission received 39 alternative proposals (including a supplementary application from the original applicant) following an invitation in April 2016 for alternative applications for change to Auckland local government arrangements;
- f) **notes** on 9 December 2016 the Commission approved seven options for local government reorganisation in Auckland to undergo further analysis: the status quo; two local boards for the current Rodney Local Board area; merge a portion of North Rodney (Wellsford) with Kaipara District Council; a North Rodney Unitary Authority; a Waiheke Unitary Authority; and a North Rodney District Council and Waiheke District Council;

#### *Statutory decisions required*

- g) **notes** that clauses 11 and 12 of schedule 3 of the Act require the Commission to make decisions sequentially on:
  - i. the extent to which it identifies the reasonably practicable options;
  - ii. the identification of the reasonable practicable options; and
  - iii. the determination of a preferred option from among the reasonably practicable options (if there is more than one);

#### *Extent of reasonably practicable options*

- h) **notes** that clause 11(4)(a) states that the reasonably practicable options must include the existing local government arrangements;
- i) **notes** clause 11(4)(b) gives the Commission discretion as to other options it may identify as reasonably practicable options;
- j) **agrees** that having regard to the matters in clause 11(3) the Commission limits the extent of its consideration of reasonably practicable options to the identification of options which:

- i. have a scale and scope specific to the Rodney and Waiheke local board areas of Auckland Council;
  - ii. provide early certainty given the length of the process to date and the legislative constraints in pursuing some options; and
  - iii. have some community support as demonstrated to the Commission;
- k) **agrees** that, alongside the existing local government arrangements and having regard to recommendation (j), the options for assessment as to whether they are reasonably practicable options are:
  - i. two local boards for the current Rodney Local Board area;
  - ii. a North Rodney Unitary Authority; and
  - iii. a Waiheke Unitary Authority;

#### *Identification of reasonably practicable options*

- l) **agrees** that having regard to the matters raised in clause 11(6), the Commission is satisfied that the following two options meet the specific requirements set out in clause 11(5) for a reasonably practicable option and are therefore identified as reasonably practicable options as per clause 11(2):
  - i. The existing local government arrangements in Auckland
  - ii. Two local boards for the current Rodney Local Board area
- m) **agrees** that the options for a North Rodney Unitary Authority and a Waiheke Unitary Authority are not considered to meet the tests for reasonably practicable options set out in clause 11(6) because:
  - i. they would not have the resources necessary to carry out effectively their responsibilities, duties and powers; and
  - ii. they would not have a region that is appropriate for the efficient performance of their role;

#### *Preferred option decision*

- n) **notes** that as per clause 11(8), if the Commission identifies two or more reasonably practicable options, the Commission must determine its preferred option from among the reasonably practicable options;
- o) **agrees** that having considered the relevant matters set out in clause 12(1) the Commission is satisfied that the existing local government arrangements are the preferred option as they will, in the affected area, best promote the purpose of local government and will facilitate improved economic performance;

#### *Next steps*

- p) **notes** that if the Commission determines the existing local government arrangements are the preferred option under clause 11, the Commission must give notice of its determination and the reasons for it to each applicant and every affected local authority;

- q) **notes** the Commission will invite the original applicant and 38 alternative proposers, local government elected representatives and iwi to meetings in Rodney and Waiheke, followed by formal notification and a media release; and
- r) **notes** officials will provide advice to the Commission on the potential to use powers under section 31 to make non-binding recommendations to Auckland Council at the December meeting.

## Contents

<b>1. Background.....</b>	<b>10</b>
1.1. Applications and alternative proposals .....	10
1.2. Public engagement programme .....	11
1.3. Other information as input into Commission decisions .....	11
<b>2. Statutory decisions required.....</b>	<b>14</b>
<b>3. Extent of identification of reasonably practicable options.....</b>	<b>14</b>
3.1. Options the Commission may consider .....	15
3.2. Scale and scope.....	15
3.3. Community support .....	16
3.4. Potential benefits of considering other options.....	16
3.5. Desirability of providing early certainty .....	16
3.6. Key assumptions .....	17
<b>4. Identification of reasonably practicable options .....</b>	<b>17</b>
4.1. Factors the Commission must have regard to when assessing options.....	19
4.2. Adequacy of resources.....	20
4.3. Appropriate district for the efficient performance of its role .....	23
4.4. Communities of interest .....	24
4.5. Effective catchment-based flooding and water management .....	24
<b>5. Assessment of options against legislative criteria for reasonably practicable options .....</b>	<b>24</b>
5.1. Option: Two local boards for Rodney .....	25
5.2. Option: North Rodney Unitary Authority .....	26
5.3. Option: Waiheke Unitary Authority.....	28
<b>6. Determination of preferred option .....</b>	<b>31</b>
6.1. Criteria for assessment .....	32
<b>7. Assessment of options against legislative criteria for preferred option.....</b>	<b>33</b>
7.1. The status quo best promotes the purpose of local government.....	33
7.2. The status quo will facilitate improved economic performance.....	34
<b>8. Next steps.....</b>	<b>35</b>
8.1. Notifying our stakeholders .....	35
8.2. Further advice to be provided in December.....	35
<b>Appendix A: Comment on financial analysis .....</b>	<b>36</b>
<b>Appendix B: Morrison Low report .....</b>	<b>43</b>
<b>Appendix C: Peer Review Panel minutes .....</b>	<b>44</b>

**Appendix D: Communities of interest study – Rodney .....45**  
**Appendix E: Communities of interest study – Waiheke.....46**  
**Appendix F: Community support research findings.....47**

## 1. Background

### 1.1. Applications and alternative proposals

21. In November 2013, the Commission received a reorganisation application from the Northern Action Group (the North Rodney application) proposing the constitution of a North Rodney Unitary Authority separate from Auckland Council. The application was made under clause 3, schedule 3 of the Act.
22. Initially the Commission resolved, under clause 6, schedule 3 of the Act, to decline to assess the application on the grounds that:
  - the boundary of the proposed North Rodney Unitary Authority was not sufficiently identified;
  - the application did not contain sufficient information to establish demonstrable community support for the application in areas of Auckland outside of the North Rodney area; and
  - it was not in the public interest to assess the application (because of the impact of assessing the application on Auckland Council's integration process following amalgamation).
23. In July 2014, the Northern Action Group lodged an appeal with the High Court against the Commission's decision. The High Court heard the appeal in March 2015 and issued its decision on 23 April 2015. The High Court found that:
  - the Commission was wrong in declining to assess the application on the grounds that it was not in the public interest to do so;
  - the Commission was correct in requiring community support to be demonstrated over the whole of Auckland, not just in North Rodney; and
  - issues relating to the adequacy of the description of the proposed new North Rodney region could be dealt with by the Commission explaining its concerns to the applicant and providing a reasonable opportunity to remedy any deficiencies relating to the description.
24. In August 2015, the Commission agreed to assess the application. This followed the submission of further information to the Commission by the Northern Action Group as outlined in the High Court decision. The Commission determined that the whole Auckland Council region would be included as the affected area when assessing the application.
25. In December 2015, the Commission received a reorganisation application from Our Waiheke (the Waiheke application). The Waiheke application proposed a unitary authority for Waiheke Island separate from Auckland Council. The Commission determined to treat the Waiheke application as an alternative application within the proposed reorganisation process initiated by the North Rodney application.

26. In April 2016, the Commission invited alternative applications as required under clause 9(d), schedule 3 of the Act. The Commission received 39 alternative proposals.<sup>4</sup>

## **1.2. Public engagement programme**

27. The Commission ran a public engagement programme from 6 September to 23 December 2016. This was an opportunity for the Auckland community, particularly people from Rodney and Waiheke Island, to discuss the applications and give broader feedback to the Commission on local government arrangements and performance in Auckland. Public meetings were attended by the Chair of the Commission, Sir Wira Gardiner, and Commissioners Geoff Dangerfield and Janie Annear.

28. As outlined in the Commission's report: *Summary of Feedback: Community engagement – Local Government in Auckland* released in March 2017, the public engagement programme revealed that many people think improvements could be made to local government arrangements in Auckland to reflect local needs, especially for more isolated and/or rural areas in Auckland. There was a perception that Auckland Council had over-centralised and was using a 'one-size-fits-all' approach. However, there were a wide variety of views about what improvements are needed and how they could be attained. Among the wide ranging views, a number of common themes emerged. For example, participants said they want local government that:

- enables local influence and an effective role in decision-making;
- reflects the local context, identity and values;
- communicates well and is responsive;
- delivers fair rates;
- is financially responsible and sustainable;
- supports efficient and effective governance;
- is transparent and accountable to ratepayers; and
- delivers quality roading and transport.

## **1.3. Other information as input into Commission decisions**

### ***Technical and financial analysis***

29. In December 2016, after consideration of the ideas raised through the alternative application process as well as the original application, the Commission identified a long-list of potential reorganisation options for further analysis:

- The status quo
- Two local boards for Rodney

---

<sup>4</sup> Includes the supplementary application by the Northern Action Group, the alternative application from Our Waiheke and the late alternative proposal by David Hay. While the proposal from David Hay was received after the deadline for alternative applications the Commission decided to include it in its assessment of proposals as potential reasonably practicable options. However, ultimately (following consideration against the statutory criteria) it was not included in the long list of potential reasonably practicable options for further analysis by Morrison Low (and other advisors/Commission officers).

