Southland reorganisation investigation

Local Government Commission
Final Report



MARTIN JENKINS

30 September 2026
Commercial in Confidence

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Preface

This report has been prepared for the Local Government Commission by Nick Carlaw and Raeana Connell from MartinJenkins (Martin, Jenkins & Associates Ltd).

For over 30 years MartinJenkins has been a trusted adviser to clients in the government, private, and non-profit sectors in Aotearoa New Zealand and internationally. Our services include organisational performance, employment relations, financial and economic analysis, economic development, research and evaluation, data analytics, engagement, and public policy and regulatory systems.

We are recognised as experts in the business of government. We have worked for a wide range of public-sector organisations from both central and local government, and we also advise business and non-profit clients on engaging with government.

Kei te āwhina mātau ki te whakapai ake i a Aotearoa. We are a values-based organisation, driven by a clear purpose of helping make Aotearoa New Zealand a better place. Our firm is made up of people who are highly motivated to serve the New Zealand public, and to work on projects that make a difference.

Established in 1993, we are a privately owned New Zealand limited liability company, with offices in Wellington and Auckland. Our firm is governed by a Board made up of Executive Partners and Independent Directors. Our Independent Directors are Jenn Bestwick and Chair David Prentice. Our Executive Partners are Sarah Baddeley, Nick Carlaw, Allana Coulon, and Nick Davis.

Executive summary

Overview

MartinJenkins estimated the financial effects of two options for reorganising Southland's local government

The Local Government Commission asked MartinJenkins to estimate the financial effects of two options it has short-listed for reorganising local government in Southland – Option 1 being a single unitary authority for the whole region, and Option 2 being two unitary authorities, one for Invercargill City and one for Southland and Gore Districts.

We compared each of these two options with the same forecast status quo over 25 years. We summarise our approach at the end of this Executive Summary.

Option 1, a single authority, produces the stronger financial result

We found that Option 1, a single unitary authority, has the stronger financial result. It costs about the same as Option 2 to set up, but saves about four times as much each year because it removes more duplication in leadership and organisation-wide functions.

Over 25 years, Option 1 produces a net financial benefit of $66.0 million, while Option 2 has a net cost of $4.7 million.

Option 1 stayed ahead of Option 2 even when we changed some assumptions to test our analysis.

Option 1, the single authority, would also have a greater capacity to absorb a large financial shock.

Our analysis contributes only part of the Commission's overall assessment of the options

Our analysis leaves many important effects of each reorganisation option unquantified. These include representation, local voice, iwi partnership, community identity, and the practical risks of implementation, which were all outside the scope of our analysis. The Commission will weigh those considerations alongside the results of our analysis in its overall assessment.

The results of our analysis are also not a forecast of changes in rates, as they show only the change in council costs. What ratepayers pay would depend on rating policies and other key decisions by each new authority.

What we were asked to do

The Local Government Commission is investigating how local government could be reorganised in Southland. It has short-listed two options for a detailed assessment:

- **Option 1:** one unitary authority for the whole region, combining Invercargill City Council (ICC), Southland District Council (SDC), Gore District Council (GDC), and Environment Southland (ES)



- **Option 2:** two unitary authorities, one based on the current Invercargill City area and one combining the Southland and Gore districts. A joint committee would oversee specific regional functions that affect both.

The Commission asked MartinJenkins to estimate the financial effects of each option compared with the current arrangements (the status quo). Our analysis informs the assessment criteria on costs, efficiency, financial resilience, and service sustainability. It is one input to the Commission's wider assessment. We were not asked to recommend an option.

Southland's councils face rising costs on a small rating base

In Southland, four councils serve about 103,000 people across New Zealand's second-largest region. Between FY27 and FY34, the councils' costs are forecast to grow by 2.7% a year, while the number of rating units grows by 0.3% a year. The councils' adopted plans have responded with rates rises averaging 4.9% a year and a capital programme of $1.48 billion, mostly for renewals. Aggregate net debt is forecast to increase from $190 million in FY25 to about $730 million by FY34. Almost all of the increase is in Invercargill and Southland District.

The councils' financial positions differ widely. By FY34, Invercargill's net debt is forecast to reach 205% of revenue. Environment Southland carries little debt. Gore's water services move to Southern Waters in July 2027. Each council has its own leadership team, corporate functions, and systems, and all four are partway through system upgrades.

How the options compare

Option 1 has the stronger financial result

Option 1 costs about the same as Option 2 to set up, but saves about four times as much each year because it replaces four sets of leadership and organisation-wide functions with one. Over 25 years, Option 1 produces a net financial benefit of $66.0 million. Option 2 has a net cost of $4.7 million.

The savings are modest relative to Southland's cost base. Option 1 reduces operating costs by about 1.9% a year, which is less than the councils' forecast annual cost growth. On this basis, reorganisation would not remove the pressures of rising infrastructure costs, a slow-growing rating base, and increasing debt.

The largest difference between the options is financial capacity. A single authority would hold the region's revenue and borrowing capacity in one place and could absorb a large, unplanned cost far more easily than any current council or than either of the two authorities under Option 2.

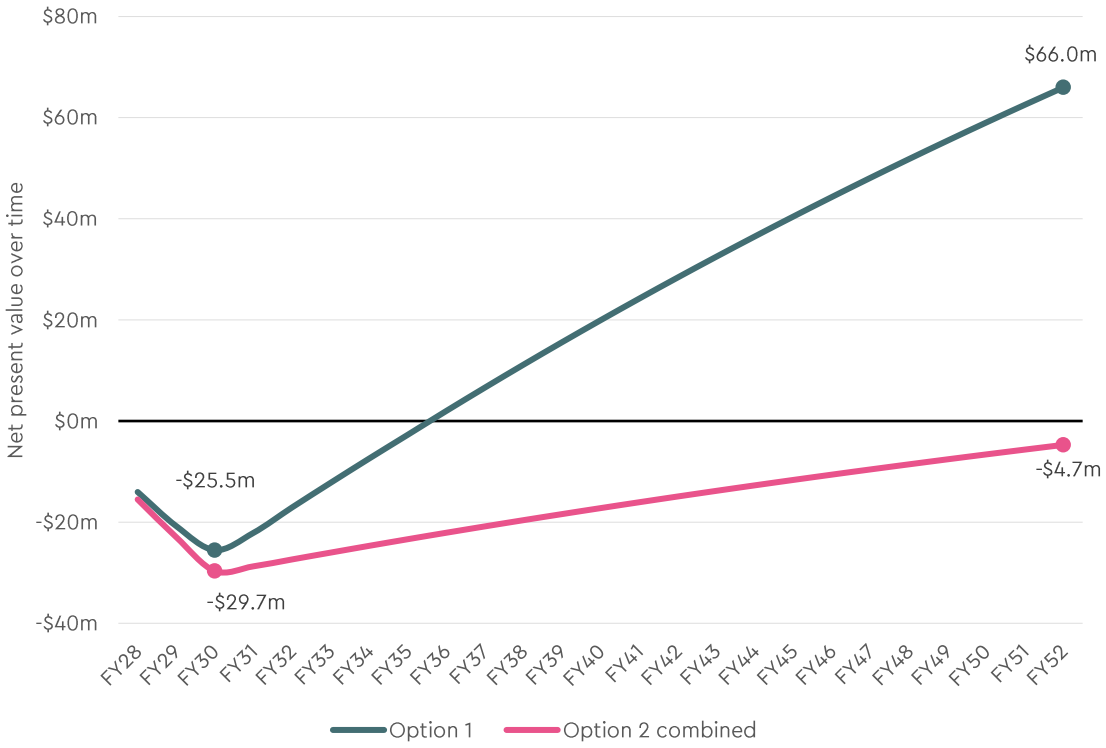
Table 1: Headline results, base case

Measure	Option 1. Single unitary authority	Option 2. Two unitary authorities (combined)	Option 2. Invercargill-based authority	Option 2. Southland/Gore-based authority
One-off transition cost (nominal)	$33.8m	$33.2m	$15.3m	$17.9m
Reduction in annual operating costs (FY27 base)	$6.0m	$1.5m	–	–
25-year net financial benefit (present value)	$66.0m	($4.7m)	$11.3m	($16.0m)
Recovers transition and financing costs	FY36	Not within 25 years	FY42	Not within 25 years
Net debt-to-revenue, FY32	156%	159%	204%	120%

Positive figures mean a lower cost than the status quo. Net financial benefit is the present value over FY28 to FY52.

Both options cost more than the status quo during the three transition years. Option 1 recovers its transition and financing costs by FY36. Option 2's annual savings are too small to recover its costs within the modelled period.

Figure 1: Cumulative net financial benefit over time, present value



The difference comes from how much duplication each option removes

Table 2: Annual operating changes, applied to the FY27 cost base ($ million a year)

Source of savings	Option 1. Single unitary authority	Option 2. Two unitary authorities (combined)
Fewer chief executives and group managers	$4.0	$1.9
Fewer roles in organisation-wide functions	$6.1	$4.4
Fewer other managers and team leaders	$1.5	$0.4

Source of savings	Option 1. Single unitary authority	Option 2. Two unitary authorities (combined)
Workforce savings	**$11.7**	**$6.7**
Pay alignment for comparable roles	($2.6)	($1.3)
Governance, including local boards	($2.0)	($2.9)
Gore's remaining water overheads	($1.0)	($1.0)
Net annual saving	**$6.0**	**$1.5**
As a share of operating costs	1.9%	0.5%

Governance costs increase under both options, because the cost of new local boards is greater than the saving from having fewer councillors. Under Option 2, governance costs use up almost half of the workforce saving.

Option 2's two authorities would each have different results

Under Option 2, the Invercargill-based authority recovers its costs and produces a net benefit of $11.3 million. It has lower governance costs and does not carry Gore's remaining water overheads, but it would inherit Invercargill's high debt. The Southland/Gore-based authority has a net cost of $16.0 million. Its savings do not cover the governance costs of having seven local boards.

Environment Southland's region-wide rates currently share some costs across district boundaries. Under Option 2, each of the two authorities would pay for its own share of regional costs unless the two agreed to share them. We concluded that any current transfer between the two areas (Invercargill and Southland/Gore districts) is small.

A single authority would be best able to absorb a large, unplanned cost

We tested the effect of an added $100 million of debt in FY32, for example from a major flood or asset failure, against a borrowing limit of 280% of revenue. We used the same shock for each entity to provide a consistent comparison. While a single cost of this size may be less likely for a small council such as Gore, the result shows its capacity to absorb a large unplanned cost.



Table 3: Borrowing headroom after a $100 million shock in FY32

Entity	Net debt-to-revenue after shock	Headroom remaining
Gore District Council	361%	($31m), over the limit
Invercargill City Council	265%	$29m
Southland District Council	203%	$130m
Option 1	177%	$488m
Option 2: Invercargill-based	249%	$68m
Option 2: Southland/Gore-based	159%	$306m

The test excludes insurance, central government support, and reserves.

Under the status quo, Gore would exceed the limit and Invercargill would have little headroom left. Option 2 would place Gore within a larger revenue base, but the Invercargill-based authority would still have limited headroom, and neither authority could draw on the other's capacity.

Option 1 stays ahead under all assumptions we tested

Some of our assumptions are uncertain, so we tested how the results change when they move. Each test in the table below changes one assumption and keeps the rest of the base case the same. We chose the assumptions that are least certain: transition costs, procurement savings, pay alignment, operating savings, and the discount rate. Option 1 remains ahead of Option 2 in every test.

Table 4: Effect of key assumptions on 25-year net financial benefit

Test	Option 1. Single unitary authority	Option 2. Two unitary authorities (combined)
Base case	$66.0m	($4.7m)
Option 2 transition costs halved	$66.0m	$10.3m
Procurement and capital savings included	$135.2m	$13.6m
Option 1 pay alignment raised from 3% to 5%	$39.3m	($4.7m)
Option 2 operating savings tripled	$66.0m	$52.0m
Local Boards increase from 9 (2 Invercargill, 7 Southland/Gore) to 13 (2 Invercargill, 11 Southland/Gore)	$32.7m	($32.7m)
Higher discount rate	$19.5m	($14.1m)
Combined "High" case (lower-cost) to "Low" case (higher-cost)	($11.0m) to $190.5m	($74.5m) to $57.0m

We also tested two combined cases. The "High" case (lower-cost) moves several assumptions in Option 2's favour and the "Low" case (higher-cost) moves them against it. The chart below shows the resulting range for each option. The ranges overlap: in the lower-cost case, Option 2's net benefit ($57.0 million) is higher than Option 1's result in the higher-cost case (a net cost of $11.0 million). But when both options are tested under the same assumptions, Option 1 is ahead in all three cases.

Figure 2: Range of 25-year net financial benefits



The results do not show the effect on rates or on local voice

The results of the analysis are not a rates forecast

The results show the change in council costs. What ratepayers pay would depend on how a new authority chose to use savings, fund the transition, and set its rating policies, measured against a status quo in which rates are already set to rise by about 4.9% a year.

Many important effects are not quantified

Outside the scope of this analysis are representation, local voice, iwi partnership, community identity, and the practical risks of implementation. The Commission will weigh those considerations alongside these results.

How we approached the analysis

We compared each of the Commission's two short-listed options with the same forecast status quo over 25 years, from FY28 to FY52.

We took account only of changes that follow directly from reorganisation. We did not try to predict how a future authority would choose to deliver services, such as bringing contracted work in-house,

outsourcing, or changing service levels. Those would be decisions for each new council, and many of those decisions could also be made under the current arrangements.

This means the costs of delivering services carry through largely unchanged under both options. We assumed the four councils are equally efficient at delivering comparable services, so we did not assume savings from bringing one council's costs into line with another's. If one council is currently less efficient, reorganisation could produce savings we have not counted. The reverse is also possible.

Our analysis also carries through unchanged the costs of existing shared services and council-controlled organisations (CCOs). Arrangements such as Emergency Management Southland and WasteNet may no longer be needed in their current form, but the work they do would still need to be done by the same staff. We therefore assumed no savings or added costs from them. The effort of monitoring CCOs sits within corporate overheads, which the workforce estimates already cover.

For each option we estimated:

- one-off transition costs, covering the establishment team, systems, branding, and a 15% contingency
- changes in governance costs, including new local boards and the end of community boards
- savings from fewer chief executives, group managers, and duplicated organisation-wide roles such as finance, IT, and communications
- the cost of redundancy and aligning pay for comparable roles across the councils, and
- the cost of borrowing to fund the transition.

Several choices in our analysis make the base case conservative:

- **No procurement or capital savings** – The base case excludes savings from combined purchasing or better capital delivery. We tested these separately in a "High" case.
- **Frontline and specialist roles retained** – Reductions were limited to duplicated leadership, management, and organisation-wide roles. Place-based managers were kept.
- **Workforces above comparator levels** – Both options leave more staff per resident than the median of comparable unitary councils (Nelson, Tasman, Marlborough, and Gisborne).
- **No saving from vacancies** – Removing a vacant position creates no saving in salaries, so no cost saving was recognised in these cases.

For Option 2, with two authorities based on Invercargill and Southland/Gore, we split Environment Southland's costs between the two authorities using ES's own function-level allocations: about 32% to the Invercargill authority and 68% to the Southland/Gore authority. These are modelling assumptions, and are set out in Appendix 1. They do not determine where staff, assets, or responsibilities would sit.

Introduction

This introduction explains why the Local Government Commission is investigating ways of reorganising local government in Southland and describes the two options the Commission has short-listed for further assessment.

It outlines the statutory assessment framework, the purpose and scope of MartinJenkins' work in producing this report, and the main assumptions and limitations that guided our analysis. It also summarises our approach and explains how the rest of the report is organised.

The purpose and scope of this report

The Local Government Commission is assessing two short-listed options for reorganising local government in Southland

The Local Government Commission is investigating the possible reorganisation of local government in Southland under Schedule 3 of the Local Government Act 2002. The investigation follows a reorganisation initiative lodged by Southland District Council in February 2025, which proposed changes to existing local government arrangements in the region.

The Commission decided on 7 July 2025 to formally investigate that proposal, after consulting with Environment Southland, Gore District Council, Invercargill City Council, Southland District Council, and Te Ao Mārama Inc on behalf of Ngāi Tahu ki Murihiku.

The Commission chose two options to assess in more detail: a single unitary authority model and a two unitary authority model. These options are described in more detail later in this report.

The two options are being assessed against the current arrangements using an assessment framework

The Local Government Act 2002 sets out a process for investigating reorganisation proposals.[1] It specifies the objectives the Commission must take into account when assessing options for reorganising local government within the affected area.[2]

In earlier work, the Commission asked MartinJenkins to design an assessment framework that is consistent with the investigation process and objectives set out in the Act and also practical and workable for the Commission.[3] The framework we designed groups those statutory objectives into four assessment domains, summarised in the figure below.

