

FINANCIAL CONSIDERATIONS

Introduction

This section of the paper summarises the key financial considerations identified in the Working Party Report and expands on these to include aspects relating to multiple unitary authority options and factors that relate particularly to Wellington City Council and its ratepayers.

Rather than repeating the information contained in the Working Party report this section uses it as a reference point, drawing out specific aspects where appropriate. Accordingly the following should be read in conjunction with Appendix 3 pages 40-54 of that report.

Efficiency savings

Potential efficiency savings from amalgamation of councils in the region are estimated to be in the range of 3% to 4% of operating expenditure annually. The extent to which these savings are likely to be realised depends on the number of councils under each option and their structure. A single tier unitary council for the whole region is expected to deliver the highest savings potential of all options addressed within this report, estimated at \$22m - \$29m per year.

A single unitary council for the region, with a second tier of local boards is estimated to potentially achieve efficiency savings across the region of between \$16m and \$22m per year. This is similar to the estimated savings achievable under a single tier model for the Wellington metropolitan area with a separate unitary council for the Wairarapa.

The estimated \$6m annual difference between the one tier and two tier single council models relates to the additional cost of having more elected representatives, supporting local boards and their relationship with the governing body of the council

It is estimated that a model with four unitary councils might achieve savings in the region of \$8m - \$10m per year above the status quo i.e. \$140 - \$190m less over the 10 years of an LTP, than the single tier unitary council option.

As highlighted in the Working Party report efficiency savings may not result in corresponding rates savings for households and businesses, as initially savings are expected to be offset by transition costs and in subsequent years, savings may be reinvested elsewhere. However, in the middle to long term it is reasonable to expect that savings will reduce average rates increases from that forecast in existing council long-term plans.

Local Board budgets

The Working Party report emphasises the importance of lessons learnt from Auckland. It highlights that in the two tier model, the effectiveness of the local board model depends largely on the clarity with which functions, decisions and associated budgets are allocated to the local board or retained by the governing body (i.e. the Council). In light of this the Working Party made an initial assessment of the activities that might be allocated to local boards.

Officers have used this allocation basis to make an assessment of the existing Wellington City Council operating budgets that might align with the Working Party's assessment. This indicates that, based on the Working Party's assessment of a possible allocation functions and decision-making, local board budgets may equate to around 3% -5% of the total operating expenditure of an amalgamated council. Officers estimate that around a quarter of this budget could relate to governance costs, administration and support for local boards.

The Working Party report emphasises that the size of the budget does not define the value or broader role of a local board, as they would also have influence over council processes and decisions through their community engagement and advocacy roles. This is true, but analysis indicates that if a local board model is to work effectively, through clarity of role between local boards and the governing body, it should be accepted that the budget allocation to local boards is unlikely to be significant.

Like the Wellington Region Local Government Reform Panel, the Working Party has stated its support for the principle of subsidiarity where a decision is made closest to the community that is impacted by it. It also notes that while a structure that includes local boards may provide local communities with a local voice this extra layer of governance comes at a cost.

The alternative option also presented in the Working Party report is for a slightly lower cost model where local decision-making is represented through a ward councillor, as part of a larger council (or in the case of the Wairarapa, possibly a separate council), with the option of community boards to provide local input in an advocacy role.

Funding policies

The financial strategies and funding policies of each council in the region differ. The impact of these differing strategies on various amalgamation options is best illustrated through two key elements: rates and debt, which are summarised under the headings that follow.

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We know that some councils, including WCC, have budgeted for and are rate funding provisions for extra-ordinary items such as weathertightness claims and earthquake strengthening of council owned properties. While there is some risk that future costs for all councils could be higher than currently budgeted, the annual rates impact is not expected to be significant in the context of the overall rates requirement for the region.

The Working Party report highlights that cumulative rates increases forecast by existing councils in the region over the next 10 years, vary between 33% and 75%. What is less easy to identify is the impact amalgamating variable service levels, infrastructure asset quality, depreciation funding strategies and other factors not necessarily reflected in existing plans, will have on future rates obligations.