- Merge a portion of North Rodney (the Wellsford subdivision) into Kaipara District and Northland region
  - A North Rodney Unitary Authority
  - A Waiheke Unitary Authority
  - A North Rodney District Council
  - A Waiheke District Council
30. The last two options would require Auckland Council to provide regional council functions to both the North Rodney and Waiheke district councils (see paragraph 63).
31. To assist the Commission to identify the “reasonably practicable options” and its preferred option for local government in Auckland, the Commission engaged Morrison Low to assess the financial and technical aspects of the long-list of options. The report was issued to us on 18 July 2017 (the Morrison Low report – Appendix B).
32. The original applicant, alternative proposers and Auckland Council had the opportunity to provide feedback to us on the report. A summary of this feedback is provided in Appendix A (Comment on financial analysis – Appendix A). As a result of that feedback, we decided to undertake a peer review of Morrison Low’s report. This included:
- independent testing by a major international consultancy firm of the integrity and arithmetic accuracy of the logic contained in Morrison Low’s financial model (the technical review final report is not attached due to commercial sensitivity but key findings are discussed below); and
  - a review of the reasonableness of the key assumptions in the report by an independent panel of local government experts (the peer review panel minutes – Appendix C).
33. Feedback from the original applicant and alternative proposers was provided to both the technical reviewer and the peer review panel as part of their brief.
34. The technical review resulted in a significant adjustment of \$1.1m to the net operating deficit of the proposed Waiheke Unitary Authority from \$6.4m (as contained in the original report) to \$5.3m. This reflects an adjustment to the amount apportioned for the waste subsidy (i.e. Waiheke’s waste was apportioned based on the North Rodney area instead of the Auckland area) and an adjustment to transport revenue to account for the correct financial year (i.e. 2015/16 instead of 2011/12). The Morrison Low report was updated to reflect these issues and reissued to officers on 20 October 2017.
35. The peer review panel comprised:
- Glenn Snelgrove (former Chief Executive of Western Bay of Plenty District Council);
  - Andrew Besley (former Chief Executive of Marlborough District Council); and
  - Paddy Clifford (former Chief Executive of Palmerston North District Council).
36. The peer review panel was selected based on their broad operational and strategic leadership experience in local government. This includes experience in managing unitary councils, high growth areas and rural areas.
37. The peer review panel found most assumptions in Morrison Low’s report appeared reasonable or were immaterial to the overall assessment on balance. However, it found the amount attributed to ‘debt’ and the ‘regional and local parks and sport expenditure activities group’ appeared both high and material for each of the proposed North

Rodney and Waiheke unitary authorities. These two findings were consistent with some of the feedback the original applicant and alternative proposers raised with us.

38. The Morrison Low report was only updated to reflect the findings of the technical peer review but not the peer review panel. However, officers undertook additional analysis based on the feedback from the original applicant and alternative proposers, the findings of the peer review (both the technical review and panel review) and considerations of the unique Auckland context.
39. We concluded that some of the points raised by the original applicant and the alternative proposers (such as the amount of debt attributed to the unitary authorities and to regional and local parks and sport expenditure) were validated by the peer review process as issues requiring further consideration. As a result we undertook additional modelling and made adjustments to Morrison Low's calculations of the net operating impact and annual percentage change in total rates required for both unitary authorities. We consider that these adjustments provide a reasonable estimate of the potential financial implications on the proposed unitary authorities.
40. The adjusted net operating impact shows significant deficits for both unitary authorities even after allowing for potential margin of error and different scenarios that improve the upside (e.g. such as increased funding from the New Zealand Transport Agency). This is due to the amount of the deficit and the potentially understated costs in Morrison Low's report associated with the capabilities and capacity of small unitary authorities.
41. A summary of these findings and our views is provided in Appendix A and is drawn on in the analysis section of this paper.

### ***Other considerations***

42. Officers prepared two communities of interest studies (Rodney Communities of Interest Study - Appendix D and Waiheke Communities of Interest Study - Appendix E).
43. The Commission contracted UMR to undertake a phone survey and focus groups in the Rodney Local Board area in September and October 2017 (Community support research findings - Appendix F). The purpose of the research was to provide the Commission with information about the possible community support for various options or aspects of local government reorganisation in the Rodney area. This research focused on options where the Commission did not feel it had sufficient information to determine whether or not there was community support.
44. The report revealed that:
  - the majority of participants did not know much about local government in the Rodney area or the reorganisation process (although there was slightly higher awareness in North Rodney than South Rodney), however, they did feel change was needed to address their broader concerns;
  - the most common reasons for change were the need to invest in infrastructure, more effective allocation of rates, the perceived inefficiency and scale of Auckland Council, the need for greater transparency and better handling of rural issues;
  - few people raised local government reorganisation (including de-amalgamation from Auckland) as a solution although some participants would like to see the Rodney Local Board have more authority and more elected representatives;

- when prompted about an additional local board in Rodney, people were polarised with almost equal proportions supporting or opposing this option and a small proportion remaining neutral or unsure;
  - there was a low sense of connection between the four local subdivision areas of Rodney; and
  - there was also a low sense of connection between Rodney and wider Auckland.
45. The research findings are broadly consistent with the feedback we heard during the 2016 public engagement programme and the findings in the communities of interest study. In regards to the latter, the study demonstrates a weak linkage between the different local government subdivisions in Rodney (including between Warkworth and Wellsford in North Rodney). We note that Rodney residents also have low perceptual linkages to wider Auckland even though data in the community of interest study shows reasonably strong functional connections between all parts of Rodney and wider Auckland (e.g. retail shopping and work patterns).

## **2. Statutory decisions required**

46. The statutory requirements for the Commission to follow are set out primarily in schedule 3 of the Act.
47. In summary, there are three steps to the process which the Commission must work through sequentially when making a decision on its preferred option for local government in Auckland. Each step has its own set of relevant criteria or factors to be considered:
- a) The Commission must decide the extent to which it identifies reasonably practicable options as set out in clauses 11(3) and (4) – how wide does it cast the net?
  - b) The Commission must identify the reasonably practicable options – do they meet the tests in clause 11(5) having had regard to the factors set out in clause 11(6)?
  - c) The Commission must identify a preferred option if it identifies more than one reasonably practicable option – does the preferred option meet the tests in clause 12?

## **3. Extent of identification of reasonably practicable options**

48. Clause 11(3) requires the Commission, when deciding the extent to which it identifies the reasonably practicable options, to have regard to:
- a) the scale and scope of the changes proposed;
  - b) the degree of community support for relevant applications that has been demonstrated to the Commission;
  - c) the potential benefits of considering other options; and
  - d) the desirability of early certainty about local government arrangements for the affected area.

49. Having regard to these matters, officers recommend that the Commission limit the extent to which it identifies reasonably practicable options to those which:
- have a scale and scope specific to the Rodney and Waiheke Local Board areas;
  - provide early certainty given the length of the process to date and the legislative constraints in pursuing some options; and
  - where some community support has been demonstrated to the Commission.

### **3.1. Options the Commission may consider**

50. Clause 11(4) gives the Commission some discretion in what may be included as reasonably practicable options.
51. Clause 11(4)(a) stipulates that the Commission *must* include the existing local government arrangements – the status quo – as a reasonably practicable option.
52. Clause 11(4)(b) states that the Commission *may* include:
- a) the original application (in this case the application lodged by the Northern Action Group for a separate North Rodney Unitary Authority);
  - b) alternative applications;
  - c) any other options not listed above that are formulated by the Commission; or
  - d) a combination of aspects derived from two or more of the options referred to above.
53. The Commission received 39 alternative applications or proposals including a supplementary proposal from the original applicant. Many of these did not meet the legislative requirements of an official alternative application. However, where they fell within scope of local government reorganisation as per section 24 of the Act, the Commission has taken into account those proposals or aspects of them given its discretion to formulate options under clause 11(4)(b).

### **3.2. Scale and scope**

54. Officers recommend options are limited to those specific to the Rodney and Waiheke local board areas of the Auckland Council region. This is because the original application from the Northern Action Group and the alternative application from Our Waiheke (received before alternative applications were invited) relate to changes to North Rodney and Waiheke Island respectively. Most of the other proposals were in response to these applications and/or also proposed change in these areas. This does not alter the fact that the affected area is all of the Auckland Council area given the potential effects of removing North Rodney.
55. Proposals that suggested Auckland-wide change within the scope of local government reorganisation have not been put forward as potential options. This is because there is limited community support for options involving wider areas, and the scale and scope of this change would be significant compared to the low level of demonstrated community support for it and the desirability of early certainty in the process. This includes options such as changes to the number and size of local boards throughout Auckland.

56. Proposals were also received for local government change across both the Auckland and Northland regions (e.g. merging the Wellsford local board subdivision with Kaipara District). These have not been included for the same reasons: there is limited demonstrated community support for these options; and the desirability of early certainty.

### **3.3. Community support**

57. The Act requires an original application to include information demonstrating there is community support for the application. The Northern Action Group provided this information to the Commission.
58. Our Waiheke's application was considered an alternative application and therefore did not have to demonstrate additional community support. However, it did include a petition showing some community support for a separate council in Waiheke.
59. The alternative application process and public engagement programme showed some community support for a North Rodney Unitary Authority and Waiheke Unitary Authority as well as for other forms of local government change in Rodney and Waiheke. This includes support for an additional local board in Rodney. Some people also suggested merging a portion of North Rodney (Wellsford) into the Kaipara District and Northland region. However, there appears to be little support evidenced through our process for structural change in the Auckland Council area outside of the Rodney and Waiheke Local Board areas.

### **3.4. Potential benefits of considering other options**

60. The Auckland reorganisation process has been running for four years. During this time the Commission called for alternative applications, ran a public engagement programme and undertook community support research. The community has had several opportunities to put forward other options for local government in Auckland. We therefore consider there are few, if any, benefits of considering other options for local government in Auckland outside of what we have identified above.
61. A proposal for Waiheke Island to be included in the Thames-Coromandel District and Waikato Region was assessed by the Commission in 2009. At that time, the Commission decided not to proceed with the proposal as it was satisfied the option would not promote good local government in the Auckland and Waikato regions. We do not consider that conditions behind the 2009 decision have materially changed and therefore do not consider there to be any benefit in re-assessing this option.

