

Final Minutes of the Peer Review Panel
Auckland reorganisation process
9 October 2017

Meeting

Monday 25 September, Wellington, 10am to 2pm

Attendance

- Panel Members: Glenn Snelgrove, Andrew Besley and Paddy Clifford
- Local Government Commission: Suzanne Doig, Renata Sain and Erica Mangin
- Morrison Low: Bruce Nicholson and Tessa McGregor (morning session only)

Summary

- There are two major issues that impact on the reasonableness of the operating budgets for the North Rodney Unitary Council and the Waiheke Unitary Council.
 - Cost associated with 'debt' and 'regional and local parks and sports' for both North Rodney and Waiheke appear high.
 - The complexities and associated challenges related to the costs, capability and capacity with managing unitary authorities are referred to in the report. However, the extent of the impact is understated by the financial feasibility scope of the report.
- All other assumptions are reasonable or immaterial when the allocation method and/or amounts are considered.

General discussion

The panellists discussed a number of matters and agreed on the following points:

- Modelling de-amalgamations from Auckland Council is a complex and challenging task due to the lack of data collected at the levels required and the inability to make assumptions on the preferences of an incoming council.
- Modelling local authorities solely from a bottom up accounting basis (as proposed by alternative proposers in their feedback) risks not considering all the regulatory costs that unitary authorities need to deal with. If this zero based approach is taken there a need to ensure all regulatory and strategic planning costs of a unitary authority are fully costed.
- Benchmarking (as proposed by alternative proposers in their feedback) can be useful for some functions but may be misleading without accounting for specific local circumstances such as level of growth, location and environmental and physical factors (e.g. geotechnical factors and percentage of state highways are major variables on roading costs).
- Community boards are expensive and never lower your costs.
- In the Panel's view, overseas experience suggests the additional rates burden of de-amalgamation can be in the region of 10-20 per cent.

Key findings on Morrison Low's report

- In the absence of further analysis, the Panel considers the debt levels for both North Rodney and Waiheke seem unreasonable given:
 - the amount of debt and how it compares to other councils of this size and/or type;
 - an initial review of key capex initiatives in these areas since amalgamation, most of which would not normally be funded through debt;
 - the likely asset base in scope; and
 - the rating unit allocation method used (noting the complexities and challenges with modelling these costs).
- Costs associated with 'local and regional parks and sports' seem unreasonable given:
 - the likely assets in these areas; and
 - the rating unit allocation method used (i.e. it is likely this approach allocates an unfair amount of costs from urban areas to rural areas).
- Water and roading costs seem relatively low compared to other councils of this size and/or of this type (i.e. rural areas and islands are generally more expensive to service). This might suggest there is cross-subsidisation occurring within Auckland at present.
- Revenue for financial contributions and development contributions in the North Rodney Unitary Authority area may not be reasonable. This is because capex is projected across the out years but contributions are not adjusted for the same level of growth. The net impact of this across the out years considered may not be material but is worth considering (i.e. these contributions should be self-sustaining in theory).
- Service levels reflect a mixture of customer preferences, regulation and council policy. It is reasonable to assume the same level of service standards in the modelling of the new unitary authorities as changes to these levels would be up to a new council to decide.
- It is not reasonable that Auckland Council would subsidise the costs of regional parks within a North Rodney Unitary Authority (as was proposed by the original applicant and modelled as a sensitivity test) without considering similar arrangements in the other direction. On the basis of this and the findings of the sensitivity test, the revenue attributed to a North Rodney Unitary Authority from a subsidy for regional parks is likely to be neutralised.
- The complexities and associated challenges related to the costs, capability and capacity with managing unitary authorities are referred to in the report. However, the extent of the impact is understated by the financial feasibility scope of the report. A further economic assessment would reflect these issues in more detail. For example:
 - There is a high demand but low supply of technical experts in a number of critical areas in New Zealand particularly in more remote rural areas (e.g. scientists, engineers, planners, strategic planners).
 - Contracting costs are high and may result in a lack of integration across council which can have negative flow on effects across council (e.g. contracting should be driven by short-term capability needs rather than insufficient scale and scope of a council).

- Local government is increasingly being driven by increased compliance, public expectations and collaboration with public and private partners. These drivers are increasing cost pressures and reducing the ability of council's to operate in isolation.
- The cost, capability and capacity requirements associated with the regional council environmental functions related to the Hauraki Gulf and Kaipara Harbour should not be underestimated (e.g. state of the environment reporting and monitoring and coastal planning and management).