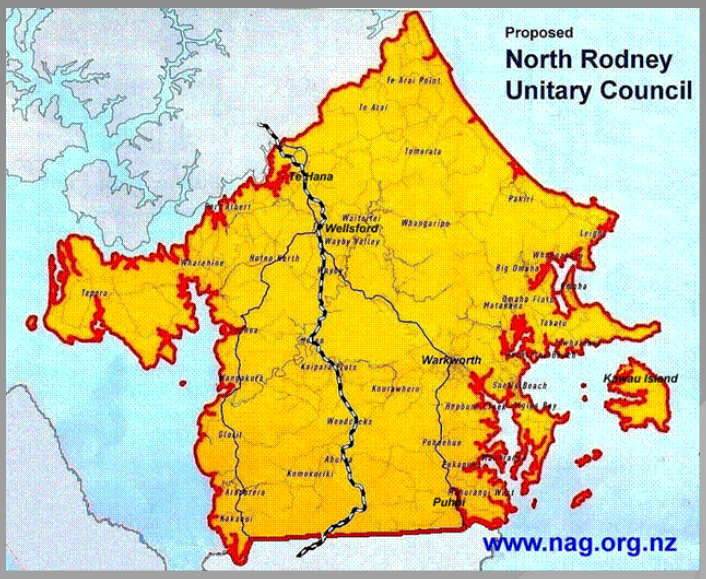
NORTH RODNEY UNITARY COUNCIL (NRUC) FINANCIAL BENCHMARKING MODEL



PREPARED FOR

NORTHERN ACTION GROUP INC.

BY

APR CONSULTANTS LTD

14 NOVEMBER 2017

APR CONSULTANTS

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ABOUT THE CONSULTANTS

APR Consultants Ltd (APR) is an award-winning multi-disciplinary company providing services for a wide variety of organisations throughout New Zealand for the past 34 years. Clients include local authorities, community trusts, voluntary organisations, central government agencies, major public companies, private businesses, and individuals. The company has experience in a wide range of strategic and business planning projects across a variety of fields.

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ABSTRACT

In August 2017, Morrison Low (ML) delivered a report to the Local Government Commission (LGC) based on an investigation of options for local government reorganisation in Auckland. This included findings for an option like the proposed new North Rodney Unitary Council (NRUC). ML concluded there would be a year one (2015/16) deficit of $13.5 million and hence rates would need to increase by 48% to cover the deficit. The Northern Action Group (NAG) has criticised the ML report for its lack of transparency and absence of comparative data for councils other than Auckland.

This report by APR Consultants (APR) presents an independent financial model for the proposed NRUC. The analysis uses publicly available data and transparent assumptions. It is based on benchmarking the operating income and expenses of comparator unitary councils on a per capita and per rating unit basis.

Council financial data was compiled from two sources to enable 'triangulation' of results:

- Statistics New Zealand's Infoshare online database (2015/16 data for all councils); and
- Budgeted 2015/16 income and expenditure data for all councils from Long Term Plan online pivot tables.

Key findings are:

- Depending on the modelling approach taken, the year one (2015/16) operating position ranges from approximately $5.5 million deficit to $5.0 million surplus. This indicates potential for viability, subject to NRUC being committed to core service provision and financially sustainable business practices.
- Under alternative scenario assumptions for higher roading subsidies and lower debt levels, the operating position improves materially.
- Ten-year projections based on ML's annual increases indicate that the operating position would improve over the period 2015/16 to 2018/19, reduce for a period and then recover at the end of the decade.

The APR analysis suggests the NRUC could be financially viable, subject to effective implementation.

EXECUTIVE SUMMARY

Introduction

This report presents an independent financial model of operating a new North Rodney Unitary Council (NRUC). The analysis uses publicly available data and transparent assumptions. The report was prepared by APR Consultants Ltd (APR) and commissioned by the Northern Action Group (NAG) to inform its advocacy for the creation of the proposed NRUC.

The proposed NRUC would be focused on delivering:

a) 'core business' of statutory regulatory functions and community infrastructure such as roading network, water reticulation, wastewater systems and storm-water management; and

b) a lower-cost but more community-engaged service model than is currently provided to Northern Rodney by Auckland Council.

The analysis is based on benchmarking the operating income and expenses of comparator councils on a per capita and per rating unit basis. Comparator councils were selected with relatively similar attributes to the proposed NRUC, based on key metrics and client feedback. Council financial data was compiled from two sources to enable 'triangulation' of results:

- Statistics New Zealand's Infoshare online database; and
- Long Term Plan budgeted data for all councils, from online pivot tables.

Background – Morrison Low report 2017

In August 2017, Morrison Low (ML) delivered a report to the Local Government Commission (LGC) based on an investigation of options identified by the LGC for local government reorganisation in Auckland. For an option like the proposed NRUC, and based on the various assumptions underpinning the analysis, ML concluded there would be a year one (2015/16) deficit of $13.5 million and hence rates would need to increase by 48% to cover the deficit. Moreover, the ML analysis projected that the deficit would increase over the ten-year forecast period

NAG has publicly criticised the ML report, describing it as 'fatally flawed' and 'of no credible value'. Key criticisms of the report include:

- ML and LGC have not made their full modelling analysis and data available for scrutiny.
- ML's expenditure analysis is largely based on Auckland Council (AC) figures. Hence a key assumption of the analysis is that the cost structure of AC would apply in a separate NRUC. No allowance has been made for the prospect of smaller councils benchmarking lower than the analysis using AC data, either in general or in relation to specific activities. Moreover, AC has not been able to provide accurate localised financial information for North Rodney at a detailed level, so there is a low level of transparency behind the ML analysis.
- The ML governance approach modelled for North Rodney is different from that proposed by NAG (i.e. Thames-Coromandel District Council community empowerment model), nor does it reflect the intended focus on core activities that benefit and are sought after by residents.
- NAG argues that one can reasonably assume that due to diseconomies of scale, AC's people costs are up to 20% higher than in smaller more rural areas (i.e. approximately 8% higher total expenses before finance costs).
- Finance costs overstated. NAG contends the financing cost attributed to NRUC should be no more than a small council average.
- Reducing waste. NAG anticipates a conservative 2% reduction in costs across the NRUC by reducing wasteful spending (i.e. an efficiency dividend).

In summary, NAG has argued that a leaner staffing approach, alternative assumptions in relation to finance costs and an allowance for reducing waste would reduce annual expenditure and result in a small annual surplus.

APR modelling approach and data

The modelling approach used for this report makes use of data from Infoshare, online Long-Term Plan 2015/16 data and other publicly available sources. The approach is summarised as follows:

- For comparison, use the same time horizon as the ML one-year and ten-year estimates.
- Ensure a high level of documentation and transparency.
- Use consistent national financial benchmarking datasets to enable inter-council comparability:
  a) Infoshare government finance statistics for 2015/16 operating income and operating expenditure by activity; and
  b) Long Term Plan 2015/16 budgeted income and expenditure figures.
- Identify prospective comparator councils with relatively similar characteristics to the proposed NRUC, with the final selection of benchmark councils based on client feedback.
- Compile additional financial indicator data to inform the context and findings.
- Calculate the NRUC income and cost components based on comparator councils' per capita and per rating unit incomes and costs. Multiply the selected activity costs by the scale of NRUC to derive a comparative NRUC profile using:
  - 24,000 population; and
  - 15,238 rating units.
- Develop a one-year financial model based on benchmarked council income and activity costs.
- Undertake sensitivity analyses for different assumptions (higher roading subsidy and different debt finance assumptions).
- Project the one-year model to a ten-year model using ML annual increase assumptions. Note that this approach incorporates ML's demand projections, price indexation and capital works assumptions into a single annual increase, for comparability with the ML report's projections. This assumes that all AC capex information, as may be available, has already been incorporated into the modelling (e.g. roading, water and wastewater projects scheduled).

Differences between the APR and ML financial data

The key issue to be addressed by this report is whether, using the best available comparable and transparent data, the likely revenue and cost profile for the proposed NRUC would enable it to be financially viable? This is undertaken using publicly available data as input to a financial benchmarking approach. The approach seeks to establish, based on the 2015/16 financial performance of comparable councils, whether a NRUC is a reasonably practical financial option; and hence question the negative conclusion of the ML report (i.e. $13.5 million deficit) based on AC's cost data and ML's assumptions.

There are substantial differences in income and expenditure data between the APR and ML modelling, along with category differences. Direct comparisons between the APR (Infoshare and LTP) and ML data and results are unfortunately not possible. General information about the key differences are described in Appendices to this report. In summary:

- Both the LTP and Infoshare data include depreciation expense. Within the Infoshare data, this is apportioned across activities. Within the LTP data, it is reported at a council level only.
- Both the Infoshare and LTP data are GST exclusive.
- The Infoshare data is underpinned by the international Government Finance Statistics (GFS) standard that enables economic analysis of local, central, and general government financial activity. GFS was developed specifically for measuring government financial activity. It is the IMF's preferred standard for publishing financial statistics on government. The database

coverage includes all local authorities (city councils, district councils, unitary authorities, and regional councils) and local government special-purpose entities, such as Auckland Transport and museums.

- The online LTP pivot table data was compiled from source documents by the Department of Internal Affairs. Key income and expenditure data used for this report are from Statements of Financial Performance.
- ML created a financial model based on an apportionment of Auckland Council (AC) financial information to the affected areas based on operational and capital expenditure for 2015/16 (actual) using an apportionment methodology. A key aspect of ML's assessment methodology was the assumption that no efficiencies would be achieved through, for example, shared service arrangements with Auckland Transport or Watercare. To determine the revenue and expenditure associated with each of the identified options, ML requested AC's 2015/16 Annual Report financial information on a geographic basis. The split of AC's activities was also requested based on regional and territorial functions for the purposes of evaluating the options. Outputs from this request are available online. Where actual local costs were deemed to be available, ML incorporated these into its analysis. Where direct actual costs were not available, assumptions were made regarding the notional apportionment of cost, for example stormwater revenue and expenditure allocated based on length of the piped stormwater network in the area.

APR modelling results and sensitivity/scenario analyses

Based on client feedback, the following comparator unitary councils were selected for inclusion in the financial benchmarking analysis. Note there are currently six unitary authorities in New Zealand, of which AC and the Chatham Islands are too large and too small respectively for realistic comparison, and Nelson City is too urban. Also since the cost structure of AC activities are being questioned, and its characteristics are so different from any other council in New Zealand, it is not appropriate for use as a comparator council.

Note individual councils may resemble NRUC on some bases but are very different on others, for example a council may have a similar population profile but different rating unit profile. Hence, the analysis results are sensitive, not only to the choice of comparator councils but also to the choice of denominator (per capita or per rating unit). For this reason, a *range* of financial results are presented from which the reader can assess the anticipated level of financial viability for NRUC.[1]

Selection of comparator unitary councils

Council	Population	Population density	Rating units	Length of unsealed roads per 1000 population	Operating expenses per capita (Infoshare)	Operating expenses per capita (LTP)
NRUC	24,000	18	15,238	20	n/a	n/a
Tasman District Council	50,200	5	23,847	31	1,804	2,010
Marlborough District Council	45,500	4	26,479	28	2,226	2,154
Gisborne District Council	47,800	6	23,630	28	1,754	1,754

Based on the above approach, and on publicly available data from Infoshare, LTP and other sources, the NRUC is estimated to have in year one (2015/16):

- annual operating income in the range of approximately $38 million to $69 million depending on the data source (Infoshare or LTP), the choice of comparator council, and the estimation approach (per capita or per rating unit);
- annual expenses in the range of approximately $42 million to $65 million; and

[1] APR developed an integrated financial benchmarking tool using Infoshare, LTP and other publicly available data to enable rapid analysis of results using alternative sets of comparator councils.

- annual operating position in the range from approximately $5.5 million deficit to $5.0 million surplus.

The table below summarises Year One summary results for each of the datasets – the ML report and the APR results using Infoshare and LTP data, and using both the per capita and per rating unit approach. Analyses of these results show that:

- Across the three comparator councils, two datasets and two financial benchmarking approaches, the average operating income was approximately $53.9 million and average operating expenditure approximately $52.2 million, giving an average operating surplus of approximately $1.7 million.
- By comparison, the ML report's operating income was around 18 per cent higher than the APR average and the ML report's operating expenditure was around 48 per cent higher, resulting in ML's finding of $13.5 million deficit.

Year One (2015/16) summary results – ML, Infoshare and LTP data ($m)

	Operating income	Operating expenditure	Operating position
ML Report	63.5	77.0	-13.5
APR - Infoshare data - per capita approach:			
Tasman DC profile	47.1	43.3	3.8
Marlborough DC profile	54.7	53.4	1.3
Gisborne DC profile	37.8	42.1	-4.3
APR - Infoshare data - per rating unit approach:			
Tasman DC profile	62.9	57.9	5.0
Marlborough DC profile	59.7	58.3	1.4
Gisborne DC profile	48.6	54.1	-5.5
APR - LTP data - per capita approach:			
Tasman DC profile	51.3	48.2	3.1
Marlborough DC profile	55.2	51.7	3.5
Gisborne DC profile	44.0	42.1	1.9
APR - LTP data - per rating unit approach:			
Tasman DC profile	68.6	64.5	4.1
Marlborough DC profile	60.2	56.4	3.8
Gisborne DC profile	56.5	54.1	2.4

Sources: APR modelling results derived using Infoshare and LTP data. ML figures from Table 20 of ML report (2015/16 result).

APR sensitivity/scenario analysis results – per capita approach

The results using per capita benchmarking approach were altered to reflect different assumptions as shown below. Different results would be achieved using alternative approaches.

Higher roading subsidy (Infoshare data)

There is a reasonable probability that NRUC would attract more than the minimum rate for its roading subsidy. With the maximum FAR rate set at 75 per cent, the upper range can be represented by a 50 per cent increase in the assumed subsidy level in NRUC's year one income. The results of this analysis are shown below. The additional income would improve the annual operating position in each case (assuming no other changes in the model) by between $1.2 and $1.8 million per annum.

Effect of higher roading subsidy on year one operating position ($m) – per capita approach – Infoshare data

	Tasman profile	Marlborough profile	Gisborne profile
Baseline one-year model	$3.8m	$1.3m	-$4.3m
50% increase in roading subsidy	$5.2m	$3.1m	-$3.1m
Difference	+$1.4m	+$1.8m	+$1.2m

Note: Figures may not sum precisely due to rounding.

Different debt levels (LTP data)

A 50 per cent reduction in the interest expense would improve the annual operating position by between approximately $0.5m and $2.3m (depending on modelling assumptions). Conversely, a 50 per cent increase in the interest expense would decrease the annual operating position by approximately $0.6m to $2.4m (depending on modelling assumptions).

Effect of different debt levels on year one operating position ($m) – per capita approach – LTP data

	Tasman profile	Marlborough profile	Gisborne profile
Baseline one-year model	$3.1m	$3.5m	$1.9m
50% decrease in finance cost	$5.4m	$4.4m	$2.4m
Difference	**+$2.3m**	**+$0.9m**	**+$0.5m**
50% increase in finance cost	$0.7m	$2.5m	$1.3m
Difference	**-$2.4m**	**-$1.0m**	**-$0.6m**

Note: Figures may not sum precisely due to rounding.

APR ten-year projection results

Consistent with the ML report, APR extended its year one financial model to project a year two to year ten model. As per the ML report, the purpose of APR developing a ten-year projection was not to develop a full operating plan but rather to broadly understand the implications of infrastructure projects on financial sustainability. APR's base forecasting assumptions were calculated by 'back-solving' ML's modelling results at an aggregate annual level in relation to revenue and expenditure indexation, increases in the rating base, and the financial effects of asset depreciation and investment in capital works.

Based on APR's one-year model, extended to a ten-year time horizon using the above assumptions and Infoshare-based data:

- Using the per capita financial benchmarking approach:
  - adopting the Tasman District income and expenditure profile, the annual surplus is projected to peak at $5.4 million in 2018/19, reduce to $2.4 million in 2021/22 and then recover to $6.6 million in 2024/25;
  - adopting the Marlborough District income and expenditure profile, the annual surplus is projected to peak at $2.9 million in 2018/19, reduce to an annual deficit of $1.3 million in 2021/22 and then recover to a surplus of $3.2 million in 2024/25; and
  - adopting the Gisborne District income and expenditure profile, the annual deficit is projected to reduce to $3.5 million in 2017/18, increase to an annual deficit of $7.8 million in 2021/22 and then reduce to a deficit of $5.3 million in 2024/25.
- Using the per rating unit financial benchmarking approach:
  - adopting the Tasman District income and expenditure profile, the annual surplus is projected to peak at $7.2 million in 2018/19, reduce to $3.2 million in 2021/22 and then recover to $8.8 million in 2024/25;
  - adopting the Marlborough District income and expenditure profile, the annual surplus is projected to peak at $3.1 million in 2018/19, reduce to $1.5 million deficit in 2021/22 and then recover to $3.5 million in 2024/25; and
  - adopting the Gisborne District income and expenditure profile, the annual deficit is projected to reduce to $4.5 million in 2017/18, increase to an annual deficit of $10.0 million in 2021/22 and then reduce to a deficit of $6.8 million in 2024/25.

Summary and conclusion

This report presents an independent financial model of the prospective costs of operating a new North Rodney Unitary Council (NRUC) using publicly available data and transparent assumptions. The analysis is based on benchmarking the operating income and activity costs of comparator councils on a per capita and per rating unit basis. Comparator councils were selected with relatively similar characteristics to the proposed NRUC. Key findings are:

- Depending on the modelling approach taken, the year one (2015/16) operating position ranges from approximately $5.5 million deficit to $5.0 million surplus. This range confirms a potential for viability and that a NRUC is a reasonably practical option, subject to NRUC being committed to core service provision and financially sustainable business practices.
- Under alternative scenario assumptions for higher roading subsidies and lower debt levels, the year one operating position improves materially.
- Ten-year projections based on ML's annual increases indicate that the operating position would improve over the period 2015/16 to 2018/19, reduce for a period and then recover at the end of the decade.

Note that due to the lack of detailed information about how ML arrived at their estimates, which makes it difficult to unpack the differences in accounting approaches and underlying data, it is not possible to directly compare the ML income and expenditure figures with APR's Infoshare and LTP based results.

The findings in this report, based on financial benchmarking of comparable councils, publicly available data and transparent assumptions, question and ultimately disprove the ML Report's contention that the proposed NRUC would not be a reasonably practical option. Overall the results show that a NRUC could be financially viable, perhaps even showing significant financial benefits to NR ratepayers, subject to effective implementation.

CONTENTS

PART ONE: FINANCIAL BENCHMARK MODELLING

1.0 INTRODUCTION

This report presents an independent financial model of the prospective operating income and expenses of operating a new North Rodney Unitary Council (NRUC), based on benchmarking publicly available financial data for comparator councils on a per capita and per rating unit basis.[2] The report was commissioned by The Northern Action Group (NAG). The proposed new council has been under discussion in North Rodney for many years.

Background is summarised as follows:

- There is a perception, strongly held by some community members as reflected in NAG's submission and the LGC's community survey, that Auckland Council provides insufficient local services and at a relatively high cost. In other words, there is a sense that North Rodney residents effectively subsidise other parts of Auckland with their rates but receive little value-for-money from Auckland Council.[3]
- The proposed NRUC would be focused on delivering:
  a) 'core business' of statutory regulatory functions and community infrastructure such as roading network, water reticulation, wastewater systems and storm-water management
  b) a lower-cost but more community-engaged service model than is currently provided to Northern Rodney by Auckland Council.
- In August 2017, Morrison Low (ML) delivered a report to the Local Government Commission (LGC) based on an investigation of seven options identified by the LGC for local government reorganisation in Auckland. To assess the options, ML created a one year and a forecast ten-year financial model, based on an apportionment of Auckland Council (AC) financial information to determine if each of the potential local authorities would have the resources necessary to effectively carry out its responsibilities, duties, and powers. For Option 4 (like the NRUC), ML concluded that 'results in a year one, estimated $13.5 million deficit, which is forecast to increase over the ten-year forecast period. Rates would need to increase by 48% in year one to cover the deficit. In addition, there are likely to be significant capability and capacity issues for a unitary authority that has approximately half the population of the smallest current unitary authority in New Zealand.'[4]
- Subsequent comments by NAG to the LGC on the ML report were that the model was not a correct representation of how such a reorganisation for North Rodney could best work and was based on false assumptions.
- Recent discussions with David Hammond of Hammond Robertson Ltd identified that a cost-effective method would be based on average costs of councils with around 17,000 rateable assessments. An alternative set of financial projections based on more robust assumptions could be developed by examining the average income and expenses of comparator councils.
- This report summarises key results from a transparent financial benchmarking model which shows that annual operating expenses can be kept within reasonable estimates of revenue.

[2] Initial modelling also included 'per ratepayer' estimates that were generally between the per capita and per rating unit results. Following client feedback, it was decided that 'ratepayer' numbers would not add value to the analysis and would just complicate it since the per capita numbers and rating unit (RU) figures should capture the useful information. Note that RUs and population are related based on density, and comparable councils should have comparable densities.
[3] For example, NZ Herald opinion piece 26 October 2017 by environmental and infrastructure specialist Grant McLachlan: 'Phil Goff painting himself into corner over North Rodney': www.nzherald.co.nz/opinion/news/article.cfm?c_id=466&objectid=11936636.
[4] Note: excluding Chatham Islands Council which is governed by separate legislation and receives direct funding from the Crown.

- By commissioning an independent analysis, NAG is anticipating it can illustrate how other councils provide better local services at lower costs than was assumed in the ML report.

1.1 Project scope and timeframes

The scope of this project was to develop and report on a comparative financial model of the likely annual income and costs of service provision by activity for the proposed NRUC. The consultants have taken a financial benchmarking approach based completely on publicly-available data to provide a maximum level of transparency and replicability. The methodology and timeframes as agreed with the client is summarised as follows:

Table 1: Project tasks and timeframes

Timeframe (2017)	Task	Description
Sept	1	Project commencement
Sept	2	Desktop review
Oct	3	Draft report and financial model
Oct	4	Final report and financial model

1.2 Information sources

Documents reviewed for the compilation of this report included:

- APR Consultants Ltd (APR) Proposal September 2017.
- Bill Townson Correspondence September 2017.
- Project commencement notes September 2017.
- Northern Action Group website: www.nag.org.nz/newcouncil.html
- Northern Action Group (2013) 'A proposal to form the North Rodney Unitary Council'.
- Northern Action Group (2016) 'A supplementary proposal on the formation of a North Rodney Unitary Council'.
- North Rodney asset valuations 2015 (LGOIMA response).
- Larry N. Mitchell (2013) 'The Mitchell Report on Financial viability of NRUC', Appendix Four of Northern Action Group (2013).
- Bill Foster correspondence September 2017.
- Morrison Low (2017) 'Auckland reorganisation process: Auckland Options Assessment'.
- Auckland Council data supplied to ML for the above: www.aucklandcouncil.govt.nz/about-auckland-council/performance-transparency/privacy-official-information-requests/published-responses-information-requests/Pages/local-government-commission-information-request.aspx
- Northern Action Group (2017) 'Comments for the Local Government Commission (LGC) on the Morrison Low (ML) report'.
- Local Matters news article, August 2017.
- Infoshare financial data for councils (Government finance): www.stats.govt.nz/infoshare/
- Long Term Plan (LTP) financial data for councils: www.localcouncils.govt.nz/lgip.nsf/wpg_URL/Resources-Download-Data-Local-Authority-Long-Term-Plans?OpenDocument
- Case Study of TCDC model of devolved operations and governance (developed for Auckland Council review of Local Boards 2016).
- Client feedback on initial draft reports.

2.0 APR MODELLING APPROACH AND DATA SOURCES

2.1 APR approach

The modelling approach used for this report makes use of available existing data reported through the ML and NAG reports and online through Infoshare and other sources to undertake a financial benchmarking analysis of comparator councils with relatively similar attributes to the proposed NRUC. The approach is summarised as follows:

- As 2015/16 remains the most up-to-date official financial data, APR has adopted the same time horizon as ML for its one-year and ten-year revenue and expenditure projections.
- The APR analysis uses Infoshare and LTP data for operating income and expenditure to enable inter-council comparability and consistency. APR's approach is to develop income and activity expenditure profiles for NRUC based on clearly identified benchmark councils, with a clear rationale for each selection. We note that the mix of general and targeted rates and user pays income will likely vary from the current Auckland Council (AC) status quo under the proposed NRUC.
- An initial set of comparator councils was selected based on gross population density, and client feedback was sought on the selection. Client feedback primarily related to the need to consider other unitary councils as key comparators.
- Compile key financial data from Infoshare for each of the comparator councils including:
  - operating income by source, including regulatory income and petrol tax (to inform sensitivity analyses around roading subsidy income);
  - operating expenditure by activity; and
  - operating position (surplus or deficit).
- Compile income and expenditure data from online LTP pivot tables compiled by the Department of Internal Affairs. This secondary dataset used budget figures and is used in this report to provide 'triangulation' of the Infoshare-based results.[5]
- Develop a transparent set of assumptions around specific council benchmarks to adopt for NRUC for each activity, being cognisant of the commitment to (i) core activities (e.g. roading cost for North Rodney will be relatively high due to topography) and (ii) implementing a community-led governance model.
- Multiply the selected activity costs per capita, for each activity, by the total population and number of rating units in NRUC to derive a comparative NRUC income and expenditure profile range.
- Develop one-year financial model based on benchmark council income and activity costs.
- Undertake sensitivity analyses for different assumptions (e.g. higher roading subsidy and different debt finance assumptions).
- Project the one-year model to a ten-year model using ML annual increase assumptions. Note that this approach incorporates ML's demand projections, price indexation and capital works assumptions into a single annual increase for comparability with the ML report's projections. This assumes that all AC capex information as may be available has already been incorporated into the modelling (e.g. roading, water and wastewater projects scheduled).

[5] The LTP data was also chosen, somewhat arbitrarily, as the basis for APR's sensitivity analyses around finance costs. Inherited debt is an issue to be negotiated. NAG feels that North Rodney had less debt than the rest of the Rodney Council area at inception of the 'super city'. NAG feels that for modelling purposes, debt needs to be in a reasonable ratio of approximately 1.5 times annual income and not higher than 2. The approach of this report is to benchmark against similar councils and examine the financial impacts of alternative assumptions.

2.2 Data sources for model development

The key data sources for this analysis are the Infoshare financial data for councils (Government finance) and online LTP pivot tables.[6] This provides comparable financial information consistent between councils nationally.[7]

Infoshare data

Income data items from Infoshare include:[8]

- Rates
- Regulatory income and petrol tax
- Current grants, subsidies, and donations income
- Interest income
- Dividend income
- Sales and other operating income
- Total operating income.

Expenditure data from Infoshare covers:

- Roading
- Transportation
- Water supply
- Wastewater
- Solid waste/refuse
- Environmental protection
- Culture
- Recreation and sport
- Property
- Emergency management
- Planning and regulation
- Community development
- Economic development
- Governance
- Council support services
- Other activities
- Total.

Expenditure data items in Infoshare can also be classified by:

- Employee costs
- Depreciation and amortisation
- Current grants, subsidies, and donations expenditure

[6] Refer www.stats.govt.nz/infoshare/ and www.localcouncils.govt.nz/lgip.nsf/wpg_URL/Resources-Download-Data-Local-Authority-Long-Term-Plans?OpenDocument.

