

Issues and Options for Amalgamation

A study on the merits and otherwise of the amalgamation of the Rangitikei District Council with one or more local authorities

A study prepared for the Rangitikei District Council by **Thomas Consulting**

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Summary

Amalgamation is currently being seen by many as a way to address problems with continuing significant rate increases. However, amalgamation is not an easy or cheap task and communities need to be cautious and fully consider the implications and costs before deciding to pursue this option. While providing some benefits amalgamation can be an expensive and time consuming process with less savings and efficiencies than expected.

Local residents and communities need to agree on what the problem(s) actually are that amalgamation would be solving. Rangitikei District Council has few of the major issues that have led to the proposed amalgamated 'super city' in Auckland. The current Council operations are small in scale and already make use of shared services with Manawatu District and Horizons Regional Council. Current rating levels are similar or lower than neighbouring councils, and are below the national average. For Rangitikei the issues are more about affordability, capability and capacity. These issues are not necessarily addressed by amalgamating, and can partly be addressed through greater use of shared services.

Amalgamation is unlikely to address affordability issues driven by the costs of providing water and wastewater services and maintaining the roading network. Options to contain costs for these issues are for central government to reduce standards for smaller local authorities and to increase the subsidy for roading, or council considering lowering levels of service in the roading network. The single most useful thing that would address affordability concerns would be for the government to increase the proportion of funding for road maintenance (FAR).

If amalgamation is the selected way forward then Manawatu District is the best overall choice in terms of the principles of good government. If a re-organisation of boundaries was to occur then the new entity would have compatibility with southern Ruapehu District and northern Horowhenua District as well as the rural areas of Wanganui District.

Using some broad assumptions the potential savings in operating expenditure from amalgamation could be around \$661,000 to \$853,000 per year in 2009/10 dollars, or 2.6% to 3.3% of total operating expenditure. Capital expenditure savings of around \$500,000 (2% of 2009/10 total capital expenditure) are also possible. These savings would take three to five years to be fully realised. Costs for the Rangitikei side of an amalgamation would be around \$1.3 million to \$2.5 million. Caution needs to be taken however as evidence from the 1989 reorganisations, and the few international studies on local government amalgamations, is that actual savings have usually been overestimated. If amalgamation is a preferred option then the Council should carry out more detailed analysis and discussions with possible amalgamation partners before committing itself.

This study indicates that expanding shared services could provide some (\$245,000 to \$310,000 per year in 2009/10 dollars, or 0.9% to 1.2% of total operating expenditure) of the gains available from amalgamation without the significant costs that come with it. This option retains flexibility and local representation.

Overall then there is no compelling reason for amalgamation at this point in time. More shared services should increase efficiency and capability over time. If affordability and capacity become an issue despite shared services then the issue of amalgamation can be reassessed at that time.

1 Introduction

The Rangitikei District Council is considering whether there is merit in amalgamating with other local authorities in the future. This issue has gained importance for two major reasons:

- a. The report of the Royal Commission on Auckland Governance has raised the prospects of significant changes to the current New Zealand governance model for local government.
- b. The Rangitikei District Council is currently consulting on the 2009/19 LTCCP and wishes to be in a better informed position to respond to any submissions relating to amalgamation issues.

While the Royal Commission report was released after the Rangitikei District Council asked for this report, it was widely expected to recommend significant changes to governance and structure in Auckland.

The Council resolved on 26 March 2009:

That the Chief Executive be authorised to commission an independent study on the merits and otherwise of the amalgamation of the Rangitikei District Council with one or more local authorities, with specific reference to the available choices of local authorities (but not engaging in discussion with any of these authorities), the likely cost/benefits, and other factors (including negative and intangible considerations); such study to be undertaken by a suitably experienced person who is neither employed by a local authority nor an elected member, and to be completed in time for Council to consider at its 30 April 2009 meeting in order that Council is fully informed of the issues pre LTCCP deliberations.

This paper sets out the context that faces local government in the Rangitikei District, and then sets out the current thinking on good governance models. A brief summary of the model recommended by the Royal Commission on Auckland Governance is discussed as this could become the model rolled out across New Zealand. An overview of the current political and financial structure of neighbouring local authorities follows and has been prepared to explore potential compatibility. Several options for future governance arrangements are then discussed with the positives and negatives outlined for each. Finally, other practical and operational implications of any major governance changes are discussed.

This report draws on work commissioned by the Royal Commission on Auckland Governance, and previous research on this topic prepared by Thomas Consulting.

2 Context and history

2.1 History

Local government in New Zealand has been in existence for over 150 years in some form. During this time there have been frequent tensions between central and local government, as well as concerns from the general public as to the efficiency and structure of local government. Attempts to find alternatives to rates funding have also occurred regularly. The underlying issues today of affordability, funding and local democracy are not new, and in fact have been the subject of many reviews instigated by central government over the years. As the activities of local government impact on the day to day living of people it has always

been the subject of debate. Available funds have never matched the aspirations of communities in the 19th or 20th centuries and this has not changed today.

Reviews by central government have been common, as have funding problems and ratepayer complaints. After World War 2 there were major reviews every decade, none of which succeeded in structural reform until the late eighties. All of these reviews were established in response to concerns over the impact of rates; sometimes these were part of a wider review of structure and functions. So called rates revolts are not new; during the 1970's there was much talk of this. All of the reviews have searched for an alternative to rates as a major source of funding. All have concluded that rates were the best system available for the bulk of a local property tax based funding stream. Previous funding reviews resulted in additional funding; the National Roads Board, the Rates Rebate Scheme, differential rating and the local authority petroleum tax being some examples of this.

After these many attempts at reform the government in 1989 pushed through local government amalgamations across New Zealand. This was done to improve financial viability, improve accountability and customer service as well as improve the administrative efficiencies of local authorities. The number of local authorities reduced from 217 territorial authorities, 136 community councils, 22 regional authorities and 453 special purpose authorities to 87 local and regional councils in 1989.

For the Rangitikei area, the Rangitikei District was constituted from the Taihape Borough (based in Taihape), Marton Borough (Marton) and Rangitikei County (based in Marton, though with offices and depots elsewhere). In addition, however, the Local Government (Manawatu-Wanganui Region) Reorganisation Order 1989 part VII (Gazette, 1989, pp.2366-2368) shows the Rangitikei District also included part of the KIWITEA County Council and the Taupo District Council together with the Turakina Recreation Reserve Board and the Putai Ngahere Reserve Board.

Since the amalgamations of 1989 there has been occasional debate on the merits of further amalgamation of local authorities across New Zealand. Only one amalgamation has actually proceeded since 1989: Banks Peninsula District amalgamated with Christchurch City in 2006. The issue of amalgamations has now taken centre stage as a result of the Royal Commission on Auckland Governance report which was released publicly on 27 March 2009.

2.2 Political and Societal Pressures

Society is continuing to change and evolve, as it always has. However, in recent decades the pace of change has increased significantly. Globalisation and information technology have contributed to these changes, as has increasing prosperity and wealth. People today are more informed and most have instant access to information. The result for local government has been an ever increasing expectation for higher levels of service and risk management. This demand for additional services has not been matched by a willingness to fund them.

Changing demographics are placing strains on many rural based local authorities. Population is declining in many of these local authorities, especially in the central North Island hill country areas from Taranaki to Gisborne and as far south as Masterton. In addition the average age of residents is increasing, resulting in a growing proportion of older people funding the total rates requirement. This aging population is also changing the type of facilities desired by residents, such as less demand for active sporting facilities and more demand for walkways and health related services.

New requirements since the LGA 2002 was enacted – to consult on Outcomes, develop long term strategic plans and address sustainability issues – have all added to the tasks local government must manage. Additional demands for governance decisions to address climate change and waste management issues have also arisen. Coupled with additional accountability requirements from the LGA 2002 the result is an increasingly complex and time consuming task for elected members.

In 2009 elected members are also faced with the challenge of possible re-allocation of available resources and working with the public to manage expectations. A major question therefore is whether the existing governance arrangements are able to deal with the current issues, particularly in times of economic stress.

2.3 Current Economic Climate

The World economic situation is rapidly changing as a result of the largest financial ‘shock’ since the great depression. World trade has declined as the wealthiest nations suffer a sharp and rapid economic contraction as a result, initially in the USA, of a collapse in house and investment market prices. Most developed countries in Europe and Asia are experiencing their worst trading conditions and demand for manufacturing goods since World War 2.

Against this backdrop New Zealand has been faring reasonably well, although the country has been in a recession since early 2008. Recent data points to a deteriorating situation with 2009 now likely to see considerable increases in unemployment and business failures.

The Horizons region appears to have fared roughly the same as New Zealand during 2008 and early 2009, coming off higher increases in activity from 2004 to 2007. Residential building has been very hard hit, with retail trade now slowly declining. However, with a higher than average weighting in government services and administration, sheep and beef farming, the region is likely to outperform New Zealand over the next year.

