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MASTERTON DISTRICT COUNCIL

SERVING THE COMMUNITY

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27 February 2015

Local Government Commission
P O Box 5362
Wellington 6145
NEW ZEALAND

Dear Commissioners

Please find attached Masterton District Council's submission on the Local Government Commission's Draft Proposal for Reorganisation of Local Government in the Greater Wellington Region.

Masterton District Council rejects the Commission's Draft Proposal for the amalgamation of Masterton district into a Greater Wellington Council.

We recommend that the Commission consider the options as outlined in our submission.

We wish to be heard in support of this written submission.

Yours faithfully

Lyn Patterson
Mayor of Masterton

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MASTERTON DISTRICT COUNCIL

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

February 2015

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APPENDIX

1. Executive Summary

Masterton District Council (MDC) rejects the Local Government Commission (LGC) draft proposal for the amalgamation of Masterton district into a Greater Wellington super city.

As evidenced by recent public surveys, the residents of Masterton district do not want a single council for Wellington and the Wairarapa because they see them as two distinct and distinctive regions. We see clear interdependencies between the two regions. We are keen to see Wellington perform even better in terms of growth and economic development because we see spin offs for the Masterton district. However we are not one labour market, not one catchment, and not one community of interest since:

- the significant wage gap between Wellington and Masterton which would make paying Wellington salaries here in Masterton unaffordable in terms of the current services we provide (in house and through local contractors)
- the Ruamahanga catchment is different and distinct from Hutt and Wellington
- our community (and economy) are rural and provincial, not large metropolitan/urban – our issues are different as are our transport and infrastructure needs, as are our economic and employment drivers (e.g. not public service).

The proposed super city proposal:

- would not be the most cost-effective way of delivering local government services for Masterton district
- is undemocratic in that, at best, only one (or less likely two) of twenty-one elected councillors would come from Masterton district. At worst there might be no elected councillors from Masterton district
- does not provide evidence to suggest a super city would provide improved economic or social prospects for either the Wellington regional economy or that for the Masterton district
- makes errors in cost estimates and in the case of ICT a 500% miscalculation.

MDC is open to change as evidenced by our own proposal to amalgamate across the Wairarapa. Clearly this is not about individual council member or staff bias in terms of their own jobs since these would also be at risk through either of our preferred local amalgamation options. MDC recognises the interest of local people and its genuine belief that the interests and concerns of locals in the Masterton district are governed locally and not lost in a bigger and central Wellington bureaucracy which has little knowledge of rural provincial New Zealand.

2. Evaluation of LGC proposal

2.1 Economies of scale

LGC proposal suggests there are long term savings from an amalgamation through economies of scale. However the proposal does not attempt to estimate these in any way and provides no supporting evidence. International evidence suggests that there are few if any economies of scale in local government services and in fact the literature suggests the long run average cost of local government services achieves minimum costs for a population of between 40,000 to 60,000[1]. There has been no evidence of economies of scale through the Auckland experience nor across New Zealand's 67 territorial authorities (TAs). The relationship between long run costs, infrastructure spend, and population size shows no evidence of correlation with population size (i.e. smaller councils perform equally well on average costs as larger councils).

2.2 Improved democracy

One of the requirements of the Commission is to ensure local democracy. The LGC proposal does not meet this test. Currently all of MDC's expenditure is controlled by 100% locally elected governance. Rates and other revenues and all aspects of the budget are approved through 100% locally elected governance. Under the LGC proposal only two representatives will come from the Wairarapa and potentially only one from Masterton district. That will give almost no budget control (rates, revenues or expenses) to local ratepayers, since all of these functions will be determined by the much greater voting power on the south side of the Rimutakas.

Furthermore we do not believe "representative governance" works anywhere and would not last (i.e. most TAs have removed their ward systems). There is a risk that politicians will spend all of their time trying to get a fair slice of the cake as has occurred with the Wellington regional amenities fund. Instead of good governance practice we will end up with cliques and political deals between parties to out vote one another. Or alternatively politicians will vote on party lines, something we do not see across rural or provincial New Zealand.

2.3 Long term efficiency

Given Treasury economists concern around efficiency loss through cross-subsidies it is unlikely there will be any real fiscal benefit to Masterton (or in fact Wairarapa). Currently salaries (and therefore external contracts with local suppliers) benefit from a significant wage gap. Services are provided cheaper due to lower salaries and we estimate a gap of 20-30% on average remuneration across local government between Wellington and Wairarapa. LGC has not attempted to estimate this difference. Evidence from Greater Wellington Regional Council (GWRC) staff is consistent with this labour cost efficiency loss (i.e. Masterton-based staff at GWRC are paid a premium since they are paid on the same scale as GWRC Wellington based staff).