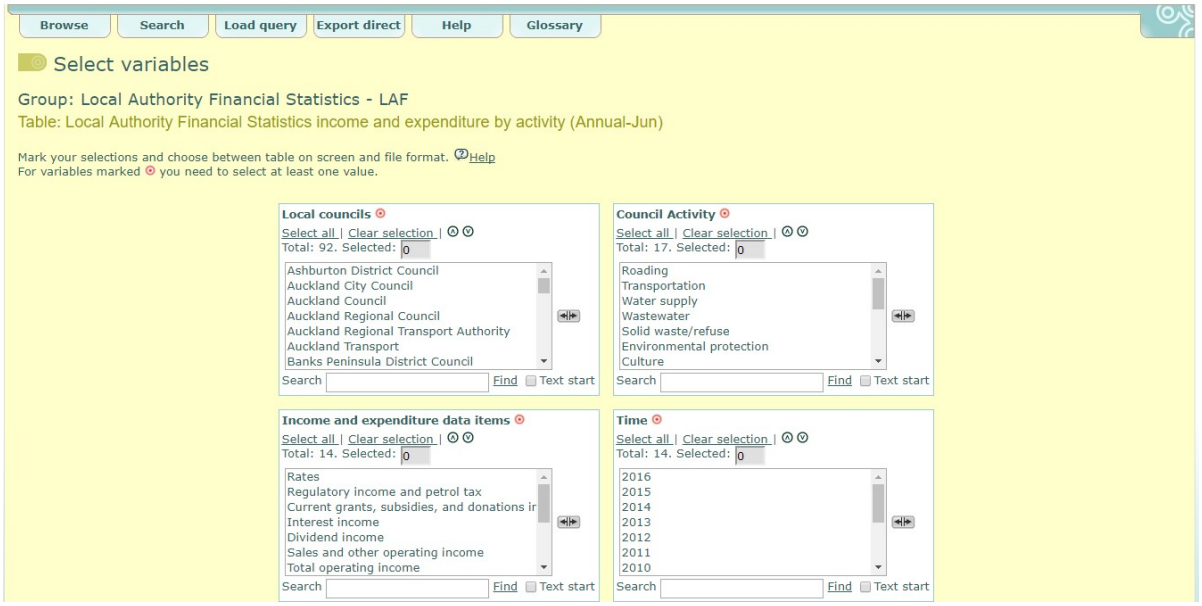
[7] All three key sources used in this report – the ML Report, Infoshare methodology and LTP online pivot tables – are silent on the topic of Goods and Services Tax (GST). NAG subsequently contacted Statistics New Zealand and the Department of Internal Affairs in late October 2017 and confirmed that the Infoshare and LTP data are both reported GST exclusive.

[8] Data on financial position (balance sheet items) and operating surplus are also available in Infoshare.

- Interest expenditure
- Purchases and other operating expenditure
- Total operating expenditure.

Infoshare annual data are available for the full period 2003 to 2016. For this analysis, 2016 data (i.e. financial year 2015/16) has been compiled.

Figure 1: Screen capture of online Infoshare database



LTP data

Income data items from the LTP pivot tables include:[9]

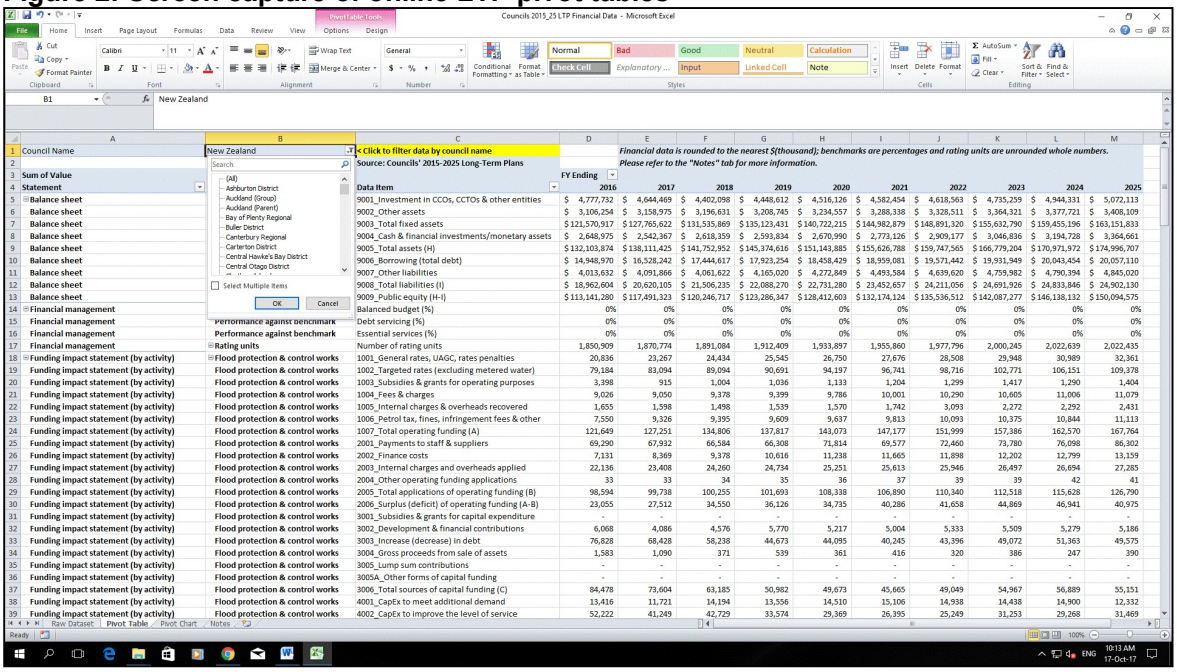
- Rates income
- Targeted metered water rates
- Subsidies & grants income
- Other income
- Development & financial contributions.

Expenditure data items from the LTP pivot tables include:

- Employee costs
- Interest expense
- Depreciation & amortisation
- Other operating expenditure.

[9] The online pivot tables also include balance sheet data (assets and liabilities); Funding Impact Statement data for five infrastructure activities (i.e. partial operating expenditure allocation by activity); Statement of Financial Performance data (income and expenditure); Cash Flow Statement data; and Financial Benchmarks and Rating Units.

Figure 2: Screen capture of online LTP pivot tables



2.3 Differences between the APR (Infoshare and LTP) and ML financial data

The key issue to be addressed by this report is whether, using the best available comparable and transparent data, a hypothetical income and cost profile for the proposed NRUC could enable the proposed council to be financially viable? This is undertaken using publicly available data as input to a benchmarking approach. The approach used does not seek to establish that a NRUC **would** be viable, only that it **could** be viable. In doing so, it questions the ML Report's contention that a NRUC would not be a reasonably practical option and provides evidence that disproves the ML report finding.

There are differences in the scale of income and expenditure between the APR and ML modelling, along with category differences. Direct comparisons between the APR (Infoshare and LTP) and ML data and results are unfortunately not possible. Developing a detailed understanding of these differences would be a major undertaking, and would require disclosure by ML of their data and how their assumptions have been used. General information about the key differences is described in the Appendices to this report and summarised below. The critical issue is not which accounting treatment is better, but whether or the proposed NRUC would be viable based on available financial data and transparent assumptions.

2.3.1 About the Infoshare financial data

Comparable financial data for every local authority in New Zealand is available on Statistics New Zealand's Infoshare online database: www.stats.govt.nz/infoshare/. The data collection and reporting are underpinned by the international Government Finance Statistics (GFS) standard that enables economic analysis of local, central, and general government financial activity based on concepts and principles developed by the International Monetary Fund (IMF). GFS is a set of concepts and principles developed specifically for measuring government financial activity.

Unlike accounting-based financial statements, GFS is an economic representation of a government's financial activity. It is the IMF's preferred standard for publishing financial statistics on government. Key Infoshare/GFS data for the purposes of this NRUC analysis are:

- Operating income – funding earned to provide core services.
- Operating expenditure – the amount spent on providing core services.

The coverage of Infoshare's online database includes all local authorities (city councils, district councils, unitary authorities, and regional councils) and local government special-purpose entities, such as Auckland Transport and museums.

The operations of council-controlled organisations (CCOs), which include local authority-owned corporations or trading entities, are generally **not** part of the local government sector covered by GFS, except for two CCOs that operate as non-market entities: Auckland Transport and Auckland Tourism Events and Economic Development (ATEED).[10]

GFS are distinct from other government statistics, such as the national accounts and the Financial Statements of the Government of New Zealand produced by Treasury, as they:

- are formatted to show all sectors of government and all levels of government distinctly;
- enable the analysis of not just the transactions within levels of government and between levels of government, but also the transactions between the total public and private sectors;
- treat government as if it were one entity and net off all the transactions (and assets and liabilities) it has with itself;
- provide an economic view of government, as opposed to an accounting view; and
- enable cross-country comparisons.

GST treatment

It is unclear from documentation whether the Infoshare expenditure data by activity are GST exclusive. NAG subsequently followed up with Statistics New Zealand staff and confirmed that the Infoshare data reported are GST exclusive, apart from some minor expenditure where councils regard themselves as an end-user.

Depreciation

The Infoshare expenditure data include allowance for depreciation expense by activity and in total.

2.3.2 About the LTP data

Data from online LTP pivot tables is used to 'triangulate' the results from the Infoshare analysis to provide a greater sense of confidence in the overall results. The Department of Internal Affairs website provides a series of financial tables compiled from councils' LTPs.

Unlike the Infoshare data, LTP expenditure is not full classified by activity but rather by:

- Employee costs
- Interest expense
- Depreciation & amortisation
- Other operating expenditure.

Hence, this dataset does not enable sensitivity testing of expenses by activity (as is possible with the Infoshare data). Another difference from the Infoshare data is that the LTP figures for 2015/16 are budgeted rather than actual reported values.

GST treatment

It is unclear from online documentation whether the Infoshare expenditure data by activity are GST exclusive. NAG subsequently followed up with Department of Internal Affairs staff who confirmed that the data compiled for all councils are GST exclusive.

Depreciation

The LTP expenditure data includes allowance for depreciation expense at the council level but does not apportion this to individual activities.

[10] Note: Further research by NAG and APR confirmed that in fact the 2015/16 total application of operating funding recorded in the Infoshare database for Auckland Council ($2.623 billion) relates to the consolidated Auckland Council Group. The financial information for CCOs will be included in the Group numbers.

2.3.3 About the Morrison Low (2017) financial data

Morrison Low (ML) was commissioned by the LGC to independently investigate options identified by the LGC for Auckland. To assess the options, ML created a financial model based on an apportionment of Auckland Council (AC) financial information to the affected areas. More specifically, the one-year model development was based on operational and capital expenditure for 2015/16 (actual) using an apportionment methodology.

A key aspect of ML's assessment methodology was the assumption that no efficiencies would be achieved through, for example, shared service arrangements with Auckland Transport or Watercare. ML assessed the options from the point of view of a district, regional or unitary authority acting as a stand-alone entity.

ML created a one-year snapshot of the financial statements for each option based on the Councils' 2015/16 Annual Reports. ML used publicly available information from the Councils' Long-Term Plans (LTP), Annual Plans and Annual Reports. Information was sourced from AC, KDC, NRC, the LGC and Statistics New Zealand. Further details are not reported, for example on level of comparability between the data sources or the scope of the financial data compiled.

To determine the revenue and expenditure associated with each of the identified options, ML requested AC's 2015/16 Annual Report financial information on a geographic basis. The split of AC's activities was also requested based on regional and territorial functions for the purposes of evaluating the options. Outputs from this request are available online.

Where actual costs were deemed to be available, ML incorporated these into its analysis, for example 'local activities' whose allocation is based on local board areas. Where direct actual costs were not available, assumptions were made regarding the notional apportionment of cost to the areas. Examples include stormwater revenue and expenditure being allocated based on length of the piped stormwater network in the area, and regulation costs based on the number of applications and licences in the area.

ML also reviewed major areas of expenditure where most of the costs are not asset based, for example Governance and Organisational Support costs to identify if the total cost and the share of overall costs was in line with their experience of working with other New Zealand councils. ML state that where appropriate, they have compared these results with other similar councils under the proposed option to provide confidence that the results were appropriate. ML noted that "Benchmarking across councils is inherently difficult because of the differences between councils due to such factors as population, land area, topography, rating base, demographics and local economic characteristics. Councils also report costs in different ways, with allocation of overheads having a significant impact on the reported cost of service delivery. Some New Zealand councils have the benefit of substantial investments and well-maintained assets, while others are facing a delayed maintenance and renewals workload on top of a falling rating base. Our assessment is based on a typical New Zealand council operating model with a growing rating base, as is the case for Auckland."[11]

GST treatment

The ML report is silent on the topic of GST. Online information from AC as compiled for the ML report says that the rating revenue figures exclude GST, whereas in the online financial expenditure information AC is silent on GST treatment. AC's 2015/16 LTP includes a mix of GST exclusive and inclusive figures.

Depreciation

Depreciation expense was apportioned to different activity expenses using a range of methods (e.g. asset values in each local area).

[11] NAG and APR note that Auckland Council does not represent a typical New Zealand council operating model.

2.3.4 Comparison of APR/Infoshare and ML income data (initial analyses)

APR modelling using benchmark Infoshare and LTP data for comparator councils arrives at a similar level of rating revenue for NRUC as actual AC figures (i.e. approximately $30 million).[12] However, there is a marked difference between the APR Infoshare and LTP-based estimates for non-rating income and the ML estimates. APR's initial estimate as part of a first-draft analysis for client feedback was approximately $11 million non-rating revenue, for a total of approximately $41 million. In contrast, ML's income estimates for the 'NRUC' option indicate non-rating revenue of approximately $35 million for a total of $63.5 million (i.e. approximately 55% larger scale).

We note that depending on the choice of unitary council comparator subsequently used to benchmark a NRUC, revenue could be as high as that estimated by ML.

2.3.5 Comparison of APR/Infoshare and ML expenditure data (initial analyses)

The expenditure data used by APR is measured in a consistent manner using Infoshare and LTP methodologies. The figures arising from the ML analysis are underpinned by a less transparent methodology that is not directly comparable.

Across the three comparator councils, two datasets and two financial benchmarking approaches used in the APR analyses, the average operating expenditure was approximately $52.2 million, giving an average operating surplus of approximately $1.7 million. By comparison, the ML report's operating income was around 18 per cent higher than the APR average and the ML report's operating expenditure was around 48 per cent higher, resulting in ML's finding of $13.5 million deficit.

To reiterate, the key issue to be addressed by this report is whether, using the best available comparable and transparent data for benchmarking, the proposed NRUC could be financially viable? Direct comparisons between the APR (Infoshare and LTP) and ML data and results are unfortunately not possible. However, the critical question is not which accounting treatment is better, but whether the proposed NRUC could be viable based on available financial data and transparent assumptions. The following section seeks to address this question.

3.0 APR MODELLING RESULTS AND SENSITIVITY/ SCENARIO ANALYSES

3.1 Key assumptions

3.1.1 Establishment costs

Establishment costs are a one-off, stand-alone item that is not incorporated into subsequent operational income and expenditure analysis. The estimation of establishment costs is outside the scope of this project and not relevant to an assessment of the ongoing financial viability of a NRUC. Positive findings from the APR analysis in terms of a projected surplus would be expected in part to contribute towards the payment of any initial establishment costs.

3.1.2 Prospective comparative councils

An initial set of prospective comparator councils shown in the table below were selected based on their broadly similar population and rural dominance, with Auckland Council also included for comparison. An initial peer group was selected based primarily on gross population density (and data availability), with client feedback sought on this selection. The population density variable is expected to correlate well with the quantum of urban-focussed local government services required by the resident population. NRUC's density was estimated at 18.3 people per square kilometre, which is around the mid-range of the selected district councils (ranging from 4.2 in South Wairarapa up to 29.3 in Rotorua District). Three unitary councils were subsequently added to the list based on client feedback: Tasman District, Marlborough District, and Gisborne District.

[12] According to AC-provided information, total rates revenue excluding GST for the Wellsford and Warkworth subdivisions (the ML proxy for North Rodney) in 2016/17 was $30.9 million.

Key observations from the table below include:

- The three unitary councils other than AC all have around twice the population count of the proposed NRUC. However, they all have considerably lower population density than the proposed NRUC. Hence, the operating expenses per capita for these councils could in fact be higher than those of the proposed NRUC. In this regard, using the unitary councils for financial benchmarking could be considered a conservative approach to testing the viability of the NRUC (i.e. NRUC expenses per capita may in fact be lower).
- The length of unsealed roads per 1,000 population for the three unitary councils other than AC is around 50 per cent higher than the proposed NRUC. Again, using unitary councils for benchmarking should therefore provide for a conservative approach to cost estimation (i.e. NRUC roading expenses per capita would likely be lower).
- Using Infoshare data, total operating expenses per capita for the three unitary councils other than AC are higher than the overall AC expenses per capita. Using the LTP data, the expenses per capita are similar or lower than AC. This highlights that there are substantial differences between the Infoshare and LTP expenditure data. For this report, the main analyses are done using Infoshare data with 'triangulation' of the results done using LTP data to provide additional assurance using an alternate data source.

Table 2: Prospective comparator councils and their attributes

Council	Population	Population density	Rating units	Length of unsealed roads per 1,000 population	Operating expenses per capita (Infoshare)	Operating expenses per capita (LTP)
NRUC	24,000	18	15,238	20	n/a	n/a
Auckland Council	1,614,400	327	529,792	1	1,285	2,135
Hastings District Council	78,600	15	30,775	8	1,273	1,277
Hauraki District Council	19,550	15	10,669	7	1,659	1,669
Matamata-Piako District Council	34,100	19	15,160	4	1,306	1,382
Rotorua District Council	70,500	29	28,800	4	1,588	1,541
South Waikato District Council	23,800	13	10,675	1	1,356	1,267
South Wairarapa District Council	10,100	4	6,550	44	1,756	1,675
Thames-Coromandel District Council	28,400	13	27,129	13	2,605	2,829
Timaru District Council	46,700	17	22,599	28	1,504	1,530
Waikato District Council	71,200	16	28,984	11	1,423	1,352
Western Bay of Plenty District Council	47,800	25	20,624	7	1,494	1,592
Whanganui District Council	43,800	18	20,934	12	1,805	1,637
Waimakariri District Council	57,800	26	24,074	24	1,378	1,397
Tasman District Council	50,200	5	23,847	31	1,804	2,010
Marlborough District Council	45,500	4	26,479	28	2,226	2,154
Gisborne District Council	47,800	6	23,630	28	1,754	1,754

Sources: (1) Population data from Statistics NZ 2016 sub-national population estimates; (2) Population density (people for square km) calculated from land areas extracted from the Taxpayers Union's 2017 Ratepayers' Report sourced from: www.taxpayers.org.nz/; (3) Rating units sourced from Department of Internal Affairs website: www.localcouncils.govt.nz/lgip.nsf/wpg_URL/Resources-Download-Data-Local-Authority-Long-Term-Plans?OpenDocument, apart from a small number of councils for which missing RU data was compiled from online 2015/16 Annual Reports (specifically, Ashburton, Marlborough, Opotiki, Otorohanga, Ruapehu, Wairoa, and Whangarei district councils). (4) Council expense data sourced from Statistics NZ Infoshare database and divided by population to give per capita amount. (5) Applications of operating funding sourced from LTP budgeted information for 2015/16 available from spreadsheet on www.localcouncils.govt.nz/lgip.nsf/wpg_URL/Resources-Download-Data-Local-Authority-Long-Term-Plans?OpenDocument.

3.1.3 Operating income data for prospective comparative councils

Having identified the comparator councils, the next step was to use the Infoshare database and LTP pivot tables to identify key financial attributes for each council. Details were entered into a spreadsheet which was developed into a financial benchmarking tool. Note that Infoshare and LTP each use different accounting approaches.[13] Infoshare and LTP data was collated on the operating income for each comparator council, and then transformed to a per capita and per rating unit basis. Note that individual councils may resemble NRUC on some bases but be very

[13] Classifying detailed differences between the Infoshare and ML methodologies is out-of-scope of this project, however general information on the key differences is in the Appendices.

different on others.[14] Hence, the analysis results are sensitive not only to the choice of comparator councils but also to the choice of denominator (per capita or per rating unit). For this reason, the *range* of financial results are presented from which the reader can assess the anticipated level of financial viability for NRUC.

3.1.4 Operating expense data for prospective comparative councils

Operating expense information from Infoshare for each activity includes employee costs; depreciation and amortisation; grants, subsidies, and donations expenditure; interest expenditure; purchases and other operating expenditure. Applications of operating funding from the LTP pivot tables are not broken into activities, but rather into total council employee costs, interest expense, depreciation and amortisation, and other operating expenditure.

3.1.5 Comparator councils for NRUC model

APR initially selected a baseline benchmark income and activity costs profile for NRUC using district council data, with expenditure by activity being benchmarked against different councils. Following client feedback that the regional costs within a unitary council were not included in a district council based comparator analysis, it was decided that the three unitary councils other than AC (and other than Chatham Islands Council) would recognise the regional component of unitary council responsibility and activity and provide the most relevant benchmark for the proposed NRUC.

3.2 APR modelling results

3.2.1 APR one-year model – Infoshare data

Based on compiling per capita and per rating unit data for the Tasman, Marlborough, and Gisborne councils from Infoshare and applying this to the NRUC population and number of rating units, the NRUC is estimated to have in year one (2015/16):[15]

- annual operating income in the range of approximately $38 million to $63 million (depending on the choice of comparator council and estimation approach);
- annual expenses in the range of approximately $42 million to $58 million; and
- annual operating position in the range of approximately $5 million deficit to $5 million surplus.

[14] For the purposes of this analysis, population (capita) refers to 2016 sub-national estimate of usually resident population; and number of rating units refers to individual units of land for the proposes of rating, using information sourced from DIA online information.

[15] Note that these ranges may differ from those in the Executive Summary because they relate to Infoshare data only, whereas the Executive summary shows ranges from the overall Infoshare and LTP analyses and using both per-capita and per rating unit approaches.

Table 3: NRUC results using Tasman District Council profile – Infoshare data

Income by source	Per capita ($)	Per rating unit ($)	Total (per capita approach) ($m)	Total (per rating unit approach) ($m)
Rates	1,222	2,572	29.3	39.2
Regulatory income and petrol tax	119	251	2.9	3.8
Current grants, subsidies, and donations income	94	199	2.3	3.0
Interest income	9	19	0.2	0.3
Dividend income	45	94	1.1	1.4
Sales and other operating income	471	992	11.3	15.1
Total operating income	**1,961**	**4,127**	**47.1**	**62.9**
Expenses by activity				
Roading	319	671	7.7	10.2
Transportation	4	9	0.1	0.1
Water supply	153	322	3.7	4.9
Wastewater	161	339	3.9	5.2
Solid waste/refuse	126	265	3.0	4.0
Environmental protection	74	156	1.8	2.4
Culture	78	164	1.9	2.5
Recreation and sport	128	269	3.1	4.1
Property	39	83	0.9	1.3
Emergency management	11	24	0.3	0.4
Planning and regulation	137	289	3.3	4.4
Community development	0	0	0.0	0.0
Economic development	0	0	0.0	0.0
Governance	46	98	1.1	1.5
Council support services	446	940	10.7	14.3
Other activities	80	169	1.9	2.6
Total expenses	**1,804**	**3,797**	**43.3**	**57.9**
Surplus/(deficit)	**157**	**330**	**3.8**	**5.0**

Note: Figures may not sum precisely due to rounding.

Table 4: NRUC results using Marlborough District Council profile – Infoshare data

Income by source	Per capita ($)	Per rating unit ($)	Total (per capita approach) ($m)	Total (per rating unit approach) ($m)
Rates	1,295	2,224	31.1	33.9
Regulatory income and petrol tax	153	262	3.7	4.0
Current grants, subsidies, and donations income	85	146	2.0	2.2
Interest income	18	30	0.4	0.5
Dividend income	25	44	0.6	0.7
Sales and other operating income	705	1,211	16.9	18.4
Total operating income	**2,279**	**3,917**	**54.7**	**59.7**
Expenses by activity				
Roading	337	579	8.1	8.8
Transportation	55	94	1.3	1.4
Water supply	178	305	4.3	4.7
Wastewater	223	384	5.4	5.8
Solid waste/refuse	137	235	3.3	3.6
Environmental protection	176	302	4.2	4.6
Culture	67	115	1.6	1.8
Recreation and sport	158	272	3.8	4.1
Property	70	120	1.7	1.8
Emergency management	13	22	0.3	0.3
Planning and regulation	177	304	4.3	4.6
Community development	23	39	0.5	0.6
Economic development	65	112	1.6	1.7
Governance	25	43	0.6	0.7
Council support services	523	899	12.6	13.7
Other activities	0	0	0.0	0.0
Total expenses	**2,226**	**3,825**	**53.4**	**58.3**
Surplus/(deficit)	**54**	**92**	**1.3**	**1.4**

Notes: (1) Figures may not sum precisely due to rounding. (2) Rating unit data is not available for Marlborough District Council from the online LTP pivot tables, hence this has been sourced from MDC's 2015/16 Annual Report.

Table 5: NRUC results using Gisborne District Council profile – Infoshare data

Income by source	Per capita ($)	Per rating unit ($)	Total (per capita approach) ($m)	Total (per rating unit approach) ($m)
Rates	1,145	2,316	27.5	35.3
Regulatory income and petrol tax	97	195	2.3	3.0
Current grants, subsidies, and donations income	165	334	4.0	5.1
Interest income	1	3	0.0	0.0
Dividend income	0	0	0.0	0.0
Sales and other operating income	168	340	4.0	5.2
Total operating income	**1,576**	**3,188**	**37.8**	**48.6**
Expenses by activity				
Roading	474	960	11.4	14.6
Transportation	11	22	0.3	0.3
Water supply	96	194	2.3	3.0
Wastewater	134	271	3.2	4.1
Solid waste/refuse	79	160	1.9	2.4
Environmental protection	104	210	2.5	3.2
Culture	50	101	1.2	1.5
Recreation and sport	106	215	2.6	3.3
Property	76	153	1.8	2.3
Emergency management	17	35	0.4	0.5
Planning and regulation	98	198	2.3	3.0
Community development	35	70	0.8	1.1
Economic development	19	39	0.5	0.6
Governance	20	40	0.5	0.6
Council support services	369	747	8.9	11.4
Other activities	66	133	1.6	2.0
Total expenses	**1,754**	**3,548**	**42.1**	**54.1**
Surplus/(deficit)	**-178**	**-360**	**-4.3**	**-5.5**

Note: Figures may not sum precisely due to rounding.

3.2.2 APR one-year model – LTP data

Based on compiling per capita and per rating unit data for the Tasman, Marlborough, and Gisborne Council's income and expenditure from LTP online pivot tables and applying this to the NRUC population and number of rating units, the NRUC is estimated to have in year one (2015/16):

- annual operating income in the range of approximately $44 million to $69 million (depending on the choice of comparator council and estimation approach);
- annual operating expenditure in the range of approximately $42 million to $65 million; and
- annual operating position in the range from $1.9 million surplus to $4.1 million surplus.

Table 6: NRUC results using Tasman District Council profile – LTP data

Income	Per capita ($)	Per rating unit ($)	Total (per capita approach) ($m)	Total (per rating unit approach) ($m)
Rates income	1,352	2,845	32.4	43.4
Targeted metered water rates	0	0	0.0	0.0
Subsidies & grants income	161	338	3.9	5.2
Other income	520	1,095	12.5	16.7
Development & financial contributions	105	221	2.5	3.4
Total operating income	**2,137**	**4,500**	**51.3**	**68.6**
Expenditure				
Employee costs	397	835	9.5	12.7
Interest expense	196	414	4.7	6.3
Depreciation & amortisation	476	1,002	11.4	15.3
Other operating expenditure	941	1,982	22.6	30.2
Total operating expenditure	**2,010**	**4,232**	**48.2**	**64.5**
Surplus/(deficit)	**127**	**268**	**3.1**	**4.1**

Note: Figures may not sum precisely due to rounding.

