



Corporate
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Should Wellington become a Super-City

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Introduction

- What is the Local Government Commission proposing
- How does the proposal rate
- What are the alternatives
- Conclusions

Key theme: are we asking right question?

The LGC's Proposal

- A single unitary council
- Encompasses Wellington and the Wairarapa
- 1 Mayor with 21 Councillors
- Eight local boards
- A Maori board and a Natural Resources Management Committee

The LGC Proposal – an Assessment

Principles of Good Public Policy Design

1. Define the problem
2. Assess the costs and benefits of the options
3. Provide an evidence-based recommendation for the preferred option

What is the Problem?

The perceived problem is not clear and has shifted over time:

1. A single voice?
2. Performance of the Wellington region?
3. Lack of regional co-ordination?

A Single Voice?

- Unclear what it means
- Lobby central government?
- What if the single voice is wrong?
- A single voice or local voice?

How is Wellington Performing?

LGC analysis:

- Quotes selectively from BERL report
- BERL report omits key official data
- Does not refer to official statistics of regional GDP

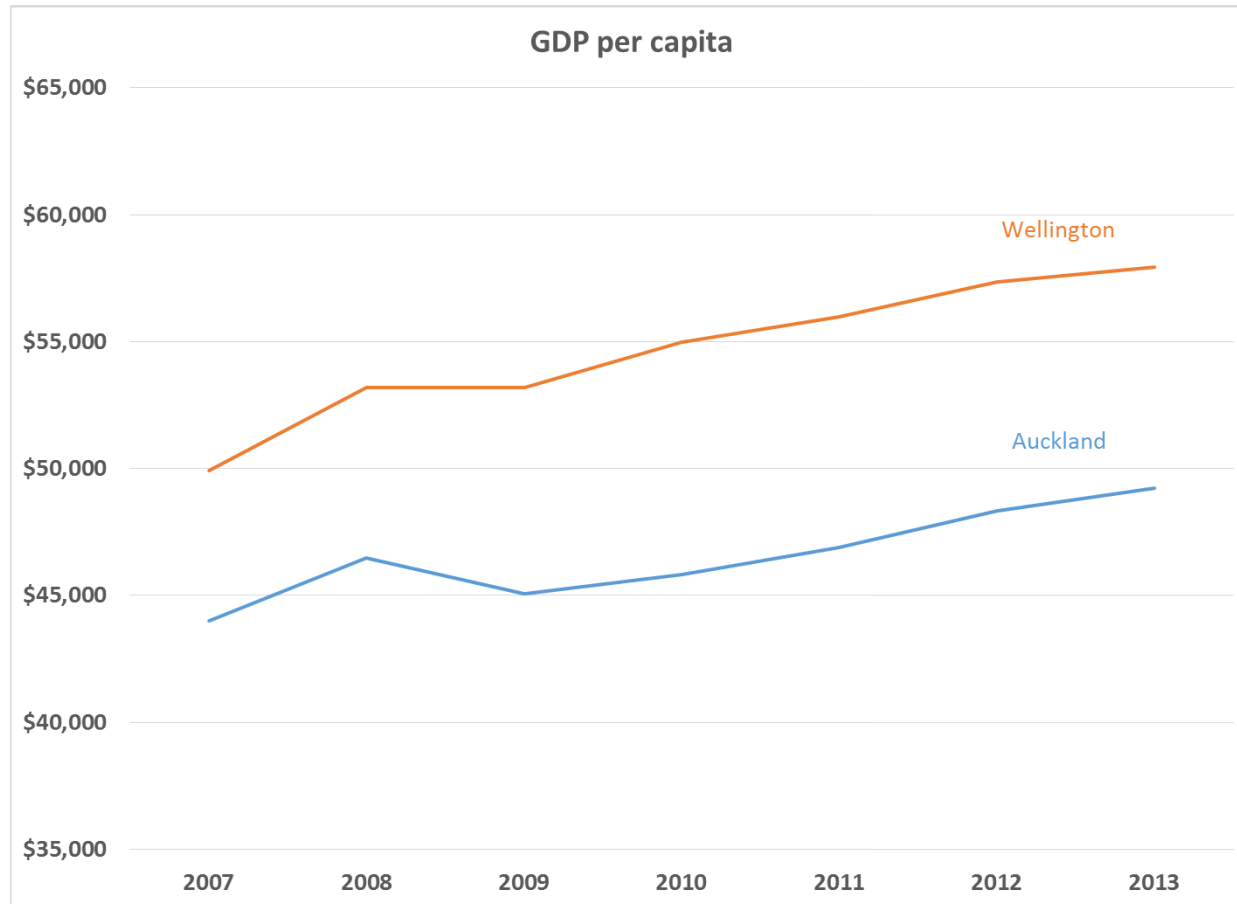
How is Wellington Performing?

