

The Governance of Auckland: 5 years on

A report commissioned by
The Committee for Auckland

The Policy Observatory

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Foreword

This report (commissioned by the Committee for Auckland) is an inquiry into the governance of Auckland Council. Governance includes the structure of Council (governing body, Council-Controlled Organisations, the mayor, local boards) and the distribution of duties and decision-making. It examines the location of power but not the personalities of office holders.

Getting structures and decision-making rules right makes good outcomes more likely. Structures and rules, however, are not the only determinants of good outcomes; good outcomes also depend on the implementation of decisions and the judgement of people involved in the process.

Our report has not covered the quality of decision-making or the implementation of decisions and processes. For this reason, some areas of Council activity that are of concern to the public – such as whether the Council is focusing on the right areas of spending or its management of the unitary plan process – are not addressed in this report.

This report places the creation of the unitary council in the context of decades of fragmented local government across the region, a lack of coordination with and investment by central government, an infrastructure deficit and a rapidly growing and changing population. The Auckland Council has inherited the assets and debts (and choices) of previous councils as well as the decisions made by the Auckland Transition Agency. It has had to create structures and processes for the largest local government body in Australasia, mostly from scratch.

The first five years have been about designing and bedding in new structures and developing region-wide strategies, plans, budgets and services. We believe credit must be given to Auckland Council and its staff for the hard work that has gone into building such a large and complex organisation, while maintaining services and functions for the public. We do not agree with those who want to start again and build a new council structure. Nor do we see the need to re-litigate its outer boundaries.

The unitary structure has created a regional government for Auckland, a unified rating system, and a single integrated plan encompassing land use, transport, infrastructure and housing to guide investment. That said, there are on-going issues that need to be sorted. Good structures may make good outcomes possible, but they cannot guarantee them. For example, a single local government entity for the region makes it easier for central government to meet and negotiate joint solutions to the challenges facing Auckland whether those challenges are in transport, housing or jobs. But it does not guarantee that central and local government will engage constructively with each other or even that both parties want the same outcomes.

We note that while some commentators have made claims about the Super-City being designed to cut rates, cost-cutting was not the intention of the Royal Commission on Auckland Governance. The Commission recommended the unitary structure primarily with a view to creating a unified regional planning and decision-making body with strong leadership. Given the financial policies of the Auckland Council are a key aspect of the public's assessment of the reforms, our report includes a preliminary analysis of the financial impact of its establishment. Our analysis notes that efficiency is hard to measure. It should also be noted that reduced budgets may run at odds with the need to invest significantly in infrastructure for a rapidly growing city.

We do think that the governance system could be improved, particularly with regards to local engagement and participation. The Royal Commission on Auckland Governance highlighted two major problems facing the region: regional governance was weak and fragmented; and community engagement was poor. While the first of these

problems has been addressed, the second remains a major issue for Auckland. While community engagement with local body issues is not a problem unique to Auckland, the sheer size of the Council may undermine the public's sense that they can get involved with or influence decision-making. Auckland Council needs to work harder to create a better balance between the regional and the local. The internal boundaries of wards and local boards, and the numbers of elected representatives, will need to adapt to the growth in population, especially given that there is already an unusually high number of residents per elected office-holder. The proper means for representation of Māori remains controversial and this needs to be strengthened.

It was clearly unreasonable to expect that issues such as transport or the quality of the region's infrastructure could be instantly resolved simply by reorganising the governance of Auckland. The physical infrastructure and utilities have been problematic for several decades, whilst access to housing has emerged more recently as a major problem especially for younger families. Population growth is adding to demand for services at a time when the region is still in catch-up mode from previous under-investment. For many citizens today Auckland is far from being the 'world's most liveable city'. If that is the vision being articulated on behalf of the citizens of the region, then it is more appropriate and timely to engage with these outstanding issues and challenges rather than re-litigating the concept (or boundaries) of the unitary council.

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Executive Summary

Five years after local government in Auckland was amalgamated into a unitary council, this report examines the question, Has the new structure delivered on the aims of the reforms? In answering this question we refer back to the reform's foundation documents, the report of the Royal Commission on Auckland Governance (2009) and the government's *Making Auckland Greater* (2009).

This report, commissioned by the Committee for Auckland, focuses on the structure of the Auckland Council encompassing the mayor and councillors (the governing body), the local boards, and Council-Controlled Organisations (CCOs). Although the council administration plays a vital role in guiding and implementing decisions, it was not feasible to examine this aspect of governance in any depth. However we do examine questions such as representation and engagement including Māori representation, and the historically 'inadequate' relationship between council and central government.

The progress of the new council must be judged in context. The integration of eight local government entities into a unitary council with a single, integrated plan for the region, encompassing land use, transport, infrastructure and housing to guide investment in the region is a major achievement. In this respect the new structure successfully addresses one of the Royal Commission's concerns: that under the old system, regional governance was weak and fragmented. This is no longer the case. The way in which the disparate council structures have been integrated into a coherent functioning administration speaks volumes of council management, human resource processes and the goodwill of staff working in uncertain and unchartered waters.

The establishment of Auckland Council meant inheriting both assets and debts from its legacy councils including an Auckland-wide infrastructure deficit. It is a deficit that stems not only from the previous fragmentation of governance across the region, but from the short-term focus of central government's approach to infrastructure investments over some decades. When this is combined with population growth in Auckland it has put enormous pressure on the resources of the region. Over the past three decades there has been a major transformation in the population of Auckland and while much has been said about positive aspects of diversity, the scale of the population increase and the neighbourhood differences in terms of age and socioeconomic status has repercussions in access to housing, employment and participation in the economic and social life of Auckland. The social deficit referred to in this report highlights deep-seated inequalities between different socio-economic groups in the region with some households and communities facing obstacles to social mobility emanating from a lack of accumulated assets, income, housing and a range of public services such as education and health. The combined deficits (physical and social) continue to present a major challenge for both the Auckland council and central government in that it represents a failure to develop the capacities and potential of the population and it directly undermines the growth potential of the regional economy.

When it comes to the new governance framework there are both strengths and weaknesses. The leadership role of the mayor of Auckland, and the statutory provision for an Office of the Mayor, are in our view appropriate for the unitary structure. We make no comment on 'right-sizing' the Office of the Mayor. The governing body consisting of the mayor, elected at-large, and 20 councillors elected from local wards is essentially a regional council in that it decides a region-wide rate and plan, with local decisions devolved to local boards. The ward representation of the governing body sometimes conflicts with the need for councillors to cast their votes according to the interests of the region as a whole. There are good reasons for retaining wards, but local voters may not always understand this regional focus for their elected councillors. Some councillors think regionally - and the LTP process encourages this - but a few are still very parochial and not all work well with their local boards. In creating local boards, the government diverged from the Royal Commission's recommendations. We consider

this the right decision as the creation of such a large, regional government needed grassroots input into decision-making. However, the local board model has yet to achieve its potential. The establishing legislation (s7 of the Local Government (Auckland Council) Act 2009) describes decision-making between the governing body and local boards as 'shared', but in practice it is not. Real power lies with the governing body and local boards lack profile and respect in the governance system. This also applies to Māori who were excluded from the governing body of council and whose contribution today is through the Independent Māori Statutory Board which is a 'clip on' mechanism independent of the structure of council.

There is some concern that the restructuring of Auckland's governance has removed geographic silos, creating instead – with the CCO model – functional silos, where assets and services operate independently from the rest of the council structure. This is particularly the case with Auckland Transport and Ports of Auckland Ltd which are further removed from council oversight than other CCOs, and whose scale and scope of operations are vital to the ongoing development of Auckland. That said the CCO model has meant that council has been able to draw on commercial and professional expertise in managing these assets and in delivering crucial regional services, and the CCOs have been able to focus on their core mission shielded from daily political concerns.

Another problem the Royal Commission identified with the legacy model was poor community engagement and this is still a problem. Because of its sheer size, the new Council structure may undermine the public's sense that they can get involved with or influence Council. The tension between 'the region' and 'the neighbourhood' is exemplified in ATEED, the CCO tasked with advancing the economic well-being of the region. While Auckland was in need of a regional strategy to advance its development as a regional economy, the focus of ATEED has placed primary emphasis on tourism and the hosting of regional events and in the process significant forms of local development have been undermined. These locally based economic and social initiatives are essential in responding to the economic and social conditions of different neighbourhoods across Auckland.

In establishing the Auckland Council there was an assumption at least from some sectors of the population that a unitary council could solve inherited problems that have long constrained the region's development such as lack of investment in the physical infrastructure and utilities, sorting out a city with a second rate public transport system and addressing the social deficit that has been incurred because of increasing inequality between different population groups and different communities throughout the region. These assumptions were clearly unrealistic and thus it is evident that conflicting views and debates concerning priorities on the policies and services of council will continue. That in essence is the nature of democracy. At least Auckland now has a unitary structure in which those debates can be conducted. It was from such conversations that the vision of 'the world's most liveable city' emerged and as illustrated in this report it has long been assumed that Auckland is a great place to live, work and do business. There is a risk in our view that the vision is currently limited to a brand or a platitude; while it may be a reality for some residents, for others Auckland is far from being the world's most liveable city.

Introduction

The Committee for Auckland has expressed concerns about how the region's governance model is working five years on from the radical restructuring of local and regional government in Auckland. The concerns raised by the Committee for Auckland mirrors public expressions of concern about Auckland Council. The negative publicity attached to the new council has flowed through to influence amalgamation debates in other regions of the country.

We have been contracted by the Committee for Auckland to examine the question:

Has the new council structure delivered on the aims of the reforms? In answering this question we use foundation documents – the Royal Commission's report (Royal Commission, 2009a) and the government's *Making Auckland Greater* report (New Zealand Government, 2009) – as yardsticks that establish the identity and purpose of council and set out the expectations of effectiveness. This report focuses on the structure of the Auckland Council in the form of its mayor and councillors (the Governing Body), the Local Boards, and the Council-Controlled Organisations (CCO's). We also look at representation issues and relationships with central government. Our report is based on the evidence that has been assembled from the documents and data that record both the formation of the unitary council and its governance structure over the past five years.

Although the administrative arm of local government is a key element in any review of government processes and outcomes, we have not examined council administration. We make some general comments as to what has been achieved through the implementation of the various plans and strategy documents, but a more comprehensive review is needed in order to understand how the administration of council works and its efficacy in serving the governance of Auckland and the needs of its citizens. It is worth noting that some of the negative publicity around the new council focuses on its administration.

Background

It is appropriate for both the Auckland University of Technology and the Committee for Auckland to revisit the governance of the city and the region as the commitment and engagement of both organisations in advancing the development of Auckland dates back to 2003. At that time a partnership was formed between the Committee for Auckland, the Auckland Regional Authority and the Auckland University of Technology. This partnership was responsible for launching the Metropolitan Auckland Project and for engaging an international team headed by Greg Clark from the London Development Agency. The international team made a significant contribution to the formation of an action plan for the region with the plan itself becoming a working document for the Auckland Regional Economic Development Forum.

In describing 'why Auckland matters' the regional action-plan highlighted two fundamental elements. The first centred on the population base of Auckland in terms of its density, diversity and potential. The Auckland region contains over a third of New Zealand's population and paid workforce, and comprises around 190 different ethnic groups, making Auckland the most socially and culturally diverse region in the country. More than half of New Zealand's population lives within a 200 km radius of Auckland and it is this size and population density that enables the region to provide business with economies of scale in production, marketing and sales. More than any other factor, it is its population base that defines the character and potential of Auckland.

A second element underpinning Auckland's strategic significance is its role as a junction or portal for both the national and global economies. Auckland is the major commercial centre, service hub and gateway to the world and this role is fundamental to New Zealand's global competitiveness. A central proposition in building a sustainable economic base for metropolitan cities such as Auckland suggests that connectivity is a far more

significant factor than notions such as agglomeration, land use or population growth (BERL & IPP, 2010). Likewise in domestic terms the strength and potential of the Auckland economy stems from its connections with provincial economies. The way in which it is able to add value to exports through professional and financial services, business management and marketing is in many ways the core business of the Auckland economy. Yet despite this reality, policy bodies have historically been preoccupied with city and regional boundaries based on geographical or partisan political assumptions.

These assumptions were critically reviewed by the teams involved in the Metropolitan Auckland Project. In its report to the project committee, the international team referred to un-coordinated strategies that lacked implementation tools and resources. It referred specifically to investment, transport options and skilled workers and it highlighted the need for better regional coordination and integration. The governance of Auckland was a key concern identified by the Metropolitan Auckland Project and this concern subsequently became the focus of a Royal Commission established by central government and reporting in 2009.

Context

Before going on to examine the structure of council and its performance five years on from its establishment as a unitary authority, it is essential to understand the context in which council was launched and especially the environment in which it has operated over these past five years. The origins of what has euphemistically been called 'the Auckland problem' go back in time and stem from conflicting interpretations of governance, disparate viewpoints of Auckland and its significance as New Zealand's largest urban centre and the way in which the region has been administered and managed especially over recent decades.

Although the issue of governance has its roots in the settlement period of New Zealand's history there is no need to canvass the different attempts over these past 150 years to address the confiscation of Māori land and mana in a report on Auckland other than reaffirming the aspirations of the Treaty of Waitangi and the rights of tangata whenua. Any discussion on governance should begin by acknowledging the indigenous people of this land and their right to be significant partners in the governance of both the city and the region. As we go on to suggest in this report the formation of the new council did not appropriately recognise the lessons of history and as a consequence Māori were treated as a 'clip-on' in the governance structure of Auckland.

It was Māori as the indigenous settlers who identified Tāmaki Makarau as a desirable place to live and work as well as a means of navigating trade and interacting with others. The three large harbours and their inland tributaries coupled with the fertile volcanic land provided excellent opportunities for growing and trading goods (Neill & Shirley, 2013, p. 184-187).

When we move from the physical landscape to the way in which Auckland has been perceived in economic terms then we find interpretations ranging from the 'basket case of the country' to the 'powerhouse of the New Zealand economy'. The former interpretation was given voice at the Economic Development Association of New Zealand conference in 2003, contrasting the performance of different regional economies (EDANZ, 2003). Whilst the comparative data on which the interpretation was based was fundamentally flawed it was perceived as a 'good story' by some regional representatives especially by those outside of Auckland. Both interpretations were posed as entrenched and reflect an ambivalence to Auckland's role in the national economy and to particular sectors such as manufacturing and exports.

The manufacturing sector in Auckland has historically been more diverse than other urban centres in New Zealand, with its secondary industries encompassing the engineering and metal industries, textile and clothing and the food, drink and tobacco sectors (Franklin, 1966). When combined with Auckland's role as a commercial

centre, small- and medium-sized enterprises and manufacturing provided employment opportunities especially during the 1950s and 1960s. Manufacturing growth also triggered massive migration to the region, first by Māori moving from the rural areas of New Zealand and then from the Pacific Islands with workers seeking economic security in the region's manufacturing and processing industries. From the 1960s however, the underlying economic vulnerability of the country became apparent as our major trading partner (Britain) forged closer economic relations with the EEC and this was compounded in the 1970s when New Zealand experienced the impact of the international oil shocks. The country's increasing indebtedness grew and the labour market became more insecure with a concomitant rise in frictional unemployment (Neill & Shirley, 2013).

The radical deregulation of the New Zealand economy beginning in the early 1980s had a significant impact on Auckland industry and business. Cuts in industrial support led to a decline in manufacturing activity and jobs; two regional abattoirs closed with the loss of 5,000 jobs alone. The nature of employment in the Auckland region subsequently changed with jobs in manufacturing declining – from 1976 to 1986 the number of manufacturing industry jobs decreased while service industry jobs increased by 32 percent (Le Heron et al., 1992,141). At the same time the tertiary sector became more prominent (Milne, 1988). Growth was apparent in those business entities serving the rural sector, including financial, management and computing services (Chalmers & Hall, 1989). A significant number of Wellington-based corporates shifted their headquarters to Auckland. It was the liberalisation of foreign investment regulations that encouraged external investment in commercial property, retail and private real estate. Property development and speculation boomed through the 1980s driven by office building development and foreign investment.

The cumulative impact of these policies over a period of two years (1987-1989) resulted in severe damage to the tradable sectors, negatively affecting profits, employment and investment and sharply diminishing export growth. Within 18 months of implementing the programme of economic rationalisation unemployment trebled and long-term unemployment became a serious social problem. Because of the segmented nature of the labour market the social problem of unemployment had racial overtones: an estimated 20 percent of the Māori working age population lost their jobs in the two years from March 1987 to 1989. Two years later the unemployment rate for non-Māori aged 15-24 years was nearly 20 percent – for Māori it was approaching 40 percent (Shirley et al., 1990).