Table 7: NRUC results using Marlborough District Council profile – LTP data

Income	Per capita ($)	Per rating unit ($)	Total (per capita approach) ($m)	Total (per rating unit approach) ($m)
Rates income	1,321	2,271	31.7	34.6
Targeted metered water rates	0	0	0.0	0.0
Subsidies & grants income	102	175	2.5	2.7
Other income	848	1,457	20.4	22.2
Development & financial contributions	26	45	0.6	0.7
Total operating income	**2,298**	**3,949**	**55.2**	**60.2**
Expenditure				
Employee costs	430	738	10.3	11.3
Interest expense	81	139	1.9	2.1
Depreciation & amortisation	447	769	10.7	11.7
Other operating expenditure	1,196	2,055	28.7	31.3
Total operating expenditure	**2,154**	**3,701**	**51.7**	**56.4**
Surplus/(deficit)	**144**	**248**	**3.5**	**3.8**

Notes: (1) Figures may not sum precisely due to rounding. (2) Rating unit data is not available for Marlborough District Council from the online LTP pivot tables, hence this has been sourced from MDC's 2015/16 Annual Report.

Table 8: NRUC results using Gisborne District Council profile – LTP data

Income	Per capita ($)	Per rating unit ($)	Total (per capita approach) ($m)	Total (per rating unit approach) ($m)
Rates income	1,094	2,212	26.2	33.7
Targeted metered water rates	0	0	0.0	0.0
Subsidies & grants income	422	853	10.1	13.0
Other income	300	606	7.2	9.2
Development & financial contributions	17	34	0.4	0.5
Total operating income	**1,832**	**3,706**	**44.0**	**56.5**
Expenditure				
Employee costs	374	756	9.0	11.5
Interest expense	44	88	1.0	1.3
Depreciation & amortisation	427	863	10.2	13.2
Other operating expenditure	910	1,841	21.8	28.1
Total operating expenditure	**1,754**	**3,548**	**42.1**	**54.1**
Surplus/(deficit)	**78**	**158**	**1.9**	**2.4**

Note: Figures may not sum precisely due to rounding.

3.2.3 Year One summary results

The table below summarises Year One summary results for each of the datasets – the ML report and the APR results using Infoshare and LTP data, and using both the per capita and per rating unit approach. Analyses of these results show that:

- Depending on the financial benchmarking approach used, the comparator councils had an operating position in the range from approximately $5.5 million deficit (based on Gisborne Infoshare data using per rating unit approach) to $5.0 million surplus (based on Tasman Infoshare data using per rating unit approach).
- Across the three comparator councils, two datasets and two financial benchmarking approaches, the average operating income was approximately $53.9 million and average operating expenditure approximately $52.2 million, giving an average operating surplus of approximately $1.7 million.
- By comparison, the ML report's operating income was around 18 per cent higher than the APR average and the ML report's operating expenditure was around 48 per cent higher, resulting in ML's finding of $13.5 million deficit.

Table 9: Year One (2015/16) summary results – ML, Infoshare and LTP data ($m)

	Operating income	Operating expenditure	Operating position
ML Report	63.5	77.0	-13.5
APR - Infoshare data - per capita approach:			
Tasman DC profile	47.1	43.3	3.8
Marlborough DC profile	54.7	53.4	1.3
Gisborne DC profile	37.8	42.1	-4.3
APR - Infoshare data - per rating unit approach:			
Tasman DC profile	62.9	57.9	5.0
Marlborough DC profile	59.7	58.3	1.4
Gisborne DC profile	48.6	54.1	-5.5
APR - LTP data - per capita approach:			
Tasman DC profile	51.3	48.2	3.1
Marlborough DC profile	55.2	51.7	3.5
Gisborne DC profile	44.0	42.1	1.9
APR - LTP data - per rating unit approach:			
Tasman DC profile	68.6	64.5	4.1
Marlborough DC profile	60.2	56.4	3.8
Gisborne DC profile	56.5	54.1	2.4

Sources: APR modelling results derived using Infoshare and LTP data. ML figures from Table 20 of ML report (2015/16 result).

3.2.4 APR sensitivity/scenario analyses – per capita analyses

This section looks at a range of sensitivities and scenarios relating to income and expenses. The purpose is to test the robustness of the model to uncertainties and changes, particularly the effects on the operating surplus. The following analyses use the per capita benchmarking approach, with Infoshare data used to test the sensitivity of higher roading subsidy income and LTP data used to test the sensitivity of different debt financing levels. Different results would be achieved using per rating unit or other approach.

Higher roading subsidy (Infoshare data)

The New Zealand Transport Agency (NZTA) provides financial assistance to councils and other approved organisations based on a calculated Financial Assistance Rate (FAR). The maximum normal funding assistance rate for all local authorities is 75%, while the minimum rate is set at 51%. The rate that would apply to NRUC is unknown at this stage. The baseline one-year results assume that NRUC would receive a similar level as comparator councils (the three selected unitary councils).

For the three comparator councils, the median level of regulatory income and petrol tax as a proportion of the median total operating income in 2015/16 was around 6-7 per cent. For the comparator councils, the median roading activity cost represented between approximately 15 per cent of total operating costs (Marlborough) and 27 per cent (Gisborne).

For this analysis, it is conservatively assumed through the benchmarking approach that the FAR rate for NRUC would result in a subsidy equivalent to 10 per cent of income, covering approximately one-third to one-half of its roading expense (depending on modelling assumptions). The upper range can be represented by a 50 per cent increase in the assumed subsidy level in NRUC's year one income. The results of this analysis are shown below. The additional income would improve the annual operating position in each case (assuming no other changes in the model) by between $1.2 and $1.8 million per annum.

Table 10: Effect of higher roading subsidy on year one operating position (assuming 50% increase in petrol tax income) ($m)

	Tasman profile	Marlborough profile	Gisborne profile
Baseline one-year model	$3.8m	$1.3m	($4.3m)
50% increase in roading subsidy	$5.2m	$3.1m	($3.1m)
Difference	+$1.4m	+$1.8m	+$1.2m

Note: Figures may not sum precisely due to rounding.

Different debt financing levels (LTP data)

Within the LTP pivot tables, interest expenses are provided as a component of the total expenditure.[16] Results for the comparator unitary councils are shown below. The table shows that finance costs range from 2.5 per cent of total expenditure for Gisborne District Council up to 9.8 per cent for Tasman District Council.

Table 11: Interest expense as a percentage of total operating expenses ($m) – comparator councils 2015/16

	Interest expense	Total expenditure	Percentage
Tasman District Council	$9.9m	$100.9m	9.8%
Marlborough District Council	$3.7m	$98.0m	3.7%
Gisborne District Council	$2.1m	$83.8m	2.5%

Note: Figures may not sum precisely due to rounding.

The results of the sensitivity analysis are shown below (based on per capita approach). A 50 per cent reduction in the interest expense represented would increase the annual operating position by between approximately $0.5m and $2.3m (depending on modelling assumptions). Conversely, a 50 per cent increase in the interest expense would decrease the annual operating position by approximately $0.6m to $2.4m (depending on modelling assumptions).

Table 12: Effect of different debt levels on year one operating position (50% change in finance cost) ($m)

	Tasman profile	Marlborough profile	Gisborne profile
Baseline one-year model	$3.1m	$3.5m	$1.9m
50% decrease in finance cost	$5.4m	$4.4m	$2.4m
Difference	**+$2.3m**	**+$0.9m**	**+$0.5m**
50% increase in finance cost	$0.7m	$2.5m	$1.3m
Difference	**-$2.4m**	**-$1.0m**	**-$0.6m**

Note: Figures may not sum precisely due to rounding.

3.2.5 APR ten-year projections

Consistent with the ML report, APR extended its year one financial model to project a year two to year ten model. This was based on the same inflation forecast and the anticipated population and revenue growth over that period as adopted by Auckland Council in its forecast financial statements. As per the ML report, the purpose of APR developing a ten-year projection was not to develop a full operating plan but rather to broadly understand the implications of infrastructure projects on financial sustainability.

As with the ML report, the ten-year modelling incorporates an allowance for capital works (asset renewal and new investment) to understand the financial implications of the required capital expenditure on financial sustainability. APR's base forecasting assumptions were calculated by 'back-solving' ML's modelling results, shown below. In other words, this analysis assumes that major capital works requirements over the coming ten-year period from AC's long-term plan have already been accounted for in the ML forecasting assumptions and are hence incorporated into the APR modelling through the annual expenditure increments below.

Table 13: ML forecasting assumptions

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue indexation (including rating base increase)	3.6%	4.1%	4.1%	4.2%	4.2%	4.7%	4.8%	4.5%	5.3%
Expenditure indexation (including rating base increase)	2.2%	3.0%	4.1%	6.6%	8.1%	5.3%	2.8%	2.8%	2.9%

Note: Figures may not sum precisely due to rounding.

Note: Indexation amounts include rating base increases. Expenditure indexation also accounts for capital investment and depreciation.

[16] Within the Infoshare database, it is also possible to disaggregate the local authority expense statistics, in total and by activity, into interest and other forms of expenditure. This supplementary analysis has not been undertaken here but would likely generate similar results to this LTP-based analysis.

Based on APR's one-year model, extended to a ten-year time horizon using the above assumptions and Infoshare-based data:

- Using the per capita financial benchmarking approach:
  - adopting the Tasman District income and expenditure profile, the annual surplus is projected to peak at $5.4 million in 2018/19, reduce to $2.4 million in 2021/22 and then recover to $6.6 million in 2024/25;
  - adopting the Marlborough District income and expenditure profile, the annual surplus is projected to peak at $2.9 million in 2018/19, reduce to an annual deficit of $1.3 million in 2021/22 and then recover to a surplus of $3.2 million in 2024/25; and
  - adopting the Gisborne District income and expenditure profile, the annual deficit is projected to reduce to $3.5 million in 2017/18, increase to an annual deficit of $7.8 million in 2021/22 and then reduce to a deficit of $5.3 million in 2024/25.
- Using the per rating unit financial benchmarking approach:
  - adopting the Tasman District income and expenditure profile, the annual surplus is projected to peak at $7.2 million in 2018/19, reduce to $3.2 million in 2021/22 and then recover to $8.8 million in 2024/25;
  - adopting the Marlborough District income and expenditure profile, the annual surplus is projected to peak at $3.1 million in 2018/19, reduce to $1.5 million deficit in 2021/22 and then recover to $3.5 million in 2024/25; and
  - adopting the Gisborne District income and expenditure profile, the annual deficit is projected to reduce to $4.5 million in 2017/18, increase to an annual deficit of $10.0 million in 2021/22 and then reduce to a deficit of $6.8 million in 2024/25.

Similar patterns would be found using the LTP data.

Table 14: APR ten-year model – Tasman District profile and per capita approach ($m) – Infoshare data

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue	47.1	48.8	50.8	52.8	55.1	57.4	60.0	62.9	65.7	69.2
Expenditure	43.3	44.2	45.6	47.5	50.6	54.7	57.6	59.3	60.9	62.6
Operating surplus/(deficit)	3.8	4.5	5.2	5.4	4.5	2.7	2.4	3.7	4.8	6.6

Note: Figures may not sum precisely due to rounding.

Table 15: APR ten-year model – Marlborough District profile and per capita approach ($m) – Infoshare data

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue	54.7	56.7	59.0	61.4	64.0	66.7	69.8	73.1	76.4	80.5
Expenditure	53.4	54.6	56.3	58.6	62.4	67.5	71.1	73.1	75.1	77.3
Operating surplus/(deficit)	1.3	2.1	2.7	2.9	1.6	-0.8	-1.3	0.0	1.3	3.2

Notes: (1) Figures may not sum precisely due to rounding. (2) Rating unit data is not available for Marlborough District Council from the online LTP pivot tables, hence a ten-year projection based on rating units is not provided here.

Table 16: APR ten-year model – Gisborne District profile and per capita approach ($m) – Infoshare data

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue	37.8	39.2	40.8	42.5	44.3	46.1	48.2	50.6	52.8	55.6
Expenditure	42.1	43.0	44.3	46.1	49.2	53.2	56.0	57.6	59.2	60.9
Operating surplus/(deficit)	-4.3	-3.8	-3.5	-3.7	-4.9	-7.1	-7.8	-7.0	-6.4	-5.3

Note: Figures may not sum precisely due to rounding.

Table 17: APR ten-year model – Tasman District profile and per ratings unit approach ($m) – Infoshare data

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue	62.9	65.2	67.8	70.6	73.6	76.7	80.2	84.1	87.9	92.5
Expenditure	57.9	59.1	60.9	63.4	67.6	73.1	77.0	79.2	81.4	83.7
Operating surplus/(deficit)	5.0	6.0	6.9	7.2	6.0	3.5	3.2	4.9	6.5	8.8

Note: Figures may not sum precisely due to rounding.

Table 18: APR ten-year model – Marlborough District profile and per ratings unit approach ($m) – Infoshare data

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue	59.7	61.8	64.4	67.0	69.8	72.8	76.1	79.8	83.4	87.8
Expenditure	58.3	59.6	61.4	63.9	68.1	73.6	77.6	79.8	82.0	84.3
Operating surplus/(deficit)	1.4	2.3	3.0	3.1	1.7	-0.9	-1.5	0.0	1.4	3.5

Notes: (1) Figures may not sum precisely due to rounding. (2) Rating unit data is not available for Marlborough District Council from the online LTP pivot tables, hence a ten-year projection based on rating units is not provided here.

Table 19: APR ten-year model – Gisborne District profile and per ratings unit approach ($m) – Infoshare data

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue	48.6	50.3	52.4	54.5	56.8	59.2	62.0	64.9	67.9	71.5
Expenditure	54.1	55.3	56.9	59.3	63.2	68.3	72.0	74.0	76.0	78.2
Operating surplus/(deficit)	-5.5	-4.9	-4.5	-4.7	-6.3	-9.1	-10.0	-9.0	-8.2	-6.8

Note: Figures may not sum precisely due to rounding.

4.0 SUMMARY AND CONCLUSIONS

This report presented an independent financial model of the prospective costs of operating a new North Rodney Unitary Council (NRUC) using publicly available data and transparent assumptions. The analysis was based on benchmarking the operating income and activity costs of comparator councils on a per capita and per rating unit basis. Comparator councils were selected with relatively similar characteristics to the proposed NRUC. Key findings were:

- Depending on the modelling approach taken, the year one (2015/16) operating position ranges from approximately $5.5 million deficit to $5.0 million surplus. This range confirms a potential for viability and that a NRUC is a reasonably practical option, subject to NRUC being committed to core service provision and financially sustainable business practices.
- Under alternative scenario assumptions for higher roading subsidies and lower debt levels, the year one operating position improves materially.
- Ten-year projections based on ML's annual increases indicate that the operating position would improve over the period 2015/16 to 2018/19, reduce for a period and then recover at the end of the decade.

PART TWO: BACKGROUND

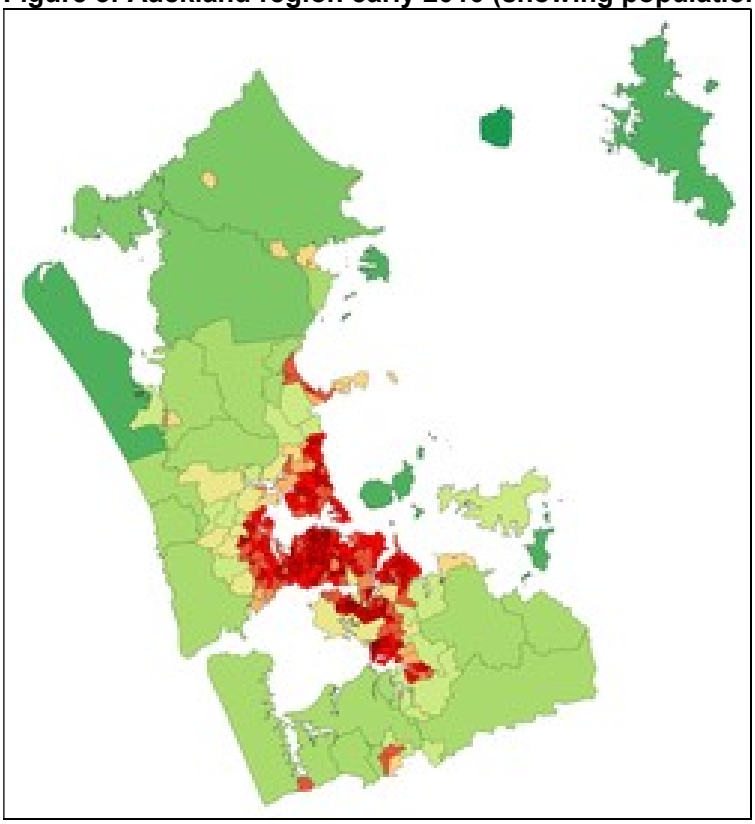
5.0 PROPOSED NEW COUNCIL

Information about the proposed North Rodney Unitary Council (NRUC) is detailed on the Northern Action Group (NAG) website and in various reports and correspondence. A summary of the proposal is provided below, with a focus on service and cost-related aspects. This section commences with a brief history of local government reorganisation in the Auckland Region as context.

5.1 Historical context of local government restructuring

Prior to 2010, the Auckland Region had seven territorial local authorities (city and district councils) plus a regional authority. In the late 2000s, New Zealand's central government and sections of the community advocated for an amalgamation into one local council. In 2007, the government set up a Royal Commission on Auckland Governance. Its report was released in March 2009 and the government subsequently announced that a "super city" would be set up to include the full metropolitan area under an Auckland Council with a single mayor and 20–30 local boards. Auckland Council today consists of a mayor and 20 councillors elected from 13 wards. There are also 149 members of 21 local boards who make decisions on matters local to their communities. It is the largest council in Australasia, with an approximately $3.5 billion annual budget and around 10,000 full-time equivalent staff.[17]

Figure 3: Auckland region early 2010 (showing population density)

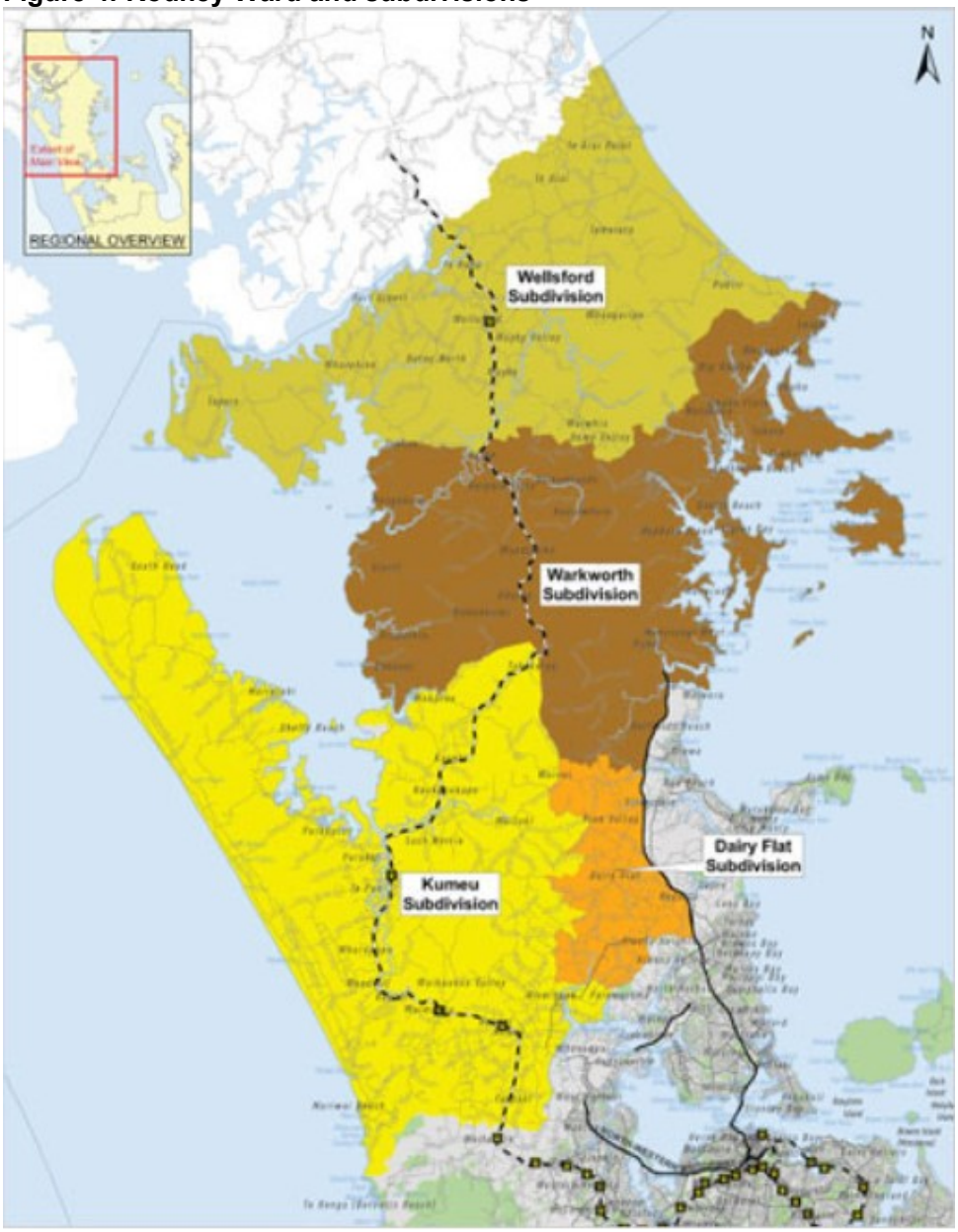


Source: Wikipedia – Auckland Council

The current Rodney Ward (comprising Wellsford and Warkworth, as well as Dairy Flat and Kumeu) encompasses 46% of AC's land area. The proposed North Rodney area leaves out a small part of the Warkworth subdivision and includes a small part of the Kumeu subdivision, and comprises approximately 26% of AC's land area.[18]

[17] ML (2017) reports 2015/16 total expenditure of $3.455 billion and Group FTEs of 9,870 (comprising 11,591 employees).
[18] ML (2017, p. 13) estimates NRUC's share of regional land area to be 26.51%.

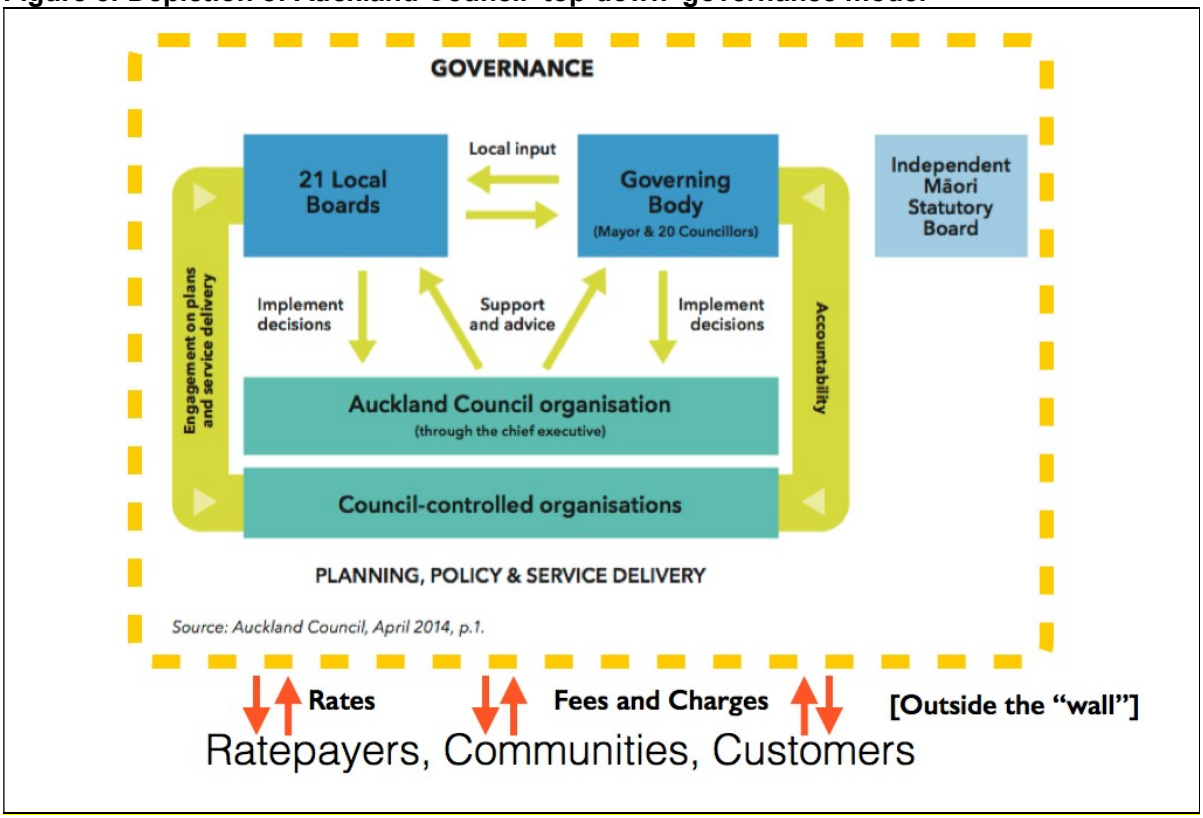
Figure 4: Rodney Ward and subdivisions



Source: NAG (2016)

Some community members consider the decision-making approach of Auckland Council to be overly 'top-down', as depicted in the diagram below from NAG's 2016 submission.

Figure 5: Depiction of Auckland Council 'top-down' governance model



Source: NAG (2016)

5.2 Northern Action Group

North Rodney is still very much a rural area. Most of the local area inhabitants are either directly or indirectly involved in agri-based activity. The Northern Action Group (NAG) was formed in 2009 from a diverse section of the North Rodney community in response to central government's decision to include them in the Auckland Council area.

The government Select Committee examining the amalgamation Bill initially recommended in September 2009 that North Rodney be excluded from the region and instead amalgamate with the Kaipara District Council. Its reasons were that this recognised the distinctly rural nature of North Rodney, and submitters from the area seeking not to be included in the proposed "super city". Local Government Minister Rodney Hide subsequently over-ruled this recommendation, claiming a widespread desire within the local community to be included in the super city (a claim subsequently shown to be unsupported by evidence).

NAG and a similar organisation in Wellsford started a petition requesting Parliament reinstate the Select Committee's initial recommendation. This presented to the House in February 2010 with approximately 6,300 signatures. The petition was referred to another Select Committee which after several weeks voted it down (6-5) along party political lines. Soon after, the Local Government Minister introduced a three-year embargo on reorganisation within the Auckland region. This expired at the end of the 2013 triennial Local Government elections. Since then NAG's efforts have been renewed.

A December 2012 amendment to the Local Government Act 2002 made significant changes to the reorganisation process. The requirement of a minimum 50,000 population for a unitary council has been removed, thereby opening a window of opportunity for North Rodney that did not exist before.

NAG's view is that most of its worst fears eventuated from the amalgamation. In its 2013 proposal to form a new North Rodney Unitary Council (NRUC), NAG argued that:

> *"… Rather than achieving economies of scale the new Council has done just the opposite.*

Debt has almost doubled since inauguration of Auckland Council and is projected to double again over the next few years to the point where nearly a quarter of the rate take will be needed just to cover the interest.