Wellington is a vibrant city

Official statistics, comparing Wellington with Auckland (2007 to 2013) show Wellington's:

- total GDP has grown slightly slower
- GDP per capita is higher
- GDP per capita has grown faster.

How is Wellington Performing? ctd



Source: Statistics NZ: Regional Gross Domestic Product (GDP) –March 2014

Regional Co-operation

- There is scope for increased co-operation
- In some areas is good co-operation:
 - Councils share water services, from collection to delivery.
 - Wellington Region Economic Development Agency
 - Integrated emergency management plan and office
 - Various other areas: eg, Silverstream and Spicer landfills; animal services
- Main area where better co-operation needed is roading and public transport

Costs and Benefits of the Options

Option	Net benefits (NPV, \$m)	Payback period (years)	Transition Costs
Stronger Regional Delivery	199	5	129
One Wgtn Council (no boards)	154	6	209
One Western TA	143	5	95
Three TAs	n/p	6	179
One Wgtn Council (with local boards)	58	9	210
One Hutt Valley TA	8	10	52
One Wair, one HV plus WCC, PCC, KCC	n/p	12	84
One Wairarapa TA	-13.7	25	32

LGC's preferred option ranks fifth

n/p = figures not provided in LGC report;

NPV = net present value

Source: LGC, Draft Proposal for Reorganisation of Local Government in Wellington, Vol 2, p.216

Costs and Benefits of the Options ctd.

- The LGC points to wider economic and other benefits to justify its preferred option
- But the key criteria in the Act are which option best promotes:
 - i. efficient, effective, and appropriate delivery of local infrastructure, services and regulation (cost-effectiveness);
 - ii. local democracy; and
 - iii. improved economic performance.

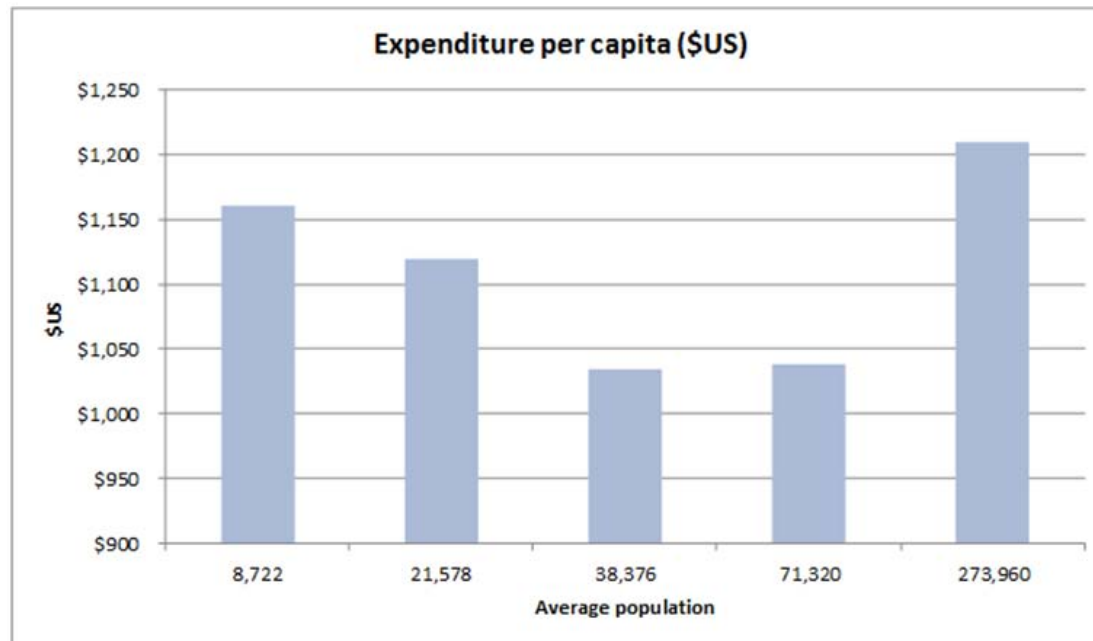
Source: Local Government Act (2002) Schedule 3, clause 11(8), clause 12 (1) and section 10 (1).