### **3.5. Desirability of providing early certainty**

62. The Auckland reorganisation process has been running since November 2013. In deciding the extent to which the Commission identifies the reasonably practicable options, we recommend the Commission gives weight to providing the communities of Auckland with early certainty in their local government arrangements (relative to a protracted process that considers a wider range of options regardless of the low level of demonstrated community support).

63. Options for a North Rodney District Council and/or a Waiheke District Council in the Auckland Region were initially considered as potential options for further assessment. This is because legislative changes under the proposed Better Local Services reforms were progressing through Parliament. This would have made these options viable alternatives if the legislation had been enacted. However, these legislative changes are unlikely to be enacted in the immediate future and there is no benefit to (and no clear legal basis for) deferring a decision until the fate of the proposed legislation is clear.

### **3.6. Key assumptions**

64. When assessing the reasonably practicable options we have designed the options based on a typical local authority of a similar size and type to that being proposed. This includes setting modelling parameters on aspects of local government such as boundaries, number of elected members, wards and community boards. These parameters should be considered indicative at this stage of the process as they would need to be reconsidered in consultation with affected communities during any future stages of the reorganisation process (assuming they progress to future stages).

65. We have not included in our assessment elements of proposals where the Commission is unable or limited in its ability to include them in a reorganisation scheme and which may result in significant variances to costs for that council. For example we have not made assumptions about:

- a new council's levels of service or its governance and policy preferences (e.g. whether or not a new council would reduce current service levels, use more community volunteers to replace paid employees, or reverse planned development capacity in the short to medium term); or
- agreements that could be negotiated between a new council and an adjoining council (e.g. cross subsidy arrangements to fund costs associated with visitor flows from one council area to another).

## **4. Identification of reasonably practicable options**

66. In this section of the paper we discuss the relevant legislative criteria for making a determination on reasonably practicable options. In section 5 we assess the potential options against those criteria to determine which may be regarded as reasonably practicable options.

67. Clause 11(5) requires the Commission to 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 as specified in section 11 of the Act;
- 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.

68. Section 11 states the Council’s role is to give effect to the purpose of local government in section 10 and perform the duties, and exercise the rights, conferred on it by or under this Act and any other enactment. Section 10 states the purpose of local government is to enable democratic decision-making by, and on behalf of, communities; and to meet current and future needs of communities for good-quality local infrastructure, local public services and regulatory functions in the most cost-effective way for households and businesses
69. The Act does include separate criteria in clause 11(6A) of schedule 3 for the assessment of local board reorganisation options. These criteria only apply if the original application is a local board reorganisation. They do not apply in this reorganisation process because the original application was for a unitary authority not a change to local boards.
70. Officers also did some additional analysis of the two local boards in Rodney option as we had directed Morrison Low to assess this option against clause 11(6A) and clause 12(2) of schedule 3 rather than clause 11(5) and 12(1) of schedule 3.
71. Officers consider the only options that meet the specific tests in clause 11(5) for a reasonably practicable option are:
- a) the existing local government arrangements (always included as a reasonably practicable option under the legislation); and
  - b) two local boards in Rodney.
72. Officers consider that the remaining options – a North Rodney Unitary Authority and a Waiheke Unitary Authority – do not meet the applicable tests for a reasonably practicable option. Neither option meets the requirements set out in clause 11(5)(a) and (b). A North Rodney Unitary Authority would also be a weak option when assessed against clauses 11(5)(c) and (d).
73. The assessment as to whether the options meet the criteria in clause 11(5) was informed by several inputs:
- An independent financial and technical assessment of the options by Morrison Low - the *Auckland reorganisation process: Auckland Options Assessment* (Appendix B)
  - Independent testing by a major international consultancy firm of the integrity and arithmetic accuracy of the logic contained in Morrison Low’s financial model (final report not attached due to commercial sensitivity but key findings are discussed in Appendix A)
  - The peer review of Morrison Low’s report by an independent panel of local government experts (Appendix C)
  - Comments on the financial analysis including a summary of feedback from the original applicant and alternative proposers (Appendix A)
  - Communities of interest studies for Rodney and Waiheke (attached at Appendices D and E)

#### **4.1. Factors the Commission must have regard to when assessing options**

74. Clause 11(6) states that for the purposes of clause 11(5) the Commission must have regard to:
- a) the area of impact of the responsibilities, duties and powers of the local authorities concerned;
  - b) the area of benefit of services provided;
  - c) the likely effects on a local authority of the exclusion of any area from its district or region; and
  - d) any other matters that it considers appropriate.
75. Officers consider the affected area is also the main area of impact. In April 2016, the Commission determined the affected area for the North Rodney application was the whole Auckland Council area. In making its decision the Commission considered that the operational scale, scope or capability of Auckland Council would be materially affected if local government in the North Rodney area was reorganised in the way the Northern Action Group proposed.
76. The area of impact also extends into the neighbouring regions of Northland and Waikato. This is because these regions share responsibilities for large sensitive marine environments with Auckland Council and would be impacted if another unitary council (or potentially two in the case of the Hauraki Gulf) was established in these areas. Special-purpose arrangements exist for both the Kaipara Harbour and Hauraki Gulf. This requires collaborative input from the relevant territorial and regional authorities on top of their core statutory functions.
- Auckland Council and Northland Regional Council manage the Kaipara Harbour cooperatively through the Integrated Kaipara Harbour Management Group. The Integrated Kaipara Harbour Management Group was established in 2005 and its key purpose is to promote integrated management and inter-agency coordination and kaitiakitanga of the Kaipara Harbour and its catchment.
  - Auckland Council and Waikato Regional Council work cooperatively with several other parties through the Hauraki Gulf Forum to manage the Hauraki Gulf. The Hauraki Gulf Marine Park Act 2000 established the Hauraki Gulf Marine Park as well as the Hauraki Gulf Forum (on which the Waiheke Local Board is represented, but not Rodney). The Forum facilitates co-ordination of statutory functions of the constituent parties and includes tangata whenua as well as councils and central government.
77. A new unitary authority in the North Rodney and/or Waiheke areas would result in both the Integrated Kaipara Harbour Management Group and Hauraki Gulf Forum needing to work with an additional council.
78. The exclusion of the North Rodney and/or Waiheke areas from the Auckland Council area would have effects on Auckland Council's:
- co-governance responsibilities for Kaipara Harbour and the Hauraki Gulf; and
  - in the case of North Rodney, regional growth planning and investment particularly where planning is integrated with other parts of Rodney and wider Auckland.

79. Officers consider the 'area of benefit of services provided' is different for each of the proposed options. However, in all cases there will be benefits flowing in and out of the area of any new council or local board with wider Auckland. This reflects the interconnectedness between North Rodney, Waiheke Island and wider Auckland.

#### **4.2. Adequacy of resources**

80. This criterion considers whether any local authority established or changed under an option would have the resources necessary to enable it to carry out effectively its responsibilities, duties or powers. With the exception of the option for two local boards for Rodney, all options being considered are for the creation of new unitary authorities. This means they would have all the responsibilities, duties and powers of a regional council as well as a territorial authority. There is a material difference in this regard between a unitary authority and district council.
81. This criterion questions whether a proposed local authority would have the adequate resources to carry out the statutory functions that would apply. This legislative test does not involve consideration of whether a proposed or changed council would be more cost-effective or cheaper than the status quo as this is a consideration under clause 12.
82. The term 'resources' is also not confined to financial means. The Commission must be satisfied that any new or changed council will have the capacity and capability to deliver its responsibilities, duties and powers. In a modern unitary authority, this requires a wide range of expertise and skills, including but not limited to infrastructure planning and delivery, including strategic planning (particularly for high-growth councils) and asset management, as well as marine management.
83. As a general principle, the creation of additional smaller councils may well create pressures on the adequacy of resources available to undertake certain key council functions even if there is funding available to pay to outsource them. This is particularly the case with regional councils which are highly reliant on technical and scientific resources.

#### ***Delivery of regional council functions within a unitary authority***

84. In addition to the functions of a district or city council, a unitary authority must also have the resources, capability and capacity to undertake the functions of a regional council as set out in section 30 of the RMA, the Land Transport Management Act 2003 (LTMA), and other legislation.
85. In the Auckland context, the most significant regional council functions are:
- ensuring there is sufficient development capacity in relation to housing and business land to meet the expected demands, and planning for strategic integration of infrastructure with land use (RMA);
  - developing policy on regional-scale land use issues, and land use controls for the purposes of freshwater and coastal management (RMA);

- establishing a regional transport committee, ensuring that a regional land transport plan is prepared and adopting a regional public transport plan (LTMA);<sup>5</sup>
  - managing the coastal marine area (RMA);
  - managing freshwater takes and quality (RMA);
  - managing risk and mitigating natural hazards (RMA);
  - undertaking state of the environment monitoring and reporting (RMA); and
  - exercising harbourmaster functions and regulating navigation safety (Maritime Transport Act 1994)
86. Coastal matters are particularly important in Auckland because the territory controlled by Auckland Council is 70 per cent coastal marine area and only 30 per cent land. For example, the Kaipara Harbour is the breeding ground for 98 per cent of snapper found on the west coast of the North Island. This makes it a fishery with significant commercial, recreational and customary value;<sup>6</sup> and the Hauraki Gulf coastal water quality is under significant pressure as it close to urban areas.
87. In addition to legislation, regional councils and unitary authorities have responsibilities under a range of related RMA National Policy Statements and National Environmental Standards such as:
- a) *The National Policy Statement for Freshwater Management*: This requires regional councils and unitary authorities to develop regional policy statements and plans to consider and recognise Te Mana o te Wai; to undertake an iterative, community-based process to identify values and set environmental limits and objectives that give effect to those values using the National Objectives Framework; to maintain or improve water quality in specific waterways; to set nutrient levels in rivers in regional plans; and to monitor and report on progress towards a wide range of objectives and values.
  - b) *The National Environmental Standard for Sources of Human Drinking Water*: This sets requirements for protecting sources of human drinking water from becoming contaminated. Regional councils and unitary authorities are required to ensure that effects of activities on drinking water sources are considered in decisions on resource consents and regional plans.
  - c) *The New Zealand Coastal Policy Statement*: This requires local authorities and decision makers on resource consent applications to give effect to relevant coastal policy matters in regional policy statements and plans.
88. While a unitary authority can be an effective structure for integrating and managing local government outcomes they will not be appropriate in all cases. A number of capability and capacity implications relating to the provision of regional functions should be considered when assessing their feasibility. For example, the Parliamentary Commissioner for the Environment and the Auditor-General identified significant

---

<sup>5</sup> Section 105(9) of the LTMA provides for Auckland Transport and one or more adjoining unitary or regional councils to agree, by written agreement of all parties, to establish a joint regional transport committee and prepare a single regional land transport plan

<sup>6</sup> While regional councils are not responsible for fisheries management, they are responsible for sediment, which is the primary factor in the loss of this type of fishery.