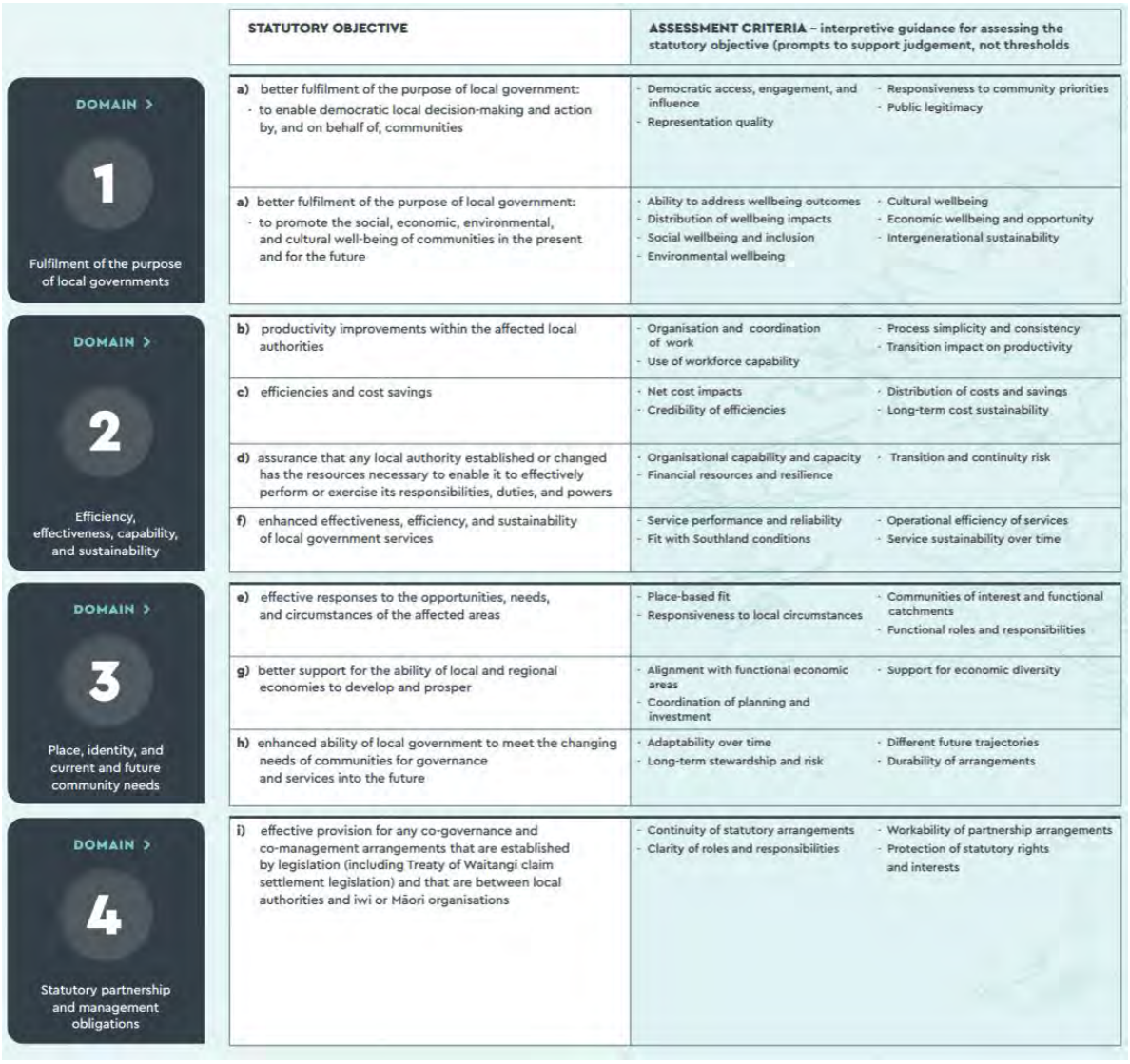
[1] See the Local Government Act 2002, Schedule 3, Part 1.

[2] Local Government Act 2002, Schedule 3, clause 10.

[3] MartinJenkins, *Clause 10 Assessment Framework Report*, 30 April 2026



Figure 3: Assessment criteria



	STATUTORY OBJECTIVE	ASSESSMENT CRITERIA – interpretive guidance for assessing the statutory objective (prompts to support judgement, not thresholds	
DOMAIN 1 Fulfilment of the purpose of local governments	a) better fulfilment of the purpose of local government: - to enable democratic local decision-making and action by, and on behalf of, communities	- Democratic access, engagement, and influence - Representation quality	- Responsiveness to community priorities - Public legitimacy
	a) better fulfilment of the purpose of local government: - to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future	- Ability to address wellbeing outcomes - Distribution of wellbeing impacts - Social wellbeing and inclusion - Environmental wellbeing	- Cultural wellbeing - Economic wellbeing and opportunity - Intergenerational sustainability
DOMAIN 2 Efficiency, effectiveness, capability, and sustainability	b) productivity improvements within the affected local authorities	- Organisation and coordination of work - Use of workforce capability	- Process simplicity and consistency - Transition impact on productivity
	c) efficiencies and cost savings	- Net cost impacts - Credibility of efficiencies	- Distribution of costs and savings - Long-term cost sustainability
	d) assurance that any local authority established or changed has the resources necessary to enable it to effectively perform or exercise its responsibilities, duties, and powers	- Organisational capability and capacity - Financial resources and resilience	- Transition and continuity risk
	f) enhanced effectiveness, efficiency, and sustainability of local government services	- Service performance and reliability - Fit with Southland conditions	- Operational efficiency of services - Service sustainability over time
DOMAIN 3 Place, identity, and current and future community needs	e) effective responses to the opportunities, needs, and circumstances of the affected areas	- Place-based fit - Responsiveness to local circumstances	- Communities of interest and functional catchments - Functional roles and responsibilities
	g) better support for the ability of local and regional economies to develop and prosper	- Alignment with functional economic areas - Coordination of planning and investment	- Support for economic diversity
	h) enhanced ability of local government to meet the changing needs of communities for governance and services into the future	- Adaptability over time - Long-term stewardship and risk	- Different future trajectories - Durability of arrangements
DOMAIN 4 Statutory partnership and management obligations	i) effective provision for any co-governance and co-management arrangements that are established by legislation (including Treaty of Waitangi claim settlement legislation) and that are between local authorities and iwi or Māori organisations	- Continuity of statutory arrangements - Clarity of roles and responsibilities	- Workability of partnership arrangements - Protection of statutory rights and interests

Source: MartinJenkins, *Clause 10 Assessment Framework Report*, 30 April 2026

The Commission asked MartinJenkins to provide independent analytical support

The purpose of our work for this project is to support the Commission's assessment of the short-listed options against the statutory objectives, using the assessment framework described above.

The evidence generated through our work forms one component of the Commission's broader assessment. The Commission will consider it alongside information it has gathered through engaging and consulting with relevant groups and through other strands of its investigation.

MartinJenkins' analysis was independent. Throughout the work, we engaged with officers from the four Southland councils to gather information, test assumptions, understand existing arrangements, and check factual accuracy. These discussions informed the evidence base but did not determine our findings.

Our analysis was required to be comparative across the two short-listed options. It was also required to be proportionate, focussing on the aspects most relevant to distinguishing between the options, and presented at a level that supports Commissioner decision-making, with assumptions, limitations, and areas of uncertainty clearly identified. We have not been asked to recommend a preferred option. Determining the relative desirability of the options, and whether any reorganisation proposal should proceed, is the responsibility of the Commission.

Our analysis provides an evidence base for assessing options against some, but not all, of the assessment criteria

The scope of our work most directly maps onto those parts of the assessment framework concerned with financial sustainability, organisational capability, service delivery performance, efficiency, effectiveness, and the distribution of impacts across Southland communities.

Table 5: Assessment criteria most directly informed by MartinJenkins' analysis

Criteria	Core considerations
Domain 1: Better fulfilment of the purpose of local government Objective a: Better fulfilment of the purpose of local government to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future	
Intergenerational sustainability	• Whether the arrangements would increase or reduce the risk of deferring costs or degrading outcomes for future communities.
Domain 2: Efficiency, effectiveness, capability, and sustainability Objective c: Efficiencies and cost savings	
Net cost impacts	• Whether the arrangements would reduce, increase, or reallocate overall costs for councils over time.
Credibility of efficiencies	• Whether claimed efficiencies are credible and likely to be realised in practice.
Distribution of costs and savings	• How costs and savings would be distributed across councils and communities.

Criteria	Core considerations
Long-term cost sustainability	• Whether the arrangements would support sustainable cost profiles over time.
Objective d: Assurance that any local authority established or changed has the resources necessary to enable it to effectively perform or exercise its responsibilities, duties, and powers	
Financial resources and resilience	• Whether the arrangements would provide sufficient financial resources to meet obligations over time.
Objective f: Enhanced effectiveness, efficiency, and sustainability of local government services	
Service sustainability over time	• Whether the arrangements would support services that can be sustained over the long-term. • Whether the arrangements would support the ongoing maintenance, renewal, and resilience of infrastructure that underpins service delivery.

Our analysis will also provide evidence to support the Commission's assessment of other objectives in the framework

While our analysis relates most directly to the criteria set out above, it will also provide evidence relevant to the Commission's assessment of a wider range of statutory objectives.

Domain 1: Better fulfilment of the purpose of local government

The analysis provides evidence on financial sustainability, infrastructure stewardship, investment capacity and organisational resilience, helping the Commission assess how well alternative arrangements support the long-term wellbeing of Southland communities.

Domain 2: Efficiency, effectiveness, capability, and sustainability

The analysis provides evidence on organisational scale, capability, service sustainability and financial capacity, helping the Commission assess productivity improvements, coordination, capability and the efficient delivery of local government functions.

Domain 3: Place, identity, and current and future community needs

The analysis provides evidence on affordability, infrastructure investment, financial capacity and long-term sustainability, helping the Commission assess how well different arrangements can respond to future economic, demographic and community needs across Southland.

This is not a traditional cost-benefit analysis

This work is different from a traditional cost-benefit analysis, which expresses economic and social costs and benefits in monetary terms. We have quantified financial impacts where they can be estimated with reasonable confidence. Other important effects, including representation, local voice, governance effectiveness, organisational capability, service responsiveness, and community outcomes, cannot be reliably monetised at this stage. These effects are considered qualitatively through the Commission's broader assessment framework.

Our approach to the analysis

Our approach was consistent with how the Commission will apply the assessment framework

We focussed on understanding how each option performs against the relevant objectives. We identified key strengths, weaknesses, risks, opportunities, and uncertainties, and we highlighted where differences between options are likely to be material.

The analysis did not rank or score the options. Instead, it provides evidence that can support the Commission's objective-level and domain-level assessments, alongside other evidence and considerations. This approach recognises that the overall assessment involves balancing multiple objectives and making transparent judgements about the trade-offs associated with different options.

Our analysis focuses on the impacts that can be attributed to reorganisation

It assesses the costs, efficiencies, capability implications and financial sustainability impacts that result from the proposed structural changes compared with the current arrangements.

It does not assume improvements that could reasonably be achieved under existing arrangements without reorganisation. Service levels, service delivery approaches, and council-controlled organisation arrangements are assumed to remain broadly unchanged unless a change is a direct consequence of the proposed governance structure. This allows the analysis to focus on the effects of structural change rather than future policy, funding or service delivery decisions.

The analysis was proportionate

We focused on aspects that are most materially affected by the proposed structural changes under each option and on where those changes are likely to result in meaningful differences in outcomes, risks, costs, capability, or service sustainability relative to the status quo.

The analysis does not provide precise forecasts

Some consequences of structural change can be estimated because they arise directly from the proposed arrangements, such as the effort required for the transition, the requirements for integrating systems, and changes to organisational structures. Other consequences are less certain because they



depend on future decisions about service levels, service delivery models, the balance between local and regional provision, affordability, funding, and implementation choices.

Where evidence is incomplete or future outcomes are inherently uncertain, the analysis identifies the implications of that uncertainty and the sensitivity of findings to key assumptions, enabling the Commission to consider the strengths, limitations, and risks associated with each option as part of its overall judgement.

Our work involved several activities

1. Collecting and analysing information from the four councils, including financial, operational and performance information, supported by ongoing engagement to understand existing arrangements, available evidence, and information gaps.
2. Establishing a baseline and benchmark performance by developing a status quo view of current council operations and considering evidence from comparable council arrangements and relevant national and international studies.
3. Developing and testing financial and operational models for the short-listed options. This included assessing transition implications, organisational structures, service delivery arrangements, and potential efficiency opportunities, while documenting areas of uncertainty, evidence gaps, and differing views.
4. Assessing the structural changes from the bottom up, including transition requirements, governance, executive and management roles, organisation-wide functions, and identifiable employment-cost effects. This was compared to a top-down assessment of overall efficiency potential, informed by evidence from comparable reorganisations, shared service arrangements, and alternative delivery models.
5. Undertaking sensitivity analysis and scenario testing to examine the impact of different assumptions, including the timing and scale of efficiencies, transition costs, growth pressures, and other key uncertainties.
6. Testing findings and preparing reports, including working sessions with the Local Government Commission and councils to review assumptions and inputs, followed by preparation of draft and final reports.

How to read the rest of this report

The report is grouped into the following sections:

- **Southland today** summarises the current financial, organisational and service delivery arrangements across Southland's four councils and identifies the key pressures shaping future sustainability.
- **The two options we assessed** describes the two short-listed reorganisation options and how they differ from the current arrangements.



- **How we analysed the options** explains the analytical approach, our assumptions, the modelling methods and how we treated uncertainty.
- **Where reorganisation would introduce costs and savings** examines the main sources of transition costs, operating savings, and opportunities for efficiency.
- **What our analysis shows** presents the financial results, key findings, and sensitivity testing for each option.
- **Assessing the options against the criteria** brings together our findings against the assessment criteria most directly informed by this analysis.
- **Appendix 1** sets out the assumptions, data sources, judgement calls, and limitations underpinning our analysis.

Southland today

This section describes Southland's current local government arrangements and the context in which the options are being considered. It outlines the councils' financial and infrastructure pressures, their workforce and systems, regional functions, and existing shared arrangements. It also identifies the main features of the current arrangements that informed our analysis of the reorganisation options.

Four councils serve a large, sparsely populated region

Southland is New Zealand's second-largest region by area and among its most sparsely populated. Three territorial authorities and one regional council serve about 103,000 people. More than half live in Invercargill, on less than 2% of the region's land.

The rating base is small and thinly spread. More than half the region is public conservation land, and farms occupy 85% of what is left. Invercargill has 53 rating units per square kilometre; Southland District has one for every 1.6 square kilometres.

Fiordland National Park covers 1.26 million hectares on its own, close to 40% of the region. The coastline runs 3,400 kilometres from Awarua Point in Fiordland to Waiparau Head in the Catlins, the longest of any region.

Southland includes Stewart Island Rakiura. The island lies about 30 kilometres offshore, covers about 1,740 square kilometres and forms a ward of Southland District. The council also generates and supplies Stewart Island's electricity, the only council in the country to do so.

Table 6: Southland at a glance

	Invercargill City Council	Southland District Council	Gore District Council	Environment Southland
Population^	57,100	32,800	12,900	102,800
Area (km²)	496	31,091	1,254	32,841
GDP (March 2025)				$9.94 billion
Total councillors, including Mayor/Chair	13	13	12	11
Total rating units (FY25)	26,082	19,212	6,859	52,153
Total revenue*	$148 million	$112 million	$38 million	$52 million
Rates revenue*	$79 million	$72 million	$27 million	$29 million

	Invercargill City Council	Southland District Council	Gore District Council	Environment Southland
Operating expenses*	$149 million	$120 million	$41 million	$51 million
External borrowing (FY25)	$155 million	$92 million	$58 million	$7 million

^ 2023 census, StatsNZ. Council figures from FY25 Annual Report, Statement of Comprehensive Revenue and Expense. Excludes other gains/losses.

Southland has high GDP per person but lower household incomes. Regional GDP was $9.94 billion in the year to March 2025. Manufacturing accounts for 19% and agriculture 13%, and the two are closely linked through dairy and meat processing. Southland ranks fourth among New Zealand's regions for GDP per person.

That does not carry through to household incomes. In each of the three districts, the median household income is below the national median of $99,000: $85,400 in Southland District, $80,900 in Invercargill and $75,200 in Gore. Across the region, the median household income is 17% lower than the national figure.[4]

The councils face growing costs and a limited rating base

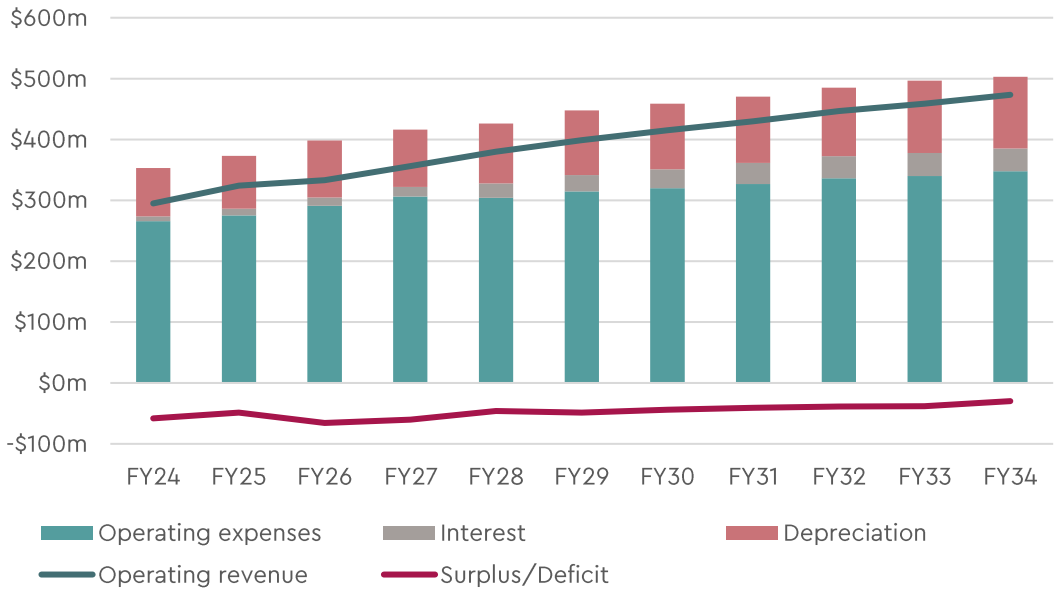
The charts below aggregate the four councils,[5] with no efficiency or savings adjustments applied. FY24 and FY25 are actual, FY26 and FY27 come from annual plans, and FY28 to FY34 come from each council's Long-Term Plan (LTP). Gore's three waters are excluded throughout, since they transfer to Southern Waters on 1 July 2027.

[4] District figures: Stats NZ, 2023 Census. National and regional figures: StatsNZ, Household income and housing cost statistics, YE June 2023.

[5] We have used data from the Funding Impact Statement provided by each council.

Costs grow by 2.7% a year; the rating base grows by 0.3%

Figure 4: Operating performance of all four councils



Between FY27 and FY34, operating costs across the four councils increase by 2.7% a year, with rating units increasing by just 0.3%. The cost base grows faster than the number of rating units over which the councils can spread it. Councils' adopted plans provide for rates revenue to increase by 4.9% a year over the same period.