Cost-effectiveness

- Debate to date: a lack of evidence-based analysis
- TDB report for Hutt City: “Governance Options for the Wellington and Wairarapa Regions: an Economic and Financial Assessment”
- We consider:
 - the international and local evidence on the relationship between population size and local government spending;
 - expenditure data for 70 NZ councils.

International evidence

Several studies find an observable 'U-shaped' relationship between council size and cost-effectiveness.



Source: Reassessing Local Government Amalgamation, Frontier 2003

International evidence

- No consensus on optimal size:

"29% of the research papers find evidence of U-shaped cost curves;

39% find no statistical relationship between per capita expenditure and size;

8% find evidence of economies of scale, and

24% find diseconomies of scale.

From this evidence alone we can conclude that there is a great deal of uncertainty about whether economies of scale exist in local government service provision."

Byrnes and Dollery, 2002

New Zealand evidence

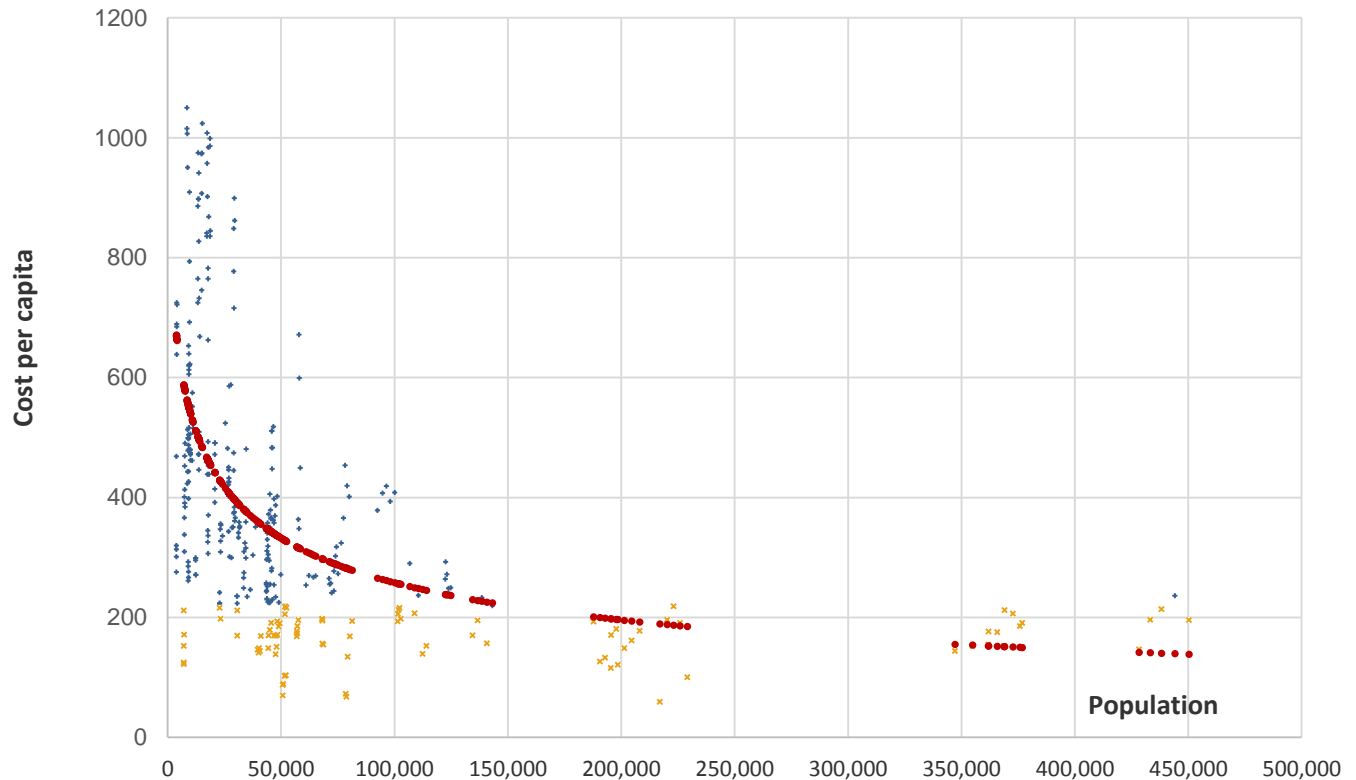
- NZIER found evidence of 'U-shaped' cost-curve