NIWA, 'Baby snapper all grew up in one big nursery', 3 March 2009, <https://www.niwa.co.nz/news/baby-snapper-all-grew-one-big-nursery>

requirements that impact on the feasibility of a unitary authority in delivering effective environmental outcomes. These include the separation of regulatory functions from service delivery functions, integrating strategy and management, engaging with central government and tangata whenua, monitoring and reporting and ensuring there is sufficient critical mass to generate economies of scale.<sup>7</sup>

89. The costs and capacity requirements on a unitary authority to deliver on the less visible but critical regional council functions are significant and can be easily underestimated especially in sensitive marine areas or high growth areas where there are rapid changes in land use. As a recent example, Hamilton City Council has estimated the cost to be approximately \$10m on 16 integrated catchment management plans to manage the effects of predicted growth on mostly greenfields development sites on the fringes of Hamilton. This does not include the cost of implementing the plans.

### ***Access to and use of expert staff and/or consultancy services***

90. Access to requisite expertise to support capability needs is a known issue across the local government sector, especially for smaller or more remote councils. In 2015, Local Government New Zealand found that getting access to expertise in three waters and other services requiring engineering expertise (such as road asset management) was a problem and this was getting worse with time.<sup>8</sup>
91. Likewise the indicative business case for Wellington transport prepared for the Commission in 2016 noted constraints on capability for strategic advice, planning and service delivery in transport. The recruitment and retention of senior staff in particular, and the diseconomies of scale in smaller councils in general, was an issue for some councils in the greater Wellington region. This made it difficult to meet planning and funding compliance requirements.<sup>9</sup> The Land and Water Forum also reported in 2010 on the significant drop in numbers of freshwater scientists.<sup>10</sup>
92. There is strong evidence from other councils that labour market constraints remain significant. Recently Waipa District Council (a high-growth council on the fringes of Hamilton) reported that councils all around the country were struggling to find specialist water and technical staff needed to support planning for growth, and that it was also difficult to contract out the work, as many professional consulting firms were also at full capacity.<sup>11</sup>

---

<sup>7</sup> Parliamentary Commissioner for the Environment and Controller and Auditor-General, *Local Government Environmental Management: A Study of Models and Outcomes*, 1999, [http://www.pce.parliament.nz/media/pdfs/local\\_govt.pdf](http://www.pce.parliament.nz/media/pdfs/local_govt.pdf), section 4

<sup>8</sup> Local Government New Zealand *Improving New Zealand's water, wastewater and stormwater sector: a position paper prepared by LGNZ September 2015*, p. 14. <http://www.lgnz.co.nz/assets/Uploads/29617-three-Waters-Position-Paper.pdf> (accessed 4 September 2017)

<sup>9</sup> *Wellington Region Transport Indicative Business Case*, October 2016, pp 5-6. <http://www.lgc.govt.nz/assets/Wellington-Transport/Martin-Jenkins-Wellington-Transport-Indicative-Business-Case-23112016.pdf>

<sup>10</sup> Land and Water Forum. *Report of the Land and Water Forum: A Fresh Start for Fresh Water*, 2010, p 14. <http://www.landandwater.org.nz/includes/download.aspx?ID=118914>

<sup>11</sup> Waikato Times, 'Infrastructure industry stretched to cope with Waipa's population growth', 27 Sep 2017, <https://www.stuff.co.nz/waikato-times/business/97253514/Infrastructure-industry-stretched-to-cope-with-Waipas-population-growth>

93. Even where it is feasible to contract out the more difficult or less common tasks, the Parliamentary Commissioner for the Environment and the Auditor-General have recommended that councils need to retain a core capability in technical and scientific skills in-house so they have the capability to understand, interpret, and apply research that has been purchased.<sup>12</sup> In 2010, the Land and Water Forum made similar findings: some regional councils had a shortfall in technical skills, science was often used poorly, and performance had not been helped by a fragmentation of responsibilities.<sup>13</sup>

#### **4.3. Appropriate district for the efficient performance of its role**

94. The role of a local authority under section 11 of the Act is to:

- a) give effect, in relation to its district or region, to the purpose of local government as stated in section 10; and
- b) perform the duties and exercise the rights conferred on it by or under the Local Government Act 2002 or any other Act.

95. The purpose of local government in section 10 also contains a number of elements:

- a) to enable democratic local decision-making and action by, and on behalf of, communities; and
- b) to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.<sup>14</sup>

96. This criterion includes consideration of whether the proposed areas of the different reorganisation options will support local democracy and enable efficient council performance. For example:

- a council should be of a reasonable size to hear the voices of its residents and then to act on them; and
- a council should be of a reasonable size that it can provide most services in-house (i.e. contracting out of major services should be a choice rather than a necessity).

97. Officers have considered possible economies or diseconomies of scale raised as an important issue by the original applicant and alternative proposers. Research on this topic in the New Zealand local government context is not conclusive. However, there is evidence to infer that efficiencies increase with scale although may also start to decline at a certain point when an organisation becomes too large (i.e. U shape cost curve). This is likely to be balanced somewhat by the higher cost of providing infrastructure and services in rural areas such as North Rodney and Waiheke.<sup>15</sup>

---

<sup>12</sup> Parliamentary Commissioner for the Environment and Controller and Auditor-General, *Local Government Environmental Management: A Study of Models and Outcomes*, 1999, section 4.2.3.  
[http://www.pce.parliament.nz/media/pdfs/local\\_govt.pdf](http://www.pce.parliament.nz/media/pdfs/local_govt.pdf)

<sup>13</sup> Land and Water Forum. *Report of the Land and Water Forum: A Fresh Start for Fresh Water*, 2010, <http://www.landandwater.org.nz/includes/download.aspx?ID=118914>, pp 13-14

<sup>14</sup> 'Good-quality' is defined as efficient, effective and appropriate to present and anticipated future circumstances.

<sup>15</sup> Chapman, Ralph. *Do denser urban areas save on infrastructure? Evidence from New Zealand territorial authorities*. Policy Quarterly, Vol. 12, Issue 3, pp 63-69

98. Consideration has been given to the assertion that the fragmentation of management responsibilities has been identified as a factor in less effective management of sensitive environments.<sup>16</sup>

#### **4.4. Communities of interest**

99. 'Communities of interest' is not defined in the Act but the key requirement is that a new or changed council should "contain within its district or region one or more communities of interest, but only if they are distinct". The Commission's understanding of it is based on a discussion paper by Helen Fulcher, which explores the concept of community of interest as it applies to local government boundaries.<sup>17</sup>

100. This considers communities of interest as comprising three dimensions which overlap:

- Perceptual identity: the sense of belonging to an area
- Functional identity: the ability to access public and private services and fulfil needs and/or preferences within a given area
- Political identity: the ability to be represented by elected representatives and individuals/interest groups (includes the power of these representatives to make and/or influence decisions on behalf of other individuals/interest groups within an area)

#### **4.5. Effective catchment-based flooding and water management**

101. This criterion applies to reorganisation options for a regional council or unitary authority. It looks at boundaries of potential options to determine if they align to or divide water catchments. The RMA assigns freshwater and catchment responsibilities to regional councils and unitary authorities. This criterion therefore further elaborates on the requirement for a council to have a district or region that is appropriate for the efficient performance of its role.

## **5. Assessment of options against legislative criteria for reasonably practicable options**

102. Officers consider only two options are capable of meeting the tests in the Act for a reasonably practicable option. These are:

- a) the existing local government arrangements; and
- b) two local boards in Rodney.

103. Officers consider it very unlikely that the North Rodney and Waiheke Unitary Authorities meet the tests in clauses 11(5)(a) and (b). In addition, we consider it is arguable whether the Commission could be satisfied that a North Rodney Unitary Authority would contain one or more distinct communities of interest.

---

<sup>16</sup> Land and Water Forum. *Report of the Land and Water Forum: A Fresh Start for Fresh Water*, 2010, <http://www.landandwater.org.nz/includes/download.aspx?ID=118914>, pp 13-14

<sup>17</sup> Fulcher, H. (1989). South Australian Department of Local Government, A discussion paper which explores the concept of community of interest as it applies to local government boundaries.

104. The key findings from the assessment are below. The status quo has not been separately assessed as it is always deemed to be a reasonably practicable option under clause 11(4)(a) of the Act.

## **5.1. Option: Two local boards for Rodney**

### *Matters the Commission must have regard to*

105. The area of impact and benefit for this option is the affected area of Auckland, in particular the Rodney Local Board area.

106. This option is similar to the status quo – Auckland Council would need to provide governance support for one additional local board but all other arrangements would remain unchanged (e.g. regional boundary and the roles and responsibilities of a local board would remain as they are). These changes are not material.