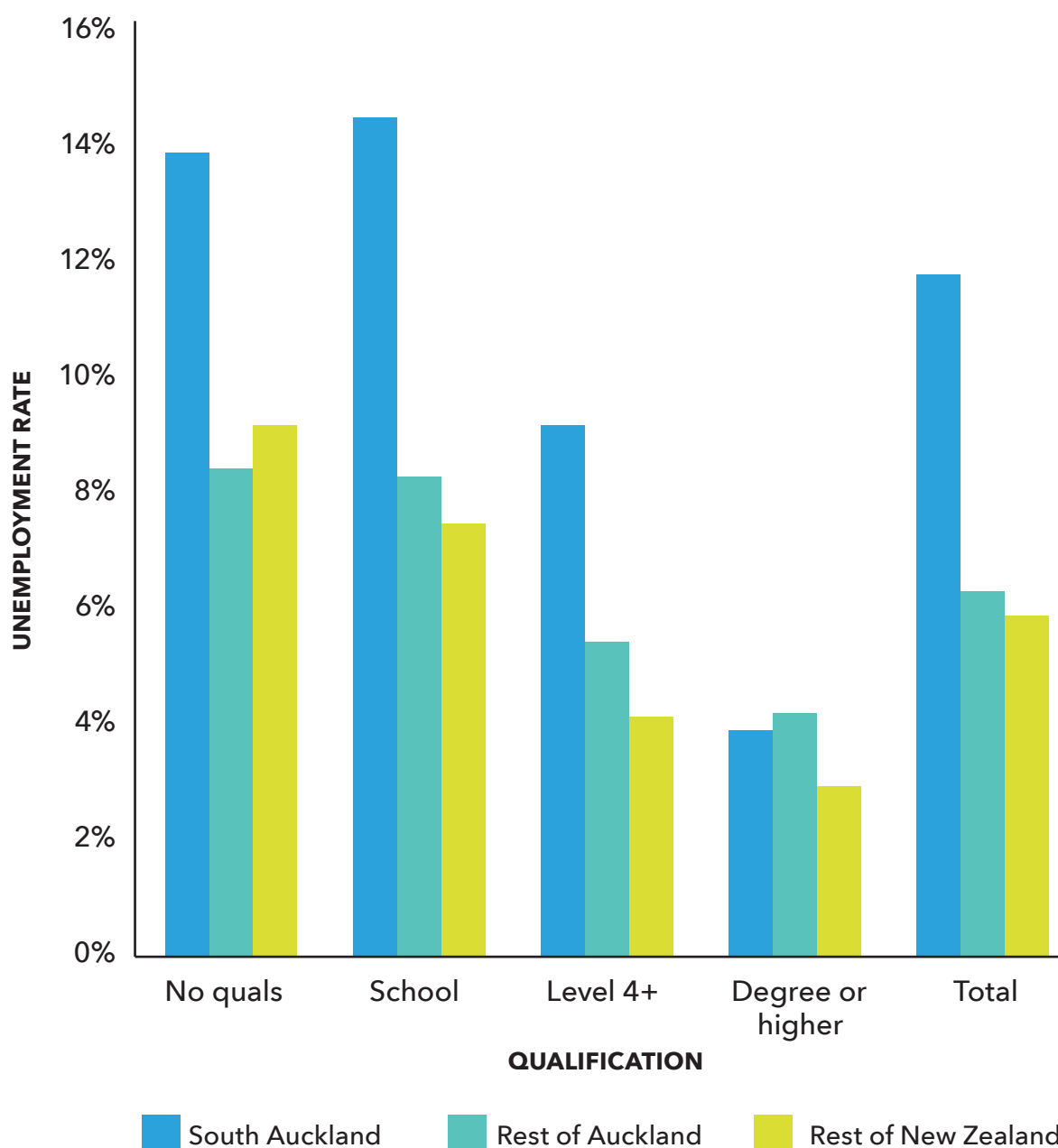
More recently, the Auckland region was affected by the global financial crisis (2008-2009) although it recovered more quickly. GDP growth in Auckland over the last decade has been a little higher than for New Zealand as a whole (averaging 2.3 percent pa compared to 1.9 percent for New Zealand), driven mostly by finance and insurance, wholesale trade, transport and warehousing (MBIE, 2015). Employment growth has also been slightly above the 10-year NZ average (1.5 percent pa compared with 1.1 percent pa), however, productivity growth has been lower than for New Zealand as a whole (0.7 percent pa compared with 0.8 percent pa) (Infometrics, 2015).

Despite the above-average employment growth, Auckland's employment rate remains below the national average (64.7 percent compared with 65.2 percent) and its unemployment rate is above average (6.3 percent compared with 5.7 percent). Although often seen as a centre of innovation and high-skilled activity, in fact the shares of high-skill and low skill employment in Auckland are both very similar to the New Zealand average.

Disparities within the Auckland region are reflected in unemployment. For example, at 11.7 percent unemployment in South Auckland is almost twice the national rate and is even higher (14 percent) for those in South Auckland who do not have educational qualifications at Level 4 or higher (see Figure 1). The Ministry of Business, Innovation and Employment's regional report notes that 'South Auckland has an above-average concentration of high-productivity employment in manufacturing, transport, wholesaling, and logistics.

Employment is growing in productive, knowledge-intensive industries such as professional, scientific and technical services.’ (MBIE, 2015, p24). However, it also points out that half of the area’s workforce commute out of South Auckland to work and half of those employed in the area commute in, with non-locals ‘occupy[ing] two-thirds of the higher-paying jobs (over \$50,000pa).’

Figure 1: Unemployment rate, Auckland, South Auckland and New Zealand, by highest educational qualification



Source: MBIE (2015)

Auckland's economic development and especially its role in national development was a concern of central government in 2002, when it established the Growth and Innovation Advisory Board. The development of Auckland's regional economy was placed on the Board's agenda. Although the economics of agglomeration and the size of Auckland as the largest population centre in the country dominated thinking at this time, it was accompanied by a desire to unlock the potential of the region and to open up urban-based industries such as finance and biotechnology. Eventually this led to a concern with the economics of congestion in the urban centre and a belated recognition by central government that the state of Auckland's physical infrastructure and utilities were in need of both regional and national attention.

It has been evident for some time that the short-term focus across central government infrastructure providers has 'characterised central government infrastructure investments for some decades' (Grimes, 2011 p. 71). As Grimes among others has illustrated, infrastructure investment has historically been dominated by a sector-driven approach on a project-by-project basis with little or no coordination across the sectors. This lack of a long-term spatial vision at a national level was exemplified by the disconnection between the provision of funding for the physical infrastructure and utilities (especially in Auckland) and the application of land-use planning. As a consequence population growth in Auckland has put enormous pressure on the physical infrastructure and the natural resources of the region.

Despite attempts from within the region to address short-comings in areas such as transport (the most obvious being the advocacy of Dove-Meyer Robinson to promote a rapid rail system), central government has been reluctant to provide 'the city-shaping infrastructure' for Auckland in the form of motorways, regional arterial roads, a rapid transit network, regional water services and open space networks that are considered vital for the development of the region (Royal Commission on Auckland Governance, 2009, p. 527).

It was only in 2010 that the government established an Urban Technical Advisory Group (UTAG) to assist with planning urban development. In its report, UTAG concluded that 'infrastructure problems were holding back New Zealand's economic development'. The report observed that, Central government owns, and makes decisions about, a range of infrastructure assets which include vast networks of schools, hospitals, prisons, roads, railways and other transport facilities as well as electricity transmission lines. Central government in fact, provides the bulk of public expenditure in urban areas across a range of portfolios (p. 45).

Despite this major investment, 'central government traditionally has not set overall objectives for towns and cities' (UTAG, 2010, p. 45).

The laissez-faire approach of central government and the sectoral response to addressing the services of the region were compounded by the disjointed approach to planning within the Auckland region. Prior to 1989 Auckland comprised 44 local authorities; they were restructured that year as seven territorial local authorities and one regional council. From 1989 on, the region was subject to seven separate district plans and one regional plan. Each council planned for its own industrial, commercial and residential districts without overarching guidance on where each type of area should be situated across the region.

Because of this disjointed approach to planning, major changes in the spatial fabric of the region were driven by real estate interests and the financial imperatives of property developers and big business. The shape of the region in terms of shopping was dictated by the building of major shopping complexes catering for consumers driving private cars. Neighbourhood shopping centres were depleted and Auckland's transport problems and congestion worsened.

Town planning concentrated on the minutiae of home alterations and the commercial and private building requirements of the region, leaving the bigger spatial decisions to the market. Rather belatedly a change in infrastructure planning and place-making policies since 2010 has resulted in a shift to a regime that increasingly recognises the importance of infrastructure policy, governance and planning in order to achieve regional and national outcomes (Grimes, 2011).

Yet even when this shift in thinking occurred the spatial plan that accompanied the formation of the Auckland Council in 2010 was floated within a broader framework that, among other things, involved planning documents prepared under three other Acts: the Resource Management Act (1991), the Local Government Act (2002), and the Land Transport Act (2003). None of these Acts has taken a clear hierarchical precedence over the others. Each involves separate consultation procedures and none of these legislative provisions is linked to central government's National Infrastructure Plan (Grimes, 2011).

The social infrastructure of Auckland also became an issue of regional concern emanating from the impact of the reform agenda initiated by successive governments through the 1980s and 1990s and leading to what was described at the time as an emerging social deficit (Shirley, 2010). The deficit encompassed structural long-term unemployment, widening disparities of income and wealth between different socio-economic groups and a major increase in child poverty, including a resurgence of preventable childhood diseases associated with material deprivation. Increasing labour market segmentation during this period produced 'work rich' and 'work poor' households (Callister, 1998), an outcome that severely disadvantaged Māori and Pacific Island workers in Auckland. It was a divergence between households and ethnic groups that was also evident between different spatial areas of the region.

In 2001 a New Zealand Treasury report concluded that over a third of New Zealand's most deprived neighbourhoods were concentrated in greater Auckland (The Treasury, 2001). At the core of the Treasury document is the social division of neighbourhoods along socio-economic lines highlighting what is referred to in Europe as communities of 'choice' and communities of 'fate' (Jordan, 1996). The basis of this distinction between different communities in Auckland stems from the changing profile of the population and the obstacles to social mobility in terms of a deficit in accumulated assets, income, housing and a range of public services such as education and health. Significant changes have also occurred in the labour market over recent decades and these disparities have also been reflected in differences between the communities of Auckland. For significant numbers of households this means living with the stress of insufficient money and thus the need to cut back or eliminate essential items like food or doctor's visits. For the Auckland economy it means a failure to develop the capacities and potential of the population and as leading international studies have demonstrated it inevitably undermines long-term economic growth and the performance of the regional economy (for example, Stiglitz, 2012).

At the same time, Auckland's population is growing rapidly. The year ended 30 June 2015 saw an increase of 43,600 people living within the Auckland Council boundaries. This is an average of more than 840 extra people per week, every week, placing pressure on services and infrastructure. Some implications of this for the council's budgets and staffing are discussed later in the report. But the most significant change over recent decades has been the changing profile of the population. The scale of migration and the composition and diversity of neighbourhoods and communities has radically changed the face of Auckland. As recently as 1996, people identifying as being of Asian origin accounted for just over ten percent of the Auckland population, less than both Māori (12.6 percent) and Pacific Peoples (13.5 percent). By 2013, the Asian ethnic group had trebled in size to represent over 23 percent of the total. By contrast the Māori ethnic group had declined slightly to 11.4 percent and those identifying as Pacific Island was up slightly at 15.2 percent. The European/Other population group grew in numerical terms but fell significantly as a proportion from 73 to 59 percent. The Middle Eastern/Latin American/African (MELAA) group, although numerically small, more than doubled in share, from 0.8 percent in 1996 to 1.9 percent in 2013.

Table 1: Population changes by ethnicity 1996-2013¹

	1996 numbers	2013 numbers	1996 %	2013%
Asian	116,600	348,900	10.4	23.4
European/Pakeha	817,100	886,400	73.2	59.4
Māori	140,900	169,800	12.6	11.4
MELAA	8,990	28,200	0.8	1.9
Pasifika	150,800	227,000	13.5	15.2

These simple statistics provide an overarching illustration of how Auckland's population has changed markedly in a very short space of time. However they do not tell the whole story, because underlying the trends are sizeable differences in contribution by age that conceal even greater reductions in the European/Other and Māori shares and greater increases in Asian as well as Pacific Peoples and those of Middle Eastern/Latin American/African origin. Among the 15-29 year old age group for example, Auckland citizens identifying as of Asian origin increased their share from 12.5 percent in 1996 to just on 30 percent in 2013, contributing over 90 percent of the growth in that age group.

At the same time the number at these ages identifying as European/Other fell by 9,440 or 5.7 percent. As a result the European/Other share among the 15-29 year old group fell dramatically from two-thirds to just 51 percent. By contrast, Māori numbers grew, but their population share (in this age group) also fell, from just on 16 percent to 13.3 percent, while Pacific People aged 15-29 years increased both their numbers and share from 16 percent to almost 18 percent. The proportion of Middle Eastern/Latin American/African young people almost trebled to 2.4 percent in 2013. Similar trends occurred at 30-39 years, with absolute declines in both European/Other and Māori concealed by a 150 percent increase in the Asian population.

It is important to note that not all these changes in shift shares are due to migration, or at least, recent migration – a point that is often overlooked. New Zealand's Māori and Pacific populations are disproportionately growing overall from natural increase, and recent fertility levels are still generating increases at 0-14 years, even for European. However sub-replacement fertility rates for the Asian population (1.6 - 1.7 births per woman over the past decade) indicate that the doubling of Auckland's Asian population at these ages (30-39 years) is disproportionately due to migration.

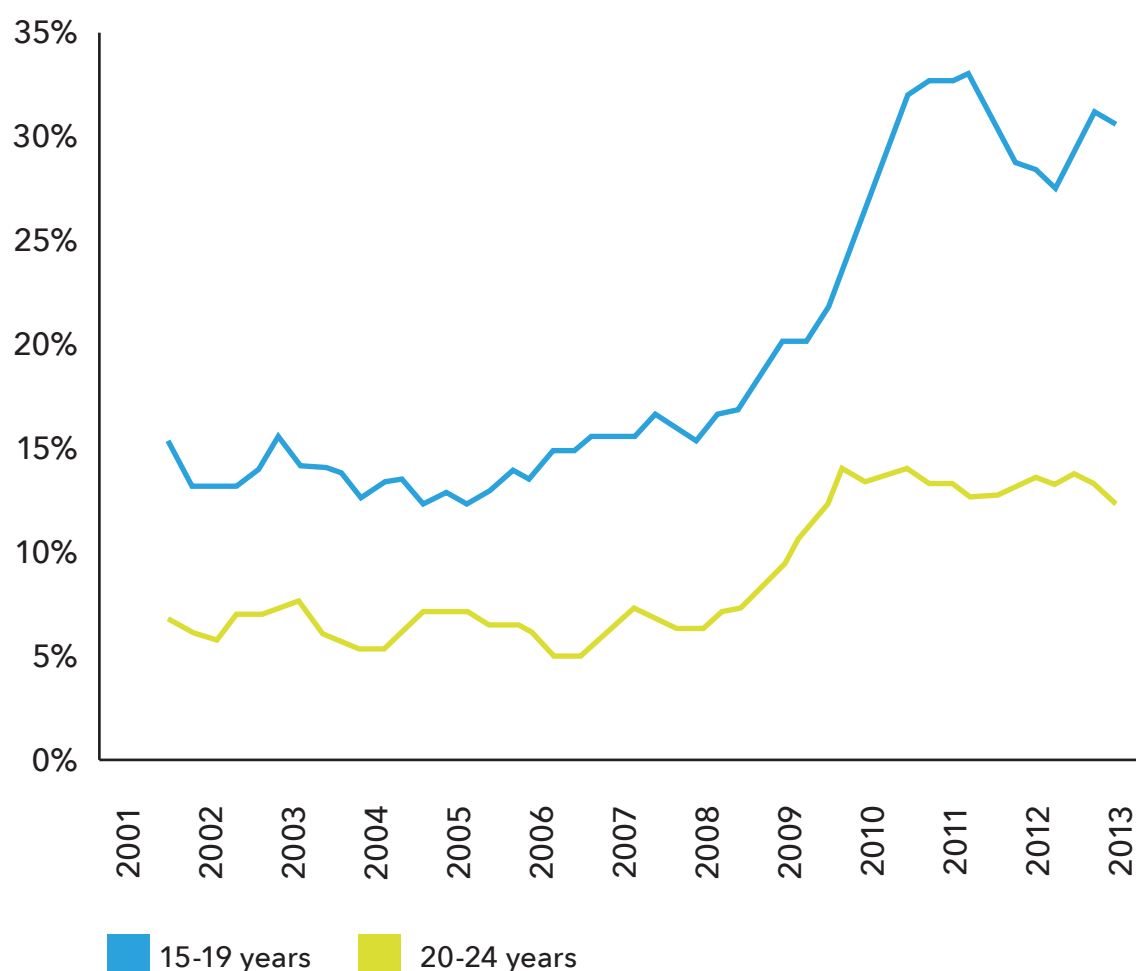
Significant local level changes in ethnic and age composition have implications for employment, education, health services and a range of engagement factors such as political representation and participation in the economic, social and cultural life of the community. If we take youth unemployment by way of example, it is not difficult to

¹ Statistics New Zealand. (2015). *Estimated resident population (ERP), subnational population by ethnic group, age, and sex, at 30 June 1996, 2001, 2006 and 2013.*

*Multiple count ethnicity means that numbers sum to more than 100%.

understand the significance of the following graph for those low socio-economic communities with high youth populations.

Figure 2: Youth unemployment rate



Source: Auckland Council, 2014, p. 9.

This in broad terms is the context and the environment out of which the Auckland Council emerged and the issues that have influenced its modus operandi over the past five years.

The laissez-faire approach of previous central governments has been accompanied within the region by disjointed interpretations of both spatial planning and the regional economy, and an inability in both local and regional government to get Wellington on board in addressing Auckland's congestion problems and the needs of its rapidly changing population. There has been little consensus as to how these issues should be addressed with some wanting to limit local government intervention to core services while others have resorted to platitudes aimed at 'making Auckland a world-class city'.

The proposals aimed at establishing the Auckland Council were based on the assumption that a unitary body would be better able to coordinate planning as well as being a single point of contact for central government. It was probably unreasonable to expect that the reorganisation of Auckland's governance would quickly resolve these issues.

Foundation reports

Two reports are significant in analysing the platform on which the governance of Auckland has been based. The report compiled by the Royal Commission on Auckland's Governance represented a comprehensive assessment of governance in the region. The Commissioners drew on extensive evidence from both New Zealand and overseas, engaging different population groups and sectors in proposing a distinctive model of governance for the city and the region.

The second report that subsequently informed the legislation for the new Auckland local governance reforms, *Making Auckland Greater*, was released by the Minister of Local Government three days after the publication of the Royal Commission's report. There are significant areas of both commonality and difference between the two reports. There was general agreement on major areas of governance with both recommending one unitary council for the region, one mayor, at least some councillors elected to represent wards, one long-term council community plan and the use of Council-Controlled Organisations (CCOs) to administer major utilities such as transport and water.

Major structural differences between the Royal Commission and *Making Auckland Greater*, included the form of local representation, Māori engagement in the governance of Auckland, and social issues.

Royal Commission on Auckland Governance

The Royal Commission was tasked with delivering a new local government structure for Auckland that could make and implement decisions on issues that had strategic significance, without being hindered by parochialism. In its final report the Commission summarised the situation it was required to address:

Auckland's regional council and seven territorial authorities lack the collective sense of purpose, constitutional ability, and momentum to address issues effectively for the overall good of Auckland. Disputes are regular among councils over urban growth and the development and sharing of key infrastructure, including roads, water and waste facilities, and cultural and sporting amenities. Councils cannot agree on, or apply, consistent standards and plans. Sharing of services among councils is limited, yet there is scope for so much more activity in this area (p. 4).

In addressing these issues the Commission identified two broad systemic problems: it concluded that regional governance was weak and fragmented and noted that community engagement was poor. The Commission's report made a powerful case for the importance of governance at the regional level in order to integrate decision-making on a very wide range of issues from planning, to the delivery of services encompassing water, transport, regional economic development, recreation, art and cultural facilities and waste management. The recommendations in the report argued for a single, effective decision-making body at regional level with the power to ensure its decisions were implemented. The Commission argued strongly for close integration between central and local government at the regional level and it based its recommendations on four fundamental principles:

Common identity and purpose
Effectiveness
Transparency and accountability
Responsiveness.