As was the case with amalgamation in Auckland, assuming the case for change is robust, it will be necessary to look beyond these issues to realise the benefits of a realignment of the region's local government structures – and rely on the funding policy to address any specific transition or equity issues that result. Accordingly the Working Party report proposes that the impact of amalgamating the variable service levels, condition of assets, level of investments and debt will be shared across the region. While this view is supported by Wellington City Council officers, it is relevant to note the following:

- *GWRC funding policy*

The current GWRC funding policy is likely to have a pronounced effect on any option that involves more than one amalgamated council. This is because:

- the services GWRC provide differ from but span the boundaries of the existing territorial (district and city) councils
- their funding policy results in a distribution of rates between existing council boundaries which is not directly aligned to where the expenditure takes place.

For all activities apart from public transport this issue is evidenced by an analysis conducted by Price Waterhouse Coopers (PWC), which assessed that if GWRC expenditure was split purely based on where the expenditure occurred, Wairarapa councils would incur an additional \$7.9m of operating expenditure in addition to what they currently fund through rates. This amount could vary depending on the assumptions used in this allocation such as debt servicing costs. It could also be reduced through changes in the financial strategy and/or funding policy by any new amalgamated council compared to the current GWRC policy.

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The Wairarapa councils have assessed that from a rates perspective the additional impost identified in the PWC analysis could be reduced by \$2.9m (down to \$5.0m) without including the offsetting savings from an amalgamation of Wairarapa councils or any reduction in service levels.

The PWC analysis indicates that the difference between the current rating distribution and where GWRC spend occurs is significantly less for other councils - within a range +/- \$2m, with the exception of WCC, whose ratepayers contribute the approximate \$11m in rates funding that ratepayers in other councils benefit from under current GWRC policy.

It is important to recognise that the PWC analysis excludes the public transport activity. This makes up around 50% or \$47m of the GWRC rates requirement, and is primarily operated as a network across existing council boundaries, so is difficult to split based on the location of services. The Wellington City business sector funds a far higher proportion of this public transport activity than ratepayer sin other councils (38% of the rates requirement from 8% of the region's capital value). This means that any reallocation of funding for the public transport activity could have a greater funding impact in a multi-unitary council option than the balance of activities discussed above.

GWRC have assessed the Wairarapa share of the public transport activity at \$3.32m; Wairarapa council rates fund approximately \$0.7m. Given the nature of the rail network a cross-boundary operational and funding policy will need to be addressed should more than one unitary council for the region. Therefore it is not possible to predict what, if any, change to the existing funding arrangements could occur.

The Wairarapa councils have requested WCC officers (who are conducting the rates modelling of possible options on behalf of the region) to model the rates impact for a separate council for the Wairarapa, incorporating an additional \$5m of rates requirement based on the PWC analysis of \$7.9 reduced by funding policy amendment assumptions of \$2.9m.

Of further interest to WCC is that the rates requirement for public transport is set to double in the next 10 years, which, irrespective of the above, may require a reconsideration of the funding proportion currently payable by the central city business sector.

- *WCC funding policy*

Wellington City makes up around half of the capital value rating base of the region. To avoid significant rates shifts across the region, the substantive

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rating policies of the region will need to be closely aligned to current Wellington City Council policy.

Rates impacts

The Working Party report goes into some detail about the key drivers that will impact on the distribution of the rates between existing council boundaries and business, residential and rural sectors within these boundaries.

Aside from the impact of differences in potential efficiency savings, the distribution of rates will not be significantly different between the one and two tier single unitary council structures proposed by the Working Party.

However, the rates impacts will vary, depending on the number of councils proposed and the existing funding policies of councils within each group of councils proposed to be amalgamated.

WCC officers have completed extensive analysis of the potential impacts of amalgamation of councils within the region on rates. As discussed in the Working Party report, this analysis has concluded that the key drivers of change to rates from amalgamation are likely to be:

- The use of capital value vs land value for setting rateable values
- Variation in general rates differentials
- Current rates levels relative to property values in each existing council area
- The split between general rates and targeted rates within each existing council area
- The relative size (in terms of capital value) of residential, rural and business sectors within each council areas

Modelling of various funding mechanisms (including differentials, targeted rates, uniform annual general charged (UAGCs) and ring-fencing of certain activities within existing boundaries) has shown significant variation in impact for ratepayers dependant on the combination of mechanisms used. This strengthens the view that the impact of any amalgamation option on individual ratepayers will not be able to be accurately assessed until a funding policy is adopted by any new council.

However, the rated modelling completed has enabled officers to assess the degree to which various rating mechanisms might be able to reduce the impact of change.

