Appendices

Appendix A: Terms of Reference

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Appendix A: Terms of Reference

The terms of reference for the Royal Commission on Auckland Governance were approved by Order in Council on 30 October 2007 and published in the *New Zealand Gazette*, No. 118, 1 November 2007.

Royal Commission on Auckland Governance

Elizabeth the Second, by the Grace of God Queen of New Zealand and Her Other Realms and Territories, Head of the Commonwealth, Defender of the Faith:

To The Honourable PETER SALMON Q.C., of Auckland, retired High Court Judge; Dame MARGARET BAZLEY, of Wellington, retired public servant; and DAVID SHAND, of Auckland, consultant:

GREETING:

Recitals

WHEREAS, over the next 100 years, the Auckland region will face enormous change brought about by global economic, environmental, and political forces. Local trends, including high population growth, add to the challenges and opportunities for the region. Auckland has to compete in a global market place to sell its goods and services and to attract the talented people it requires to secure a sustainable and prosperous future:

And whereas, to face these challenges Auckland requires local and regional governance equal to the best in the world and capable of working effectively with central government to ensure Auckland is a successful, sustainable city in the Asia Pacific region and is recognised as such:

Appointment and order of reference

KNOW YE that We, reposing trust and confidence in your integrity, knowledge, and ability, do, by this Our Commission, nominate, constitute, and appoint you, The Honourable PETER SALMON Q.C., Dame MARGARET BAZLEY, and DAVID SHAND to be a Commission to receive representations on, inquire into, investigate, and report on the local government arrangements (including institutions, mechanisms, and processes) that are required in the Auckland region over the foreseeable future in order to maximise, in a cost effective manner,—

(a) the current and future well-being of the region and its communities; and

(b) the region's contribution to wider national objectives and outcomes:

Matters to be taken into account

And, without limiting the order of reference set out above, We declare that, in conducting the inquiry and making recommendations, you must, under this Our Commission, take into account the implications of the findings of the Independent Inquiry into Local Government Rates for local government arrangements in the Auckland region:

Relevant matters

And, without limiting the order of reference set out above, We declare that, in conducting the inquiry, you may, under this Our Commission, investigate and receive representations on the following matters:

(a) what changes to current legislation (consistent with the purposes and principles of local government as described in the Local Government Act 2002) are considered desirable to achieve or support the achievement of the inquiry's objectives; and

(b) what changes to the boundary of the Auckland region, or to the collaborative arrangements or mechanisms involving other regions across New Zealand, are considered desirable to achieve or support the achievement of the inquiry's objectives; and

(c) what is required for effective relationships and collaborative arrangements between central and local government; and

(d) what ownership, governance, and institutional arrangements and funding responsibilities are required to ensure the effective, efficient, and sustainable provision of public infrastructure, services, and facilities to support and enhance—

  (i) the current and future well-being of the Auckland region and its communities; and

  (ii) the performance of the Auckland region as a growth engine in the New Zealand economy and in its role as a key transport hub for New Zealand and the Pacific region; and

  (iii) the ability of the Auckland region to compete internationally as a desirable place to live, work, invest, and do business; and

  (iv) the ability of the Auckland region to respond to economic, environmental, cultural, and social challenges (for example, climate change); and

(e) what governance and representation arrangements will best—

  (i) enable effective responses to the different communities of interest and reflect and nurture the cultural diversity within the Auckland region; and

  (ii) provide leadership for the Auckland region and its communities, while facilitating appropriate participation by citizens and other groups and stakeholders in decision-making processes; and

(f) what alternative transition processes for the implementation of any new or changed local government arrangements, and of any associated matters that are identified, are necessary or desirable:

Definitions

And We declare that, in this Our Commission, unless the context otherwise requires,—

Auckland region means the geographical area within the jurisdiction of the Auckland Regional Council

inquiry's objectives means the objectives set out in the order of reference

mechanisms means any committees, boards, organisations, or forums required to support primary local government institutions in the effective governance of a region:

Exclusions from inquiry and scope of recommendations

But We declare that you are not, under this Our Commission, to inquire into the following matters:

(a) the purposes and principles of local government as described in the Local Government Act 2002:

(b) local government arrangements in New Zealand generally:

(c) the extent to which recommendations relating to the Auckland region may also be appropriately implemented in other regions across New Zealand, except as provided in paragraph (b) under the heading Relevant matters set out above:

(d) central government agency and institutional arrangements and the accountability of Ministers of the Crown to Parliament for the expenditure of appropriated funds, the provision of services, and the stewardship of assets within their ministerial portfolios:

And We also declare that you are not, under this Our Commission, to make recommendations on the quantum of central or local government funding needed to support the Auckland region:

Appointment of chairperson

And We appoint you, The Honourable PETER SALMON Q.C., to be the Chairperson of the Commission:

Power to adjourn

And for better enabling you to carry this Our Commission into effect you are authorised and empowered, subject to the provisions of this Our Commission, to make and conduct any inquiry or investigation under this Our Commission in the manner and at any time and place that you think expedient, with power to adjourn from time to time and from place to place as you think fit, and so that this Our Commission will continue in force and that inquiry may at any time and place be resumed although not regularly adjourned from time to time or from place to place:

Consultation and procedures

And you are required, in carrying this Our Commission into effect,—

(a) to consult with the public in a way that allows people to express clearly their views on issues relating to local government arrangements for the Auckland region; and

(b) to adopt procedures that will encourage people to express their views in relation to any of the matters referred to in the immediately preceding paragraph; and

(c) to consult and engage with Māori in a manner that specifically provides for their needs; and

(d) to use relevant expertise, including consultancy and secretarial services, and to conduct, where appropriate, your own research:

And you are empowered, in carrying this our Commission into effect,—

(a) to prepare and publish discussion papers from time to time on topics relevant to the inquiry; and

(b) unless you think it proper in any case to withhold any evidence or information obtained by you in the exercise of the powers conferred upon you,—

  (i) to include in any discussion papers prepared and published by you all or any of that evidence or information; and

  (ii) to publish or otherwise disclose in such other ways that you think fit all or any of that evidence or information:

General provisions

And, without limiting any of your other powers to hear proceedings in private or to exclude any person from any of your proceedings, you are empowered to exclude any person from any hearing, including a hearing at which evidence is being taken, if you think it proper to do so:

And you are strictly charged and directed that you may not at any time publish or otherwise disclose, except to His Excellency the Governor-General in pursuance of this Our Commission or by His Excellency's direction, the contents or purport of any report so made or to be made by you:

And it is declared that the powers conferred by this Our Commission are exercisable despite the absence at any time of any one member appointed by this Our Commission so long as the Chairperson, or a member deputed by the Chairperson to act in the place of the Chairperson, and at least one other member, are present and concur in the exercise of the powers:

And We do further declare that you have liberty to report your proceedings and interim findings under this Our Commission from time to time if you judge it expedient to do so:

Reporting date

And, using all due diligence, you are required to report to His Excellency the Governor-General in writing under your hands, not later than 1 December 2008, your findings and opinions under this Our Commission, together with any recommendations that you think fit to make in respect of them:

And, lastly, it is declared that these presents are issued under the authority of the Letters Patent of Her Majesty Queen Elizabeth the Second constituting the office of Governor-General of New Zealand, dated 28 October 1983,* and under the authority of and subject to the provisions of the Commissions of Inquiry Act 1908, and with the advice and consent of the Executive Council of New Zealand.

In witness whereof We have caused this Our Commission to be issued and the Seal of New Zealand to be hereunto affixed at Wellington this 30th day of October 2007.

Witness Our Trusty and Well-beloved The Honourable Anand Satyanand, Chancellor and Principal Companion of Our New Zealand Order of Merit, Principal Companion of Our Service Order, Governor-General and Commander-in-Chief in and over Our Realm of New Zealand.

[L.S]

ANAND SATYANAND, Governor-General.

By His Excellency's Command—

HELEN CLARK, Prime Minister.

Approved in Council—

DIANE MORCOM, Clerk of the Executive Council.

* *SR 1983/225*

Appendix B: Taylor Duignan Barry report

The following 31 pages include the unaltered report presented to the Royal Commission on Auckland Governance by Taylor Duignan Barry Ltd.

The Commission asked Taylor Duignan Barry to provide a financial analysis of its preferred reorganisation model for local governance in Auckland.

Taylor
Duignan
Barry

CORPORATE FINANCE & ECONOMICS EXPERTISE

Financial Analysis
Re-organisation of the Councils in the Auckland Region

9 February 2009

Royal Commission on Auckland Governance

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Glossary

2008 Annual Plan	Annual Plans are required to be published by the Auckland councils for the financial year ended 30 June 2009.
Auckland City	Auckland City Council
ARC	Auckland Regional Council
ARTA	Auckland Regional Transport Authority
Auckland councils	The eight existing councils in the Auckland Region comprising: ARC, Auckland City, Franklin District, Manukau City, North Shore, Papakura District, Rodney District and Waitakere City.
Auckland Council	The new unitary council for the Auckland region proposed by the Commission.
AWSI	Auckland Water Services Industry
CAPEX	Capital Expenditure
CGEY	Cap Gemini Ernst & Young
CCO	Council Controlled Organisation
the Commission	Royal Commission on Auckland Governance
Dep’n	Depreciation
EMA	The Employers & Manufacturers Association (Northern)
Franklin District	Franklin District Council
FTE	Full Time Equivalent
LGBRB	Local Government Boundary Review Board
LTCCP	Long Term Council Community Plan
Manukau City	Manukau City Council
North Shore	North Shore City Council
NPV	Net Present Value
NZCID	NZ Council for Infrastructure Development
NZICA	NZ Institute of Chartered Accountants
OPEX	Operating and maintenance Expenditure
Papakura District	Papakura District Council
Rodney District	Rodney District Council
TDB	Taylor Duignan Barry Limited
Waitakere City	Waitakere City Council

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1. Executive Summary

This Report has been prepared for the Royal Commission on Auckland Governance (the Commission) by Taylor Duignan Barry Limited (TDB) to provide a preliminary financial analysis of the Commission's preferred option for re-organisation of the eight councils in the Auckland Region (Auckland councils). The financial costs and the benefits (i.e. the direct monetary effects) of the Commission's preferred option are derived by comparing it with the status quo to provide a preliminary estimate of the Financial Net Present Value (NPV)[1] of the Commission's preferred option. These financial costs and benefits are also compared to the financial costs and benefits of an alternative option considered by the Commission.

