



Submission to
Wellington City Council
Wellington Region Councils – Governance Review
Wellington Employers' Chamber of Commerce
February 2011

Introduction

The Wellington Employers' Chamber of Commerce (the Chamber) has membership of 1,600 businesses in Wellington City. It works closely with other chambers in the region and is part of the Employers' Chamber of Commerce (Central)¹. While most of our members are in the small to medium enterprise category we also have as members 15 of the largest 20 companies in New Zealand.

The Chamber advocates policies that reflect the interests of the region's business community and the development of the Wellington economy as a whole.

The Chamber is grateful for the opportunity to make this submission on the review of Wellington regional governance. Not only does the business sector pay almost half of Wellington City's rate-take, the performance and structure of local government has a significant impact on the business environment and economic growth in the region. We are pleased the region is reviewing its governance and considering the issue of amalgamation.

This submission provides our initial views on amalgamation and comments on the findings of the PricewaterhouseCoopers report on Wellington Governance² (the Report). Since the report was commissioned (completed in October 2010), it would seem that momentum has been lost. We urge Wellington City Council and the other councils to take up the next steps as recommended in the report and commence an analysis of the options.

¹ The Employers' Chamber of Commerce Central was created out of the merger between the Wellington Regional Chamber of Commerce and the Employers and Manufacturers Association (Central) on 1 July 2010.

² Wellington Region Councils – Governance Review, October 2010, PriceWaterhouseCoopers <http://www.wellington.govt.nz/aboutwgtn/governance/index.html>

The question of amalgamation of local government is very important – not only because of the Auckland super city but we see much potential to find efficiencies and improve council decision making in Wellington. Our member surveys over many years show around 75% of Wellington businesses favour some form of local government amalgamation.

It is fair to say that Wellington functions better than Auckland with better coordinated infrastructure investment and so there is not the same imperative for change as there was there but this does not mean the current structure can't be improved.

It should be noted, that with nine councils for a population of 474,000 in the Wellington region, the council : population ratio is much higher and so the case more pressing in some respects. It should also be noted that Christchurch works well with a single council representing a population of 370,000.

Broad Gains from Amalgamation

The benefits of some form of amalgamation broadly speaking are:

- efficiency gains
- creation of a one stop shop making it much easier to do business
- better quality decision making for the region
- funding and management of regional facilities
- maintaining relativity with Auckland given the creation of the super city

Efficiency Gains

Efficiency gains and are often touted as the main reason for structural reform. We think the benefits from better decision making are more important but there are significant savings from reduced duplication and economies of scale which should not be dismissed. Such savings aren't guaranteed and it is important that, should amalgamation occur, steps be taken to ensure that they aren't squandered as seems to have been the case with Auckland.

Disciplines would need to be put in place to ensure that savings made from amalgamation are passed back to rate-payers. By the same token, should amalgamation occur, steps should be taken to ensure Wellington's large commercial rating base is not allowed to subsidise other parts of the region as rate collection is rebalanced. This is discussed further in the appendix.

The Royal Commission on Auckland estimated that amalgamation will provide annual savings of between 2.5 and 3.5% of existing costs. Applied to Wellington, that amounts to savings of more than \$100 per residential rate-payer per year.

There would also be money freed up from the sale of surplus assets that could be put into much needed infrastructure or returned to rate-payers. Because of the increased size of the combined debt, a merged council could also get better terms on the money it borrows.

Experience from other countries and other work quoted in the report concludes that administrative costs fall as the size of the organisation increases. There are significant opportunities for savings from expenditure cuts in local government and WECC will continue to push for them irrespective of whether amalgamation occurs.

One Stop Shop

Businesses operating across the Wellington region currently face compliance costs associated with the need to understand and deal with a range of different district plans, standards, and other regulations emanating from each of the nine TLAs in the region.

A single council would be more able to provide a single set of rules and point of contact for businesses operating across the region. This would not only reduce time and effort understanding the range of rules and plans, it would allow businesses to streamline their operations accordingly and altogether make it much easier to do business.

Better quality decision making for the region.

Probably the most important benefit of structural reform is the improved decision making which would be made for the benefit of the region as a whole rather than in the interest of the local level only. Too often the politics of rival neighbouring cities and districts result in sub-optimal decisions from a regional perspective. Furthermore, regional decisions are often delayed because of the territorial battles that often occur.

A good example is the different priorities councils have for regional transport expenditure based on their own parochial interests rather than the interests of the region as a whole. For example, Wellington city businesses and rate-payers generally put more importance on Transmission Gully than WCC which would rather see Wellington city projects prioritised. I.e. citizens of a city or district are often better able to take a regional perspective than their councils.

Another general example is each council wanting a particular public facility of its own, - it may be popular with constituents or may be a revenue raiser - but a more rational decision from a region-wide perspective might be for the region to have fewer of these facilities.

Local land use planning often does not reflect the regional interests. For example a city council might have an interest in developing a shopping mall within its boundaries to compete with malls in neighbouring cities where location under a more market driven approach might be different. Or a city

with surplus land might encourage subdivision and housing development which might be against the interests of the region as a whole which may have a preference for less urban sprawl.

Where facilities are located is a factor. For example, notwithstanding the pros and cons of the location of Wellington City's new Indoor Community Sports Centre from Wellington City's perspective, if a regional perspective was taken it is unlikely to have been built where it was.