We in the North have suffered more than most as much of the budget allocation, such as for roading, is determined on population and with such a large area (a quarter of the region) and less than 2% of the population, what money we do get is spread very thinly indeed. Clearly our contribution to the rate pool (just under 3%) is out of all proportion to the population (approximately 1.7%).

During our campaign, we have discovered much anecdotal evidence that this area is being 'starved' of cash. Many long-standing residents report that they have never seen the roads in such poor condition and what maintenance is being done (by contractors from outside of the area) is of poor and minimal standard boding an even gloomier future for our network….

We believe the basic problem why local governance is not working for North Rodney lies in the ill–conceived notion that a rural area could be effectively governed by a remote and urban-focused administration. This incompatibility is accentuated when the representation for both areas is determined solely on population.

Rural areas, by their very nature are much less densely populated and the resulting imbalance in representation is self-evident. North Rodney geographically comprises nearly a quarter of the region and yet must share a single Councillor to represent them on a council of 20.

No matter how well that individual performs in the governing body he/she will always be at a huge numeric disadvantage and it shows…

This is further exacerbated by very much lower service levels that are delivered to the rural area. One of the principal concerns of rural people (indeed what many regard as the "only" thing they get for their rates) are their roads.

In North Rodney, we have something of the order of 700 kilometres of unsealed roads and at the present rate of funding it will take at least that many years to upgrade and seal them. A dismal prospect indeed, especially when many of the residents living along those roads are farmers who pay many thousands of dollars annually with little or no hope of ever getting improved the one council supplied service that they can actually see….

It is these demonstrated incompatibilities that our NRUC will address to shift the focus of local governance clearly onto our 'local rural' environment. Per capita representation then will be much higher and will enable Councillors to be much closer informed as to what the needs and concerns are of their constituents."

NAG's concerns with the status quo include:

- *Worsening transport delays and no long-term solutions; an expensive central rail loop that is being funded by the whole region for the benefit of city commuters; an inadequate housing build program, with unaffordable housing, a poor homeless community and the Government not ruling out appointing a Commissioner; a hugely expensive Unitary planning process for no equivalent benefit; CCOs that disagree with Council (e.g. over harbour use) and communities.*
- *A Council buying accommodation for itself in Auckland that has a $30m refit blowout; a $180m IT overspend and over $1.2B IT spending when there is no evidence to show a fully integrated system from the old council's systems was actually necessary; an overseas "ambassador" that we don't need; growth in highly expensive ($100,000+ salaries) council administrators at the same time as reducing community volunteering; and constant wastage of rural ratepayers funds on urban projects they get no benefit from (e.g. Auckland Live's Aotea Centre piano stairs, or $50,000 on staff Sky TV subscriptions).*
- *Widespread local area disenchantment (disenfranchisement – representation levels are so low votes don't count), Local Boards have no effective power to engage their communities;*

centralised decision making excludes locals; and costly and pointless consultation processes where submissions are ignored.

NAG has therefore invested into research and advocacy for a Unitary Council with a structure and philosophy designed to address the issues causing local discontent.

Key points identified by NAG in favour of the NRUC proposal include:

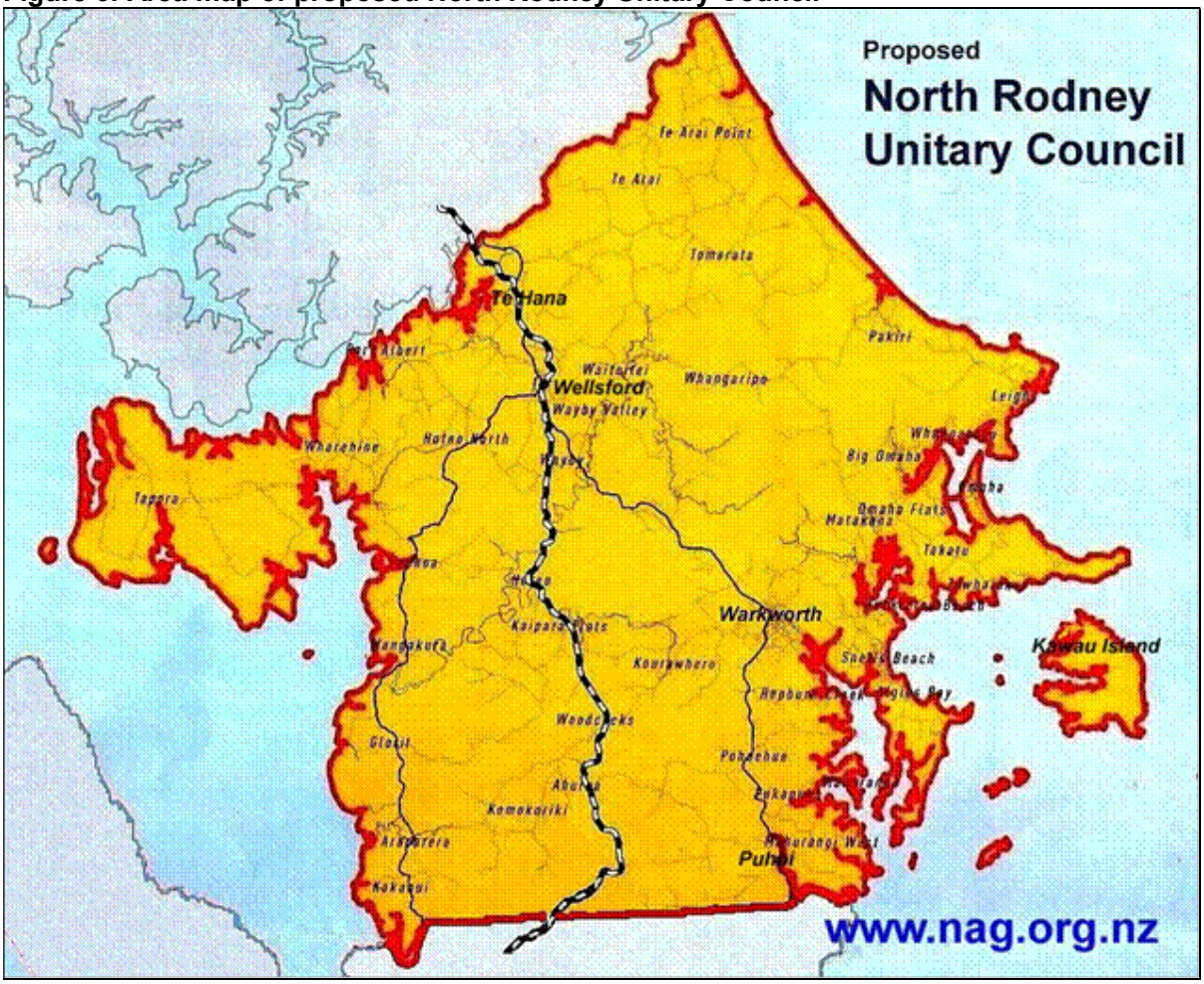
- Rates set lower than Auckland Council's at an affordable level using cost controls.[19]
- Transparent, cost effective expenditure for council services.
- Effective, responsive local governance from a mayor and five ward-based Councillors.
- A community-led local governance approach adapted from the Thames Coromandel District's governance model.
- Conduct regular electronic polling on community issues using email and social media.
- Encourage community volunteers.
- Adhere to the principles of proposed Charter.
- Provide two major service centres using existing offices in Wellsford and Warkworth.
- Develop local District Plan.
- Dispense with Watercare to regain local control of water and wastewater services.
- Implement a 'Buy Local' policy using local labour and contractors whenever possible.
- Advocate for Regional Parks management to remain with Auckland Council.

5.3 Proposed NRUC – overview

North Rodney encompasses approximately one-quarter of the Auckland geographic region. The proposed NRUC boundary encompasses the part of the Auckland region north of a line approximately between the upper tidal reaches of both the Makarau and Waiwera rivers. The boundary includes Kawau Island; and excludes the south head of the Kaipara Harbour.

[19] NAG considers that Auckland Council has high overheads, high debt, large numbers of employees and a spending culture more appropriate to a large urban organisation than to the 'no frills' proposed NRUC. For these reasons, NAG is confident that NRUC's rates annually can be 10% to 15% less than Auckland's. They intend to provide services at around the same level and quality as at present by running a cost-effective organisation.

Figure 6: Area map of proposed North Rodney Unitary Council



Source: www.nag.org.nz/images/North%20Rodney%20map.jpg

5.3.1 Administrative centres

Council headquarters will be based in Warkworth with a small service centre/agency in Wellsford. There are several existing sites available for these centres. A study needs to be made as to which are most suitable and affordable.

5.3.2 Activity focus

NRUC will be focused primarily on the core business of fulfilling statutory local government regulatory functions and delivering community infrastructure such as road network, water reticulation, wastewater systems and stormwater management. A greater portion of overall council spending will be concentrated on infrastructure under NRUC compared to current AC allocations.

5.3.3 Governance approach

Representation

The North Rodney (NR) proposal would separate out around 22,000 to 24,000 population (approximately 17,000 registered voters), and create five new wards within NRUC with one Councillor per ward.[20] The NRUC governing body would comprise a Mayor elected by the community at large and five Ward Councillors. The ward boundaries will be defined having regard to criteria such as rateable land area, population, and rateable values. The objective is to ensure no individual sector (rural or urban) can dominate the council. The proposed arrangements would give an elected representation level of approximately 3,400 voters per (fully empowered)

[20] The current Rodney Local Board District has one Ward, one Councillor and nine Local Board members appointed for a population of around 60,000 (1:6,000) covering 46 per cent of AC's land area.

councillor, compared with the current 1:50,000 ratio under Auckland Council (and with the local board seen as no more than an advocacy group rather than representation).

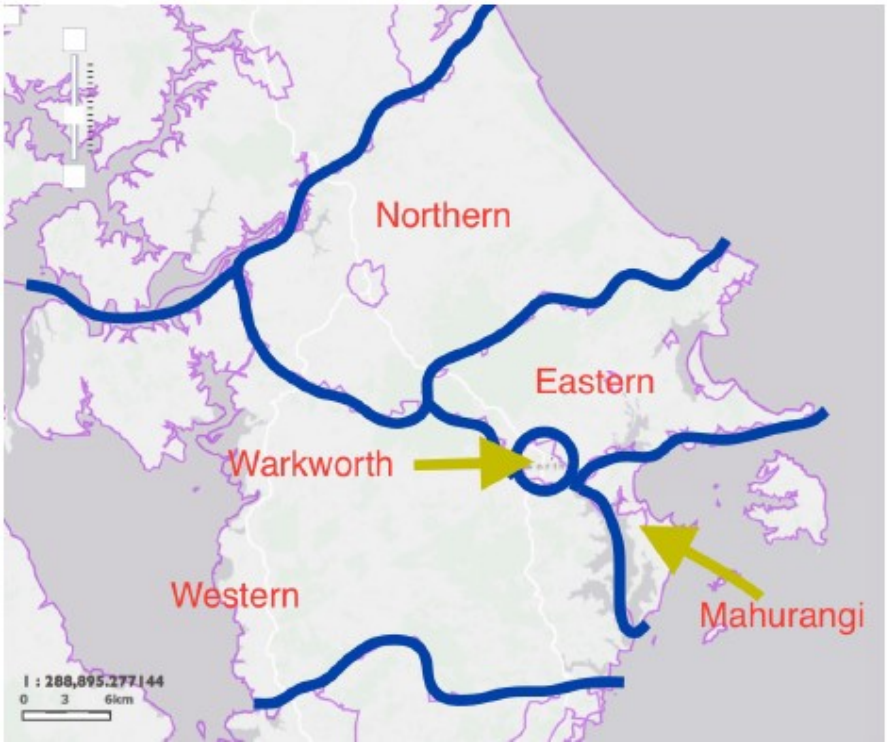
Division into five Wards using meshblock level detail would require consideration of up-to-date data. NAG has assessed that this would provide fair representation in accordance with the Local Electoral Act 2001 (LEA) using 2013 census meshblocks and Statistics NZ data as follows.

Table 20: Approximate population of NRUC by Ward, using 2013 data

Ward	Population	Variance
Northern	4980	+10.9
Western	4206	-6.3
Warkworth	4479	-0.3
Eastern	4119	-8.3
Mahurangi	4671	+4.0
TOTAL	22455	

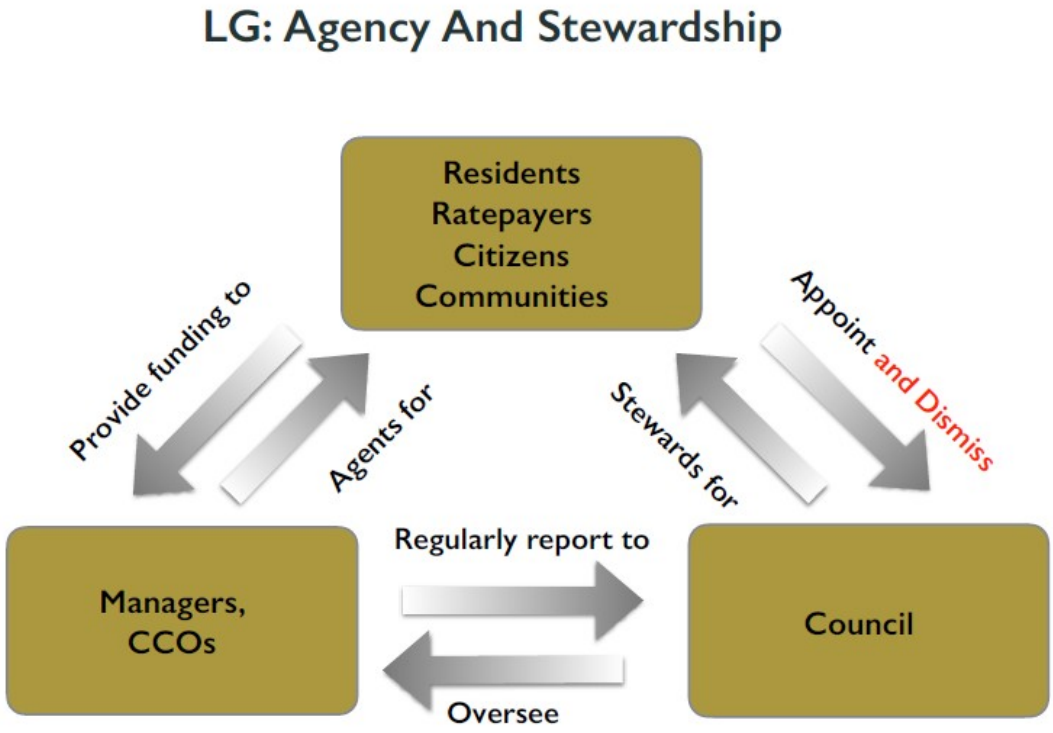
Source: NAG (2016)

Figure 7: Indicative boundaries of NRUC Wards



Source: NAG (2016)

Figure 8: Local government agency and stewardship



Source: NAG (2016)

Community Boards would elect their own Chair, who would attend all Council meetings.

Whether the North Rodney community would want a separate Māori ward has not been canvassed at this stage of the proposal.

Community volunteers

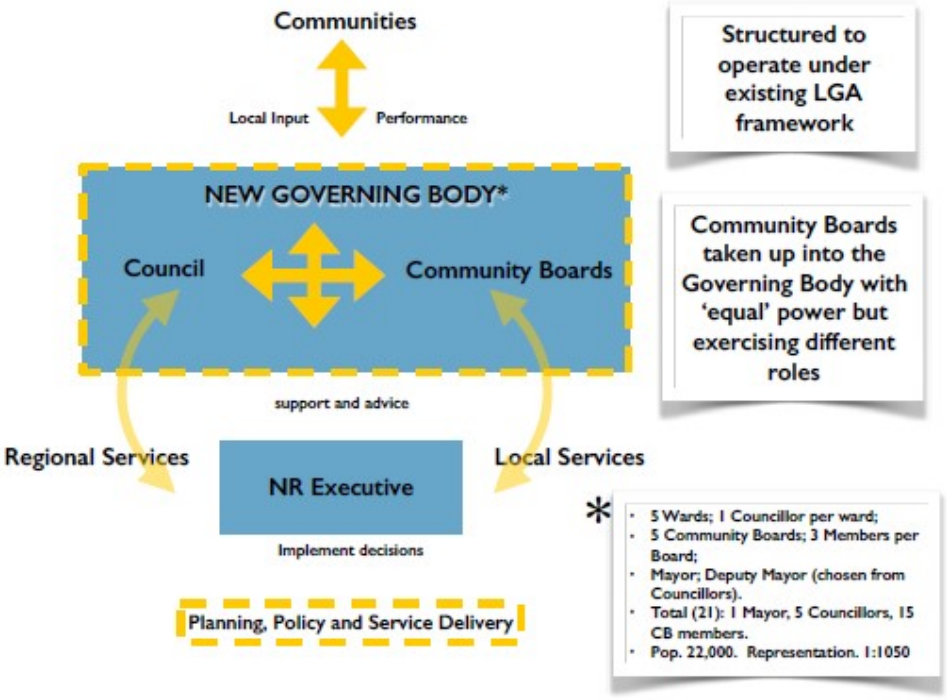
The NRUC will build strong local community involvement and ownership of projects and community facilities by encouraging and supporting voluntary groups and organisations working for the good of North Rodney and its people.

Planning for local needs

The NRUC will draft a new District Plan for North Rodney, developed from the present Unitary plan and previous local 'structure and other' plans made with community input.

The NRUC will adopt a community-led local governance approach adapted from the Thames Coromandel District's governance model (the Devolved-Empowered Model).

Figure 9: Proposed community-led local governance structure



Source: NAG (2016)

The Thames-Coromandel style of community governance approach provides for essential Council services to be governed and managed centrally with some non-essential (but still important) services to be to be administered locally. Essential services managed by the Council are:

- wastewater
- solid waste
- storm water/land drainage
- district transportation
- district economic development
- bylaws
- land-use planning and land use management
- strategic planning
- emergency/hazard management
- water supply.

Services managed locally by Community Boards and town-based area offices are:

- harbour facilities
- parks and reserves
- halls
- libraries
- airfields
- swimming pools
- public conveniences
- cemeteries

- local transportation
- local strategic planning
- community grants
- local economic development
- local bylaw levels of service.

Regular polling on local issues

The NRUC will stay in touch with its community by conducting regular polling using electronic and other social media.

'Buy local' policy

The NRUC will, wherever possible 'buy local' (including staffing). The aim is to ensure that local money stays in circulation in the local economy to create and secure jobs for local people.

5.3.4 Service approach

Library services

The NRUC will provide a first-class Library service through investment in stocking local library shelves plus inter-library lending arrangements (with associated service charge). A 'suggestion box system' (both on-line and manual) will be operated so users can encourage the purchase of what they'd like to see in the Library.[21]

Public transport

The NRUC will provide an appropriate public transport system where it can be shown that this will be cost effective and will be supported by the user public. This would need to be at least 75% user pays.

Regional parks

North Rodney contains within its borders seven Regional Parks that were acquired over many years by the former Regional council and developed for use by the public. Only a small per cent of usage is by residents of Rodney North. NAG's proposal is for the Regional Parks to remain under Auckland Council's control and management as 'absentee owners'. NRUC will seek to negotiate a grant in lieu of rates (in proportion to park usage) for the specific purpose of providing and maintaining suitable access roads.[22]

5.3.5 Regulatory approach

Regulatory consents

The NRUC will carefully scrutinise consenting processes to increase efficiency and effectiveness. This will include consideration of making judicious use of council accredited private companies for processing aspects.

[21] Note that TCDC's operating model devolves Parks and Libraries but maintains a central contract for services for cost savings. Each Community Board contributes its area's levels of service into that contract according to their willingness to pay and community preferences. An alternative is the successful Hot Water Beach parking charges approach adopted by TCDC.

[22] The new NRUC and Community Boards would be required to discuss and resolve the responsibility for development, maintenance and upkeep of the regional parks with Auckland Council. While their use and development must be part of the NRUC area plans, they are accessed in high proportion by people from outside NR, and legislation prevents them from being managed by either Council as private goods recovering costs fully from users.

Island access

The NRUC will support owners of sea-access-only properties to ensure that they have adequate and appropriate access to what is their 'road' (i.e. the sea) without exorbitant consenting fees for jetties and moorings.

Alcohol and dog control

The NRUC will establish local dog control and alcohol plans for each community area in accordance with the wishes and input from those communities.

Unitary council responsibilities

The NRUC's unitary council responsibilities will centre largely on environmental matters such as bio-security, pollution, sedimentation, erosion, plant, pest control and monitoring. There is precedent for New Zealand territorial local authorities restructuring into units with unitary status. North Rodney would be the smallest unitary authority to date. The discharge of unitary duties is primarily dependent upon the skills, judgment and professional experience of the people employed to conduct environmental and regulatory duties. The NRUC will seek to attract local human resources that are "the best in the business".

5.3.6 Financial management approach

Rating policy

Rates will be set at a locally affordable level. The NRUC will adopt such tools as the Uniform Annual General Charge (UAGC) to collect the maximum permissible proportion of the rates (30%) and use targeted rating where it is identified that only localised areas or groups benefit.[23] So far as practical, NRUC will follow the philosophy of 'user / exacerbator pays'. The NRUC will ensure that ratepayers, as near as possible, pay only for what they receive.

Financial hardship assistance policy

The NRUC will have a financial hardship policy to assist ratepayers of limited means. This will involve means testing of the individual's financial ability to pay. If persons are deserving of assistance, they would be granted relief in the form of postponed rates.

Debt policy

The NRUC will strictly control its debt levels and will not apply the proceeds of debt towards day-to-day expenditure. Borrowing will only be used for new capital works or substantial upgrades of existing assets. Council borrowing will have to show very clear benefits for at least the term of the loan and will be secured over clearly defined areas of benefit. Once these criteria are met and only if the new borrowings have a clear democratic mandate of the community so encumbered, will it proceed.

Roading expenditure and Central Government subsidies

The NRUC will maintain sufficient funding for road maintenance, and ensure the maximum subsidy from Transit NZ is available for the local roading network.

5.3.7 Service levels, assets, liabilities, revenues, and expenses

Service levels

The NRUC will set its annual budget to fit local income circumstances, based on what is affordable to North Rodney ratepayers. Service level plans will be based on what similar New Zealand councils are currently delivering and underpinned by detailed financial projections.

Assets

Information about NRUC assets can be inferred in a broad sense from information compiled by AC in response to requests. Information was sourced from AC's operational departments responsible for asset management; draws on both asset management data and AC's fixed asset register; and utilising specialist knowledge to provide an estimated breakdown of assets and their estimated value for the North Rodney area. Best estimated 2015 valuations based upon the data

[23] AC chooses not to use the 30% maximum UAGC because of regressive impact on lower socio-economic groups.

available were provided. Net Book Value (NBV) and Depreciated Value (DV) were calculated on the same basis. A summary of assumptions and the methodology used to calculate best estimated values was provided for each asset class. The information provided was reviewed, validated, and consolidated by AC's Financial Control team.

AC advised that it was not possible to provide the information requested for some asset classes. These are asset classes consisting of collections of assets, and are regarded as one asset rather than individual parts of an asset. These are easily re-locatable items which regularly move to where they are needed in the region and include, for example, motor vehicles, library books, office furniture, art works, and mobile computer hardware. For this reason, AC did not provide the information requested for the following collections of assets.

- Library Books
- Motor Vehicles Plant & Equipment
- Office Equipment
- Furniture & Fittings
- Computer Hardware
- Computer Software
- Art Works and Public Art Objects
- Intellectual Property
- Other Intangibles.

Table 21: NRUC stormwater asset valuation estimate 2015

Asset class	$000's Replacement Cost	$000's Depreciated Value
Culvert	7,013	5,479
Pipe	52,581	40,419
Manholes	18,934	14,776
Ponds	27,735	24,246
Total	**106,262**	**84,921**

Source: AC (2015)

Table 22: NRUC water and wastewater asset valuation estimate 2015

Plant Assets	Treatment plants	15,830
	Plant Total	**15,830**
Network Assets	Hydrant	581
	Water Main	29,031
	Water Storage Unit	1,455
	Water Valve	2,104
	Water Total	**33,171**
	Water Meter	873
	Sewer Main	53,565
	Sewer Manhole	14,695
	Sewer Miscellaneous	190
	Sewer Pump Station	429
	Sewer Valve	2,649
	Waste Water Total	**72,401**
	Water and Waste Water Total	**121,403**

Source: AC (2015)

Table 23: NRUC transport asset valuation estimate 2015

Asset class	$000's NBV
Bridges	48,868
Drainage	72,079
Footpaths	5,902
Pavement & Resurfacing	145,611
Retaining Walls	4,114
Signs	212
Street Lights (poles)	12
Stormwater Channels	50,320
Traffic Facilities	12,769
Traffic Signals (poles)	531
Stormwater (point assets)	30,705
Roading Land*	410,365
Sandspit Wharf	484
Schoolhouse Bay (Kawau Island)	497
South Cove (Kawau Island)	319
Bus Shelters (not currently included – expect a few likely > $50k)	
Total	**782,787**

Source: AC (2015)

Table 24: NRUC park structures asset valuation estimate 2015

Asset class	$000's NBV
Coastal Assets	36,707
Courts	399
Monuments & Sculptures	1,800
Park Equipment	1,167
Park Furniture	5,386
Park Roads & Carparks	9,867
Parks Structures	7,362
Paving & Hard Surfaces	3,631
Play Spaces	2,452
Sports Fields	1,903
Trees	29
Utilities	1,496
Total	**72,198**
Coastal Assets	1,081
Park Equipment	1,370
Park Furniture	7,758
Park Roads & Carparks	4,712
Parks Structures	1,127
Paving & Hard Surfaces	992
Utilities	1,012
Water Features & Water Bodies	2,778
	20,831

Source: AC (2015)

Table 25: NRUC operational land and buildings asset valuation estimate 2015

Asset class	Area	$000's NBV
Operational Buildings	North Rodney	14,312
Operational Buildings	North Rodney Regional Parks	2,638
Operational Land	North Rodney	16,017
Total		**32,966**

Source: AC (2015)

Table 26: NRUC restricted land and buildings asset valuation estimate 2015

Asset class	Area	$000's NBV
Restricted Buildings	North Rodney Parks	6,126
Restricted Buildings	North Rodney Regional Parks	1,852
Land Parks	North Rodney Parks	69,496
Land Parks	North Rodney Regional Parks	102,017
Access ways	North Rodney Parks	200
Small Reserves	North Rodney Parks	10,669
Total	**TOTAL**	**190,360**

Source: AC (2015)

Table 27: NRUC summary total asset valuation estimate 2015

Asset Class	Area	Information Provided By	Latest Revaluation	Recognition Basis	$000's
Operational Land	North Rodney	Finance Dept	Jun-14	Valuation at Cost	16,017
Operational Buildings	North Rodney	Finance Dept	Jun-14	Depreciated Replacement Cost	14,312
Operational Buildings	Regional Parks North Rodney	Finance Dept	Jun-14	Depreciated Replacement Cost	2,638
Restricted buildings	North Rodney	Finance Dept	Jun-15	Depreciated Replacement Cost	6,126
Restricted buildings	Regional Parks North Rodney	Finance Dept	Jun-15	Depreciated Replacement Cost	1,852
Land Parks	North Rodney	Finance Dept	Jun-15	Depreciated Replacement Cost	69,496
Land Parks	Regional Parks North Rodney	Finance Dept	Jun-15	Depreciated Replacement Cost	102,017
Accessways	North Rodney	Finance Dept	Jun-15	Depreciated Replacement Cost	200
Small reserves	North Rodney	Finance Dept	Jun-15	Depreciated Replacement Cost	10,669
Land under roads	North Rodney	Auckland Transport	Jun-14	Depreciated Replacement Cost	410,365
Roading network	North Rodney	Auckland Transport	Jun-14	Depreciated Replacement Cost	372,423
Stormwater Reticulation	North Rodney	Stormwater Dept	Jun-15	Depreciated Replacement Cost	84,921
Combined Reticulation	North Rodney	Stormwater Dept	Jun-13	Depreciated Replacement Cost	
Water/Wastewater	North Rodney	Watercare		Depreciated Replacement Cost	121,403
Structures Parks	North Rodney	Parks Dept		Replacement Cost	72,198
Structures Parks	Regional Parks North Rodney	Parks Dept	Jun-13	Replacement Cost	20,831
				TOTAL	1,305,466

Source: AC (2015)

Liabilities

NAG argues that NRUC should theoretically exit Auckland Council with zero debt. NAG will argue that although Rodney District Council entered the super city as one of the most highly indebted councils, nearly all this related to expenditure in the south of Rodney; hence, North Rodney should not be burdened with debt from these areas.

