

Local Government Reform in Wellington

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Local government performance and reorganisation have been popular topics of debate in recent years in New Zealand and Wellington is the latest region under the Local Government Commission's (LGC) scrutiny. In December last year, the LGC released its Draft Proposal for Reorganisation of Local Government in Wellington.

Following a Royal Commission on Auckland Governance in 2007, Auckland Council was established in 2010 combining the functions of the eight councils previously in the region. At the end of 2013, the LGC released draft proposals for the reorganisation of Hawke's Bay and Northland: in both cases, the LGC recommended a full amalgamation of local government in each region and the establishment of a single governing entity.

The LGC's proposal for Wellington (including the Wairarapa) fits the same mould: "the Greater Wellington Council will take on all of the responsibilities, functions, powers, assets, liabilities and obligations of the current regional, city and district councils"¹. The proposed single council will have eight local boards to "share decision-making with the governing body".

Local government has its issues and the performance of councils varies around the country. Residential rate increases on average across the country have consistently been higher than inflation over the past decade. However, is the creation of a single council for a whole region really the answer?

The Local Government Act 2002 prescribes three key criteria that should govern the LGC's decision-making process on local government restructuring:

- promoting democratic local decision-making;
- the cost-effective delivery of services; and
- improved economic performance in the wider economy.

On the first criteria, in its draft proposal for Wellington, the LGC has unfortunately omitted the word "local" from its quote of the Act.² This rather important omission means in its assessment of "local democracy" the LGC focuses on region-wide considerations and not local ones. Leaving the word local out of local government means the Commission is able to conclude that even a

¹ www.lgc.govt.nz/the-reorganisation-process/reorganisation-current-applications/view/wellington-region-reorganisation/?step=34

² Local Government Commission– *Draft Proposal for Reorganisation of Local Government in Wellington, Volume 2*, p. 110, Section 4.96.

single region-wide council without local boards ranks higher in terms of “local” democracy than the status quo of several smaller community-based local governments.

The LGC’s preferred option includes local boards but these are a poor substitute for local territorial authorities which have powers to regulate, rate, raise debt and make decisions that they are in turn accountable for. All 21 local boards in Auckland recently wrote to the Mayor with complaints of feeling stifled and ignored.³ The local boards in Auckland account in total for only 12% of the Council’s operating budget and the boards have very limited decision-making powers even over that part of the budget.

It is hard to see how a single supercity option can promote local democracy. ‘Local voice’ and the power for local communities to impact local decision making is best enabled with smaller, approachable councils that can tailor decisions to local needs and preferences. Moreover, international evidence indicates that local government elections tend to get higher voter turnouts the smaller the local government units.⁴

On the cost-effectiveness of local government the Commission quite rightly identifies some council functions that can benefit from economies of scale. There are important capital-intensive networks, like roading and the three waters, that are suited to regional delivery. These functions account for about one third of council operating expenditure in Wellington. The remaining two thirds of spending is carried out on more labour-intensive services conducted predominantly by front-line staff responding to local needs. Services such as noise control, recreation and sport and refuse collection do not benefit from economies of scale and may even become more expensive to carry out with extra tiers of management.

The TDB report on Wellington governance⁵ recommended an “enhanced status quo” where some council functions are amalgamated regionally into council-controlled organisations (CCOs) and council geographical boundaries remain largely unchanged. This permitted amalgamation to be targeted to where it makes sense, without disrupting the provision of other local council services. This option is similar in many ways to the ‘Stronger Regional Delivery’ option in the LGC’s draft proposal for Wellington that involved just the key regional functions being transferred to the Greater Wellington Regional Council while retaining the current council boundaries.

So which reorganisation option leads to the most efficient councils? The LGC conducted its own financial analysis and the standout performer was ‘Stronger Regional Delivery’. The net present value (NPV) of this option is expected to be \$199m with an estimated transition cost of \$129m.

³ www.stuff.co.nz/national/10630588/Browns-Auckland-masterplan-gets-21-gun-refute

⁴ Bish, R. (2001), *Local Government Amalgamations: Discredited Nineteenth-Century Ideals Alive in the Twenty-First*, C.D. Howe Institute.

⁵ www.tdb.co.nz/documents/050813-TDB-assessing-regional-governance-options.pdf

In contrast, the LGC's preferred option of a supercity is expected to cost \$210m with a NPV of \$58m, ranking it fifth out of the eight options the LGC considered.

The concerns about a supercity in Wellington are exacerbated when we think about the risks involved: the LGC has recommended large-scale changes and the most expensive and riskiest option of the eight options it evaluates. The costs of transition are made up predominantly of IT expenses and the promised benefits are largely personnel savings. If we look at Auckland, it is exactly these two areas of IT budgets and personnel spending where Auckland Council has failed to deliver on its promises.

One IT project in Auckland Council, budgeted to cost \$71m, is now expected to arrive a year late and up to \$100m over budget.⁶ In addition, big savings in personnel costs were expected to be one of the key benefits of change in Auckland: however, last year's wage budget was blown by \$50m as the number of staff paid in excess of \$100,000 has gone up by over 50% in the last two years alone. These are worrying signs for Wellington. A similar story of over-estimated benefits and under-estimated costs can be seen in many countries undertaking local government amalgamations: the amalgamations in Toronto cost as much as \$400m; South Australia hoped for 17% savings and not long after the reforms these expectations dropped to just over 2%⁷; Queensland has more recently experienced a handful of recent de-amalgamations due to extreme dissatisfaction.

On improved economic performance the LGC's proposal provides no evidence linking the size of a council to the performance of the regional economy. This is probably not surprising as it is central and local government policies that will impact on a region's economic performance, not the geographical boundary area that a council covers. Council policies on issues such as the implementation of the Resource Management Act, infrastructure provision and urban liveability may have important long-term impacts on the regional economy. However, there is no reason, in principle, to expect a council with 500,000 constituents to make decisions that better promote economic growth than a council with 100,000 constituents. We may hope for simplified planning processes under an amalgamated council but we're just as likely to see increased complexity, bureaucracy and red tape. We lose the contestability of policy decision-making between councils, which drives economic efficiency, when we amalgamate local government.

In conclusion, New Zealand legislation is very clear about how local government reorganisation options should be assessed. Given the three criteria stated in the Act, it is hard to see how the LGC could reach its preferred option of a supercity for Wellington. In terms of the first criteria, promoting local democracy, a government that is bigger and more remote from its residents can hardly help. Indeed, if the LGC's proposal for Wellington were to go ahead, New Zealand would have almost half of the country's population governed by two councils. In terms of the second criteria, the cost-effective delivery of services, the Commission's preferred option ranks a lowly fifth out of the eight

⁶ www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11361387

⁷ Dollery, B. and Byrnes, J, Is Bigger Better? *Local Government Amalgamation and the South Australian rising to the Challenge Inquiry*.

options it assessed. And finally, in terms of wider economic efficiency, to the extent that councils can influence regional economic growth, it is council policies rather than the geographical boundaries we place around the council that are likely to be the determinants of success.

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*TDB Advisory is a boutique corporate finance and economics advisory business: refer www.tdb.co.nz.
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Article published by the NZ Centre for Political Research, February 2014