The Rangitikei District will be impacted by the economic downturn. Retail trade and local manufacturing is likely to suffer from a reduction in demand. Without the high proportion of employment in the government sector that Palmerston North enjoys, Rangitikei will (as usual) rely on pastoral farming to maintain economic activity. Fortunately, sheepmeat and beef returns are well up on last year and dairy prices, while well down on last season, are still at reasonably profitable levels.

Overall 2009/10 will be a difficult year and there will continue to be pressure on the Council to deliver affordable services.

2.4 Financial pressures on Local Authorities

Rapid and substantial increases in commodity prices since 2004 up until mid 2008 have had a major impact on the cost of providing many council activities. This was particularly true in roading networks and building construction costs. Strong economic growth worldwide also created a shortage of skilled labour and some materials. These cost increases not only pushed up the costs of new infrastructure, buildings and facilities, but also significantly increased the value of existing assets and the resulting levels of depreciation through the revaluation process. As a result the cost of depreciation has increased the underlying operating cost of delivering the existing levels of service.

The new requirements around the drinking water standards have resulted in considerable financial strain for most small rural townships. Many of these are not eligible for the government subsidy due to size and/or median income levels. Increased consent standards set by Horizons for wastewater discharges are also resulting in costly upgrades for some wastewater treatment facilities. The resultant forecast rate increases for urban residents in Rangitikei are significant. The cost of installing new pipelines has continued to increase as the headline CPI figures have declined. The capital goods price index for pipelines in the year to December 2008 (Statistics New Zealand) increased by 10%. The general construction index increased by 6.4% over the same period. Roading costs have now stabilised as the cost of oil has plummeted, but have yet to actually decline.

While the bulk of the increased rate requirements are a result of increased levels of service that will deliver benefits (in terms of lower risks to public health and improved environmental outcomes), these have been imposed by other agencies. Other new government regulations have resulted in requirements to upgrade such activities as waste management facilities, building inspection processes, food health inspection processes, and a range of policies from gambling to partnerships with the private sector.

On top of these impacts most local authorities have been facing increasing demands to improve levels of service for stormwater, recreation facilities, and activities such as recycling and urban development planning. Some of these are due to changes in societal trends; others are a result of expectations fuelled by new facilities in neighbouring local authority areas. New issues such as climate change place demands on council management for more policy advice. Some of this has been as a result of new legislation and higher standards set by central government.

While the economy was growing strongly the affordability of rates, while an issue of concern for some, has been kept at manageable levels. This year will see a new 10 year LTCCP budget being debated in the context of New Zealand experiencing declining property prices, rising unemployment and mounting business failures. Residents and businesses will be looking to local government to deliver rates increases at or below inflation (forecast to be around 1% a year by June 2009).

The cumbersome nature of the LGA 2002 consultation process coupled with the requirements to fund depreciation make it hard for local government to respond to such a dramatic decline in economic activity. It will be difficult to convince residents of the need for another significant rates rise as CPI inflation heads towards zero and unemployment increases sharply.

3 The need for evolving Governance and decision-making models

Since the beginning of local government in New Zealand in the 19th century there have been local issues and debates over the allocation of resources and how activities are to be funded. Responses to these debates have tended to be influenced by the background of central government policy, management theories and economic conditions at the time.

Up until 1989 local government policy and activities was driven by the accepted need for development, growth and building community infrastructure. The reforms of 1989 introduced a drive for efficiency and professional management. This was followed in the late 1990's by an emphasis on transparency and financial accountability and in 2002 by a shift to governance, transparency and community input into identifying outcomes. Each of these periods of reform was, at that time, expected to solve the pressing issues of the day.

The problem has usually been that each reform has focused on only one or two of the major components of good government, namely funding, governance (including structure), function and management (operational efficiency). The recent Rates Inquiry focused on funding, but was explicitly stopped from looking at governance. The Royal Commission was focused on governance, not funding or function.

Reforming the governance structure is currently being seen as the solution to a wide range of significant issues including funding and function issues. The danger is that communities will see this as the answer to problems that cannot be solved by governance alone. Without looking at all aspects of local government the result of major structural reforms is usually a partial resolution of the current problems at best. Will changing the boundaries and scale of local government result in improved services, lower costs and better decisions? Good governance and greater scale will not remove the new requirements to improve risk management around water quality, or reduce the need to meet RMA consent requirements for wastewater treatment. New governance structures will still be required to operate within legislative requirements. While costs in administration and service delivery may be reduced through amalgamation, this is by no means guaranteed.

Reviewing governance models is clearly the current trend in New Zealand, driven by the Auckland issues. The danger is that current models of governance that may be generally working in other parts of New Zealand may be thrown out as a result of the Auckland situation. The problem is that governance models could be changed due to problems with funding and legislative pressures. These underlying issues will be ignored during the transitional change process and are unlikely to be solved.

Before accepting that amalgamation is the answer, it would be useful to determine what exactly the problem is that needs to be solved. If the answer is affordability the problem could be the rating policies of Council. Or it could be excessive standards for water and wastewater that need government intervention. Amalgamation may not solve these problems. Other cost savings in administration and governance overheads may address affordability concerns, however previous experience is that they tend not to. If the problem is poor decision making at a wider level and a lack of cooperation on issues such as economic development and transport, amalgamation could address these issues.

Amalgamation does have benefits to both ratepayers and the operational efficiency of a local authority. These benefits include:

- Some duplication of bureaucracy is removed,
- Strategic issues of a wider area can be considered by one governance board,
- Boundary issues can be addressed (such as information centres at Sanson and Bulls),
- Elected representatives have wider mandate and greater responsibilities that can result in more strategic decisions,
- More 'weight' when lobbying government and other organisations,
- Larger administrative organisation can attract wider range of staff skills,
- Greater capacity to deal with issues and problems.

The process to amalgamate two or more local authorities into a new local authority is set out in part 3 of the LGA 2002, and detailed in schedule 3. The process can be initiated by making a reorganisation proposal that meets one of the following conditions:

- Resolution of one or more affected local authorities with the consent of all affected local authorities

- Approved by the Minister
- A petition signed by at least 10% of the electors of the local authority to be abolished, or 10% of the electors of each of the districts proposed to be united.

If a complying proposal is lodged with a local authority then the affected local authorities decide on whether to form a joint committee, appoint one local authority or refer the matter to the Local Government Commission for consideration. Submissions are called and considered and a decision issued on the proposal. The decision can be appealed to the Local Government Commission which holds a hearing and can seek further information. A successful reorganisation proposal is sent to the Minister who prepares an Order in Council to put into effect. There has only been one successful reorganisation proposal since 1989.

The Auckland Council governance decisions will be enabled through separate legislation and as such the above process will not be followed.

4. Royal Commission on Auckland Governance

4.1 International perspectives

The Royal Commission asked Robin Hambleton, Professor of City Leadership, University of the West of England, Bristol and Director of Urban Answers to undertake research on international trends in civic leadership. His research outlines the changing nature of local leadership worldwide as cities and regions compete in the global market for skilled people and capital. Crucially he also states that there is no silver bullet solution that will fix leadership problems.

There is no suggestion here that Auckland should embark on an international search for a “solution” to the leadership and governance challenges now facing the metropolis. Such an approach would be misguided because cultures, histories, legal systems and geopolitical factors vary across nations.¹

Of interest is international research that looked at successful local government leadership from around the world. This showed that successful local government has overlapping leadership roles between the political leader and the management leader. Both politicians and management contribute to policy and operational management. In addition successful cities also have strong community leaders working alongside the institution of local government.

Hambleton promotes the idea of a place based approach to achieve strategic goals rather than a business focused approach. Evidence is building that skilled people are attracted to a city/district that is an attractive place to live and offering many amenities to enjoy life. Business growth follows from the ideas and capital of these people.

Successful world leaders tend to be facilitative leaders with a firm mandate for decision making. This reflects the need to work in partnership with private and community sectors to achieve desired outcomes for a city. Fragmented institutional design can make this political mandate difficult and constrain leaders. A single elected city leader provides a platform for strategic decisions. However all elected members are important and have important roles to play. Problems have arisen in the UK from placing too much emphasis on the cabinet or executive team approach which leaves the balance of elected members being relegated to an oversight role only.

¹ Hambleton – Civic leadership for Auckland: an international perspective, July 2008.

Civic leadership skills require considerations around transparency, accountability, efficient resource use and responsiveness. This is not the same as the private sector and those models do not translate well into local government.

An interesting view was made in 2008 at the LGNZ conference by Brian Dollery, Professor of Economics and Director at Centre of Local Government of the University of New England. He noted that amalgamation had not fixed the infrastructural financial problems in Australia and that, while savings were available through shared services, they were relatively modest and would not fund the infrastructural backlog.

While this research was aimed at large metropolitan regions the research applies equally to the Rangitikei District and other rural based local authorities. Governance models need to be based on sound analysis of problems and reflect the local community requirements.