### *Criteria the Commission must be satisfied that any local authority proposed to be established or changed under a reasonably practicable option will meet*

107. This option is considered affordable given Auckland Council's current operating surplus of \$250m and the additional direct costs of \$1m per annum to support another local board would come out of an overall operating budget of over \$3 billion. Auckland Council would still have the resources necessary to enable it to carry out its responsibilities, duties and powers.

108. This option would meet the requirement for a region that is appropriate for the efficient performance of its role, contains one or more distinct communities of interest and would enable catchment-based flooding and water management. This is primarily because, as with the status quo option (which is deemed reasonably practicable) there is no change to the regional boundary under this option.<sup>18</sup>

109. We note that, in terms of the democratic representation aspect of having a region that is appropriate for its role, the primary focus at this stage under clause 11(5) is on the region as a whole rather than the local board areas within it. While there is some room for the Commission to have regard to wider issues through clause 11(6) of schedule 3, the issue of Rodney residents having more than twice the average level of local board representation compared to other residents in mainland Auckland does not sit comfortably under the clause 11(5) criteria. Clause 11(6A) of schedule 3 suggests representation relativities (and fairness/equity considerations) across the affected area are relevant consideration when assessing changes to local boards. However, this clause is not directly applicable in this case because the original application was for a unitary authority not a local board.

110. The Act lacks clarity in relation to how local board changes are to be assessed against wider structural change applications. Officers therefore recommend that the Commission assesses issues around the purpose and role of local government in enabling democratic local decision-making and action by, and on behalf of, communities

---

<sup>18</sup> The boundaries of two local boards in Rodney would need to be further clarified during the draft proposal development and consultation phase, if the option was determined to be the preferred option for local government in Auckland. This would include consideration of the communities of interest in Rodney.

as part of the preferred option assessment under clause 12, rather than the reasonably practicable options assessment under clause 11 (in the event that the Commission agrees that the two local boards in Rodney option is otherwise a reasonably practicable option).

## **5.2. Option: North Rodney Unitary Authority**

### *Matters the Commission must have regard to*

111. The area of impact and benefit for this option is the affected area of Auckland in particular North Rodney and the Kaipara Harbour and Hauraki Gulf areas.

112. The exclusion of the North Rodney area from the Auckland Council area would have some adverse effects on Auckland Council:

- Auckland Council's long-term regional growth planning and investment is likely to be significantly and adversely impacted. This is because Auckland's growth will continue to spread into the northern areas of the city such as Warkworth. If North Rodney is excluded from Auckland and included in a different council area, strategic planning to manage population growth will become a cross-boundary issue. While this is achievable, it creates more complexity. For example, the Commission identified the difficulties of cross-boundary strategic planning as an impediment to long-term community wellbeing in the Wellington metropolitan area.<sup>19</sup> We also note the lack of a collective sense of purpose and momentum to address regional issues effectively, such as responding to urban growth, was part of the case for change in the 2010 Auckland Council amalgamation.<sup>20</sup>
- Auckland Council would need to share co-governance and harbourmaster functions in the Hauraki Gulf and Kaipara Harbour with another unitary authority (or possibly two more if a Waiheke Unitary Authority was also established). This would add complexity to current arrangements particularly as both unitary authorities would be of a much smaller scale and scope to other existing unitary authorities and do not have the resources necessary to operate effectively (as is outlined below).

### *Criteria the Commission must be satisfied that any local authority proposed to be established or changed under a reasonably practicable option will meet*

113. The proposed North Rodney Unitary Authority option is not considered a reasonably practicable option as it does not meet the following requirements set out in clause 11(5) of the Act:

- it would not have a region that is appropriate for the efficient performance of its role; and
- it is highly unlikely to have the necessary resources to carry out effectively its responsibilities, duties and powers.

---

<sup>19</sup> Local Government Commission, *Strengthening the Wellington Region*, expected release November 2017

<sup>20</sup> Royal Commission on Auckland Governance, *Royal Commission on Auckland Governance Report, Volume 1*. March 2009, p4

114. While the proposed North Rodney Unitary Authority is an adequate size for a district council in New Zealand, it would not have a region that is appropriate for the efficient performance of an authority that must also undertake regional functions. This is due to the scale and scope of the council in absolute terms as well as the scale and scope of a council that would share co-governance of two large sensitive marine areas. For example, North Rodney's population of around 24,000 would make it the smallest unitary authority in New Zealand at only half the population size of Marlborough District Council – currently the smallest unitary authority in New Zealand.<sup>21</sup>
115. As outlined in section 4.2 and as emphasised by our Peer Review Panel, the cost, capability and capacity requirements associated with the scale and scope of regional functions (which a unitary authority is responsible for) should not be underestimated. For example, the territory of the proposed North Rodney Unitary Authority would contain parts of the Kaipara Harbour and Hauraki Gulf. These two waterbodies are both large sensitive marine environments with particular cultural and economic significance requiring particularly intensive management to protect their values. The special-purpose co-governance arrangements (i.e. the Integrated Kaipara Harbour Management Group and the Hauraki Gulf Forum) reflect the importance of integrated management for the enhancement and protection of these marine areas.
116. The proposed North Rodney Unitary Authority would also not have the resources necessary to enable it to carry out its responsibilities, duties and powers effectively. As demonstrated in Table 2 (Appendix A), financial analysis shows an annual operating deficit of between \$7.6m and \$5.6m for a North Rodney Unitary Authority in the 2015/16 base case used for modelling. Total rates would therefore need to increase by 20 to 27 per cent in one year to offset this deficit (assuming it was funded entirely by rates).
117. The financial analysis that informs this assessment is based on our consideration of Morrison Low's report, feedback from the original applicant and alternative proposers on the report, a peer review process (which comprised a technical review and an expert panel review) and a review of the Auckland context. This consideration resulted in material reductions to the net operating impact of the proposed North Rodney Authority originally calculated by Morrison Low:
- The updated Morrison Low report reissued to the Commission on 20 October 2017 following the technical peer review did not result in material changes to the net operating impact of the proposed North Rodney Unitary Authority.
  - Additional analysis by officials resulted in material reductions to the net operating impact of the proposed North Rodney Unitary Authority. This incorporates:
    - An approximate reduction of 25-50 per cent in the debt apportioned to the proposed council (from \$168m to a range of \$80m to \$120m). This reduced the operating deficit by a range of \$2m to \$4m. This assumption was based on our view of the approximate pre-amalgamation debt in 2010, benchmarking of debt against councils of comparable size/type and a review of key capital expenditure initiatives since 2010).

---

<sup>21</sup> Excluding the Chatham Islands Council, which is governed by separate legislation, receives direct funding from the Crown, and receives external operational support (e.g. Wellington City Council and Environment Canterbury are both building consent authorities for the Chatham Islands Council).

- We also removed the 'regional sports, other, overheads and finance' costs (but retained actual local costs) from sports and parks expenditure. This resulted in a reduction of \$3.8m in the operating deficit.
- These changes are not reflected in the final Morrison Low report issued on 20 October 2017.

118. We also consider the operating deficit is significant and is likely to remain so even after allowing for potential margin of error and scenarios which could improve the upside for the North Rodney Unitary Authority (such as increased funding from the New Zealand Transport Agency and the additional modelling we have undertaken).

119. While a North Rodney Unitary Authority may have a lower unit cost for some functions (such as general corporate overheads) there are some areas where they would face significant diseconomies of scale (such as on many of the environmental regulation and management responsibilities of a unitary authority). For example, Auckland Council's expenditure is highly likely to reflect economies of scale in delivering regional functions especially when compared to the proposed North Rodney Unitary Authority. This is a critical consideration given the capability and capacity issues generally associated with regional and unitary authorities in New Zealand (as outlined in section 4.2).

120. While there are many communities of interest in North Rodney, these communities of interest are not necessarily strong or distinct. They also vary and overlap with surrounding areas including wider Auckland particularly when functional connections are considered. For example, Wellsford residents' retail expenditure is around the same level in wider Auckland as it is in Wellsford, North Rodney residents spend 26 per cent of their retail dollars in wider Auckland, and both Wellsford and Warkworth residents are more likely to work in wider Auckland than each other's area. Ongoing improvements to transport and communications as well as development in Warkworth are likely to strengthen the communities of interest within North Rodney and between North Rodney and wider Auckland in the future (see Appendix D).

121. The proposed southern boundary of the North Rodney Unitary Authority (which follows the Makarau and Waiwera rivers) divides natural catchments in the area. If this was otherwise a reasonably practicable option then we could undertake work to adjust this boundary so it aligns to natural catchments. However, as this option does not meet the other criteria the proposed boundaries have been left as they are.

### **5.3. Option: Waiheke Unitary Authority**

#### ***Matters the Commission must have regard to***

122. The area of impact and benefit is the affected area of Auckland, in particular Waiheke Island and the Hauraki Gulf area.

123. The exclusion of Waiheke Island area from the Auckland region area would have some effects on Auckland Council. This is because an additional unitary authority in this area would impact on the co-governance arrangements and integrated management of the Hauraki Gulf area. However, there is likely to be little effect on Auckland Council's financial position given Waiheke is a very small proportion of Auckland Council's overall budget (less than 1 per cent).

*Criteria the Commission must be satisfied that any local authority proposed to be established or changed under a reasonably practicable option will meet*

124. The Waiheke Unitary Authority option is not considered a reasonably practicable option as it does not meet the requirements set out in clauses 11(5)(a) and (b) of the Act:

- it would not have a region that is appropriate for the efficient performance of its role; and
- it is highly unlikely to have the necessary resources to carry out effectively its responsibilities, duties and powers.