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The table below provides an example of the impacts on average rates by sector by council of amalgamation into a single council for the region, based on the premise of attempting to minimise the change in rates whilst retaining a simple unified rating policy. It is important to note that these impacts could change with a different funding policy and this ***should not be used as an assessment of what will happen*** if a single council model was adopted. However, it does show that it will be difficult to avoid some level of increases / decreases in rates between council areas and sectors, whilst retaining a simple policy.

Table 1: Indicative rates impacts

Sector	Masterton	Carterton	South Wairarapa	Upper Hutt	Lower Hutt	Wellington	Porirua	Kapiti Coast	Total (Rates per \$m)
Residential	Orange	Green	Orange	Red	Orange	Orange	Green	Green	Orange
Rural	Orange	Green	Red	Orange	Red	Green	Green	Orange	Orange
Business	Green	Orange	Red	Red	Green	Orange	Green	Red	Red
Total	Orange	Green	Red	Red	Orange	Orange	Green	Orange	Orange

Key:

	Indicative rates decrease of greater than 10%
	Indicative rates change of less than +/- 10%
	Indicative rates increase of greater than 10%

Rating policy assumptions used in this example include:

- One unitary authority for the region
- Targeted Rates equal to three Waters, Rubbish and GWRC charges ring-fenced within existing council boundaries.
- All other rates classified as general rates.
- Differentials -
 - Commercial:- 2.8 Metro (Wellington, Hutt, Upper Hutt, Porirua) 1.5 Town (Kapiti, Masterton, Carterton, South Wairarapa),
 - Residential 1.0
 - Rural: 0.8

Any potential rates changes resulting from the redistribution of rates under a common rating policy could be further reduced by the use of targeted rates. This would need to be balanced against the additional administrative complexity and potential conflict with the broader amalgamation principles around sharing the rates requirement for the region across its ratepayers.

Irrespective of the above the analysis suggests that a rates transition policy will be appropriate to spread the impact of increases and decreases that are likely to occur as a result of rates redistribution over time.

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Borrowing impacts

As identified in the Working Party report it is important to consider not only comparative debt between councils but also the relationship of debt to investments and debt to assets.

Analysis has confirmed that the impact on ratepayers of amalgamating debt between councils is best reflected by comparing the ratio of net debt (borrowing minus cash and investments) per dollar of rateable capital value in each existing council area. This is because it better reflects the impact that borrowing costs and investment income will have when the rating bases of various councils are combined.

Simply comparing total debt or debt by resident does not reflect the impost on ratepayers that combining debt through amalgamation would have. In particular it does not take into account the share of the debt servicing cost that it met by the business sector. For example Hutt City and Upper Hutt City Councils have the lowest debt per resident ratios of all councils, significantly lower than that of Wellington City. However, on a rate per dollar of capital value basis (which reflects the impact on ratepayers) the ratio for Hutt City is similar to Wellington City Council. The ratio for Upper Hutt is higher than that of Wellington City.

Accordingly, it is ratepayers in those councils with a higher current net debt per dollar of capital value that are likely to benefit from amalgamating debt e.g. Kapiti District and Masterton District Council's; while ratepayers in areas with a lower ratio are more likely to be negatively impacted e.g. South Wairarapa District Council.

For more information refer to the Financial Matters section in the Working Party Report.

Summary

- Estimated cost savings from restructuring local government in the Wellington region could vary between \$8m for a multi-unitary (four) council model and \$ 29m per year for a one tier single unitary authority.
- Under a single tier structure budgets are held centrally by the council. Under a two tier model it estimated that around 5% of the total operating budget may be allocated to local boards.
- The funding policy for activities currently provided by GWRC is likely to have to a significant impact on rates distribution, under a multi-unitary model.

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- WCC makes up around half of the rating base of region. This means that to minimise the impact of rates redistribution, the substantive rates policy of any new unitary authority that
- incorporates the existing WCC boundaries, will need to align closely with current WCC policy.
- The impact on rates distribution in a multi-unitary model is highly dependent on the mix of policies of the councils combining.
- Under any amalgamation model there will be changes in rates distribution. The final decision on who pays and how much will not be made until any new council sets its funding policy
- The annual impact of changes in rates distribution could be reduced through a rates transition policy that spreads changes over a number of years.
- It is anticipated that to be effective, the impact of amalgamating varying service levels, infrastructure quality, financial strategies and debt will need to be shared across those councils combining under any amalgamation scenario.