Other infrastructure contracts are also significantly cheaper in the Wairarapa (e.g. piping renewals per metre, roading per metre, etc).

MDC has already taken advantages of efficiencies through shared services and long term contracts in partnership with Carterton and South Wairarapa District Councils (i.e. across three local TAs). It is highly unlikely a new amalgamated Greater Wellington council would achieve lower prices for Wairarapa based services. It is more likely the opposite is the case i.e. more centrally based providers needing to travel over the hill. There may also be a negative impact on local service providers if large contracts are signed with Wellington based providers (e.g. higher costs and wages). The super city could therefore lead to negative economic growth and local business shut downs. Currently MDC spends most of its $50 million p.a. locally (e.g. locally employed staff).

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[1] Refer CD Howe Institute study.

2.4 Affordability

The LGC proposal raises the issue of affordability as a reason for amalgamation. MDC budgets have always been well managed as evidenced by Audit New Zealand commentary that our Finance team is viewed as one of the best in the sector. Revenues and rates collected per ratepayer compare well with other provincial councils. Our infrastructure has been depreciated appropriately as shown in our audited annual accounts. MDC is ahead of its renewals programme and expects to reduce its spend in the next ten years. MDC has a brand new sewerage plant. There is no reason to think that being part of a super city would reduce costs for Masterton ratepayers. There are parts of the Greater Wellington that have underinvested in infrastructure as evidenced by their need to increase rates substantially in the medium term. Spreading that investment shortfall across the whole region will clearly disadvantage Masterton residents (who have already paid for maintenance and depreciation).

Capital Expenditure Comparison*

	2005-2015 Actual ($m)	2016-2026 Projected**
Roading	38.6	46.3
Water	9.7	23.6
Sewerage***	59.6	13.8
Stormwater	1.0	3.3
Other Assets	24.0	16.3
Total	**132.9**	**103.3**

* Excludes assets vested by developers

** Projected figures not inflated

*** Includes reticulation renewals of $10.3m, sewage treatment plant upgrade at Homebush of $39.9m and the new Riversdale Beach Community Sewerage Scheme costing $9.4m.

3. Three options preferred over the LGC super city proposal

3.1 Wairarapa Unitary

Most of the comments expressed above would be resolved within a Wairarapa unitary authority. MDC would continue to have a significant representation through local (Wairarapa-wide) governance. Cost and salary advantages would continue (i.e. lower cost wage economy in Wairarapa). Potentially there would be an opportunity for some further savings across shared services and potentially some economies through reduced duplication of some administrative functions although these would be relatively minor and might only offset the additional transition and reorganisation (redundancy, etc.) costs. LGC has determined that the Wairarapa Unitary would be unaffordable. This is hard to understand on the basis that New Zealand's four other unitary authorities are similar in population and have proven to be viable.

Region	Population 2014
Wairarapa	42,800
Tasman	49,100
Malborough	44,800
Gisborne	47,100
Nelson	49,300

Source: Statistic New Zealand

Specific issues such as infrastructure and ICT costs have been significantly over estimated by LGC. For example the cost of merging ICT systems was estimated by LGC as $25m but LGC admits they have no basis for this estimate. Our own estimate suggests this cost at less than $1m based on an actual quote from our current service provider, Napier Computer Systems (NCS), which is used already by all three Wairarapa Councils[2].

We were also amazed at the estimate LGC suggests for flood management of $10-$50m. Currently we are reviewing GWRC flood modelling for Masterton. Their assumptions have a multiplier effect which suggest they may have overestimated the 100 year flood levels significantly. Even if their modelling is proven accurate, we understand their own estimates for the next ten years to be only in the vicinity of $10m maximum and this is the number they have proposed for their own long term plan. We do not know where LGC got $50m from?

We accept that one of the challenges for a unitary would be to support a local public transportation system. We also accept that public transport is subsidised in order to reduce congestion costs such as improved roading and new motorways. We are not clear what that subsidy is worth because we cannot get that information from GWRC. However we would expect under a unitary authority model that we would still be able to negotiate a funding solution with the regional transport authority to assist in reducing commuter traffic into Wellington (i.e. all public transport is subsidised to help reduce congestion costs and roading network pressure during peak periods). Also it is clear that Wellington City businesses receive the benefit of a commuter workforce from the Wairarapa. We do not anticipate this to increase costs to passengers and in fact should improve information transparency on regional transport savings.

We also accept that we have large potential projects around irrigation. Recent modelling by GWRC suggests most of the benefits accrue to the local Wairarapa economy. With appropriate central and local government support we are confident that such a project can be considered with or without a larger super city entity. In a recent conversation the new Chair of Wellington Regional Economic Development Agency (WREDA) pointed out that the Wairarapa Water Use Project had not even been raised as a major economic development project. This is an example of how minor the Wairarapa is in the scheme of the greater Wellington region which is much more focussed on multimillion dollar developments such as convention centres, motorways, and airport runway extensions.