The four councils' adopted plans show an accounting deficit in each year. The aggregate deficit is about $60 million in FY27, narrowing to about $30 million by FY34, as operating revenue increases faster than operating expenses over the later years of the forecast.

Depreciation accounts for about a quarter of operating expenses. None of the councils plans to fund all of it through operating revenue. Each has made this choice deliberately. NZTA subsidies cover part of roading renewals, some community assets such as halls may not be replaced or are funded by the community, and one council funds its renewal shortfall through debt and deferred renewals. Two councils are moving to fully fund depreciation on water assets.

The councils take different approaches to funding the renewal of assets

The proportion of depreciation funded through rates provides a broad indication of how much current ratepayers are contributing towards future asset costs. It is not a direct measure of the renewals required in any particular year, and councils may have valid reasons for funding less than the full depreciation expense.

Table 7: Proportion of depreciation funded through rates (all of council)

Council	FY25 actual	FY27 annual plan	Later LTP position	Comments
ICC	94%	88%	Around 91%–96%	Water moves to full funding; some roading and property depreciation remains below full funding
SDC	36%	50%	Around 51%–56%	Treatment of externally funded roading, phased water and wastewater funding, and asset-specific funding decisions.
GDC	64%	82%	100%	Forecasts move to full funding following earlier renewal deferrals and debt funding
Environment Southland	Not available	Not available	Not available	A comparable funded-depreciation series was not provided

Note: Councils' funded-depreciation policies are not directly comparable in all respects. The figures reflect different asset mixes, external funding arrangements and decisions about whether assets will be replaced.

The councils take different approaches. ICC funds most of its depreciation and plans a modest increase over time, while Gore's forecasts move to full funding.

SDC funds a materially lower proportion. This partly reflects its approach to certain assets: it funds only the council's share of roading depreciation, is progressively increasing funding for water and wastewater, does not currently fund stormwater depreciation, and does not assume that all community assets will be replaced entirely through rates. These differences reflect funding choices and asset-specific circumstances, rather than providing a direct measure of a renewals backlog.

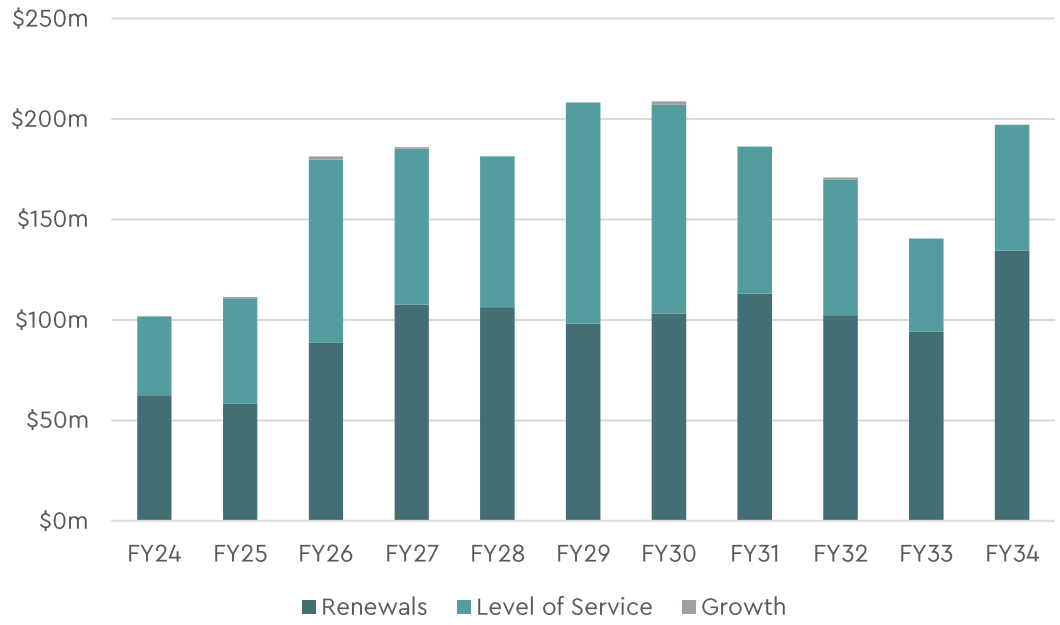
Where depreciation is not funded through current revenue, future asset costs must instead be met through reserves, borrowing, subsidies, future rates, changes to planned investment, or some combination of these. Reorganisation would not remove those costs, but would bring the councils' different funding positions into the new authority or authorities.

Capital spending nearly doubles from FY26

Capital spending steps up from about $100m in FY24 and FY25 to $180m in the following three years, with a total spend of $1.48 billion from FY27 to FY34. Renewals make up most of it, level of service the rest. Growth spending is close to nil, aligning with a rating base that is growing at 0.3% a year. The programme is primarily replacing and improving existing assets, rather than providing for population growth.



Figure 5: Total capital programme, FY24-FY34



Delivering the forecast programme will require an uplift in capacity

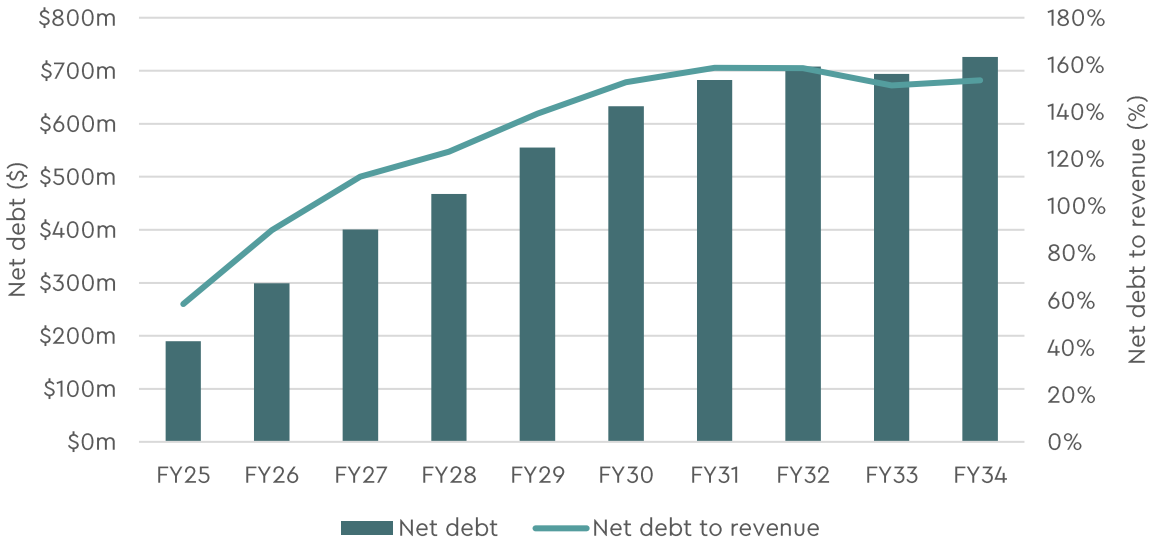
Our discussions with the councils found that the planned increase in capital spending will be challenging to deliver. Southland District Council has delivered less than forecast in recent years and expects its sustainable level of annual investment to be below that set out in its long-term plan unless delivery improves.

Invercargill City Council also identified timing and capacity constraints, although had higher levels of confidence about likely delivery rates.

Environment Southland expects its flood infrastructure programme to be smaller than forecast because the level of central government funding assumed in its long-term plan is unlikely to be available.

The gap is filled with debt, which more than triples by FY34

Figure 6: Net debt increases to almost $730m by FY34



Net debt rises from $190m in FY25 to almost $730m by FY34. Net debt-to-revenue climbs from about 60% to a peak of 159%, flattening over the last three years of the plan.

Invercargill and Southland District account for almost all of the increase. Between them they add $503m of net debt, and by FY34 they hold $693m of the region's $730m. Southland District's debt grows more than fivefold, from $45m to $251m. Invercargill's triples to $442m, taking it to 205% of revenue, the highest ratio.

Gore moves in the other direction, starting as the most leveraged at 169% of revenue and ending as the least leveraged at 98%, partly due to the transfer of debt to Southern Waters.

Table 8: Net debt and net debt-to-revenue: recent actuals and LTP forecast

		Invercargill	Southland District	Gore	Environment Southland
FY25	Net debt	$144m	$45m	$28m	Net cash $27m
	Net debt-to-revenue	104%	36%	169%	-
FY34	Net debt	$442m	$251m	$25m	$9m
	Net debt-to-revenue	205%	145%	98%	15%

Environment Southland works across the whole region

Environment Southland manages the region's freshwater, land, air, coast, and marine area. It provides flood protection and river management, runs drainage schemes, manages biosecurity and biodiversity work, provides the harbourmaster, supports Emergency Management Southland, and plans public transport. It also prepares the regional policy statement and regional plans, which district plans must give effect to.

Its financial scale is small relative to the city and district councils

Environment Southland had operating revenue of $52 million in FY25, about 15% of the total $361 million operating spend across the four councils. Rates provided 56% of its revenue.

It held net cash while the districts held net debt, and its capital programme was small by comparison. Its assets include flood protection and river-management infrastructure, managed investments, and a 66.48% shareholding in South Port. The shareholding is discussed in the section on council-controlled organisations.

Rates can largely be traced to districts, but the work crosses their boundaries

Environment Southland's general rate and the main targeted rates are set differently across the three territorial-authority areas. Most rates revenue can therefore be traced to a district. It also operates 17 catchment rating schemes, funded by the landowners who benefit. Some schemes cross district boundaries.

Much of Environment Southland's work follows catchments rather than council boundaries. The Ōreti and Mataura rivers cross current territorial authority boundaries, while other major catchments such as the Waiau and Aparima are regionally significant despite sitting largely within Southland District. River management, catchment management, and land management activity is concentrated in the Southland and Gore Districts, reflecting the location of the region's major rural and catchment areas.

In 2025, Environment Southland moved river-management costs from catchment rates to a region-wide rate, except in the Waiau rating district, after consulting on the wider benefits of this work to the entire region.

The cross-boundary pattern is particularly relevant to Option 2, which would divide responsibility for regional functions between two unitary authorities.

The four councils have around 1,040 FTE workers

This workforce includes both filled and vacant positions. Invercargill City Council has the largest workforce, while those of Southland DC and Environment Southland are of similar size. The table below sets out the FTE numbers for each council, and adjusts Gore's figures for FTE whose work relates exclusively to water services.

Table 9: Current workforce establishment and position status[6]

Measure	ICC	SDC	GDC	ES	Total
Established FTE, including Gore water	459.5	227.3	125.8	227.2	**1,039.9**
Filled FTE, including Gore water	384.5	208.3	123.8	187.2	**903.8**
Vacant FTE	75.1	19.0	2.0	40.0	**136.1**
Vacancy rate	16.3%	8.4%	1.6%	17.6%	**13.1%**
Less Gore water FTE	–	–	(12.5)	–	**(12.5)**
Establishment FTE in scope for the reorganisation analysis	459.5	227.3	113.3	227.2	**1,027.4**

Source: Council position data (2026).

Each council has its own leadership and corporate teams

The current arrangements include four chief executives. Invercargill CC, Southland DC, and Environment Southland each have six group manager positions, while Gore has three. One ICC group manager (GM) position was vacant in the supplied data.

The councils also each maintain corporate functions such as capital and projects, communications and engagement, finance, health and safety, information and technology, property and procurement, people and culture, and strategy and policy. In this report, we refer to these as "organisation-wide functions".

To compare the councils consistently, we grouped positions that perform similar work into a common set of functions, recognising that council structures and job titles differ. On this basis, the analysis identifies 289.3 FTE within organisation-wide functions, including 56.4 manager FTE, excluding GM roles.

Most staff provide local or specialist services

Most positions sit outside executive and organisation-wide functions. They include staff who operate facilities and public services, manage infrastructure, process consents, do compliance and planning work, and provide engineering, scientific, and other technical expertise. Much of this work is connected to particular facilities, networks, communities, or statutory functions.

Environment Southland's workforce also differs from those of the three city and district councils. It includes regional science, research, and monitoring; flood protection and river and catchment

[6] Figures are FTE and may not equal employee headcount.



management; biosecurity and biodiversity functions; regional planning, consenting, and compliance; harbourmaster and marine safety functions; and support for regional emergency management. Raw FTE comparisons therefore do not account for the councils' different functions.

Leaders and staff with organisation-wide functions are affected by the short-listed options differently from staff in local and specialist delivery roles, as discussed in the options analysis.

Workforce pressures vary across the councils

Our discussions found that some councils and functions are operating with limited workforce capacity. Gore District Council told us that some staff cover multiple roles and work beyond their standard hours because of under-resourcing. Invercargill City Council identified vacancies and labour-market shortages in specialised areas such as regulatory services, as well as difficulty retaining capability in contract management.

These issues were not raised consistently by all four councils, so they should not be seen as applying equally across the region. However, they do show that vacancies or the loss of a specialist employee can have a significant effect when teams are small.

The councils use different systems and are all upgrading

Each council has its own mix of systems for finance, property and rating, payroll, records, asset management, and customer services. While there are some common products, including Microsoft and ESRI, there is no common core platform across the four councils.

All four councils are also upgrading or replacing material systems. Invercargill City Council is moving many of its core corporate functions to TechnologyOne. Southland District Council recently moved its finance functions to Datascape and is replacing several legacy systems. Gore District Council is moving its Civica ERP to the cloud. Environment Southland is preparing to move its finance and rates functions to Datascape and its regulatory work to IRIS NextGen.

These investments under the current arrangements mean that any reorganisation would take place alongside existing systems changes.

The councils already deliver some functions together

The four councils are separate organisations, but they already collaborate in several areas. Current arrangements cover emergency management, waste, regional transport planning, information technology, building control, and library services.

Table 10: Joint arrangements between Southland councils

Arrangement	Councils	Details
Emergency Management Southland	ES, ICC, SDC, GDC	Delivers the councils' civil defence and emergency management duties. Governed by the Southland Civil Defence and Emergency Management Group, a joint standing committee.
WasteNet Southland	ICC, SDC, GDC	Joint committee for waste collection and management. ICC holds a 56% share as a joint operation and provides accounting and administrative services.
Regional Transport Committee	ES, ICC, SDC, GDC	Statutory joint committee for regional land transport planning.
IT Shared Services	ES, ICC, SDC, GDC	Operations sub-committee aligning member councils' technology. Delivered the SouthMaps shared geospatial platform.
Southern Cluster Building Group	ICC, SDC, GDC	Eleven building consent authorities across Southland, Otago and South Canterbury sharing processes, staff and quality assurance.
SouthLib	ICC, SDC, GDC	Library consortium of all eight Otago and Southland councils, giving reciprocal membership across 42 branches.

Council-controlled organisations sit alongside council operations

The four councils currently hold interests in eight council-controlled organisations. Southern Waters will become a further CCO relevant to Gore when it takes over the district's water services on 1 July 2027.

Great South is the only entity that all four councils own. Invercargill holds interests in five CCOs, including Invercargill City Holdings, which in turn holds the council's commercial investments. Environment Southland holds three CCOs, plus a 66.48% stake in South Port.



Table 11: Council-controlled organisations

Entity	Councils	Details
Southland Regional Development Agency Ltd (Great South)	ES, ICC, SDC, GDC	Regional development agency. Four council shareholders alongside four community shareholders. Wholly owns Space Operations NZ Ltd, a CCTO.
Bluff Maritime Museum	ES, ICC	Operates Bluff Maritime Museum. The two councils jointly appoint more than half the trustees.
South Port New Zealand Ltd	ES	66.48% shareholding. A CCTO, NZX listed, and Environment Southland's only subsidiary.
Regional Software Holdings Ltd	ES	15.48% shareholding alongside other regional councils. Develops and maintains the IRIS software suite.
Invercargill City Holdings Ltd	ICC	Holding company for the council's commercial investments: Electricity Invercargill (100%), Invercargill Airport (97.47%), Invercargill Central (47.78%), HWCP Management (49.9%) and Smart Co (16.67%).
Invercargill City Charitable Trust	ICC	Owns the rugby park.
Te Kupeka Tiaki Taoka – Southland Regional Collections Trust	ICC	Guardian of the regional heritage collection. Returned to CCO status in March 2025 after a Trust Deed amendment.
Milford Community Trust	SDC	Governance and leadership for the Milford Sound Piopiotahi community.
Southern Waters	GDC	Jointly owned water services CCO with Central Otago, Clutha and Waitaki district councils. Takes over water, wastewater and stormwater from 1 July 2027.

What this means for our analysis

Taken together, the current arrangements have the following implications:

- **The councils' adopted plans provide for a substantial increase in capital investment, despite mixed historical delivery.** This creates a risk that investment occurs later than forecast, particularly as operating costs are also under pressure.

- **The councils are not fully recovering depreciation through current operating funding.** This does not necessarily indicate an immediate cash shortfall or renewals backlog. However, where asset consumption is not funded through current revenue, future renewals must instead be supported through reserves, borrowing, subsidies, future rates, or changes to asset and service plans.
- **Infrastructure and operating costs are being spread across a relatively small and slowly growing rating base.** Adopted plans respond through rates increases averaging about 4.9% a year and a rise in aggregate net debt from approximately $190 million in FY25 to $730 million by FY34.
- **The councils differ materially in scale and financial capacity**. Invercargill City Council accounts for about 45% of established FTE, while Gore District Council accounts for approximately 12%, affecting their ability to maintain specialist capability, absorb vacancies and spread fixed costs.
- **Workforce constraints create delivery and resilience risks.** These include significant vacancies at some councils and reliance, particularly in smaller councils, on individual staff carrying multiple responsibilities.
- **The councils share some services and systems, but otherwise operate different technology environments and are at different stages of major systems transformation.** Reorganisation could support consolidation over time, but would also require substantial investment in systems, data and change management.
- **Most catchment and land-management activity relates to the Southland and Gore districts.**
- **The councils already collaborate in several areas, including regional development, waste management, emergency management and regional transport.** Any benefits attributed to reorganisation need to be additional to those already achieved through existing joint arrangements.