125. The proposed Waiheke Unitary Authority would not have a region that is appropriate for the efficient performance of its role. This is due to the scale and scope of the Waiheke Unitary Council in absolute terms as well as the scale and scope of its functions given it is part of a large sensitive marine environment. For example, Waiheke's population of approximately 9,000 people would make the proposed Waiheke Unitary Authority one of the smallest councils in New Zealand responsible for district functions in population terms, although it does have around 6,000 rating units, which is more per capita than most district councils of a similar size. Further, it would have one fifth the population of Marlborough District Council – currently the smallest unitary authority in New Zealand.

126. As outlined in section 4.2, the cost, capability and capacity requirements associated with the scale and scope of regional functions (which a unitary authority is responsible for) should not be underestimated. For example, the territory of the proposed Waiheke Unitary Authority is situated in the Hauraki Gulf. This waterbody is a large sensitive marine environment with particular cultural and economic significance requiring particularly intensive management to protect their values. The special-purpose statutory arrangements for the co-governance of this area (e.g. the Hauraki Gulf Forum) reflect the importance of this marine area.

127. The proposed Waiheke Unitary Authority would also not have the resources necessary to enable it to carry out effectively its responsibilities, duties and powers. As demonstrated in Table 2 (Appendix A), financial analysis shows an operating deficit of between \$2.0m and \$1.2m for a Waiheke Unitary Authority in the 2015/16 base case used for modelling. Total rates would need to increase by 8 to 13 per cent in one year to offset this deficit (assuming it was funded entirely by rates).

128. The financial analysis that informs this assessment is based on our consideration of Morrison Low's report, feedback from the original applicant and alternative proposers on the report, a peer review process (which comprised a technical review and an expert panel review) and a review of the Auckland context. This consideration resulted in a material reduction to the net operating impact of the proposed Waiheke Unitary Authority:

- The updated Morrison Low report reissued to the Commission on 20 October 2017 following the technical peer review shows a material reduction of \$1.1m in the net operating impact of the Waiheke Unitary Authority due to two errors with the calculations that resulted in the wrong data being used (i.e. an incorrect formula apportionment for Waiheke's solid waste subsidy and an increase in transport revenue to reflect the correct base case year).

- Additional analysis by officials resulted in material reductions to the net operating impact of the proposed Waiheke Unitary Authority (which is in addition to the adjustments made by Morrison Low following the technical review). This incorporates:
  - An approximate reduction of 50 to 75 per cent in the debt apportioned to the proposed council (from \$65m to a range of \$15m to \$30m). This reduced the operating deficit by a range of \$1.6m to \$2.4m. This assumption was based on benchmarking of debt against councils of comparable size/type and a review of key capital expenditure initiatives since 2010).
  - We also removed the 'regional sports, other, overheads and finance' costs (but retained actual local costs) from sports and parks expenditure. This resulted in a reduction of \$1.7m in the operating deficit.
- These changes are not reflected in the final Morrison Low report issued on 20 October 2017.

129. We consider the likely operating deficit is of sufficient magnitude that it would be a high risk option even after allowing for potential margin of error and scenarios which would improve the upside (such as increased funding from the New Zealand Transport Agency and the additional modelling we have undertaken).

130. While a Waiheke Unitary Authority may have a lower unit cost for some functions (such as general corporate overheads) there are some areas where they would face significant diseconomies of scale (such as on many of the environmental regulation and management responsibilities of a unitary authority). For example, Auckland Council's expenditure is highly likely to reflect economies of scale in delivering regional functions especially when compared to the proposed Waiheke Unitary Authority. This is a critical consideration given the capability and capacity issues generally associated with regional and unitary authorities in New Zealand (as outlined in section 4.2).

131. The proposed Waiheke Unitary Authority would contain within its region one or more distinct communities of interest. While there are connections to wider Auckland (which are growing), the communities of interest on Waiheke Island are reasonably strong and contribute to a sense of Waiheke identity that is relatively distinct. For example, Waiheke's status as an island, the similar demographics of its residents and its focus on tourism contribute to a shared and distinct Waiheke identity. It also has connections to wider Auckland which contribute to Auckland Waiheke identity (e.g. work, travel, recreation, shopping and to access some public and private services) (see Appendix E).

132. The proposed Waiheke Unitary Authority would enable catchment-based flooding and water management issues to be dealt with effectively. This is because natural catchments in the area would remain intact.

## 6. Determination of preferred option

133. To assist the Commission to determine the preferred option for local government in Auckland this section of the paper compares the two recommended reasonably practicable options:

- a) the existing local government arrangements; and
- b) two local boards for Rodney.

134. Officers recommend that the status quo is the option that meets the specific tests for a preferred option. A summary of this assessment is provided in Table 1.

**Table 1: Summary assessment of preferred option**

Test (a): The Commission must be satisfied its preferred option will best promote, in the affected area, the purpose of local government. The purpose of local government is:		
<ul style="list-style-type: none"> <li>• to enable democratic local decision-making and action by, and on behalf of, communities; and</li> </ul>		
FACTOR	SUMMARY OF ANALYSIS	
Democratic local decision-making and action	<ul style="list-style-type: none"> <li>• Both options are achievable. However, the status quo provides more fair and effective decision-making on behalf of the Auckland community as a whole.</li> </ul>	
<ul style="list-style-type: none"> <li>• to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.</li> <li>• 'good quality' means efficient; effective; and appropriate to present and anticipated future circumstances.</li> </ul>		
FACTOR	SUMMARY OF ANALYSIS	
Infrastructure	<ul style="list-style-type: none"> <li>• Both options work. Status quo likely to achieve this in a way that is most cost-effective</li> </ul>	
Public services	<ul style="list-style-type: none"> <li>• Both options work. Status quo likely to achieve this in a way that is most cost-effective</li> </ul>	
Regulation	<ul style="list-style-type: none"> <li>• Both options are equivalent as local boards do not perform regulatory functions.</li> </ul>	
CONCLUSION: The status quo meets the clause 12(1)(a) test.		
Test (b): The Commission must be satisfied the preferred option will facilitate, in the affected area, improved economic performance		
FACTOR	SUMMARY OF ANALYSIS	
	Status quo	Two local boards
Efficiencies and savings	Yes	Unlikely
Simplified planning	Yes	Unlikely
CONCLUSION: The status quo meets the clause 12(1)(b) test. We consider that the Commission cannot be satisfied that the option for two local boards would facilitate improved economic performance in the affected area.		

## **6.1. Criteria for assessment**

135. Criteria for the assessment of the preferred option are set out in clause 12(1). These are that the Commission “must be satisfied” that the preferred option:

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

136. Based on the wording used in clause 12(1), the two tests have different weights. The Commission needs to be able to satisfy itself that the preferred option out-performs other reasonably practicable options in terms of promoting the purpose of local government. However, it only needs to be satisfied that the preferred option will also facilitate improved economic performance, but not that it out-performs other reasonably practicable options or the status quo in this regard.

137. The “purpose of local government” in section 10 has two parts. The first relates to enabling “democratic local decision-making and action by, and on behalf of, communities”. We take the ‘democratic’ aspect of decision-making and action-taking to mean that the decision-makers and action-takers are elected by and are accountable to the people in the area concerned. Arrangements for their election therefore need to meet the principle of “fair and effective representation for individuals and communities” as per section 4 of the Local Electoral Act 2001. This principle applies for all local authorities.

138. The second part of the definition is about the ability to “meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.” “Good-quality” is defined as efficient, effective and appropriate to present and anticipated future circumstances. The focus here is more on questions of capacity and capability in the efficient delivery of infrastructure services and regulation, and “fitness for the future”.

139. The criteria in clause 12(1) are to be applied to the “affected area”, which, for the purposes of assessing a preferred option in this case, is the entire Auckland Council region.

## **7. Assessment of options against legislative criteria for preferred option**

### **7.1. The status quo best promotes the purpose of local government**

#### *Enables democratic decision-making and action by, and on behalf of, communities*

140. Both options enable democratic decision-making and action by, and on behalf of, communities. However, officers consider that the status quo *best* enables it because there are issues with local board effectiveness under the status quo which would not be resolved by the creation of an additional local board in Rodney and the status quo is fairer on the rest of Auckland (outside Rodney). Further, an additional board in Rodney (or any other area of Auckland) may increase the magnitude of these issues.
141. The current Auckland Council is made up of the governing body (the Mayor and 20 ward councillors) and 21 local boards. The Rodney area is represented by the Rodney ward councillor and the Rodney Local Board (with nine members, four of whom represent the North Rodney area and five representing South Rodney). These arrangements provide democratic decision-making and action for Auckland communities at both a regional and local level.
142. Our public engagement programme and research in the Rodney area revealed that some people do not feel well represented through these governance arrangements. Some people suggested this was due to insufficient representation given the Rodney local board area comprised 46 per cent of Auckland's land area and suggested an additional local board in Rodney may be a solution.
143. There is an average of one local board member for every 10,835 people in Auckland. Rodney, with one local board member for every 6,911 people, has the lowest ratio of local board member to population in mainland Auckland (excluding the Waiheke and Great Barrier Island Local Boards). This is not inappropriate given the lower population densities and more rural character in the Rodney area. However, an additional local board in Rodney would reduce this ratio further, resulting in one local board member for every 5,972 people in South Rodney and one local board member for every 4,392 people in North Rodney.<sup>22</sup> This would provide North Rodney residents with more than twice the average level of local board representation compared to other residents in mainland Auckland. This would not be fair to other residents of mainland Auckland as residents in Rodney would have a greater voice.
144. Our public engagement programme and research in the Rodney area also revealed that some people thought that part of the problem was that local boards lacked the powers and mechanisms to be effective.
145. We understand Auckland Council is aware of issues related to the general effectiveness of local boards in Auckland and recently concluded a Governance Review to address these matters. There is no evidence that:
- the problem is specific to North Rodney and/or Waiheke; or

---

<sup>22</sup> All estimates from Statistics New Zealand, based on the subnational population estimates at 30 June 2016 (2017 boundaries)

- the problem would be resolved simply by creating a second local board in Rodney.