For this report, alternative debt scenarios are modelled.

Revenues (rates, fees, and charges)

The setting of Council rates, fees, and charges for the proposed NRUC will be based on the following principles and practices:

- Each year set basic rates (excluding targeted rates or special area rates) at less than the equivalent rate of Auckland Council for that year (estimated 10-15 per cent lower on a comparable ongoing basis).
- Targeted or special rates will only be levied on a ward/area basis if additional services are provided. For example, if reticulated water and wastewater services are provided in currently unserviced areas; and if new township developments require Council-provided local area facilities, and such are shown to have a significant level of local area support. This is a strict adherence to the 'user pays' approach to the provision of facilities or services in a particular area for the benefit of that area. In this way, the expenditures are not cross-subsidised by ratepayers in other parts of the region.
- In accordance with the NRUC's local community-led governance philosophy and activity intentions, it would likely provide the opportunity for rating variations depending on local community needs and projects. These variations would be worked out by Community Boards, the Council and Executive. This process would provide for ensuring project justification, good budget and project control, trade-offs across communities and care in raising debt levels.
- Regulatory, dog registration and other fees would be set to be competitive with adjoining or comparable Councils.
- If still legally enforceable, development contributions would be levied on a basis like that adopted by the former Rodney District Council.

Morrison Low consultant's estimate of annual NRUC revenue in 2015/16, based on AC data and various assumptions, were $28.1 million in rates revenue and $63.5 million in total revenue.

Expenses

Estimating the annual expense of running NRUC is the core focus of this report.

Projections are based on 'cost-effective, no frills approaches' to expenditure. Using prior information available, NAG's prior cost projections are less than would be the case applying Auckland City's overhead cost of providing local urban services. The NRUC would focus firmly on the core services required in a small urban township / rural environment, including rural roads.

NAG has previously estimated that a leaner staffing approach ($5.2m annual savings compared to Morrison Low consultants' modelling), alternative assumptions in relation to finance costs ($9.6m annual saving) and an allowance for reducing waste ($1.5m annual savings) would result in annual expenditure of around $60.7m and hence a small annual surplus.

Staffing

The CEO would provide appropriate advice, support, and implementation to support community-led governance. Following the TCDC example, under the Devolved-Empowered Model it is likely 2 or 3 Area Managers would be appointed by the CEO to service the five Community Board areas and attend all Council meetings. Community Boards would also have a Coordinator (to assist with administration) and receive support from the Executive (financial advice, planning, budgets etc.)

Administrative Centre

The Administrative Centre would likely be Warkworth, with one or two Area Offices (depending on cost) as a base for the Area Managers. Office and staffing decisions would be made on affordability.

Depreciation

NAG's budget is drawn up on an output basis and significant expenditures as reported are all 'depreciation inclusive'.

5.4 Proposed NRUC – 2013 financial assessment

In developing its 2013 proposal for the NRUC, NAG documented its investigations:

> *"We set out to establish what the present funding situation is with the North Rodney area to establish whether or not our proposed NRUC would be financially viable.*
>
> *Obviously, Auckland Council is the only source of this information so we used the provisions of the 'Official Information and Meetings Act' to obtain details of rates income and operating expenditure for our area. Although some detail was supplied, for example the rate take for the area, the AC were unable to supply "sufficient detail" of expenditure for North Rodney in isolation.*
>
> *In short Auckland Council 'does not know' how much it costs to run North Rodney in isolation. The Northern Action Group realised that even if such detail had been available, it would not necessarily have been relevant to the type of administration we are proposing. Being a rural-based and focused council the AC expenditure patterns in any event would be quite different.*
>
> *As a result, we decided to engage the professional services of a Finance and Policy Analyst. After hearing our brief, Mr Mitchell suggested what he considered to be a much more reliable and relevant method for determining how such a council might perform. The method he has used has reliably been employed in the past for a number of councils around the country…."*

NAG's expectations regarding the costs of an NRUC are documented in its local government submissions and relate to the concept of 'diseconomies of scale':

> *"Being relatively small in size, the NRUC will be far less likely to suffer the phenomena of 'diseconomies of scale' than is clearly the case with Auckland Council. The much-touted reason for creating a super city in the region, 'economies of scale', has not eventuated with staff numbers much higher now (and still growing) than the sum of the predecessor nine Auckland Region Councils….*
>
> *The NRUC will be cheaper to operate because it will not suffer from the phenomena of 'diseconomies of scale'. As any organisation grows more and more time is lost with internal communications, meetings etc. purely so it can operate as a unit.*
>
> *Our smaller administration will lose much less time and therefore will need less staff to operate effectively. Fewer meetings of senior staff will be needed freeing those highly paid individuals to 'get on with their jobs'. This problem was very evident with RDC and is even more so with AC…."*

Larry N. Mitchell's 2013 financial projections and viability assessment indicated that the proposed NRUC would be financially viable providing certain protocols were adhered to. Key findings included:

- The peer group used for modelling comprised a sample of 10 NZ TLA Councils of similar population numbers and character as the proposed NRUC. The group included Matamata-Piako, Hauraki, Ashburton District Councils and seven others. All of these operated quite satisfactorily in modes similar to that planned for North Rodney, many with low debt status ... of around $1,500 debt per ratepayer and at a similar (small to medium) scale of operations and with one or two town centres and a rural hinterland with similar populations to the proposed NRUC, around the 30,000 mark (15,000 ratepayers). In all cases, the demographics of the incomes and aging population of NRUC in relative economic terms are at least as 'good' as the others.
- The added costs of acting as a unitary council seem to settle at around plus 12% of total operating expenditure (opex), mainly in the regulatory and monitoring area. This margin is added to the estimates.
- No significant added infrastructural asset requirements (such as ownership and management of drainage or water resources) or public asset ownership (of ports or airports)

would complicate the plan for NRUC. Consequently, NRDC debt levels and debt servicing costs will be well below the NZLG sector norms.

- NRUC roading is a mixture of bad and good news. The roading network is located on difficult terrain, with an extensive rural unsealed network (of an estimated 650 Km) servicing a low-density population in a rural area. The good news is that the LTNZ subsidy rate will approach 60%, not the roughly 40% of the Auckland Council. North Rodney's costs of roading metal, sourced locally will have a price advantage. But overall local roading costs will, as a proportion of the total opex be 'high' ... estimated at 40% of opex.
- Allowing where possible for these above factors and based on the modelling of the peer group of councils, Mitchell (2013) proposed the following breakdown of annual operating expenditure (opex) for the NRUC:
- The average TLA peer group expenditure pa per ratepayer (2012 no GST) was $2,980. Using a midpoint of $3,200, adding 12% or $384 for unitary NRUC proposed total pa expenditures, is $3,600, note excluding GST.
- $3,600 per ratepayer is the estimate of NRUC operating costs excluding GST including the added unitary provision at plus 12% or $54M total.
- If 60% of this is funded from rates, then 'rates' on the same basis will be $2,160 per ratepayer ($32.4M the rates funded total).
- Funding of this expenditure comes from a combination of general and targeted rates, council service charges, financial and other 'commercial' incomes, development contributions and government-LTNZ subsidies. In general, 60 to 65% of Council expenditure is sourced from rates.
- On this basis our projected NRUC unitary rates would be $2,160 – then adding GST this total would be $2,484 per ratepayer.
- Based on 15,000 ratepayers with rates of $2,160 pa per ratepayer the NRUC using our peer group modelling as detailed above can expect to generate total rates revenue of $32.4 million pa excluding GST.
- The breakdown of proposed NRUC expenditures will look something like below.

Table 28: Mitchell (2013) estimates of NRUC annual expenditure and rate funding requirement

Expenditure category	% Proportion of total opex Peer group average	% Proportion of total opex Suggested NRUC %	$$$ Suggested NRUC total pa note: 1% = $350K	$$$ Rates funded 60% (general and targeted plus UAGC) on a non-unitary basis
Roading	29.8	40	$14,000K	$8,400K
Stormwater	1.2	1.2	420K	420K
Water supply	11.3	7	2,450K	2,450K
Wastewater	8.5	5	1,750K	1,750K
Land Drainage	.2	1	350K	0
Refuse/Solid waste	6.3	3	1,050K	0
Regulatory	8.8	12	4,200K	2,100K
Recreational reserves	7.4	5	1,750K	1,750K
Property management	5	2	700K	350K
Libraries	2	2	700K	600K
Community facilities	6.7	5	1,750K	1,200K
Economic development	2.6	3	1,050K	1,000K
Democracy	3.8	3	1,050K	1,050K
Other			3,780K	70K
Sub-Totals			**$35,000K**	**$21,070K**
Add 12% unitary			$40,000K	$23,500K
Add 15% GST			$46,000K	$27,000K
Per ratepayer			$3,066	**$1,800**

Source: Larry N. Mitchell (2013) 'The Mitchell Report on Financial viability of NRUC', Appendix Four of Northern Action Group (2013).

Notes: (1) All dollar totals are exclusive of GST; (2) Roading costs are gross excluding subsidies; (3) Rates funded column is net of subsidies and fees and charges; (4) Water supply and wastewater estimated 'down'.

Assumptions: (1) Rates funded are set at 60% of total opex; (2) $ total rates funded estimates with 60% adjustment $21.070M (60% of $35M is $21M); (3) Comparisons of rates funding (excluding GST) totals $2,160 per ratepayer (with GST $2,484) and generates $37.2M using the peer group analysis. The 'table' figures using budgeted expenditure categories of $1,566 per ratepayer (with GST $1,800) generates $27M; (4) The difference between the two rate estimates of ($1,800 and $2,484 above) arise/are due to the different levels of expenditure and GST.

Mitchell (2013) concluded that, depending on budgeted operating expenditures, unitary rates including GST would range from a low $1,800 pa per ratepayer to a mildly high figure of $2,484.

Note that water and wastewater rates based (as above) on the averages used, could be significantly lower if rates were adjusted for ratepayers not receiving these services.

5.5 Larry N. Mitchell modelling approach

Detailed notes provided by Larry N. Mitchell in October 2013 as commentary on his approach provide additional relevant information on associated data limitations – principally in relation to balance sheet, asset, and debt projections:

> *We have made exhaustive enquiries of Auckland Council in an attempt to develop financial projections of assets, debt, other contingencies and equity with which to construct a statement of financial position (balance sheet) for the NRUC.*

These efforts have proven difficult as results have been variable in quality and content. We have not in the outcome constructed a full projected NRUC balance sheet, settling instead for assessments of its major components ... assets-debt-contingencies.

As a result, therefore we submit the following based on information-assessments arising from our own investigations, knowledge of our area and the "limited" responses we have received from the Auckland Council.

- *Assets and net equity assessments ... the more precise asset-related information with which to construct the initial NRUC balance sheet will in due course be determined by the LGC, probably on a detailed assets/accounting records basis as was conducted for the part of the Franklin District when Waikato DC received a portion of FDC assets. This was a detailed accounting-records based method and provides a model for these (our) exercises.*
- *We have not (for our purposes as mentioned) been able to replicate this process. We do not believe this to be a major impediment however to our development of useful asset-debt related projections, as the following paragraphs will demonstrate.*
- *This accounting difficulty, in fact has little effect on our important projections. The asset numbers will merely establish the balance sheet values inclusive of asset revaluations relating to the NRUC ratepayer's equity disclosure. There is no impact or influence of these notional asset values upon our capacity to assess such matters as debt, debt servicing costs and (the bulk of) depreciation – as will now (below) ... be explained.*
- *The major portion of the assets of the North Rodney area are its 'roading network'. The good news is that roads will not greatly impact our financial projections as roading assets do NOT carry debt plus the fact that a large element of their revalued amount (land under roads) are not depreciable.*
- *A material element of the asset-base valuations comprises the problematical land under roads (from an estimated valuation which are non-depreciable) and the biggest element of this asset transfer value consists of periodic asset revaluations (effectively just book entries) that thus have little effect on the two 'majors' ... of debt (none) and depreciation (not depreciable).*
- *As for the asset-debt details that we have obtained we discovered. ...*
    - *few material infrastructural public assets located in our proposed area,*
    - *very few new capital projects commenced/completed in the last decade in our area and*
    - *consequently, (by deduction) low or no NRUC debt confirmed and the bulk of our asset base – as valued comprising a reported 650 Km of unsealed roads, the balance (unknown km details) being local sealed roads.*
- *As mentioned, these roading assets attract no debt and have a high component of asset valuation-based land under roads that are non-depreciable ... the combined effect of which is little significant impact upon our financial projections.*
- *Council-owned local Roads of all kinds can be excluded from the debt part of the analysis (see above) that is for debt assessment purposes. To be explicit ... "Debt, arising from North Rodney asset funding, particularly because of the large component of roads within the asset base that are not debt funded suggests overall a low debt scenario for North Rodney".*
- *Contingent liabilities for reported deferred maintenance of the North Rodney roading assets is apparently 'significant'. This assessment is based on asset management plan detailed records. Because this represents 'real money' required for maintenance costs, NRUC would expect to receive an allowance for these amounts as a provision (liability). This must comprise a discount upon the level of debt transferred (note NOT*

as a book entry which would merely use a 'non-real-money' amendment of the asset values transferred).

- *Recent North Rodney area capital works, according to our investigations, are limited to two, (relatively) major projects, others are very minor, (less than $1M by comparison). These are: the Warkworth water supply upgrade, (circa 2006 valued at not more than $3M and probably "partly" funded by debt) and the Wellsford Library (guesstimate less than $5M partly funded by debt) ... and*
- *That! to our knowledge is it! We acknowledge, due to our limited information gathering capability the possibility that other material North Rodney assets have been debt funded of which we are unaware.*
- *Much of the rest of the major historic RDC debts are not asset-related and/or related to our area. There were huge amounts (several hundreds of millions) of the Rodney DC's debt-capex in the last decade which related almost exclusively to the Hibiscus Coast-Orewa and Western area expenditures-developments, NOT to us!*
- *One example is the Orewa Council Office building. Many ratepayers made strong representations to the Council to not proceed with the near $100M cost of office extensions so close to the Auckland area likely amalgamation.*
- *The property is totally inappropriate (over-designed) for the amalgamated Auckland Council operations.*
- *The Centreway Orewa Council office block is not located in our area and will provide NO services to the NRUC.*
- *There were many other debt financed misadventures that similarly are none of our NRUC business. For one example of debt raised to no good effect, see below re generic debt arising from poor (grossly erroneous) budgeting-shortfalls of development and financial contributions.*
- *Speaking now of the specifics of possible NRUC debt ... it is hard to see, based on our enquiries, any major issues or material totals for projected North Rodney area debt. In brief, this imputed/transferred debt will be limited to and comprise:*
    - *Historical debt of the area but! only if this can be sheeted home to our boundaries-assets based on solid evidence ... (note not mere apportionments based on subjective judgments).*
    - *Debt, clearly associated with the financing of new assets (water supply-library above), possibly no more than the $8M as detailed.*
    - *We do not accept any share of either the Hibiscus Coast or the 'Western area', the Rural and Township division generic debt that does not attach to our North Rodney area's assets.*
    - *Significant debt was incurred by the Rodney District Council (as mentioned due to inter alia shortfalls in development contributions). This had NOTHING to do with North Rodney operations so any debt issues arising from these events is not NRUC concern.*
    - *As a rule of thumb, the low debt Councils of our NZ TLA group* run at no more than 'a maximum' of $1,500 debt per ratepayer.*
    - *For our projected 15,000 NRUC ratepayer base, this would equate to a maximum NRUC initial balance sheet debt total of $22.5M. Incidentally, this total would require, at current interest rates, a quite nominal annual debt-servicing cost (not included in our projections note) of $1.5M pa and this amount is 'allowed for' within the achievable range of proposed-degree of flexibility-assessments that we have used.*

- *To summarise: We would expect the LGC to determine our North Rodney assets, debt and contingencies taking into account the above issues and including provisions for deferred maintenance based on a fully supportable evidential database.*
- *Our public assets, due to the 'extensive' (low density) nature of settlements in our area are few. However, our concerns for the condition and state of our roads must be addressed and appropriate financial contingencies properly accounted for (above).*
- *And finally, the NRUC will be adhering to low-no debt policies once the Council is formed and does not wish to be saddled with excessive or unrelated non-specific-generic Council debt from the outset.*

5.6 Limited data availability

NAG has used the provisions of the Official Information and Meetings Act in requests for background information that is for the most part only available from Auckland Council. Whilst on many occasions AC staff could supply what was requested, they have been restricted by lack of historical and current data on North Rodney in isolation. A selection of information was reviewed online and compiled where relevant from the list of topics below:[24]

- Local board representation - Representation ratios for each area option.
- Corporate support costs - Corporate support costs across the entire Auckland region.
- Rating information - Rating information for each area option.
- Growth figures - Growth projections for each area option at April 2017.
- FTE Auckland Council at June 2016 - Total Auckland Council employee numbers at June 2016.
- Direct employee numbers in identified option areas.
- Infrastructure and environmental services financial data - Financial information for infrastructure and environmental services.
- Arts culture and events financial data - Financial information for arts, culture, and events.
- Chief planning office financial data - Financial information for the chief planning office.
- Parks sport and recreation financial data - Financial information for parks, sport and recreation.
- Community facilities other costs financial data.
- Auckland Transport financial data - Financial information provided by Auckland Transport.
- Length of stormwater pipes - Length of stormwater pipes to be used to apportion stormwater costs.
- Road lengths - Road length data to be used to apportion transport costs.
- Auckland Transport owned stormwater assets - Stormwater assets that are owned and managed by Auckland Transport.
- Full community facilities asset opex.
- Partial asset register for Rodney and Waiheke.
- Active licence data - Data on active licenses in the option areas.
- Building Control - consents, inspections, and dwellings - Data on building consents, inspections, and dwellings in the option areas.
- Resource consent and licensing and compliance services information.

[24] Refer files available for downloading at www.aucklandcouncil.govt.nz/about-auckland-council/performance-transparency/privacy-official-information-requests/published-responses-information-requests/Pages/local-government-commission-information-request.aspx

- Major contracts delivering services to Waiheke or Rodney regions at March 2017 - Auckland Council's major contracts.
- Waste management activities - A list of waste management activities in the option areas.
- Watercare financial data - Financial information for Watercare Services Limited in the option areas identified.
- Watercare planned capex - Planned capital expenditure in the option areas for the next ten years.
- Locally driven initiatives budgets - The existing budgets for local board discretionary funds.
- Land area data 30 March 2017 - The total land area of the option areas.
- Regional park areas analysis - Areas of regional parks that are within the option areas.
- 2011 groundwater catchment area - Information provided by Watercare.
- 2009 agri-base analysis of Wellsford catchment - Information provided by Watercare.
- Geological units – Snells Algies - Information provided by Watercare.
- Mahurangi River recording sites - Information provided by Watercare.
- Additional rating information - Further rating information relating to option areas and the Auckland region.
- Summary licensing data - Summary of licensing data in the option areas.
- Summary of 2015-2016 vested assets transport - Summary sheet of transport assets vested in 2015-2016.
- 10-year community services capex data - Planned capex over a 10-year period for community services.
- Planned stormwater capex – April 2017 - Planned capex over a 10-year period for stormwater.

In addition to the above, correspondence from Bill Townson on 15 Sept 2017 re roading capital works programme indicated that AC has a small amount in its 2017/18 budget for new seal $3.3m (for the whole region) but the amount will then drop to $1.1m.

6.0 MORRISON LOW REPORT 2017

In 2017, Morrison Low (ML) Consultants were commissioned by the Local Government Commission (LGC) to independently investigate, in accordance with the Local Government Act 2002 (LGA), seven options identified by the LGC for local government reorganisation in Auckland. The purpose of the assessment was to assist the LGC in identifying the Reasonably Practicable Options (RPOs) for local government in the affected area and in determining its preferred option.

To assess each option, ML created a one-year (2015/16) view of opex and capex and a ten-year (2015/16-2024/25) financial forecast model based on apportionment of Auckland Council financial information to the affected areas.[25] This was then used to determine if each of the potential local authorities would have the resources necessary to effectively carry out its responsibilities, duties, and powers, based on the financial assumptions applied. ML's findings are summarised below for the seven options.

- Option 1 – Status Quo (no change).
- Option 2 – Two local boards for Rodney (no proposed change to boundaries or functions).
- Option 3 – Merge a portion of North Rodney with Kaipara District Council and Northland Regional Council. This option results in a year one (2015/16) estimated $2.9 million

[25] The model was based on actual 2015 operational and capital expenditure and 2016-2025 projections. Apportionment methodology is detailed in the main body of the ML report.

operating deficit for Kaipara District Council and a reduced operating surplus for the Northland Regional Council.

- Option 4 – North Rodney Unitary Authority (NRUC). This option results in a year one estimated $13.5 million operating deficit, which is forecast to increase over the ten-year forecast period. The ML analysis calculated that total rates would need to increase by 48% in year one to cover the deficit.
- Option 5 – Waiheke Unitary Authority. This option results in a year one estimated $6.4 million operating deficit.
- Option 6 – North Rodney District Council. This option results in a year one estimated $10.2 million operating deficit, which is forecast to increase over the ten-year forecast period.
- Option 7 – Waiheke District Council. This option results in a year one estimated $4.7 million operating deficit, which is forecast to increase over the ten-year forecast period.

The ML analysis found that Option 4 (NRUC) was not financially viable and hence not considered to be a "Reasonably Practicable Option".

6.1 ML financial modelling approach

To determine the prospective financial position for each of the proposed options, ML created a one-year snapshot of the financial statements for each option based on councils' 2015/16 Annual Reports. ML used publicly available information from the councils' Long-Term Plans (LTP), Annual Plans and Annual Reports. Information was sourced from Auckland Council, Kaipara District Council (KDC), Northland Regional Council (NRC), the Local Government Commission and Statistics New Zealand.

To determine the revenue and expenditure associated with each of the identified options, it was necessary to apportion the financial information as contained in Auckland Council's 2015/16 Annual Report. Consequently, the Annual Report financial information was requested from Auckland Council on a geographic basis for each of the identified option areas.

Since the options comprised of a range of entity types including unitary council, regional authority, and territorial authority, this necessitated that Auckland Council's activities be split into the functions of a traditional regional versus territorial authority. Accordingly, the split of Auckland Council's activities was requested based on regional and territorial functions for the purposes of evaluating the options.

ML's methodology included a one-year financial statement and ten-year financial statement.[26] The latter was based on the inflation forecast and the anticipated population and revenue growth over that period as adopted by Auckland Council in its forecast financial statements.[27] The ten-year modelling also incorporated an allowance for Auckland Council's capital works programme for each option area to understand the financial implications of the capital expenditure on the future sustainability of the proposed option.

6.1.1 Information framework

ML's assessment was based on a typical New Zealand council operating model with a growing rating base.

ML used the following framework when apportioning financial information.

Where actual costs were available, these were used. Examples include:

- 'Local activities' allocated based on Auckland Council local board areas.
- Activities that do not apply to the affected areas e.g. regional facilities, volcanic cones, City Centre targeted rates, waterfront development. In these cases, no allocation was made.

Where direct actual costs were not available an assumption was made regarding the apportionment of cost to the option areas. Examples include:

[26] Using the modelled year-one financial statement, ML then created a year two to ten model for each option.
[27] BERL local government inflation forecast, 2006 census population growth data and rates increases as adopted in Auckland Council's 2015/25 Long Term Plan.

- Stormwater revenue and expenditure, allocated based on the length of the piped stormwater network in the affected area.
- Regulation costs, allocated based on the number of applications and licences within the affected area.

ML also reviewed major areas of expenditure where most costs were not asset based, for example governance and organisational support costs, to identify if the total cost and share of overall costs was in line with their experience of working with other New Zealand councils. Where appropriate, ML compared these results with other similar councils under the proposed option to provide confidence to the results were appropriate.

ML identified that benchmarking across councils is inherently difficult because of differences in population, land area, topography, rating base, demographics, and local economic characteristics. Councils also report costs in different ways, with allocation of overheads having a significant impact on the reported cost of service delivery. Some councils have the benefit of substantial investments and well-maintained assets, while others are facing a delayed maintenance and renewals workload on top of a falling rating base. For these reasons, the ML approach was kept intentionally high-level.

6.1.2 General assumptions

To model the various options, a range of assumptions and standard indicators were developed. Key assumptions are presented below:

- All assets and services will be funded by, and be the responsibility of, the relevant council.
- Services will continue to be delivered in accordance with existing levels of service provided by Auckland Council to the respective areas.
- All existing contracts will continue until their expiry or until replaced by the new entity.
- Typical council operating model (based on advice from LGC) including typical representation, decision making, delegations and allocations.
- Figures rounded where appropriate as part of the financial modelling.
- Assumed each option is in place at the start of the 2015/16 financial year to allow the future state to be assessed.
- The base year 2015/16 for the financial model to allow it to be built on audited financials as presented in the councils' annual reports with a further breakdown provided based on the groups of activities. Where necessary data on the costs and revenues for individual activities was requested to enable district and regional council functions to be separated and costs and revenues to be apportioned to the option areas.
- The intention of the ten-year financial modelling was not to develop a full operating plan or LTP, but rather to understand the implications of infrastructure projects on the financial sustainability of the entity going forward. Outgoing years are modelled on the base year with the following adjustments made:
  - Auckland Council's forecast rates increases for the remainder of the 2015/25 LTP;
  - the forecast growth in the rating base in the option area as shown in the table below;
  - an increase in expenditure equivalent to Auckland Council's forecast rate of inflation for staff and other costs as forecast in the LTP; and
  - the increased depreciation and interest costs from Auckland Council's capital works programme for the area.
- The table below shows the forecast rates, population and rating base increase used to develop ML's ten-year financial model.