Council-Controlled Organisations were proposed for regional transport, Watercare Services, and waterfront development. The Commission made the case for an enhanced economic development function capable of working effectively with central government and it advocated the integration of regional spatial planning and regional transport planning and the creation of a single district plan. It also proposed the establishment of a Social Issues Board to enable local and central government to share decision-making and accountability for improving the effectiveness of resources spent on social services in Auckland. The Royal Commission recommended a unified local government for the entire Auckland region, with a second tier of six locally elected councils, based on the legacy council's boundaries and utilising the existing infrastructure and service centres. The Commission also recommended three Māori seats on the council's governing body; two elected at-large by Auckland voters on the Māori electoral roll and one member appointed by mana whenua.

In the case of a regional mayor the Commission argued for a strong effective leadership elected at-large, with additional powers and duties 'to get things done'. Previous mayors in the Auckland region – as is the case around New Zealand – had little statutory power despite being the public face of the council. The Commission noted that, 'this lack of formal power is in direct contrast to high community expectations of leadership and influence from mayors. Communities tend to expect that the buck stops with the mayor, not with the chief executive or with councillors' (p. 428). The Commission recommended the mayor have the power to propose a budget, initiate policies and the long-term plan, and have an office with his or her own advisors, as well as appointing a deputy mayor and committee chairs.

Making Auckland Greater

Making Auckland Greater is the Government's response to the Royal Commission report. It is the short document, coming in at 36 pages compared to the five volume report of the Commission. It focuses on the actual decisions of the government regarding governance with brief explanations, although many details were yet to be finalised. Importantly, the government agreed with the Commission that Auckland's leadership and planning were fragmented and would benefit from unification.

Making Auckland Greater rejected the Royal Commission's second tier structure for local representation, recommending instead 20-30 local boards. (The Local Government Commission subsequently settled on 21.) The case *Making Auckland Greater* made for local boards was similar to the Royal Commission's case for the six councils sitting beneath the new regional body: local boards would allow 'effective community engagement across the region' (p. 10) and provide 'strong community representation and the ability for residents and ratepayers to influence decision-making' (p. 11).

A further significant point of difference was Māori representation. *Making Auckland Greater* considered the provisions under the Local Electoral Act – which essentially allows a region-wide referenda on separate Māori seats – to be sufficient means for addressing the issue. Cabinet papers note a poll could be held in conjunction with the 2010 local elections, as indeed they can for any local jurisdiction.

Making Auckland Greater noted that alignment between central and local government was important to 'improve social well-being in Auckland' (p. 26). It rejected the idea of a specific Social Issues Board, considering this 'problematic as it would create conflicting accountabilities for those involved with the board's work, including

government ministers' (p. 26). The government instead proposed urgent exploration of options to increase coordination between central and local social service providers.

Making Auckland Greater accepted the Commission's recommendations for a mayor elected at-large, with the range of functions as outlined by the commission: appointing the deputy mayor and committee chairs, proposing a budget, policies and a long-term plan.

There was also some difference between whether governing body councillors would be elected at-large or from local wards, as summarised in the table below.

Table 2: Summary of recommendations and outcomes

	Royal Commission Report	Making Auckland Greater	Eventual Structure
Governing Body Councillors	10 elected at large, 10 elected from wards and 3 Māori seats	20 Councillors; 8 elected at large, 12 elected from wards; no Māori seats	20 Councillors elected from 13 wards; no Māori seats
Local Representation	6 Councils	20-30 Local Boards	21 Local Boards
Māori Representation	Wards with 2 elected and 1 appointed Councillors	Nothing specific; provision for Council to introduce Māori seats	Independent Māori Statutory Board (IMSB); provision for Council to introduce Māori seats
Social Issues	Social Issues Board to develop strategy and recommend action & funding	Government to look at ways of aligning central and local responses to social issues	No specific structure or mechanisms

The government also rejected the Commission's recommendation of a four-year term for elected representatives.

Legislation

The new Council was established under three pieces of legislation: the Local Government (Tāmaki Makaurau Reorganisation) Act 2009; the Local Government (Auckland Council) Act 2009; and the Local Government (Auckland Transitional Provisions) Act 2010.

The Auckland Transition Agency

An Auckland Transition Agency (ATA) was formed to implement the government's decisions on the new structure and to put in place the arrangements necessary for the new council to operate from 1 November, 2010. ATA's

operations ran from May 2009 until the establishment of the council on 1 November 2010, a period of around 18 months (Auckland Transition Agency, March 2011).

The ATA's work included the following:

- Determining and putting in place an interim organisational structure for the new council including the initial seven CCOs;
- Determining interim required staffing numbers and level and type of services, and appointing key personnel for the new council administration;
- Developing interim financial policies for the new council and preparing a council budget for the period 1 November 2010 to 30 June 2011;
- Preparing the new council's first planning document; and
- Designing a new uniform rating system for consideration and adoption by the new council.

The CCOs that were created were:

- Auckland Council Investments Limited (ACIL)
- Auckland Council Property Limited
- Auckland Tourism, Events, and Economic Development (ATEED)
- Auckland Transport
- Auckland Waterfront Development Agency
- Regional Facilities Auckland

With Watercare set to become a region-wide CCO in 2015.

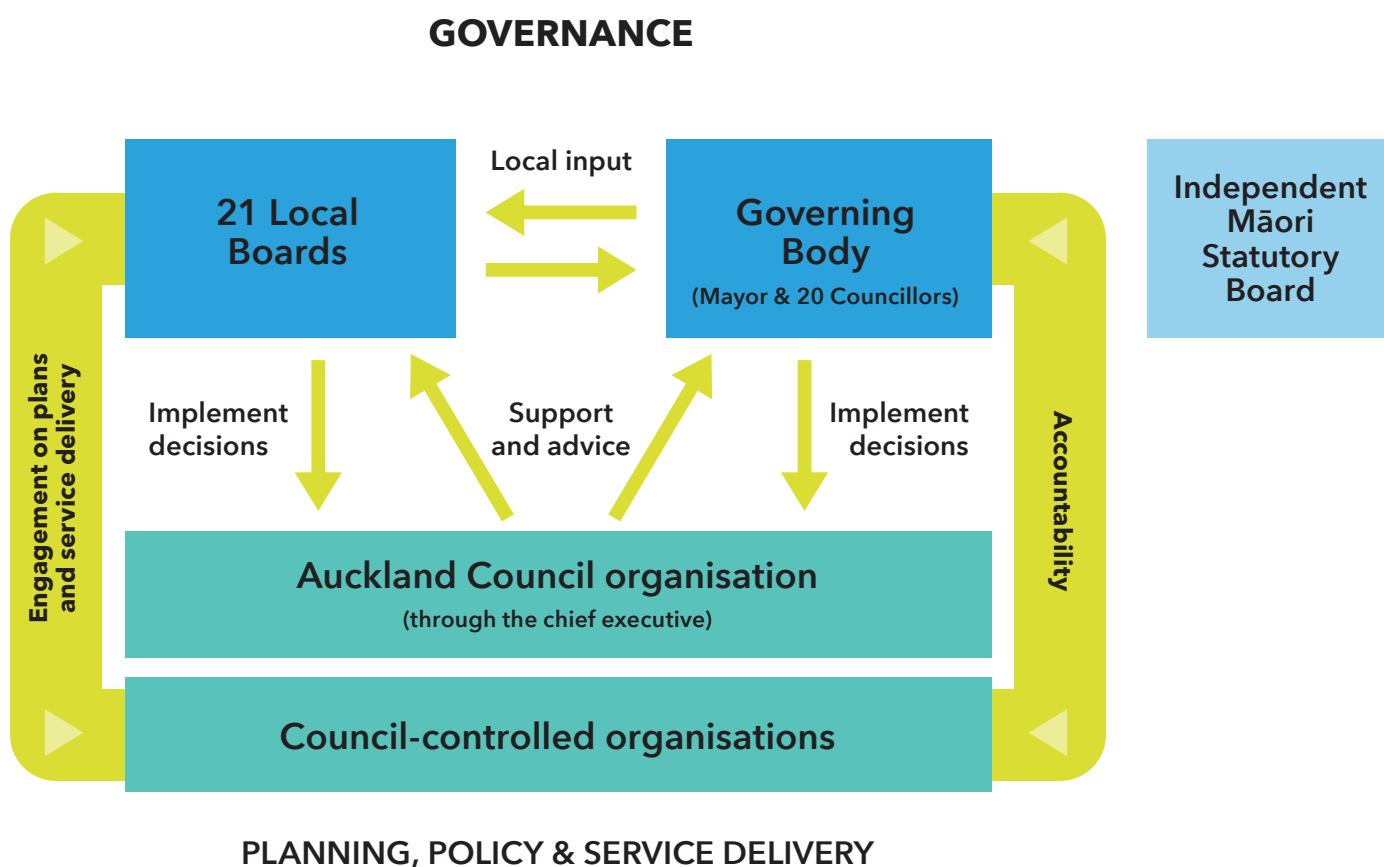
The new Auckland Council

The Auckland Council began operating on 1 November 2010 combining the functions of the previous regional council and the region's seven city and district councils. The new structure gave the Auckland Council a mandate to hold all of the region's assets, employ all staff, and a requirement to develop a single Long-Term Plan (LTP) and single rating policy. Today the Auckland Council is the largest council in Australasia with a \$3 billion annual budget, \$29 billion of ratepayer's equity and approximately 8,000 staff.

The Auckland Council is the local council for the Auckland region. The Governing Body consists of the mayor, and twenty councillors from whom the deputy mayor is drawn. The mayor is elected at-large with some executive powers but notably fewer powers than comparable international precedents. Councillors on the governing body are elected from thirteen wards across the council area using the first-past-the-post system every three years. Decision-making for the governing body's areas of oversight are conducted by committees with chairpersons appointed by the mayor. There are also 149 members of 21 local boards who make decisions on matters that concern their localities or communities, and provide local input into regional decision-making by the governing body and the CCOs. Following a review of CCOs last year, two CCOs were merged, reducing the number to six.

Auckland Council represents its governance model in the following way:

Figure 3: Governance of Auckland Council



Source: Auckland Council, April 2014, p.1.

The Independent Māori Statutory Board

The Independent Māori Statutory Board was created in lieu of separate Māori seats on the governing body. The Government made its decision not to have Māori seats before receiving reports from its Ministers of Māori Affairs and Local Government. Whereas the Minister of Māori Affairs argued that the Treaty of Waitangi partnership would best be given effect by providing for Māori to have, 'a dedicated voice around the decision-making table' (Sharples, 2009, p.7), the Minister of Local Government argued in favour of sticking with the existing arrangements for other local authorities in New Zealand. Submissions on the options for Māori representation were largely in support of the Royal Commission's recommendations. After receiving reports and submissions, Cabinet reinforced its earlier decision that Māori representation should not be provided for within the new Auckland governance structure. It later created the Independent Māori Statutory Board (IMSB).

The Board sits apart from the rest of the structure because it is independent of the Auckland Council. Established under the Local Government (Auckland Council) Act 2009, the IMSB acts to, 'assist the Auckland Council make decisions, perform functions, and exercise powers' by promoting issues of significance for Māori, and ensuring the Council acts in way that is consistent with 'statutory provisions referring to the Treaty of Waitangi' (s.81).

The IMSB, which has members on all Council Committees, is the current mechanism aimed at ensuring mana whenua and Māori participation in the governance of Auckland. Its members are unelected yet empowered by legislation to sit on committees of the governing body alongside elected councillors. The IMSB remains problematic for the governance of Auckland because of the lack of transparency around the Board and its members' lack democratic accountability to electors.

The Governing Body

The governing body consists of the mayor, elected at-large, and 20 councillors elected from local wards. The ward system prevents any concentration on the governing body from certain suburbs and makes standing for council a less expensive exercise, opening up the field to a wider range of candidates. Ensuring representation from throughout the region is especially important in view of the disaffection that persists from rural parts of Auckland. But the governing body is essentially a regional council in that it decides a region-wide rate and plan, with local decisions devolved to local boards. The ward representation of the governing body sometimes conflicts with the need for councillors to cast their votes according to the interests of the region as a whole. Local voters may not always understand this regional focus for their elected councillors.

Some governing body councillors think regionally - and the LTP process encourages this - but a few are still very parochial and not all work well with their local boards, creating a situation whereby the governing body councillor and local board members cut across each other's work. In theory, given their regional mandate, governing body councillors should be visiting and meeting with residents and local boards outside their own wards to get a more-regional view of issues, and this does happen with some councillors.

There appears to be no support from central government to increase the number of governing body members from 20 to grow in line with the growth in Auckland's population. We discuss Auckland's low levels of representation later in this report; it is a situation that will only deteriorate given current population projections.

The role of mayor

Both foundation reports recommended a single mayor elected at-large, representing the whole region, and with greater powers than the legacy mayors. *Making Auckland Greater* explained,

Auckland needs strong regional leadership to help it realise its potential and provide a united voice. Creating a single Auckland Council with one mayor will enable simpler and stronger management of council services throughout the region. It will also simplify the relationship with central government and ensure Auckland's voice is heard by central government (p. 16).

The aim of the Auckland reform was to address pre-2010 fragmentation of the region's governance. This points to the unifying role of mayor; hence the mayor's at-large mandate. The mayor speaks on behalf of Auckland as a whole. While the Auckland governance model introduced strong leadership powers for the mayor compared with past practice in New Zealand, these are relatively light compared to, for example, the executive mayors of London and New York City.

This at-large mandate means candidates for mayor, and mayors in office, will tend towards inclusivity, as the risk of losing a wider community appeal means the risk of losing an election. There is always a risk that residents elect a mayor (in future) who is out of step with the governing body (or a majority thereof). While the inaugural mayor has set a precedent of inclusivity, rather than partisan or factional politics, a minority mayor remains a real possibility.

The mayor of Auckland has the 'first mover' role in stating a vision and initiating policy and budget. The mayor proposes publicly a draft budget, followed by a conversation and consultation process back and forth, including public service input. The eight-month consultation process around the budget is much more public than central government's budget. While the budget originates from the mayor's office, it ultimately requires a majority vote from the governing body. The alternative to the mayor initiating budgets would be either the governing body or the council administration taking the lead. If the governing body had to lead the process, then there would be a lack of cohesive leadership, and the process could become mired in factional debate. If the administration led the process, there would be less transparency and public accountability.

The mayor has an at-large electoral mandate, compared with the ward-based councillors. The current mayor has avoided a caucus-style approach to governance, and this allows a more flexible, ad hoc approach to gaining consensus. There are no formal parties or whips on the governing body. The current mayor has been careful to disperse leadership roles and committee chairs across councillors, and hence across any apparent partisan political differences. Support for and opposition to particular votes have come from all quarters.

The Office of Mayor

The Office of Mayor has about 20 staff, including administration, policy and communications. Originally (in 2010), all staff were on fixed-term contracts, contingent upon the mayor's term in office. Now, most are on permanent contracts. Most are seconded from within the council, and most could be redeployed in the event that a new mayor decides on a completely new staff for the office.

There has been some criticism that the Office of the Mayor's staffing and budget have become too great. The mayor's Office is established under the Local Government Act 2009, with a budget of not less than 0.2 percent of total council budgeted expenditure for the year. As council expenditure rises, then so does the minimum budget for the mayor's Office. The present report does not take sides on this question, as it would require an analysis of the tasks performed by each staff member in that office and an estimation of the value added to the council's services and objectives.

If a new mayor were to cut the budget of his or her office, then it appears that the affected staff would most likely be redeployed within the council administration, so the net effect on the council's overall operating costs might be more or less nil.

All staff of the Office are employees of the council, and so the mayor must go through the Chief Executive to complete appointments. These are then subject to standard human resources process, such as job-description, job-sizing, and hence determination of appropriate remuneration, and staff induction. As council employees, the staff of the mayor's office are subject to the employees' code of conduct. Within the normal council employment and HR rules, however, an incoming mayor has considerable flexibility in how the office is staffed.

The Office of Mayor sits at a critical juncture of council decision-making and communication. The mayor, with the support of this office, has statutory duties to work with the council administration (through the Chief Executive), and to chair the governing body. He or she is also empowered to engage directly with the people of Auckland, as a whole or as particular communities, on behalf of the council. This is no small set of tasks, and care should be taken before determining the Office's 'right size'.

Some inquiries by members of the public may be directed to the office of the mayor after experiences of frustration or lack of knowledge about whom to call. Improvements in information and service-delivery could help to reduce that workload. In addition, a web-page dedicated to the Office of the Mayor could help to clarify what

its roles and functional relationships are, and this would assist with public awareness and would possibly address some concerns about the existence of this office. Such a web-page could also inform the public about the various codes of conduct to which the mayor's staff adhere.

From a governance viewpoint, the new leadership role of the mayor of Auckland, and the statutory provision for an Office of the Mayor, are appropriate for the unitary structure. Given its physical and demographic size, its diversity and the problems inherent in rapid growth, Auckland needs to have one publicly accountable figurehead who can speak for Auckland, deal with central government at the highest levels, and lead the council's deliberations in respect of planning and budgeting. Given the scale and impact of the role, it is appropriate that the mayor be supported by a dedicated staff. The right-sizing of that office is beyond the scope of this report.

Some councillors and others have claimed that the present model places too much power in the hands of the mayor, with insufficient public oversight. It should be noted, however, that planning and budgeting are relatively transparent to the public, and that the final approval of plans and budgets is made by a council on which the mayor has only one vote. While there should always be debate about how best to allocate or balance powers and duties, we find no urgent reason for changing this aspect of the Auckland governance model at present.

The approach of the inaugural mayor to avoid a politicisation of the governing body (with, for instance, whipped caucuses) is commendable. Local electors, we believe, would not support any further concentration of local-body politics beyond the already evident tickets on offer at the elections. At present, there is a wide diversity of political views represented on the governing body, spanning the political spectrum. Councillors have exercised their judgement independently, and responsibilities for chairing committees are shared across the whole of the governing body. A 'governing' faction (aligned with the mayor) facing off an 'opposition' faction would not lead to better decision-making or outcomes for Aucklanders.