146. Auckland Council has also made decisions that will address some of the issues related to local board effectiveness but they are not likely to be resolved immediately or by simply increasing the number of local boards in Rodney (or any other area of Auckland).

Further, an additional board in Rodney (or any other area of Auckland) may increase the magnitude of these issues. We therefore consider there would be no corresponding discernible benefit to local democratic decision-making or action.

***Meets the current and future needs of communities in the most cost-effective way***

147. The status quo best meets the current and future needs of communities in the most cost-effective way when compared with the option for an additional local board in Rodney although the gap between the options is relatively narrow under this criterion.

148. This criterion focuses on questions of capacity and capability in efficient delivery of infrastructure, services and regulation, and “fitness for the future”. This is a minor factor when assessing the two local boards option as Auckland Council would retain similar levels of capacity and capability under both options and regulatory functions would remain under Auckland Council in both cases.

149. The key words are therefore “most cost-effective for households and businesses.” An additional local board would introduce more operational complexity for Auckland Council which would then be passed onto ratepayers and residents. While this is not material, it is less cost-effective than the status quo. For example, businesses working across the region or residents who have properties in different parts of the city may have to consult with an additional local board than is currently the case.

## **7.2. The status quo will facilitate improved economic performance**

150. We consider that the status quo will facilitate improved economic performance in the affected area. This is because Auckland Council has taken measures to improve operational efficiencies and will continue to do so in the medium term. We consider an additional local board in Rodney would increase costs to Auckland Council. While this is minimal, these costs would be passed on to ratepayers and residents with little corresponding economic benefit.

151. An additional local board in Rodney will add approximately \$1m to Auckland Council’s direct costs. These additional direct costs may also offset any economic benefits Auckland Council is making due to efficiency savings for local boards on an ongoing basis (e.g. Auckland Council is currently undertaking a three-year review of the cost-effectiveness of council services).<sup>23</sup>

152. Consistent with paragraph 149, there will also be additional indirect costs to Auckland Council due to increased operational complexity. This is because Auckland Council will need to produce an additional local board plan and the Governing Body will need to consult with another local board.

---

<sup>23</sup> Auckland Council, *Budgets, spending and savings*, <https://www.aucklandcouncil.govt.nz/about-auckland-council/performance-transparency/Pages/budgets-spending-saving.aspx>  
Auckland Council, *Value for money review (VFM)*, <https://www.aucklandcouncil.govt.nz/about-auckland-council/performance-transparency/Pages/value-for-money-review.aspx>

153. Both the direct and indirect costs may be offset somewhat by economic benefits associated with more effective local engagement. For example, better local information could improve the quality of decision-making which might lead to operational efficiencies and improve liveability (which has productivity benefits). However, on balance, we consider these benefits would be minimal given the issues with local board effectiveness.

## **8. Next steps**

154. Clause 13 sets out the steps the Commission must take following its determination of the preferred option for local government in Auckland. If the Commission agrees that the status quo is the preferred option the Commission must give notice of its determination and the reasons for it to each applicant and every affected local authority.

155. If the preferred option is not the status quo, officers will provide advice on the next steps at the December meeting of the Commission.

### **8.1. Notifying our stakeholders**

156. We propose to release the Commission's decision on 30 November and hold face-to-face meetings in North Rodney and Waiheke with the original applicant and 38 alternative proposers, local government elected representatives and iwi. This will be followed by a media release and formal notification.

### **8.2. Further advice to be provided in December**

157. Officers will provide advice to the Commission at the December meeting on the potential to use powers under section 31 of the Act to make non-binding recommendations to Auckland Council. Our advice will consider how the Commission may want to address a number of operational issues raised by the original applicant, alternative proposers and the community which do not fall within the scope of a reorganisation proposal.

# Appendix A: Comment on financial analysis

## Background

1. Morrison Low's report *Auckland Reorganisation Process: Auckland Options Assessment* was first issued to officers on 18 July 2017. The original applicant, alternative proposers and all relevant councils were provided with an opportunity to provide feedback to us on the report. As a result of that feedback, we decided to undertake a peer review of Morrison Low's report. This included:
  - independent testing of the integrity and arithmetic accuracy of the logic contained in Morrison Low's financial model by a major international consultancy firm; and
  - a review of the reasonableness of the key assumptions in the report by an independent panel of local government experts (the peer review panel minutes – Appendix C).
2. The feedback was then provided to both the technical reviewer and peer review panel as part of their brief.
3. The Morrison Low report reissued to us on 20 October was only updated to reflect the findings of the technical peer review but not the expert panel. Officers have considered this updated report along with the findings of the expert panel, feedback from the original applicant and alternative proposers, and consideration of the unique Auckland context and related issues. This appendix provides a summary of these integrated findings and concluding comments on how the Commission might view the financial analysis supporting the decision.

## Feedback from applicants and alternative proposers

4. Some alternative proposers supported the assumptions used in the Morrison Low report and its findings. However, the original applicant and some alternative proposers questioned the assumptions, findings and transparency of the process. The following is a summary of the main issues we heard:
  - the amount of debt allocated to the proposed North Rodney Unitary Authority and Waiheke Unitary Authority is not transparent and presumably high;
  - it is not reasonable to assume that all additional costs (if they existed) would be met from rates revenue;
  - smaller district councils are more likely to experience economies of scale than larger councils like Auckland Council (which they consider to have an inflated cost structure);
  - the proposed North Rodney Unitary Authority and Waiheke Unitary Authority should be benchmarked against the costs and levels of service of similar sized district councils rather than Auckland Council;
  - the assumption that current Auckland Council levels of service would be retained under the proposed North Rodney Unitary Authority or Waiheke Unitary Authority is not correct because some people want lower or different levels of service;

- the modelling of the North Rodney Unitary Authority should be based on the model proposed by the Northern Action Group in its updated application (e.g. it should include community boards based on the Thames-Coromandel District Council on the assumption that these community boards are more effective in managing cost increases, include more funding from the New Zealand Transport Agency than is currently received through Auckland Council, rely on community volunteers to deliver some services currently delivered by council staff, and assume that Auckland Council will pay for the costs of regional parks in the North Rodney area); and
- small unitary authorities do not have significant capability and capacity issues.

## **Findings**

5. We have considered the feedback from the original applicant and alternative proposers along with the findings from the peer review process and additional analysis we have undertaken on the Auckland context and related matters. Our findings are as follows.

### ***General modelling approach***

6. We consider that modelling de-amalgamations from Auckland Council is a complex and challenging task due to the way council information is categorised (e.g. often grouped by activity rather than local board area), the inability to make assumptions on the preferences of an incoming council and the constraints around benchmarking (as outlined in the next section).
7. Local government is increasingly being driven by increased compliance, public expectations and collaboration with public and private partners. These drivers are increasing cost pressures and reducing the ability of councils to operate in isolation.
8. The Peer Review Panel confirmed that a bottom-up modelling approach based on the delivery of key services is unlikely to be accurate.
9. Morrison Low demonstrated awareness of these issues in their report.

### ***Benchmarking***

10. The modelling of the two proposed unitary authorities must consider the costs of delivering regional functions as well as district functions (as outlined in further detail in the next section).
11. There are no equivalent unitary authorities in New Zealand of the scale and scope of the proposed unitary authorities. Marlborough District Council is the smallest unitary authority in New Zealand but is around twice the size of the proposed North Rodney Unitary Authority and around five times the size of the proposed Waiheke Unitary Authority.
12. Further, the Peer Review Panel (which included the former Chief Executive of Marlborough District Council) agreed that benchmarking can be useful to cost some functions such as corporate overheads. However, it may be misleading if it does not account for specific local circumstances such as level of growth, location and environmental and physical factors (e.g. geotechnical factors and percentage of state highways are major variables on roading costs). Many of these unique circumstances are reflected in the Auckland data to an extent.

13. Morrison Low demonstrated awareness of these issues in their report and did base some costs on those of a small council (e.g. governance and support costs).

#### ***Unitary functions – capability and capacity***

14. Section 4.2 of the paper sets out capability and capacity issues and needs of a unitary council (which include regional functions as well as the functions of a district or city council). The costs with managing the regional council environmental functions should not be underestimated (e.g. state of the environment reporting and monitoring and coastal planning and management).
15. While Morrison Low acknowledged these issues in its report, the view of the Peer Review Panel was that the costs associated with them were potentially understated. This is in part because the unitary authority options are based on Auckland Council unit costs which are highly likely to reflect the potential economies of scale Auckland Council has in providing these functions. It is not likely that both the proposed North Rodney Unitary Authority and Waiheke Unitary Authority would achieve these same efficiencies in these specific areas.

#### ***Local preferences***

16. There are challenges with making assumptions on the service level preferences of an incoming council given that these levels generally reflect a combination of customer preferences, regulation and council policy. In addition, although we have seen a demand for improved service levels, we have seen little evidence to suggest there is appetite for lower levels of service. We consider it is therefore reasonable to assume a similar level of service as the status quo when modelling service levels.
17. While there is scope for any new unitary authority to negotiate cross-subsidisation agreements with adjoining councils (e.g. regional parks usage), a new council should not depend on these arrangements. Further, the Peer Review Panel noted a new council should not assume adjoining councils might not insist on negotiating similar arrangements in the other direction. This would likely neutralise the initial benefits of these arrangements.
18. Morrison Low demonstrated awareness of these issues in their report.