Table 29: Projected increase in general rates, population and rating base for Auckland

	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
General rates increase[21]	3.2%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Population increase	1.5%	1.5%	1.5%	1.4%	1.4%	1.4%	1.3%	1.3%	1.3%
Rating base increase[22]	1.6%	1.6%	1.8%	1.8%	2.0%	1.9%	1.9%	1.9%	1.8%

Source: ML (2017)

- No allowance was made for a potential increase in operating costs to accommodate a larger population base in the outgoing years. For water and transport the impact of a growing population is primarily felt on the capital budget, not on the operating budget.
- The total rates collected, including targeted rates, allocated to each option area.
- Rates split into territorial authority and regional council rates based on the proportion of net expenditure allocated to the territorial authority and regional council in that area. Population data and forecasts were sourced for the relevant local board areas, wards and meshblock areas from Statistics New Zealand, based on the subnational population estimates at 30 June 2016 (2017 boundaries).
- There would also be additional costs in transitioning to the new entity including development and implementation of a Regional Policy Statement, Regional Land Transport Plan, regional plans, district plan, policies, bylaws, civil defence, developing a new stand-alone IT system and recruitment costs. These have not been included in the financial results.
- The financial position of Auckland Council is not unduly affected by any of the options as proposed, although there would be substantial transitional workload for Auckland Council.
- No allowance has been made for the costs borne by other parties' due to the proposed options. This includes costs associated with council iwi liaison and cost incurred by central government for legislative change.

6.1.3 Activity specific assumptions

ML applied the following activity based assumptions to its assessment:

Roading

- Roading expenditure was based on actual operational financial information provided by Auckland Transport for each local board area. Where data was for a larger area, such as the Rodney Local Board area, the expenditure was allocated based on the length of roads in the option area.
- Asset values and the depreciation expense was apportioned based on the proportion of assets in each option area. Specific data was provided on the number of streetlights, length of footpath and length of road. Road lengths were further broken down into three categories, chipseal, asphaltic concrete and unsealed roads. The proportionate lengths were used to allocate the asset values and depreciation expense.
- Some minor assets were considered to relate predominantly to the Auckland urban area and were not allocated to the option areas. These included seawalls, busway stations and traffic signals.
- For other assets, including bridges and drainage assets where there was no other information available, the overall proportion of the length of road was used to determine the share of expenditure.
- The New Zealand Transport Agency (NZTA) funding assistance provided to councils and other approved organisations is based on a calculated Financial Assistance Rate (FAR). This is based on centreline kilometres divided by capital value, the inverse of rating units and the index of deprivation. The maximum normal funding assistance rate for all local authorities is 75%, while the minimum rate is set at 51%. The FAR is based on data from all local authorities across New Zealand, with a higher rate for one local authority resulting in a

lower rate for the other local authorities. If a new territorial authority is created, NZTA may need to recalculate the FAR for all local authorities.[28]

- Due to the complexities associated with calculating the actual FAR rate for the proposed local authorities, the FAR rates used for calculating the NZTA subsidy for each option are based on comparable councils. A sensitivity analysis was carried out to identify the impact of a potential 5% increase or decrease in the FAR from the midpoint figure selected. The estimated FAR rate has then been applied to the different categories of transport expenditure based on Auckland Transport's activity reports. The low, midpoint and high FAR figures for each option are shown in the table below.

Table 30: Estimated Financial Assistance Rates (FARs) used for financial modelling

	Status quo	NRUC
Low FAR scenario	51%	51%
Midpoint		56%
High FAR scenario		61%

Source: ML (2017)

- Public transport, a regional council activity, was split out from roading costs and allocated based on the actual costs allocated to the local board area; and then local board costs were allocated based on the number of rating units in each area.
- Costs relating to parking activities were allocated based on the actual costs allocated to the local board area and then the local board costs were allocated based on the number of rating units in each area.

Regional parks

- Revenue and expenditure on regional parks was allocated based on the proportion of the total Regional Park land area within each of the option areas.
- One of the scenarios modelled as part of the sensitivity analysis for Option 4 – North Rodney Unitary Authority, considered the possibility that Auckland Council contributes to the operating costs of the Regional Parks in North Rodney, due to the use of these parks by Auckland residents not living in the North Rodney area. This would not address the use of the Regional Parks by residents from other parts of New Zealand or from international tourists.[29] The new NRUC would need to negotiate with Auckland Council regarding any contributions to North Rodney Regional Parks.

Waste

- Solid waste costs in Rodney were calculated based on the value of the separate targeted rate charged to Rodney residents. This targeted rate covers recycling and the costs of recycling centres and transfer stations. Other waste activity costs funded through the general rate were allocated based on the number of rating units in each area.

Water and wastewater

- Watercare provided detailed revenue, costs, assets and assessed debt for each of the option areas. This information was used directly in the model and no further apportionment was required.

Stormwater

- Stormwater revenue and costs, including vested assets and development contributions, allocated based on the proportion of the piped stormwater network in the option areas.

[28] According to NZTA, the main core of the FAR system was designed to allocate National Land Transport Fund (NLTF) revenue to local government for maintaining and operating local roads. This is the base FAR for local road maintenance, operations and renewals. Each approved organisation is given a base FAR, which determines the level of funding for most of its activities. Base FARs are calculated to ensure that the national overall average rate of assistance is 50%.

[29] ML stated in its report that it was not aware of any current arrangements in New Zealand whereby one council contributes to another Council's operating costs, unless there was a contract or agreement in place for that council to provide services on behalf of the other council. This suggestion was made as part of the Northern Action Group's (NAG's) application to the LGC and was mentioned in ML's report to address NAG's concerns regarding the funding of Regional Parks.

Environmental services

- Environmental services costs allocated based on land area. Environmental services are a predominantly regional activity and include biodiversity, biosecurity, and clean waters. Expenditure is related to land area and is mainly focused on rural areas and regional parks, although there are some significant clean waters initiatives in the urban areas relating to stream remediation, as well as responses to coastal erosion.

Local activities

- Auckland Council provided the actual costs charged to the Rodney Local Board for the following activities:
  - Local community services
  - Local environmental management
  - Local governance
  - Local parks, sport and recreation
  - Local planning.
- Local board costs allocated based on the number of rating units in the local board area relative to the total number of rating units for the local board.

Regulation and consents

- Building control costs allocated based on the average of the proportion of building consent applications and proportion of building inspections within each of the option areas.
- Resource consenting costs allocated based on the proportion of resource consent applications within each of the option areas.
- Resource consenting costs were also apportioned into local and regional consents, based on consent numbers within each of the option areas. This was based on a high-level description of the consent type and an estimate where the type of consent was not clear e.g. 'bundled consents'.
- Licencing and compliance costs allocated based on the proportion of licences and animal registrations within each of the option areas.
- Weather tightness claims have not been allocated to the option areas.
- Average share of the costs for building consents, resource consents and licencing were used to allocate residual costs.

Regional facilities

- Funding for the Museum of Transport and Technology (MOTAT), Auckland Regional Amenities Funding Act funded facilities/services and the Auckland War Memorial Museum allocated on a weighted capital value basis in accordance with the historic funding model prior to the establishment of Auckland Council.
- ML noted that should the NRUC proceed, then a new funding model could be agreed for these facilities that excluded the new Unitary Council area. This possibility was included as a scenario in the sensitivity analysis.

Investment

- Investments, including those held by Auckland Council's council controlled organisation Auckland Council Investments Limited, were allocated on a rating unit basis, as the investments are held for the benefit of the ratepayers and any returns on investments is used to offset rates. This includes a share of cash and other assets excluding property, plant, and equipment.
- ML did not consider the position of the legacy councils (e.g. Auckland City Council and Rodney District Council) when apportioning investment. When Auckland Council was

formed, all investment was amalgamated in the creation of the new entity, hence ML took the current Auckland Council as the starting point for considering the potential options.

Debt

- Debt allocated based on the share of total assets within each of the option areas (as debt is usually associated with the acquisition or replacement of assets).
- ML did not consider the position of the legacy councils (e.g. Auckland City Council and Rodney District Council) when apportioning debt.

Governance, management, and organisational support

- Governance, management, and organisational support costs developed based on ML's experience of the actual cost categories and costs within these areas. This was benchmarked against comparable district councils. ML did not consider there were any comparable unitary authorities due to the small population base in the proposed NRUC. The governance, management organisational support costs for this option was therefore based on district council options, with an additional uplift allowance made for the added complexity associated with a unitary authority.
- For the NRUC option, an additional governance scenario was modelled including five community boards, each with four elected members.[30]

Activities not allocated

- Revenue and expenditure associated with activities that do not apply to the option areas were not allocated. These included:
  - Volcanic cones
  - City Centre targeted rates
  - Waterfront development
  - Weather tightness claims.

Other

Other activities were allocated based on a rating unit basis as it was considered the most accurate way to allocate these costs. These activities were:

- Economic Growth and Visitor Economy
- Property development
- Regional community services
- Cemeteries
- Regional Sports
- Regional Sports Development Contributions and Vested Assets
- Regional planning
- Environmental Services - Management and Education
- Civil Defence and Emergency Management
- Rural Fire
- Waste and Environmental Services Other.

Several different apportionment methodologies were considered for these costs. A comparison of the relative share of these costs that would be allocated to the option areas is shown in the table below.

[30] Four is the minimum number of elected members required under the Local Electoral Act 2001, Section 19F.

Table 31: NRUC share of Auckland region's population, capital value, rating units and land area

Method	NRUC
Population	1.49%
Capital value	2.45%
Rating units	2.74%
Land area	26.51%

Source: ML (2017)

Note: Population is based on the Statistics New Zealand subnational population estimates which are derived from the Census usually resident population count and therefore exclude visitors/tourists.

Population was excluded as a means of apportionment as it does not capture the non-resident ratepayers in the area.

As part of the sensitivity analysis, ML modelled a scenario using capital value instead of number of rating units to allocate these costs, as the actual apportionment methodology that would be utilised in the case of de-amalgamation is unknown.

Land area is only appropriate to use for some activities e.g. environmental services which are directly related to the area of land.

6.1.4 Data limitations

The ML report noted that Auckland Council's financial reporting system does not identify all expenditure to specific parts of the region, particularly for expenditure that is not geographically tied. Auckland Council's revenue and costs are collected and spent regionally, with the exceptions of some activities (e.g. solid waste) that are the subject of separate targeted rates across the region. To develop a full assessment of expenditure down to a local board area would require apportionment of centralised costs based on a range of assumptions, as done for the ML assessment, and would only be an estimate rather than the actual expenditure.

For costs other than organisational support and governance, ML assumed that the current service delivery cost would remain the same as the frontline service levels would not change. This would be the case in areas such as parks and roading, where most of costs are locked into external contracts with varying expiry dates.

However, for activities predominantly based on staff costs, economies or diseconomies of scale may mean that the actual cost to deliver the service is higher or lower in the proposed local authorities. Examples of this include Building Control and Environmental Services which are dependent on a small number of skilled officers. ML noted that some activities may not justify a full-time employee (e.g. Legal Services), in which case external providers may be used but potentially at a higher cost.

Because of the limitations in the data, ML conducted a sensitivity analysis to determine if the financial results are significantly altered by some of the assumptions that have been made.

6.2 Assumptions and results for 'NRUC' option

6.2.1 Representation

- The ML report assumed that governance for the option they described as NRUC would comprise a mayor and 10 councillors, elected by wards, and that community boards would not be established. A scenario including five community boards, each comprised of four elected members, was considered as part of the financial modelling.

6.2.2 Resources

- Additional resourcing and systems would be required.
- Premises would need to be identified for the new unitary authority.

6.2.3 Area offices

- The ML report assumed that NRUC would have one office located within North Rodney.

6.2.4 Assumptions specific to NRUC

- That revenue (including rates) would remain the same until the new entity establishes its financial strategy including rating policy, fees, and charges.
- That NRUC would operate as per a typical unitary authority operating model.

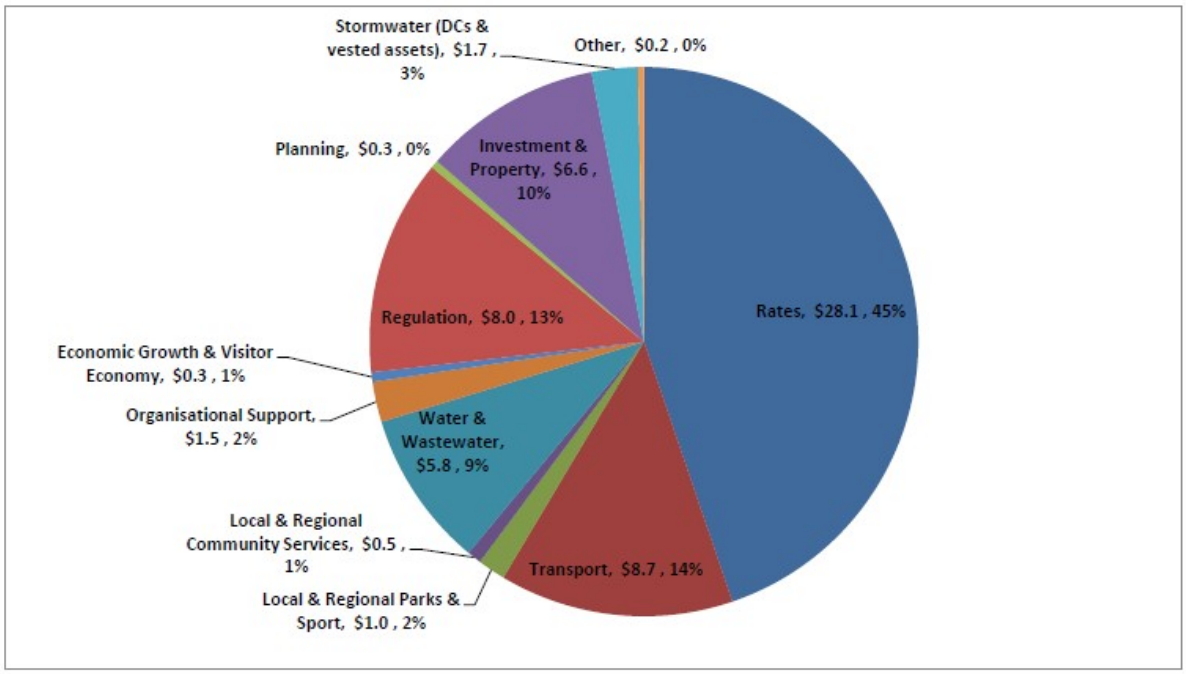
6.2.5 ML one-year assessment

The figures below are key for understanding the ML methodology and how to replicate and improve on it. These show the breakdown ($millions and per cent) of revenue and expenditure for the proposed NRUC under the ML assumptions.

Revenue

The revenue for each activity includes development contributions and vested assets.

Figure 10: ML report 2017 – Breakdown of revenue for NRUC



Further indicative information on the rates component of revenue is contained in information provided online by AC regarding the combined area covered by the Wellsford and Warkworth subdivisions (below).

Table 32: 2016/17 rates excluding GST for combined Wellsford and Warkworth subdivisions

	Wellsford and Warkworth subdivisions
Number of rating units	**15,238**
General rates including UAGC	$28,026,147
Targeted rates:	
Interim transport	$1,568,105
Waste management	$1,221,253
Retro-fit-your-home	$65,409
Glorit Flood Gate Restoration	$35,671
Jackson Crescent	$529
Pt Wells	$14,665
Total rates revenue	**$30,931,778**

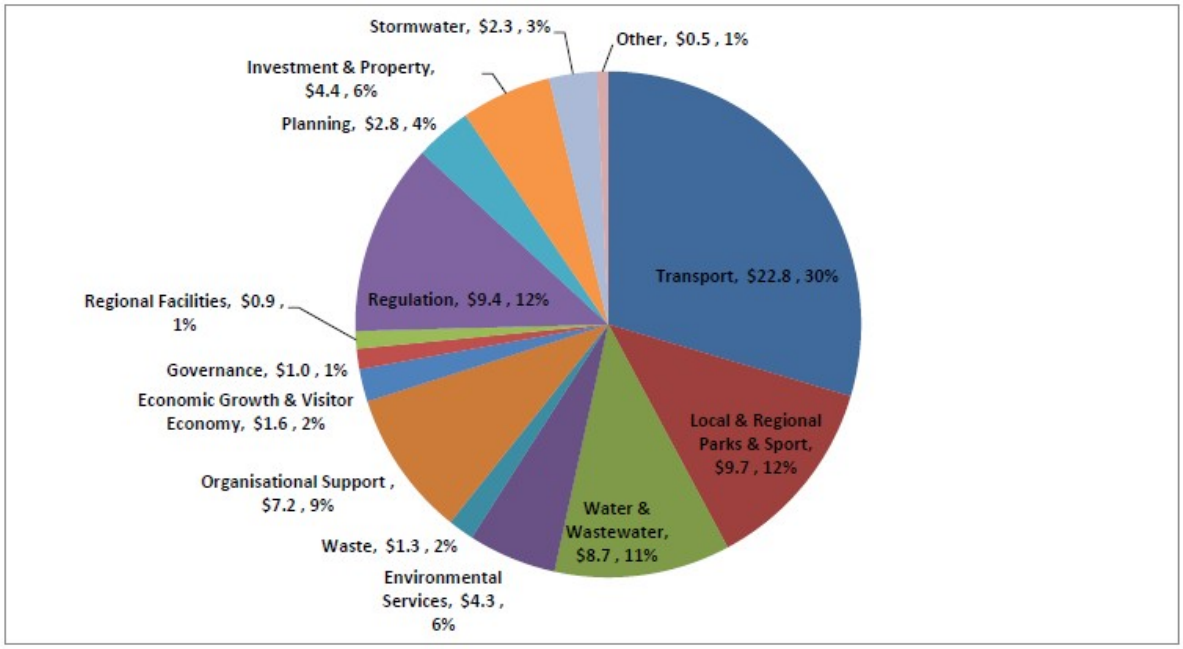
Source: www.aucklandcouncil.govt.nz/about-auckland-council/performance-transparency/docslocalgovernmentreorg/lgc7-rating-information.pdf

Note: Figures above will not precisely apply to the proposed NRUC boundary.

Expenditure

When compared to Auckland Council, the percentage of expenditure on roading is significantly higher, as would be expected for a council of a similar size. The expenditure for each activity includes associated interest costs.

Figure 11: ML report 2017 – Breakdown of expenditure for NRUC



The ML report assessed that the NRUC would result in a year one (2015/16) estimated $13.5 million operating deficit and that this would increase over time. 'Total rates would need to increase by 48% to cover the deficit. In addition, there are likely to be significant capability and capacity issues for a unitary authority that is approximately half the size of the smallest current unitary authority in New Zealand.' There would also be additional costs in transitioning to the new entity. Based on this assessment, ML concluded that the NRUC was not a Reasonably Practicable Option (RPO) for further consideration.

Table 33: ML one-year (2015/16) assessment of NRUC financial results

2015/16	Auckland Council (status quo) ($M)	North Rodney Unitary ($M)
Total Revenue	3,705	63.5
Total Expenditure	3,455	77.0
Operating Surplus/Deficit	250	-13.5
Deficit as a percentage of total rates revenue	-	-48%

Source: ML (2017)

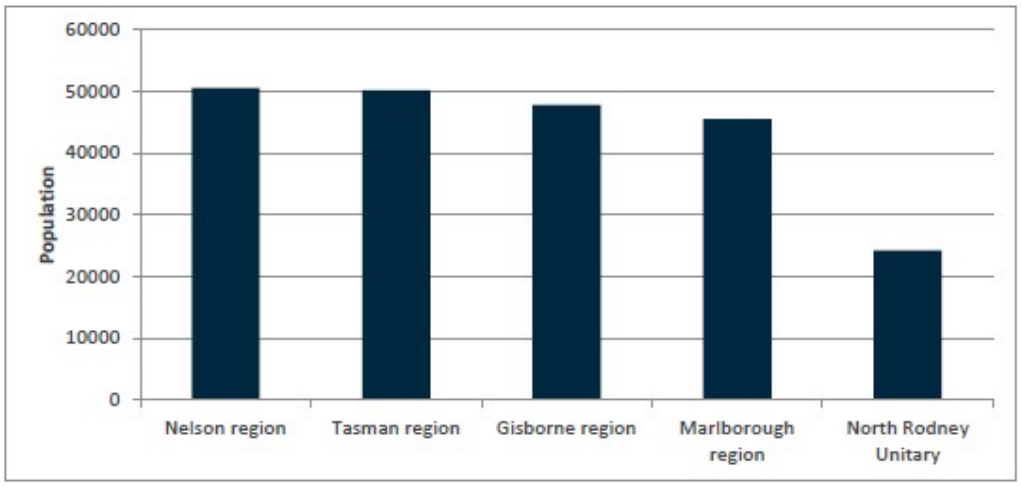
6.2.6 ML comments on size/rating base of NRUC relative to 'comparable councils'

In its report, ML noted that NRUC would be the unitary authority with the smallest population in New Zealand (excluding Chatham Islands), with a population of approximately 24,000. The next smallest unitary authority is Marlborough, with a population of approximately 45,500. The smallest regional council in New Zealand is the West Coast Regional Council, with a population of 32,500. Other than the Unitary Authorities and the West Coast, the other eleven regional councils all have a population of at least 100,000. ML noted that a rating base of this size allows the regional councils to fulfil all their duties and fully participate in national bodies. ML argue that:

> *'The scale of the proposed unitary authority would place limits on the strategic capacity of the council to deliver services to its community. This would limit the opportunity for discretionary spending as operational processes and capital works required to meet regulations would consume most of the council's revenue. The small size of the council's*

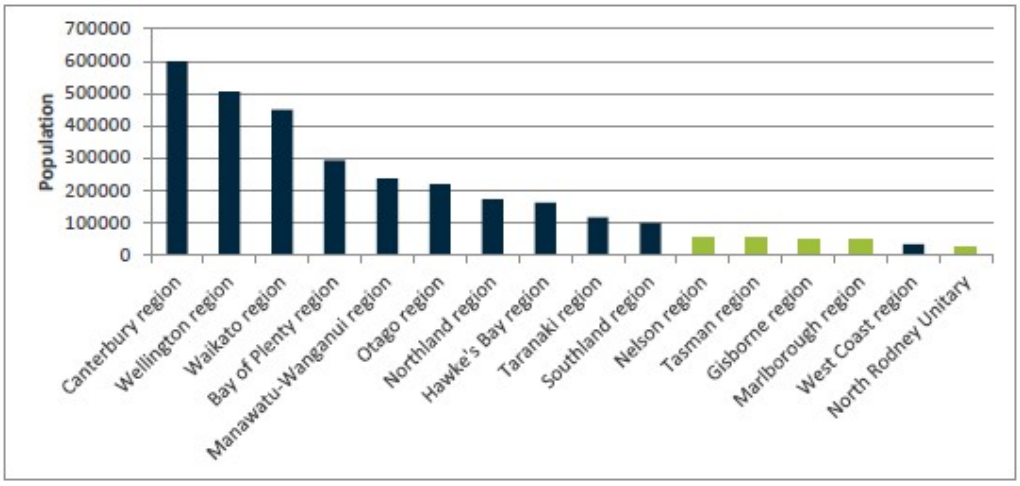
staff would mean that there is limited scope for advanced strategic planning and policy development, with increased dependence on contracted external expertise. Most staff would need to be able to cover a range of responsibilities and there would be limited scope for specialists in any one field. Resourcing for complex or unexpected change, whether through natural disaster, regulatory change, personnel changes or outside events would be difficult to forecast or manage, and there would likely be a number of key officers for whom there is no or limited back-up available.'

Figure 12: Population of New Zealand Unitary Authorities (excluding Auckland Council)



Source: ML (2017)

Figure 13: Population of New Zealand regional councils and Unitary Authorities (excluding Auckland Council)



Source: ML (2017)

6.2.7 ML sensitivity/scenario analyses

Several different scenarios were modelled by ML, firstly to accommodate uncertainties in the data where estimates of actual numbers have had to be made, and secondly to reflect areas that would be subject to negotiation between future local authorities or to determination by the LGC27.

Two scenarios were also modelled to recognise that the future Financial Assistance Rate (FAR) would need to be agreed with NZTA.

A description of the scenarios modelled is provided below. Note not all scenarios are applicable to all options. In the financial results shown in Appendix C of the ML report and in the Executive Summary, the impact of each of the scenarios has been shown independently to allow a comparison of different combinations of these scenarios. For example, the proposed NRUC results are:

- under ML's base case modelling, an operating deficit of $13.5 million;

- including a high FAR scenario (Scenario 3) would improve the financial result for NRUC by $0.6 million resulting in an operating deficit of $12.9 million; and
- including both a high FAR scenario (Scenario 3) and excluding the regional amenities costs from this Option (Scenario 6) would improve the financial result by $1.5 million, resulting in an operating deficit of $12.0 million.

Table 34: ML report 2017 – scenarios modelled for sensitivity analysis

Scenario	Name	Options affected	Description
Scenario 1	Base Case	All	The allocations made to determine the base case scenario for the purposes of financial modelling are described in Sections 2.1-2.4 above.
Scenario 2	Low FAR	4,5,6,7	NZTA's financial assistance rate (FAR) is reduced by 5% from the midpoint shown in Table 2, reducing the external revenue available for roading expenditure. Total roading expenditure remains unchanged, increasing the roading expenditure of the new entity, relative to the base case. See section 2.3.1 for more details of this scenario.
Scenario 3	High FAR	4,5,6,7	NZTA's FAR is increased by 5% from the midpoint shown in Table 2, increasing the external revenue available for roading expenditure. Total roading expenditure remains unchanged, reducing the roading expenditure of the new entity, relative to the base case. See section 2.3.1 for more details of this scenario.
Scenario 4	Use of capital value	3,4,5,6,7	All expenditure that is allocated on a rating unit basis in the base case scenario is instead allocated on a capital value basis under this scenario. The relative share of expenditure under the base case and scenario 4 is shown in Table 3. All five Options have a slightly lower share of expenditure when costs are allocated using capital value rather than rating units. See section 2.3.13 for more details of this scenario.
Scenario 5	Regional Parks	4	Auckland Council funds a share of Regional Parks costs for the North Rodney Unitary Authority. The share funded by North Rodney has been determined based on its share of the total population of both Auckland and the potential North Rodney region. See section 2.3.2 for more details of this scenario.
Scenario 6	Regional amenities	4,5	North Rodney and Waiheke Unitary Authorities do not contribute funding for Regional Amenities. The base case assumes that these costs are allocated across the whole of the current Auckland Region based on the historical funding model for these activities. See section 2.3.9 for more details of this scenario.
Scenario 7	Community boards for North Rodney Unitary Authority	4	The North Rodney Unitary Authority has five community boards, each comprised of four elected members. See section 2.3.11 and Appendix C, Option 4 for more details of this scenario.

Source: ML (2017)

Table 35: ML report 2017 – scenario analysis results for NRUC

Scenario	Surplus/deficit ($M)	Positive/negative impact on 15/16 financial result ($M)
Scenario 1 – Base case operating surplus\deficit	-13.5	
Scenario 2 - Low FAR		-0.6
Scenario 3 - High FAR		0.6
Scenario 4 - Use of Capital Value		1.3
Scenario 5 - Regional Parks costs split on a population basis		0.9
Scenario 6 - Exclude Regional Amenities costs		0.9
Scenario 7 – Include Community Boards for North Rodney Unitary Authority		-0.8

Source: ML (2017)

Note: Figures shown in the right-hand column should be added or subtracted from the base case. For example, including a high FAR scenario (Scenario 3) would improve the financial result for the NRUC by $0.6 million, resulting in an operating deficit of $12.9 million.

The ML report noted that the option it assessed comprised a simple representation model with no community boards. This was different from the Thames-Coromandel style of representation model proposed by the NAG in their supplementary proposal. ML noted that model would have required more elected members than NAG proposed because the minimum number of elected members for a community board is four.

In the revised reorganisation application from NAG it indicates there would be five community boards with delegations like the model previously in place at Thames Coromandel District Council (TCDC) (refer Case Study in Appendix to this report). This model involved a high level of empowerment for the community boards, supported by Area Offices that were each led by a Tier 2 manager, supported by several dedicated 'area' or local staff. It should also be noted that TCDC is a district council, not a unitary authority.