TDB has been asked to evaluate the efficiencies (largely in the form of cost savings which are able to be expressed in monetary terms) achievable from the re-organisation[2]. The re-organisation could, however, be expected to have significant positive or negative impacts on the quality of infrastructure, accountability, compliance costs and other aspects of Auckland local government. These wider effects would need to be considered in a comprehensive evaluation of the costs and benefits of the restructuring options to the wider Auckland economy.

The analysis supporting the findings of this report is a preliminary and partial assessment only as it covers only an evaluation of the operations of the Auckland councils themselves and has been undertaken as a "desk-research" exercise using information from submissions to the Commission and publicly available reports. TDB has not had access to the executive management and the detailed accounts of the Auckland councils.

The financial analysis has been based on the Auckland councils' 2008 Annual Plans and on the levels and patterns of expenditure for the 2008/09 financial year. A further limitation on this analysis is that the costs and benefits have not been based on a transition plan for any possible re-organisation. A transition plan is to be developed as part of a pre-establishment programme of work. Such a plan would include individual efficiency and transition projects with clearly defined resource requirements, tasks, accountabilities and timelines. The transition plan would need to overcome the obstacles that have prevented the existing councils from implementing shared services on a much wider scale than has been achieved to date. For the purposes of this financial analysis, it has been assumed that the transitional plan will overcome these obstacles.

Two options are evaluated in this financial analysis. The Commission's preferred option is based on the creation of a unitary Auckland Council which undertakes regional planning and infrastructure planning and delivery (except local roading). Six subsidiary local councils will provide local service delivery including management of local roads, community assets and the processing of planning applications and performance of certain regulatory functions. The Commission's alternative option assumes the same split of functions as the preferred option except that there would be twenty local councils, rather than the six envisaged under the Commission's preferred option.

[1] The Financial NPV provides the net present value of the (direct) financial costs and benefits only. The NPV is the sum of discounted net cashflows over the life of the project concerned. A project with a positive NPV means that the Present Value of the benefits exceeds the Present Value of the costs and is worth pursuing, subject to funding and competing projects.
[2] An efficiency gain arises from the reduction in the costs of producing the same level of goods or services.

The total expenditure of the new Auckland Council's operation will be more than three times that of the largest operation at present (i.e. that of Auckland City Council).

In assessing the level of potential efficiency gains, TDB has based its analysis on the following assumptions:

- Sector reports for the water and wastewater industry where estimates of efficiency gains have been made;
- For procurement, savings of 5% of the relevant expenditures; and
- For those functions to which a unified service delivery environment can be applied, efficiencies of 10%-15% of the relevant expenditures.

The assumptions in the table below reflect TDB's view of what is potentially achievable with a high quality implementation of the Commission's preferred option. The assumptions are based on evidence from the studies discussed in the main body of this Report, although given that a transition plan has yet to be developed the assumptions are necessarily broad brush in nature.

In 2008/09 the Auckland councils are planning total expenditure of around $3.2B, comprised of almost $2B on Operating Expenditure (OPEX) and almost $1.3B on Capital Expenditure (CAPEX). With respect to the Commission's preferred option, the indicative range of annual assessed efficiency gains when fully realised are as follows:

Commission's Preferred Option Indicative Range of Efficiency Gains	**Low $M p.a.**	**High $M p.a.**	**Medium $M p.a.**
CAPEX Efficiency Gains	22	37	30
OPEX Efficiency Gains	54	77	65
Total Efficiency Gains	**76**	**113**	**95**

Overall, the indicative range of total efficiency gains are estimated to lie in the range of $76M to $113M p.a. which represents approximately 2.5% – 3.5% of the total expenditure of the Auckland councils planned for 2008/09 (of around $3.2B). The indicative level of CAPEX efficiency gains is estimated to be in the range $22M p.a. to $37M p.a. which would represent approximately 2-3% of the total CAPEX of the Auckland councils planned for 2008/09 (of almost $1.3B). The indicative level of OPEX efficiency gains are estimated to be in the range $54M to $77M p.a., which would represent approximately some 3-4% of the total OPEX of the Auckland councils planned for 2008/09 (of almost $2B).

The available reviews of previous Australasian local government re-organisations do not provide evidence of large efficiency gains. In many cases, however, efficiency gains may have been achieved but have been reallocated to new functions or to enhancements in services. In reviews where quantification of re-organisation benefits were undertaken, cost savings of 2% to

8.5% p.a. were assessed. Potential efficiencies of up to 5% of annual OPEX are also supported by the Gershon Review[3] of public expenditure in the UK.

With respect to the Commission's preferred option, the financial analysis has assumed that a transition plan would be developed under which the level of integration costs would be centred around two times the combined assessed annual level of OPEX and CAPEX efficiency gains when fully realised. In the NPV analysis, for the "base case" scenario, it is assumed that integration costs will total around $180M. A "pessimistic" scenario has assumed total integration costs of around $240M together with low efficiency gains. An "optimistic" scenario has assumed total integration costs of around $120M together with high efficiency gains. A table outlining these key assumptions is provided below:

	Commission's Preferred Option		
Key Assumptions	**Pessimistic Scenario**	**Optimistic Scenario**	**Base Case Scenario**
	$M	**$M**	**$M**
Total Annual Efficiency Gains	76	113	95
Total Integration Costs	237	118	178

To derive present values, TDB uses the Treasury guideline/default discount rate of 10% real pre-tax, with a sensitivity analysis using a discount rate of 7.5%. There is an argument that the lower 7.5% rate is more appropriate for analysis of the sectors within which the bulk of activities are undertaken by the Auckland councils. Consistent with the discount rate, the analysis is undertaken in terms of pre-tax cashflows derived from the re-organisation at constant prices. As noted earlier, the costs and benefits only relate to the financial impact on the Auckland councils' operations.

The results of the NPV analysis of the Commission's preferred option are given below:

NPV Comparisons	Discount Rate	Commission's Preferred Option		
		Pessimistic Scenario	**Optimistic Scenario**	**Base Case Scenario**
	%	**$M**	**$M**	**$M**
Standard Discount Rate Assumption	10	277	574	426
Sensitivity Analysis	7.5	488	902	695

For the Commission's preferred option, the NPV ranges around a mid-point of about $425M at a 10% discount rate to around a mid-point value of about $700M at a 7.5% discount rate. Whilst the actual results from the re-organisation under the preferred option would have to fall substantially short of the assessed outcomes to result in a negative NPV, a high quality implementation of the re-organisation would still be required to secure the potential efficiency gains which are assumed by this financial analysis.

[3] "Releasing resources to the front line, Independent Review of Public Sector Efficiency", Sir Peter Gershon, CBE, July 2004 (Gershon).

The NPV of the re-organisation under the Commission's alternative option could be around half that generated by the Commission's preferred option when the higher costs of running twenty rather than six local councils are taken into account. The Commission's alternative option would, however, have different effects on infrastructure availability, accountability and compliance costs experienced by Auckland residents. Since TDB has not been asked to provide an opinion on these matters, they are not covered in the present financial analysis. These aspects would need to be taken into account in a full comparative assessment of the Commission's preferred and alternative options, such as in a cost benefit analysis.

2. Structure of This Report

This Report is structured as follows:

Section 3 compares the Commission's preferred and alternative options with the Status Quo;

Section 4 provides some background on the level and patterns of spending by the Auckland councils, which serves as a base for assessing potential efficiency gains;

Section 5 describes the nature of the efficiency gains that could be generated from procurement savings and unified or shared services;

Section 6 with respect to the Commission's preferred option, analyses the range of potential efficiency gains by broad functional category of Auckland council activity, including a comparison of the overall indicative range of estimated efficiency gains with evidence presented to the Commission and from overseas;

Section 7 with respect to the Commission's preferred option, assesses the integration costs, including a risk analysis;

Section 8 evaluates the NPV of the Commission's preferred option in terms of the direct efficiency gains to the Auckland councils, including a sensitivity analysis;

Section 9 considers the impact of the Commission's preferred option on the wider Auckland economy; and

Section 10 assesses and evaluates the impact of the Commission's alternative option compared with the Commission's preferred option on the Auckland councils' themselves.

3. Commission's Options Outlined

3.1 Commission's Preferred option

The preferred option as advised by the Commission and as documented in their Report is for one unitary authority, the "Auckland Council" and six local councils which is compared to the Status Quo in the following Table:

Table One: Commission's Preferred Option Compared to Status Quo

Item	Status Quo	Commission's Preferred Option
Councils	8	I unitary authority and six local councils (i.e. one less than at present)
Land Use Plans	8	1 Spatial Plan
Rates Bills	2	1
Service Centres	8	7
Rating Authorities	8	1
Data Centres	9	1
Land Transport Entities	8	1
Water/Wastewater	12	1 Water and Wastewater operator

In the Commission's preferred option, the Auckland Council would own all assets and undertake the following regional functions:

- Spatial planning;
- Prepare the Long Term Council Community Plan (LTCCP) and the Annual Plan;
- Make and administer rates for the region;
- Deliver regional network services including; water, wastewater and solid waste management, arterial road construction and maintenance;
- Own and manage all assets;
- Act as the "parent" organisation to local council "subsidiaries", including monitoring their performance and approving budgets; and
- Undertake purchasing, human resource, finance and information communication technologies.

In the Commission's preferred option, the local councils are described as "subsidiaries" of the Auckland Council and would undertake a number of local functions including the following:

- Input to regional policy making;
- Local road construction and maintenance;

- Administration of the district plan, hear and decide most resource consents and building consents processing;
- Develop and maintain local parks and other community facilities;
- Animal and environmental health control;
- Education and health advocacy; and
- Community engagement.

The local councils would be part of a unitary Auckland Council which will have a common set of accounts and a single financial system. Auckland Council would employ all council staff and there would be a single human resource management system, including payroll.

3.2 Commission's Alternative Option

The alternative option considered by the Commission is a variant on its preferred option whereby there would be twenty, rather than six, local councils. It is envisaged that the functional activities split between the Auckland Council and the local councils would be the same as for the preferred option. The only difference would be that there would be fourteen additional local councils. The twenty local councils option involves an average population of around 70,000.