#### ***Community boards***

19. Morrison Low was advised by officers not to include sensitivity analysis on the Thames-Coromandel District Council style of community boards in the base model of the proposed North Rodney Unitary Authority. This is because officers do not consider these are typical arrangements for a local authority of this size and type. Further, we consider this is a matter for consideration at the draft proposal stage of a reorganisation process or as a matter that an incoming council may deliberate on. However, given feedback from the original applicant, we decided to model community boards as a potential scenario.
20. Morrison Low modelled five community boards but increased the number of elected representatives to four instead of three (as was proposed by the original applicant). This is because the legal minimum of elected representatives for a community board is four. The cost of each community board modelled was \$150,000 per annum resulting in a total of \$0.75m per annum.

21. The modelling assumed key costs such as remuneration, venue hire, governance and policy advice but did not include the full costs of administering the Thames Coromandel District Council community boards. These additional costs reflect a higher-level of empowerment for community boards in Thames-Coromandel than is standard in New Zealand. This requires additional staff resource and therefore expenditure (i.e. four extra managers and 7.5 support staff in the case of Thames-Coromandel). Including these additional resources would potentially double the total cost of the community boards for the North Rodney Unitary Authority.
22. It follows that the community boards would significantly increase the size of the deficit of the proposed North Rodney Unitary Authority irrespective of the number of boards or the extent of the delegations to the boards.
23. Morrison Low demonstrated awareness of these issues in their report.

#### ***Auckland pricing (including economies of scale)***

24. There is little quantitative evidence on the effect of economies or diseconomies of scale in New Zealand local government. The research that does exist stops short of making conclusive findings. However, some inferences can be drawn. At a general level, cost curves tend to be U shaped which means some economies may be realised at a small scale but may decline as scale increase. This is balanced somewhat by the higher cost of providing infrastructure and services in more rural areas (such as North Rodney and Waiheke),<sup>24</sup> the benefits of an integrated approach<sup>25</sup> and the likely economies of scale Auckland Council has in delivering regional council functions.
25. In regards to this later point, we note the Commission's experience in greater Wellington:
  - An initial desktop exercise by TDB and Martin Jenkins in 2013, commissioned by the three Wairarapa Councils, identified likely efficiencies from a Wairarapa Unitary Authority including cost savings of around 3 per cent.<sup>26</sup>
  - More detailed work by BERL, undertaken for the Commission, showed that the three Wairarapa councils would be \$10-\$11m worse off per annum as a unitary authority.<sup>27</sup>
26. We also note the Peer Review Panel's finding that most assumptions in Morrison Low's report appear reasonable or immaterial to the overall assessment on balance, and that some of the key cost drivers of a territorial council (i.e. water and roading costs) appear low potentially reflecting cross subsidisation in Auckland.
27. Further, the review panel indicated that overseas experience suggests the additional rates burden of de-amalgamation can be in the region of 10-20 per cent.

---

<sup>24</sup> Chapman, Ralph. *Do denser urban areas save on infrastructure? Evidence from New Zealand territorial authorities*. Policy Quarterly, Vol. 12, Issue 3, pp 63-69

<sup>25</sup> Royal Commission on Auckland Governance, *Royal Commission on Auckland Governance Report, Volume 1*. March 2009, p3-4

<sup>26</sup> MartinJenkins and Taylor Duignan Barry, *Assessment of the viability of a Wairarapa Unitary Authority*, 8 April 2013, p5

<sup>27</sup> Local Government Commission, *Draft proposal for reorganisation of Local Government in Wellington, Volume 2, Technical report: Evaluation of the options and the draft proposal*. December 2014. P133

28. Morrison Low demonstrated awareness of these issues in their report although is not aware of evidence of overseas experience which suggests de-amalgamations can result in increases of 10-20 per cent. They have therefore not factored this into their modelling.

***Unreasonable assumptions***

29. The technical review resulted in a significant adjustment of \$1.1m to the net operating impact of the Waiheke Unitary Authority from \$6.4m to \$5.3m. This reflects a \$700,000 reduction in solid waste expenditure because the formula apportioned cost based on Waiheke against North Rodney instead of against Auckland; and an increase of \$400,000 in transport revenue between the 2011/12 financial year and 2015/16 financial year that had not been accounted for in the financial model. The Morrison Low report has been updated to reflect these issues and reissued to officials on 20 October 2017.
30. The Peer Review Panel found most assumptions in Morrison Low's report appeared reasonable, or immaterial to the overall assessment on balance. However, it found that cost associated with 'debt' and 'regional and local and parks and sport expenditure activities group' appeared both high and material for each of the proposed unitary authorities.
31. The Morrison Low report has not been updated to reflect the findings of the Peer Review Panel but officers have undertaken additional modelling to reflect these findings. Table 2 provides a summary of the modelling and assumptions we used. This includes:

***North Rodney Unitary Authority***

- An approximate reduction of 25-50 per cent in the debt apportioned to the proposed council (from \$168m to a range of \$80m to \$120m). This reduced the operating deficit by a range of \$2m to \$4m. This assumption was based on our view of the approximate pre-amalgamation debt in 2010 (whole of Rodney was \$297m), benchmarking of debt against councils of comparable type and size (population and number of rating units) and a review of key capital expenditure initiatives since 2010.
- We also removed the 'regional sports, other, overheads and finance' costs (but retained actual local costs) from sports and parks expenditure. This removes some costs that the Peer Review Panel considered were likely to reflect much higher urban levels of service than would be delivered by a smaller council. This reduction is also a proxy for a smaller potential reduction in other activity classes. This resulted in a reduction of \$3.8m in the operating deficit.

***Waiheke Unitary Authority***

- An approximate reduction of 50 to 75 per cent in the debt apportioned to the proposed council (from \$65m to a range of \$15m to \$30m). This reduced the operating deficit by a range of \$1.6m to \$2.4m. This assumption was based on benchmarking of debt against councils of comparable type and size (population and number of rating units) and a review of key capital expenditure initiatives since 2010).

- We also removed the 'regional sports, other, overheads and finance' costs (but retained actual local costs) from sports and parks expenditure. This removes some costs that the Peer Review Panel considered were likely to reflect much higher urban levels of service than would be delivered by a smaller council. This reduction is also a proxy for a smaller potential reduction in other activity classes. This resulted in a reduction of \$1.7m in the operating deficit.

## **Conclusion**

32. Overall we consider there are challenges with modelling unitary authorities in both the North Rodney and Waiheke areas.
33. Some of the points raised by the original applicant and the alternative proposers (such as the amount of debt attributed to the unitary authorities and to regional and local parks and sport expenditure) were validated by the peer review process as legitimate issues requiring further consideration. As a result we undertook additional modelling and made adjustments to the net operating impact and annual percentage change in total rates required for both unitary authorities. We consider that these adjustments provide a reasonable estimate of the potential financial implications on the proposed unitary authorities. As a result:
  - The net operating impact of -\$13.5m for the North Rodney Unitary Authority in Morrison Low's report has been reduced to a range of -\$7.6m to -\$5.6m. This is a reduction of between \$5.9m to \$7.9m. Rates would need to increase by 20 to 27 per cent in one year to offset this deficit rather than 48 per cent if the deficit were funded entirely by rates).
  - The net operating impact of -\$5.3m for the Waiheke Unitary Authority in Morrison Low's report was reduced to a range of -\$2.0 m to -\$1.2 m. This is a reduction of between \$3.3m to \$4.1m from the amount modelled by Morrison Low. Rates would need to increase by 8 to 13 per cent in one year to offset this deficit rather than 43 per cent (if the deficit were funded entirely by rates).
34. Officers believe these adjustments still result in significant deficits for both unitary authorities even after allowing for potential margin of error and different scenarios (e.g. such as increased funding from the New Zealand Transport Agency). This reflects both the amount of the deficit and the understated costs associated with the capabilities and capacity of unitary authorities.
35. The financial impact of the two local boards in Rodney option remains the same.

**Table 2: Financial implications for North Rodney and Waiheke Unitary Authorities following additional analysis by officers**

Financial implications	North Rodney Unitary Authority	Waiheke Unitary Authority
<b>Initial Morrison Low report 18 July</b>		
Net operating impact (surplus/ <b>deficit</b> ) (assuming 2015/16 financial year base case data)	-\$13.5m	-\$6.4m
Percentage change in total rates required in Year One (assuming the deficit is funded from rates)	48%	43%
<b>Suggested changes to figures following peer review</b>		
Correction of issues found in technical review (an incorrect formula apportionment for Waiheke’s solid waste subsidy and an increase in transport revenue to reflect correct base year data).	No change	Reduces annual expenditure by \$1.1m
Adjustment to net operating impact to allow for different assumptions for initial debt of new councils: <ul style="list-style-type: none"> <li>• North Rodney: \$80m to \$120m (based on approximate pre-amalgamation debt, benchmarking of debt against councils of comparable type and size (population and number of rating units) and review of key capex initiatives since 2010)</li> <li>• Waiheke: \$15m to \$30m (based on benchmarking of debt levels against district councils of comparable size (population and number of rating units) and review of key capex initiatives since 2010)</li> </ul>	Reduces annual deficit by \$2.0m - \$4.0m	Reduces annual deficit by \$1.6m - \$2.4m
Remove ‘regional sports, other, overheads & finance’ cost (but retain actual local costs) from sports and parks expenditure	Reduces annual deficit by \$3.8m	Reduces annual deficit by \$1.7m
<b>Revised figures</b>		
Net operating impact (surplus/ <b>deficit</b> )	-\$7.6m to -\$5.6m	-\$2.0m to -\$1.2m
Percentage change in total rates required in Year One (assuming the deficit is funded from rates)	20% to 27%	8% to 13%

All numbers are rounded to one decimal place

# Appendix B: Morrison Low report

NB: See attachment of the same name

# Appendix C: Peer Review Panel minutes

NB: See attachment of the same name

## **Appendix D: Communities of interest study – Rodney**

NB: See attachment of the same name

# Appendix E: Communities of interest study – Waiheke

NB: See attachment of the same name

# Appendix F: Community support research findings

NB: See attachment of the same name