4.2 Principles of Restructuring Governance

The Royal Commission adopted four principles for restructuring governance. These were:

1. Common identity and purpose
2. Effectiveness
3. Transparency and accountability
4. Responsiveness

These principles resulted from research that set out the following lessons from the history of attempted local government reorganisation in Auckland:

- Boundaries need to reflect communities of interest.
- Visionary leaders can make a significant impact on the development of the city.
- When reform in local governance is planned, the different parties affected need to be consulted.
- Successful change depends on genuine consultation and participation, and then on limiting the amount of appeals and challenges, which can delay or derail change.
- Any reform plan needs to be clear, defined, and have a specific timetable.
- Reform needs to be backed up with a legislative mandate and Government/ ministerial support.
- Lasting reform needs bipartisan or multi-party support, otherwise it will be weakened and amended at the next election.
- Any new structure or body needs the ability not just to make policy but to implement it, and to have the funding and resources to ensure workability.
- Transition processes take time.
- Auckland has always been seen as a place apart by the rest of New Zealand. It is different from other New Zealand cities and it does need special governance arrangements.

Research also supported the view that there is no set formula or 'magic bullet' solution that will result in good governance. Rather each proposal for a community of interest should weigh up what governance model will result in the best delivery of local government.

4.3 The Royal Commission Recommendations

Over the last five years rate funding requirements have increased significantly across New Zealand. A 'rates revolt' in Auckland in 2004/05 resulted in the government carrying out a funding review which resulted in a ministerial inquiry (Commission of Inquiry into Local Government Rates) over 2006/07. Little significant change resulted from these reviews. In late 2007 the government appointed a Royal Commission on Auckland Governance (Royal Commission) to consider the governance structure of the greater Auckland metropolitan area. This was in response to a range of issues, including the Rates Inquiry, public transport funding issues, transport planning, infrastructure investment, economic development planning, and planning for urban development.

The Commission was appointed to report on the local government arrangements (including institutions, mechanisms, and processes) that are required in the Auckland region over the foreseeable future in order to maximise, in a cost effective manner:

- a) the current and future well-being of the region and its communities; and
- b) the region's contribution to wider national objectives and outcomes.

The Royal Commission reported to the Governor General in late March and the report was released on 27 March 2009. The government has responded very quickly to the report and released its decisions on the major structural recommendations on 7 April 2009. The rush has been generated by the desire to have the new governance structure in place for the local body elections in October 2010. In order to do this new legislation must be passed through Parliament by early 2010.

The Royal Commission recommended the following key changes for Auckland:

- A single regional unitary authority for Auckland with a directly elected Mayor and 23 councillors; 10 members elected at large, 8 by ward, 2 elected in two rural wards, 2 by the Maori electorate and 1 appointed by mana whenua,
- A directly elected Mayor with power to appoint the deputy mayor, committee chairs, set the budget, policy direction and to staff their own office,
- Six 'local councils' under the Auckland Council with elected members to deliver local services. These local councils are funded by the Auckland Council,
- A few Community Boards for remote areas and the Waterfront,
- Unified water and wastewater delivered through a CCO,
- One rates bill and system,
- Some changes to regional boundaries, and
- All assets transferred to the Auckland Council which will employ all staff.

The main thrust of this proposal was generally accepted by most of the local authorities in the Auckland Region. Concerns were raised about possible conflict between the Auckland Council and the six local councils, and the lack of grassroots community representation. Debate has started to emerge around timings and differences in current local levels of service, the possibility of cost savings and who should pay for transition costs.

4.4 The Government Response

The government has cut short any debate by quickly announcing the new structure for Auckland. The government has not agreed to local councils, Maori seats, a four year term, a minister for Auckland, a cabinet committee, formal joint approaches on transport or social

issues. Despite concerns from many over the complexity and difficulties in the amalgamation process the government has stated that the bulk of transition and restructuring will be completed by the elections in October 2010. The following changes have been decided and will commence almost immediately through an Establishment Board.

- A single regional unitary authority for Auckland with a directly elected Mayor and 20 members; eight elected at large and 12 by ward,
- A directly elected Mayor with power to appoint the deputy mayor, committee chairs, set the budget, policy direction and to staff their own office,
- Between 20 and 30 local boards with elected members to advise the Auckland Council,
- Unified rating system,
- Unified LTCCP, economic development plan, District Plan etc,
- All regional assets will be transferred to the Auckland Council, and
- The Auckland Council will deliver all network infrastructure services. Water and Wastewater will be delivered through a CCO funded by user charges from meters.

As there are currently differing systems and processes in place across the existing councils, this decision will result in major changes to the rating systems and levels of service of many residents in the Auckland area. There will be considerable protest that is likely to spill over into election campaigns and possibly even legal challenges.

Cost savings from efficiencies were only researched as a high level 'desktop' study by the Royal Commission. The actual savings and transition costs are far from certain, although previous amalgamations would tend to suggest that most efficiency savings will result in improved services rather than any reduction in rates bills.

The new Auckland City will have significant problems to deal with in managing local expectations around cost savings and operating efficiently with 20-30 local Boards. The challenge of integrating eight separate local authorities and the costs of doing so will be significant.

4.5 Wider Issues

This is a historically significant decision that will result in the largest local authority in Australasia with assets of \$28 billion and 6,356 staff. Significantly changing the local government structure covering a third of the residents in the country must have a flow on impact to the balance of New Zealand local government and places the rest of New Zealand local government structure under some uncertainty. The new Auckland Council will have substantially more power and resources than any other local authority. Already there are calls for Wellington to follow the same model in order to compete with the future Auckland strength.

Communities outside of Auckland should however consider the drivers for change that has led to the Auckland restructuring. The issues that led to the Royal Commission were not just ones of cost and affordability. In fact cost issues were not the main drivers for the Royal Commission to recommend a super-city council. The issues that resulted in change in Auckland were regional direction, leadership, asset management and consistency across a single city.

Each community across New Zealand will have different drivers and issues to deal with. In Rangitikei the issues are very different. Affordability for new standards around water and

wastewater and maintaining other existing levels of service with a static rating base is more relevant. Close cooperation with the Manawatu District with shared services far exceeds any similar initiatives currently underway in Auckland.

Before considering amalgamation the question should be 'what is the problem that is trying to be addressed'. Changing governance arrangements for no specific reason could result in transition costs with little or no financial benefits and possible losses in local democracy. This can lead to unintended results. Amalgamation with a larger urban area will often result in an increase in the level of services, and consequently rates, as larger community facilities are built to service a larger district population.

5. Local Government in the Rangitikei and neighbouring areas

This section will analyse the governance arrangements, current funding and expenditure structure, the rating systems and asset bases of the Rangitikei District Council and the likely amalgamation options. The aim is to show the compatibility or otherwise of these amalgamation options, and highlights the difficulties inherent in any amalgamation due to differing systems and levels of service. A discussion on the negative and intangible considerations is covered further in section 8. Costs and benefits of amalgamation options are discussed in section 7.

The Rangitikei District covers an area of diverse landscapes, from productive coastal and river plains in the south to rugged mountains in the north. The District has a number of neighbouring local authorities:

- Wanganui District
- Manawatu District
- Ruapehu District
- Hastings District
- Central Hawkes Bay District
- Taupo District.

In addition Horizons Regional Council covers the majority of the District, with the Hawkes Bay Regional Council covering a small area in the north east.

5.1 Practical Options for Amalgamation

While amalgamation options could include any or all neighbouring local authorities (or part of one) there are some practical reasons why some options should be discounted immediately for clearly not meeting the principles of governance restructurings identified by the Royal Commission. These were:

1. Common identity and purpose
2. Effectiveness
3. Transparency and accountability
4. Responsiveness

The Central Hawkes Bay District Council is located on the eastern side of the Ruahine Ranges. There is no common identity or purpose, and transport distances would result in poor responsiveness as there is no direct road access between the two Districts.

Taupo District Council also does not have direct road access and the boundary is at the headwaters of the Rangitikei River in the Kaweka Ranges. Again there is no common identity or purpose.

Hastings District Council does have direct road access through the Taihape / Napier road. However this is a very high road over the Ruahine Ranges and there is no common identity or purpose. Responsiveness would be poor and there is little effectiveness in amalgamating with a District centred in another region.

The distance from Marton to Taumarunui is substantial. Geography and community of interest suggests that only the southern part of Ruapehu District (Waiouru and Oakune) would meet the principles of governance restructuring. This would not be possible without other boundary changes as the balance of Ruapehu District would struggle to be viable and would not meet the current legal threshold of 10,000 residents.

This leaves Manawatu and Wanganui Districts as direct options for amalgamation. These two are considered further for the benefits and costs of amalgamation.

A general restructuring of local government following on from the Royal Commission may result in reorganisation rather than amalgamation. The Royal Commission recommendations included some boundary adjustments to the existing Auckland Region to the south. If this occurred new local authorities could be formed out of the current wider Manawatu / Wanganui local authorities, including Horowhenua and Ruapehu District.

For completeness, the Wanganui District, Manawatu District, Ruapehu District and Horowhenua District statistics are analysed to see whether there is compatibility in governance and rating systems, strategic direction, levels of service and growth.