ML stated that in their experience adding community boards would add additional governance costs, and in proposing a model like TCDC there would be additional support costs to support this operating model. Therefore, this would increase the operating costs of this option.[31]

ML modelled a scenario including the cost of five community boards, each comprising four elected members. In ML's experience, the increase in costs would be in the order of $150,000 per board per annum. This included elected member remuneration, incidental costs including venue hire, governance support costs and some policy advice, as one would typically expect for a community board. This excluded the cost of an additional Tier 2 manager for each community board. For five community boards, this would increase the costs associated with NRUC (assuming no change to any other ML assumptions) by approximately $0.75 million per annum.

6.2.8 ML ten-year assessment

ML's ten-year financial results were modelled based on:

- Auckland Council's forecast rates increases for the remainder of the LTP,
- forecast growth in the rating base in the North Rodney area (see table below),
- an increase in expenditure equivalent to Auckland Council's forecast rate of inflation for staff and other costs, and
- the increased depreciation and interest costs from Auckland Council's capital works programme for the area.

[31] This assertion is challenged by former Chief Executive of TCDC David Hammond (correspondence 3 October 2017) based on his experience: 'Boards increase governance costs but reduce operating and capital costs by exercising local preferences and levels of service in the TCDC community empowerment model.'

Table 36: Forecast increase in general rates, population and rating base for the North Rodney area

	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
General rates increase[54]	3.2%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Population increase	1.2%	1.2%	1.2%	1.2%	1.2%	2.2%	2.2%	2.2%	2.2%
Rating base increase	2.3%	2.3%	2.3%	2.3%	2.3%	2.9%	2.9%	2.9%	2.9%

Source: ML (2017)

Note: General rates increase does not include growth in the rating base.

The ML report notes that the population of North Rodney is forecast to grow faster over the ten-year period than the remainder of the Auckland Region. For NRUC, most of capital costs over the ten-year period were in relation to water, wastewater, and transport, to accommodate the anticipated growth in the North Rodney area. According to ML, the impact of this capital expenditure means that the NRUC would not be anticipated to generate an operating surplus across the first ten years, based on Auckland Council's proposed rates increases and the existing service levels. ML also notes that the transition costs of establishing the new entity are not accounted for in these figures.

ML acknowledged that the proposed NRUC would have the ability to review its service levels, subject to engagement with the community and meeting minimum regulatory standards. 'This could impact positively or negatively on the financial position, for example increasing the length of sealed roads would have negatively impact both the capital and operating costs due to the higher whole of life costs for sealed roads.'

Table 37: ML report 2017 – ten-year financial forecast for NRUC

('$M)	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25
Revenue	63.5	65.8	68.5	71.3	74.3	77.4	81.0	84.9	88.7	93.4
Expenditure	77.0	78.7	81.1	84.4	90.0	97.3	102.5	105.4	108.3	111.4
Operating Surplus/ Deficit	-13.5	-12.9	-12.7	-13.1	-15.8	-19.9	-21.4	-20.5	-19.6	-18.0
Deficit as a percentage of total rates	-48%	-43%	-40%	-39%	-45%	-53%	-54%	-49%	-44%	-38%

Source: ML (2017)

6.2.9 APR emulation of ML ten-year modelling results

Using information and assumptions reported in the ML report, APR sought to emulate ML's ten-year results. However, there was insufficient transparency in the report to arrive at an approximation.

As an alternative approach, APR 'back solved' the annual revenue and expenditure indexation assumptions that must have been applied to arrive at the ML ten-year results. Note that the figures below include allowance for increases in the rating base and investments in infrastructure, and that the indexation and growth components cannot be readily separated based on available information. The findings below are sufficient for APR to apply using an alternative one-year model as a starting point. Results from such analysis are shown elsewhere in the report.

Table 38: ML forecasting assumptions (back-solved)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue indexation (including rating base increase)	3.6%	4.1%	4.1%	4.2%	4.2%	4.7%	4.8%	4.5%	5.3%
Expenditure indexation (including rating base increase)	2.2%	3.0%	4.1%	6.6%	8.1%	5.3%	2.8%	2.8%	2.9%

Note: Indexation amounts include rating base increases. Expenditure indexation also accounts for capital investment and depreciation.

7.0 NORTHERN ACTION GROUP CRITIQUE OF ML REPORT

The following section is a verbatim copy of September 2017 comments submitted by NAG to the LGC on the ML report. In summary, NAG argue that a leaner staffing approach, alternative assumptions in relation to finance costs and an allowance for reducing waste would reduce annual expenditure to around $60.7m which would (ceteris paribus) result in a small annual surplus.

Summary

We consider the report to be fatally flawed and of no credible value. We ask that the LGC reject or discard its analysis and conclusions. We do not believe the report could withstand independent (of ML, AC or LGC connection or association) professional peer review without significant amendment.

We show below and conclude that the empirical data does not support a recommendation that a NRUC is not a reasonably practical option. The ML model is not a correct representation of how such a reorganisation for North Rodney could best work and is based on false assumptions.

You already have our extensive list of questions which highlight our concerns about the report and to which we have not received responses. These comments are in addition to the comments in that list of questions.

We repeat our disappointment and dismay that the report was leaked to the media and that a misleading and factually wrong statement about rate increases was subsequently headlined. The damage done to the objective evaluation of reorganisation alternatives to Auckland Council (AC) cannot be repaired. Publication has reinforced the myth prevalent in part in the public mind that the consequences of amalgamation are to be endured because the alternatives are worse.

The only responsible and credible course of action for the LGC now is to commission an independent, transparent and publicly available, professional model of our NRUC proposal.

Blatant prejudice against applicants

The consultants and LGC have not made the modeling and data in the analysis available for scrutiny by the applicants. The only data are summary numbers provided in the report and the base data provided by AC in response to the ML query on behalf of LGC.

Since AC has not provided consolidated financial data for the applicants, something that has nonetheless been done by AC at least for the Rodney Local Board area, and by ML for the options, this constitutes a deliberate bias against the reasonable analysis of the report by the applicants (who do not have the resources of the LGC) forcing them to endeavour to reverse engineer the report or undertake their own analysis. This disadvantage and exclusion is contrary to both the express reorganisation purposes of the Act and to natural justice.

We are forced to the view that the unwillingness of the consultants, LGC and AC to make the full analysis and workings of the financial modeling done for the report, and the financial analysis done for the Rodney Local Board area and its components, publicly available, will be seen as confirming that the consultants, LGC and AC are working to support the status quo and worried that public scrutiny will further expose the weakness and inadequacies of the report and the poor treatment by AC of residents and ratepayers in the Rodney and North Rodney areas.

Report assumptions

There is no credible basis for the main assumption in the report - that the cost structure of AC would continue to apply in a separate NRUC or District Council. The assumption that the service quality can only be provided at AC's level of unit costs has no empirical support. The model provided by the applicant was not tested.

The assumption that the options provided by LGC can be compared with the status quo by assuming a continuation of the status quo avoids questioning the cost structure of AC's service provision - which was one of the reasons for the reorganisation application in the first place. It implies a subjective bias for the status quo and does not test reorganisation alternatives against it. In this regard, the report is a nullity.

The assumption that separating organisations necessarily adds costs (e.g. by increasing overheads) has no empirical basis and belongs in the same category of conventional myths as the view that amalgamation of organisations necessary provides efficiencies or economies of scale of scope. The consultants make no allowance for true efficiency from more focused governance and management - avoidance of wasteful spending (exampled by unnecessarily expensive provision or providing things communities don't want or derive no benefit from).

We invite ML or the LGC to provide verifiable and proven empirical evidence (not anecdotal or just examples) to refute our conclusion regarding these assumptions.

Consultants comments and observations

The comments of the consultants in the report are:

- *subjective (i.e. views or conjecture stated without supporting evidence);*
- *in places, wrong (as in the fallacious comment that total rates needed to increase 48% to cover the shortfall in their option 4 model); and*
- *step outside the bounds of logic.*

In our set of questions on the report we have already drawn attention to areas where the consultants' comments are subjective views not reasoned from any analysis.

If the consultants cannot correctly discriminate between general rates and total rates, it casts doubt on the credibility of the rest of the report.

*It is simply not credible to argue that higher levels of representation and community governance are a benefit, and then to claim that a corresponding dis-benefit is that it will encourage other local board areas to seek similar benefits. Community representation and determination of their governance are **rights**, not a **treat** or an **extra** that may be denied one because others would then have to unfairly miss out. It is akin to denying a child its right to education and food because to do so will mean other children may then also want education and food!*

Cost Structure failings

The consultants assume the cost structure of AC applies to the activities in each of the options modeled in order to show that costs exceed current revenues and thus support their conclusion that Options 4 (and 6) are not "reasonably practical".

As they provide no other reason for their conclusion, this means that if the NRUC, for example, could operate profitably at current levels of revenue it must be a reasonably practical option.

In Option 4 (which most closely represents the applicants model) no allowance has been made for the fact that costs in smaller councils are lower than in AC and therefore that is it is reasonable to expect that a NRUC will run at a lower level of unit costs than AC does.

Personnel costs overstated in ML estimate

The 2015/2016 AC accounts show that Employee Benefits make up around 23% of Group Operating Expenditure (Opex). However, AC contracts out specialized high unit cost activities to consultants - this helps to reduce the apparent high unit costs of their staff.

(Ironically it also dispels the argument that AC has material economies of scope, since contracting out the equivalent of 23% of their employee benefit costs demonstrates that they either do not have the skills in-house or do not need to have them in-house).

Allowing for spending on consultants and excluding depreciation and finance costs from Opex, personnel costs make up 36% of Opex. If it is recognized that construction costs also have a personnel component, then a proportion of depreciation should also reflect provision for that personnel component. This takes the personnel percentage of Opex (excluding finance costs) to 42%.

Using ACs FTE numbers (9,870 for 2016) we see that the direct employee benefit costs per FTE are around $81,000. Adding in consultants' fees and members' fees takes the cost to $100k per FTE.

Also, AC's complexity actually adds cost in dealing with planning, management and controls across diverse multiple Local Boards and organizational functions and CCOs. It can be reasonably assumed that a proportion of the FTE's AC needs can be eliminated in a scaled down, more focused UC for a particular area and communities. The advantages of efficient specialized firms or CCOs can be sought on a shared or contract basis to eliminate the perceived disadvantages of not having the scale to employ dedicated specialists for sophisticated activities. We can then reasonably assume that AC's people costs are up to 20% higher than in smaller more rural areas (further analysis should establish the appropriate percentage). Since this make up around 40% of the costs, we can expect a reduction of (20% to 40%) 8% of total AC based expenses before finance costs. (Using the ML number of $77.0m, less the estimated finance costs (see below) of $11.8m = $65.2m). 8% of $65.2m gives a $5.2m reduction from the consultants' model estimate of Opex before finance costs and reducing waste are considered.

Finance costs overstated.

ACs finance costs for 2015/2016 were $417m. On a pro rata Rating Unit (RU) basis this would imply financing costs of $11.8m have been imputed for Option 4. [ML do not provide their numbers]. This seems to align reasonably well with a share based on assets. Although the asset base and assumptions regarding which assets are imputed and financing costs for NR are not stated by ML, a split based on earlier supplied AC numbers of $1.3billion for NR against a PPE for AC of $41.156 billion would give an even higher allocation].

This level of finance charge is unreasonable since:

1) *AC's financing costs are 4 times the nearest most indebted Council (i.e. Christchurch), 10 times the average of other large cities and 200 times the small council average;*
2) *most of the AC borrowing since consolidation has been for Auckland (not NR);*
3) *the debt of the Rodney District Council before amalgamation was for projects which did not directly benefit NR and whose assets are not a part of the proposed NRUC; and*
4) *since AC has been taking more revenue out of NR than it has been spending back in the community since amalgamation, we consider that a pro rata share of AC debt is unreasonable.*

In the absence of compelling evidence from AC to the contrary, we contend that the financing cost attributed to Options 4 or 6 should be no more than the small council average, i.e. $ 2.2m. This reduces the Opex estimated by ML by a further $9.6m.

Effect on financial model

Taking $5.2m and $9.6m off the ML estimate of $77m for Opex leaves $62.2m. Even before any allowance for reducing waste, we can see that against an estimated revenue base of $65.2m this is a very practical option.

Reducing waste

Focused delivery of products and services to communities that want and need them results in higher productivity or eliminating waste. Plenty of anecdotal evidence from local people supports the claim that local provision can be at lower costs than AC provision, or that over lavish proviso can be avoided because the community does not actually need "iconic" or "AC branded" activities or structures. Every 1% improvement is $0.77m in lower estimated Opex in the ML modeling. Given the overstatement in personnel costs and finance costs this reduces the Opex estimate to $62.2m. A reasonable 2% reduction in unit costs across the UC by reducing wasteful spending reduces expenses to $60.7m and allows a rates reduction of 15% to achieve breakeven. That does not seem beyond the bounds of "reasonably practical". At the very least LGC should model that as a possible outcome.

Revenue vs expenses (comparisons from other councils)

It is standard practice in valuation models to use a standard from across the industry as a comparative for modeling the potential or forecast performance and value of the business for a new owner.

ML have not done that - they have taken the worst and most non-standard model they could, i.e. AC, as their standard, added costs, and then compared that back to the standard.

Actual general and targeted rates revenue for North Rodney in 2015/2016 was $30.9m (from AC figures) and total revenue is estimated (by ML) at $63.5m.

Our model council, TCDC, has a cost per RU of $2,963, and $3,552 when its share ($407 per RU) of Waikato Regional Council costs were included.

If we assume a cost structure of the 44 district councils, less than 50,000 population (i.e. not cities), the average total expenditure per rating unit is $3,628. Notwithstanding the efficiency of UCs. If we allow for regional costs at the Waikato level, this increases to $4,035.

Applying $3,552 to 15,238 RUs for North Rodney we get a total expenditure of $54.1m. At the other extreme, using the average expense per RU for Unitary Councils (excluding AC) of $4.168 provides a total expenditure of $63.5m.

The conclusion from a comparison of similar councils is that to balance likely expenses, total rates might have to either decease by between 30% and nothing, and the expected outcome (based on the average) is a decrease in rates of 7%. (summarized in the Expense Reassessment Table below).

We submit this does not support a conclusion that a NRUC is not a reasonably practical option. Rather it supports a conclusion that LGC should commission a proper modeling of our proposal.

In summary, NAG argue that a leaner staffing approach ($5.2m annual savings), alternative assumptions in relation to finance costs ($9.6m annual saving) and an allowance for reducing waste ($1.5m annual savings) would reduce annual expenditure to around $60.7m which would (ceteris paribus) result in a small annual surplus.

Table 39: NAG expense reassessment

Expense Reassessment Table			
	Expenses	Revenue	Rates Change to breakeven
	$million	$million	%
Rates		30.9	
Other revenue		32.6	
Total Revenue		63.5	
Expenses:			
ML Estimate	77.0		43.7%
less reductions for:			
Lower Personnel and related costs	5.2		
Fair finance costs	9.6		
Reducing waste by 2%	1.5		
Reassessed Expenses	60.7		**-9.1%**
Using TCDC costs (including regional costs)	54.1		**-30.4%**
Using an average of Councils <50,000 plus regional costs	61.4		**-6.8%**
Using an average of UCs costs (excluding AC)	63.5		**0%**

Source: NAG (2017)

APPENDIX 1: ABOUT THE INFOSHARE FINANCIAL DATA

Data for local authority financial statistics (income and expenditure by activity, annual – Jun) is available on Statistics New Zealand's Infoshare online database: www.stats.govt.nz/infoshare/

General information on this data is available online including:[32]

Government Finance Statistics (Local Government): General information – DataInfo+

General methodology and other information on the data and tables; definitions of terms; coverage.

Information about Government Finance Statistics

Introducing government finance statistics (published 2011) is an information paper that explains what GFS is and the statistics' relevance.

Government Finance Statistics Manual 2001 (GFSM 2001). This reference manual describes the GFS system. Retrieved from www.imf.org.

General information

Note: this release has been discontinued in 2016. Content previously available in this release is now available in Government Finance Statistics (General Government).[33]

Government finance statistics (GFS) is a set of concepts and principles developed by the International Monetary Fund (IMF) specifically for measuring government financial activity. These concepts and principles allow the entire public sector to be analysed. That is:

- all levels of government (both central and local government in New Zealand, and state government in countries like Australia and the United States of America).
- all sectors of government (general government, public non-financial corporations, and public financial corporations).

Unlike accounting-based financial statements, GFS is an economic representation of a government's financial activity. It is the IMF's preferred standard for publishing financial statistics on government.

Topical Coverage

- Local Government Operating Statement
- Local Government Balance Sheet
- Local Government Expenses by Function
- Local Government Taxation Revenue
- Local Government Non-Financial Assets Reconciliation
- Local Government
- Public Sector
- Taxation
- Rates
- COFOG
- GFS
- Financial Reporting

[32] Refer http://www.stats.govt.nz/~/media/Statistics/Browse%20for%20stats/GovernmentFinanceStatisticsLocalGovernment/HOTPYeJun15/GovernmentFinanceStatisticsLocalGovernmentYeJun15HOTP.pdf

[33] The Government Finance Statistics provide an economic analysis of local, central, and general government financial activity in New Zealand, based on concepts and principles developed by the International Monetary Fund.

Frequency

- Annual.

Main users of the data

- IMF, government, researchers, and other organisations.

Coverage

Includes all local authorities (city councils, district councils, unitary authorities, and regional councils) and local government special-purpose entities, such as Auckland Transport, and its predecessor the Auckland Regional Transport Authority, as well as museums.

The operations of council-controlled organisations (CCOs), which include local authority-owned corporations or trading entities, are generally not part of the local government sector covered by GFS. However, we include two CCOs as they operate as non-market entities. These are Auckland Transport and Auckland Tourism Events and Economic Development.

Concepts

- Operating expenditure – the amount spent on providing core services.
- Operating income – funding earned to provide core services.

Government Finance Statistics – further information[34]

Government finance statistics (GFS) are a set of concepts and principles developed by the International Monetary Fund (IMF) specifically designed for measuring government activity.

These concepts and principles allow the entire public sector to be analysed, that is:

- all levels of government (both central and local government in New Zealand, and state government, as in countries like Australia and the Unites States of America); and
- all sectors of government (general government, public non-financial corporations, and public financial corporations).

Unlike accounting-based financial statements, GFS are an economic representation of a government's financial activity and are the IMF's preferred standard for publishing financial statistics on government.

GFS are also one of the IMF's four macroeconomic standards. The three other standards are the balance of payments, national accounts, and money and banking (financial) statistics. As the concepts behind GFS are consistent with these other statistics, GFS estimates are directly comparable with them.

GFS are distinct from other government statistics, such as the national accounts and the Financial Statements of the Government of New Zealand produced by Treasury, as they:

- are formatted to show all sectors of government and all levels of government distinctly;
- enable the analysis of not just the transactions within levels of government and between levels of government, but also the transactions between the total public and private sectors;
- treat government as if it were one entity and net off all the transactions (and assets and liabilities) it has with itself;
- provide an economic view of government, as opposed to an accounting view; and
- enable cross-country comparisons to be made.

Further information on GFS and the concepts and principles behind them can be found in the Government Finance Statistics Manual 2001 (GFSM 2001) (International Monetary Fund, 2001) on the IMF's website.

[34] Refer www.stats.govt.nz/browse_for_stats/government_finance/local_government/intro-govt-fin-stats-info-paper.aspx

Operating statement (local general government)

The operating statement is a summary of the government's accrual transactions in each accounting period. The statement has two sections:

1. operating revenue and expense transactions; and
2. transactions in non-financial assets.

This statement is like a company's statement of financial performance but also includes transactions in non-financial assets, for example, land, buildings, infrastructure and intangibles.

The operating statement can be used to analyse the portion of a government's operating revenue coming from different sources (that is, taxes as opposed to grants), or how much interest on the government's debt is affecting its operating expenditure or net operating balance.

General government expenses by purpose (local general government)

The general government expenses by purpose table is the equivalent of the GFS manual's statement of outlays by functions of government. This table shows the functional split of total operating expenses and total net acquisition of non-financial assets from the operating statement.

The OECD classification of functions of government is used to determine the functional groupings in the general government expenses by purpose table, and was adopted by the IMF for this purpose.

The classification has three levels: divisions, groups, and classes. Divisions refer to the broad objectives of government, while the groups and classes detail how these broad objectives are achieved. At present, this table is only split at the division level.

By using the functions of government classification, trends in government expenditure on functions or purposes can be analysed over time.

APPENDIX 2: ABOUT THE LONG-TERM PLAN (LTP) FINANCIAL DATA

Data for local authority financial statistics from Long Term Plans (LTPs) is available on the Department of Internal Affairs website: www.localcouncils.govt.nz/lgip.nsf/wpg_URL/Resources-Download-Data-Local-Authority-Long-Term-Plans?OpenDocument

The website provides a series of financial tables compiled from councils' 2006-16, 2009-19, 2012-22 and 2015-25 final long-term plans (LTPs), formerly known as long-term council community plans (LTCCPs), prepared by the Department of Internal Affairs. The Excel pivot tables allow you to quickly filter and access specific information. The following information is presented for local authorities in New Zealand:

- Balance Sheet data (assets and liabilities)
- Funding Impact Statement data (whole of council, FY 2013-22 and FY 2016-25 only)
- Funding Impact Statement data (for five infrastructure activities, FY 2013-22 and FY 2016-25 only)
- Statement of Financial Performance data (income and expenditure)
- Cash Flow Statement data
- Financial Benchmarks and Rating Units (FY 2016-25 only)

Key financial data used for this report was from Statements of Financial Performance data (income and expenditure).

LTP help notes

LTP data has been provided in MS Excel format, including a single Excel (xlsx) workbook for the 2015-25 LTPs and multiple 97-2003 (xls) workbooks for all previous LTP datasets.

Regarding the most recent LTP dataset, the first tab contains a table of the raw dataset and the subsequent tabs include a pivot table and chart based upon this raw data.

Pivot tables/charts allow you to filter large amounts of data to identify the information you want quickly and easily.

Within the pivot table/charts, the headings (i.e. Council Name, Statement, Category, Data Item and FY Ending) each have an arrow or filter button that opens a drop-down box. By clicking on this you can select the exact variables you wish to view. You can do this for as many of the headers and as many of the variables listed under the headers as you need.

For example, if you would like to limit your view to the operating income for Ashburton District Council for 2015/16, you would follow these steps:

- Open the 2015-2025 LTP financial data.
- Next to "Council Name", click the drop-down arrow or filter button. On the menu provided un-tick "show all" and then tick "Ashburton District" and click OK.
- Next to "Category", click the drop-down arrow or filter button. On the menu provided un-tick "show all" and then tick "F_Income" and "G_Expenditure".
- Next to "FY Ending", click the drop-down arrow or filter button. On the menu provided un-tick "show all" and then tick "2016".
- To change the information you see, follow the steps again, selecting the variables you wish to view. To return to the full dataset, select "show all" from each drop-down menu.

Methodology – 2015-25 LTP data

Data presented in these tables were collected from each council's published final 2015 LTP. As the councils' LTPs are often presented differently, the Department of Internal Affairs has interpreted the data from the LTP statements against a consistent framework.

Accounting variability

Accounting treatments vary among local authorities, making it difficult to produce a set of strictly comparable statistics. Data for some variables is not always available, this is where a council has either not provided the figures in their LTP, or they have a value of zero. Due to the way councils present their accounts, certain line items are more robust than others. For more details about what constitutes each data item, please consult the "Data Dictionary" (xlsx) workbook that is available for download from the "Local authority long-term plans" section of the localcouncils.govt.nz website.

Changes to financial reporting regulations also mean some aspects of the way councils report some data will have changed slightly when comparing previous LTP datasets to this one. The changes to regulations have also provided other sources of information, such as funding impact statements that have been used in preference to previous sources of information. Items to note in any comparison between historical and current LTP datasets include:

- The Auckland Council did not exist at the time the 2009 LTPs were developed. While the eight former councils that were amalgamated into the current Auckland Council did prepare 2009 LTPs, it is not recommended that any direct comparisons be made between these councils and the current unitary authority.
- From 2012 water by volume rates are no longer part of the targeted (or total) rates line item, in the 2012 LTPs they were in the fees and charges line item and in the 2015 LTPs they were recorded as a new separate line item.
- Capital expenditure in 2012 and 2015 was taken from the funding impact statement. Capital expenditure reported in the 2009 LTP comes from the 'additions to fixed assets' line item in the Cash Flow Statements.
- Not all councils reported development or financial contributions income in their statement of financial performance in 2009 or 2012. In some cases, this has been extracted from the funding impact statements.
- Likewise, not all councils reported subsidies. When this was the case, it was extracted from the funding impact statements to give more complete sector totals.
- From 2015 local authorities were required to report prospective and actual financial information using the NZ approved versions of the International Public-Sector Accounting Standards (NZ IPSAS). The Department does not believe this makes a material difference to data comparability.

Care should also be taken when comparing this data with previous LTP datasets as well as the historical Local Authority Financial Statistics (LAFS) produced by Statistics New Zealand or other council publications. The data may be subject to revision as councils review the dataset and provide feedback to the Department.

APPENDIX 3: ABOUT THE MORRISON LOW (2017) FINANCIAL DATA

Summary

Morrison Low (ML) was commissioned by the LGC to independently investigate options identified by the LGC for Auckland.

To assess the options, ML created a financial model based on an apportionment of Auckland Council (AC) financial information to the affected areas. More specifically, the one-year model development was based on operational and capital expenditure for 2015/16 (actual) using an apportionment methodology.

Methodology and assumptions

As with all local authorities, there are a range of delivery options available including shared service arrangements, which could result in efficiencies. These would be subject to negotiations between the new entity and the local authority. ML assessed the options from the point of view of a district, regional or unitary authority acting as a stand-alone entity. This means that services would no longer be delivered through Auckland Council's CCOs, including Auckland Transport and Watercare, unless a shared service was agreed with Auckland Council.

Financial modelling

To determine the prospective financial position for each of the proposed options, ML created a one-year snapshot of the financial statements for each option based on the Councils' 2015/16 Annual Reports. ML used publicly available information from the Councils' Long-Term Plans (LTP), Annual Plans and Annual Reports. Information was sourced from AC, KDC, NRC, the LGC and Statistics New Zealand.

To determine the revenue and expenditure associated with each of the identified options, it was necessary to apportion the financial information as contained in Auckland Council's 2015/16 Annual Report. Consequently, the Annual Report financial information was requested from AC on a geographic basis for each of the identified option areas.

Since the longlist options comprise of a range of entity types including unitary council, regional authority and territorial authority, this necessitated that AC's activities be split into the functions of a traditional regional versus territorial authority. Therefore, the split of AC's activities was requested based on regional and territorial functions for the purposes of evaluating the Options.

Information framework

ML used the following framework when apportioning financial information.

Where actual costs were available, these have been used. Examples of this include:

- 'Local activities' that are allocated based on Auckland Council local board areas.
- Activities that do not apply to the affected areas e.g. Regional facilities, volcanic cones, City Centre targeted rates, waterfront development, in these cases, no allocation has been made.

Where direct actual costs were not available, an assumption has been made regarding the apportionment of cost to the option areas. Examples of this include:

- Stormwater revenue and expenditure, which is allocated based on the length of the piped stormwater network in the affected area.
- Regulation costs, which have been allocated based on the number applications and licences within the affected area.