Council population	Spending per capita
20,000 to 40,000	20% higher
80,000	benchmark
100,000 to 200,000	15% higher

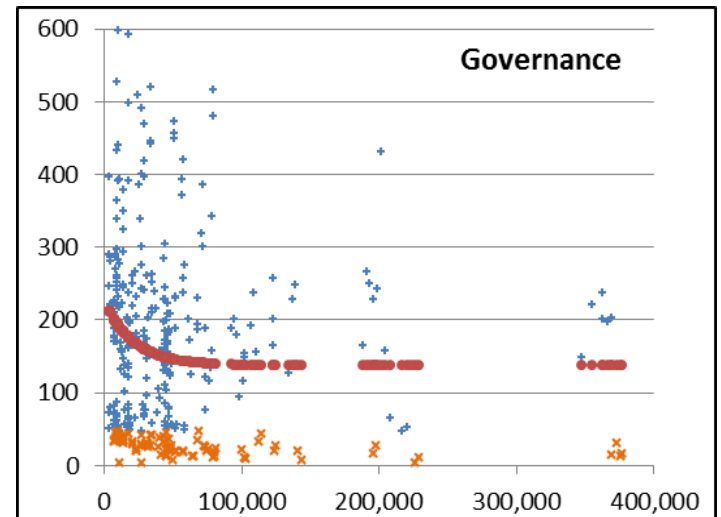
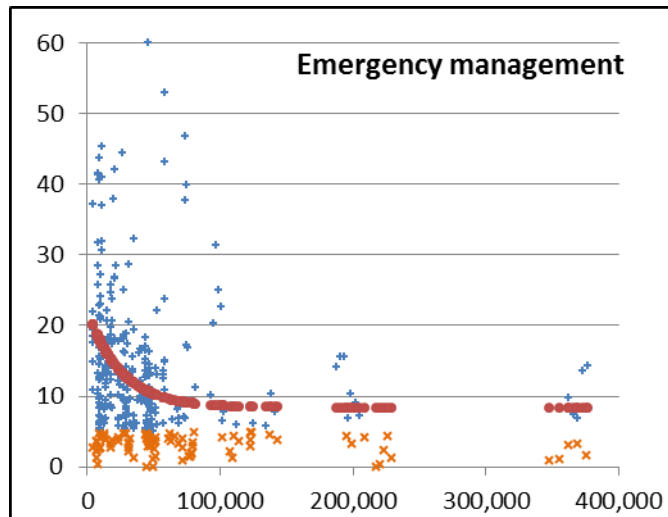
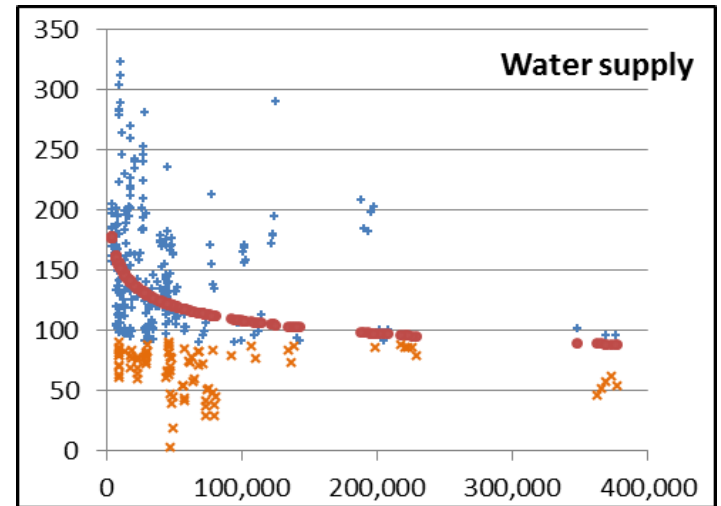
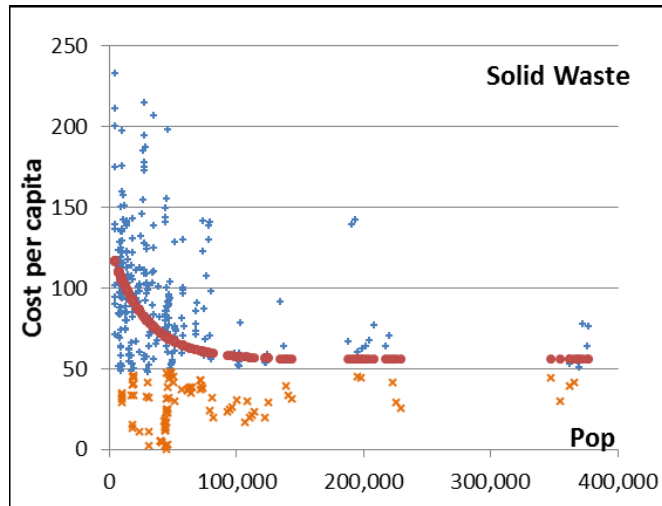
NZIER: Merger Options for Wellington Councils, 2012