The other possible option is for a unitary authority. This is an outcome from the Royal Commission. It is not an amalgamation, rather a change to the functions and responsibilities carried out by local authorities. For completeness only, some data from Horizons is included. Given the size of the Rangitikei District it would be difficult to see how a unitary authority would be viable, although the boundaries do include the whole of the Rangitikei River. For this report it is assumed that for a unitary option to be possible it would be part of a wider regional review that would involve a reorganisation of boundaries and functions.

5.2 Size, scope and similarities of local authorities

There is significant variation in rating systems, levels of service and the range of activities carried out between Wanganui, Ruapehu, Rangitikei, Manawatu and Horowhenua Districts, and Horizons. These reflect the different scale of urban concentrations, as well as historical decisions, funding capacity and local resident preferences.

In order to show the differences between these local authorities, demographic, financial, governance and policy data has been sourced from Draft 2009/19 Long Term Council Community Plans and Statistics New Zealand. The aim is to highlight compatibility and issues that would arise from possible amalgamation rather than seek the most financially secure option.

5.2.1 Demographics and Development

Demographic data from Statistics New Zealand plus growth data from local authorities indicate that the Rangitikei District is one of the smaller of the local authorities considered in this report in terms of resident population. Population is declining and construction and development is limited. Importantly in the urban / rural population characteristics of the Districts, Rangitikei is very similar to Ruapehu and Manawatu. The Wanganui and Horowhenua Districts are much more urban focused.

Table 1. Population and Background Overviews for Local Government in the Wanganui / Rangitikei / Manawatu areas

	Rangitikei District	Manawatu District	Wanganui District	Ruapehu District	Horowhenua District	Horizons MW Regional Council
Population (June 2008)	14,950	29,300	43,400	13,650	30,600	229,200
Population Growth (07/08)	-0.5	0.6	-0.3	-0.9	0.1	0.6
Rural and small community as % of Population	40%	41%	9%	40%	17%	19%
Median Income (2006 Census)	21,700	24,200	19,800	21,100	18,500	21,600
Size of District (km2)	4,538	2,624	2,373	6,730	1,064	25,306
Value of building consents year to Jan 09	\$16.4 million	\$56.5 million	\$71.8 million	\$20.5 million	\$53.1 million	n/a
Number of resource consents 07/08	95	315 (05/06)	280 (05/06)	133 (05/06)	317	334
Rateable Properties (08/09)	8,500	13,300	20,501	8,708	16,846	105,333

5.2.2 Governance and Rating Systems

Governance arrangements across the local authorities are similar with all using the First Past the Post election system with Wards. Elected members at the Council level vary between 11 and 13. Rangitikei and Ruapehu Districts have two Community Boards while the Manawatu District has none.

Major differences exist between rating systems with Rangitikei and Manawatu Districts using a capital value system while Wanganui and Ruapehu Districts use a land value system. Changes to any of these systems due to amalgamation would result in significant shifts in the incidence of rates. Rangitikei and Ruapehu Districts have no differentials on the general rate, while the other Districts differentiate for rural and commercial. A UAGC rate is used by Rangitikei and Ruapehu Districts. Manawatu, Wanganui and Horowhenua (proposed from 2009/10) Districts make extensive use of uniform targeted rates. None of the local authorities currently have uniform residential funding for urban water and wastewater services, although Horowhenua District is proposing to move to this system in 2009/10 and Rangitikei District has a cap with a shared District general rate funding above the cap.

Overall any amalgamation would result in significant changes to the rating system for at least one of the amalgamation partners. This would result in considerable political and staff time to manage the change process and create changes to the incidence of rates across most properties in the amalgamating areas.

Table 2. Governance and Rating System Overviews for Local Government in the Wanganui / Rangitikei / Manawatu areas

	Rangitikei District	Manawatu District	Wanganui District	Ruapehu District	Horowhenua District	Horizons MW Regional Council
Elected Members	12	11	13	12	11	16
Election system	FPP Wards	FPP Ward	FPP At large	FPP Wards	FPP Wards	FPP Wards
Community Boards	2	-	1	2	1	0
Rating System Basis	Capital	Capital	Land Value (Roading on CV)	Land Value - CV some targeted	Land Value	Capital
Differentials on general rate	no	Yes (Comm and Rural)	Yes (Comm and Rural)	no	yes	no
UAGC	\$177	\$0	\$0	\$407	\$0	\$34
District wide funding of 3 waters?	partially above capped amount	No	No	no	yes	n/a
Water meters urban	Partial	No	No	no	Foxton Beach	n/a
Number of CCO trading	0	0	2		0	1

5.2.3 Financial Comparisons

Financial data has been analysed to give some benchmarking between the local authorities. Operating costs and rates by rateable property and resident are provided to give some indication of the levels of service provided. This is done to provide a high level benchmarking desktop analysis that will help to highlight whether efficiency is currently a particular concern for the Rangitikei District Council. While by no means perfect, these measures do indicate the relative differences in levels of service and operating costs.

Difficulties still exist in comparisons due to the following complications:

- impacts from large businesses and commercial centres,
- visitor numbers and the costs of providing them services,
- geographical constraints such as distance, rivers and hill country,
- historic decisions and assets vested in local authorities in the 1989 amalgamations, and
- costs of rural roading networks in areas of low population density.

The comparison is shown in tables 3 for estimated 2009/10 financials and table 4 for forecast 2018/19 financials, both from the draft LTCCP 2009 – 19 publications. It must be emphasised that these comparisons are from the published figures only and that it is very difficult to make firm conclusions on operating efficiencies without carrying out a major review of internal business systems.

Table 3. Financial Comparisons for Local Government in the Wanganui / Rangitikei / Manawatu areas – 2009/10 estimates from Draft 09/19 LTCCP

	Rangitikei District	Manawatu District	Wanganui District	Ruapehu District	Horowhenua District	Horizons MW Regional Council
Operational Expenditure	\$25,953,000	\$35,512,000	\$58,531,000	\$25,430,000	\$34,848,001	\$41,596,000
Operational Revenue	\$31,402,000	\$40,428,000	\$59,492,000	\$28,939,000	\$35,011,097	\$43,420,000
Capital Expenditure	\$24,303,000	\$26,588,000	\$18,580,000	\$11,422,000	\$27,590,235	\$11,900,000
Total Equity	\$476,727,000	\$580,817,000	\$798,692,000	\$334,640,000	\$363,381,643	\$341,365,000
Debt	\$6,661,000	\$16,622,000	\$78,330,000	\$29,278,000	\$42,000,000	\$15,441,000
Rateable properties 2008/2009	8,500	13,300	20,501	8,708	16,846	105,333
Opex per Rateable property	\$3,053	\$2,670	\$2,855	\$2,920	\$2,069	\$395
Rates Income	\$15,577,000	\$23,846,000	\$37,357,000	\$16,273,000	\$21,792,875	\$29,354,000
Rates as % of Op revenue	49.6%	59.0%	62.8%	56.2%	62.2%	67.6%
Rates per rateable property	\$1,833	\$1,793	\$1,822	\$1,869	\$1,294	\$279
Rates per resident June 2008	\$1,042	\$814	\$861	\$1,192	\$712	\$128
General and UAGC % of rates	17.7%	11.2%	22.9%	25.1%	24.7%	46.1%
Fees and Charges as % of Op Rev	8.5%	7.6%	15.9%	9.8%	25.4%	13.4%
Grants as % of Op Rev	36.2%	22.6%	13.9%	31.1%	8.9%	13.9%
Development Contributions as % of Op Rev	0%	3.1%	Not stated	2.2%	1.0%	n/a
Employee costs as % of Opex	9.0%	20.5%	20.4%	12.0%	18.3%	33.5%
Depreciation as % of Opex	34.8%	29.0%	22.7%	25.2%	27.6%	8.4%
Finance costs as % of Opex	1.1%	3.3%	10.2%	8.1%	4.8%	3.0%
Other as % of Opex	53.0%	47.2%	46.6%	54.7%	49.3%	55.1%
Finance costs as % of rates	1.8%	4.9%	16.0%	12.7%	7.7%	4.2%
Roading Opex as % of total Opex	45.2%	31.7%	16.6%	39.5%	21.5%	n/a

Financially Ruapehu District is the most similar to Rangitikei, reflecting the large emphasis on the roading activity that both Councils have. The average rates per rateable property for 2009/10 is very similar across the local authorities, except for Horowhenua which is much lower. There is significant difference in the makeup of operational expenditure with the larger councils having a much higher staff cost which is a result of higher levels of service for community facilities. Wanganui and Ruapehu have higher debt costs.

Overall there is little evidence that the expenditure and rating levels in Rangitikei are higher than other local authorities in the region. Clearly there is a focus on the roading asset which takes a large portion of council expenditure. While the larger councils deliver higher levels of service for the same

cost per rateable property they do not have to deal with the same roading issues that Rangitikei and Ruapehu Districts do.