3.3 Summary

The Commission's two options are evaluated in this financial analysis. The Commission's preferred option results in the creation of an Auckland Council which would undertake regional planning and infrastructure planning and delivery (except local roading). Six local councils would provide service delivery of local roads, community assets and process planning applications and undertake compliance functions. The Commission's alternative option would result in the same split of functions except that there would be twenty local councils, rather than the six envisaged under the preferred option.

4. The Existing Auckland Councils' Expenditure[4] Patterns

4.1 Key Statistics

Table Two: Auckland Councils – Key Statistics

Item	Auckland Councils
Population (2006)	1,314,000
Staff (2008)	6356
Total OPEX (2008/09)	$1952m
Total CAPEX (2008/09)	$1264m
Total OPEX and CAPEX (2008/09)	$3216m

Source: Auckland councils' 2008 Annual Plans for OPEX and CAPEX for the 2008/09 financial year (that is for the 12 months ended 30 June 2009), supplemented by data from 2008 Annual Reports. OPEX includes; depreciation (or dep'n.), interest, staff expenses and "other".

4.2 OPEX Composition

Table Three below depicts a breakdown of the Auckland councils' OPEX for 2008/09 by major expense category. It is assumed that interest payments and depreciation cannot be reduced by efficiencies resulting from the re-organisation[5]. Therefore these costs are separated from the remaining expenses which are potentially "amenable" to efficiency gains.

Table Three: Auckland Councils – OPEX Breakdown (2008/09)

Item	OPEX Breakdown	% Total OPEX	OPEX Excluding Dep'n Interest	% Total OPEX
	$M	**%**	**$M**	**%**
Depreciation	374	19	-	-
Interest	113	6	-	-
Staff	479	25	479	25
Other	985	50	985	50
Total	**1952**	**100**	**1464**	**75**

NB: Totals may not add due to rounding

Source: TDB analysis of Auckland councils' 2008 Annual Plans. NB; This analysis includes the Auckland Regional Council's (ARC) contribution to the Auckland Regional Transport Authority (ARTA) but excludes all other Council Controlled Organisations (CCOs), such as Watercare.

Up to 75% of the Auckland councils' OPEX could be influenced by the efficiencies resulting from a re-organisation.

[4] Expenditure is split between capital expenditure (CAPEX) and operating expenditure (OPEX).
[5] These costs can be reduced by changes in council policies in the future, including decisions on the level and timing of CAPEX and on funding policies for CAPEX.

4.3 Functional Analysis

Table Four below provides a breakdown of the Auckland councils' estimated OPEX in 2008/09 by function:

Table Four: Auckland Councils – Functional OPEX Analysis (2008/09)

Function	Total OPEX (2008/09)		"Amenable" OPEX (2008/09)
	$M	**%Total**	**$M**
Transport	586	30	586
Less transfers to ARTA			(185)
Transport excluding ARTA			401
Community Assets	687	35	687
Solid Waste/Three Waters	364	19	364
Regulation/Economic Development/Democracy	315	16	315
Total	**1952**	**100**	1767
Total OPEX Amenable to Efficiencies (75% of above)	**-**	**-**	**1325**

Source: TDB analysis of Auckland councils' 2008 Annual Plans. NB: Totals may not add due to rounding.

Almost half of the Auckland councils' OPEX is devoted to the provision of utility services including; transport, solid waste management and water and waste water treatment. This functional analysis will subsequently be used to assess the potential for efficiencies. In assessing the OPEX that could be influenced by the efficiency gains arising from re-organisation, the $185m appropriation by the ARC to ARTA was excluded on the basis that this expenditure on trains, buses and ferry services, most of which is contracted out, is sufficiently different to the other activities of the Auckland councils that there would be limited opportunities for efficiencies.

The aggregate OPEX amenable to efficiency gains from re-organisation is assessed to be $1325M p.a. or approximately two/thirds of the total estimated OPEX of the Auckland councils in 2008/09 of $1952M.

5. Key Organisational Assumptions & Mechanisms to Achieve Efficiencies

5.1 Introduction

TDB's estimates of efficiencies from re-organisation are derived from the following three sources:

- Sector reports such as the report on the Auckland Water Services Industry (AWSI) by Saha International[6];

- Reported savings obtained from centralised procurement; and

- Reported efficiencies from unified or shared service delivery.

A range of studies that have assessed the savings achievable from the second and third aspects listed above have been considered by TDB in undertaking the estimation of the possible efficiencies achievable. The assumptions TDB has used in the analysis are set out in this Section. These assumptions are then compared in the next Section with the assessments of possible savings in a variety of comparable situations as reported by submitters and experts.

The context of the assumptions regarding savings from centralised procurement and shared services is that the preferred option results in a new entity substantially larger than any of the existing operations. The total expenditure of the new Auckland Council's operation will be more than three times that of the largest operation at present (i.e. that of Auckland City Council).

5.2 Procurement Efficiencies

For the purposes of evaluating the efficiencies available to the Auckland Council, it is assumed that procurement efficiencies would be generated by:

- Increasing the Auckland Council's buying power by consolidating expenditure volumes and values;

- Rationalising the number of suppliers to the Auckland Council;

- Formalising and managing key Auckland Council supplier relationships; and

- Introducing catalogue-based purchasing processes.

Many analyses of mergers and acquisitions show that procurement savings can contribute up to half of the consequential efficiency gains. Booz-Allen & Hamilton[7] report procurement savings ranging from 3 - 5%, rising to 20 - 25% dependent on the cost category. In the absence of a detailed breakdown of Auckland council expenditures, procurement efficiencies are assumed to be 5% of the aggregate amenable expenditure.

5.3 Unified Service Delivery

The proposed re-organisation of the Auckland councils assumes the consolidation of "back-office" service functions, the re-engineering of a number of processes and unified or shared service delivery with the potential for efficiencies including:

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[6] "Review of the Auckland Water Services Industry, Current state analysis", Saha International, 27 July 2006 (Saha 2006).
[7] "Making Acquisitions Work: Capturing Value After the Deal", by Harbison, Viscio and Asin, Booz-Allen & Hamilton, 1999.

- Re-engineered (and automated) planning, rating, finance and administration, human resources and service delivery processes;

- Simplification and harmonisation of policies, bylaws and regulations;

- Centrally governed ICT infrastructure, a single payment gateway, common software applications, standards and controls and a single contact and data centre facility;

- Significantly increased on-line transactional “self-services” i.e. on-line consent and licensing applications and payments;

- Standardisation, automation and consolidation of transaction processes including, for example, the production of one rates bill; and

- Consolidated “back office” functions including finance and administration, internal audit, human resources, purchasing and asset management.

International surveys of the potential savings realised from shared services include the following:

- PA Consulting[8] reported 12% savings in costs from shared services by FTSE 250 companies in the United Kingdom in 2006;

- In its 2007 Shared Services Survey Results[9], Deloitte reported 75% of respondents as achieving efficiencies of more than 10%; and

- Accenture[10] in an international survey, noted that the most commonly reported efficiencies lay in the range, 11-15%.

Whilst in theory, shared services could be implemented without re-organisation, the observed situation is that significant shared services strategies have not been pursued voluntarily to date by the Auckland councils. The only exceptions of note are the e-libraries project for the Greater Auckland Region - “elGAR” and the Manukau and Auckland Recycling Services – “MARS”. The experience with shared services to date suggests that there are significant obstacles to co-operation between the existing councils. These obstacles to co-operation with respect to shared services could be an obstacle to a smooth re-organisation and the assumption made for the purposes of this financial analysis is that a transition plan will be developed that would successfully overcome these obstacles.

TDB assumes that the efficiencies derived from unified or shared service delivery lie in the range of 10-15% of the expenditure within those functions to which a shared services environment can be applied.

[8] “Shared service centres: delivering the promise”, PA Consulting Group, 2007.
[9] “2007 Global Shared Services Survey Results”, Deloitte, 2007.
[10] “Shared Services: The Evolution of Higher Performance”, Accenture, 2003.

5.4 Summary

In assessing the level of potential efficiency gains from unified or shared service delivery, TDB has based its analysis on the following assumptions; sector reports where available, procurement efficiencies of 5% of the relevant expenditure and efficiencies of 10-15% of those expenditures within those functions to which a shared or unified service environment can be applied.

6. Commission's Preferred option - Efficiencies by Functional Category

6.1 Introduction

This Section analyses the potential for efficiencies arising from re-organisation under the Commission's preferred option with respect to both CAPEX and OPEX, by reference to the following functional categories:

- Water and Wastewater;
- Stormwater;
- Solid Waste;
- Transport;
- Community Assets; and
- Regulation/Planning/Governance.

6.2 Water and Wastewater

Under the Commission's preferred option, it is assumed that a single integrated company (Watercare Services) will manage bulk and retail water and wastewater services for the Auckland region.

Saha (2006) undertook a comprehensive survey of the reports on the Auckland Water Services Industry completed to that date. Following consultation with the Industry, the feedback was that "*most stakeholders agreed that achieving optimal investment solutions for the region is difficult because of the fragmented nature of the industry. More integrated planning would ensure that optimal solutions were delivered.*"

In 2000 Cap Gemini Ernst & Young (CGEY)[11] were engaged by the Auckland Water Steering Group to provide advice on a range of issues including efficiencies derived from amalgamation. This review estimated that amalgamation could lead to a range of efficiencies including integrated asset management planning, amounting to 5% of CAPEX, or almost $10M p.a. (on an estimated total CAPEX of $3.1B over the period 2000-2016 including network operator's expenditure in addition to that of the Auckland councils).

[11] "Reducing Costs by Amalgamation", Cap Gemini Ernst & Young, 2000.

A more recent paper on the level of Industry spend was completed in 2007, "Funding Futures: Three Waters – Auckland Region" (Funding Futures) by Hill Young Cooper, Cranleigh Merchant Bankers and Pattle Delamore Partners[12]. Funding Futures estimated that the total water and wastewater CAPEX for Auckland councils and network operators for the period 2007-2027 would be at least $5.1B. Assuming efficiencies of 5% (per CGEY) can be applied to the latest estimate of water and wastewater CAPEX, this would result in annual savings of almost $13M p.a.

TDB adopts a range of efficiencies in water and wastewater CAPEX of $10M to $13M p.a.