The two options we assessed

This section describes the two short-listed reorganisation options and the main ways each differs from the current arrangements. It explains how territorial and regional responsibilities, governance, and local boards would operate under each option, including the joint arrangements required for some regional functions under Option 2.

Overview and common features of the two options

The options would change the number and responsibilities of Southland's local authorities

The two options that the Local Government Commission short-listed describe the high-level institutional and governance arrangements to be assessed.[7] This provides starting points for consultation and modelling. Final boundaries, representation arrangements, local-board structures, functional allocations, and delivery arrangements would require further decisions or detailed design by the Commission.

The options change institutional arrangements, not the need for council functions

Under either option, the relevant statutory territorial and regional responsibilities would continue. Local facilities, infrastructure networks, and services would still need to operate, and regional functions would still need to cover the areas, catchments, and environmental systems to which they relate.

The main structural differences concern governance, accountability, organisational boundaries, and, under Option 2's model involving two authorities, the arrangements used to govern and deliver functions across the two authorities.

Under both options, local boards would be part of a shared governance model

Local boards would exercise decision-making authority over the non-regulatory activities allocated to them and receive dedicated funding for those responsibilities through a local-board funding policy. The Commission's examples include local service delivery and asset management, local project priorities, and community engagement and representation. As a starting point, boards would generally have five or six members, although an urban Invercargill board could have more. One or more ward councillors could also be appointed to a local board to support the flow of communication and information between governance levels.

[7] https://www.lgc.govt.nz/assets/Reorganisation/Current-Reorganisation/Southland/Overview-of-options-for-modelling.pdf



Local boards and community boards cannot operate in the same geographic area. Because the short-listed options provide for local boards across the full area of each new authority, the existing community boards would cease to exist.

Option 1 would establish one unitary authority for Southland

Option 1 would combine ICC, SDC, GDC and Environment Southland into one unitary authority covering the Southland region.

The new authority would exercise both territorial and regional council responsibilities. It would be responsible for the regulatory, planning, funding, infrastructure, environmental, and service responsibilities currently distributed across the four councils.

The new authority's governing body would make region-wide decisions on strategy, planning, regulation, and funding, while regional and catchment-based functions would be carried out across the appropriate geographic scale.

Option 2 would establish two unitary authorities

The two unitary authorities would serve different parts of Southland

Of the two unitary authorities established under Option 2, one would be based on the current ICC area and the other would combine the current Southland and Gore DC areas. The Commission's starting point for the boundary between them is the current boundary between ICC and SDC.

Each authority would exercise territorial and regional responsibilities within its eventual geographic area, subject to the joint governance arrangements described below.

The material from the Commission that we reviewed does not assign formal names to the proposed authorities.

Some regional functions would need joint governance

Option 2 is more complex because many regional functions do not fit neatly with the proposed boundary. Catchments, rivers, environmental systems, and some existing services extend across territorial-authority areas.

Option 2 includes a joint committee to consider and decide on specified regional functions affecting both authorities. These include civil defence and emergency management; regional transport planning; catchment, river, and flood management; coastal management; and biosecurity and pest management. The shortlist also recognises that the joint committee may require organisational, technical, and administrative support.

The Commission's description of the short-listed options does not specify all of the joint committee's operating arrangements. The detailed design phase would address its membership, delegations, accountability, funding and support. It would also need to determine how staff, technical capability, assets and administrative support would be organised so that jointly governed functions could operate across both authority areas.



For the comparative analysis, we allocated Environment Southland's current revenue, costs and resources between the two authorities using assumptions specific to each function. That analytical treatment does not determine where statutory responsibilities, staff, assets, or funding would sit in a final design. The modelling approach explains the separate treatment of operating expenditure, workforce, revenue, investments, debt, and other resources.

Key features of the two options

Table 12: Features of the two options

Feature	Status quo	Option 1. Single unitary authority	Option 2. Two unitary authorities
Local-authority structure	ICC, SDC and GDC exercise territorial-authority functions. Environment Southland exercises regional-council functions.	One unitary authority would combine ICC, SDC, GDC and Environment Southland.	Two unitary authorities, with one based on the current ICC area and the other combining the current SDC and GDC areas.
Geographic coverage	Three territorial-authority areas within the Environment Southland region.	The whole Southland region.	The current ICC–SDC boundary is the starting point for the boundary between the two authorities.
Territorial functions	Exercised by ICC, SDC and GDC in their respective areas.	Exercised by the single unitary authority.	Exercised by each unitary authority within its eventual area.
Regional functions	Exercised by Environment Southland across the region.	Exercised by the single unitary authority across the region.	Exercised through the two-authority structure, with a Joint Committee for specified regional functions affecting both authorities.
Governing bodies	Four governing bodies.	Approximately 14–16 elected members from geographic wards.	Approximately 10–12 elected members for the Invercargill-based authority and 12–14 for the Southland/Gore-based authority.

Feature	Status quo	Option 1. Single unitary authority	Option 2. Two unitary authorities
Local boards	No local boards. Existing community-board arrangements vary.	Approximately eight or nine local boards, including one or two in the current ICC area and seven across the current SDC and GDC areas.	At least two local boards in the Invercargill-based authority and approximately seven in the Southland/Gore-based authority.
Cross-boundary regional governance	Existing joint arrangements operate for some functions.	Regional functions would sit within one authority.	A Joint Committee would consider and decide on specified regional functions affecting both authorities.

How we analysed the options

This section explains how we compared each of the two options with the current arrangements, and how we estimated the costs and savings attributable to the reorganisation.

It sets out the main modelling choices, including how to treat continuing services, council-controlled organisations, joint arrangements, and regional functions under Option 2.

It also explains how we checked the estimates and used scenarios and sensitivity tests to reflect uncertainty.

We estimated the main changes each option would make

The status quo represents the expected financial position if the current local government structure continues. It draws on financial and workforce information provided by the four councils, and on their adopted plans and supporting information, and it includes changes that are already expected or committed to.

We estimated the costs and savings that each option could produce relative to the status quo. The estimates are based on the specific changes associated with each option, and were checked against external evidence and tested through scenarios and sensitivity analysis. Actual costs and benefits would depend on decisions made during detailed design and implementation.

The modelling covers 25 years, from FY28 to FY52. Transition costs begin in FY28, with 50% incurred in FY28, 25% in FY29, and 25% in FY30. Ongoing operating changes and any capital expenditure efficiencies begin in FY30.

We made limited adjustments where the source information did not provide a complete or comparable forecast. These adjustments form part of the status quo rather than the estimated effects of reorganisation. In particular, we removed Gore District Council's water services following their expected transfer to Southern Waters, while retaining the water services of Invercargill City Council and Southland District Council. We also included an estimate of the overhead costs expected to remain with Gore District Council after the transfer. Other material adjustments are set out in Appendix 1, "Assumptions and limitations".

For each option, we estimated:

- one-off transition costs, covering the establishment team, systems, branding, and contingencies
- changes in governance costs, including new local boards and the end of community boards
- savings from having fewer chief executives, group managers, and duplicated organisation-wide roles such as finance, IT, and communications
- the cost of redundancy and aligning pay for comparable roles across the councils
- the cost of borrowing to fund the transitions.

We used scenarios and sensitivity tests to reflect uncertainty

We developed a base case for each option using the assumptions we thought were most reasonable on the available evidence. The base case is the main basis for comparing the options: it is not a forecast of precise outcomes.

We also modelled a high case and a low case. The high case combines lower costs and higher savings, while the low case combines higher costs and lower savings. To develop the high and low cases, we varied several assumptions, including transition and systems costs, workforce efficiencies, harmonisation of salaries, and capital expenditure efficiency. They show a plausible range of outcomes.

We used sensitivity tests for assumptions that are uncertain or materially affect the results. These tests vary just one assumption, while holding the other base-case assumptions constant. This shows which assumptions drive the results and where further evidence or detailed design could change the estimates.

We retained the costs of functions and services that would continue under each option

Local facilities, infrastructure, regulatory services, and regional environmental functions would still need to operate under each of the two options. We adjusted costs only where structural change provided a reasonable basis for this.

We also assumed that the four councils are equally efficient in how they currently deliver comparable activities. We did not model changes in service-delivery choices, such as a future authority bringing an outsourced activity in-house or contracting out an activity currently delivered by council staff. Nor did we assume that a future authority would change service levels. These choices would depend on future governance and management decisions, rather than following automatically from reorganisation.

We built the estimates from specific changes and checked their overall scale

We first identified the main changes that reasonably follow from each option. Our analysis does not attempt to design the complete operating model of a future authority. Instead, it applies assumptions proportionate to this stage of the investigation, as follows:

- Statutory responsibilities and the underlying need for services continue.
- Each future authority needs viable capability in governance, management, and corporate functions.
- Local and specialist delivery capability continues where the work is still required.
- Workforce reductions are limited to identifiable duplication resulting from structural change.
- One-off transition effects are separated from ongoing operating effects.

- Reorganisation requires each future authority to move onto a shared set of IT systems, either an existing council's or a new one, with data cleaned and migrated.
- Costs that would exist under the status quo are separated from costs caused by reorganisation.

We then compared our total costs and savings with those of previous local-government reorganisations. This tested whether we had missed any significant costs and whether our figures were in a plausible range.

That external evidence is not directly transferable to Southland. Reorganisations and systems programmes differ in the number and type of organisations involved, the functions included, the systems being integrated, and what the reported costs cover. We used this evidence to test the order of magnitude and inform the ranges we would provide.

We used the same approach for transition costs. We identified some of the main activities required to establish the future authority or authorities and tested the resulting estimates against evidence from other amalgamations and comparable programmes. This report's section on transition costs explains this evidence and the main areas of uncertainty (see page 38).

The base case does not include a general reduction in supplier or contract expenditure, or a capital expenditure efficiency

We test both in the high case and explain the reasoning in this report's section on procurement and asset management (see page 52).

We assumed a modest capital expenditure efficiency for the Southland/Gore-based authority under Option 2, reflecting the potential for two territorial authorities to coordinate their capital programmes and purchasing.

We did not assume the same efficiency for the Invercargill-based authority because it combines one territorial authority with a share of regional functions, rather than combining two territorial capital programmes.

CCOs and joint arrangements are held constant across the options

The four councils hold interests in eight council-controlled organisations and take part in six joint arrangements. We held both constant across the status quo and the two options.

CCOs sit outside council operating costs, and reorganisation does not change what they do. Each new authority inherits the shareholdings of the councils that form it. Fewer shareholders would reduce each council's monitoring effort, but that effort sits in corporate overheads, which the workforce and governance assumptions already capture. Counting it again as a separate CCO saving would count the same saving twice.

Joint arrangements deliver a set volume of work to a set geography. Emergency Management Southland, WasteNet, the Regional Transport Committee, and the others would still need to do that work. Reorganisation changes who the parties are, not how much work there is, so we assumed neither savings nor additional costs. Reviewing and transferring the existing agreements would take effort during the transition, and that effort sits within the establishment allowance.



Gore's water services are the exception. They transfer to Southern Waters on 1 July 2027, before the first full year of any new authority, so we removed them from Gore's costs in the status quo and in both options. The section on water services (see page 54) explains that treatment and the overheads that would remain with Gore.

Option 2 required additional assumptions about regional functions

We treated Environment Southland's operating costs and workforce separately

Option 2 required additional analysis because Environment Southland currently delivers regional functions through one organisation across the whole region. The option as developed by the Local Government Commission establishes two unitary authorities and joint governance for specified regional functions, but does not determine the final allocation of responsibilities, staff, revenue, costs, assets, or liabilities.

We therefore made our own assumptions to build a starting position for each authority.

Operating costs

Environment Southland developed initial function and cost allocations with its managers. As part of its own cost analysis, Environment Southland later discussed those allocations with the councils.

We reviewed that work and used it to allocate Environment Southland's current operating expenditure, placing approximately 32% with the Invercargill-based authority and 68% with the Southland/Gore-based authority. Of that mix, we assumed that costs relating to corporate, governance, and other overheads that support both areas were allocated roughly 50:50, reflecting the allocation of staff costs across the two authorities. Appendix 1 explains the basis for using this split.

The split divides Environment Southland's current costs between the two authorities. It does not add any cost for duplicated specialist roles. In practice, some regional functions, such as flood management, science and monitoring, and biosecurity, may need specialist staff in both authorities. We did not include a duplication cost in our modelling.[8] Any duplication would add ongoing costs, reduce Option 2's savings, and lower its net present value.

The regional workforce

Each authority would be a new organisation. It would need its own chief executive, executive team, and organisation-wide functions, sized to what that authority needs rather than inherited from Environment Southland. We assessed those separately for each authority, using the approach set out in this report's section on workforce and employment costs (see page 50).

[8] Environment Southland's own financial model included an ongoing duplication cost for a two-unitary option of 10% of its operating costs, excluding corporate overheads, or about $4m a year. Environment Southland describe this as a conservative estimate. We have not validated this figure.



Revenue, investments, and debt

We used separate assumptions for revenue, investments, debt, and the South Port dividend. These do not necessarily follow the allocation of operating costs and workforces. The assumptions appendix sets out each treatment.

Councils expressed different views to us about how Environment Southland's debt and South Port dividend should be split under Option 2. Some noted that assets such as the Stead Street pump station benefit more than one district, which could support a different allocation. There was no single preferred method.

We allocated all of Environment Southland's current debt to the Invercargill-based authority because it relates to the Stead Street pump station in the Invercargill City area. This debt is small. Environment Southland had $7 million of external borrowing in FY25, compared with $304 million across the three district councils, and is forecast to hold about $9 million of the region's $730 million of net debt by FY34. Moving or splitting it would change either authority's debt-to-revenue ratio by less than 5% and would not alter our findings.

We split the South Port dividend 37:63, in line with where Environment Southland's rates are collected.[9] This keeps each area's current rates offset close to where it is today. Other bases are possible, such as the port's location in the Invercargill City area or a population or rating base split. At the extremes, moving the whole dividend to one authority would shift about $3 million a year between them. Changes to this assumption impact how much revenue each Option 2 authority has (in other words, its rates requirement and debt-to-revenue ratio), but not the cost analysis or the net financial benefit of either option.

These allocations provide starting cost and workforce baselines for the comparative model. They do not determine where staff would work, the final number or composition of roles in either authority, how functions affecting both areas would be delivered, or how Environment Southland's responsibilities, assets and funding would transfer. Those depend on detailed design.

[9] The South Port dividend to Environment Southland was $4.7m in the 2024/25 financial year.



Where reorganisation would introduce costs and savings

This section sets out where reorganisation could add costs and where it could reduce them.

It covers the one-off cost of setting up the new authority or authorities, changes in governance costs, and the effect of workforce changes, including redundancies and harmonisation of salaries.

It also looks at whether greater scale could improve procurement and asset management, while recognising that any identified gains are uncertain and that some services are already shared.

Transition costs are substantial

Both options would require establishing new organisations while the existing councils continued to deliver services. The table below summarises the transition costs that are included in the modelling.

Table 13: Transition costs cover six main areas

Component	What the estimate covers
Establishment and transition team	Programme governance and support, organisational design, finance, legal, people and communications needed to establish the new authority or authorities. Appendix 1 sets out the assumptions about the size of the establishment team.
Workforce transition	Redundancy and other costs arising from changes to organisational structures.
ICT and systems	Data discovery, cleansing, and migration; target-platform configuration; records management; user access and cyber security; testing, training, and switchover to the combined systems. The ICT estimate draws on information supplied by the councils, discussions with council officers, and evidence from comparable New Zealand programmes.
External support	Specialist or additional capacity needed to support establishment and implementation.
Branding	Establishing the identity and public-facing information of the new authority or authorities.
Contingency	Uncertainty about scope, cost, and decisions that would be made during detailed design.



Southland evidence and our own practical experience with establishment work informed the estimates

We estimated each transition cost component separately. We drew on information from the Southland councils, published examples, and MartinJenkins' own experience supporting transitions in local government and water services. These sources informed our analysis of the scale and complexity of the establishment task and helped test whether the estimates were reasonable.

We also considered comparable transition programmes, including Southern Waters, which has indicated establishment costs of around $8.8 million to bring together water services from four councils. Although the Southern Waters transition has a much narrower scope than a reorganisation of local government, it provided a useful reference point for understanding the size of the implementation effort required. We used these transition examples to test whether our estimates were reasonable, rather than to derive costs directly.

Systems are a material and uncertain part of transition

The proposed authorities would need reliable systems for finance, property, and rating; regulatory work; records; workforce management; and customer services. Council staff would need to support design, testing, and data validation while continuing to provide services. The ICT allowance therefore includes internal implementation capacity and backfill, as well as software, external support, and technical migration.

Transition work related to systems could include:

- data discovery, cleansing, migration, and testing
- configuring and integrating platforms
- changes to the management of records and documents
- user-access and cyber-security changes
- aligning business processes
- staff training and switchover
- arrangements for regional systems under Option 2.

The councils start from different systems positions

The table below summarises the key systems that are most relevant to the transition. It does not list every council application. The descriptions draw on information supplied by the councils and discussions with council officers.



Table 14: Summary of key systems

Council	Core systems and current position	Implication for transition
ICC	TechnologyOne supports financial management, budgeting, procurement, payroll, human resources, contracts, records and asset management. Property and rating remain in Infor Pathway. ICC uses separate platforms for customer contact, spatial information, cyber security and other functions.	ICC has an established corporate-platform direction, but reorganisation would still require decisions about the future property and rating system and the integration of data, users and processes from other councils.
SDC	Core finance functions are spread across Datascape, CAPPS, IBIS Breeze and legacy systems. SDC also uses separate systems for asset management, customer contact and other activities. Some legacy systems are being replaced or decommissioned. SDC advised that its reporting requirements are complicated by its activities, community-board structure and large number of rates types.	SDC does not begin with one integrated core platform. Some system renewal would be required under the status quo. The transition analysis therefore needs to distinguish this inherited work from additional integration caused by reorganisation.
GDC	Gore District Council uses Civica Authority as its ERP and is moving from the on-premises platform to Civica Altitude in the cloud. Its planning and rating functions are supported separately by IBIS Breeze for Long-term Plan and Annual Plan budgeting and reporting, and an IBIS rates model. Civica Content Manager supports information management. Gore also uses separate platforms for payroll and human resources, roading asset management and spatial information.	Gore is already undertaking a cloud migration of its ERP. Its finance and operational information is spread across several systems, so transition would need to address the relationship between Authority/Altitude, IBIS and Content Manager, as well as the transfer and alignment of data held in payroll, asset-management and spatial systems. Some of this work reflects system renewal already planned under the status quo.
Environment Southland	Environment Southland is moving its financial-management system to Datascape and purchases many corporate systems as software services. It also uses specialist systems for regional regulation, environmental science and monitoring. Its current regulatory system is due to be replaced by IRIS NextGen, a system developed collaboratively for regional councils.	Corporate systems could potentially follow different integration pathways depending on the future platform selected. Specialist regional systems and their underlying data would need to continue under either option. Option 2 would also require decisions about how they support two authorities and jointly governed functions.