Table 4. Financial Comparisons for Local Government in the Wanganui / Rangitikei / Manawatu areas – 2018/19 forecasts from Draft 09/19 LTCCP

	Rangitikei District	Manawatu District	Wanganui District	Ruapehu District	Horowhenua District	Horizons MW Regional Council
Operational Expenditure	\$34,785,000	\$47,147,000	\$75,452,000	\$30,830,000	\$50,993,663	\$55,487,000
Operational Revenue	\$37,663,000	\$50,810,000	\$85,670,000	\$36,490,000	\$53,062,970	\$58,250,000
Capital Expenditure 10 years to 2019	\$165,000,000	\$194,385,000	\$202,528,000	\$125,356,000	\$173,509,000	\$71,814,000
Total Equity	\$672,067,000	\$768,437,000	\$1,189,905,000	\$464,579,000	\$511,160,185	\$474,409,000
Debt	\$14,340,000	\$36,247,000	\$59,774,000	\$33,362,000	\$64,000,000	\$20,153,000
Opex per Rateable property	\$3,953	\$3,223	\$3,536	\$3,052	\$2,610	\$502
Rates Income	\$23,175,000	\$32,820,000	\$55,194,000	\$21,508,000	\$36,989,899	\$39,192,000
Rates as % of Op revenue	61.5%	64.6%	64.4%	58.9%	69.7%	67.3%
Rates per rateable property as forecasted by Council	\$2,634	\$2,243	\$2,586	\$2,129	\$2,033	\$354
Rates per resident as forecasted by Council	\$1,550	\$1,052	\$1,272	\$1,576	\$1,209	\$171
General and UAGC % of rates	25.4%	9.2%	17.8%	24.5%	22.5%	46.5%
Fees and Charges as % of Op Rev	8.9%	8.2%	17.1%	9.5%	19.1%	12.5%
Grants as % of Op Rev	27.1%	16.9%	10.5%	27.9%	5.3%	15.2%
Development / Financial Contributions as % of Op Rev	0.0%	3.2%	Not stated	2.5%	1.8%	n/a
Employee costs as % of Opex	13.3%	19.7%	20.0%	12.8%	16.0%	34.0%
Depreciation as % of Opex	37.1%	29.7%	26.8%	25.5%	31.2%	5.2%
Finance costs as % of Opex	4.2%	6.8%	6.7%	6.4%	9.1%	5.2%
Other as % of Opex	50.1%	43.8%	46.5%	55.3%	43.7%	55.6%
Finance costs as % of rates	8.5%	9.8%	9.1%	9.2%	12.5%	7.3%

Forecasts for 2018/19 show that rates per rateable property will grow by 70% in Rangitikei (including inflation) over the next 10 years. The lack of growth in Rangitikei, coupled with the need to upgrade water supplies, results in expected rates being higher than in other local authorities. This is not driven by staff costs, but by increases in operational costs (including debt servicing) as a result of new and existing assets. Total expected capital expenditure is high compared to the larger councils (Manawatu and Wanganui). The lack of development contributions also results in higher rates than those councils with development growth. As other forms of income are not expected to grow as fast as operating expenditure rates are forced to increase to fill the gap. Rates increases from 50% of operating revenue in 2009/10 to 62% in 2018/19.

The figures for 2018/19 suggest that affordability could become an issue. However this may not be as a result of inefficiency, rather it is due to a lack of growth over which to share a higher cost base. Some of these costs are as a result of higher infrastructure standards imposed by central government (water standards). The other major factor is the expected cost of simply replacing and maintaining existing assets in the future, which results in higher depreciation costs. Given the recent large increases in the cost of maintaining roading assets, those councils with a higher weighting than average in roading activities will be facing higher increases in rates.

Amalgamation with a council with higher growth and a smaller roading network would not necessarily result in reduced rates in Rangitikei. The actual costs of maintaining the roading network would be unlikely to change. Actual rating impacts would be determined by the rating system that was put in place within the new amalgamated entity.

These issues are discussed further in section 7.

5.2.4 Activity Operating Costs

Comparing operating costs by activity is not a simple task. Each local authority has different levels of detail provided in the draft LTCCP. Each local authority also has different operational structures so some activities and sub-activities have had to be reallocated to allow comparisons with Rangitikei District activities. In some cases meaningful comparisons have been difficult. These numbers are also affected by different costs for water and wastewater services, often reflecting different stages in upgrade programmes. These costs vary between urban areas within each local authority area as well.

With these issues in mind the percentage of operating costs based on the Rangitikei District Activity groupings is shown in table 5 below.

Table 5. Proportion of Estimated Operating Expenditure 2009/10 by Activity

	Rangitikei District	Manawatu District	Wanganui District*	Ruapehu District	Horowhenua District
Community Economic Development	3%	7%	4%	3%	4%
Community Leadership	6%	4%	5%	6%	7%
Community Support	1%	1%	1%	1%	1%
Environmental and Regulatory	5%	9%	7%	9%	10%
Roading	46%	35%	21%	40%	19%
Rubbish and Recycling	4%	5%	2%	9%	8%
Community and Leisure Assets	13%	17%	34%	10%	27%
Water Management	22%	23%	26%	22%	24%

* Wanganui proportion based on direct operational costs only.

The major differences in expenditure by activity are in Rooding and Community and Leisure Assets. Wanganui is a provincial urban centre and as such has significant community assets such as an opera house, aquatic centre, art gallery etc. Rangitikei District has lower costs in Environmental and Regulatory due to the lower levels of development. Interestingly Water Management is similar across the local authorities.

5.2.5 Overview of Resources

Operational expenditure often relates to the length of the roading network, the number of bridges, halls, libraries and so on. As a background for section 7 the following information has been compiled from a range of local authority publications.

Table 6. Indicative Resources of local authorities

	Rangitikei District*	Manawatu District	Wanganui District	Ruapehu District	Horowhenua District
Employees	63	80	196	63	58
Bridges	223	420	75	344	59
Roads Sealed Kms	771	1034	553	480	505
Roads Unsealed Kms	451	395	287	874	61
Footpaths Kms	32	135	322	67	203
Operating Landfills	1 (privatised)	0	0	1	1
Wastewater treatment plants	8	9	3	7	6
Wastewater mains km	92	198	251	102	195
Water schemes urban	6	5	2	6	5
Water schemes rural	4	4	3		1
Local Halls	14	19	10	2	6
Recreation Complexes	0	2	1		4
Pools	3	1	2 (1 via trust)	3	2
Reserves (Ha)	316	538	?		528
Libraries	3	2	3	3	3 (via trust)
Cemeteries	3	8	5		5
District Plan review	2009/11	2010/12	2009/13	2009/11	2010/12
Community housing units	72	208 (via trust)	275	81	126

*Note - Shared services with Manawatu District included in Rangitikei District employee figures

Caution should be used when looking at employee numbers. Some councils contract out more services than others, while some activities have a high staff cost recovery and so will not result in higher rates. Rangitikei has seven rateable properties for each kilometre of maintained road, compared to 9 in Manawatu, 6 in Ruapehu and 24 in Wanganui.

5.2.6 Assessment of Compatible Amalgamation Partners

Looking at size, urban / rural mix and a focus on roading, the most similar local authority to Rangitikei District is the Ruapehu District. However the administrative centre for Ruapehu is Taumarunui, a considerable distance from Marton. Also the rating systems have a different basis. Wanganui and Horowhenua have a large focus on urban areas and have a completely different level of service in community facilities.

If Rangitikei was looking to amalgamate with one other local authority, the most compatible overall would be the Manawatu District. While it has a greater urban proportion, more community facilities and higher urban levels of service (and rates), it

still has many similarities. In addition the rating systems are both capital value and the existing shared services arrangements are substantive.

6 Shared Services

In recent years the Council has made progress to improve capability, capacity and / or increase efficiencies through shared services with other local authorities in the region. Council has a stated goal of maximising its resources and facilities where the community's outcomes are similar to those in neighbouring councils in the Horizons region. A number of shared service arrangements are currently in place. Rangitikei and Manawatu Districts are amongst the leading local authorities in the implementation of shared services. Cost efficiencies were not the primary driver for these shared services arrangements. Rather the drivers are more about the ability to attract suitably qualified staff and the delivery of desired levels of service.

Shared services have the potential to deliver operational efficiencies, greater staff capability and capacity, project management and better policy advice. If supported fully by elected members and senior management shared services can deliver most of the benefits available from amalgamation.

However there are some real issues in establishing shared services, and even then there are more issues to be overcome before actual savings can be made. For shared services to be established there needs to be two willing partners. The elected members and senior management of the partner council also have to be convinced it is a good idea. For this to happen both councils have to see a clear benefit, and all of the people involved in the decisions have to be able to work together. These conditions are the reason why shared services in Auckland have struggled. Once one chief executive has moved on or new elected members arrive there is always a risk that existing shared service arrangements will be reassessed and discontinued.

Shared services may lead to a loss of some control over operational costs where the partner local authority that is managing a particular function has a different style or level of operation. Additionally there will be instances where difficult decisions will be avoided, or will take far longer, under shared services than would be forced under amalgamation.