In addition to efficiencies with respect to CAPEX, the integration of bulk and retail services is likely to generate economies in OPEX. CGEY estimated that the efficiencies would likely be generated through the reduction of staff, achieving greater economies of scale and the removal of administrative and service duplication. Examining maintenance, operations and asset management, customer relations and corporate functions, CGEY estimated that efficiency gains in OPEX could total up to $10M p.a. Adjusted for inflation of 25% over the last 8 years (as measured by movements in the CPI Index) efficiency gains would approximate $12.5M p.a.

TDB adopts a range of efficiency gains in water and wastewater OPEX of $10M to $13M p.a.

6.3 Stormwater

Under the Commission's preferred option, it is assumed that stormwater services will be provided by a combination of Watercare Services and local councils supported by a centralised procurement function.

TDB does not have access to studies undertaken of the potential efficiencies from integrating the region's stormwater network and asset management planning processes. As outlined in the Funding Futures report referred to earlier, planned stormwater CAPEX is substantial, being estimated to be at least $1.8B over the period 2007-2027. Efficiencies from consolidating procurement management amounting to 5% of annual CAPEX would generate efficiency gains of around $5M p.a. Further unquantified but significant CAPEX efficiencies are likely from integrated stormwater asset management planning and from "three waters" asset management planning.

The Auckland councils estimate stormwater OPEX of around $92M in 2008/09. It is assumed that 75% of this annual spend is amenable to re-organisation efficiencies, that being the average proportion of the Auckland council's OPEX represented by staffing and costs other than interest and depreciation. Assuming that efficiency gains of 5% are available on the amenable expenditure of $69M, based primarily on procurement initiatives, efficiency gains would amount to around $3M p.a.

With respect to stormwater, TDB assumes efficiency gains of around $5M p.a. in CAPEX and around $3M p.a. in OPEX.

[12] "Funding Futures: Three Waters – Auckland Region, Final Report to the Auckland Regional Council", Hill Young Cooper Limited, Cranleigh Merchant Bankers and Pattle Delamore Partners Limited, June 2007 (Funding Futures).

6.4 Solid Waste

Under the Commission's preferred option, it is assumed that all solid waste activities will be centrally planned including regionally significant landfill management, rubbish collection, recycling and waste minimisation initiatives.

The Auckland councils estimate that OPEX on solid waste disposal will total some $95M in 2008/09, of which 75% is assumed to be amenable to efficiencies. Efficiencies of 5% in the amenable OPEX of $71M p.a., driven primarily by procurement synergies, would amount to almost $4M p.a. Auckland City and Manukau City have, however, recently formed a JV to undertake kerbside recycling to reduce landfill volumes, which may have already captured some of these potential savings. Auckland City and Manukau City account for around 60% of the Auckland council's spending on solid waste. Therefore $4M is considered to be at the upper end of the range of possible efficiency gains.

With respect to solid waste, TDB assumes OPEX efficiency gains of between $1M and $4M p.a.

Examination of the Auckland councils' 2008 Plans suggests that they will undertake little CAPEX in solid waste, at least during 2008/09. This may be due in part to the outsourcing of these services to private sector operators which provide the capital facilities.

No efficiency gains in CAPEX are assumed with respect to solid waste.

6.5 Transport

Under the Commission's preferred option, it is assumed that the Auckland Council through a new regional transport authority will be responsible for the planning, development and management of arterial roads and all public transport infrastructure service planning and procurement.

Transport activities comprise roading, carparking and expenditure through ARTA on train, bus and ferry operations. In 2008/09, the Auckland councils estimate that they will undertake OPEX of $586M on transport of which some $185M is funded by the ARC through ARTA. The ARTA expenditure on operation of trains, buses and ferries has no direct connection with the roading expenditure which comprises most of the Auckland councils' expenditure on transport and therefore no efficiencies are expected from this area. Of the balance of transport spending of around $400M in 2008/09, some 75% ($300M p.a. after excluding depreciation and interest) should be potentially amenable to efficiencies. It is assumed that the new regional transport authority for Auckland would be able to achieve procurement efficiencies. Efficiencies of 5% of the annual OPEX have been assumed with respect to roading, amounting to $15M p.a. – driven primarily by procurement cost savings.

TDB assumes efficiency gains of $15M p.a. with respect to OPEX on roading.

Aggregate CAPEX on transport is estimated by the Auckland councils to be $570M in 2008/09 and comprises around 45% of the total Auckland council's CAPEX. The opportunity to co-ordinate the letting of contracts for the arterial roads by the Auckland Council presents opportunities for further procurement efficiencies. There may be less opportunity for cost savings with respect to CAPEX on local roads, unless related tenders are combined and offered in groups. Some of the procurement efficiencies might have already been extracted through tendering.

Efficiency gains of 5% are only assumed with respect to 50-100% of the estimated CAPEX in 2008/09 on Transportation activities, amounting to between $14M and $29M p.a.

6.6 Community Assets

Under the Commission's preferred option, it is assumed that the Auckland Council will devolve management of community assets to local councils and local councils will benefit from assumed procurement initiatives.

Community asset activities include; parks, libraries, community halls, pools and contributions to the arts. By and large these activities comprise individual facilities or programs. Procurement efficiencies should still be able to be found, such as being able to tender larger contracts and bulk purchase of goods and services. Of the $687M OPEX on community assets estimated by the Auckland councils in 2008/09, up to some 75% ($515M p.a.) might be amenable to efficiency gains after depreciation and interest expenses have been excluded. Because of uncertainty around the proportion of expenditure from which efficiencies might be obtainable, procurement efficiencies of 5% have been assumed to be applicable to 75-100% of the amenable expenditure, resulting in an assessment of efficiency gains in a range of $19M to some $26M p.a.

Efficiency gains of $19M to $26M p.a. are assumed with respect to the OPEX incurred on Community Assets.

Because the CAPEX relating to community assets comprise one-off, individual projects which are tendered, there would be less opportunity for efficiencies.

No efficiency gains are assumed with respect to CAPEX on Community Assets.

6.7 Regulation/Planning/Governance

The balance of the Auckland councils' expenditure lies in the areas of; regulation, policy and compliance, economic development, executive management and the expenditure servicing and remunerating the elected representatives. In 2008/09 the Auckland councils' estimate that they will incur $315M of OPEX on the regulation, planning and governance activities. It is assumed that some 75% of this expenditure (around $236M) is amenable to efficiencies. Given the overlap and duplication of activities, these items are suitable for the implementation of shared services.

TDB assumes that the efficiency gains derived from unifying and streamlining planning and regulatory processes and related governance systems lie in the range of 10-15% of the regulatory and governance costs that are amenable to efficiency gains. However, lack of detail on the composition of this expenditure, leads TDB to assume that up to 25% of the potentially amenable expenditure is not suitable for shared or unified service application.

Given potentially amenable OPEX of $236M by the Auckland councils on Regulatory and Governance Activities in 2008/09, efficiency gains of 7.5 - 15% have been assumed, which would range between $18M and $35M p.a.

On completion of the re-organisation, some CAPEX could be reduced through less demand for office space and the number of computing stations.

No net efficiency gains are assumed with respect to CAPEX in the Regulation/Governance Activity.

6.8 Commission's Preferred Option: Indicative Range of Efficiency Gains

This Section brings together the overall estimated indicative range of efficiency gains from the Commission's preferred option, which will then be tested against external evidence.

Table Five: Commission's Preferred Option: Overall Range of Indicative Efficiency Gains

Activity	**Low**	**High**
	$M p.a.	**$M p.a.**
CAPEX		
Water and Wastewater	10	13
Stormwater	5	5
Solid Waste	0	0
Transport	14	29
Community Assets	0	0
Regulatory and Governance	0	0
Total CAPEX Efficiency Gains	**28**	**46**
% Total CAPEX (2008/09, $1264M)	*2.2*	*3.6*
OPEX		
Water and Wastewater	10	13
Stormwater	3	3
Solid Waste	1	4
Transport	15	15
Community Assets	19	26
Regulatory/Governance	18	35
Total OPEX Efficiency Gains	**67**	**96**
% Total Amenable OPEX (2008/09: $1325M)	*5.1*	*7.2*
% Total OPEX (2008/09: $1952M)	*3.4*	*4.9*
Total CAPEX and OPEX Efficiency Gains	**95**	**142**

NB: Totals may not add due to rounding. CAPEX efficiency gains in the water and wastewater functions have been assumed to apply to CCOs as well as to Auckland council expenditures.

Overall, the indicative level of efficiency gains with respect to the Commission's preferred option, is estimated to be in the range $95M to $142M p.a. The CAPEX efficiency gains range from $28M p.a. to $46M p.a. and represent 2-4% of the total annual CAPEX of the Auckland councils. The OPEX efficiency gains are estimated to lie in the range $67M to $96M p.a., representing some 5-7% of those costs amenable to efficiencies and 3.5-5% of the total annual OPEX undertaken by the Auckland councils.[13]

The "reasonableness" of these estimates is now tested by reference to submissions made to the Commission and to external evidence including the Gershon Review in the UK

6.9 External Evidence of Efficiency Gains

6.9.1 Introduction

This Section examines the evidence for the estimated level of efficiency gains with respect to the Commission's preferred option, by reference to the following:

- Submissions to the Commission quantifying potential efficiency gains from re-organisation of the Auckland councils;
- Other submissions to the Commission referring to academic studies of previous local government re-organisations; and
- The Gershon Review which investigated the potential for efficiencies in local government in the UK[14].

6.9.2 Submissions & Desk Research

In a Supplementary Paper submitted to the Commission by the Employers & Manufacturer's, Northern (EMA), Deloitte[15] noted a paper by Allan (2003) which quoted experience from Australia as follows:

"*the Victorian State Government claimed its amalgamation programme would yield direct cost savings of 20%, the net results have been only 8.5%, most of which was derived from competitive tendering and not from restructuring. Similarly in South Australia the authorities promised savings of 17.4%, but only achieved a mere 2.3%.*"

Efficiency gains might, however, have been masked by reallocation of resources to new functions or to enhancements in service.