Council-Controlled Organisations

Council-Controlled Organisations (CCOs) are trading organisations that are at least 50 percent owned by one or more local authorities (councils). They are a common feature in local government organisation in New Zealand. Prior to the Local Government Act 2002, CCOs were known as Local Authority Trading Enterprises (LATEs). They are established to create some distance between the council that owns them and the daily operations of the CCO. Prior to amalgamation over 40 substantive Council Organisations (COs) and CCOs existed in the Auckland region. The Royal Commission recommended a transfer of the existing CCOs to the new council, where they would be rationalised, and for the CCO model to continue to be used for 'major commercial, trading and infrastructure activities' ... 'which may benefit from operating autonomy' and so that the new council could 'access the best commercial and engineering expertise and resources' (pp. 13 and 457). The Auckland Transition Agency established the initial CCO model for Auckland Council, although the government specified in legislation the creation of both Auckland Transport and a new Watercare Services for the region. This limited the scope of first the ATA and now Auckland Council, as they are unable to specify a function or reorganise these CCOs in any way that clashes with their legislation. In contrast, a 2014-15 review of CCOs by Auckland Council saw the council amalgamate Auckland Council Property Ltd and Waterfront Auckland to create Panuku Development Auckland.

According to the Minister of Local Government the Auckland CCOs would be the most accountable in the country: 'The Auckland Council will determine their Statements of Intent, and can dismiss directors or disestablish the CCO entirely if the Council's wishes are not carried out' (Hide, 6 July 2010). Auckland Council has a CCO Governance & Monitoring Committee that appoints CCO Board members. Boards appoint the Chief Executive. Board members hold office at the pleasure of the council and may be removed at any time by council resolution. The council sets objectives for each CCO, and all CCOs must align their activities to the council's objectives and

Unitary Plan, and keep informed of and take into account local board objectives and priorities. The Auckland Council Long-Term Plan 2012-2022 states that each CCO releases regular Statements of Intent that include narratives, 'of how it will contribute to the government and the council objectives and priorities specified in this accountability policy. CCOs must act consistently with and contribute to policies, plans and strategies of the council' (p. 5).

Nonetheless, CCOs are a part of the new council design that is contentious and in this respect those making submissions to the Royal Commission were divided. Many who supported the use of CCOs wanted 'robust governance frameworks' to ensure transparency and accountability (Royal Commission, 2009a, p. 463). Certainly the council has strengthened its oversight, coordination and reporting requirements of CCOs over time. Opponents submitting to the Royal Commission expressed concern that the CCO model removes major assets and services from direct council control, reducing democratic accountability. Others were concerned that CCOs were run like businesses, with business experts on their boards, diminishing their ability to meet the broader economic and social goals as outlined in council's strategic plans.

The CCO model does highlight a dilemma for the governance framework of Council in that local and regional governments are public sector entities. Although there is a tendency for some to regard governance in the public and private sectors as synonymous, there are important distinctions to be made. In the public sector governance needs to take into account distinct legal and constitutional responsibilities. Government exists in perpetuity while commercial enterprises come and go. This means adopting a broad definition of risk when applied to government and how it comes about, with stakeholders encompassing future generations. Thus a broader base of capital is needed in government compared to that defined by the accounting conventions that underpin commercial reporting.

This dilemma is most evident in the governance arrangements for transport in Auckland which were always going to be a major consideration in reorganising the governance of the region because of the scale of the issues involved and the fact that congestion in Auckland has been one of the major policy issues for the public over several decades. The Minister of Transport illustrated this point with his comment that a having a regional transport CCO would, 'provide a level of focus on transport issues and continuity of decision-making that could not be provided by the full Auckland Council with its multiplicity of responsibilities' (Joyce, 2009). The scale of Auckland Transport was considered a major issue given that transport expenditure in 2009 accounted for 54 percent of rates revenue and 30 percent of total Auckland local authority revenue when user-charges, investments and subsidies from the New Zealand Transport Agency are included (Joyce, 2009).

Auckland Transport was established under separate legislation with responsibility for all local authority transport functions and governed by an independent board that includes two councillor representatives. In terms of public sector governance, Auckland Transport relies on the same provisions as other CCOs with the governing body of council setting the strategic direction and establishing funding agreements.

There is some concern that the restructuring of Auckland's governance has removed geographic silos, creating instead - with the CCO model - functional silos, where assets and services operate independently from the rest of the council structure. Auckland Transport, for example, has a road and public transport mandate, but transport could also be considered a core function of council and as such is best situated within council. Indeed, section 11A of the Local Government Act 2002 lists the provision of roads (network infrastructure) and public transport as core services. Further, transport does not operate in isolation but impacts on the way communities are developed, grow and function. Transport needs to be part of a systematic approach to managing Auckland's growth. Auckland Council is not at liberty to move transport services provided by Auckland Transport in-house as this would require a change of legislation at central government level. This places significant responsibility on

the monitoring and evaluation mechanisms established by council to ensure that Auckland Transport meets the strategic objectives of the governing body and in that respect it is too early to make a judgement.

Governance also appears to have been an issue in the debacle over Ports of Auckland that became a major area of public concern and comment in 2015. Although Ports of Auckland is not defined as a CCO, it is a council-owned company and thus council should have oversight of the ports in terms of its policy options as well as the implementation of policy. When Ports of Auckland entered into public debates, first with its workforce and then with the council over expansion plans, the governing body had no ports strategy to which the company could be held accountable. That is currently being rectified meaning that the governance arrangements for Ports of Auckland will be more consistent with the oversight and provisions outlined for other CCOs. In the case of Ports of Auckland, Auckland Council Investments Ltd currently manages the 100 percent share of the ports held by the Auckland Council, an amount that is estimated to be in excess of \$620 million. While it is unrealistic to expect tensions such as these to be resolved by the new council structure, the on-going relationship between the governance body and key elements within the structure of the council such as the CCOs and the local boards do require further consideration.

The Independent Māori Statutory Board provide two members on the CCO Governance & Monitoring Committee, which appoints Directors. They contribute to the writing of Statements of intent, and contribute a Māori worldview. The governance manual for CCOs includes expectations in how CCOs will deal with Māori. All CCOs are expected to consider, 'effective communication and engagement with Māori; contribution to Māori Wellbeing; and contribution to effective Māori capacity as part of its SOI and reporting processes' (Auckland Council, July 2013, p. 13).

The CCO review conducted in 2014-15 removed some duplication of services. For example, some of the financial assets managed by Auckland Council Investments Ltd (ACIL) were transferred to the council's treasury; as a consequence of this loss of responsibility, the ACIL Board was reduced from 5 to 3 Directors. The Council had its own economic development capacity, but this was disestablished as it was concluded that the CCO Auckland Tourism, Events and Economic Development Ltd (ATEED) was better placed to provide a regional economic development strategy.

ATEED is an interesting CCO in that it was established 'to help lift the Auckland region's economic wellbeing, and to support and enhance the ability of the region to compete internationally' (Hide, 6 July 2010). It was cobbled together from the remnants of the Auckland Regional Economic Development Forum and a range of Economic Development Agencies including AucklandPlus, Enterprising Manukau, Enterprise North Shore, Enterprise Waitakere, Enterprise Franklin Development Trust, Rodney Economic Development Trust and the Pacific Business Trust. The Economic Development Agencies (EDAs) formed a network of locally based agencies (AREDS) with particular emphasis on small- and medium-size businesses, local labour markets and employment, as well as fostering neighbourhood and community initiatives designed to promote business and industry initiatives.

The framing of economic development within a CCO that also has responsibility for tourism and events has shifted the focus of economic development to regional branding and promotion. The EDAs have been replaced by four regional hubs. This shift in the mandate and direction of economic development aligns with those wanting to advance a regional strategy for the economy with a focus on the hosting of events such as the Rugby World Cup, the promotion of tourism, and encouragement for initiatives such as ICT, biotechnology and the creative industries. It is a top-down strategy that has moved away from its local foundations and particularly its connections with business and skills training and local employment opportunities.

While the direction and modus operandi of ATEED deserves further discussion because of its contrasting role with other CCOs, focussed as they are on particular services (transport, water, ports etc.), it is highlighted here to demonstrate one of the tensions that continues to dominate the reforms and the establishment of a unitary council. Clearly Auckland was in need of a regional strategy to advance its development as a regional economy but in the process it has neglected significant forms of local development that respond to the economic and social conditions of different neighbourhoods across Auckland. Perhaps economic development could be better aligned with the local boards to ensure that locality development is more effectively integrated into 'lifting Auckland's economic wellbeing'.

Local Boards

The establishment of local boards is one of the key variations in structure from the Royal Commission's recommendations. The Royal Commission recommended a unified local government for the entire Auckland region, with a second tier of six locally elected councils, based on the legacy councils' boundaries and utilising the existing infrastructure and service centres. The functions of these local councils were:

- active engagement with their communities
- identifying local preferences and service levels
- advocating for their communities within the Auckland Council (p. 333).

The Government's report, *Making Auckland Greater*, rejected this second tier structure, recommending instead 20-30 local boards; the Local Government Commission settled on 21. (The local board model is now available for other amalgamated authorities to copy as per the Local Government Act 2002 Amendment Act 2014.) The government's arguments against the Commission's second tier design included the fear they would encourage a legacy mind-set, as they were based on legacy council locations, and the assessment that a second tier of six bodies was insufficient to provide 'effective grassroots community representation' (New Zealand Government, April 2009, p. 11).

The case *Making Auckland Greater* made for local boards was similar to the Royal Commission's case for the six councils sitting beneath the new regional body: local boards would allow 'effective community engagement across the region' (p. 10) and provide 'strong community representation and the ability for residents and ratepayers to influence decision-making' (p. 11). Clearly there is a need for local representation and input in such a large, regional local government organisation.

The Auckland Council governance diagram (Figure 3 of this report) shows local boards on a par with the governing body, providing local input into governing body decisions and engaging with CCOs on the engagement of plans and service delivery. The establishing legislation (s7 of the Local Government (Auckland Council) Act 2009) describes decision-making between the governing body and local boards as 'shared'. *Making Auckland Greater* said that local boards would 'have prescribed roles and functions' and would not 'replicate the service delivery structures that will be managed by the Auckland Council' (p.11).

Local boards have a statutory responsibility for anything local that does not involve raising rates or setting regulations; this is potentially a very broad mandate. In reality, what is a local decision and what is a regional one, is not clear-cut, as local activities that have a regional impact or would benefit from consistency across the region, are the responsibility of the governing body (Auckland Council, 2015a, pp. 285-6). For example, local assets such as libraries and swimming pools are managed regionally. Local boards' activities are defined by the parameters of regulation and rates set by the governing body, and the amount of rates allocated to local spending. Local boards can suggest new local by-laws or targeted rates, but these are enacted only with the agreement of the governing body. The governing body also decides which of its activities are delegated to the local level. Further, regional

decisions made by the governing body and CCOs impact on local communities. The reforms aimed to make the governing body *the governing body*. While the governing body and CCOs engage with local boards, they are under no obligation to act on their issues or input. Local board access to regional decision-making is shaped largely by the governing body: how much speaking time is available at meetings, even the template for input such as what issues can be covered and how many PowerPoint slides can be shown.

Local boards do not have their own legal status; they are unincorporated elements within the council, serviced by council staff who are answerable to the Chief Executive of the council. Local boards have considerable staff support: in addition to being able to draw on council staff such as planners and events specialists, each board has its own advisors and administration staff, and can draw on staff from the Local Board Services Department for help with areas such as policy, relationships, communications and finance.

Board Chairs are paid for a full-time workload, but other members are regarded and paid as part-timers. The positions are advertised as part-time to encourage more people to consider standing for local boards, a do-able entrée into local government. On the downside, some candidates stand for, and are elected to, multiple boards simultaneously, restricting their ability to attend meetings because of scheduling clashes and potentially short-changing constituents through commitment overload. Auckland Council has considered this enough of an issue to ask central government to change the relevant legislation to outlaw simultaneous representation.

A number of Boards operate a portfolio system, with members taking responsibility for different policies and areas of activity. A member responsible for parks, for example, would attend germane governing body meetings including the governing body's Parks, Recreation and Sports Committee meetings, consult with community groups and constituents on parks issues, liaise with CCOs on how their activities impact on local concerns and priorities, and interact with various parts of council administration to advance community projects.

Local boards have begun to work together to make sure their voices are better heard in the council processes. Local board Chairs now have regular meetings with each other, to share knowledge and engage in strategizing. In 2014, following a significant cut to local board budgets as part of the LTP process, a letter signed by all 21 local board Chairs criticised the process around the budget and priority-setting, and called for a collective process between the governing body and the local boards to work through the budget constraints. The letter noted that the recommendations of council officers was given precedence over feedback from local boards.

Engagement

Local Government New Zealand (LGNZ) identifies population size as a factor influencing local body voting turnout (one measure of engagement and participation). The higher the population covered by a council, the lower the turnout tends to be (Local Government New Zealand, 2013, pp. 13-14). The size of the new Auckland Council along with the complexity of its structure and the roles different parts of the council play may be a factor in suppressing engagement and participation levels in Auckland. Auckland Council has not researched public understanding of the structure. Confusion about local boards may also exist as some (but not all) legacy councils had community boards; local boards have considerably more powers and a different role. Local boards' roles in their communities are to a large extent dependent on the efforts of the members themselves. The council is currently looking into changing the names of local board members to 'councillors', to raise their profile and status with not only the public, but within the council structure. (This change is not prohibited by current legislation.)

Local boards are the avenue through which the goal of increasing engagement has been addressed by structural reform. But in council surveys, when residents are asked if they, 'feel they can participate in local board decision making', generally only around 20-30 percent of residents agree (See Appendix C). The exceptions are the

smaller, geographically isolated and distinct communities of Waiheke and Great Barrier Islands where levels are higher at 53 and 67 percent respectively. Separate figures for Māori residents show, in a few cases, levels of engagement in single digits. The council has commissioned research to make council processes more accessible to Māori and has a pilot project underway looking at improving Māori contributions to local board decision-making. While the engagement data for local boards is generally low, it is, nonetheless, higher than the public's engagement with the governing body.

The council does not currently have a range of indicators for public engagement, other than these surveys. Some local board members are very active on local community pages on Facebook but the extent and impact of this is unknown. How well are local boards communicating and consulting with communities that are more typically disengaged from formal political processes, for example the young and new migrants? The council does produce a lot of information – reports and plans on its website for example, and it live-streams meetings. While putting information in a public space is commendable and helps with transparency, it is a one-sided act that does not constitute engagement.

The widespread practise of workshopping – holding meetings between different parts of the council behind closed doors – reduces transparency. Workshopped meetings are confidential; minutes are not kept and the issues discussed cannot then be raised in a public forum. The argument made for workshopping is to encourage free and frank discussions and consultations between, say, a local board and a CCO. But they may have the opposite effect, that of shutting down comment: local board members who want to raise an issue have learned not to mention it during a workshop as that would prohibit future public comment, reducing their ability to engage openly with their constituents. Interestingly, the Devonport-Takapuna local board has elected to hold no workshops – all their meetings are open to the public. Council has yet to research the impact of this decision and whether it has changed the way council administration or CCOs interact with this local board compared to others.

Engagement was a key theme in the Royal Commission report with the Commission noting that they, 'observed fairly widespread public disengagement from local government in Auckland, and research indicates a belief that the ability to influence is limited' (p. 297). Engagement includes dialogue with community groups, education and social service providers, not-for-profits, volunteers and business groups, and this remains a weakness of the reforms. Local boards are free to do their own consultation and the practise of community engagement varies from board to board. The council may need to create some engagement measures to ensure a culture of inclusivity is developed and maintained across the region, as well promote the council's profile with groups who are currently under-represented.

Representation

Making Auckland Greater noted that Auckland had many diverse communities and that 'it is important that these different communities, with their distinct identities, have representation at a grassroots level and that individuals have a voice' (p.14).

At present, women have reasonable representation at local board level – 42 percent of local board members and just over half (11/21) of all Chairs are women. Only 7 of the 21 members on the governing body (mayor plus ward councillors) are women. Auckland Council does not keep data on the age or ethnicities of local board members or governing body councillors.

Given Auckland's pronounced demographic growth, especially due to immigration, and its socio-economic inequalities, the council (with central government) has work to do to prevent urban social tensions from rising and to build an inclusive environment. The council has established consultative committees based on demographic

and ethnic groups in order to institutionalise inclusiveness. More practically, planning processes need to provide for accessibility and affordability, so as to reduce socio-economic disadvantage, especially in housing and transport, but also in recreation. Encouraging cultural diversity by supporting festivals such as Diwali is a positive way of enhancing the different cultural groups that make up the population of Auckland. Representation of these groups in the decision-making of council is somewhat more difficult.

Representation ratios in Auckland are much higher than the New Zealand average: the new council structure provides one representative per 8980 residents compared to an average New Zealand ratio of 1 representative per 4847 residents. New Zealand in turn is under-represented when compared to a number of overseas jurisdictions.

Table 3: Representation ratios (Elected representatives: Population)²

Place	Ratio
France	1:120
Germany	1:250
South Australia	1:2088
Wales	1:2376
UK	1:2800
NSW	1:3942
Scotland	1:4229
New Zealand average	1:4847
Auckland local government	1:8980

From the point of view of representation, Aucklanders and their elected local-body officials have all been disadvantaged by the reforms. Ironically, though, any suggestion that the numbers of elected members be increased is bound to be resisted by rate-payers.

As Auckland's population grows, representation will become more of an issue. Not only is the population projected to grow dramatically (see Appendix A), but there will be uneven impacts across the existing governing body and local board boundaries. The number of local board members will need to rise, in order to prevent an already very high representation ratio from getting worse. Auckland Council can review the issue of

²Source: LGNZ (2013) page 15 table 4, and Local Government Commission data 10 March 2015. Auckland figure uses January 1, 2015 population estimates.

representation and change the number of members on a Board between 5 and 12; boundary changes or changes to representation of less than five or more than twelve need to go to the Local Government Commission.

Another factor to consider is that the population is not projected to increase evenly across Auckland, creating pressure on ward boundaries, as detailed in Appendix B. Uneven growth provides challenges in terms of planning and equitable resource allocation. While all board areas are projected to grow in absolute terms over the next 30 years, there are expected to be some important changes in areas' relative-size rankings.