In a similar way when nine local TAs and GWRC Chief Executives meet monthly in Upper Hutt, Wairarapa projects are almost never on the agenda (even though one third of those CEs are currently Wairarapa based). Wellington simply dwarfs any local Wairarapa issues.

3.2 Three combined TAs

The option of combining three local councils into one but retaining the regional council for all of its current areas of responsibility would be another preferred option for MDC. MDC would see this as a much simpler transition. The three local authorities already work closely together in many areas of their business and have a range of shared contracts e.g. the group roading contract alone is a significant joint contract given the size of the respective budgets.

We see two possible scenarios. Scenario one being a separate Wairarapa Regional Council alongside but distinct from the Wairarapa combined council. The second scenario maintains GWRC across the greater Wellington region.

[2] Refer email to Paul Crimp re quote from NCS, attached as Appendix One.

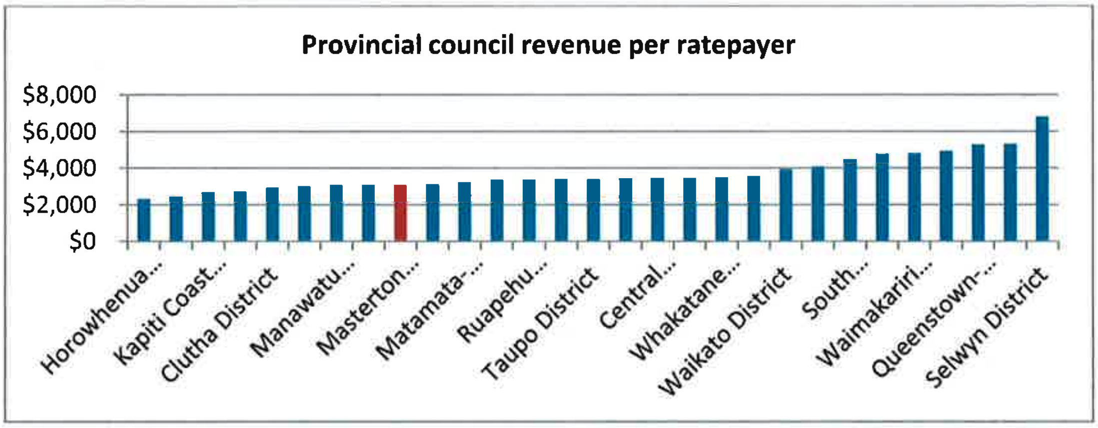
The main advantage of this model would be the simpler transition (and therefore lower costs) for combining our three local TAs. LGC's estimate of transition costs is out by over 500% because of the error made in estimating the IT system delivery cost. As a result the quoted payback period improves from 25 years to four years and net present value from $13.7m to $2m. The worst option in terms of payback time becomes the best option!

Other advantages are similar to those expressed in 3.1 above, except that for major environmental projects (water, public transport, flooding), we would anticipate the Regional Council to continue its work as it does now (i.e. a partnership model with the Wairarapa Council). Clearly there would be an advantage for the Regional Council in liaising with only one and not three local authorities in the Wairarapa.

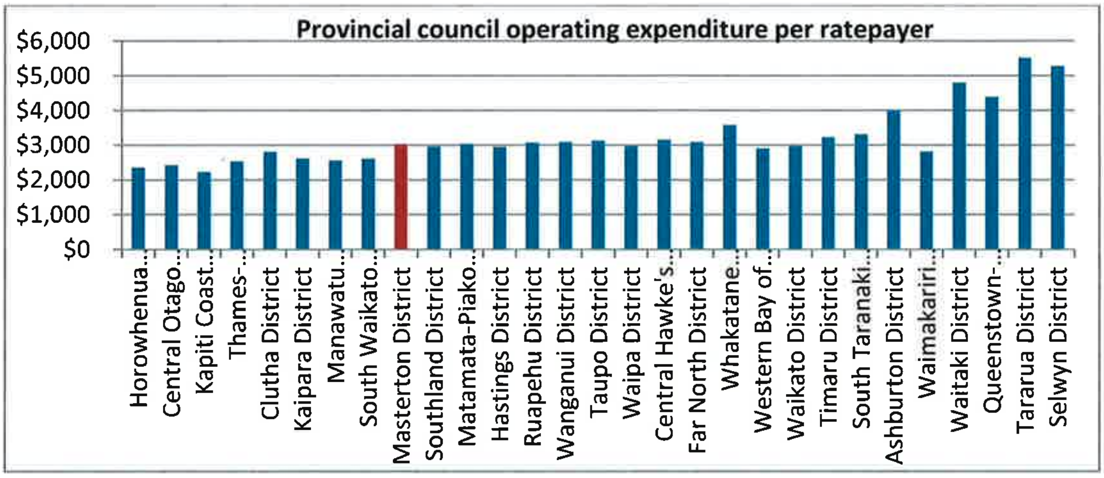
3.3 Status Quo

The status quo option has been investigated by LGC. LGC has already accepted that MDC is a financially viable local authority. This option provides zero costs of transition. Governance would remain locally controlled through a fully democratic process with all 11 members elected locally. Masterton ratepayers and residents remain in control of their own destiny and will determine their own level of service.