As part of its Submission to the Commission, Papakura District Council tabled a paper by McKinlay Douglas[16]. With respect to South Australia, McKinlay Douglas note the findings of the Local Government Boundary Reform Board (LGBRB) which was tasked with reporting on the outcomes of the 1995 reform process. In its 1998 Report, the LGBRB noted that the recurrent

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[13] For the purposes of the financial analysis, some 80% of these potential efficiencies will be used in the calculation of benefits arising from re-organisation.
[14] See footnote 3.
[15] "Financial benefits of consolidation", Deloitte, April 2008 (Deloitte 2008).
[16] "Local Government Structure and Efficiency", A report prepared for Local Government New Zealand, McKinlay Douglas Limited, October 2006.

savings estimate of $19.4M p.a. (2.3% of total costs) could be considered as conservative because it had been agreed that whilst there would be no reduction in staffing levels, service delivery would be expanded. In effect, potential savings were re-allocated to service increases rather than to rate reductions. "*On this basis, it is possible that the potential cost savings (including these converted directly into expanded services), could be as a much as double those actually recorded*".

Rouse and Putterill[17] analysed data regarding the cost of highway maintenance by New Zealand local bodies before and after the 1989 amalgamation. They find no evidence of either gains from the amalgamation or economies of scale. Indeed they find some evidence suggesting diseconomies of scale. They attribute these results to small local bodies being able to access all available economies of scale by outsourcing highway maintenance activities. The diseconomies of scale suggested by their analysis may arise because larger local bodies decide that they will carry out such activities in-house whereas it would be more efficient if the activities were outsourced. The results of the Rouse and Putterill study do not refute the suggestion that economies of scale are likely to be available in those administrative expenditure areas which cannot be outsourced. The results provide a warning that in areas where economies can be achieved by outsourcing, amalgamation will not provide any benefit and indeed could increase costs if the larger entities resulting from amalgamation decide to undertake activities in-house that would be better outsourced.

In summary, review of the evidence from past local government amalgamations in Australasia does not provide evidence of large efficiency gains but in many cases these may have been achieved but been reallocated to new functions or to enhancements in service. Where quantification of amalgamation benefits was undertaken, cost savings have been estimated at 2% to 8.5% p.a.

6.9.3 Submissions – Auckland Council Re-organisation

This Section reviews the specific evidence for the efficiencies arising from amalgamation or unification of the Auckland councils presented in Submissions to the Commission. Whilst the EMA, ARC and NZ Council for Infrastructure Development (NZCID), provided views on the potential efficiency gains, only the EMA submission contained a detailed estimate of these benefits. The EMA provided a Supplementary Paper to its submission to the Commission (Deloitte 2008) which contained an indicative assessment by Deloitte of potential efficiencies from a unitary model in Auckland. This indicative assessment estimated total OPEX and CAPEX efficiencies of $132M p.a. based on estimated outlays by the Auckland councils in 2007/08. When these estimates are scaled up for the 10% increase in the estimated aggregate OPEX spending by the Auckland councils between 2007/2008 and 2008/2009, the estimated efficiency gains increase up to $145M p.a.

The efficiency gains indicatively estimated by Deloitte ($132m to $145M p.a.) are at the higher end of the $95M to $142M p.a. range estimated by TDB above. The two estimates are broadly consistent however, because the Deloitte analysis assumed a unitary structure whereby all the local councils would be subsumed within the unitary authority. Such a unitary structure would increase the opportunity for overhead and other savings, relative to the re-organisation under the preferred option which retains six of the present seven local councils. This financial analysis is based on the preferred option.

[17] "Local government amalgamation policy: A highway maintenance evaluation", Rouse and Putterill in Management Accounting Research, 2005.

6.9.4 The Gershon Review

In July 2004, Gershon assessed the potential for efficiency gains in the UK public services including in Local Government. Efficiency targets were established totalling 21.5B pounds sterling per annum, representing a 7.5% saving (2.5% p.a.) in real terms by 2007/08. A saving of 6.5B pounds sterling was established with respect to Local Government. At least half of the savings to be made by Local Government were to be capable of being redirected to the front line, with the other half to be delivered through increased outputs and enhanced services.

HM Treasury reported in 2008[18] that a total of 23.1B pounds sterling of savings had been made, including 6.7B pounds sterling by Local Government. Whilst these savings could be achieved through reducing staff numbers and other economies, a survey of Local Government Finance Directors[19] suggested that the bulk of savings in the last two years of the three year program (up to 5% of total costs) would come from a combination of both IT and shared services with other councils or authorities. The OPEX efficiencies indicatively assessed in this Report (3.5-5% of total estimated OPEX in 2008/09) are consistent with the outcomes from the Gershon Review in the UK.

6.10 Conclusion

TDB tested the potential for efficiency gains from re-organisation by reference to academic studies, evidence presented to the Commission and international public sector restructuring. This evidence supports the indicative estimates in this Report of potential efficiency gains from re-organisation in the order of 3.5-5% of total annual OPEX. As noted earlier, the estimates derived for this financial analysis are indicative, being based on desk research and in the absence of a detailed transition plan.

7. Commission's Preferred Option: Integration Costs

7.1 Introduction

Under the Commission's preferred option, the new "Auckland Council" is assumed to become operational immediately following the next council elections in November 2010. The re-organisation is then expected to be substantially completed within 4 years.

Typically, any major transformation involves one-off costs to restructure the existing organisations and to establish the new entity. The establishment costs would include the expenses of temporary parallel running of essential activities to ensure business continuity. Restructuring costs would be contained as a result of pursuing the following transition path:

- The local councils will utilise existing facilities wherever possible;

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[18] "2004 Spending Review: efficiency progress to December 2007", HM Treasury, March 2008.
[19] "Shared services as a long-term solution for Local Government, Delivering on the Gershon Report", September 2005, which was commissioned by Serco Solutions.

- The activities integrated within the Auckland Council are those where there are regional co-ordination benefits; and

- Auckland Council ICT infrastructure will make significant use of current (scalable) enterprise resource planning systems and infrastructure.

If a detailed transition plan had been developed, the costs of each transition project would be assessed and compiled. Since such a plan has yet to be developed, TDB has assessed the integration costs by reviewing evidence submitted to the Commission, tested by reference to our experience in large scale transactions and in particular to the relationship between the scale of targeted efficiency gains and integration costs. We also refer to some offshore experience.

7.2 Submissions to the Commission

In the Supplementary Submission of the EMA, Deloitte (2008) indicatively estimated that the one-off re-organisation costs could total $306M, some 2.3 times the indicatively estimated level of total efficiency gains. These costs reflected the assumption of "full" integration whereby all functions would be assumed by the "Unitary Authority". The preferred option which is the subject of this financial analysis, retains six of the current seven local councils and (for the purpose of the analysis) assumes leaving around half of the staff and resources in their current location. This assumption leads to lower restructuring cost assumptions than Deloitte's.

7.3 Comparative Experience

Although there is no necessary relationship between efficiency gains and integration costs, TDB observes that as a rule of thumb integration or unification costs usually amount to at least one year's and up to two year's of the annual efficiency gains once fully realised. For example, with respect to ANZ's acquisition of the National Bank of New Zealand in 2004, ANZ's renounceable rights issue prospectus advised integration costs of A$230m, some 2.1 times the full year efficiency gains of A$110M p.a. This ratio is similar to that in the recently announced Westpac Banking Corporation/St George acquisition (2 times) but significantly higher than some other apparently comparable experience namely the Suncorp/Promina merger at 1.6-1.8 times and the Bendigo/ADB merger at around one times the level of annual efficiency gains.

In January 2006, The Office of the Deputy First Minister in Northern Ireland published a study[20] which identified potential efficiency gains of up to 206M pounds sterling in education, health and local council entities. The integration costs were assessed to be up to 397M pounds sterling or around 1.9 times the annual efficiency gains.

In April 2009 the six existing District and Borough Councils and Cornwall County Council will be amalgamated to form a new Council that will cover the whole of Cornwall. The resident population of Cornwall is some 524,000 (2006). The latest estimate by the One Cornwall Implementation Executive's Finance and Performance Group is that the net ongoing annual efficiencies would be 27M pounds sterling by 2011/12, equivalent to around 7% of the

[20] "Exercise to Estimate the Costs and Efficiencies of the Review of Public Administration Proposals", The Office of the Deputy First Minister in Northern Ireland, January 2006.

expenditure in 2006/07of 377M pounds sterling. If the maximum level of efficiency gains is achieved, it is estimated that the one-off integration costs to achieve this will be 44M pounds sterling or 1.6 times the net annual efficiency gains.

7.4 Unification Risk Mitigation

The proposed re-organisation of the Auckland councils under the Commission's preferred option is of a large scale. It is far larger than any local government re-organisation undertaken in NZ to date and would rival the largest mergers undertaken in the private sector in New Zealand. For example, the 2004 merger between the NZ operations of the ANZ and the National Bank of New Zealand resulted in a combined staffing of around 10,000, compared to the combined staffing of the Auckland councils of around 6,400. Numerous studies have concluded that at least half of all mergers fail to achieve the financial objectives established for the merger.

For the purpose of the analysis, it is assumed that under the Commission's preferred option half of the current Auckland council staff would, after implementation, be located within the local council organisational entities and half would be located within the Auckland Council organisational entity or within CCOs or COs. This reduced scale and scope of the locational changes in the restructuring compared to full centralisation will reduce the risks inherent in unification.

However the re-organisation as contemplated under the Commission's preferred option would remain a significant challenge. It has been noted earlier that the transition plan would need to overcome the barriers to co-operation between the existing councils that have prevented more extensive use of shared services to date. A key aspect of success in implementing the Commission's preferred option is how quickly the implementation can be achieved and the level of experience of the establishment and transition teams (in merger and change management).

TDB notes the following would mitigate the unification risks:

- The adoption of a phased approach to the transition and a high quality transition including the use of resources with expertise in merger and change management;

- The development of a detailed cost benefit analysis coupled with a formal detailed transition programme of work with time frames, time lines and accountabilities for delivery of the identified efficiencies, prior to the new organisation assuming its new functions; and

- A focus on successfully implementing the 20% of actions that are expected to deliver 80% of the benefits.

This financial analysis of the Commission's preferred option assumes a high quality implementation in the establishment of the Auckland Council. This financial analysis includes an assessment of the impact of several risk-based scenarios, where re-organisation costs are greater than assessed and efficiency gains are less than estimated.