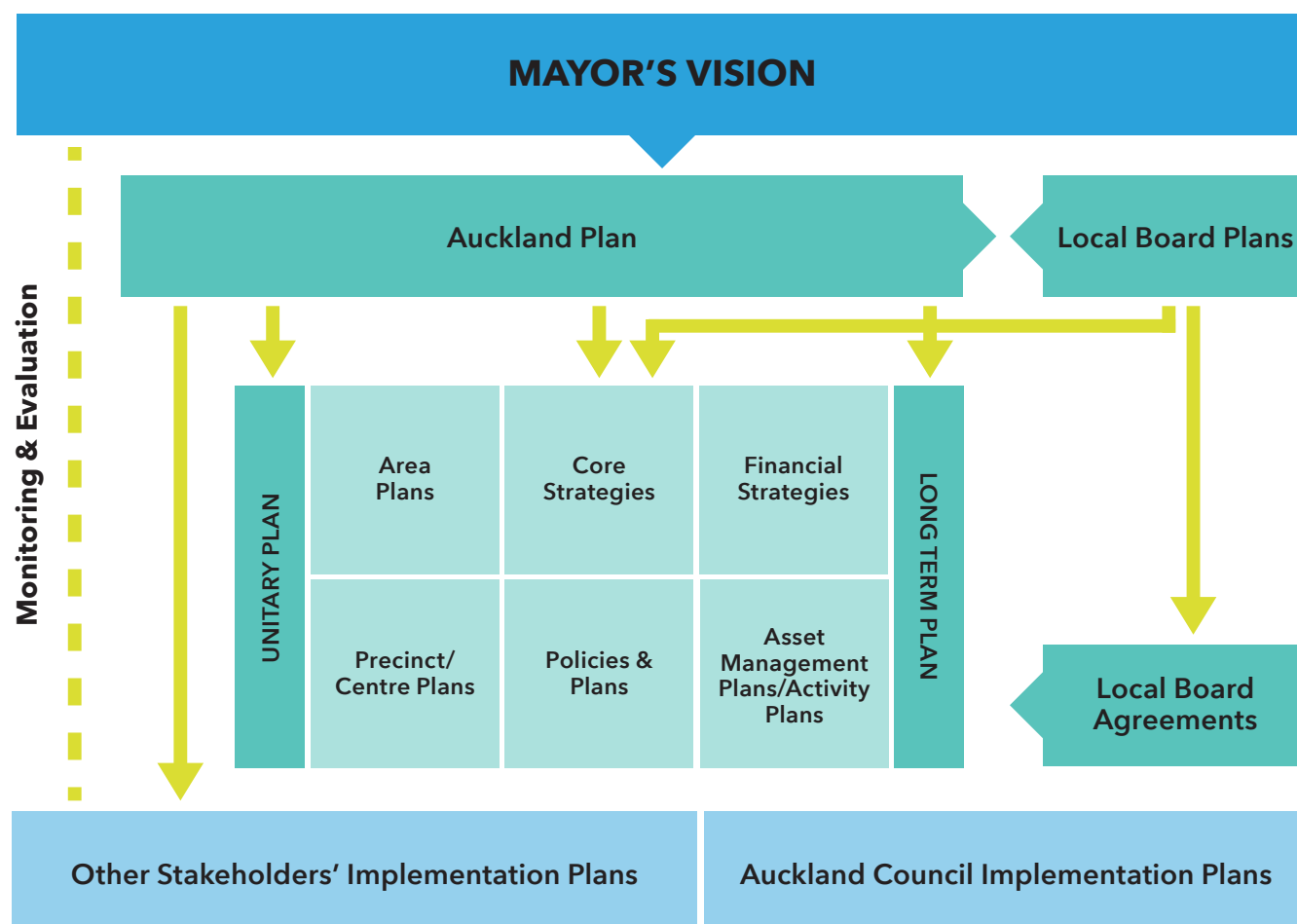
Within these spatial shift-share movements, are significant local-level changes in ethnic and age composition. These may well present the greater challenge because they have implications beyond equitable resource allocation to political representation, political affiliation, voting patterns and social and economic outcomes.

The planning framework

The formation of the Auckland Council represented unprecedented organisational change to planning systems - perhaps the most significant and far-reaching initiatives of the reforms. For the first time Auckland adopted a single, integrated plan for the region, encompassing land use, transport, infrastructure and housing, to guide investment by council, central government, the private sector, Iwi authorities and communities. The purpose of the planning system was articulated under section 79 of the Local Government (Auckland Council) Act 2009:

to contribute to Auckland's social, economic, environmental and cultural well-being through a comprehensive and effective long-term (20- to 30-year) strategy for Auckland's growth and development.

The planning framework was radical both in terms of design and implementation. The council decided that the Auckland Plan (the overarching plan for all other Auckland plans), would be shaped by the European Regional/Spatial Planning Charter. This meant a values-based approach, not simply a population-based strategy that had been the legacy of previous regional growth strategies (Blakeley, 2015).

Figure 4: Auckland's strategic planning network

Source: Blakeley, 2015, p. 4.

Figure 4 demonstrates how the various plans interact encompassing core strategies (economic development), place-based plans, financial strategies, asset management plans and implementation plans. Two major plans bookend all others - the Unitary Plan, the council's principal land-use planning document, prepared under the Resource Management Act (1991); and the Long Term Plan, describing council's intended activities, key projects and programmes, and budget for a ten-year period (currently 2015-25) prepared under the Local Government Act 2002.

A key element in the Auckland development strategy was aimed at controlling the outward spread of the population. As such it builds on long-standing regional planning documents although its purpose and use has changed over time. Initially regional planning documents were aimed at controlling growth so that the physical infrastructure could be provided more efficiently but under the Auckland Regional Policy Statement (1994) the main objective was to protect rural and coastal environments from peripheral growth and as Blakeley (2015) suggests this was mainly achieved with the region absorbing over 300,000 additional people over twenty years without significantly extending the metropolitan urban limit (MUL).

The implementation of this planning framework does not resolve the conflicts between different neighbourhoods and areas within the region or between different groups and communities with widely disparate views and aspirations. These differences have already surfaced during current discussions over the draft Unitary Plan. Although there was strong public support for the 'quality compact city' and 'support for action to reduce urban sprawl' as articulated in the 2012 Auckland Plan and the draft Unitary Plan (2013), lobby groups and property owners in some central suburbs of Auckland forced a response from council to accommodate reductions in height limits and minimum lot sizes in the mixed-housing suburban zone (Blakeley, 2015).

Not only does this debate represent a conflict between those seeking to protect their property values and the character of their 'leafy suburbs' from those advocating a compact city, but it also represents what the Productivity Commission called a 'democratic deficit': 'homeowners exerting disproportionate influence over council decision-making, often to conservative effect, as they seek to protect the value of their property' (Productivity Commission, 2015). It also represents a generational conflict as the interests of some current property owners are seemingly opposed to the perceived interests of future generations.

While this particular conflict will be settled when the Unitary Plan is finalised (estimated date late 2016), the conflicts themselves will inevitably continue. That reality should not detract from the planning framework. It merely provides mechanisms for discussing policy options, for ensuring community participation in the planning process and ultimately for adjudicating on decisions through a robust planning and judicial process.

Information and Governance

The governance model as depicted in Figure 3 and the Strategic Planning Framework in Figure 4 both represent major achievements in the establishment of the Auckland Council and its first five years as a unitary authority.

Both frameworks are deceptively simple but feature many parts requiring coordination and information flows. The distinctive elements all relate to each other in formal and informal ways: the mayor, the governing body, governing body committees, 21 local boards, the council administration, CCOs, the Independent Māori Statutory Board, and central government and its agencies (such as NZTA).

The two figures and the systems they represent tell us that both the structure of the Auckland Council and its strategic planning framework are supposed to operate around a set of information flows that allow for:

- the council as a collective body to inform the public so as to deliver transparent local government and enable democratic participation and engagement;
- the local boards to engage in the decision-making process as they seek to represent the needs and aspirations of their neighbourhoods and communities;
- the CCOs to effectively implement the functions and responsibilities defined and negotiated with the governing body;
- the governing body to make decisions that advance the public interest in Auckland whilst also advancing those interests in communication with central government and in consultation with the council's constituent parts; and
- the council administration to support and advise the governing body: inform council about the social,

cultural, economic and environmental trends in the region; alert the governing body to immediate and long-term concerns and play a leading role in assisting council and its constituent parts (local boards, CCOs) to formulate policies and implement plans on behalf of the region and its citizens.

It is not feasible in the context of this research report to analyse the knowledge base or track the information flows that are critical to the council's performance. Suffice to say that there needs to be an evaluation and assessment of information flows in the context of both the governance model and the planning framework. Of most significance in this respect is the modus operandi of the council administration. This extremely important component of council is significant both in terms of formulating policy and in facilitating its implementation. As we outlined in the early stages of this report it is not possible at this time to make an informed assessment of the performance of the council administration and in that respect it remains a vital aspect of the new council that deserves attention.

There are two elements that need to be carefully considered in analysing the knowledge base and information flows. The first concerns the policy frameworks within which policy is both analysed and implemented. This is an aspect of public policy that was described by the Norwegian budgetary process in the following way:

It is the nature of the process that the choices of civil servants who collect and analyse the mass of data on which the national budget is constructed are of fundamental importance to the outcome....by allocating to them the prerogative of asking questions that need to be answered politically, the process enables civil servants to control the direction in which the Government's attention moves....not only do they (civil servants) control the general framework in which decisions are made but they also define the important questions, influence the direction of the politicians attention, and argue for their proposed solutions with esoteric knowledge that is difficult to refute.

(Higley et al., 1975)

In highlighting the importance of policy frameworks and the way in which they are utilised in the application of knowledge and in facilitating information flows it is essential to have a clear definition of governance and what this means in the context of the unitary council. Governance is the second element to consider and we define it as a concept that determines who has power, who makes decisions, how other groups and individuals make their voices heard and how account is rendered. As such it is a contextual concept with important distinctions to be made between its application in both the public and private sectors. Public sector governance takes into account constitutional accountability and responsibilities whereas in the non-governmental sector, stakeholder interests are a determining factor. Government exists in perpetuity while commercial enterprises come and go.

These distinctions are important when it comes to assessing the performance of the Auckland Council and its administration. There is no doubt that a great deal has been achieved over these past seven years in radically altering the structure of regional and local government in Auckland. To establish a unitary council, construct a coherent integrated planning system and implement a range of regional services for such a diverse population is a major achievement. Obviously the council administration has played a significant role in these achievements and as a research team we have been impressed with the responsiveness of the administration and its demonstrated expertise especially through entities such as the Auckland Council Research and Evaluation Unit (known as RIMU). But in charting the course ahead a further assessment of the council administration is clearly needed both in terms of assessing the knowledge platform on which council is based and in identifying the flow of information which is the life blood of council.

Relationship with Central Government

The Royal Commission identified the relationship between the Auckland Council and central government as a 'key measure of the success' of the reforms (p. 12). It is a relationship that has been problematic throughout New Zealand's history. As far back as the settlement period when the city was enshrined as the national capital only to have that designation subsequently transferred to Wellington, 'the modest resources of the City Board were enlisted in the struggle to prevent anti-Aucklanders from achieving their goal' (Bush, 1972, p. 84). While more recently the public discourse has been framed as 'the Auckland problem' it was frequently referred to in submissions to the Royal Commission as 'removing roadblocks' and 'bureaucratic tangles' in order to facilitate 'an improved evolution of the central/local government relationship' (p.113).

In conducting the research for this report comments were frequently made about the need to make this relationship work and clearly there has been some evidence of collaboration as in the case of the Housing Accord and the Auckland Transport Alignment Project, although in both cases central government was a late starter.

Of concern is the impact of central government's decisions in respect of two specific Royal Commission recommendations: Māori representation and social issues.

The issue of whether to include guaranteed Māori representation in the new structure and the form this could take created a political problem for the government, as it was in coalition with two parties that took opposing views, the Māori Party and ACT. It was the ACT Party leader, who was also the Minister of Local Government, who drove the decision. Although the Minister of Māori Affairs, a co-leader of the Māori Party, argued that the Treaty of Waitangi partnership would best be given effect by providing for Māori in Auckland to have a dedicated voice 'around the decision-making table', the Minister of Local Government argued that Maori could be accommodated under the existing local authority legislation and in that respect it would be consistent with the arrangements for other territorial authorities in New Zealand.

While there is some support for the impact the IMSB has had on Council deliberations and decisions, the Board remains outside the formal Council structure and has no established accountability to electors. In that respect it is similar to other advisory panels representing different ethnicities, age groups and interests (albeit with considerably more power).

The second example concerns the way in which social policy has been dealt with in the wake of the Auckland reforms. In its report the Royal Commission argued for a governance structure for social wellbeing that would enable local and central government to share decision-making and accountability for improving the effectiveness of resources spent as well as addressing the critical social issues in Auckland. These conclusions were based on the Commission's concerns regarding significant clusters of deprivation in Auckland typically concentrated around geographical and ethnic communities. With the annual central and local government expenditure on social issues in Auckland estimated to be approximately \$12 billion dollars, the Commission described the collaborative efforts between central and local government as 'inadequate'. Accordingly the key recommendations made by the Commission centred on 'achieving shared responsibility for decision-making' (Royal Commission, 2009a, p. 15).

The Royal Commission proposed the establishment of a Social Issues Board as a mechanism for advancing collaboration between central and local government. While the Minister of Social Development agreed publicly with this proposal in 2009, (Bennett, 2009) five years on there is still no social issues board and no shared decision-making regarding social policy and the social services of Auckland. While government agencies do consult the councils' research unit RIMU, there is no formal central government-Auckland partnership on social

policy. Given the significance of social policy and the challenges outlined in this report it can be viewed as a failure of the reforms to date.

Auckland Council Finances

Auckland Council's financial affairs attract plenty of public and political attention – keeping rates and spending down or 'getting debt under control' form the platform for a number of candidates contesting council elections.

This raises the questions: Was amalgamation designed to cut rates? And what state are Auckland Council finances in?

The Royal Commission did not recommend the new unitary structure primarily as a means of slashing budgets or suppressing rates: their key argument focussed on effectiveness of a unified regional planning and decision-making body with strong leadership. They did however note that many submitters raised the expectation that a new structure would lower costs (and presumably therefore rates) (Royal Commission, 2009a, p.15). The Commission noted that it was difficult to make financial projections as much depended on decisions made about the final form the council would take. Nonetheless, they said that while there would be transition costs of moving to a new structure there were also costs in not proceeding with the reforms. Possible annual savings were estimated to be in the range of 2.5-3.5 percent of spending overall (p.15).

Making Auckland Greater is a government document that focusses on the structure of the new organisation, and does not comment on the budget or rates other than predicting the new council would result in a 'more efficient use of public resources' which would result in 'residents and ratepayers' getting 'better value for their money' (p. 12). In his introduction to the report, the Minister for Local Government emphasised the effectiveness arising from better governance, but he did include the comment that this would lead to 'better value for money'. The Minister continued to make public comments that the reorganisation would see cost savings, which would keep rates down. For example, he defended the spending on redundancy payments saying there would be an 'eventual \$90m annual savings in wages' arising from the changes. (Radio New Zealand, 28 September 2010).

The reorganisation of Auckland's councils incurred a number of costs including the on-going development of a new, integrated IT system, which has (not atypically for such projects³) seen considerable cost blow-outs and caused comment from the Auditor-General.

This section of the report, supplemented by the more detailed Appendix D, provides an integrated summary of council's financial situation based on the available evidence. The new council inherited the debts and assets of its legacy councils, including an Auckland-wide infrastructure deficit. While the council reports on cost savings as a result of the union (Auckland Council, 16 April 2014), residential rates have, nonetheless, risen faster than the rate of inflation. Understanding the council's financial position is complicated by whether or not to include CCOs, and a comparison with the legacy councils is underpinned with many assumptions as there is no counter-factual against which to compare the current situation. While legacy councils did prepare long term plans, we cannot assume these would have proceeded unaltered. Additionally, Auckland's growth in population is creating increasing pressure on services and infrastructure. With this in mind, some data in Appendix D is reported on a per capita basis, as well as overall.

The financial governance of the Auckland Council is determined by the governing body, within parameters set by legislation. As a unitary council, Auckland is responsible for all activities within the region including the forging of

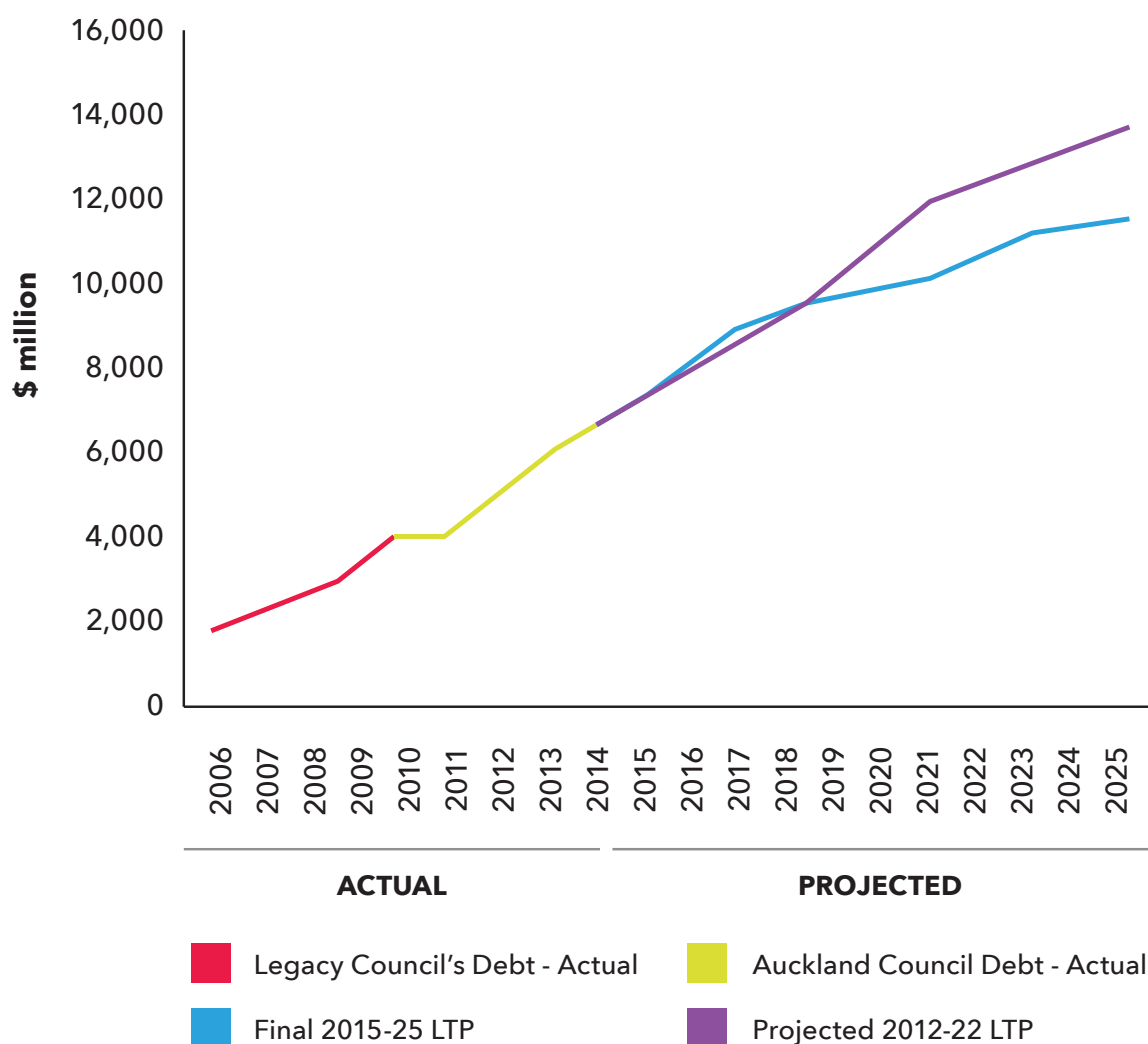
³See Gauld & Goldfinch, 2006.

an annual agreement with the 21 local boards. In the transition to a new council, the Auckland Transition Agency set the projected rate increase of 3.9 percent for 2011/2012 and it is from this year on that the financial results fully reflect the decisions of the new council.