The implementation could take many forms

Detailed design would specify a future systems architecture, which could include a single platform or transitioning a current council's platform to become the future system.

The amount of historical data that is migrated to the new system will have a bearing on cost. Timing is uncertain too: the future authorities could retain some existing systems initially, extend an existing platform, or use common integration and reporting arrangements while planning longer-term consolidation. For Option 2, the coordinated implementation of common systems across the two unitary authorities could be done at lower cost than if each authority implemented a different system on its own.

Environment Southland's regulatory and science systems would still be needed after reorganisation. Under Option 1, they would operate within the single authority. Under Option 2, the detailed design work would determine how they support two authorities and jointly governed functions. This could involve common access, separate configurations, or another shared arrangement. It would not necessarily require two complete copies of every system.

A systems transition would involve data and business processes as well as technology. Invercargill City Council emphasised that a major migration requirement would be having input from council staff, both to check data quality and set up new processes. Technical teams can transfer data, but staff who understand the source information must determine whether it is accurate, current, and complete. ICC also identified the need for dedicated project capacity so that operational staff can participate in design, testing, and acceptance without compromising existing services.

As a significant issue to be addressed, Southland DC identified the complexity created by its dispersed systems, reporting structure, and rating arrangements. Environment Southland identified records management, automated correspondence, field processes, and specialist regional data as areas that would need attention.

Some common platforms may support integration: all four councils use ESRI products for spatial information, and Environment Southland and Southland DC are also moving towards Datascape for financial management. Despite those common systems, however, there will still be a need to align data, records, and business processes.

Our analysis included a range of transition costs

We estimated each part of the transition separately. Actual costs would depend on the final design, the approach to systems, the pace of change, and the extent to which council staff or external advisers did the work.

We estimated the transition cost using ranges to allow for uncertainty about the future establishment approach and different ways the transition could be run. For the establishment and transition team, the low and high estimates reflect different team sizes, staff costs, and transition periods. The ranges for systems and other costs reflect gaps in the available information and choices that would be made during the detailed design about the future systems architecture.

We modelled transition costs from FY28 to FY30. We assumed that 50% would be incurred in FY28, 25% in FY29, and 25% in FY30. We assumed that transition costs would be funded through debt, and

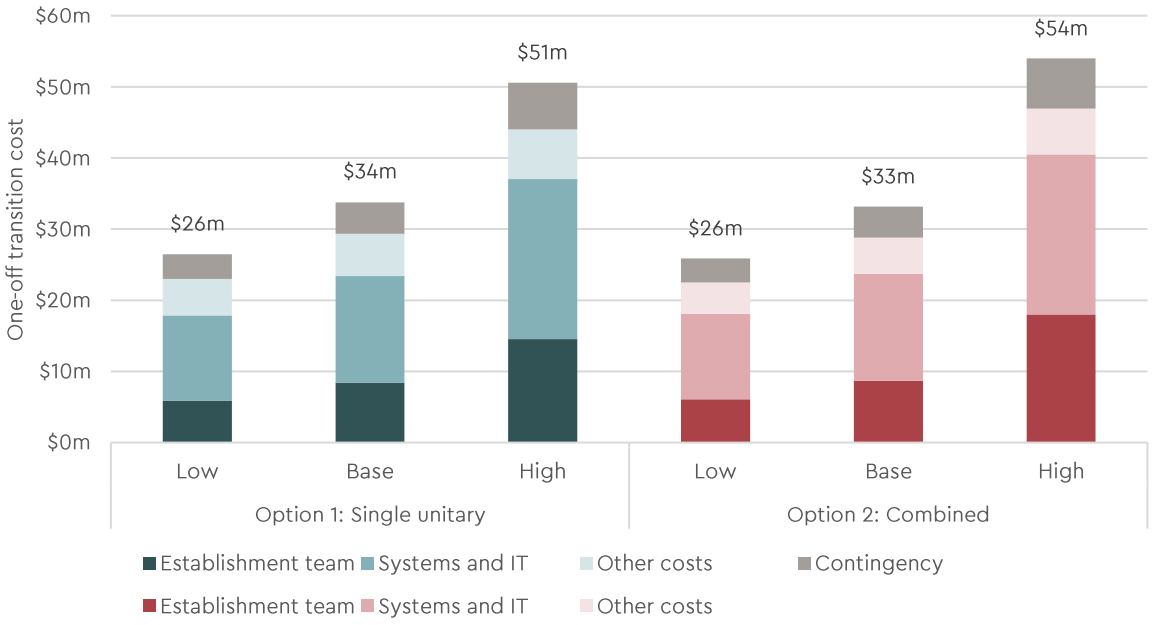


the model includes additional borrowing and financing costs associated with these. Ongoing operating changes and capital expenditure efficiencies begin in FY30. Under Option 2, the combined range includes the cost of establishing the two authorities.

Table 15: Transition costs estimated for the base case

$ million	Option 1: Single unitary authority	Option 2: Combined	Option 2: Invercargill-based authority	Option 2: Southland/Gore-based authority
Establishment team	$8.4m	$8.7m	$3.9m	$4.8m
ICT and systems	$15.0m	$15.0m	$7.0m	$8.0m
Other costs*	$6.0m	$5.2m	$2.4m	$2.8m
Contingency (15%)	$4.4m	$4.3m	$2.0m	$2.3m
TOTAL TRANSITION COST	**$33.8m**	**$33.2m**	**$15.3m**	**$17.9m**

Figure 7: Composition and range of estimated transition costs



Cost impact of the transition

The base case model produces **one-off cost increases** of about:

- $33.8 million under Option 1
- $33.2 million across Option 2
    - *$15.3 million for the Option 2 Invercargill-based authority*
    - *$17.9 million for the Option 2 Southland/Gore-based authority*

Governance arrangements would have different costs

Governance changes increase annual costs under both options

Savings from having fewer governing-body members and from removing the existing community boards' remuneration are more than offset by remuneration for local boards, allowances, elections, and support. The increase is greater under Option 2 because it includes two governing bodies and establishes nine local boards across the two authorities.

The four councils currently have 49 elected members in total

The Local Government Commission's starting ranges would reduce governing-body membership to 14–16 members under Option 1 and 22–26 members across the two Option 2 authorities. Both options would also establish local boards.

Having fewer governing-body members reduces remuneration, members' allowances, and election costs. Local boards create new costs for members' remuneration, board allowances, elections, and governance support. We estimated these costs using the Commission's board and membership ranges.

For modelling purposes, governing-body costs use the highest current remuneration paid by the four Southland councils for comparable elected-member and mayoral roles as their starting point, and include an annual allowance for each member. Local board members are paid 80% of average Auckland local board remuneration. Each board has a chair and deputy, an annual allowance, and 1.75 FTE of support.

Existing community boards would cease when local boards are established

Local boards and community boards cannot operate in the same geographic area. Because the short-listed options provide for local boards across each new authority's full area, the existing community boards would be disestablished. We therefore removed current community-board remuneration of roughly $350,000 a year under both options.

Option 2 includes a joint committee for specified regional functions that affect both authorities.



The model we used does not include a separate incremental operating-cost allowance for the joint committee. We assume it would draw primarily on elected members and staff from the two authorities. It would require administration, meetings, travel, technical input, and potentially external advice. Existing staff time represents a resource requirement, but would not necessarily create additional cash expenditure or FTE. Any external expenditure is assumed to be met from the operating-cost base retained for the relevant regional functions.

The Commission has not yet specified the joint committee's detailed operating arrangements. Costs could be higher if it required dedicated staff, substantial external advice, or a separately resourced delivery arrangement.

Table 16: Governance arrangements and indicative annual costs

Measure	Status quo	Option 1. Single unitary authority	Option 2. Two unitary authorities (combined)	Option 2 Invercargill-based authority	Option 2 Southland/Gore-based authority
Governing bodies	4	1	2	1	1
Governing-body members	49	14–16	22–26	10–12	12–14
Local boards	None	8–9	9	2	7
Local-board members	None	40–54	45–54	10–12	35–42
Governing-body remuneration and member allowances	$2.8m	$1.0m–$1.2m	$1.7m–$1.9m	$0.8m–$0.9m	$0.9m–$1.0m
Local-board remuneration, board allowances and support	None	$3.6m–$4.6m	$4.0m–$4.5m	$0.9m–$1.0m	$3.1m–$3.5m
Current community-board remuneration	Approximately $0.35m	Removed	Removed	Removed	Removed
Separate Joint Committee allowance	Not applicable	Not applicable	None modelled	–	–
Central net annual governance cost relative to the status quo	–	**$2.0m additional cost**	**$2.9m additional cost**	**$0.5m additional cost**	**$2.4m additional cost**

Note: Governing-body costs include remuneration and an assumed annual member allowance. Local-board costs include members' remuneration, a per-board allowance, and additional governance and secretariat support. The central net annual effect also includes savings from fewer council elections, the cost of local-board elections, and the removal of current community-board remuneration. No separate incremental cost is modelled for the Option 2 joint committee.

Cost impact of governance arrangements

The base case model produces annual **cost increases** of about:

- $2.0 million under Option 1
- $2.9 million across Option 2
    - *$0.5 million for the Option 2 Invercargill-based authority*
    - *$2.4 million for the Option 2 Southland/Gore-based authority*

Having fewer organisations would reshape management and organisational functions

Workforce reductions were limited to identifiable duplication

The current workforce establishment (1,040 FTE staff positions) includes vacancies. The financial model for our analysis used filled FTE because removing a vacant position creates no current salary saving. We use establishment data to understand organisational structures and assess the positions that a future authority would need.

We assessed future workforce requirements in three parts.

- First, we considered chief executives and general managers (in other words, the first and second tiers of the management structure).
- Then, we assessed eight organisation-wide functions: health and safety; property and procurement; people and culture; capital and projects; strategy and policy; communications and engagement; finance; and information technology.
- Last, we assessed managers and team leaders across the rest of the workforce, limiting reductions to roles where reorganisation would create clear structural duplication.

Each current council has its own chief executive, senior leadership structure, and organisation-wide functions. Reducing the number of organisations would remove some duplication across these functions.

Option 1 would consolidate these capabilities into one organisation, with one chief executive and executive leadership team. Option 2 would retain two organisational centres, so more leadership and organisation-wide positions would be needed. Each authority would still need its own financial, workforce, technology, governance, and planning capability, as well as the capacity to deliver regional responsibilities and support cross-boundary governance.



We did not apply a general reduction to frontline or specialist positions

Local delivery was an important factor in our estimating of future workforce requirements. The Commission's assessment framework considers how well arrangements respond to Southland's distinct places, settlement patterns, distances, and local circumstances. The feedback from engagement also emphasised the importance of locally based service delivery, representation, and decision making. Participants saw local voice as a central consideration in any reorganisation and supported regional delivery of appropriate functions alongside meaningful local delivery and governance.

We therefore did not treat centralisation as an objective in our workforce analysis. Many managers and team leaders support staff, facilities, infrastructure networks, or services that are tied to particular places. The need for this local coordination would continue after reorganisation, even where organisation-wide leadership and support functions have been consolidated.

We did not reduce the wider delivery workforce. This was so as to retain place-based management roles where they support a facility, location, local service, or geographically dispersed workforce. This maintains local and specialist capability where the underlying work continues.

Most workforce savings come from fewer chief executives and general managers and from consolidating organisation-wide functions

Changes to manager roles

The table below shows the modelled reduction in executive and management positions under each reorganisation option, relative to the current staffing establishment across the four councils.

Table 17: Modelled executive and other management FTE under each option

Roles	Status quo	Option 1		Option 2. Combined	
	Number of FTE roles	Number of FTE roles	Reduction relative to status quo	Number of FTE roles	Reduction relative to status quo
Chief executive officer	4	1	75%	2	50%
Group managers	22	7	68%	14	36%
Managers and team leaders (excluding those listed in the next table)	135	122	10%	131	3%

Note: the Group Manager roles include one current vacancy

Changes to functions

For eight organisation-wide functions, we carried a more detailed position-level assessment. These functions were health and safety; property and procurement; people and culture; capital and projects; strategy and policy; communications and engagement; finance; and IT.

We grouped positions that perform similar work into these common functions, recognising that structures and job titles differ between councils. We reviewed the roles, management layers, and team sizes currently in place, and estimated the capability that each future authority would need.

Current Southland staffing provided the starting point, with comparable team structures in other councils used as a reasonableness check. Job titles informed the assessment but did not determine the result.

We also concluded that Option 1 can provide these organisation-wide functions once across a single authority. Option 2 requires two sets of teams with each authority needing viable finance, technology, workforce, health and safety, communications, strategy, and project capability.



Table 18: Modelled FTEs in organisation-wide functions under each option

	Status quo	Option 1. Single unitary authority		Option 2. Two unitary authorities (combined)	
	Number of FTEs, incl managers	Number of FTEs, incl managers	Reduction relative to status quo	Number of FTEs, incl managers	Reduction relative to status quo
Total FTE by support function group					
Information Technology	78	58	26%	60	23%
Finance	55	46	16%	48	13%
Communications and community engagement	42	24	43%	24	43%
Strategy and policy	34	24	29%	28	18%
Capital and projects	30	27	10%	30	0%
People and culture	27	23	15%	28	0%
Property and procurement	16	14	13%	16	0%
Health and safety	8	7	13%	8	0%
Total support FTE by seniority					
Manager FTE	56	34	39%	40	29%
Non-manager FTE	233	189	19%	202	13%
Total FTE	**289**	**223**	**23%**	**242**	**17%**

We looked to comparator councils to check reasonableness

We used two comparator checks to test whether the modelled workforces were broadly credible. The first compared total FTE per 10,000 residents with neighbouring councils selected by population, population density, and median household income. The second compared the size and structure of organisation-wide teams with workforce information from a wider group of councils.



The comparisons informed our judgement but did not determine which positions were removed nor prescribe a future structure. Councils perform different functions, cover different geographies, and use different mixes of in-house and outsourced delivery. The results of the comparisons are therefore a sense check, rather than providing a staffing target.

This is consistent with other recent benchmarking for unitary authorities, which as an indicative check uses councils of broadly similar population size and with a comparable mix of rural and urban responsibilities. Our use of the comparisons for just a sense check also recognises that differences in geography, settlement patterns, and operating arrangements limit direct comparisons.

The modelled workforces sit above the median for the unitary-council comparators

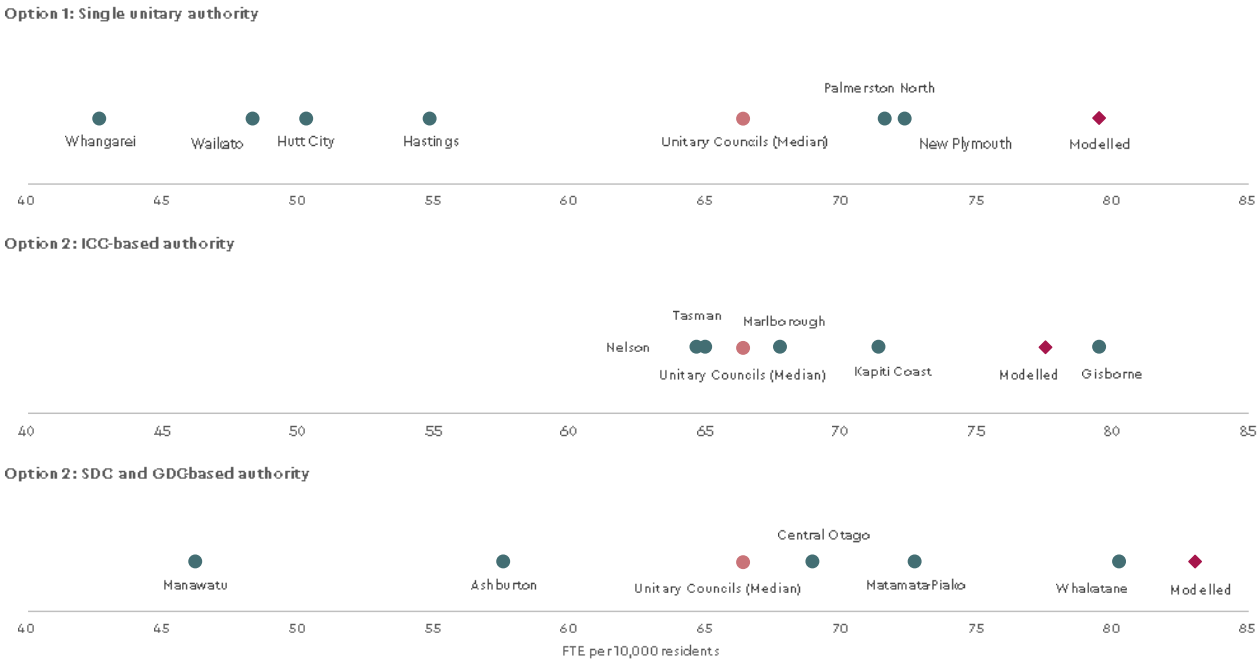
The figure below shows that we took a conservative approach to modelling reductions in the existing Southland councils' workforce. This means costs may be overstated and potential for savings understated.

We did not assume that the future authorities would move to the comparator median or lower end of the range. The model we used retains local, specialist, and delivery capability and limits reductions mainly to identifiable duplication in leadership, organisation-wide functions, and management.