7.5 Integration Costs - Conclusion

TDB assumes that a transition plan will be developed to implement the Commission's preferred option under which the level of integration costs amount to between one and two times the aggregate indicative level of assessed long run OPEX and CAPEX efficiency gains. With respect to the NPV analysis which follows below, for the "base case" scenario it is assumed that integration costs will total 1.5 times the mid-point estimate of efficiency gains when fully realised, i.e. a total of around $180M. A "pessimistic" scenario will assume integration costs of twice the mid-point estimate of annual efficiency gains when fully realised, i.e. a total of around $240M. An "optimistic" scenario will assume integration costs equal to the mid-point estimate of the annual efficiency gains, i.e. a total of around $120M. These indicative estimates of the integration costs are based on desk-top research as is the indicative range of efficiency gains.

8. Net Present Value of the Commission's Preferred Option

8.1 Introduction

The NPV analysis of the Commission's preferred option undertaken in this Section brings together the estimated efficiency gains and integration costs for the Auckland councils. The re-organisation could be expected to have other benefits and costs for the wider Auckland economy but these are not included in this NPV analysis. Section 9 notes some of these wider impacts.

8.2 Range of Costs and Benefits

Consistent with the Treasury methodology[21] the costs and benefits to be analysed are:

- Cashflows, i.e. exclude depreciation (sunk cost) and interest (which is unaffected by the re-organisation);
- In real terms – efficiency gains (and integration costs) are based on the 2008/09 estimated level of OPEX and CAPEX and are not adjusted for future inflation; and
- Pre-tax, because taxes and subsidies are transfers between citizens and do not give rise to any increase in net economic welfare. GST has, however, not been excluded because TDB lacks detail on the specific efficiency gains and integration costs.

The "costs" of the Commission's preferred option comprise the integration costs per Section 7.

The "benefits" of the Commission's preferred option are based on the indicative efficiency gains in both OPEX and CAPEX as assessed in Section 6 which arise solely from re-organisation

[21] "CBA Primer, Version 1.12, The Treasury, December 2005.

and not through more general efficiency measures. Consistent with the focus on successfully implementing the 20% of actions delivering 80% of the estimated efficiencies, this financial analysis will only take account of 80% of the total efficiencies estimated in section 6.

The **"pessimistic**" scenario analysed under the NPV comprises the following:

- Low end of the indicative range of the assessed OPEX and CAPEX efficiency gains of $76M p.a. (80% of $95M p.a.) when fully realised; and

- Integration costs totalling $237M.

The **"optimistic**" scenario analysed under the NPV comprises the following:

- High end of the indicative range of assessed OPEX and CAPEX efficiency gains of $113M p.a. (80% of $142M p.a.) when fully realised; and

- Integration costs totalling $118M.

The **"base case"** scenario analysed under the NPV comprises the following:

- Mid-point estimate of the assessed indicative OPEX and CAPEX efficiency gains of $95M p.a. (80% of $118M p.a.) when fully realised; and

- Integration costs totalling $178M.

In this NPV analysis, the integration costs therefore centre around twice the level of expected annual efficiency gains (when fully realised).

8.3 Timing of Costs/Benefits

In the absence of a transition plan, TDB must make some assumptions on the timing of the costs and benefits of the Commission's preferred option. Based on the outline transition process contemplated by the Commission, key assumptions are as follows (with reference to years being calendar years):

- The establishment of the Auckland Council organisation assumes an 18 month timeframe:

- A detailed transition plan is developed by an Establishment Board and Auckland Council's organisation is established to operate immediately following the establishment date (November 2010);

- Integration costs are assumed to be incurred as follows; 5% of the total in 2009, 10% in 2010, 25% in each of 2011, 2012 and 2013 and 10% in 2014; and

- Re-organisation benefits are assumed to accrue as follows, expressed as a cumulative percentage of the total full year efficiency gains; zero in 2011, 10% of the total in 2012, 25% of the total in 2013, 50% in 2014 and 100% as from (1 January) 2015.

The full year efficiency gains have been assumed to carry on indefinitely as the re-organisation is a permanent change in the governance arrangements of the Auckland councils[22].

8.4 Discount Rate

The net cashflows need to be discounted to arrive at a Net Present Value**.** A discount rate needs to be selected. The Treasury (2005) advises as follows - *"There is no single rate of return that is appropriate for every project. The Treasury uses a 10% real discount rate whenever there is no other agreed sector discount rate for costing policy proposals. Where there is an agreed sector rate, it may be used instead."*

TDB notes that some 50% of the Auckland councils' annual OPEX and an even greater proportion of CAPEX relates to transport (roads and rail) and water/solid waste treatment. A further 35% of OPEX relates to community assets. These activities could be regarded as "utilities" which could be expected to have below average risk. For example, the real, pre-tax cost of capital for Vector (the public listed Auckland electricity lines company) might approximate 7-8%[23]. This might be broadly indicative of the cost of capital of much of the activities undertaken by Auckland City and is significantly lower than the Treasury standard/default benchmark discount rate of 10%.

TDB has not undertaken a detailed examination of the merits of each of the potential approaches to derivation of an appropriate discount rate for the Auckland councils. However the evidence suggests that a discount rate of 10% real, pre-tax, is at the high end of a likely and applicable range of discount rates in this case.

In this financial analysis, TDB uses the Treasury guideline/default discount rate of 10%, with a sensitivity analysis employing a discount rate of 7.5%, which can be argued to be more relevant given the sectors within which the bulk of activities are undertaken by the Auckland councils.

8.5 NPV Analysis

Table Six below, presents the analysis of the Commission's preferred option. In that it is based on the estimated efficiencies assessed earlier, it is subject to the same qualifications.

[22] It is recognised that many financial analyses might use a 20 or 25 year timeframe for the analysis - this being the assessed "economic life" of those projects. This financial analysis has assumed no real growth in the volume of activity (and hence level of potential savings) from 2009, excepting to some extent with respect to the AWSI. Auckland is, however, growing in population. As a sensitivity, TDB ran a scenario assuming a fixed 25 year timeframe and a 2% p.a. real growth factor. Because the resultant NPVs were higher than the levels assessed using the assumption of no real growth, but with an indefinite time horizon, TDB has adopted the latter set of assumptions.

[23] As at 30 June 2008, PWC assessed the Weighted Average Cost of Capital (WACC) of Vector at 7.2%, "The Cost of Capital Report". These discount rates are not directly comparable to those used in either cost benefit analyses or financial analyses such as this, since they are nominal (i.e. include inflation) and are after tax. Making adjustments for tax and inflation would result in a real, pre-tax, weighted average cost of capital for Vector of around 7-8%.

Table Six: NPV – Commission's Preferred Option

NPV Comparisons	Discount Rate	Commission's Preferred Option		
		Pessimistic Scenario	Optimistic Scenario	Base Case Scenario
	%	$M	$M	$M
Standard Discount Rate Assumption	10	277	574	426
Sensitivity Analysis	7.5	488	902	695

For the Commission's preferred option, the NPV using a 10% discount rate ranges around a mid-point of about $425M and the NPV using a 7.5% discount rate (the sensitivity) ranges around a mid-point value of about $700M. Further sensitivity analysis is undertaken on the pessimistic scenario with a 10% discount rate, because this set of assumptions has the lowest assessed NPV and therefore is the most likely scenario from which a negative NPV might be generated.

The pessimistic scenario with a 10% discount rate has an NPV of around $280M. One of the following scenarios would have to prevail to reduce the NPV to zero – that is where the present value (PV) of the integration costs equals the PV of the benefits and the Commission's preferred option would be marginal at the Treasury's 10% discount rate:

- Integration costs would have to increase by some $400M from around $240M to around $640M, with the full year efficiency gains unchanged at $76M p.a.; **or**
- Full year efficiency gains would have to fall short of the assessed levels by almost $50M p.a., down from $76M p.a. to around $28M p.a., with the integration costs unchanged at $237M; **or**
- Some combination of the above.

The re-organisation under the Commission's preferred option results in a positive NPV using all the assumptions relevant to Table Six. Actual results would have to fall substantially short of the assessed levels to result in a negative NPV. The most obvious way that this could occur is if the re-organisation was mismanaged. As noted earlier many mergers do fail. Thus a high quality implementation of the re-organisation is essential to secure the potential efficiency gains assumed in the NPV.

9. Commission's Preferred option – Impact on the Wider Auckland Economy

The NPV analysis of the Commission's preferred option in Section 8, incorporates as benefits of the re-organisation only the direct efficiency gains (i.e. financial savings) to the Auckland councils themselves. It has not captured either:

1. Potential benefits to the wider Auckland economy of consolidating key infrastructure and project delivery, streamlined planning, regulatory consenting and compliance monitoring processes. Co-ordination benefits are those which the wider community receives from more efficient, quicker and higher quality decisions by the councils. In principle such benefits can be substantial; or

2. Potential costs to the wider Auckland economy and population of any changes in accountability or local participation in regard to local government. Reduced accountability can result in inefficient local government expenditure and in reduced utility being obtained by citizens from local government which can manifest as reduced local participation. In principle such inefficiencies due to reduced accountability could be substantial.

TDB has not been requested to undertake an assessment of the above costs and benefits. Such an assessment would be a very substantial task and is partially covered in other analyses available to the Commission, albeit in most cases without quantification. In this Section we note some aspects that have been drawn to our attention however this is not a comprehensive survey of the issues.

The NZCID has stressed the regional co-ordination benefits arising from re-organisation. For example they have cited the opportunity cost arising from delays to the Auckland western ring road package. In 2004, Allen Consulting[24] assessed the total benefit to the economy arising from this project at some $838M p.a. Each year's delay in this project therefore results in an opportunity cost to the economy potentially of the same order as the NPV estimated in this financial analysis where only the benefits of efficiency gains to the Auckland councils themselves are considered. It would be very difficult to assess the extent to which re-organisation could accelerate specific regional transport or other infrastructure projects in the future, but the scale of the potential benefits suggests that as a result of the re-organisation, they could be significant relative to the benefits derived from the direct efficiency gains generated within the Auckland councils.

The wider community could also experience significant economic benefits from any streamlining of building and other consenting and monitoring processes. The NZ Institute of Chartered Accountants (NZICA)[25] has noted that *"US studies suggest the direct costs of regulation to be in the order of 4-12% of GDP. Credible estimates suggest indirect costs of regulation are around four times the direct costs."* The annual costs of the consenting and compliance monitoring activities undertaken by the Auckland councils might be in the order of $150M p.a. based on an analysis of the 2008 Annual Plans. Where the indirect compliance and opportunity costs are in a ratio of 4:1 relative to the Auckland council costs, they could range up to $600M p.a. If meaningful reductions could be made to the compliance costs faced by the community as a result of re-organisation, with little or no impact on their benefits or intended results, these potential wider economy benefits could be significant relative to the efficiency gains captured by the Auckland councils themselves. Better co-ordination achieved under the preferred option could reduce consenting and compliance monitoring costs. On the other hand, any reduction in accountability could result in increases in such costs.