In terms of actual savings there are some technical difficulties where employment practices and pay scales are different between the partners. Employment conditions, such as vehicle use and superannuation policies, may be quite different and end up costing one partner more than would be the case if they employed the staff alone. Also the costs of separate governance structures will generally only be reduced through amalgamations. There is no technical difficulty in sharing senior management, as already partially occurs in the Rangitikei and Manawatu Districts.

These issues have resulted in most of the benefits from shared services to local authorities being through higher levels of service for the same cost rather than any reductions in costs. More experienced staff and a greater capacity to deliver services results in a number of long standing issues being addressed, while systems and processes are brought up to current industry best practice standards. In addition standards and demands have been increasing constantly so it is hard to determine if costs would have dropped due to shared services if the standards had remained the same.

Overall then while there are opportunities to drive further efficiencies from expanding the range of shared services, there are a number of potential roadblocks to actual reductions in costs. These opportunities could include joint reviews of District Plans (which are all underway or about to start in 2009/10), shared delivery of policy advice, financial services, information systems, customer service and other administration functions. In some functions savings would be more long term in

nature as existing systems are not always compatible. An example of this is the financial and information system which is different to those being operated in Manawatu and Ruapehu.

The Council is a shareholder of Manawatu-Wanganui LASS Ltd, a company established by seven councils in the region to host, govern, manage and deliver cost effective and innovative shared service arrangements. This governance vehicle could deliver a number of functions in a manner that addresses some of the issues with shared services. By operating under a separate management structure problems with split management, operational levels and employment conditions could be solved. All shareholder local authorities would have to agree which could be a difficult task.

As well as this CCO the following shared service arrangements are in place:

- **Economic development**
The Ruapehu Wanganui Rangitikei Economic Development Trust (RED Trust) is a charitable trust incorporated in New Zealand. The Trust is 1/3 controlled by the Council. It is treated as a CCO.
- **Asset Management and Parks and Reserves**
The Manawatu and Rangitikei District Councils have formed a shared services Assets Management Group with the primary focus of providing infrastructural services. Both Councils previously experienced difficulty in recruiting suitably qualified and experienced engineering staff. This arrangement is being expanded into Parks and reserves management.
- **Emergency Management Services**
Horizons Regional Council is contracted to deliver Emergency Management and Rural Fire Services.

Regardless of the problem being addressed, there are positives and negatives for shared services, as there are for amalgamation as well. The following table compares these positives and negatives between shared services and amalgamation.

Table 7. Assessment of general positives and negatives shared services versus amalgamation.

	Positives	Negatives
Shared Services	<ul style="list-style-type: none"> • Local representation maintained • Increases ability to attract experienced staff • Increases capacity to deliver services • Possible reduction in overheads per ratepayer • Ability to make more strategic operational decisions • Administration remains small and focused • Allows future flexibility to opt for amalgamation 	<ul style="list-style-type: none"> • Possible lack of clear managerial focus • Reliant on good personal relationships between partners • Possible loss of control over operational costs • Cannot reduce costs of governance per ratepayer • Cost reductions are generally not significant

Amalgamation	<ul style="list-style-type: none"> • Probable reduction in overheads per ratepayer, especially in Leadership • Probable increase in levels of service • Boundary issues can be addressed and services rationalised • Opportunity for elected representatives to take more strategic approach • More 'weight' when lobbying • Attraction of more experienced staff • Able to deal with more local issues and problems 	<ul style="list-style-type: none"> • Local representation reduced • High transition costs • Uncertain level of savings • Significant staff disruption and possible loss of experienced staff in short term • Possible increase in layers of bureaucracy • Does not reduce costs of depreciation • Minor impacts at best on costs of providing network services to rural townships • Can result in the need for bigger administration buildings • Rating systems will change in at least one council area so rating outcomes are uncertain • Very difficult to reverse if outcomes are not satisfactory
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The major benefit for a shared services path to address affordability and operational issues is that the option of amalgamation is still open if a more radical solution is required. Funding pressures may ease over time due to changes in government policy, legislation or the cost of purchasing services. Although these changes do not look likely at present, if rate increases were at or under the headline inflation rate it is likely that there would be little pressure to look at amalgamation.

7 Costs and Benefits of options for Amalgamation and Service Delivery

This section outlines the case for amalgamation for Rangitikei District. A rough estimate of possible savings to Rangitikei ratepayers has been undertaken using the format and assumptions used by the Royal Commission on Auckland Governance. This estimate has then been refined after discussion with the management team of Rangitikei District Council. The positives and negatives of each type of amalgamation option are then discussed briefly. Detailed costings of possible amalgamations with each neighbouring council are not possible without a major study into each council's operations. This cannot be done from published plans and would involve work from senior staff from each council.

7.1 The case for Reform in Rangitikei

Local government in the Horizons Region is characterised by considerable diversity, with two large urban areas, Wanganui to the west and Palmerston North to the east, that provide regional centres and facilities. The Rangitikei District sits between these two centres and many residents will utilise the facilities of the two cities including pools, recreational areas, sports and arts and culture activities.

From an analysis of the 2006 Census it is clear that many Rangitikei residents have employment in Palmerston North and Wanganui. A smaller number of people who live in Palmerston North, Feilding and Wanganui work in the Rangitikei District. Not surprisingly, Marton has a closer relationship with Wanganui, while Bulls tends to look towards Palmerston North. The main areas of common focus within the region are visitors and transport.

The issue of amalgamation in Rangitikei has been raised before. Generally it has been raised in the context of controlling costs and obtaining efficiencies. In Auckland a range of issues, including common strategic direction, transport, funding of regional community facilities, economic development, rivalry between local authorities and differing business cost and compliance regulations led the government into appointing the Royal Commission. Few, if any, of these factors are facing a problem of governance in wider Rangitikei area.

Governance is only one factor in providing good government. As outlined in section 2, good government is a combination of focused governance, effective operational management and sufficient and equitable funding.

Is there then a case for a governance and structural review in the Rangitikei District? What would be the objectives of such a reform? Is structural reform needed to build capacity and capability?

Local authorities face two competing pressures. The first is for local representation and good governance. This pressure is to smaller units of government. The principles of democracy suggest decision-making will be most effective when undertaken closest to the people affected by the outcomes. Leadership is easier if the number of decision makers is kept low and there is a clear direction for an area with a community of interest.

The second is the pressure for operational efficiency to centralise and build capacity by amalgamating functions and areas. This allows the attraction of skilled staff, the range of skills available and economies of scale.

Section 5 showed that the Rangitikei District currently has a cost structure that is similar to some other nearby councils. The rates per rateable property (includes rural and commercial as well as residential) figure for Rangitikei was estimated at \$1,833 for 2009/10, slightly lower than Ruapehu. The Horowhenua figure for 2009/10 is much lower, however there are a number of significant infrastructure upgrades planned over the next 10 years and this figure will rise sharply. There is no central database for benchmarking in New Zealand. However from previous research carried out during and after the Rates Inquiry by Thomas Consulting the average rates per rateable property for New Zealand in 2007/08 was \$1,795. This figure will be closer to \$2,000 for 2009/10.

Given the focus on water upgrades over the next few years the urban areas will face significant rate increases. Is the current level of average residential rates excessive?

Recent work by Dunedin City compared the average residential (urban) rate with a number of local authorities across New Zealand. A selection of local authorities is shown in table 3. The total amounts shown are GST inclusive and include water and wastewater rates, targeted rates and general rates. The Wanganui figure comes from their draft LTCCP and has been added for comparison.

Table 8. Average residential rates for selected local authorities 2008/09.

Local Authority	Average Residential Rate 2008/09 year GST inclusive
Rangitikei District	\$1,569
Marton	\$1,578
Bulls	\$1,403
Taihape	\$1,696

Dunedin City	\$1,466
Far North District	\$2,526
Grey District	\$1,891
Manawatu District	\$2,140
North Shore City	\$2,020
Opotiki District	\$1,436
Palmerston North City	\$1,645
South Taranaki District	\$1,744
South Wairarapa District	\$1,421
Wanganui District	\$1,636

There were 29 local authorities in this sample; only eight were lower than the Rangitikei District while 10 were lower than the Taihape figure. On this analysis urban rate levels in the Rangitikei District were lower than average. Rate levels in Wanganui and Palmerston North are similar while Manawatu District residential rates are significantly higher. Note that these figures do not reflect affordability as such to individual ratepayers as there is no analysis of rates versus incomes. Higher average rates could also reflect higher levels of service. However, it does give some form of comparison of average rating levels.

If the overall rates requirements are not excessive then there may be no substantive reason for amalgamation. Section 5 showed that average rates could become an issue in Rangitikei over the next 10 years driven by roading costs and urban water upgrades. Amalgamation with a larger more urban based council could help in reducing these increases, although this would likely result in higher rates in the amalgamating partner. The work on shared services could provide some of the gains available from amalgamation without the significant costs that come with it.

If affordability issues do exist due to the costs of providing water and wastewater services and maintaining the roading network, amalgamation is unlikely to solve these. Instead, governance and management effort needs to focus on the drivers of these costs. This could be through lobbying central government to reduce standards for smaller local authorities and to increase the subsidy for roading, to considering lowering levels of service in the roading network.