Option 2 retains proportionately more FTE than Option 1 because each authority needs its own leadership and organisation-wide capability. The Southland/Gore-based authority also retains a relatively high FTE allowance compared with the comparators shown in the figure below, consistent with our conservative treatment of management roles supporting geographically dispersed, place-based, and specialist services.



Figure 8: Modelled workforce compared with relevant council comparators



Note: Comparator figures use reported FY25 actual FTE. Modelled Southland figures use the adjusted 2026 filled-FTE workforce after reductions in positions. The unitary comparator median comprises Nelson, Tasman, Marlborough, and Gisborne. The comparison is a reasonableness check only; it does not provide a staffing target.

Cost impact of changes to management and organisational functions

The base case model produces gross **savings** of about:

- $11.7 million under Option 1
- $6.7 million across Option 2
    - *$2.9 million for the Option 2 Invercargill-based authority*
    - *$3.8 million for the Option 2 Southland/Gore-based authority*

The difference reflects the additional leadership and organisation-wide capability retained across two authorities.

Combining workforces would affect employment costs

Amalgamation is expected to have both one-off and ongoing financial effects on the workforce. Removing filled positions reduces ongoing salary costs and is likely to require redundancy payments. Bringing employees from different councils into one organisation will mean rationalising the number of

job positions that exist across councils currently, resulting in an alignment of job sizes and remuneration bands for people doing comparable work.

Redundancy creates a one-off cost

In most cases, removing a filled position will require a redundancy payment. We treat this as a one-off transition cost, separate from the ongoing salary saving.

Some position reductions would be met through vacancies

Removing a vacant position does not create a redundancy cost, because there is no employee in the role. In our analysis, we identified the positions that would no longer be needed under each option, then applied the vacancy rate currently observed for each part of the workforce to estimate how many roles would already be sitting empty at the point of transition. The councils currently carry around 136 vacant positions across an establishment of about 1,040, a vacancy rate of roughly 13%, with vacancy rates varying by workforce group. On this basis we expect about one in ten of the positions removed to be vacant rather than filled.

We also do not count a vacancy as an ongoing cash saving, because no salary is currently being paid for it. Vacancies elsewhere in the councils are unaffected and remain part of the future workforce.

Redundancy cost

The estimate assumes an average tenure of seven years and 2.3 weeks of redundancy pay for each year of service. Together, these assumptions provide an average allowance of 16.1 weeks' pay for each filled position removed.

Our base case redundancy estimate is approximately:

- $3.1 million under Option 1
- $2.0 million across Option 2
    - *$0.8 million for the Option 2 Invercargill-based authority*
    - *$1.2 million for the Option 2 Southland/Gore-based authority*

Actual costs would depend on which employees were affected, their length of service, and their employment agreements.

Aligning roles could offset a share of the savings

The four councils currently pay different amounts for some comparable roles. Reorganisation would require job structures, role descriptions, and remuneration bands to be aligned across the new organisations. In practice, this would mean an increase in salary levels for lower-paid roles toward the higher rate paid for similar work. We have referred to this as "salary harmonisation" and treated it as a cost of reorganisation that offsets a portion of the savings from reducing duplicate positions and management structures.



To estimate it, we built a sample of role families that exist in more than one council and compared what each council pays for them, using full-time equivalent salaries so that part-time roles do not distort the comparison.

Lifting every employee to the highest rate paid anywhere in the region for their role would cost around 6.3% under Option 1. We treat that as an upper limit rather than a likely outcome, because it assumes complete alignment to the top of the range with no employee left behind and no phasing.

A more realistic approach reflects a more typical remuneration practice: align each role towards the middle of the range currently paid, and hold employees already above that level on their existing salary, so no individual has their pay reduced. We tested this in two ways: varying how far up the range salaries are aligned, and repeating the calculation across the whole non-executive workforce rather than the sample alone, covering close to 90% of the salary base. For Option 1, both produced similar answers, giving us reasonable confidence in the sample.

On this basis the base case applies an uplift of 3.0% to the remaining non-executive salary cost under Option 1, and 1.5% to each Option 2 authority, where fewer workforces are combined and more employees are already paid at or near the higher rate.

Our base case annual salary harmonisation cost is approximately:

- $2.6 million under Option 1
- $1.3 million across Option 2
    - *$0.7 million for the Option 2 Invercargill-based authority*
    - *$0.6 million for the Option 2 Southland/Gore-based authority*

Because the uplift applies across most of the retained salary base, the result is sensitive to this assumption. We cover this in more detail in our sensitivity analysis in the following section of the report.

Scale could improve procurement and asset management

A larger council may be able to plan work across a wider area, combine contracts, and make better use of skills in procurement, asset management, and contract management. It may also give suppliers a clearer view of upcoming work, helping them plan staff, equipment, and materials.

Savings could come from lower contract prices and from better planning and delivery. Common asset information and standards could help a future authority rank work across a wider asset base. A more coordinated work programme could reduce clashes between councils seeking the same contractors, and improve the timing and packaging of contracts.

These gains are not automatic. They would depend on the quality of asset information, the strength of the supplier market, the design and timing of contracts, and the skills of the future authority. Larger contracts may offer better value in some areas. Smaller contracts may still be needed to maintain competition and allow local firms to take part.



Scale affects council activities in different ways

Recent New Zealand benchmarking by Morrison Low Advisory[10] found a statistically significant link between cost and scale for nine of the 13 council activities examined. The measure of scale varied by activity:

- Roading and solid-waste costs were linked to population.
- Property costs were linked to the value of infrastructure assets.
- Planning and regulatory costs were linked to consent volumes.
- Culture, recreation, and sport; community development; and economic development were linked to urban population.
- Environmental protection costs were linked to urban land area.

The benchmarking found that these activities have both fixed and variable costs. As the scale of an activity grows, its fixed costs can be spread across a larger population, asset base, or workload. The benefit reduces as the scale increases. This supports testing efficiencies in selected activities, rather than applying the same saving across all council spending.

Previous work on the Auckland governance reforms assumed operating savings of 5%–7% of amenable operating expenditure and capital expenditure savings of 2%–3%.[11] These provide a broad reference point. Auckland's scale, density, supplier market, and service arrangements differ from Southland's, so we have not applied those rates directly.

Earlier Wairarapa work by MartinJenkins/TDB tested a wide range of potential savings on road materials and contracts and a much lower rate for other materials and contracts.[12] It excluded solid waste because the councils already held a shared contract. This supports applying any procurement assumption to a selected spending base and recognising services that are already shared.

The scope for savings differs across the Southland options

The Southland councils already buy some services together. Invercargill CC, Southland DC, and Gore DC deliver solid-waste services through WasteNet, which manages shared waste collection and disposal contracts. We do not assume further savings from these contracts. The councils also work together on emergency management, IT, building control, and library services. Existing joint arrangements reduce the extra savings available from a change in structure.

Other services use different delivery and contracting models. Southland DC contracts out most parks and recreation maintenance, with a small internal team for minor work. Council discussions also identified differences in how contracts are packaged and managed. Major suppliers work for more than one Southland council, and separate council work programmes can compete for the same supplier capacity.

[10] Unitary Benchmarking Assessment, Wairarapa Councils. Morrison Low, June 2026.

[11] Royal Commission on Auckland Governance, March 2009. These estimates were based on an estimated potential for total operating expenditure savings of 3 to 4%, including interest and depreciation.

[12] Assessment of the viability of a Wairarapa Unitary Authority. MartinJenkins and TDB, April 2013.



Option 1 offers the widest scope to coordinate procurement and asset management. It would bring the three territorial roading programmes, property and facility portfolios, and supplier contracts into one authority. It could use one view of asset condition, risk, and planned renewals to rank work and set the capital programme.

The Southland/Gore-based authority would bring together the capital and maintenance programmes of two district councils. It could align specifications, contract dates, and work programmes across the two districts. The scope is smaller than under Option 1 because procurement would continue to be split between two authorities.

The Invercargill-based authority would combine ICC's territorial activities with a share of regional functions. It would not combine several territorial roading, parks, or community-facility programmes. Environment Southland's specialist activities are already managed at a regional scale. The main scope for savings would be in corporate contracts, software, insurance, professional services, and contract management.

Planning and regulatory functions may gain from shared expertise, common processes, and the ability to manage peaks in workload. Their costs are linked more closely to the number and type of consents than to population. We have not applied a separate procurement saving to these functions.

The base case assumes no operating or capital efficiencies from improved procurement and asset management

This assumption reflects uncertainty about future contract arrangements, procurement strategies, and asset-management practices, and recognises that some efficiencies could also be achieved under current governance arrangements.

To test the significance of this assumption, we included procurement and capital-delivery efficiencies in the "High" case

Under the High scenario, Option 1 achieves operating cost efficiencies of 1.0% and capital delivery efficiencies of 2.0%. Option 2 achieves smaller efficiencies, reflecting its retention of two organisations and the smaller scale of consolidation, with operating efficiencies of 0.25% for the Invercargill-based authority and 0.5% for the Southland/Gore-based authority, and a capital efficiency of 1.0% for the Southland/Gore-based authority.

These assumptions test the potential to buy goods and services, manage contracts, and deliver planned capital programmes more efficiently while maintaining planned service levels and investment. The assumed efficiencies are deliberately modest, reflecting existing shared-service arrangements, the size of the Southland supplier market, and the local nature of many council contracts. Savings would be expected to emerge progressively as contracts are renewed, asset information is aligned, and common work programmes are established.

Water-service changes affect the starting cost base

Gore's water services are due to transfer to Southern Waters on 1 July 2027. Our analysis removes Gore's water revenue, costs, capital programme, debt, and staff from the status quo and from both



options. The transfer is expected to occur without reorganisation, so its effects are not counted as a cost or saving from either option.

Invercargill CC's and Southland DC's water services remain in our analysis because both councils will continue to deliver them in-house.

Operating-efficiency assumptions exclude water services. Capital-efficiency assumptions include ICC and SDC's planned water investment, reflecting possible savings in the cost of buying and delivering the programme. They do not reduce planned investment or service levels. Gore water capital expenditure is excluded.

Some of Gore's overhead costs would remain

Gore estimated that about $960,000 a year of overhead costs now recovered from its water services would remain after the transfer. These are costs that support the council as a whole and cannot be reduced in line with the loss of water activity.

Our analysis includes the full amount in the status quo and in both options. Under Option 1, it forms part of the single authority's cost base. Under Option 2, it sits with the Southland/Gore-based authority.

The final amount will depend on which staff, systems, and other costs transfer to Southern Waters, and what changes can be made to the functions that remain.



What our analysis shows

This section presents the main results of our analysis, including transition costs, ongoing costs and savings, financial resilience, and the different outcomes for the two Option 2 authorities.

It explains when costs and savings arise, identifies the assumptions that have the greatest effect on the results, and tests how the findings change under alternative scenarios.

It also identifies important impacts that could not be quantified and that should be considered alongside the financial results.

Understanding the financial results

The report presents financial results in three ways:

- **Nominal values** are the amounts expected to be paid or saved at the time, including inflation.
- **Real values** are shown in FY26 dollars, with inflation removed. This makes it easier to compare annual results from different years.
- **Present values** bring costs and savings over the 25-year period back to a common starting point (FY26 dollars). Costs and savings occurring further into the future are given less weight than those occurring sooner.

Transition costs are shown in nominal terms. Average annual savings are shown in FY26 dollars. The 25-year net financial benefit is a present value.

Option 1 has the stronger overall financial result

Both options would cost money to put in place and would reduce some ongoing costs. In the base case, Option 1 has a 25-year net financial benefit of $66.0 million in present-value terms. Operating savings exceed the initial transition costs in FY36.

Option 2 has a net cost of $4.7 million over the same period. Its two authorities have different results: the Invercargill-based authority breaks even in FY42, while the Southland/Gore-based authority does not.

The difference between Options 1 and 2 comes mainly from the level of ongoing savings. Option 1 combines four organisations into one, and this allows more leadership and organisation-wide roles to be combined. Option 2 retains two chief executives, two leadership teams, and two sets of organisation-wide functions. Its average annual operating saving is about $1.1 million, compared with $4.2 million under Option 1.

Both options add debt during transition. At FY32, Option 1 has modelled net debt of $739 million, equal to 156% of operating revenue. Option 2 has combined net debt of $753 million, equal to 159% of revenue. The combined figures are close, but they conceal an important difference. Option 1 holds the region's borrowing capacity in one authority and provides the most scope to absorb a large financial



shock. Option 2 divides it between two authorities with quite different debt positions. We examine this point later in the section.

The base case uses the assumptions that we believe are the most reasonable given the available evidence. As noted above, we did not assume a general saving from better procurement or capital delivery. The results changed when we changed assumptions around transition costs, alignment of salaries, procurement gains, and other key assumptions. Those tests are set out later in this section (see page 65).

Table 19: Headline financial results from the base case

Measure	**Option 1. Single unitary authority**	**Option 2. Two unitary authorities (combined)**
Upfront transition cost, nominal[1]	$33.8m	$33.2m
Average annual operating saving, FY26 dollars[2]	$4.2m	$1.1m
Break-even year[3]	FY36	Not reached across both authorities within 25 years
25-year net financial benefit, FY26 dollars[4]	$66.0m	($4.7m)
Financial resilience	Option 1 would pool the region's debt, revenue, and borrowing capacity within one authority	Debt capacity would be split unevenly between the two authorities

[1] Transition costs are nominal estimates incurred from FY28 to FY30.

[2] Annual operating savings are the average from FY32 to FY52, expressed in FY26 dollars.

[3] Under Option 2, the Invercargill-based authority reaches break-even in FY42. The Southland/Gore-based authority does not reach break-even within the period.

[4] Net financial benefit is the present value of transition costs, operating changes and financing effects over FY28 to FY52. A positive value means a lower cost than the status quo.

The results of the analysis need to be considered in context

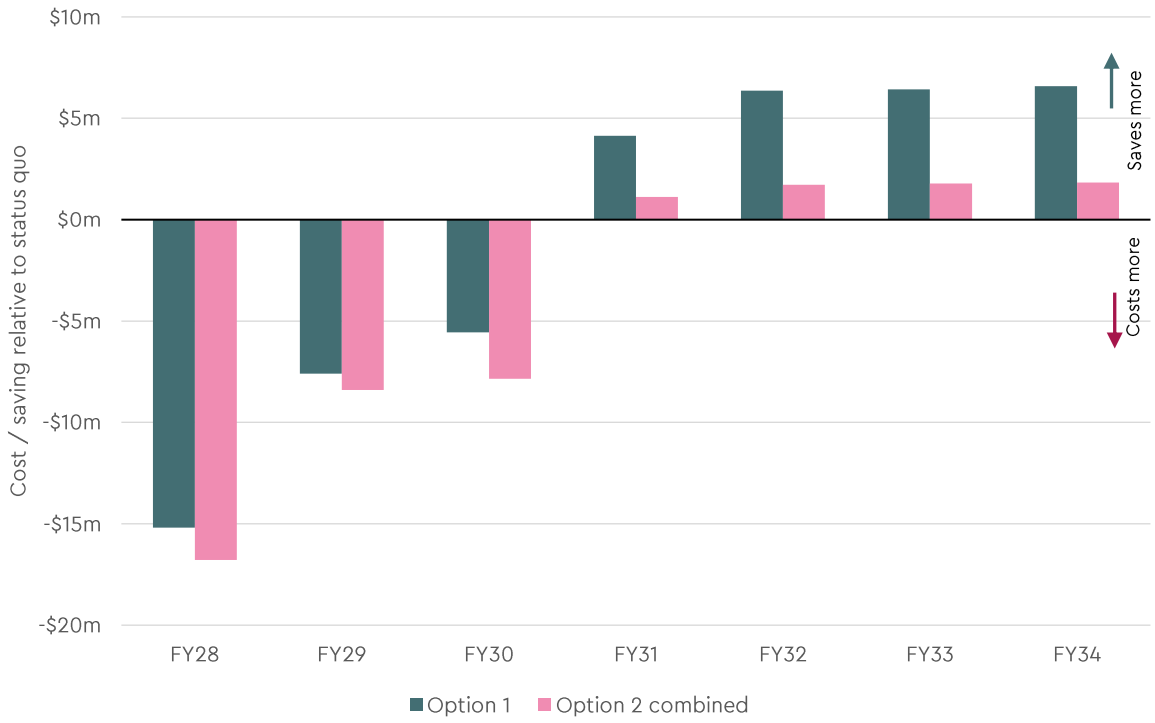
There will be other financial impacts not captured in the analysis, as well as effects on services, capability, local voice, and regional decision-making. These other impacts – contained within the four domains of the assessment framework – will be considered by the Commission alongside the financial analysis.

Costs are front-loaded; savings are realised over time

The chart below shows the annual financial effect of each option compared with the status quo, in nominal terms. A figure below zero means the option costs more than the status quo in that year. A figure above zero means it costs less. The chart covers the transition costs, operating changes, and financing effects included in the model. It does not show the full cost of running the councils.

Both options cost more than the status quo during the three transition years. Option 1 improves more quickly because it has larger workforce savings. Option 2 retains two organisational centres and has higher combined governance costs. Its annual savings are still positive once the transition is complete, but they leave much less scope to repay the earlier costs and the interest on the debt used to fund them. The savings are assumed to continue beyond the years shown in the chart, with costs and salaries changing in line with the modelled cost.

Figure 9: Annual financial effect of each option relative to the status quo, nominal values



Negative figures mean the option costs more than the status quo in that year. Positive figures mean it costs less. The annual effects include transition costs, ongoing operating changes, and the added financing costs caused by reorganisation. The figures shown are nominal.

Option 1 saves more because it removes more duplication

The annual saving under each option is made up of several costs and savings. Having fewer executive, organisation-wide, and management roles reduces costs. Salary alignment, new governance arrangements, and Gore's remaining water overheads offset some of those savings.