One of the key issues identified in this report centres on rapid population growth and the costs involved as a consequence of this growth in construction and housing as well as the demand for a wide range of services. A key deficit inherited by the new council concerned the regional physical infrastructure and utilities, especially roads and public transport. Transport spending is budgeted around 33 percent of all Council operating expenditure (Auckland Council, 2015b) and council debt is growing due to expanding capital expenditure.

While debt is certainly higher than when the council was formed and is projected to rise further, it remains within prudent benchmarks, as reflected by the council's high credit rating. There is, however, limited room for the council to take on more debt than is currently planned. The higher debt levels will incur additional interest charges and there will be higher depreciation charges for the increase in the asset base.

Figure 5: Auckland Council group debt

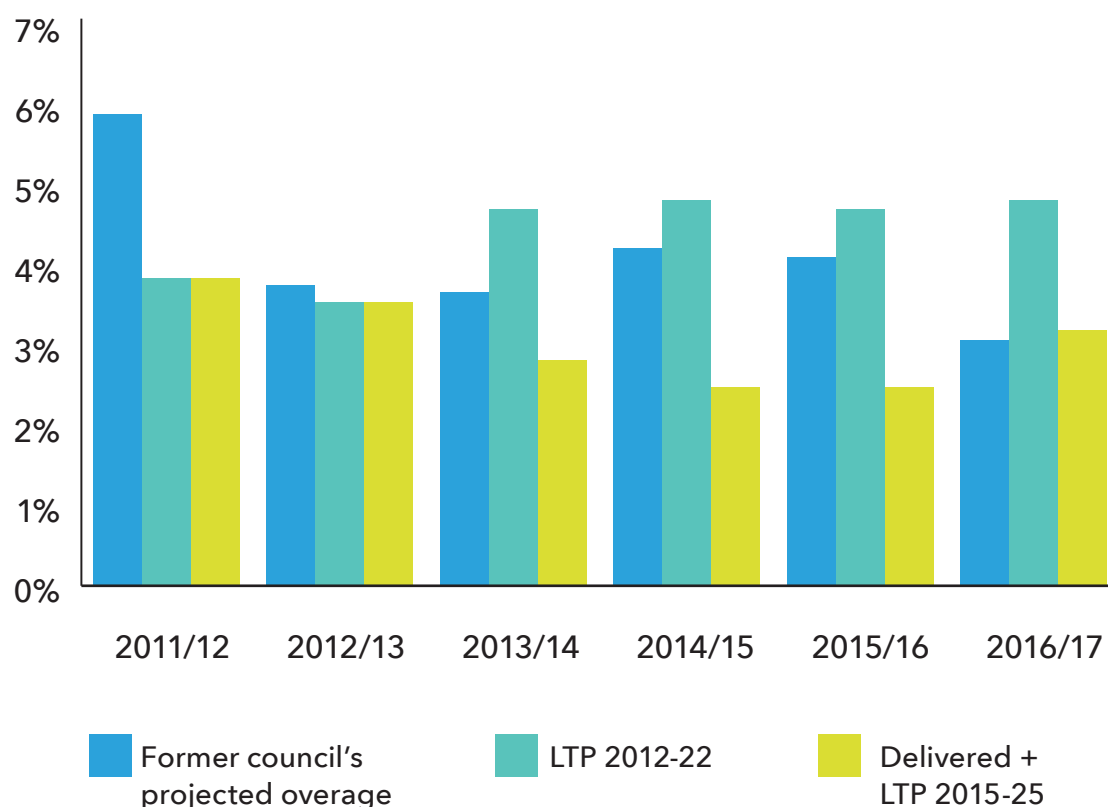


Source: Auckland Council

Staff numbers across the council group (including CCOs but excluding the Ports of Auckland, whose figures are unavailable for comparison) have risen since the ATA restructuring, but are still lower than for the combined legacy councils. Staff costs make up less than one quarter of total operating expenditure. Staffing costs are rising faster in CCOs (17.3 percent since 2011/12) than the core council (at 12.2 percent since 2011/12), notwithstanding staff reductions from Watercare. Staff numbers (FTEs) have also grown by around 9 percent across the council group (excluding the Ports of Auckland) since 2012 which may be regarded as relatively high, but less so when allowance is made for the population increase of 5 percent during that period.

In terms of revenue composition, 41 percent comes from rates. Figure 6 sets out increases in general rates from 2011/12 to 2016/17.

Figure 6: Increases in the General Rate (excluding interim transport levy)



Source: Auckland Council

Because of the introduction of a uniform rating system, increases have varied across the region with some paying higher increases than average and some paying lower. In general rates have increased by more than average in the northern and eastern suburbs and by less than this average in the western and southern suburbs. Rates in the former Rodney and Papakura areas have increased less than average, with Papakura showing an average reduction in rates.

Rates figures include 15 percent GST, which goes to central government, but do not include water and waste-water charges as these are made on a user-pays basis, nor do they include the interim transport levy or targeted

rates. The separate charging of water rates makes comparisons of Auckland Council rates with the rates of other territorial authorities difficult. The new council inherited a rates increase of more than 9 percent from the legacy councils for 2011/12, its first year of operation, which the ATA reduced to 3.9 percent.

We note that the Royal Commission did not envisage significant financial savings from the creation of a unified council. It is difficult to measure efficiency gains because of the need to determine the base against which the gains are measured. Efficiency gains may be a reduction in costs compared to the actual costs to deliver a service at current volume and quality levels. Given the different levels of service volume and quality between the legacy councils this creates significant data issues to be overcome. Or they may be based on comparison with budgeted levels yet to be achieved. For example a decision not to undertake a particular initiative or project may be a saving but it is not the same as an efficiency gain.

A clear distinction needs to be made between 'savings' which result from decisions to reduce services or to reduce proposed capital expenditures and 'efficiency gains' which result in delivering the same level and quality of service at reduced costs, through productivity gains and greater economy in purchasing. It appears that the use of the term savings in many Auckland Council documents refers to decisions not to undertake certain activities or projects, which may be a saving compared with previous budgets or plans, but are not an efficiency gain. This appears to be the basis of the claimed \$1.7 billion in efficiency savings stripped out of the council's budget when preparing the 2012 LTP and the further savings to \$2.74 billion in the 2015-2025 LTP, to reduce the proposed level of rates increases.

The ATA identified efficiency gains amounting to \$95 million but the extent to which these were implemented is not clear.

The council is moving to fully fund depreciation by 2025. Currently only 67 percent of depreciation is funded. Depreciation costs are higher than staffing costs, reflecting the council's large capital base of almost \$39b (30 June 2015).

Given population growth and other demands for increased services total council operational expenditure has grown relatively modestly over the past five years. It is a matter of judgment and opinion whether the level of rates increases are excessive or reasonable. They are well above the rate of inflation, but allowance needs to be made for Auckland's growth and the pressures this creates, as well as for addressing the infrastructure deficit. A notable feature is the increase in capital expenditures both since 2010 and projected for 2015-25. This will put pressure on rates through increased depreciation and through the council decision to fully fund depreciation by 2025.

Conclusion

This report sets out to answer the question, *Has the new council structure delivered on the aims of the reforms?*

The question is qualified by defining governance and applying this definition as one should to a public sector organisation because that is what the Auckland Council is - the regional government of Auckland. We had to exclude an assessment of the council administration. Although the administration of council is a key element both in the formulation of policy and in the delivery of services it was not possible to conduct a review that would do justice to the role and responsibilities of the council administration either within the timeframe allocated or the budget assigned for the review. The administration of council is an important element in the governance of Auckland given its constitutional responsibilities and its role in public sector governance. As illustrated in this report it is a role that distinguishes the council from private sector corporations and it therefore requires a review process that differs from the traditional accounting frameworks applied in the private sector.

In conducting this research on Auckland governance we wanted to respond to the two broad systemic problems identified by the Royal Commission: namely, that 'regional governance was weak and fragmented' and 'community engagement was poor'. In responding to the first of these themes the answer is clear: that regional governance is now much stronger and better coordinated. The building of a new council structure and establishing a strategic planning framework within the past 5 years has been a significant achievement. There are many successes: the Auckland Plan was adopted after 17 months, and the Auckland Unitary Plan took only 18 months to develop for notification and that was exceptional given the enormity of the task. The way in which the disparate council structures have been integrated into a coherent functioning administration speaks volumes of council management, human resource processes and the goodwill of staff working in uncertain and uncharted waters. To do this within a tight timeframe exceeds what has been achieved by comparable cities overseas and likewise it exceeds the expectations of many individuals and groups that made submissions to the Royal Commission some six or seven years ago.

As the new unified model beds itself in, the council has an emphasis towards making governance unified, service-delivery seamless, and a strong corporate push for the council group to act consistently. A neoliberal purchasing model with semi-autonomous CCOs seems to have given way to talk of partnership, democratic accountability, and strategic cohesion. This could be synonymous with conformity; it could also be beneficial in minimising role conflicts or duplication of effort.

There are some risks to regional governance, however, including the risk that CCOs operate as functional silos, undermining efforts to think and act holistically across council activities. This is particularly the case with Auckland Transport and Ports of Auckland Ltd which are further removed from council oversight than other CCOs, and whose scale and scope of operations are vital to the ongoing development of Auckland.

Another risk is the tension that exists with the local election of regional councillors to the governing body. While there are good reasons for this, and it has been mostly unproblematic to date, the demands of local representation has the potential to detract from the governing body's regional governance mandate as the recent Unitary Plan events demonstrate. On the other hand the previous model of representatives elected at-large which dominated Auckland City Council elections from 1931 on resulted in representatives being primarily drawn from the more affluent areas of the city and as reported in 1998 this was described as 'having a stranglehold on Auckland local body politics' (Neill, 2016). The shift to a ward system of representation therefore provided a foundation for the form of representation that has been implemented in the election of governing body councillors today.

The central government-Auckland Council relationship is a two-way street: it depends not only on the council and mayor, but on central government's genuine goodwill towards addressing Auckland's problems in a way that has the buy-in of Aucklanders themselves. The single council and mayor has made joint planning with central government easier, most obvious in the realm of the physical infrastructure and utilities, including transport and housing. But there is little evidence that the social deficit referred to in this report has been seriously addressed. To address the concerns first raised by Treasury in 2001 and cemented in the region by deep-seated inequalities between different socio-economic groups and communities will require the concerted efforts of both central and regional government.

Addressing the second systemic issue, engagement, has been less successful. There has been a significant engagement of business and professional expertise in the work of council (especially through CCOs) and that was the aim of those wanting to reform local and regional government as far back as the Metropolitan Auckland Project when the contribution of business and industry leaders was not always encouraged or appreciated. We consider engagement with the public to be problematic. While the council does have demographic and

sector group panels to provide input into council, engaging the public at-large remains an issue. The new larger council may be alienating for many of the public. It is interesting to note the results for 'residents who feel they can participate in local board decision making' is significantly higher for the small, geographically isolated and distinct communities of Great Barrier Island and Waiheke Island, than mainland Auckland.

While council provides ample staffing support and expertise to local boards, the part-time status of members and low profile and status of the boards hampers their ability to really explore the full extent of their powers. The concept of 'shared governance' goes some way to addressing the gap in representative governance, but increasing collaboration between the neighbourhood and the region remains a work in progress. The population demands of different neighbourhoods and communities across the region are increasing both in terms of population growth and in the pressures being faced by some sections of the community that have been highlighted in this report.

The government chose not to provide guaranteed Māori representation on the governing body. Whatever the merits of the Independent Māori Statutory Board that was subsequently established, it is an advisory board outside the council. Devised as a political compromise, the IMSB creates an anomaly whereby IMSB-appointed members of council committees sit alongside elected councillors.

The unification of Auckland's local government structures was necessary for the effective strategic planning and management of the region's rapid growth. The reform process set in place in 2010 has basically been a success. The fact that many Aucklanders have disagreements with council policy or process or with their rates bills does not mean that the unification itself was a bad idea. The fact that such a large group of organisations, including semi-autonomous CCOs, is itself sometimes fragmented and not always well coordinated should not come as a surprise, and does not constitute a compelling argument against the unification. It does, however, indicate reasons for ongoing refinement of the new model. Tensions between, say, a local board and the governing body, or between a CCO and a local board can be regarded as a healthy aspect of robust democratic debate (although sometimes they may also just be a result of poor communication). Given the actual public debates about certain CCOs, it is not entirely true to say that they have no democratic accountability. Even Ports of Auckland admitted that it should communicate more effectively with Aucklanders. The idea that Auckland would 'speak with one voice' does not mean that there should not be heated arguments among Aucklanders before that 'one voice' decides what to say.

One of the achievements of the Auckland Council during its first five years is the way in which it has set out to develop a vision for Auckland. The vision of 'the world's most liveable city' was first framed during the research conducted by Greg Clark in conjunction with the Metropolitan Auckland project and the citizens of Auckland. It was then articulated by the mayor and adopted by the governance board of the Auckland Council comprising the mayor and the elected councillors. Today it is identified in the strategic planning documents of the council as the type and form of urban centre that encouraged previous settlers to believe that Auckland was a great place to live, work and do business.

There is a danger in our view that the vision might be limited to a brand or a platitude rather than a statement of substance. For some residents the vision is a reality but for others as highlighted in this report Auckland is far from being the world's most liveable city.⁴

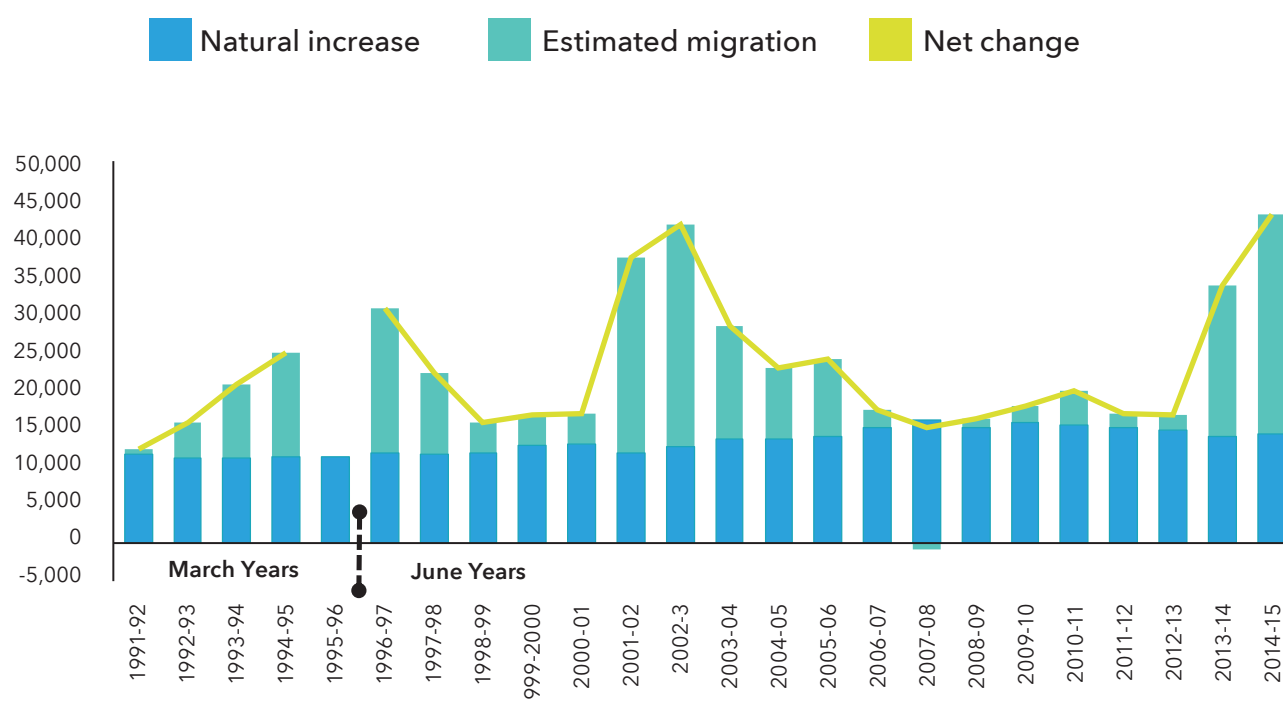
⁴The Mercer Quality of Life index frequently rates Auckland as one of the World's most livable cities. However, there are major limitations with surveys and rankings such as these in that they are based on a series of selective variables and the averaging of outcomes that exclude crucial questions relating to economic and political structures, with the focus on consensual outcomes and the exclusion of conflicts in general.

Appendix A: Changes in Auckland's population

Over the 24 years to June 2015, Auckland's population grew by 64 percent. However as Figure A1 indicates, growth is highly inconsistent year on year. It was extremely high between 2001 and 2006 and has been again since 2013. It was also relatively high across the mid- late-1990s. In each of these periods the main cause of growth was net migration. In other years there was relatively low growth, with the majority accounted for by natural increase (the excess of births over deaths).

While migration is popularly thought of as the main driver of Auckland's growth, over the 24 years shown on Figure A1, natural increase accounted for the slightly greater contribution (52 percent).⁵ It is the periodicity or volatility of the migration flows that tell the main story. Over the 1996-2001 period, Auckland experienced an estimated net migration gain of almost 42,000, the number more than doubling in the following period (2001-2006) to 89,059, but then reducing to just 9,139 during the period 2006-2011. Since then the four year period 2011-2015 has seen that number increase again to 52,261, the vast majority of it since 2013.