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[24] "Benefits of investing in New Zealand's Road Infrastructure", A report to the New Zealand Automobile Association, The Allen Consulting Group, August 2004.
[25] Submission to the Commerce Committee on the Regulatory Responsibility bill, NZICA, August 2007.

The potential efficiency gains to the wider economy from accelerating transport projects and streamlined consenting and regulatory compliance processes have not been included in the NPV. Nor has the analysis included possible costs relating to any reduction in accountability and local participation. The financial analysis undertaken in this Report includes only the direct financial impact of the re-organisation on the Auckland councils themselves and in this sense provides a preliminary and partial assessment only. The wider benefits and costs would however be an important consideration in a cost benefit analysis. They are also a factor in comparing the Commission's preferred option and alternative options, to which this Report now turns.

10. Comparison of the Commission's Preferred and Alternative Options

10.1 Introduction

The Commission considered and rejected the alternative option of creating twenty local councils. One reason was the very high transition costs, including the need to establish headquarters and service centres with attendant capital costs. This section comments on the additional set up and on-going costs issues associated with this alternative option.

10.2 Additional Costs

Under either the Commission's preferred or alternative options, the new local councils are "subsidiaries" of the unitary Auckland Council. Under the Commission's alternative option, it has been assumed that each newly created entity would, however, have the following dedicated resources additional to those required under the preferred option:

- An additional 14 Chairs and additional Councillors – direct expenses, meeting and support costs;
- An additional 14 Local Council Managers; and
- Overheads to support 14 additional service centres.

It is estimated that each additional local council would require some $1.5M p.a. in additional costs to provide the resources identified above. Thus the total additional cost would be some $21M p.a. which would have a total cost of some $200M in present value terms (at a 10% discount rate). In addition, there would be one-off establishment costs.

The assumed additional costs under the Commission's alternative option would result in the NPV being $200M lower than the Commission's preferred option, all other things being equal. At a 10% discount rate, the NPV of the Commission's alternative option could be around $225M, or about half that of the Commission's preferred option with an assessed NPV of $425M. This calculation naturally does not take into account possible gains in accountability and local decision making that some may consider would be achieved by the Commission's alternative option.

10.3 Wider Impacts

One matter on which TDB has not been asked to provide an opinion, relates to the impact of each of the Commission's options on the wider (Auckland) economy outside of the Auckland councils themselves. Another issue which could potentially impact both the absolute and relative merits of each option is their impact on local accountability and participation. These matters are also outside TDB's brief. Both of these wider impacts would need to be taken into account in a full comparative assessment of the Commission's preferred and alternative options, such as in a cost benefit analysis.

Appendix C: Glossary of Local Government Terms

Annual plan	An annual plan must be prepared by a council annually, and it must be adopted before the commencement of the year in which it operates. It contains the budgets on which rates are decided for each financial year. The purpose of the annual plan is set out in the Local Government Act 2002, section 95(5). [See also long-term council community plan (LTCCP).]
Annual report	An annual report must be prepared annually for each financial year. The purpose of the annual report is to compare activities performed with those intended in the annual plan. The annual report is described in the Local Government Act 2002, section 98.
Annual value	The annual value is one basis on which local authorities can set rates. It is a measure of what a property would fetch if rented on the open market.
At large election	An election where voting is conducted across an entire region, city, or district, without division into wards.
Auckland Regional Transport Authority (ARTA)	ARTA was established under the Local Government (Auckland) Amendment Act 2004. It is responsible for transport activities across the region, including • planning, purchasing and improving bus, train and ferry services • providing public transport information • planning and funding school bus services • working with councils on local roading projects.
Borough	An administrative division of a city/region. Boroughs were abolished in 1989 when local government was restructured. There have been some calls for a restoration of borough councils, for instance in Devonport.
Brownfield	A previously developed area, mainly for industrial purposes, which is now ready for redevelopment.
Call for Submissions	A booklet published by the Royal Commission on Auckland Governance calling for public submissions (March 2008; ISBN 978-0-473-13307-8).
Capital value	This is defined by the Rating Valuations Act 1998 as, "subject to sections 20 and 21, the sum that the owner's estate or interest in the land, if unencumbered by any mortgage or other charge, might be expected to realise at the time of valuation if offered for sale on such reasonable terms and conditions as a bona fide seller might be expected to require". Capital value does not include chattels, stock, plant, or machinery that may normally be included in the sales of properties.

Glossary of local government terms, *continued*

Central government	Central government is the national government of New Zealand. It includes elected members of Parliament, the sitting government, parliamentary support agencies, and the public service.
Chief executive (of a council)	Every local authority is required to have a chief executive, who is responsible for the day to day running of the local authority. The chief executive implements council decisions, advises councillors, and is responsible for effective management and the employment of staff. (Refer LGA 2002, section 42.)
Committee (of a council)	A council may appoint a committee to work in a certain area of responsibility where the local authority operates. A committee is a working group that usually has fewer members than the full council, but it may include co-opted (unelected) members, and may be chaired by someone other than the mayor. (Refer LGA 2002, Schedule 7, clauses 26, 30, 31, 32.)
Community (of interest)	A network of people and organisations linked together by common factors. This might be a network of people linked together geographically (i.e. in one place) or linked by a common interest or identity.
Community board	Community boards are established under the Local Government Act 2002 in order that a community with a distinct character, needs, and aspirations is recognised by the local council and provided with the opportunity for a voice in local council decision making. The Act specifies the role of the community boards, which includes • representing, and acting as an advocate for, the interests of its community • considering and reporting on all matters referred to it by the territorial authority, or any matter of interest or concern to the community board. (Refer LGA 2002, sections 49–53.)
Community outcome	Councils must identify their community outcomes that are priorities for the intermediate and long-term future. Community outcomes are reconsidered every six years, and the council must monitor progress towards achieving the outcomes and report every three years. (Refer LGA 2002, sections 91, 92.)
Council organisation (CO)	Any organisation in which one or more local authorities owns or controls any portion of the voting rights, or has the right to appoint one or more of the directors or trustees. (Refer LGA 2002, section 6.)
Council-controlled organisation (CCO)	Any organisation in which one or more local authorities owns or controls 50% or more of the voting rights or has the right to appoint 50% or more of the directors, trustees etc. (Refer LGA 2002, section 6.)

Glossary of local government terms, *continued*

Council-controlled trading organisation	Council-controlled trading organisations are council-controlled organisations that operate a trading undertaking for the purpose of making a profit. (Refer LGA 2002, section 6.)
District plan	A land use plan made by every territorial authority under the Resource Management Act 1991. It usually specifies zones and controls on land use and subdivisions within each zone. (Refer Resource Management Act 1991, sections 72, 73, 75.)
First past the post (FPP)	A voting system, used by most local authorities, where the candidates with the most votes win. Under FPP the voter places a tick next to the names of the candidates they wish to vote for. The voter can vote for as many candidates as there are positions available to be filled. (See also STV below.)
Governance	Governance, as distinct from government, connotes joint action between a council and elements of the community it serves. It has been defined by the United Nations as "the process of decision-making and the process by which decisions are implemented (or not implemented)". Academic writers define it as "government plus the looser processes of influencing and negotiating with a range of public and private sector agencies to achieve desired outcomes". Another defines governance as "… the joint work of government and civil society. It cannot be done by government alone; all governance is in some sense co-governance." (See discussion in the Introduction to this report.)
Governance principles	Governance principles that apply to all local authorities are stated in the LGA 2002, section 39. Local authorities must (among other things) ensure that governance structures are effective, open, and transparent; ensure that regulatory processes are separated from other processes; and be a good employer. (Compare principles relating to local authorities, below.)
Governing body	The governing body of a local authority comprises the councillors and mayor, or councillors and chairperson in the case of a regional council. The governing body is responsible and democratically accountable for the decision making of the local authority. (Refer LGA 2002, section 41.)
Greenfield	A piece of usually rural or semi-rural undeveloped land, often considered as a site for expanding urban development.
Gross domestic product (GDP)	Gross domestic product represents the country's income earned from production in New Zealand. It includes income from production carried out by New Zealanders and by foreign firms operating within New Zealand.

Glossary of local government terms, *continued*

Hauraki Gulf islands	In this report, the Hauraki Gulf islands include Great Barrier Island (Aotea), Little Barrier Island (Hauturu), McCallum's Island, Motuihe Island, Motukorea Island, Motutapu Island, Pakatoa Island, Pollen Island, Ponui Island, Rangitoto Island, Rakino Island, and Waiheke Island.
Joint committee	Councils may form a joint committee to work together on certain issues.
Land value	This is defined by section 2 of the Rating Valuations Act 1998. In summary land value is the amount that might be realised if the estate were offered for sale by a bone fide seller and no improvements had been made on the land.
LGA 2002	The Local Government Act 2002.
Local authority	A local authority means a regional council or territorial authority. (Refer LGA 2002, section 5.)
Local Council	A local council is a new kind of local agency, proposed in the report of the Royal Commission on Auckland Governance.
Local government	Local government refers to the government structures overseeing a particular locality, region, city, or district, such as a regional council, city or district council, or a community board.
Local Government Commission	An agency appointed by central government, to consider and report on local government matters and review the operation of the Local Government Act and Local Electoral Act. The Local Government Commission has decision-making power over changes to council boundaries and amalgamations of councils.
Long-term council community plan (LTCCP)	Each local authority is required to publish an LTCCP every three years (LGA 2002, section 93(6)), to (a) describe the activities of the local authority; and (b) describe the community outcomes of the local authority's district or region; and (c) provide integrated decision-making and co-ordination of the resources of the local authority; and (d) provide a long-term focus for the decisions and activities of the local authority; and (e) provide a basis for accountability of the local authority to the community; and (f) provide an opportunity for participation by the public in decision-making processes on activities to be undertaken by the local authority.