TDB analysis: NZ evidence

Roading



New Zealand evidence



New Zealand Evidence

Other Council functions: the relationship between population and costs per capita

Weak	None
Wastewater	Transportation
Environmental protection	Culture
Planning & regulation	Recreation and sport
Support services	Property
	Community development
	Economic development
	Other activities

New Zealand evidence

TDB found:

- for capital-intensive, network activities like roading and water there is a good case for amalgamation for those activities;
- for the other local government functions (2/3rd of expenditure) little or no evidence of economies of scale or scope; and
- for small councils (up to around 50,000) there is some evidence of efficiency gains from amalgamation.

Overall conclusion- bigger is not necessarily better.

The Costs of Transition

- LGC estimate the transition costs at \$210m

Transition costs	\$m
Transition board	10.3
New council start-up	10.3
IT system delivery	127.5
Business process changes	45.2
HR costs and other	13.3
TOTAL	\$210m

Source: LGC, Draft Proposal for Reorganisation of Local Government in Wellington, Vol 2, p.216

- The actual costs may well be higher: eg Auckland IT experience:
 - budgeted \$70m and completed June 2016;
 - latest estimate: \$140-\$170m cost and 12 months late.

.... and the Benefits may well be Less than Expected

- The hoped for efficiency improvements in Auckland have not been realised yet

Auckland Council	Staff numbers	Staff costs
ATA projection (2009)	Decline by 1,200	Decline by \$100m p.a.
Outturn (2014)	No change	Increase by \$90m p.a.

- The amalgamated Auckland council may only have a single CEO to pay
- But the number of staff paid over \$100,000 a year has risen by an incredible 53% over the past two years.

Local Democracy

- Difficult to see how LGC proposal promotes local democracy:
 - nine local councils being merged into one supercity
 - Local boards will hold limited budget and power, and the few decisions they can make are “subject to approval” from the central council
 - New Zealand councils (average 67,000 people per council) are already larger than in almost all western countries. **Expand**
 - If Wgtn a super-city, half the country’s population will be in 2 councils