Another issue is the lack of international and local historical evidence that amalgamations lead to significant cost savings. The benefits of governance reform tend to rest on the strategic gains to be made from a larger local authority – efficiencies with strong leadership.

Of the activities that can be argued as being of a wider regional nature (transport, economic development, growth and regional community facilities) only regional facilities are not currently covered by a collaborative shared services agreement. The opportunity exists in the LASS to build on the shared services platform to achieve more regional collaboration without any major governance reforms.

Overall then the case for amalgamation rests on efficiency, and perhaps capability and capacity if the Rangitikei was administered from a larger urban area.

7.2 Estimated savings and costs of Amalgamation

The Rangitikei District Council wishes to know the costs and benefits of amalgamation. The Royal Commission on Auckland Governance commissioned work on this which provides some guidance. However the estimates of savings relates to urban areas with connecting (or the

possibility of connecting) network services (including transport) and a single economy. These conditions would not be repeated if Rangitikei amalgamated with another council. In particular water, wastewater and stormwater services cannot be connected due to distance, so much of the possible efficiencies are not available.

The work by Taylor Duignan Barry Ltd (TBD) for the Royal Commission assumed that no savings would be made in depreciation or interest costs. These make up 25% of operational expenditure in Auckland, but 36% for Rangitikei. TBD based their assumptions on specific reports on the three waters, overseas local government efficiencies and mergers in the finance sector. Significant savings were assumed for activities that could operate in a shared services environment.

The assumptions used are detailed in table 8 below. These efficiency savings were applied to operating expenditure excluding depreciation and interest costs (amenable expenditure), which were assumed to be the same proportion across all activities. These broad assumptions reflect how difficult it is to produce an accurate detailed assessment.

Table 8. Assumptions used by TDB for Royal Commission.

	Operational savings assumed (ex depreciation and interest)	Capital savings assumed
Water and Wastewater	5%	5%
Stormwater	5%	5%
Solid Waste	2.5% - 5%	nil
Transport	5%	2.5% - 5%
Community Assets	3.75% - 5%	Nil
Regulation/Planning/Governance	7.5% - 15%	Nil

Note that these percentages are applied to 64% of the operating expenditure of each activity. This is the overall proportion of operating expenditure less depreciation and finance costs.

Using these assumptions would result in operational savings of \$839,000 to \$1,067,000 in 2009/10, or 3.2% to 4.1% of total operating expenditure, and capital expenditure savings of \$697,000 to \$1,008,000.

This estimate is considered too high due to the issues set out above. Accordingly a more relevant estimate has been done based on the activities of the Rangitikei District Council, adjusted for current shared services arrangements and dispersed small urban centres. In assessing possible cost savings the following points were considered:

- Community Economic Development – savings would be more likely with amalgamation with Manawatu District with a combined information centre at Bulls or Sanson. Combined operations would deliver a bigger marketing impact. Shared services would be politically difficult but is possible.
- Leadership – significant savings possible with amalgamation, depending on the number of Community Boards established. These savings are not possible with shared services. Larger councils do tend to have more staff dedicated to supporting the Mayoral office, administration and consultation processes. Savings from joint strategic planning and LTCCP requirements would be likely, both in amalgamation and shared services.

- Community Support – no savings are expected as this is already contracted out to a regional shared services arrangement.
- Environmental and Regulatory – continued problems exist in attracting experienced qualified staff. Amalgamation would help this only if the new headquarters was in a larger urban centre. Efficiencies would be available in administration, District Plan reviews and other policy development.
- Roading – problems exist in funding the maintenance of the roading network. This is unlikely to change under amalgamation except in back office administration and asset management planning. There is already a shared services arrangement with Manawatu District in this activity. Combining maintenance contracts can result in local operators not being able to meet the scope of the larger contracts. Larger regional contractors can have higher overheads to recover. Contract management can also become more complicated. Amalgamation could force more efficiencies but these are largely available over time through the shared services arrangement.
- Rubbish and Recycling – due to the current operational agreement with the Bonny Glen landfill there would be no savings from amalgamation. In fact costs could increase as the agreement might have to be re-negotiated.
- Community and Leisure Assets – savings are likely through amalgamation in the back office administration of these facilities. Shared services would also provide these savings. Delivery of higher levels of service (larger facilities) in the major urban area would be likely. The actual number of local pools and libraries, halls etc is unlikely to change in the short term and little savings, if any, would result. While there may be too many small facilities it is politically difficult to reduce these.

The number of administration buildings would reduce. However amalgamation is likely to result in the need to expand the administration building in one of the urban areas. It should be noted that the proposed new administration building in Marton is expected to cost around \$3.5 million, which is just 2% of the forecast capital expenditure over the next 10 years.

- Water Management – amalgamation will result in little savings as the urban networks cannot be combined due to distances, with some savings possible with administration and planning. The current shared services arrangement in management will result in more savings over time. Some savings in capital expenditure will be possible from more coordinated 'bulk purchasing'.
- Corporate support – the Rangitikei District Council is not a large organisation and there is relatively few staff in administration and policy. Amalgamation would result in some savings in 'front desk' functions and in finance and general administration. It is possible that an amalgamated local authority would run a more resourced administration structure which would effectively use the savings to employ more staff.

Table 9. Modified assumptions of cost savings in Rangitikei District from amalgamation and further shared services.

	Modified Assumptions for Rangitikei		
	Operational Expenditure		Capital Expenditure
	Amalgamation	Shared Services	Amalgamation and Shared Services
Community Economic Development	7.5% - 15%	5% to 10%	nil
Community Leadership	30% - 40% (assume no extra community boards)	5%	nil
Community Support	nil	nil	nil
Environmental and Regulatory	7.5% - 15%	5% to 10%	nil
Roading	2%	1%	2.5%
Rubbish and Recycling	nil	nil	nil
Community and Leisure Assets	2.5%	1%	nil
Water Management	2%	1%	2.5%

Note that these percentages are applied to 64% of the operating expenditure of each activity. This is the overall proportion of operating expenditure less depreciation and finance costs.

Using these modified assumptions amalgamation would result in operational savings of \$661,000 to \$853,000 per year in 2009/10 dollars, or 2.6% to 3.3% of total operating expenditure, and capital expenditure savings of \$503,000 (2% of 2009/10 total capital expenditure). These savings would take three to five years to be fully realised.

These efficiency estimates assume that the partner local authority (or authorities) has levels of services and asset conditions at least at the same level as Rangitikei District. If this is not the case then efficiency savings will tend to be focused on bringing assets and systems up to the higher levels of service.

Expanding shared services across further council activities could provide efficiency savings of \$245,000 to \$310,000 per year in 2009/10 dollars, or 0.9% to 1.2% of total operating expenditure. This gives a possible net efficiency gain of around 1.7% to 2.1% of annual operating expenditure for amalgamation over expanding shared services.

Of interest is the evidence from the few international studies on local government amalgamations that actual savings have usually been overestimated.

7.3 Costs of Amalgamation

Amalgamation of two or more local authorities would not be easily achieved. Joining two organisations together is a costly task that can take considerable time and management effort. The Royal Commission on Auckland Governance work suggested that amalgamation costs could equal between one (optimistic) and two times the midpoint of total annual operational and capital savings. This is a very broad assumption that has little research behind

it. Using this assumption the costs for the Rangitikei side of an amalgamation would be around \$1.3 million to \$2.5 million.

This would be a significant cost burden for Ratepayers to fund. The efficiency gains over and above expanding shared services are potentially around \$480,000 a year in operating expenditure (in 2009/10 dollars). These savings would take up to five years to fully realise, while the costs tend to be up front. A further concern is that savings are generally overestimated, but costs are not. Also these estimates are from fairly broad brush assumptions without talking to possible amalgamation partners. Given this there would need to be a more in-depth analysis of possible savings before there was a compelling case for amalgamation as a means to drive costs down.

Without considerable work with both the Rangitikei District management and the proposed amalgamation partner it is not possible to further examine the costs of amalgamation. However, experience from the 1989 reorganisation suggests that the costs, the disruption to management and governance and the problems in combining systems tend to be more difficult than anticipated.

7.4 Other relevant amalgamation proposals

The Wanganui and Ruapehu District Councils have formed a joint consortium to investigate whether a unitary model is feasible and desirable on a range of factors, including efficiency, greater connectivity to an authentic community of interest and more localised environmental management. The consortium has not been tasked with investigating the amalgamation of these authorities.

An initial report has been completed and considered by the two Councils in mid March 2009. The report concluded that the unitary authority model does allow for gains in efficiency, positive synergies, greater community connectivity and more integrated management at a localised level. The report further concluded that these benefits could be applied to the Ruapehu and Wanganui districts and warranted the proposal's further, and more specific, investigation.

Both Wanganui and Ruapehu District Councils have agreed to carry out further investigation. The Wanganui District resolved the following:

THAT further investigations be conducted into the establishment of unitary authorities, including indicative costs, Ministerial support, legal limitations, resource capability, financial viability and associated implications for the remainder of the region.