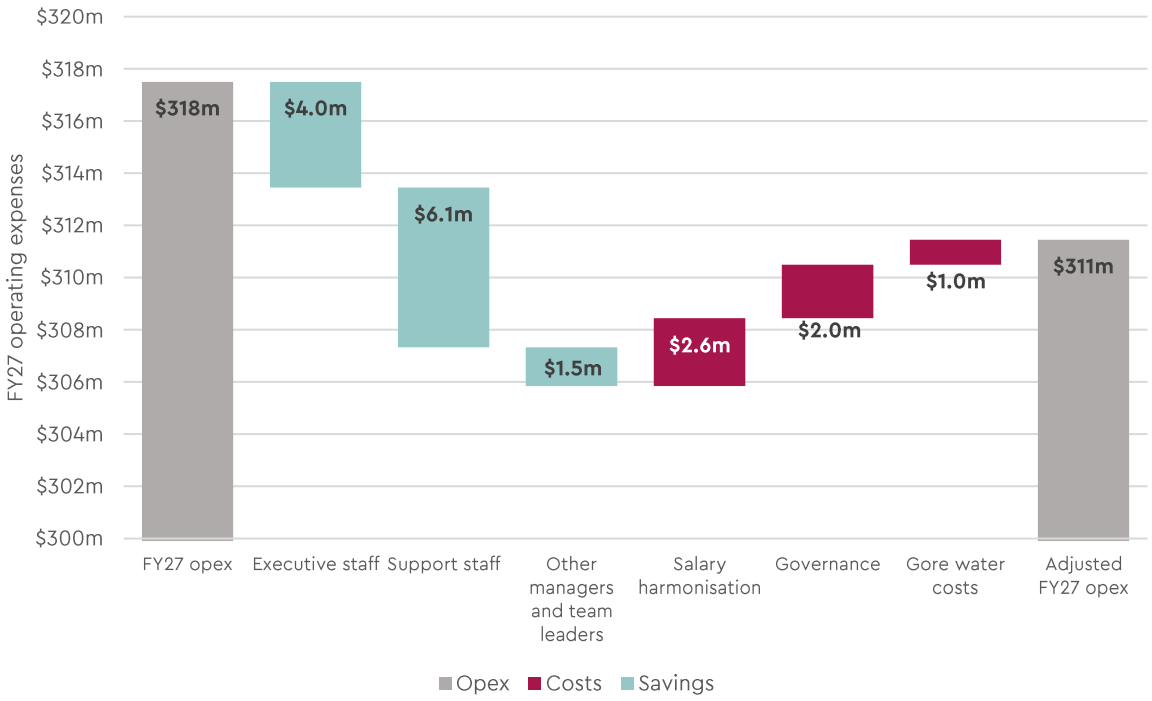
The charts below use FY27 operating costs as a common starting point. This makes the relative size of each change easy to see. The changes take effect from FY30 and are then applied to the forecast cost base.

Option 1 produces the larger workforce saving

Under Option 1, workforce changes reduce the FY27 cost base by around $11.7 million. Most of the saving comes from consolidating organisation-wide functions and reducing duplicate executive and management roles across the four councils. More than half of the workforce saving comes from organisation-wide functions being provided only once across a single authority.

These savings are partly offset by harmonisation of salaries, new governance arrangements, and Gore's remaining water overheads. Overall, Option 1 reduces the FY27 operating cost base by around $6.0 million, equivalent to 1.9% of operating costs excluding interest and depreciation. The base case does not include a wider saving from procurement, consolidation of contracts, or capital delivery.

Figure 10: Ongoing annual operating changes under Option 1

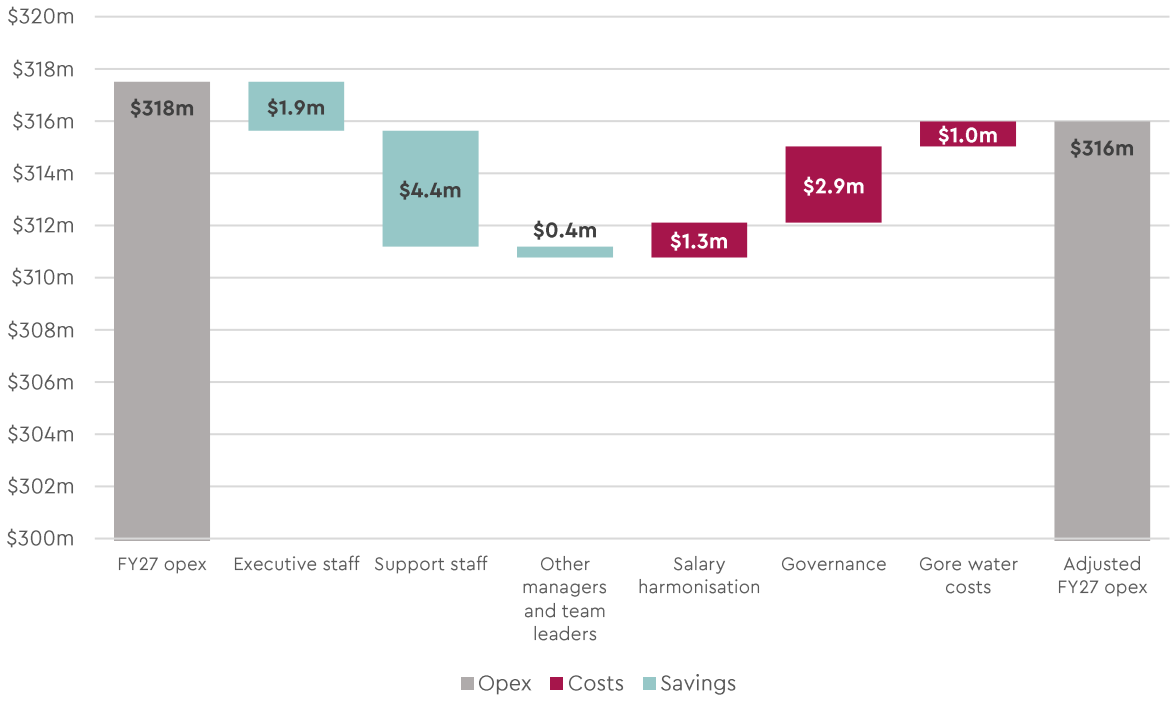


Option 2 retains more leadership and organisation-wide capacity

Most of the saving under Option 2 comes from reducing duplication in organisation-wide functions, with smaller savings from executive, management, and team leader roles. More management capacity is retained than under Option 1 because both authorities must operate as stand-alone councils and support regional functions.

These savings are partly offset by harmonisation of salaries, governance costs, and Gore's remaining water overheads. Overall, Option 2 reduces the FY27 operating cost base by around $1.5 million, equivalent to 0.5% of operating costs excluding interest and depreciation. The smaller ongoing saving provides less capacity to offset the cost of establishing the two authorities.

Figure 11: Ongoing annual operating changes under Option 2



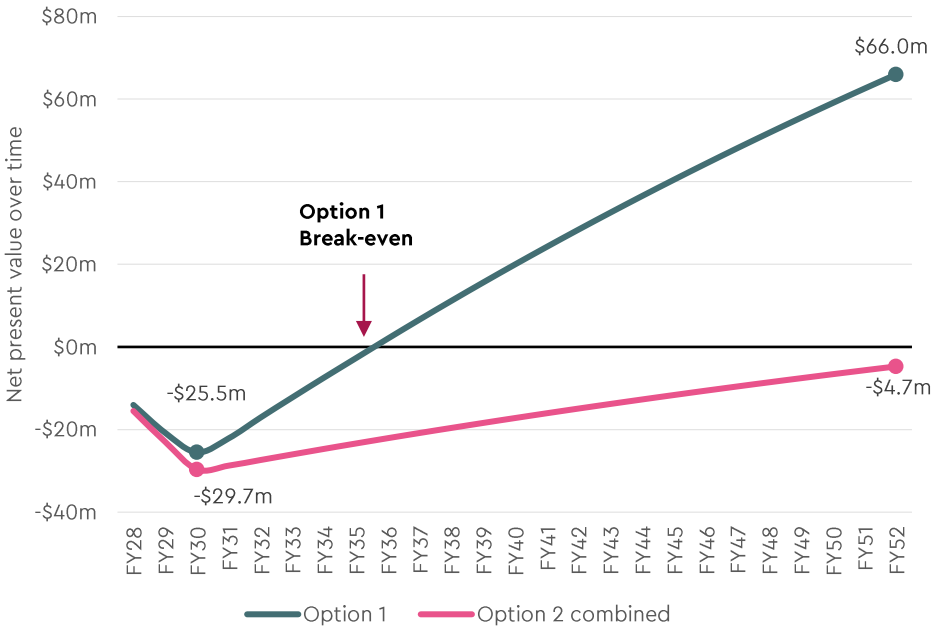
Option 1 repays its transition cost; Option 2 does not

The annual savings need to be considered alongside the costs of establishing the new authority or authorities. The graph below combines transition costs, ongoing operating changes, and the interest costs associated with funding the transition. Results are presented in present-value terms, which allows costs and savings occurring at different times to be compared consistently. A negative amount means that it costs more.

Option 1's larger ongoing savings are sufficient to recover its transition and financing costs. It reaches break-even in FY36 and delivers a net financial benefit of $66.0 million in present-value terms by FY52.

Option 2 also improves over time, but more slowly. Its ongoing savings are not sufficient to recover the cost of establishing two authorities within the 25-year period. Its net cost reduces from $29.7 million in FY30 to $4.7 million in FY52 but stays below break-even.

Figure 12: Cumulative net financial benefit over time, present value



The results cannot be translated into changes in rates

Our analysis does not estimate a change in rates for each property or rating unit. The financial results show the change in council costs compared with the status quo. They do not show how a future authority would fund those costs or pass savings on to ratepayers.

A future authority could use savings to reduce debt, fund capital work, meet other cost pressures, change service levels, or limit future rates rises. Transition costs could also be funded and repaid in different ways. These choices would affect both the timing and size of any impact on rates.

Rates would also depend on the funding and rating policies adopted by each new authority. Properties differ in value, use, and current rating treatment. Harmonising rates could shift costs between areas and types of property even where the total amount collected did not change.

The status quo also includes material rates rises. The councils' adopted plans provide for rates revenue to grow by about 4.9% a year from FY27 to FY34. Any future rates effect would need to be measured against that rising path, rather than against current rates.

For these reasons, we have avoided simply dividing the region-wide result by the number of rating units.

A single authority would have the greatest capacity to absorb a large financial shock

Financial resilience is the ability to meet large, unplanned costs while continuing to fund services and planned investment. It depends on debt, revenue, and the amount of borrowing headroom that remains.

The current councils have very different debt positions and revenue bases. By FY32, Invercargill CC and Southland DC are forecast to hold most of the region's debt. Environment Southland and Gore have less debt but also have smaller revenue bases. A large cost could place heavy pressure on any one council, even where the region as a whole has enough borrowing capacity. Reorganisation would pool debt, revenue, and borrowing capacity across larger areas. Option 1 would pool them across the whole region. Option 2 would divide them between two authorities.

We tested the effect of a $100 million shock in FY32

We tested how each council and proposed authority would respond to an added $100 million of debt in FY32. The shock could reflect a major flood event, substantial damage to infrastructure, failure of a significant asset, or some other large, unplanned cost requiring council funding.[13]

We chose FY32 because the transition costs have been incurred by then, but the longer-term operating savings have had less time to build. Net debt-to-revenue ratios are also close to their forecast peak at this point. The same $100 million shock is applied to each council and option. This provides a consistent basis for comparing financial resilience and remaining borrowing capacity.

The same cost would affect the current councils in very different ways

A $100 million shock would affect the four councils very differently because they have different debt levels and revenue bases. Gore would exceed the assumed 280% Local Government Funding Agency limit, while Invercargill City Council would remain within the limit but with little borrowing capacity remaining. Southland District Council and Environment Southland would retain substantially more headroom. The results should be interpreted as a comparison of financial resilience rather than a prediction for a specific event.

Option 1 would spread the cost across the whole region

Under Option 1, a single authority would remain well within the assumed borrowing limit after a $100 million shock and retain around $488 million of borrowing headroom. The main resilience benefit is that debt, revenue, and borrowing capacity would be pooled across the region, allowing the cost of a large event to be shared across a larger balance sheet.

[13] The Treasury estimated the Cyclone Hale, Auckland Anniversary heavy rainfall, and Cyclone Gabrielle events caused between $9 and $14.5 billion of physical damage to households, businesses, and infrastructure. For scale comparison, the August 2022 flooding event that impacted Nelson had a total estimated recovery cost of $77.1 million, with an estimated 30% covered by insurance and central government contributions. The weather event affecting Western Bay of Plenty in early 2026 has an estimated recovery bill of $28.6 million, including approximately $15.8 million to be funded by Council.



Both Option 2 authorities would remain within the limit, but with different headroom

Both Option 2 authorities would remain within the assumed borrowing limit after a $100 million shock. However, borrowing capacity would be unevenly distributed. The Southland/Gore-based authority would retain substantially more headroom than the Invercargill-based authority, and capacity held by one authority would not automatically be available to the other.

Option 2 would improve Gore's ability to absorb a large cost by placing it within a larger revenue base.

Understanding the borrowing limit

New Zealand councils usually assess their borrowing capacity using debt-to-revenue ratios. This analysis uses a net debt-to-revenue threshold of 280%, which is consistent with borrowing limits often applied to councils borrowing through the Local Government Funding Agency.

Councils may choose to operate below this level through more conservative borrowing limits set in their financial strategies and Long-Term Plans.

Table 20: Impact of a $100 million shock on net debt-to-revenue

Entity	Before shock: Net debt-to-revenue	After $100m shock: Net debt-to-revenue	Remaining headroom against 280% LGFA limit
Individual councils			
Environment Southland	5%	149%	**$91m**
Invercargill City Council	215%	265%	**$29m**
Southland District Council	143%	203%	**$130m**
Gore District Council	97%	361%	**-$31m**
Unitary authorities			
Option 1	156%	177%	**$488m**
Option 2: Invercargill-based authority	204%	249%	**$68m**
Option 2: Southland/ Gore-based authority	120%	159%	**$306m**

Note: The test applies an added $100 million of debt to each entity in turn. It assumes a net-debt-to-revenue limit of 280%. It does not allow for insurance, central government support, reserves or other funding sources.

Option 2 produces different results for its two authorities

The combined result for Option 2 masks two quite different financial paths. The Invercargill-based authority broadly recovers its transition and financing costs within 25 years, while the Southland/Gore-based authority does not.

Table 21: Financial results for the two Option 2 authorities

	Invercargill-based authority	Southland/Gore-based authority
Average annual operating saving	$1.2m	($0.1m)
Present value of operating savings over 25 years	$27.9m	($2.5m)
Net financial benefit after 25 years	$11.3m	($16.0m)
Break-even year	FY42	Not reached within 25 years
Net debt-to-revenue (FY32)	204%	120%

Regional rates share some costs across district boundaries

Environment Southland sets most of its rates at a whole-of-region level. Its general rate, river management rate, flood infrastructure rate, and uniform annual general charge apply in all three districts. This means ratepayers in one district may help to pay for regional work that mostly happens in another. In 2025, Environment Southland moved river management onto a region-wide rate because the work benefits the whole region.

The current Invercargill City area pays about 37% of Environment Southland's rates, and about 32% of its operating costs relate to that area (see Appendix 1). On rates alone, Invercargill pays slightly more than the cost of work there. But the Southland and Gore districts pay about 95% of Environment Southland's fees and charges (which are based more directly on usage). Once fees are included, the difference narrows and may disappear. It also depends on how benefits are counted. For example, flood protection, science, and emergency management benefit people outside the area where the work happens.

We therefore concluded that any transfer between the Invercargill CC area on the one hand and the Southland and Gore districts on the other is small. The actual dollar figure, while relatively small, would depend on the method used to estimate the benefits.

Under Option 1, regional rating would continue within one authority, so any existing transfer would continue unless the new council changed its rating policy. Under Option 2, each authority would pay



for its own share of regional costs, which would end any transfer. A joint committee cannot set rates, so the two authorities would need a cost-sharing agreement if they wanted to keep sharing costs. This affects how costs fall between the two areas. It does not change the total cost of either option.

The Invercargill-based authority broadly recovers its upfront costs

The Invercargill-based authority reaches break-even in FY42 and produces a modest net financial benefit over 25 years. Its result is driven by relatively larger workforce savings and lower governance costs than the Southland/Gore-based authority and no stranded overheads relating to water. However, the Invercargill authority would also inherit a more restrictive debt position and have less borrowing headroom than the Southland/Gore authority.

The Southland/Gore-based authority does not reach break-even within 25 years

While combining Southland and Gore District Councils removes some duplication, the resulting savings are not sufficient to offset transition, governance, and financing costs within the modelled period.

The authority may have greater scope for procurement and asset-management efficiencies than is reflected in the base case. We explore these in the sensitivity analysis.

The authority-level results do not show who would bear the costs

The results show the financial change for each authority. They do not show how costs and savings would be shared among the communities within each authority.

That would depend on future decisions about rates, debt, reserves, funding policies, and the pace of any rates transition. Nor do the results determine how the costs of regional functions would be allocated between the two authorities. Those issues would need to be settled through detailed design.

A few assumptions have a large effect on the results

The base case uses the assumptions we consider most reasonable on the evidence available. Some of these assumptions remain uncertain and have a material effect on the result.

The tests below change one assumption, or one closely linked set of assumptions, while the rest of the base case stays the same. They show which inputs matter most and whether a change would alter the broad comparison between the options.

The results are most sensitive to assumptions about transition costs, operating efficiencies, procurement and capital delivery, salary alignment, and the value placed on future savings. Option 1 remains above Option 2 in all tests.

Our results for Option 2 do not include any cost for duplicating specialist regional roles across the two authorities. Including this cost would lower Option 2's net present value further, but would not change how the options compare.