The funding of community facilities is also a factor. Where community facilities located in a TLA are used by the region as a whole but predominantly funded by the host council, arguments may ensue as to whether they should be funded locally or regionally. We are not convinced that a legislative solution such as the Regulatory Amenities Bill as floated in the report is necessary.

Different approaches and philosophies across different TLAs are leading to divergence across the region in terms of rate levels and provision of services and infrastructure quality.

We agree a regional spatial plan would go some way towards addressing the lack of an overarching regional vision.

We acknowledge that many of these local versus regional tensions won't go away just because of a merger i.e. people from one part of the region will still have preferences conflicting with those of people from another part but the removal of the political element will dampen them. If the structure chosen maintains some sort of local representation some tensions will continue but they can be mitigated if the regional decisions are elevated to the regional body and only genuinely local decisions are retained at the local level.

Relativity with Auckland

The case for amalgamation is even stronger in light of the creation of the Auckland super city. Maintaining relativity with Auckland in terms of the ability for Wellington to engage with the Prime Minister and Cabinet is a real issue.

Wellington could become politically marginalised if it is not able speak with a single consistent voice or represent a sizable proportion of the country. An amalgamation of the TLAs in the Wellington region would represent more than 11% of the population.

Greater Collaboration versus more Amalgamation

The report raises the idea of increased collaboration as an alternative to amalgamation or structural change.

Some collaboration already occurs between councils for example in the area of water. The region has also engaged in a process to consider shared services through bodies such as the Mayoral Forum and the Chief Executives

Group. Rate billing, IT, waste disposal and building inspections are examples of efforts to improve collaboration but according to the document, progress has been limited or has become contentious for them.

The Wellington Regional Strategy (WRS) has also been a vehicle for greater cooperation and coordination across the region – focusing on economic growth and good regional form for the region. While outwardly committed to the strategy, individual councils seem to be continuing and funding separate programs and strategies and so we do not see the WRS as a substitute for amalgamation.

These collaborative efforts have not gone far enough to provide for optimal decision making for the region. Furthermore, we do not think there is much scope for collaboration to be improved due to the lack of incentive without some sort of legislative underpinning.

The report concludes that structural change is more effective than the collaborative model. We agree with this conclusion.

Furthermore, the degree of collaboration depends on leadership. Current leadership has been reasonably collaborative but there is no guarantee that this will continue in the future. Essentially, some form of amalgamation or structural reform is needed.

Structural Options

The report correctly identifies the trade-off that exists between the advantages small, separate councils have of remaining well connected to rate-payers and the strategic and efficiency benefits from a larger region-wide authority.

The ideal structure is one that can capture both these benefits as best as possible. Our assessment is that like Auckland this is likely to be some sort of two-tiered structure where decisions with regional implications including rating decisions are elevated to the top tier and local services and community functions are operated at the lower tier.

While the report's brief was not to analyse the options in any detail, six options have been listed.

We are not in a position to recommend an option until that analysis has been done but from the information provided in the report option four looks as it is best able to achieve this balance. This is the option which most closely resembles the Royal Commission recommendation for Auckland.

Option four is something of a halfway house between the status quo and a full regional unitary authority. It has the potential to move closer to the latter if that is considered desirable. This structure is also more likely to be politically acceptable to the full range of ratepayers and councils than other options.

Having said that, we reserve judgement until final analysis has been done but we urge WCC and the other councils to take the next steps and commence the analysis. Too much time has passed since the report was commissioned and completed in October 2010.

Conclusions and Recommendations

Wellington must move fast to identify the best structure for local government governance to best suit regional needs.

We agree with the PWC Report that the status quo is not an option, that the collaborative model is not enough to achieve the potential gains and that some form of structural change is needed to improve Wellington governance.

We urge councils to take the next steps and commence detailed analysis of the options in the PWC Report.

We are not in a position to recommend a structural option until that analysis has been done.

If there is a case for change, and we think there is, we would like to see it up and running in time for the 2013 local body elections.

If the councils do not act there will be pressure from government to do so and so it is in Wellington's interests to be proactive on this.

Appendix - Impact of Amalgamation on Business Rates

The PWC report only touches on the implication for Wellington rate-payers should the councils merge.

Currently Wellington City business rate-payers cross-subsidise Wellington City residential rate-payers due to the business rating differential. WCC has been phasing this down. It is currently 3.1 times the residential rate and is expected to be phased down to 2.8 times next year. Other councils in the Wellington region have a business differential but not as high as Wellington City's.

Because of this cross-subsidy from the relatively large commercial rating base, Wellington City's total rate-take on a per capita basis is higher than all councils with the exception of South Wairarapa yet rates for residential rate-payers are relatively low.

While expenses relating to the relatively large CBD may warrant a higher rate-take, we believe the cross-subsidy and the large commercial rating base enables WCC to extract a higher rate-take than is warranted (and also because residential rate-payers are not paying the full cost of their services there is less pressure to reduce rates in Wellington City but this is another issue).

If amalgamation were to occur, it is essential that this cross-subsidy continues to be reduced and Wellington City businesses are not allowed to cross-subsidise ratepayers (residential and business) in other parts of the region.

We would be happy to work with the councils on how the rates across TLAs and between residences and businesses should be rebalanced under amalgamation.