The final outcome of this investigation could impact on the amalgamation options for the Rangitikei District. If new unitary authorities were established, any amalgamation with them would likely force Rangitikei into the same model.

7.5 Possible directions and choices

Given the costs and benefits, the discussion on international trends and the case for reform in Rangitikei, the following options can be considered. The Council would need to work through a lengthy process in order to change the governance boundaries, or convince the government to pass new legislation.

7.5.1 Focus on existing boundaries and responsibilities

This is effectively the do nothing approach. Rangitikei District would continue to form its own strategic direction with no more shared services. As financial and political pressures mount, arguments over affordability and amalgamation would likely become more common. Providing sufficient capacity to respond to challenges will be difficult.

Positive features:

- Steady as she goes approach ensures little risk in the short term;
- Existing community and political relationships continue;
- Wait and see approach to any changes in Auckland.

Negative features:

- Higher risk that central government will impose a new governance structure over the District following on from any decisions made on Auckland;
- Increased funding pressures results in difficulties in upgrading infrastructure;
- Potential benefits of existing collaborative structures such as LASS will not be realised. Danger that existing shared services will reduce over time.

7.5.2 Build on Existing Shared Service Structures

The option exists for the Rangitikei District to build on the existing shared services achieved in recent years and investigate opportunities to provide more efficient services. The shared services arrangements with Manawatu District can be expanded, while the LASS structure could be used to drive a more regional approach to delivering some activities. This option allows the District to strive for efficiencies and improved performance within the existing governance structures. In response to the structural changes in Auckland the District could demonstrate to residents and the government that the reasons for change in Auckland are not present in the Rangitikei. If this option fails a more significant change could then be sought.

Positive features:

- Requires no structural changes;
- Avoids costly amalgamation processes;
- Allows progression to further changes if needed.

Negative features:

- Reliant on collaboration between local authorities;
- Lengthens time needed to make decisions;
- May not allow for tough decisions or decisive changes in direction in response to challenging times.

7.5.3 Amalgamation

Amalgamation with one or more neighbouring local authorities. As discussed in Section 5 the most suitable would be the Manawatu District. If administration is centralised to Feilding there would be a considerable reduction in economic activity in Marton.

Positive features:

- Rural and rural servicing urban township focus;
- Integrated management and funding of infrastructure network services and community facilities;
- Better able to attract capability and provide administrative support

Negative features:

- Significant financial costs in amalgamation process;
- Significant operational disruption in short term;
- Significant number of urban water networks requiring upgrades;
- Loss of economic activity in Marton from Council (assuming headquarters is in Feilding);
- Possible reduction in community representation.

7.5.4 Amalgamation - Reorganisation

Amalgamation of Rangitikei with parts of territorial authorities that have some common activities and communities of interest. This could include such areas as the southern portion of Ruapehu District, the rural areas of Wanganui District and the coastal rural areas of Manawatu District and Horowhenua District.

Positive features:

- Rural and small urban township focus
- Integrated management and funding of infrastructure network services
- Greater support for rural focused regional economic development
- Better able to attract capability and provide administrative support

Negative features:

- Significant financial costs in amalgamation process
- Significant operational disruption in short term
- Lack of large urban area to support smaller townships
- Huge roading network with low population base
- Significant number of urban water networks requiring upgrades
- Possible reduction in community representation.

7.5.5 The 'Supercity' option

Several local authorities could amalgamate into a single tier 'unitary' local authority with a directly elected mayor with additional executive powers using the same model

as Auckland. More community boards as vehicles for local representation would reduce the savings in Leadership. The community boards would have little institutional powers and could result in political conflict. In order to be viable it is likely that Rangitikei would have to be joined up with Wanganui and Ruapehu and perhaps Manawatu, or Manawatu, Palmerston North and Horowhenua. In this case the headquarters would shift to Wanganui or Palmerston North.

Positive features:

- Regional focus on strategic issues;
- Political mandate for strategic direction;
- Higher level of lobbying 'weight' with central government;
- Lower costs of democracy (depending on community board system established);
- Higher capacity for advice and to attract professional technical staff;
- Likely to attract high quality political candidates.

Negative features:

- Strong Mayor places too much power in one persons hands;
- Politics could be promoted instead of sound policy;
- Scope for party politics at a local level;
- High cost of amalgamation process;
- Loss of local representation;
- Loss of economic activity from council administration to Wanganui or Palmerston North;
- Very large institutional bureaucracy could result in high administration costs, loss of local knowledge and reduced customer service.

From a policy viewpoint, the shared services model has considerable merit in terms of giving additional efficiency gains while retaining local democracy and local operational functions. The efficiency gains outlined in section 7.1 and 7.2 from amalgamation over shared services amounts to around 2% of operational expenditure. The costs, risks and reduction in local democracy appear to be high compared to this level of benefit.

8 Other factors - Negative and intangible considerations

As with all types of restructuring, whether in the public or private sector, there are a range of practical issues and impacts that could influence the policy options considered in section 7. Previous experience from the 1989 amalgamations is valuable in informing policy and decision makers on the difficulties and complexities of merging two or more organisations together.

8.1 Representation

Amalgamation will result in a reduction in the number of elected members per resident at the local authority level. If the election system continues to be Ward based then the Wards will likely become much larger. The result is usually a loss of direct representation by the more sparsely populated rural areas and the smaller urban townships. One method of addressing this issue is to establish community boards or committees to act as a consultative vehicle that

can inform the local authority about local issues. If the election system moves to a district wide model the representation tends to be driven by the largest urban area.

Whether amalgamation results in better or worse governance is very much debateable. Generally it still is a function of the quality of the elected members. There is little evidence that local authorities larger than Rangitikei have better governance, or that average ratepayer costs are lower. The level of rates is driven more by geography, historical decisions and the assets assigned to local authorities in 1989.

Decisions made at the local level are usually more in tune with local communities' needs and wishes. The optimal answer for the trade-off between representation costs and the level of local representation can only be made by the local communities.

8.2 Service levels

As outlined in section 5 the local authorities in this study have differing levels of service for the activities being delivered. Even where the local authorities deliver the same type of service there are differences in hours of operations, service response times, quality of assets and different contracting and system arrangements.

The foremost question during an amalgamation is whose service level should be adopted? It is not an easy task to operate different levels of service within the same management structure. Increasing the average level of service will result in a need for increased funding. It is highly unlikely that residents would support a lower average level of service. A process to consider, consult and agree on amalgamated levels of service has to be factored into any amalgamation process.

Changing service levels often impact on a smaller rural area that has been amalgamated into a larger urban area. The level of service will often increase (for example they are now members of a bigger library system) along with the level of rates, but it may not be of particular value to residents in those areas.

8.3 Operational integration

Amalgamation can result in severe disruption in operational processes and procedures. A great deal of management effort is focused on building new systems and restructuring operations. This can lead to an inward focus by management for a considerable period of time. Restructuring and operational costs can quickly soak up any potential savings from a greater scale of operations.

There are real practical, and sometimes costly, difficulties in merging a number of operational systems into a new workable system.

- Local authorities use different financial systems and process and the effort needed to build new systems can be immense. This would involve a large IT project which would take some time. Issues with financial reporting would be encountered in the first year as different data bases and systems would have to be reconciled.
- Library systems can differ and are not always compatible. Some local authorities are locked into service contracts that would be expensive to break.
- Different IT systems and processes exist for infrastructure management.
- Different systems exist for payroll and HR, GIS and mapping, communications.
- Engineering support varies between in-house and contracted to various degrees.

- More staff results in the need for more office space in some areas and empty buildings in others.

Other issues surround morale and identity. Is one organisation effectively taking over the others or is everything rebuilt from scratch? These operational issues can impact significantly on staff morale. Staff turnover rates post 1989 was very high as restructuring and operational changes resulted in many staff looking at their employment options. Staff turnover rates over 30% were not unusual and this can result in a loss of strategic focus for a year or more, and a permanent loss of institutional knowledge.

8.4 Cost implications

The cost implications of operational change can be significant. Experience from 1989 in New Zealand and more recently amalgamations in Australia, indicate that the expected savings from amalgamations can be difficult to realise. Operational support costs tend to increase as organisations become more complex and these offset savings in management. The amount of front line customer work and requests for service does not reduce, depreciation and finance costs remain the same and asset renewals and maintenance costs stay much the same. Therefore the majority of operational costs tend to remain.

More complex information systems and administration systems to support larger staff numbers can result in costly support systems development. A larger core bureaucracy can result in the need for a larger head office building while leaving some former council headquarters underutilised. While some options to manage these issues are available, the 1989 experience usually resulted in new buildings or additions eventually being built.

Smaller local authorities tend to have very lean management structures and lower levels of service in policy, community and cultural services. Often they have struggled to provide management systems and infrastructure networks that meet the current standards. There are therefore little savings possible from amalgamating these local authorities into larger urban based local authorities. If levels of service are increased to match the larger local authority costs will tend to increase.

Finally the sheer size of the change management process cannot be over emphasised. There would be many issues that arise during the process that have not been identified here. Staff dedicated to the change process would be required to manage the change process.