Glossary of local government terms, *continued*

Operating expenditure	Operating expenditure is that which pays for day-to-day operations and services. Operating expenditure also includes depreciation (that is, the wearing out, consumption, or loss of value of an asset).
Place-shaping	The creative use of powers and influence to promote the general well-being of a community and its citizens. (See Chapter 16 of the report.)
Principles relating to local authorities	Local authorities are required to act in accordance with various principles, including to • conduct business in an open, transparent, and democratically accountable manner, and give effect to its desired outcomes in an efficient and effective manner • make itself aware of, and have regard to, the views of all its communities • in decision making, take account of the diversity of the community, the interest of current and future communities, and likely impacts on the four well-beings • provide opportunities for Māori to contribute to decision-making processes • cooperate with other local authorities • conduct commercial transactions with sound business practice. (Refer LGA 2002, section 14.) Compare governance principles, above.
Purpose of local government	This is defined in the Local Government Act (section 10) as being (a) to enable democratic decision-making and action by, and on behalf of, communities; and (b) to promote the social, economic, environmental, and cultural well-being of communities, in the present and in the future.
Rates	A land tax based on property values, which provides the major revenue source for many local authorities in New Zealand. (Local Government (Rating) Act 2002.)
Regional council	A regional council is one type of local authority, which operates within a defined region. The Auckland Regional Council (ARC) summarises its functions as: managing the region's air and water quality, its growth and development, regional parks, public transport, the coastal and marine environment, and natural and cultural heritage sites. (See www.arc.govt.nz/council/, accessed March 2009.)
Regional land transport programme (RLTP)	The three-yearly land transport infrastructure and services proposal for funding from the National Land Transport Fund prepared by regional transport committees. The Auckland Regional Land Transport Programme is prepared by ARTA.

Glossary of local government terms, *continued*

Regional land transport strategy (RLTS) Under the Land Transport Management Amendment Act 2008, every regional transport committee on behalf of the regional council must prepare, and consult on, a regional land transport strategy to provide guidance on the land transport outcomes sought by the region. The RLTS must be produced every six years and cover a period of 30 years, and it must contribute to the vision set out in the strategy.

Regional policy statement (RPS) The RPS is a policy document made by a regional council under the Resource Management Act 1991, for the management of natural and physical resources of the region. District plans must give effect to the RPS.

Regional transport committee Every regional council or unitary authority must establish a transport committee for its region and appoint a range of representatives (including those from the regional council, territorial authorities, the New Zealand Transport Agency, one representing each of the five transport objectives and one from a cultural perspective). The main functions of the regional transport committee are to prepare a regional land transport strategy and a regional land transport programme.

Significant decisions A decision that has a high degree of importance in terms of the four aspects of well-being, the people who are likely to be particularly affected by or interested in the decision, or the capacity of the local authority to perform its role and the financial and other costs of doing so. Local authorities must adopt a policy on significance. (Refer LGA 2002, sections 71, 90, 97.)

Single transferable voting (STV) A voting system, used by some local authorities in New Zealand, under which the winning candidates are selected on the basis of voters' preferences. Under STV voters rank candidates in their order of preference using numbers. A voter would write "1" next to the name of their favourite candidate, "2" next to their second favourite candidate and so on. Voters may give preferences to as few or many candidates as they wish. (Local Electoral Act 2001.)

Standing committee A standing committee is a permanent committee of a council.

Strategic asset An asset or group of assets that the local authority needs to retain to maintain its capacity to promote any outcome it considers important to the current or future well-being of the community.

State highway A State highway is a road owned and operated by the Crown, through the New Zealand Transport Agency. State highways are mostly major through routes that link major centres in New Zealand. (State highways are distinct from council roads, variously described as local, collector, and arterial roads.)

Glossary of local government terms, *continued*

Territorial authority (TA)	A type of local authority, called either city or district councils. Territorial authorities' usual responsibilities include the provision of local infrastructure, including water, sewerage, storm water, roads, civil defence and emergency management, building control, public health inspections and other environmental health matters, controlling the effects of land use (including hazardous substances, natural hazards, and indigenous biodiversity), animal control, noise, and the effects of activities on the surface of lakes and rivers. (See longer list of activities in Chapter 3.) Territorial authorities in Auckland region comprise the Rodney, Papakura, and Franklin District Councils, and North Shore, Waitakere, Auckland, and Manukau City Councils.
Three waters	The three waters refers to wastewater (including sewage), stormwater, and drinking or potable water. The supply and drainage pipes, and treatment/sanitisation for the three waters are commonly regarded as infrastructural responsibilities of councils.
Unitary authority	A unitary authority is a territorial authority that has the responsibilities, duties and powers of a regional council conferred on it by law. (Refer LGA 2002, section 5.)
Volumetric water charging	A system of charging based on the volume of water used.
Ward	An electoral division of a city or district, used to elect one or more city or district councillor.
Well-being	One of the purposes of local government is to promote the social, economic, environmental, and cultural well-being of communities in the present and the future. (LGA 2002, section 10.)

Appendix D: Glossary of Māori Terms

Māori term	English equivalent in context
Aotearoa	New Zealand
hapū	sub-tribe, extended family group
hui	conferences, meeting(s)
iwi	tribe, tribal grouping made up of a number of related hapū or extended family groups with a common whakapapa (geneaology/bloodline) from an important tipuna (ancestor)
kāinga	home, address, residence, village, habitation, habitat
kaitiaki	guardian, caretaker
kaitiakitanga	guardianship, the responsibilities passed down from the ancestors for tangata whenua (people of the land) to take care of the places, natural resources, mauri (life force), and other tāonga in their rohe (area).
kaumātua	male elder(s)
kāwanatanga	government, governance
kia ora	greetings, hello, an acknowledgement, thanks
kōrero	communicate, speak
mahinga kai	places where food and other resources are traditionally gathered
mana	authority, prestige, standing
mana whenua	local Māori with ancestral ties to the land
manāki	hospitality, hosting those living or visiting in tribal area/rohe
manākitanga	a sacred obligation to care for all people within one's rohe, including taura here (Māori with ancestral ties outside the area) and non-Māori
marae	tribal meeting house(s) and buildings, including ceremonial courtyard
Maungawhau	Mt Eden
mauri	essential life force, the spiritual power and distinctiveness of each person and object
Pākehā	of European descent
Papatūānuku	the ancestral elemental Mother, the earth, the land
rangatira	chief

rangatiratanga	independence, self-determination, the rights and authority of iwi and hapū to make decisions and control resources
reo	language
rohe	tribal area, geographical territory customarily occupied by an iwi or hapū
rūnanga	councils, boards, committee of senior decision makers of an iwi or hapū
Tāmaki-makau-rau	Auckland
tangata	man, human being
tangata whenua	local indigenous people, people of the land, Māori people
tāonga	precious assets, belongings, valued resources, prized possessions both material and non-material
taumata	high-level forum for decision making
taumata rūnanga	local group/meeting
taura here	Māori from another area, without ancestral ties to the region
te reo Māori	Māori language
Te Tiriti ō Waitangi	Treaty of Waitangi
tikanga Māori	Māori cultural protocol, customs, customary correct ways of doing things, traditions
tino rangatiratanga	independence, the right to control or self-determination
tipuna	ancestor
urupā	burial ground, cemetery
wāhi tapu	sacred place, location with spiritual meaning
wāhine	women
wai	water
Waiheke	cascading waters
wairua	spirit
Waitematā	sparkling waters
waka	traditional Māori canoe
whakapapa	genealogy, heredity, bloodline
whānau	family, blood relatives
whenua	land

Appendix E: Abbreviations

AIAL	Auckland International Airport Ltd
ALW Plan	Auckland Regional Plan: Air, Land and Water
APEC	Asia-Pacific Economic Cooperation
ARA	Auckland Regional Authority
ARBA	Auckland Regional Broadband Advisory
ARC	Auckland Regional Council
AREDA	Auckland Regional Economic Development Association
AREDF	Auckland Regional Economic Development Forum
AREDS	Auckland Regional Economic Development Strategy
ARH	Auckland Regional Holdings
ARPASS	Auckland Regional Physical Activity and Sport Strategy
ARPHS	Auckland Regional Public Health Service
ARST	Auckland Regional Services Trust
ARTA	Auckland Regional Transport Authority
AUT	Auckland University of Technology
BOOT	build, own, operate, transfer
CBD	central business district
CCO	council-controlled organisation
CCTO	council-controlled trading organisation
CDC	community development corporation
CDEM	civil defence emergency management
CEG	Co-ordinating Executive Group
CEO	chief executive officer
CO	council organisation
CPI	Consumers Price Index
DART	Developing Auckland's Rail Transport
DHB	district health board
DOC	Department of Conservation
DSL	digital subscriber line

EDA	economic development agency
EECA	Energy Efficiency and Conservation Authority
e-GIF	e-Government Interoperability Framework
EMA	Employers and Manufacturers Association
FAST	Forum for Auckland Sustainable Transport
GDP	gross domestic product
GPS	Government policy statement
GUEDO	Government Urban Economic Development Office
ICT	information and communications technology
IT	information technology
IWRM	integrated water resource management
LGA 2002	Local Government Act 2002
LGAAA	Local Government (Auckland) Amendment Act 2004
LTCCP	long-term council community plan
LTMA	Land Transport Management Act 2003
Metro Plan	Metropolitan Auckland Project
MRF	materials recovery facility
MUL	metropolitan urban limit
NGO	non-governmental organisation
NPS	national policy statement
NZDep	New Zealand Index of Deprivation
NZTA	New Zealand Transport Agency
OECD	Organisation for Economic Co-operation and Development
POAL	Ports of Auckland Ltd
PPP	public/private partnership
RGS	regional growth strategy
RLTS	regional land transport strategy
RMA	Resource Management Act 1991
RPS	regional policy statement
RTA	Regional Transport Authority [proposed by Commission]

SIAG	Social Issues Advisory Group [proposed by Commission]
SIB	Social Issues Board [proposed by Commission]
SOE	State-owned enterprise
SOI	statement of intent
SOPHAR	State of Public Health in the Auckland Region (report)
SPARC	Sport and Recreation New Zealand
TA	territorial authority
TDB	Taylor Duignan Barry
TMPL	Tomorrow's Manukau Properties Ltd
Transit	Transit New Zealand
WAG	Welfare Advisory Group
Watercare	Watercare Services Ltd