Figure A1: Population change by major component (net migration, natural increase), Auckland Region 1991-2015



*Changes in timing and method of estimating Resident Population between 1995 and 1996 mean that only natural increase can be shown for that year

Source: Compiled from Statistics New Zealand Data sets;

Table reference: VSB011AA, VSB016AA Last updated: 18 August 2014

Table reference: VSD008AA, VSD018AA; Last updated: 18 August 2014

Age Group and Sex, for the Census Night Population Count, 1986 and 1991

Infoshare, Table Reference: DPE051AA and DPE052AA, Last Updated 22 Oct 2013

Estimated Subnational Population (RC, TA) by Age and Sex at 30 June 1996, 2001 and 2006

(a) 1991-1995 Estimated Defacto; 1996-2013 Estimated Usually Resident Population (URP)

Based on 2013 boundaries

⁵ That said, a proportion of the natural increase is attributable to the births of migrants, so the split is plausibly around 50:50.

The breakdown of net migration into its overseas and internal components is not straightforward, even for Auckland. The data in Table A1 give an approximation of the overseas-internal split for the three most recent inter-censal periods, 1996-2001, 2001-2006 and 2008-2013, the latter period being out of sequence because of the delayed timing of the last census, and because the most rigorous migration composition data are those based on the Census question 'where did you live five years ago'? To these data are applied some additional estimation techniques, to apportion those who do not adequately state where they lived five years ago, and to derive a figure for those overseas at the time of the census. Note that these data cannot be disaggregated right up to 2015 because they are census-based.

As with overall growth, the data indicate that Auckland experiences considerable turbulence in terms of its overseas and internal migration. In both the earlier and latter periods 1996-2001 and 2008-2013 similar net gains from internal migration were experienced (+2,365 and 1,705), but vastly different contributions from net overseas migration. In the very high overall growth period 2001-2006 the net gain from overseas migration (+100,796) was 2.5 times that of the 1996-2001 period and 10 times that of the 2008-2013 period.

While Auckland thus experiences significant migration-driven growth, the ebbing and flowing of the migration wave is of 'shock' proportions and profoundly complicates the problem of accommodating—and anticipating—that growth. As evidenced in the media, this volatility regularly causes various agencies to question Statistics New Zealand's population projections, which periodically seem too low or too high in comparison to actual (estimated) growth. The issue is not if Auckland will get the projected number, but when. Consequently, anticipating and planning for substantial growth is critical, while at the same time recognising that its migration component will fluctuate up and down over time, sometimes wildly.

Table A1: Estimated Net Migration by major component (Overseas, Internal), Auckland Region 1996-2013

Auckland Region		Internal In Migrants	Internal Out Migrants	Estimated Internal Migration	Overseas Arrivals	Overseas Departures	Estimated Overseas Migration	Estimated Net Migration
	1996-2001	+74,085	-71,720	+2,365	+148,247	-108,734	+39,513	+41,878
	2001-2006	+68,003	-79,741	-11,737	+193,025	-92,228	+100,796	+89,059
	2008-2013	+66,645	-64,940	+1,705	+153,738	-143,921	+9,817	+11,522

Source: Jackson & Pawar (2013)/Statistics New Zealand various sources

Table A2: Components of Auckland region population change 1991-2015

Auckland Region		Births	Deaths	Estimated Resident Population	Natural Increase	Estimated Migration	Net Change
March Year	1991			953,980			
	1991-92	18,505	6,931	966,300	11,574	+746	+12,320
	1992-93	18,080	6,909	982,000	11,171	+4,529	+15,700
	1993-94	18,103	7,007	1,002,700	11,096	+9,604	+20,700
	1994-95	18,396	7,138	1,027,700	11,258	+13,742	+25,000
June Year	1995-96	18,504	7,221	1,116,000	11,283		
	1996-97	18,986	7,265	1,146,700	11,721	+18,979	+30,700
	1997-98	18,736	7,178	1,169,000	11,558	+10,742	+22,300
	1998-99	18,678	6,927	1,184,800	11,751	+4,049	+15,800
	1999-2000	19,901	7,179	1,201,500	12,722	+3,978	+16,700
	2000-01	19,588	6,718	1,218,400	12,870	+4,030	+16,900
	2001-02	18,897	7,177	1,255,800	11,720	+25,680	+37,400
	2002-03	19,817	7,120	1,297,600	12,697	+29,103	+41,800
	2003-04	20,789	7,168	1,326,000	13,621	+14,779	+28,400
	2004-05	20,832	7,181	1,348,900	13,651	+9,249	+22,900
	2005-06	20,906	6,954	1,373,000	13,952	+10,148	+24,100
	2006-07	22,172	7,129	1,390,400	15,043	+2,357	+17,400
	2007-08	23,419	7,378	1,405,500	16,041	-941	+15,100
	2008-09	22,366	7,283	1,421,700	15,083	+1,117	+16,200
	2009-10	23,279	7,434	1,439,600	15,845	+2,055	+17,900
	2010-11	22,799	7,350	1,459,600	15,449	+4,551	+20,000
	2011-12	22,820	7,715	1,476,500	15,105	+1,795	+16,900
	2012-13	22,313	7,617	1,493,200	14,696	+2,004	+16,700
	2013-14	21,786	7,768	1,526,900	14,018	+19,682	+33,700
	2014-15	22,351	8,131	1,569,900	14,220	+28,780	+43,000

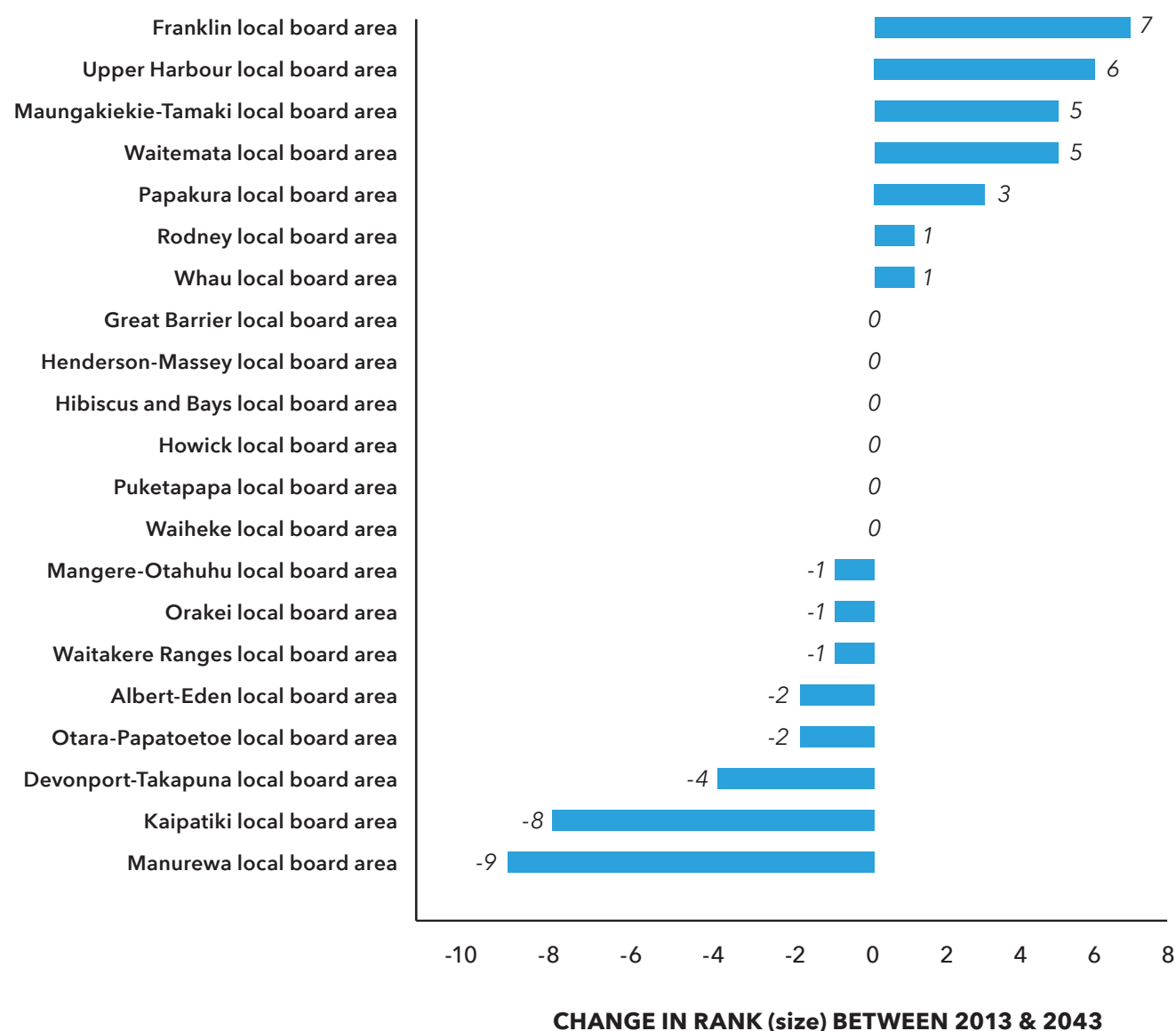
Appendix B: Proposed changes in Local Board populations

The two currently largest local board areas, Howick and Henderson-Massey, are projected to remain largest and second-largest in 2043, albeit Howick's share falling slightly and Henderson-Massey's rising. However the currently third-largest, Albert-Eden, is likely to fall to fifth largest, overtaken by Waitemata moving up from eighth to third, Hibiscus and Bays remaining at fourth. Other notable shifts are projected for Franklin, rising from thirteenth to sixth largest, and Manurewa and Kaipatiki falling respectively from sixth to fifteenth, and fifth to thirteenth.

Table B1: Projected local board change in population size and rank between 2013 and 2043

	Size		Projected change (%)	Rank (largest = 1)		Change in rank
	2013	2043		2013	2043	
Howick local board area	135,000	192,500	42.6	1	1	0
Henderson-Massey local board area	113,500	177,100	56.0	2	2	0
Albert-Eden local board area	100,000	137,300	37.3	3	5	-2
Hibiscus and Bays local board area	94,000	146,600	56.0	4	4	0
Kaipatiki local board area	87,000	106,300	22.2	5	13	-8
Manurewa local board area	87,000	97,500	12.1	6	15	-9
Orakei local board area	83,700	118,500	41.6	7	8	-1
Waitemata local board area	81,300	151,800	86.7	8	3	5
Otara-Papatoetoe local board area	80,300	109,100	35.9	9	11	-2
Whau local board area	76,700	118,500	54.5	10	9	1
Mangere-Otahuhu local board area	75,300	106,400	41.3	11	12	-1
Maungakiekie-Tamaki local board area	73,700	119,400	62.0	12	7	5
Franklin local board area	68,300	125,200	83.3	13	6	7
Devonport-Takapuna local board area	58,500	76,500	30.8	14	18	-4
Rodney local board area	57,300	99,300	73.3	15	14	1
Upper Harbour local board area	56,800	109,600	93.0	16	10	6
Puketapapa local board area	56,300	80,800	43.5	17	17	0
Waitakere Ranges local board area	50,700	62,800	23.9	18	19	-1
Papakura local board area	48,200	81,300	68.7	19	16	3
Waiheke local board area	8,630	11,800	36.7	20	20	0
Great Barrier local board area	950	1,010	6.3	21	21	0
Grand Total	1,493,180	2,229,310	49.3	--	--	--

Source: Jackson/Stats New Zealand (2015) Subnational population projections, by age and sex, 2013(base)-2043

Figure B1: Projected local board change in population size and rank between 2013 and 2043

Source: Jackson/Stats New Zealand (2015) *Subnational population projections, by age and sex, 2013(base)-2043*

The numerically-dominant Howick local board area provides a good example. In 2013 55 percent of the Howick population identified as European, 39 percent as Asian and just over 5 percent each as Māori and Pacific Island People. By 2038 the population of Howick is projected to be predominantly of Asian origin (51 percent) followed by European (39 percent), Māori 9 percent and Pacific People 8 percent. Henderson-Massey currently has a similar proportion identifying European to Howick, a lower proportion Asian (22 percent), almost treble the proportion identifying Māori and four times the proportion Pacific People. By 2038 the population of Henderson-Massey is likely to remain predominantly of European origin but at a greatly reduced margin (42 percent) closely followed by those of Asian origin (36 percent), while people identifying as Māori and Pacific People will account for around 18 and 24 percent respectively.

In total, 13 local board areas are projected to see the majority of their growth (more than 50 percent) from those identifying as Asian, five from those identifying as European, three from those identifying as Pacific People and two from those identifying as Māori. In five local board areas majority growth in the Asian population is projected to offset underlying decline in the absolute numbers in the European/Other ethnic group, with a reduction in the number of European/Other expected for two further local board areas, one where the majority of growth is projected to be from those of Pacific Island origin followed by Māori (Manurewa), and one where it is projected to be from those of Pacific Island origin followed by Asian (Otago-Papatoetoe).

Table B2: Projected local board change (number) by major ethnic group 2013-2038, and projected contribution to change (%)

Local Board Area	Projected Change in Number* 2013-2038					Projected Contribution to Change* (%)			
	European or other (incl. NZer)	Māori	Pacific	Asian	Total People (Headcount)	European or other (incl. NZer)	Māori	Pacific	Asian
Albert-Eden	5,800	4,360	240	23,800	32,500	17.8	13.4	0.7	73.2
Devonport-Takapuna	-300	1,660	1,730	13,100	15,800	-1.9	10.5	10.9	82.9
Franklin	34,000	9,130	4,670	8,980	47,900	71.0	19.1	9.7	18.7
Great Barrier	0	90	50	30	50	0.0	180.0	100.0	60.0
Henderson-Massey	6,300	10,650	17,900	35,000	53,400	11.8	19.9	33.5	65.5
Hibiscus and Bays	29,900	7,870	2,850	12,620	44,800	66.7	17.6	6.4	28.2
Howick	-3,000	8,740	7,500	41,200	49,800	-6.0	17.6	15.1	82.7
Kaipatiki	-7,900	1,550	3,350	24,800	16,700	-47.3	9.3	20.1	148.5
Mangere-Otahuhu	-3,650	3,150	22,300	10,150	26,700	-13.7	11.8	83.5	38.0
Manurewa	-15,900	9,800	31,400	-500	10,600	-150.0	92.5	296.2	-4.7
Maungakiekie-Tamaki	8,700	6,250	8,250	23,700	38,400	22.7	16.3	21.5	61.7
Orakei	11,400	4,390	1,670	17,750	30,400	37.5	14.4	5.5	58.4
Otago-Papatoetoe	-10,170	1,000	13,000	25,500	24,700	-41.2	4.0	52.6	103.2
Papakura	4,500	11,450	11,580	12,610	27,500	16.4	41.6	42.1	45.9
Puketapapa	-5,800	2,280	5,700	20,500	21,300	-27.2	10.7	26.8	96.2
Rodney	24,500	4,570	2,910	9,700	35,500	69.0	12.9	8.2	27.3
Upper Harbour	14,400	3,320	1,900	26,400	44,800	32.1	7.4	4.2	58.9
Waiheke	2,220	540	400	350	2,720	81.6	19.9	14.7	12.9
Waitākere Ranges	6,700	4,150	3,770	5,380	11,000	60.9	37.7	34.3	48.9
Waitemata	18,300	2,190	-1,090	36,700	59,900	30.6	3.7	-1.8	61.3
Whau	0	4,080	6,150	32,300	35,300	0.0	11.6	17.4	91.5
Auckland	120,100	101,100	146,100	380,100	629,800	19.1	16.1	23.2	60.4
Total New Zealand	294,500	381,700	254,400	606,600	1,057,000	27.9	36.1	24.1	57.4

Source: Jackson/Stats NZ (2015) Subnational ethnic population projections, characteristics, 2013(base)-2038
 *Enumeration is based on multiple ethnic group responses, with the result that numbers and percentages sum to more than 100% of the underlying headcount.

These trends have implications for tangata whenua and Māori representation. While Auckland's Māori population is projected to grow by almost 60 percent by 2038 and the current numerical domination by the European-origin population to decline, from 5.2:1 (European: Māori) to around 3.7:1, the Asian and Pacific Island populations are, as indicated above, projected to rise vis-à-vis Māori. Māori in Auckland are currently outnumbered by 2.1:1 by Asian and 1.3:1 by Pacific Island people. These ratios are projected to increase to 2.7:1 and 1.4: 1 by 2038, and, as indicated, they differ markedly at local board area. These population movements suggest that unless a compelling public case can be made for separate Māori wards, the likelihood of gaining them, via public referenda, is low and will likely decrease over time.

Appendix C: Auckland Council engagement surveys

Table C1: Level of service: Ensure the community can participate and contribute to local board decision-making

Local Board Area	Performance measure	2015 actual	2015 target	2014 actual
Albert-Eden	% residents who feel they can participate in local board decision-making	24%	35%	25%
	% Māori residents who feel they can participate in local board decision-making	44%	35%	14%
Devonport-Takapuna	% residents who feel they can participate in local board decision-making	19%	50%	22%
	% Māori residents who feel they can participate in local board decision-making	9%	50%	22%
Franklin	% residents who feel they can participate in local board decision-making	24%	50%	28%
	% Māori residents who feel they can participate in local board decision-making	30%	50%	22%
Great Barrier	% residents who feel they can participate in local board decision-making	67%	60%	65%
	% Māori residents who feel they can participate in local board decision-making	72%	74%	83%
Henderson-Massey	% residents who feel they can participate in local board decision-making	24%	50%	24%
	% Māori residents who feel they can participate in local board decision-making	27%	50%	20%
Hibiscus and Bays	% residents who feel they can participate in local board decision-making	26%	50%	22%
	% Māori residents who feel they can participate in local board decision-making	23%	50%	13%
Howick	% residents who feel they can participate in local board decision-making	24%	50%	30%
	% Māori residents who feel they can participate in local board decision-making	8%	50%	43%
Kaipatiki	% residents who feel they can participate in local board decision-making	29%	50%	32%
	% Māori residents who feel they can participate in local board decision-making	37%	50%	14%
Mangere-Otahuhu	% residents who feel they can participate in local board decision-making	33%	50%	22%
	% Māori residents who feel they can participate in local board decision-making	26%	50%	24%
Manurewa	% residents who feel they can participate in local board decision-making	29%	50%	22%
	% Māori residents who feel they can participate in local board decision-making	34%	50%	23%
Maungakiekie-Tamaki	% residents who feel they can participate in local board decision-making	31%	50%	17%
	% Māori residents who feel they can participate in local board decision-making	41%	50%	19%
Orakei	% residents who feel they can participate in local board decision-making	21%	40%	27%
	% Māori residents who feel they can participate in local board decision-making	7% ⁽¹⁾	40%	11%
Otara-Papatoetoe	% residents who feel they can participate in local board decision-making	27%	50%	33%
	% Māori residents who feel they can participate in local board decision-making	16%	50%	25%
Papakura	% residents who feel they can participate in local board decision-making	21%	50%	28%
	% Māori residents who feel they can participate in local board decision-making	8%	50%	11%
Puketapapa	% residents who feel they can participate in local board decision-making	30%	50%	34%
	% Māori residents who feel they can participate in local board decision-making	20%	50%	8%

Rodney	% residents who feel they can participate in local board decision-making	23%	50%	20%
	% Māori residents who feel they can participate in local board decision-making	6%	50%	7%
Upper Harbour	% residents who feel they can participate in local board decision-making	17%	25%	33%
	% Māori residents who feel they can participate in local board decision-making	27%	62%	35%
Waiheke	% residents who feel they can participate in local board decision-making	53%	50%	46%
	% Māori residents who feel they can participate in local board decision-making	61%	50%	20%
Waitākere Ranges	% residents who feel they can participate in local board decision-making	20%	50%	28%
	% Māori residents who feel they can participate in local board decision-making	33%	50%	20%
Waitemata	% residents who feel they can participate in local board decision-making	24%	50%	32%
	% Māori residents who feel they can participate in local board decision-making	24%	50%	12%
Whau	% residents who feel they can participate in local board decision-making	26%	50%	28%
	% Māori residents who feel they can participate in local board decision-making	44%	50%	15%

Note: 1. There was a small sample size of ten residents who identified themselves as Māori; the results here are indicative only and should be read with caution given this small sample size.