ML also reviewed major areas of expenditure where the majority of costs are not asset based, for example Governance and Organisational Support costs to identify if the total cost and the share of overall costs was in line with their experience of working with other New Zealand councils.

Where appropriate, ML compared these results with other similar councils under the proposed option to provide confidence that the results were appropriate.

ML noted that "Benchmarking across councils is inherently difficult because of the differences between councils due to such factors as population, land area, topography, rating base, demographics and local economic characteristics. Councils also report costs in different ways, with allocation of overheads having a significant impact on the reported cost of service delivery. Some New Zealand councils have the benefit of substantial investments and well-maintained assets, while others are facing a delayed maintenance and renewals workload on top of a falling rating base. Our assessment is based on a typical New Zealand council operating model with a growing rating base, as is the case for Auckland."

Auckland Council online data

A range of information is available online from AC data supplied to ML: www.aucklandcouncil.govt.nz/about-auckland-council/performance-transparency/privacy-official-information-requests/published-responses-information-requests/Pages/local-government-commission-information-request.aspx

The online information includes rating information for each area option. The table below shows this information for 'Area 1' comprising the Wellsford and Warkworth subdivisions. This is the ML proxy for North Rodney (south boundary slightly different but not significantly). The total rates excluding GST is estimated at $30.9 million.[35]

Table 40: 2016/2017 rates ($) excluding GST

	Area 1
Number of rating units	15,238
No of rating units that are charged at least one rate	14,751
General rates including UAGC	28,026,147
Targeted rates -	
Interim transport	1,568,105
Waste management	1,221,253
Retro-fit-your-home	65,409
Glorit Flood Gate Restoration	35,671
Jackson Crescent	529
Pt Wells	14,665
Total rates revenue	**30,931,779**

[35] This differs from information provided by AC to ML in 2016 which indicated total rates of $34.1 million in 2015/16 for the combined Warkworth and Wellsford subdivisions. The difference between these figures may related to budgeted (or billed) versus actual reported results.

APPENDIX 4: COMPARISON OF INFOSHARE AND ML INCOME DATA

A range of information is available online from AC data supplied to ML: www.aucklandcouncil.govt.nz/about-auckland-council/performance-transparency/privacy-official-information-requests/published-responses-information-requests/Pages/local-government-commission-information-request.aspx

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Table 41: 2016/2017 rates ($) excluding GST

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Jackson Crescent	529
Pt Wells	14,665
Total rates revenue	**30,931,779**

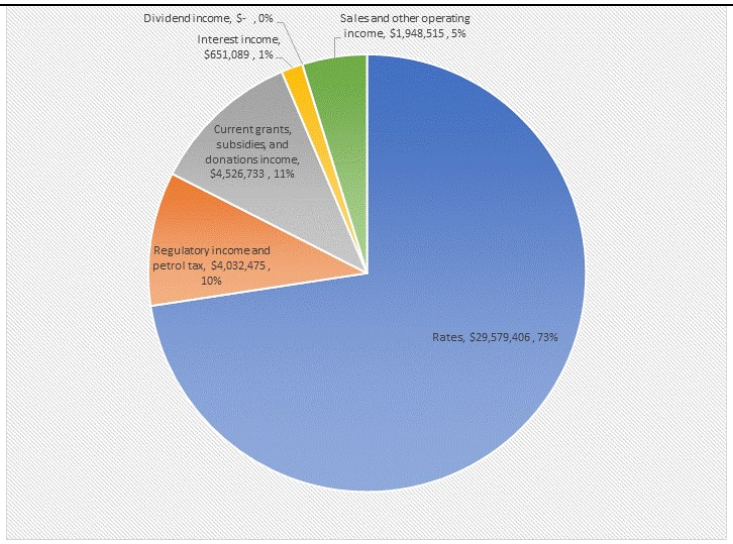
Initial APR modelling using benchmark Infoshare data for comparator councils arrives at a similar level of rating revenue for NRUC (i.e. approximately $30 million).

However, there is a marked difference between the APR Infoshare-based initial estimates for total income (rating plus non-rating income) and the ML option analysis estimates. APR's indicative level of total revenue is approximately $30 million rates revenue plus approximately $11 million non-rating revenue, for a total of approximately $41 million. In contrast, ML's income estimates for the 'NRUC' option indicate rates of approximately $28.5 million plus non-rating revenue of approximately $35 million for a total of $63.5 million (i.e. approximately 55% larger scale). The two approaches are compared below.

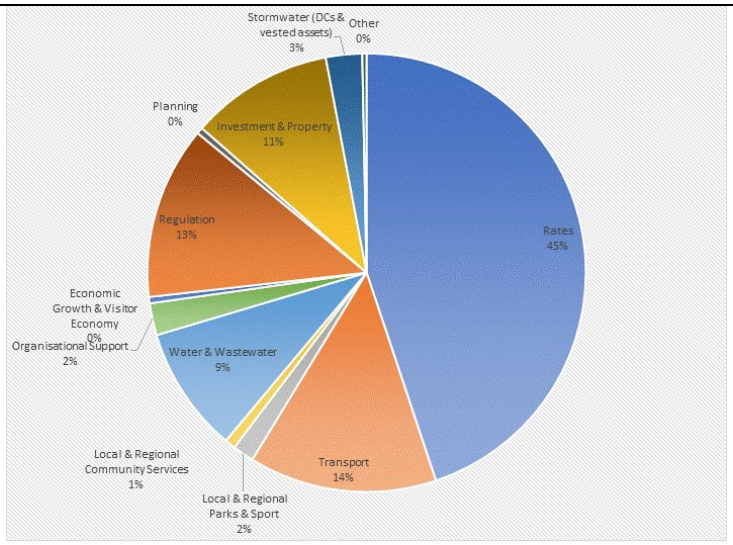
[36] According to AC advice to ML in 2016, the prior year 2015/16 total rates revenue was $34.1 million for the combined Warkworth and Wellsford subdivisions.

Figure 14: Comparison of APR/Infoshare vs ML income estimates for NRUC option

APR/Infoshare (per capita approach)



ML report (emulated)



Note: There is a small discrepancy (shortfall) between the revenue breakdown in ML's pie graph and the total revenue reported elsewhere in the ML report. For the graph above, APR therefore adopted the reported year one (2015/16) total revenue figure of $63.5 million and apportioned this proportionately across revenue sources to emulate the ML income breakdown in a way that would sum up.

Due to the considerable differences in reporting approaches, it is not straightforward to map out the discrepancies in non-rating income except to state that:

- Key sources of non-rating income under the APR/Infoshare approach are regulatory income and petrol tax (approximately $4 million) and grants, subsidies, and donations income ($4.5 million).
- Key sources of non-rating income under the ML approach are regulation ($8.1 million), transport ($8.8 million), investment and property ($6.7 million) and water and wastewater ($5.9 million). In relation to the transport and water income, we note that ML assumes these would be provided directly by the authority unless a shared service was agreed with Auckland Council.
- The total difference in non-rating income is approximately $24 million.

APPENDIX 5: COMPARISON OF INFOSHARE AND ML EXPENDITURE DATA

The expenditure data used by APR is measured in a consistent manner using Infoshare standard methodologies. The figures arising from the ML analysis are underpinned by a less transparent methodology that is not directly comparable across councils. The table below seeks to 'map' the ML expenditure estimates by activity to the Infoshare activity categories and the initial APR estimates for NRUC (using per capita approach). This shows that:

- ML estimated total expenditure is approximately 100% higher than the APR Infoshare-based estimates (i.e. approximately twice as large).
- Key difference include that ML estimated:
  - the roading expenses to cost $13.9 million more than APR's estimates (i.e. + 156%);
  - planning and regulation to cost $8.4 million more (+220%);
  - recreation and sport to cost $7.4 million more (+320%);[37]
  - water supply and wastewater to cost $4.3 million more (+63%);[38]
  - environmental protection to cost $3.2 million more (+295%);
  - property to cost $2.6 million more (+141%).
- APR notes that due to the lack of detailed information about how ML arrived at their estimates, which makes it difficult to unpack the differences in accounting approaches and underlying data, it is not possible to readily distinguish reasons between specific differences above for each expense category.

Table 42: Comparison of APR/Infoshare vs ML expenditure estimates for NRUC option

Expenses by activity	APR/Infoshare (per capita approach) ($m)	ML report ('mapped' to Infoshare categories) ($m)	Difference (%)	Difference ($m)
Roading	8.9	22.8	156%	13.9
Transportation	0.6	0.0	-100%	-0.6
Water supply	2.9	11.0	63%	4.3
Wastewater	3.8			
Solid waste/refuse	3.2	1.3	-59%	-1.9
Environmental protection	1.1	4.3	295%	3.2
Culture	1.4	0.0	-100%	-1.4
Recreation and sport	2.3	9.7	320%	7.4
Property	1.8	4.4	141%	2.6
Emergency management	0.5	0.0	-100%	-0.5
Planning and regulation	3.8	12.2	220%	8.4
Community development	0.4	0.0	-100%	-0.4
Economic development	0.4	1.6	355%	1.2
Governance	1.0	1.0	0%	0.0
Council support services	6.1	7.2	18%	1.1
Other activities	0.0	1.4		1.4
Total expenses	**38.2**	**76.9**	**101%**	**38.7**

[37] This comprises the ML expense category called 'Local & Regional Parks & Sports'.

[38] This comprises the ML expense categories 'water & wastewater' and 'stormwater'.

APPENDIX 6: CASE STUDY: THAMES-COROMANDEL DISTRICT COUNCIL

The following is a transcript of a Case Study of TCDC's model of devolved operations and governance (developed for Auckland Council review of Local Boards 2016). The information below was developed by David Robertson of Robertson Hammond Ltd.

Introduction

The following case study of the Thames-Coromandel District Council (TCDC) is considered the most devolved council model of operations and governance in New Zealand or Australia. Called 'Community Empowerment' by TCDC, its relevance to the Auckland Council Governance Framework Review is that it represents the most contemporary example of devolving decisions, funding, and service delivery under a Board structure.

The Model was developed and implemented in 2012 by the Council team led by new Chief Executive David Hammond. It came to attention a year later when the Taxpayers Union noted TCDC as having the lowest operating costs per property in the Waikato Region, following two consecutive years of rates decreases. These financial results were in an era of high debt and rates for the council following the construction of three new environmentally world-leading sewerage plants in 2009 at a cost of $93 million. The Peninsula's rates were running at some 14% above the national average at the time this Model change occurred in 2012.

The Political Mandate

The journey Coromandel took began with the 2010 elections. The council had a well-established Community Board system which was one of the most effective systems in New Zealand at that time. However, the public was dissatisfied at what it saw was a 'head office' dominated council and voted for change. Only one existing elected member was returned at that election. Incoming Mayor Glenn Leach had a strong mandate for a community empowerment-led change and a vision for the Community Boards. His election manifesto included the following:

- Bring back community leadership.
- Give your community board more autonomy to make decisions.

Mayor Leach says,

> *"I was on Council from 1989-95 and at that time we had a very devolved system of Boards, like Southland. The Council moved away from these roots of democracy and inclusiveness. Power had to be returned to the people. But to get this through after the election meant hard decisions had to be taken about who could lead this process. It would be massive. We had to stay tough at the top because it was a fight to bring this change. I take my hat off to our elected members who stayed united and strong through some very lonely times."*

The issues that the 2010 Council saw that needed to be changed were:

- Slow decision-making from Council particularly with those things affecting local areas.
- Communities feeling that the decisions, budgets and policy development of the Council had become too centralised and distant from their communities, aspirations, and were in fact stymying the pace of local development.
- Access to council staff was felt to be 'managed' and not open and accessible, no one knew what staff member to speak to, and this made the sense of partnership with communities a one-way process defined by Council willingness to engage. This was not true partnership with them.
- Costs were not under the level of control that the newly elected Council was seeking.
- The new Council opposed the notion that centralised leadership and service delivery is the best and most efficient way to grow Coromandel.

The Council worked with the existing management team from 2010 to 2012 but were not able to affect the council's direction. TCDC recruited a new Chief Executive as a change manager in

2012 and the Community Empowerment Model was developed and implemented in that same year.

Community Empowerment Model Development

The Community Empowerment Model drew its inspirations from British devolved models, and in New Zealand from Auckland City, Wanaka and Southland. The following extract from TCDC's March 2012 Report highlights the inspiration that the Auckland City Model provided to Coromandel's change (p.18):

> "The governing body (Mayor and councillors) and local boards share the decision-making responsibilities of Auckland Council jointly with:
>
> - The governing body focusing on the big picture and on region-wide strategic decisions.
> - The local boards represent their local communities and make decisions on local issues, activities and facilities.
>
> "The Auckland model has the former Auckland Regional Council incorporated within the greater Auckland Council, whereas the Waikato currently has the regional function stand-alone. However, this does not preclude TCDC adopting the principles of shared responsibility within the Auckland model and applying it at a district level in an enhanced partnership between Council and the community boards.
>
> "The four key functions of Auckland local boards in leading, advocating, funding and facilitating appear to provide a sound basis for the future of community boards within an enhanced community governance function for the Thames-Coromandel District.
>
> "One key area within the 'leading' function of local boards is the ability to make decisions on a wide range of local services. This is an area that is further developed in the TCDC approach."

The change goals set for the project were:

1. Local people making decisions over local issues and services that effect their lives.
2. Faster decision-making.
3. To stop the 'one size fits all' culture of central silos.
4. Cost savings through local innovation.
5. Faster local economic development.
6. To grow local leadership.
7. Better community planning.
8. Bring empathy and 'the local' back into staff culture across all of Council.

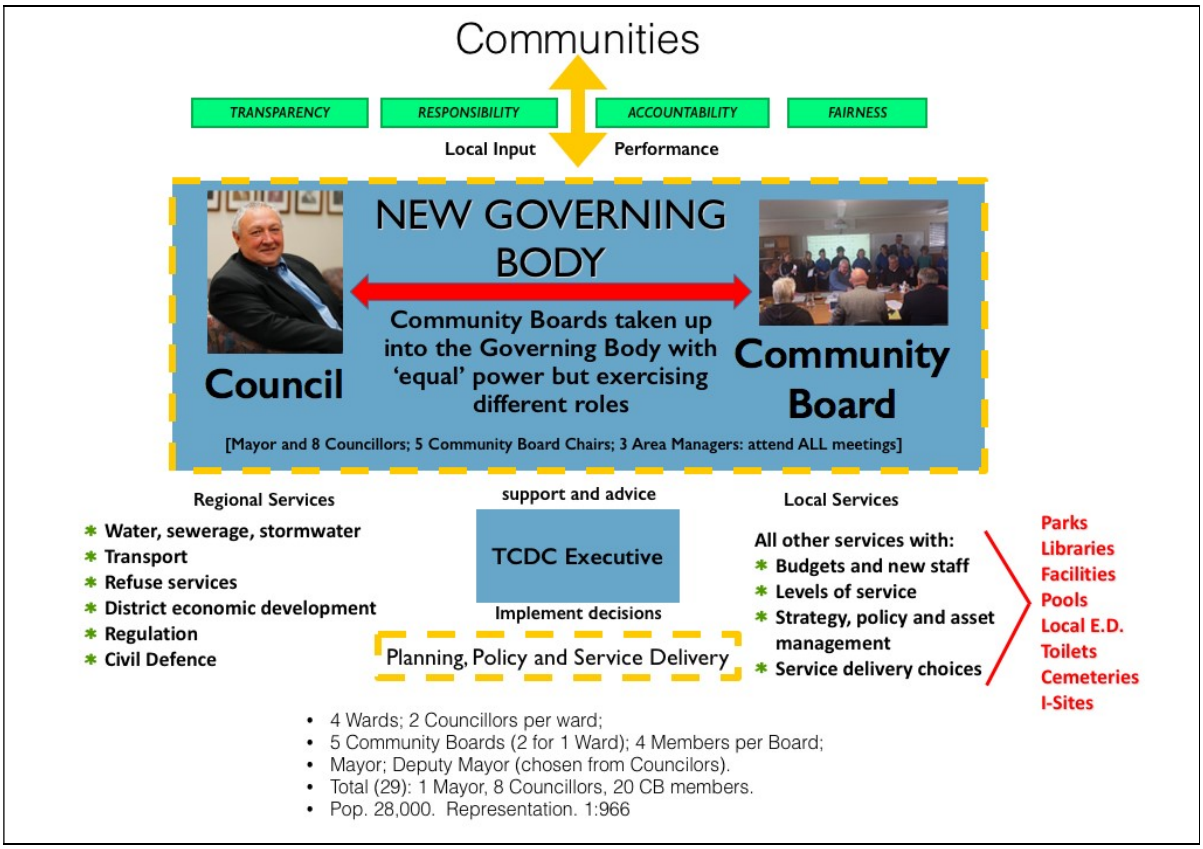
Governance in the Model

With the strength of mandate for Community Empowerment, TCDC elected members were looking for a model which allowed decision-making to return to local areas as well as being confident in their elected District decision-making roles. The Model managed this seamlessly. In a process of workshopping the changes required, elected Council and Board Chairs jointly agreed to some principles:

- The Council as a strong community leader.
- Providing services at the appropriate level personalized and community-based (localism).
- Citizens and communities empowered to design and deliver services and play and active role in their communities.
- Elected accountability as a test of Community Board engagement with their communities.
- Local accountability and responsibility for local decisions.

- Citizen engagement and partnership to guide operations.
- One Team of governance – councillors and Board members.
- Efficiency – the system has to drive better cost savings.

The Council decided on a similar structure to the Auckland Model and included both elected Council and Boards in a single Governance Body with simply different roles as the following diagram represents:



Based on an agreed document between Council and Boards, elected Council resolved in its April 2012 meeting a list of 25 recommendations which formalised the relationship and established the Community Empowerment model. The tenet was that 'Local manages local services, District manages district services', and District also retained a monitoring role over all in an agreed way.

With elected councillors sitting on Boards, and Board chairs an integral part of Council meetings and workshops, this relationship easily worked as one of mutual respect. The Council had several measures in place to assist Boards with priorities. An overall financial envelope is established at the Council level with Board agreement annually, to assist Boards to understand how much funding is available for local projects. If in the eventuality there was a serious rift between Board and Council over any particular project, a last resort 'call-in' provision was included where the Mayor and Chief Executive could override and take a project back under District Leadership.

The new Board powers under the Model are as follows. Boards can:

- Choose methods of rating for their services, with Council agreement.
- Set new fees and charges for services and ringfence funding raised in that area.
- Set local levels of services in each area eg. library hours are set locally according to local preference.
- Manage local services' policies and asset planning.

- Determine the provision of and funding for facilities (such as sports centres) which were devolved.
- Set a different rate rise locally to the Council's overall rate.
- Enter into service contracts.
- Buy and sell property with Council agreement.
- Board Chairs sit on every Council meeting including confidential ones.

Operationalising the Model

The TCDC model returned 14 council services deemed 'local' back under Community Boards with the powers listed earlier. To administer the Boards the Council already had 'Area Offices' of multiple staff located in the Board areas to administer services and build community engagement. In most cases the Area Office administers more than one Community Board area. With the Community Empowerment Model, a range of new powers came to the Area Offices which required changes of job descriptions, and new roles being established. Community Development Officer functions were devolved from the head office into Area Offices so that local community partnerships could be developed and supported by staff who lived in those communities. One of the most significant changes was the recruitment of Area Managers to very senior second-tier positions to be able to make the decisions required to assist the Board in their new powers.

Staff in Area Offices reported to the Area Managers and Area Managers reported directly to the Chief Executive. The Area Offices were staffed at an agreed permanently located level to manage the community engagement in these areas, local services, and capital projects. Staff levels are agreed by both the Chief Executive (who the area Managers report to) and by the Community Boards as it is local rates which will fund additional staff.

Support function such as finance, information technology, human resources, communications, District Planning, consenting and regulation remained central. However, all support functions were expected to operate in the community empowerment way, meaning that head office teams had dedicated individuals to Board areas for support, and Boards were expected to be well-consulted on central services, planning or strategy issues well before decisions were made.

To achieve the Model meant the need for a fit-for-purpose restructure of staffing. With so many staff devolved to Area Offices, and lesser workloads centrally in areas such as Policy Planning, restructure was inevitable.

The 14 services returned to Boards were:

- Toilets.
- Parks and reserves.
- Airfields.
- Local economic development.
- I-Sites.
- Libraries.
- Local strategic planning.
- Cemeteries.
- Halls and properties.
- Harbours.
- Local social development.
- Local transportation: footpaths, street lighting, foliage trimming, kerb and channel, seawall protection.
- Pools.

- Community grants.

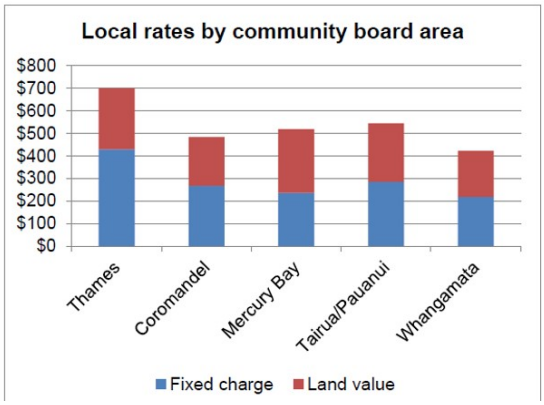
A number of services have both a district and a local function and were managed with a head office 'Centre of Excellence' and staff under Area Managers as in the following examples:

Service	Central Functions	Local Functions
Parks	• Contract management and negotiation • Taking the lead on coordinating strategy and asset management planning • Development of central policy in coordination with boards • Central training and quality management of local parks staff	• Contract performance locally • Building levels of service into the contract • Local asset management and updating asset management • Local Reserves Management Planning • Responding to local community needs and issues • Local development of reserves and play facilities • Local funding and partnerships
Libraries	• Central provision of the library system for all local libraries • Contract negotiation of systems (such as Kotui) with approval of the Boards • Central management of the collection and interloan • Taking the lead on coordinating strategy and asset management planning • Development of central policy in coordination with boards • Central training and quality management of local libraries staff	• Local library service delivery including outsourcing library services • Development of local library buildings paid locally and including shared building decisions with other organisation • Deciding on hours of service • Responding to local community needs and issues • Running local programmes and partnerships

Funding the Model

The devolved model can increase council costs operationally if not combined with a staff restructure. The restructure is triggered by the change of Model because a traditional council structure is not fit-for-purpose for a devolved council Model.

The devolved Model can also trigger increased local community costs. If communities are to have services returned locally to them including local funding as TCDC did, this represents more costs on local rates. The following table represents TCDCs 2016 local rate levels which are broadly similar to the range of local rate levels in Auckland City.



In this Model it appears that Thames is experiencing considerably higher local rates than the rest of the District. The Thames local rates are driven higher than other areas by higher levels of service in libraries and pools. However, overall rate levels (including District rates) are remarkably similar. In part this is because property values are relatively similar District-wide, and partly because TCDC chose to equalize its District rates for the fixed-charge components of District-wide services. The Council argues for equalizing of District services on the basis that:

- All residents are receiving the same level of service they should pay the same.
- The capital costs of District services (such as sewerage and water plants) has risen beyond the means of individual communities to pay for them.
- The cross-subsidisation of capital plants provided in one area and funded by other areas is equalised over time as all plants come up for renewal or replacement.
- The good of the whole District is enhanced by water and sewerage plants that meet standards.

The devolved model can also represent substantial opportunity to Boards by enabling them to find more cost effective local solutions to service provision. In Mercury Bay Board, the Area Manager set a goal of offsetting $250,000 of local rates annually by other revenue sources. In two years, he and the Board achieved $200,000 of offset.

The local service delivery model requires that all assets and services under Boards are costed back to the Board level. It also leads to the structuring of the financial model to set rates for each Board area. The complexity for financial systems is substantial. However, the benefits are the identification of actual costs back to the areas they are generated which improves transparency and enables Boards to find methods of cost control.

The Council and Boards agreed that the overall financial direction of the Council would be followed by the Boards. However, a large degree of autonomy was provided to Boards to achieve local projects. Board rates were different from District rates and if a Board wanted to fund projects in their area then their rate could be higher than the overall District agreement, subject to consultation with their communities.

As the Boards are responsible for funding their own services and assets there is no need for a financial arrangement with the Council. Council resolutions established a level of discretionary fund that each Board area could have, funded by the ratepayers of the Board area, not at-large.

The annual or ten-year planning budgeting process is very similar to the Auckland City budgeting model but has the Board more central in the budget development process. Boards are not given a budget, but they recommend their budgets back to Council in the following way:

Timing (approximate)	Budget Step
August	• Council and Board chairs meet to discuss and set the overall financial envelope for the Council eg a rate rise of no more than 3% • Boards also consult with community organisations about their aspirations and projects as the Board Plans are reviewed
August/ September	• The Finance Team from head office send out budget allocation templates to Boards with a column for last year's expenditure and a new column with those same costs with an inflation adjustment as appropriate. The new column is in red text for Board review.
September	• Area Managers and their staff hold workshops with the Board the budgets and any justifiable projects, including projects that have been costed which may come from community organisations that the Board wishes to champion.
September/ October	• Area Managers meet with the CEO, CFO and a budget review team to go through the suggested Board budgets, look at the overall impact, query the robustness of figures and take issues of cost or projects back to Boards to review.
October	• Boards with their Area Managers and staff, review the feedback from the Budget Peer Review team and amend or firm up on their original position as they see fit and can justify. • Board Plans are re-drafted with the updated projects and priorities and only contain justifiable and costed spend which has been through business cases.
November	• Council budget workshops go through all district and local spend. The Board chairs speak to their proposals, take questions and have the draft budgets confirmed.

Challenges of the Change

The biggest challenge was bringing the Community Empowerment culture all the way through the Council organisation, including staff with services delivered by District-wide contracts. TCDC had to provide more staff, reliable systems and robust reporting frameworks to Area Offices who would be required to deliver more services and all within a mandate to reduce organisational costs. Some observers pointed out that a handbrake was applied to projects as consistent and reliable project management procedures were rolled out for all Area Offices. However, this view is countered by Whangamata Board Chair, Mr Keith Johnson's experience,

> *"In my view, more 'local' projects have been completed under the first year of Community Empowerment, with contemporaneous reductions in rates, than had been completed in several prior years of convoluted and expensive bureaucracy."*

The change impacted on every staff member's way of working. Some staff welcomed change. Many other staff did not fully understand this unique Model, and some did not agree that it was a better Model and felt that councils should not ever try to operate in this way. Adding to the doubts were vocal critics in the media who claimed it would create mini-councils, that productivity would halt, communities would run riot with unrestrained 'wish lists' of projects, and that the council would be wracked by personal grievances. None of those predictions proved correct.

Results of the Community Empowerment Model

The results of this Model change validate that the Council got the Model right for its population. The following outline key results:

- In 2016 public satisfaction in Council decision-making improved 15% since the Model was introduced and is now 10% higher than the national average.

- In 2016 public satisfaction in Council decisions themselves increased by 20%.
- Public satisfaction with rates spend improved 17% (up to 83%) since the Model was introduced.
- Satisfaction in parks (moved under the Boards) increased to 96%.
- Satisfaction in libraries (moved under the Boards) increased to 99%.
- Council reduced rates in two successive years (-6%).
- Commercial and rural rates will not return back up to higher 2010 levels for over 15 years.
- After restructuring Council had the lowest operating cost per property of any council in the region.
- $43M was removed from ten-year capital budgets without degrading assets or reducing levels of service.
- Staff engagement post-restructure rose to higher levels than before restructure.
- Community and Council disciplines over approving capital and setting priorities vastly improved.