It seems to MDC that this model would be more democratic and pose far less risk than the proposed super city.



Source: Ratepayer's Report



Source: Ratepayer's Report

Other reasons for supporting the status quo in preference to a full regional amalgamation are described earlier (above). Most importantly status quo meets the test of one community of interest. Masterton district is rural and provincial. It has different needs from a city. Due to the smaller community nature it also needs different levels and types of service. A congested large urban population creates its own problems and costs. Infrastructure such as roads and piping may have economies but other areas of need around social cohesion and social development are quite different. We are particularly disappointed that the LGC proposal does not investigate the different social and community needs at all. Clearly the demographics are also different. Masterton district has an older population with more retired and semi-retired people. Often these people have time to give more back to their communities. Large outsourced contracts do not always give the best economic and social outcomes for amenities such as parks, sport, or art centres (i.e. more volunteers in provincial centres). Social housing needs may also be quite different. MDC recognises the challenges of a larger percentage of aging residents and is able to place greater weight on their needs. Again this suggests a difference in our communities and the way local governance responds to local needs.

Most importantly spreading costs over a larger population does not make those costs disappear. There seems to be an assumption by LGC that this is the case. Rural roading and water piping will cost the same whether or not they are maintained centrally or locally and in fact will probably be more expensive if managed centrally (higher administration, travel and wage gap costs). Similarly there is no reason to assume capital value rating will lower rates in Masterton district. Cross subsidising costs from Wellington urban ratepayers to lower value housing in Masterton district will not be sustainable and will ultimately lead to targeted rates as has occurred in Rodney and Franklin where average rates have gone up. Efficient public financing models require a clear relationship between cost of service and consumer price and Masterton has that now through its current rating system.

4. Conclusion

In this submission MDC rejects the LGC proposal for a super city which includes our district. We do not believe the LGC has proven that a Wairarapa Unitary Authority is unaffordable. The proposal has used misleading and over-estimated data and financial projections. Furthermore we do not believe that given the significant transition costs (and length of time needed to pay off those costs) that the LGC has proven that a super city would be either more efficient or more socially equitable than either a model which combines local TAs or alternatively retains the status quo.

The risks and uncertainties related to amalgamation are enormous.

Most importantly we do not believe the LGC proposal meets the legal tests required of the LGC under any of the following three criteria:

(i) local democratically elected governance for the Wairarapa region

(ii) one community of interest (i.e. rural and provincial is NOT urban)

(iii) one catchment area (clearly the Ruamahanga provides one distinct catchment).

If the LGC proposal for a super city does not meet the legislative requirements MDC expects any final decision along the lines described by the proposal (super city which includes Masterton district) could be challenged legally.

Appendix One - Email Ange McGregor, NCS, to Paul Crimp, SWDC

Tracy O'Neale

From:	Ange McGregor <Ange.McGregor@ncschameleon.co.nz>
Sent:	Thursday, 29 January 2015 8:03 p.m.
To:	Paul Crimp - CEO
Subject:	RE: Governance Review

Hi Paul

After discussions with others we can see that you would save efficiencies in the licensing of modules but the implementation would have to be similar to that of a new site.
We think that this would be between $300k and $500k.
We would be happy to provide deeper detail when and if you require it.

Regards
Ange

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NCS Chameleon
software

From: Paul Crimp - CEO [mailto:paul.crimp@swdc.govt.nz]
Sent: Tuesday, 27 January 2015 1:21 p.m.
To: Ange McGregor
Subject: Governance Review

Hi Ange, I hope you are well.

I have a question that I would like to get an answer to in the next day or so at a very high level.

The Local Government Commissioin are undertaking a review of Governance in the Wellington Region.

One of the things they have considered is the cost of amalgamating the three Wairarapa councils IT systems.

Would you be able to provide a high level estimate of the cost of amalgamating the three NCS systems. Assume (I guess) that the main office will be in Masterton, and there will be service centres in Carterton, Greytown, Featherston, and Martinborough. All systems will be running off a server in Masterton I guess.

I really only need an estimate plus or minus $200K or $300K. Actually I don't think it will get much higher than that anyway.

Any thoughts or questions please advise.

This is a broad estimate and you will not be held to the numbers.

Thanks

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