Table 22: Effect of key sensitivity tests on 25-year net financial benefit, present value

Test	Option 1	Option 2 (combined)	What the test shows
Base case.	**$66.0m**	**($4.7m)**	Option 1 repays its costs; Option 2 does not.
Option 2 transition costs halved. No change to Option 1.	**$66.0m**	$10.3m	Option 2 improves, but remains below Option 1.
Procurement and capital delivery improvements included. Modest operating and capital efficiencies are added to both options.	$135.2m	$13.6m	Greater scale creates more upside for Option 1.
Option 1 cost of salary harmonisation increased from 3% to 5%. No change to Option 2.	$39.3m	($4.7m)	Option 1 remains positive.
Option 2 operating efficiencies tripled. No change to Option 1.	**$66.0m**	$52.0m	Option 2 improves; however, the gain lies almost entirely with the Invercargill unitary.
Local Boards increase from 9 (2 Invercargill, 7 Southland/Gore) to 13 (2 Invercargill, 11 Southland/Gore)	$32.7m	-$32.7m	Option 2 worsens due to a higher cost burden on Southland/Gore.
Discount rate increased to 4.04% to 10.2%.	$19.5m	($14.1m)	Later savings are worth less; Option 1 remains higher.

Each test changes only the assumption described while keeping the other base-case assumptions unchanged. Net financial benefit is measured over FY28 to FY52 in present-value terms.

We tested a High and a Low case

The sensitivity tests above examine individual assumptions. We also tested how the results change when several assumptions move together. The Low case combines higher costs and lower savings, while the High case combines lower costs, greater workforce savings, lower salary alignment costs,



and modest procurement and capital-delivery efficiencies. The two scenarios illustrate a range of possible outcomes rather than upper and lower limits.

In present-value terms, Option 1 ranges from a net cost of $11.0 million to a net benefit of $190.5 million over 25 years, compared with a base-case benefit of $66.0 million. Option 2 ranges from a net cost of $74.5 million to a net benefit of $57.0 million, compared with a base-case cost of $4.7 million.

Option 1 produces a stronger result than Option 2 in all three cases and is the only option that delivers a positive result in the base case. The High case also shows that both options could recover their establishment costs if a wider range of efficiencies were achieved over time.

Figure 13: Range of 25-year net financial benefits



The low case combines higher costs and lower savings. The high case combines lower costs and higher savings. Positive figures mean a lower cost than the status quo.

Assessing the options against the criteria

This section brings together, in the form of the following table, the main findings from our analysis against the assessment criteria the analysis most directly informs. The assessment compares the two short-listed options with the current arrangements and considers the relevant core considerations, measures, and information in the Local Government Commission's assessment framework.

The table below is not a complete clause 10 assessment. Some objectives depend mainly on evidence from engagement, community and iwi perspectives, representation analysis, statutory partnership analysis, and detailed decisions that have not yet been made. The Commission will consider this wider evidence alongside our analysis when forming its assessment of each objective and its overall judgement.

Table 23: How the short-listed options compare against the criteria most directly informed by our analysis

Criteria	Option 1 assessment Single unitary authority	Option 2 assessment Two unitary authorities
Domain 1: Better fulfilment of the purpose of local government Objective (a): better fulfilment of the purpose of local government to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future		
Intergenerational sustainability *Whether the arrangements would increase or reduce the risk of deferring costs or degrading outcomes for future communities.*	**On the financial evidence available, Option 1 provides the strongest regional capacity to manage long-term costs and financial shocks.** By pooling the region's revenue, debt and borrowing capacity within one authority, it would provide the greatest capacity to meet major unplanned costs and coordinate infrastructure priorities across Southland. Its financial benefits would emerge over time, following material upfront transition costs, and the region would still need to fund infrastructure renewals and respond to future cost pressures.	Option 2 would also provide larger financial bases than most current councils, but its financial capacity would be unevenly divided. The Invercargill-based authority would have considerably less borrowing headroom than the Southland/Gore-based authority.

Criteria	Option 1 assessment Single unitary authority	Option 2 assessment Two unitary authorities
Domain 2: Efficiency, effectiveness, capability, and sustainability Objective (c): efficiencies and cost savings		
Net cost impacts *Whether the arrangements would reduce, increase, or reallocate overall costs for councils over time.*	**Option 1 produces the stronger net cost result.** Option 1 generates larger ongoing savings by removing more duplication in executive, management and organisation-wide functions. These savings recover the transition and financing costs by FY36 and produce an estimated net financial benefit of $66.0 million over 25 years.	Option 2 has a similar combined transition cost but retains two leadership teams and two sets of organisation-wide functions. Its smaller ongoing savings do not recover the transition and financing costs within 25 years, resulting in an estimated net cost of $4.7 million. The combined result also hides different outcomes for the two authorities: the Invercargill-based authority broadly recovers its costs, while the Southland/Gore-based authority does not.
Credibility of efficiencies *Whether claimed efficiencies are credible and likely to be realised in practice.*	Sensitivity testing shows that the size of the benefits changes with key assumptions, but **Option 1 remains ahead in all the tests**.	Even when Option 2's operating efficiencies are tripled, Option 1 has a higher 25-year net present value.
	The modelled efficiencies are from structural changes that are specific to reorganisation, including savings from identifiable duplication in executive, management and organisation-wide functions. The analysis holds service levels and delivery approaches broadly constant and does not assume wider procurement or capital efficiencies that might also be achievable under the current arrangements. The estimates were checked against comparable councils and transition programmes, while existing shared services and joint arrangements were held constant to avoid double-counting.	

Criteria	Option 1 assessment Single unitary authority	Option 2 assessment Two unitary authorities
Distribution of costs and savings *How costs and savings would be distributed across councils and communities.*	**Option 1 would pool costs, savings, debt and borrowing capacity across Southland, creating greater scope to share costs across the region and the potential for costs to shift between areas under future funding and rating policies.**	Option 2 would keep costs and savings more clearly separated between the two authorities, but its benefits would be unevenly distributed. The Invercargill-based authority broadly recovers its transition and financing costs over 25 years, while the Southland/Gore-based authority does not. Environment Southland's region-wide rates currently share some costs across district boundaries. We concluded that any transfer between the two areas is relatively small, and its direction depends on how benefits are counted. Option 2 would end this sharing unless the two authorities agreed to share costs. The eventual distribution of costs and savings would depend on future decisions about rates, debt, reserves, funding policies and the allocation of regional costs.
	Note: The modelling identifies material differences in how costs and savings could be distributed, but does not show the effect on individual communities or ratepayers.	
Long-term cost sustainability Whether the arrangements would support sustainable cost profiles over time.	**Option 1 provides the strongest long-term cost position.** Its larger ongoing savings recover the upfront transition and financing costs by FY36 and produce a net financial benefit over 25 years.	Option 2's smaller savings do not recover the combined cost of establishing two authorities within the modelled period.
	Both options would continue to face rising infrastructure, regulatory and service-delivery costs. The analysis retains the staff and resources needed for ongoing local and specialist functions, so the savings do not depend on reducing planned services or infrastructure investment.	

Criteria	Option 1 assessment Single unitary authority	Option 2 assessment Two unitary authorities
Objective (d): assurance that any local authority established or changed has the resources necessary to enable it to effectively perform or exercise its responsibilities, duties, and powers		
Financial resources and resilience *Whether the arrangements would provide sufficient financial resources to meet obligations over time.*	**Option 1 provides the strongest overall financial resources and resilience.** By pooling Southland's revenue, debt and borrowing capacity within one authority, it would provide the greatest headroom to fund operating costs, asset maintenance and renewals, and absorb major unplanned costs. Its larger ongoing savings also provide more capacity to manage future cost pressures, although material transition costs would increase debt before those savings are fully realised.	Option 2 would also create larger financial bases than most current councils, but capacity would be unevenly divided. The Invercargill-based authority would have materially less borrowing headroom than the Southland/Gore-based authority, and borrowing capacity held by one authority would not automatically be available to the other. Its smaller ongoing savings also provide less capacity to absorb transition costs or changes in funding and cost assumptions.
Objective (f): enhanced effectiveness, efficiency, and sustainability of local government services		
Service sustainability over time Whether the *arrangements would support services that can be sustained over the long-term.* *Whether the arrangements would support the ongoing maintenance, renewal, and resilience of infrastructure that underpins service delivery.*	**Option 1 provides the strongest platform for sustaining services over time.** Its larger financial base, greater borrowing headroom and wider pool of specialist capability would provide more capacity to maintain and renew infrastructure and respond to future cost, demand and regulatory pressures. The analysis retains local and specialist delivery roles, so the modelled savings come mainly from reducing duplicated leadership, management and organisation-wide functions rather than from lower service levels.	Option 2 would also strengthen capability in some areas by combining the current councils into two larger organisations. However, each authority would retain its own leadership and organisation-wide functions, while some regional services would require joint governance and supporting delivery arrangements across both authorities. This creates greater coordination and capability risks, particularly where specialist regional functions or funding arrangements are divided.



Appendix 1: Assumptions and limitations

Overarching modelling assumptions

Assumption area	Treatment in the model
Comparison basis	Each option is compared with the same forecast status quo. Gore District Council water services are removed from all options for consistency, reflecting their expected transfer to a water services entity. Historical actuals are used to FY25, annual plan figures for FY26 and FY27, long-term plan figures for FY28 to FY34, and 30-year infrastructure strategies to inform longer-term capital expenditure.
Service levels	Existing services are assumed to continue broadly at the levels reflected in council plans. Savings are not attributed to reducing service levels.
Operating approach	Existing in-house, contracted and shared-service delivery approaches are held constant unless a specific structural change requires different treatment. The model does not assume that future authorities will change which services are delivered internally or through external providers.
Relative efficiency and scope of savings	No council is assumed to be inherently more or less efficient than another. The base case includes identifiable savings and costs relating to governance, workforce changes and transition. The other scenarios and sensitivities test whether additional operating and capital expenditure efficiencies could be realised.
Attribution to reorganisation	The model includes changes that arise from the proposed structure. Improvements achievable under the status quo are not counted as reorganisation benefits.
Uncertainty	A base case is supplemented by a high and low case. Sensitivity tests vary material individual assumptions while holding other assumptions constant.
Non-financial effects	Representation, institutional capability, service resilience, integration and implementation risk are discussed qualitatively where they cannot be reliably monetised.



Scope and forecast treatment

Area	Assumption
Model period	25 years, FY28 to FY52. Transition begins in FY28 and ongoing efficiencies begin in FY30.
Source data	Historical actuals to FY25; council annual plans for FY26 and FY27; adopted long-term plan forecasts for FY28 to FY34; 30-year infrastructure strategies for longer-term capital expenditure; and workforce and operational information supplied by the four councils.
Capital expenditure forecasts	Council discussions indicated that some capital budgets may be optimistic or higher than is likely to be delivered. We did not adjust capital expenditure during the long-term plan period because doing so would require further assumptions about the corresponding treatment of grants, subsidies and debt drawdown. From FY35, the long-term capital expenditure forecast is normalised and, where necessary, adjusted for inflation that was not included in the source strategy.
Water services	Gore water services are removed following their expected transfer to a water services entity. ICC and SDC water services remain in the baseline. Known overhead costs related to water services that are expected to remain with Gore District Council are retained.
Council-controlled organisations	Existing CCO structures, costs, revenue and debt are held constant across options.
Inflation and nominal forecasts	Council forecasts and embedded cost adjustors are retained during the long-term plan period. From FY35, forecasts are extended consistently using 2.0% annual inflation.
Discounting	Financial impacts are assessed using a 2.0% real discount rate and a 2.0% inflation assumption. The discount-rate sensitivity is reported separately. Treasury guidance source: https://www.treasury.govt.nz/information-and-services/public-sector-leadership/guidance/reporting-financial/discount-rates
Balanced budget	Councils are required to fund their planned expenditure. In the model, rates revenue is used as the balancing item, meaning it increases or decreases as necessary to cover the gap between all other sources of funding and the council's total costs.

Operating costs and efficiencies

Cost area	Treatment
Local and frontline services	Costs of services that continue under each option are retained. Place-based facilities, infrastructure, regulatory work and environmental functions are not assumed to disappear.
Executive leadership	Each new authority is assumed to have one chief executive and seven group managers. Chief executive and group manager salaries are scaled modestly to reflect the larger scope of the future roles and cross-checked against reported executive remuneration at relevant neighbouring councils.
Organisation-wide functions	The functions modelled in this group include finance, information technology, people and culture, communications and engagement, strategy and policy, property and procurement, health and safety, and capital and projects. These functions are sized for the number and scale of future authorities. Option 2 retains two sets of organisational capability and therefore removes less duplication than Option 1.
Other managers and team leaders	Reductions are limited to identified overlaps in management layers. Senior specialists and geographically fixed operational leadership are generally retained.
Supplier and procurement savings	The base case does not include a general supplier or procurement saving. Potential additional operating efficiencies are tested in the high case.
Capital expenditure efficiencies	No general capital expenditure efficiency is included in the base case. A capital expenditure efficiency is tested in the high case where combining territorial capital programmes provides a reasonable scale and coordination benefit. No efficiency is attributed solely to adding a share of regional functions to the Invercargill-based authority.

Workforce and governance

Assumption area	Treatment
Workforce starting point	Position-level council data are used, including filled and vacant positions. Gore water positions (12.5 FTE) expected to transfer are removed from the in-scope workforce.
Vacancies	Where a modelled position reduction can be met through an existing vacancy, no redundancy payment is included.
Redundancy	Redundancy provisions vary between councils. For consistent modelling, we assume average tenure of seven years and a payment of 2.3 weeks for each year of service, equivalent to 16.1 weeks of salary. Actual individual payments would be higher or lower, but the same assumption is applied consistently across both options.
Salary harmonisation	Salary harmonisation is applied to the non-executive workforce remaining after position reductions: a 3.0% uplift under Option 1 and a 1.5% uplift under each Option 2 authority.
Executive remuneration	Chief executive and group manager salaries are modelled separately from general salary harmonisation. Salaries are scaled modestly for the larger roles and cross-checked against reported executive remuneration at relevant "nearest neighbour" councils.
Elected members	Future governing-body costs reflect the indicative representation ranges in the short-listed options. Existing mayoral and councillor costs are removed and replaced with the modelled future structure. We assumed the new mayor(s) and councillors would be remunerated at the highest rate currently paid by the existing councils.
Local boards	The base case uses the midpoint of the short-listed ranges for the number of local boards and members. Governance and secretariat support is estimated at approximately 1.75 FTE per board. Auckland local board remuneration is used as a reference point and adjusted down to recognise the materially smaller population bases and scale of Southland local boards.
Community boards	Existing community boards would cease because the short-listed options provide for local boards across the full area of each new authority. Current community-board remuneration is therefore removed under both options.
Joint committee	Option 2 includes a joint committee for specified regional functions. Core technical and administrative capacity is retained within the underlying authorities; savings are not assumed merely because governance is shared.



Transition and establishment costs

<table>
<tr><th>Cost component</th><th>Assumption</th></tr>
<tr><td>Timing</td><td>50% of transition cost is incurred in FY28, 25% in FY29 and 25% in FY30.</td></tr>
<tr><td>Funding</td><td>Transition costs are assumed to be debt-funded so the one-off cost is spread across the periods benefiting from the new arrangements.</td></tr>
<tr><td>Establishment team</td><td>Dedicated programme leadership, programme management office, change and communications, finance and organisation design, legal and governance, and ICT transition capability are included.

For the base case we assume:
<table>
<tr><td>Option 1: Single unitary</td><td>28 FTE; engaged for 1.5 years; at an average salary of $200k</td></tr>
<tr><td>Option 2: Invercargill-based authority</td><td>13 FTE; engaged for 1.5 years; at an average salary of $200k</td></tr>
<tr><td>Option 2: Southland/Gore-based authority</td><td>16 FTE; engaged for 1.5 years; at an average salary of $200k</td></tr>
</table>
For Option 1, the 28 FTE establishment team comprises an overall team lead, six workstream leads; four people and change roles; three finance and commercial roles; two to three customer and communities roles; four ICT roles; one governance and legal role; and six business and process improvement roles.
The low and high cases vary the establishment team cost by adjusting the number of FTE required, the assumed average salary, or both.</td></tr>
<tr><td>ICT and systems</td><td>Allowances cover data discovery and cleansing, migration and testing, platform configuration, records and document management, cyber security, identity and access, and the integration or split of regional systems.</td></tr>
<tr><td>Property and branding</td><td>One-off property, workplace, branding and related establishment costs are included.</td></tr>
<tr><td>Contingency</td><td>A 15% contingency is applied to the transition and establishment cost items above.</td></tr>
<tr><td>Option 2 duplication</td><td>Option 2 requires two authorities to be established, including separate core organisational and systems capability. This results in a slightly higher combined transition cost than Option 1 in the base case.</td></tr>
</table>

Environment Southland allocation assumptions

The following functional splits below were developed through Environment Southland's own modelling exercise and most of the territorial authorities were given an opportunity to review and comment on those allocations.

MartinJenkins considered the basis and overall coherence of the allocations before applying them in the integrated model. The percentages should be read as modelling assumptions about where activity costs arise or benefits are received, not as audited allocations or predetermined future funding shares. MartinJenkins checked that the allocations were logical and reconciled to the available totals but did not independently verify the underlying estimates.

Function	SDC+GDC Allocation	ICC Allocation	Total cost
Costs (FY26 Budget)			
Resource Mgmt, Consents, Land management	90%	10%	$9.5m
River engineering and management	70%	30%	$8.6m
Science	80%	20%	$5.8m
Biosecurity	80%	20%	$2.8m
Catchment governance	75%	25%	$1.3m
Incident response	80%	20%	$0.9m
Coast and marine operations	75%	25%	$0.7m
Natural hazard science and policy	60%	40%	$0.7m
Other (incl. corporate services)	Mixed	Mixed	$21.2m
Allocation (total)	**68%**	**32%**	**$51.4m**

Item	Invercargill-based unitary authority	Southland/Gore-based unitary authority	Allocation basis
Operating costs	32%	68%	This is a weighted allocation based on the previous table, undertaken as part of Environment Southland's analysis.
Debt	100%	0%	Current debt is associated with the Stead Street pump station project in the ICC area.
Dividend income and rates revenue	37%	63%	Allocated using the territorial split of Environment Southland rates revenue.
Fees and charges	5%	95%	Based on annual fees charged to authorisation holders by territorial boundary, plus infringements, for FY25/26.

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