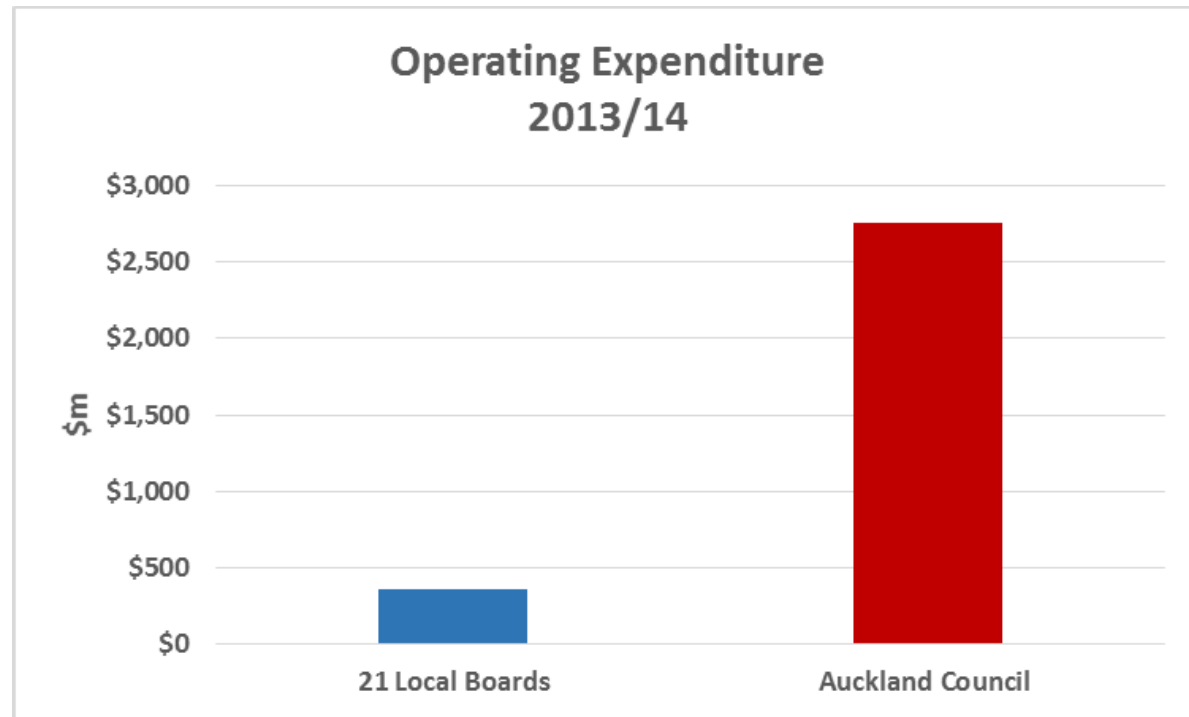
Local democracy ctd.

NZ councils are already large on average by western standards

Country	Average population per council
France	1,600
USA	< 9,000
Other European countries	1,700 to 66,000
Australia	37,000
New Zealand	67,000
England & Wales	123,000

Local Democracy

- Do local boards retain local democracy?



Source: Auckland Council Annual Report, 2014

Economic Performance

- No evidence presented by LGC of a relationship between the structure of local government and a region's economic performance
- Not surprising - the drivers of economic performance are largely outside the control of local government
- A single unitary plan could mean lower compliance costs and lower rates but this has not been the experience of Auckland, with a 1,000 page plus Plan and ongoing rates increases

Economic Performance

- Council policies matter
- What evidence is there that a bigger council will have better policies?
- Note loss of contestability of policies with consolidation
- As noted above, Wellington is already doing well in key measures of per capita income, rates of business formation, high tech exports

Financial Impacts

- Communities will see significant changes in average rates and average debt
- Regions with higher rates and high debt levels will benefit, while regions with lower rates and low debt levels will suffer
- In greater Wellington debt servicing/total costs range from 13.5% in Kapiti to 3% in HCC and rates/\$1,000CV range from \$3.55 in South Wairarapa to \$5.99 in Porirua
- Auckland Council standardised rates across the region on the basis of capital value – some households have seen rates rise by 10% p.a. in each of the last three years and some are facing continued large rises

Conclusions

- The LGC's proposal does not meet the three statutory criteria:
 - LGC's own analysis shows it is not cost-effective
 - it does not promote local democracy
 - no evidence it will promote economic performance
- The Super-City is an inferior and high-risk option:
 - has the highest transition costs
 - net financial benefits, if any, are nine years away

Conclusions ctd.

- There are smarter alternatives
- The evidence indicates:
 - consolidate the roading and public transport networks
 - consolidate the three small Wairarapa councils
 - Rest - leave as is
- Bigger is not necessarily better in local government



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