A Single Council for Wellington – A Risky Option

Last week the Local Government Commission (LGC) announced its draft proposal for reorganisation of local government in the Wellington region. The LGC's preferred option is 'one Wellington council with local boards'. This involves amalgamating all nine councils in the Wellington and Wairarapa regions into one. While there are some economic benefits to such a plan it is the most risky of the options the Commission considered.

Unfortunately the LGC's preferred option doesn't stack up under its own financial analysis. Of the eight options the LGC considered, its preferred option of 'one Wellington council with local boards' ranks fifth in terms of the Commission's own estimates of net financial benefits. The option comes with an estimated $184m in transition costs for a net benefit of $79m. Four other options - 'One Western Territorial Authority', 'Three Territorial Authorities', 'Stronger Regional Delivery' and 'One Wellington Council without local boards' - are all lower cost options with considerably greater net benefits under the LGC's own financial analysis.

The option labelled 'Stronger Regional Delivery' stands out as the clear favourite in terms of financial costs and benefits. This option involves transferring some capital-intensive council functions to the regional level while retaining the current councils to manage local concerns in each region. It is essentially the same option that TDB recommended in its report "Governance Options for the Wellington and Wairarapa Regions" for Hutt City Council (http://tdb.co.nz/documents/050813-TDB-assessing-regional-governance-options.pdf)

The real benefits of amalgamating council functions come from the integration of network infrastructure like roading and water supply. The Commission's 'Stronger Regional Delivery' option achieves these regional benefits at a lower cost and with less risk. It costs $55m less than the LGC's preferred option, involves less structural change and has higher estimated net benefits (of $199m).

Experience with mergers and acquisitions (M&A), whether in the public or private sectors, shows the benefits are often overestimated and the costs underestimated. Auckland Council is a good, if sad, example. Prior to the November 2010 creation of Auckland Council, the Auckland Transition Agency hoped for a considerable fall in staff numbers and costs. It was hoped that staff numbers would fall by 1,200 and staff costs fall by over $100m per annum. However, less than four years on, Auckland Council has the same number of staff as the eight councils had before the amalgamation and the wage bill is up (not down) by $90m. While the amalgamated council may only have a single CEO to pay, the number of staff paid over $100,000 a year has risen by an incredible 53% over the past two years. The hoped-for savings in personnel costs have just not materialised.

The large costs associated with a 'supercity' option are indicative of the extent of structural change required and the degree of risk being taken on. Even if all was to go according to plan, with no budget overruns or unrealised savings, the people of the Wellington and Wairarapa regions can still expect to wait eight years before any net benefits are realised. But the likelihood of budgets being blown out or savings overestimated increases with the scale of change and the degree of risk. The LGC has decided to recommend the option with the biggest change and the greatest risk. This should have us more than a little concerned. If there are any hiccups along the way will we be waiting 10 years, 15 years or forever for the savings to materialise?

Typically in M&A when the numbers don't stack up management will point to the 'strategic benefits' of the change. The LGC makes a similar case by pointing to a number of non-financial concerns to justify its preferred option. But are these asserted benefits really worth $184m in transition costs and a whole lot more risk and disruption? The key question should be: how does the change stack up in terms of local government's statutory purpose: to enable democratic local decision-making and provide services cost-effectively.

While there are benefits to be gained from merging some council functions at a regional level the Wellington and the Wairarapa regions have much better options than the one proposed by the LGC. The Commission's own financial analysis provides us with an option that is lower risk with a greater financial reward. Local government restructuring is an important and complex decision for the region but the risk that is taken on must be warranted by the potential return.

Philip Barry is a Director of independent economics and corporate finance advisers TDB Advisory Ltd (www.tdb.co.nz) which prepared the governance report for Hutt City.

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