Table C2: Level of service: Ensure the community can participate and contribute to governing body decision-making

Level of service	Performance measure	2015 actual	2015 target	2014 actual
Ensure the community can participate and contribute to governing body decision-making	% residents who feel they can participate in local board decision-making	21%	50%	22%
	% Māori residents who feel they can participate in local board decision-making	18%	50%	19%

Source: Auckland Council

Appendix D: Auckland Council finances

i. INTRODUCTION

This analysis seeks to determine the financial impact of the establishment of the Auckland Council which came into being on 1 November, 2010. Financial impact covers changes in the level and composition of revenues, changes in the level and composition of expenditures, and changes in financial position as reflected in debt and asset levels. The burden of property rates is clearly a major aspect of this analysis, but not the only aspect.

Given a lack of data, only a limited attempt is made to analyse changes in service delivery, which both drive and are reflected in changes in revenues and expenditures. No attempt is made to evaluate the appropriateness of decisions the council has made on its revenues and expenditures nor of the financial policies it has adopted. Material for this Appendix has been drawn from Auckland Council reports, plans and financial statements.

In determining the impact four distinct periods of time need to be analysed:

- The position of the eight legacy councils (including the Auckland Regional Council) at the time of the creation of the Super city and their forecast levels and composition of revenues and expenditures and financial position as set out in their Long Term Community Council Plans (LTCCPs). This can be described as the 'counter-factual', that is what may have been expected to happen in the absence of the creation of the Auckland Council.
- The operations of the Auckland Transition Agency (ATA) during the transition period of 18 months from the Government's decision to establish the Auckland Council in May 2009 until the formal commencement of the Auckland Council in November 2010.
- The operations of the unified council from its inception on 1 November, 2010 until 30 June 2015, the most recent date for which published and detailed financial information is available.
- The forecast financial information contained in the Auckland Council's Ten Year Plan and Budget 2015-2025 (LTP) adopted by the Council in 2015. The issue of where the new council appears to be headed in financial terms is a key result of its creation and the work and decisions of the Transition Agency and the two Auckland councils elected in 2010 and 2013.

As is well known these issues have been both clouded and informed by political rhetoric both before and after the formation of the unified council. The Royal Commission did not recommend the new unitary structure primarily as a means of reducing costs and the rates burden – its key argument focussed on effectiveness of a unified regional decision-making body with strong leadership. It did however note that many submitters raised the expectation that a new structure would lower costs.

The Government's response to the Royal Commission report, *Making Auckland Greater* referred only to predicting the new council would result in a 'more efficient use of public resources' which would result in residents and ratepayers getting 'better value for their money'. The then Minister for Local Government Rodney Hide later separately commented that the new council would see cost savings, which would keep rates down.

Since then there has been considerable debate on Auckland Council finances, partly led by the New Zealand Herald which in 2014 suggested that the city was in 'financial crisis' and was in a 'deep financial hole'. This debate was reinforced by ratepayer concerns about increasing rate levels and the public debate about the financial proposals in the Council's 10 Year Plan.

This report is an attempt at an evidence-based analysis of the situation.

ii. FINANCIAL GOVERNANCE

Governance arrangements are simple and clear. Only the governing body of the Auckland Council, that is the mayor plus the 20 elected councillors, may adopt the budget and the annual and ten year plans and set the level of rates. The Local Government (Auckland Council) Act 2009 provides for the mayor to develop and propose budgets and plans for the governing body's consideration. All council staff (except for the Ports of Auckland) are employed by the Auckland Council.

Auckland Council is a unitary council and is responsible for all defined local/regional activities within its area. The 21 local boards have some funding available to them, but this is governed by an annual agreement between the governing body and the local board which set out local activities, services and level of service to be provided over the coming year. These agreements are included in the council's annual plan.

iii. THE LEGACY COUNCILS: THE COUNTER-FACTUAL

This is the most difficult area in terms of data. The seven legacy councils and the Auckland Regional Council were required to prepare LTCCPs for the period. These LTCCPs were reviewed by the Auditor-General in terms of their reasonableness, but there is no assurance that these plans would have been implemented.

A 'fact sheet' issued by the Auckland Council in 2014 states that:

- The new council inherited a rates increase from the legacy councils of more than 9 percent in 2010/11, its first year of operation;
- Staff numbers of the legacy councils (excluding Ports of Auckland) were 9,430 FTEs. Auckland Council FTEs have been and are below this figure for each of the 5 years since its creation (Auckland Council, August 2014).

Changes in staff numbers of the Auckland Council are further analysed below in Section xi.

The 'inherited' rates increases are projected increases set out in each of the previous council's 10 year LTCCP. It is of course possible that they would not have been fully implemented.

At this time (February 2016) Auckland Council states that it is undertaking further analysis to determine this impact but the work remains work in progress and is not available for this review.

iv. THE AUCKLAND TRANSITION AGENCY (ATA)

The agency was created by the government to implement its decisions on the creation of the new council and to put in place the arrangements necessary for the new council to operate from 1 November, 2010. ATA's operations ran from May 2009 until the establishment of the Council on 1 November 2010, a period of around 18 months.

The ATA's work included the following:

- Determining and putting in place an interim organisational structure for the new council, including the initial CCOs;
- Determining interim required staffing numbers and level and type of services and appointing key personnel for the new Council administration;
- Developing interim financial policies (as set out in the LGA) for the new council;
- Preparing a council budget for the period 1 November 2010 to 30 June 2011;
- Preparing the new council's first planning document; and
- Designing a new uniform rating system for consideration and adoption by the new council.

The Transition Agency presented the new Auckland Council with a projected rate increase of 3.9 percent for 2011/2012 representing a net reduction of 2.1 percent from the average increase projected by the former councils. The first planning document (of six volumes) completed in October 2010 provided activity, financial and performance information for the period 1 November 2010 to 30 June 2019. It also served as an annual plan for the council's first eight months (1 November 2010 through to 30 June 2011), as well as its Long-Term Plan for the

period 1 November 2010 through to 30 June 2012. The Auditor-General provided an unqualified audit opinion on the information contained in the planning document.

In carrying out this work the ATA states that it identified and implemented a number of efficiency gains which were included in the plan. ATA's work was analysed at a high level by the consulting firm Taylor Duignan Barry, which confirmed \$95 million of savings to be realised by 2012/2013 and further efficiencies which could be pursued by the new council.

The development of an organisational structure for the new council and associated entities, and the transition of staff into that new structure resulted in many changes for the existing staff of the legacy councils.

Auckland Council needed to develop its own financial policies and strategy to replace the interim financial prepared by the ATA and to develop its own rating policies and mechanisms. The Auckland Council Planning Document was completed by 31 October 2010 and included an efficiency target of \$47.7 million.

The ATA report also states that the price of drinking water delivered by Watercare in metropolitan Auckland would be lower by an average of 20 percent from 1 July 2011 as part of its 2012-2022 long-term plan. Water charges are further discussed below in Section ix.

v. THE AUCKLAND COUNCIL 2010 -2015

The council commenced operations on 1 November 2010. As mentioned above the rates and budget for 2010/11 had already been determined by the ATA. The council was required to prepare an annual plan by 30 June 2011 and an LTP by 30 June 2012. It was also required to prepare its own financial policies to replace the interim policies determined by the ATA and to prepare rating policies and mechanisms to apply from 1 July 2012 as part of its 2012-2022 LTP. This was extensive work to be undertaken within a tight time frame and in parallel with other major tasks such as commencing the development of a unitary plan.

It is only beginning with the 2011/12 year that the council's financial results and position fully reflect decisions of the new council.

In analysing Auckland Council finances it is necessary to firstly define the scope of 'council'. The council financial reports cover both the 'full' council which includes CCOs and the 'parent' council. Clearly the consolidated financial results and position are of prime importance. However the special position of Ports of Auckland (POA) which is a company fully owned by Auckland Council but not formally a CCO needs to be recognised. In view of its separate commercial status it is excluded from the analysis which follows. Watercare Services is a CCO generating its own revenue through user charges which can be regarded as a surrogate for rates, as in Auckland, unlike other New Zealand local government units, water and waste-water operations are operated on a fully commercial user pays basis rather than being funded from rates. Watercare is therefore included in this analysis under a separate section below which discusses its finances.

A key issue for the Auckland Council has been and will be meeting the problems of rapid population growth, expansion of construction and housing, and the demand for additional services all this creates. Since 2010 the population of Auckland has increased by around 105,000 or around 6 percent and is further forecast to increase to around 2.2 million by 2045. The LTP estimates a population increase of 237,000 or about 16 percent during the 10 year period of the LTP to 2025, requiring 109,000 new dwellings and 4.3 million additional square metres of business space.

This growth needs to be recognised in analysing the absolute size and increase of council revenues, expenditure, assets and debt. Therefore where available some data is expressed in per capita as well as absolute terms.

A further issue is the infrastructure deficit inherited by the new council, particularly in the area of transport, both roads and public transport. It is difficult to define such a deficit or to quantify it and this does not appear to have been systematically done. However, there seems to be agreement at both the council and government level that it does exist, and is a legacy inherited from the previous governance arrangements. It is partly reflected in the significant increases in capital expenditure and debt provided for in the LTP and is more immediately reflected in the interim transport levy on rates for the three years 2015/16 to 2017/18.

vi. SUMMARY FINANCIAL INFORMATION - REVENUE, EXPENDITURE AND FINANCIAL BALANCE

Table D1 summarises Auckland Council's Group revenues and expenditures and financial balances for the four full financial years for which it has been operating.

Table D1: Summary of Auckland Council revenues and expenditures 2011/12 to 2014/15

\$000	2011/12	2012/13	2013/14	2014/15
Rates	1,373	1,337	1,395	1,458
Other operating revenue	1,442	1,725	1,888	2,100
Total	2,815	3,062	3,283	3,558
Staff costs	655	693	730	792
Other operating	1,406	1,297	1,294	1,486 ⁽⁶⁾
Core expenditure	2,061	1,990	2,024	2,278
Depreciation	625	681	737	778
Finance costs	290	327	372	422
Total expenditure	2,976	2,998	3,133	3,478
Surplus/deficit before gains/losses	(161)	64	150	80

Source: Auckland Council annual reports

⁶Includes an additional \$106 million allocated to the provision for weather tightness liabilities.

The LGA requires all councils to ensure operating revenues are at least equal to operating expenditures, including depreciation, unless the council determines that it is prudent to do otherwise. The Auditor-General will comment in any cases where she perceives a council to be operating imprudently.

This requirement is repeated in the Local Government (Financial Prudence and Reporting) Regulations 2014. The council's 2014/15 Annual Report indicates that the council met this 'balanced budget' benchmark in all 4 full years of its operations, thus generating an operating surplus. The ratio of revenue to operating expenses was 108% in 2014/15, 110% in 2013/14, 113% in 2012/13 and 106% in 2011/12 – with anything less than 100 percent meaning the benchmark is not met.

This operating surplus, together with the non-cash expenditure item for depreciation which is included in costs for the purposes of striking the rates, provides cash which is used to partly fund capital expenditures, with the balance coming from development contributions and from borrowings (debt).

vii. REVENUE COMPOSITION

Table D1 in Section vi above summarises revenues over the five years of the Council.

Total Council revenue in 2014/15 was \$3.558 billion comprised as follows in Table D2.

Table D2: Total Council Revenue 2014/15

Source	\$ billion
Rates	1.458
Fees and user charges	1.030
Government grants and subsidies (mainly for transport)	0.425
Development and financial contributions	0.107
Other revenue	0.538

Rates thus comprise around 41 percent of Council revenues. Of the fees and user charges Watercare charges comprise some \$427 million. 'Other revenue' includes the return on the council's investments in Ports of Auckland and Auckland Airport and other smaller investments, which totalled \$ 98 million in 2014/15 and \$103 million in 2013/14. This is a relatively small component of total revenues.

viii. RATES INCREASES

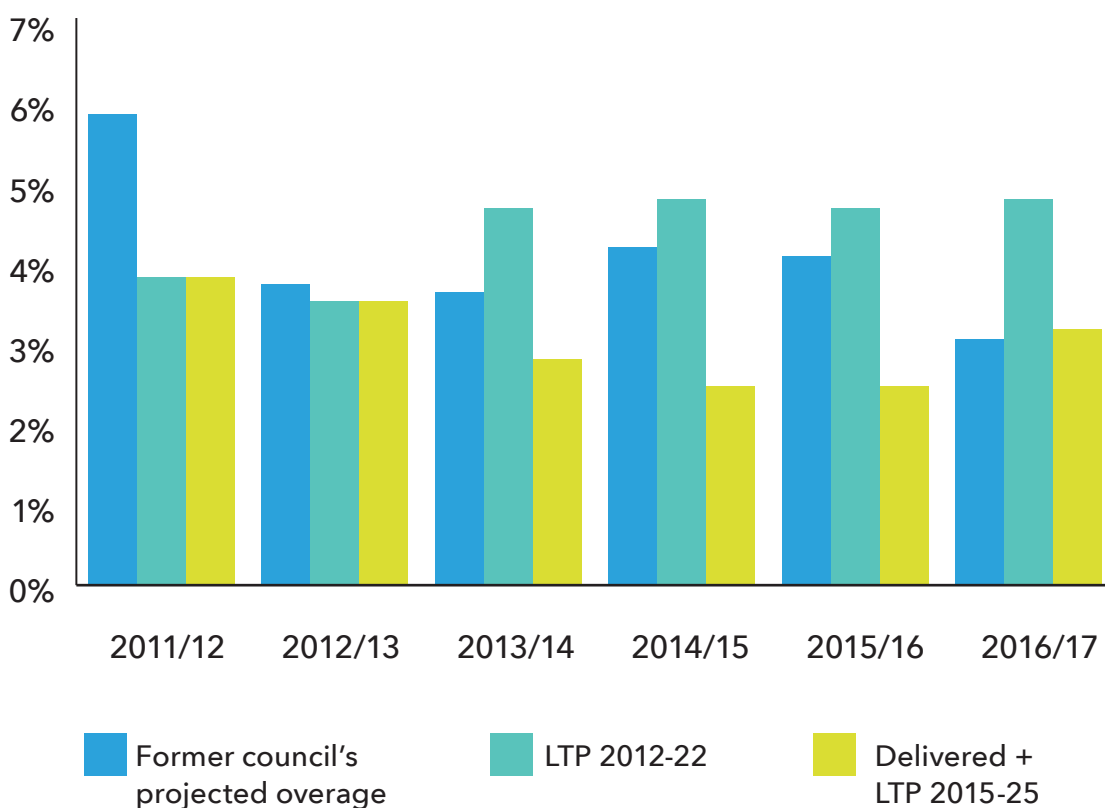
The level of increases in average rates has been as follows in Table D3.

Table D3: Percent average rate rises 2010/11 to 2014/15

Year	Per cent rise
2010/11	6 (inherited from ATA)
2011/12	3.9
2012/13	3.6
2013/14	2.9
2014/15	2.5

Figure D1 sets out the general rates increase, excluding the interim transport levy. The forecast rate increases under the combined legacy council LTPs (based on their 10 year Long-Term Council Community Plans before their abolition) compared to the actuals achieved by Auckland Council are shown below.

Figure D1: Increases in the General Rate (excluding interim transport levy)



Source: Auckland Council

The forecast rates increases in the LTP are set out in the council's financial strategy. For 2015/16, the first year of the ten year budget or LTP the increase is 2.5 percent. This increase comprises 4.2 percent average increase for residential ratepayers, 1.4 percent increase for business ratepayers and a 9.7 percent decrease for farm/lifestyle block ratepayers.

For the other years of the LTP the proposed increases are 3.2 percent (2016/17) and 3.5 percent (2017/18 to 2019/20).

In addition for the three years 2015/16 to 2018/19 the targeted transport interim rate for the three years 2014/15 to 2018/19 will provide an additional \$186 million of funds for transport investment. This results in overall rate increases of 6.9 percent in 2015/16.

However it should be noted that rates increases can be measured in different ways and it is important to specify in which way the increase has been measured. The measures may be based on:

- The total amount of rates planned to be collected;
- Rates per rateable property - also divided into commercial and residential ratepayers;
- Rates per capita;
- Rates including or excluding user charges such as water charges, which can be regarded as a 'surrogate' rate. Thus Watercare charges and the water charges under the legacy council arrangements should desirably be included in any analysis of rates increase.

The increases which form the basis of the Auckland Council's financial targets are based on the average per rateable property including GST and do not include water charges, which are governed by a separate target as set out in Section ix.

Given the move to the uniform rating system now in place, which is based on capital value, actual rates increases have varied significantly between properties, with some paying much higher increases than the average and some paying lower, in some cases with reductions. In general rates have increased by more than average in the northern and eastern suburbs and by less than this average in the western and southern suburbs. Rates in the former Rodney and Papakura council areas have increased by less than the average, with Papakura showing an average reduction in rates.

Some areas are also affected by new targeted rates, although overall these are not large, at around \$100 million per annum. They include a targeted rate for free adult swimming pool entry in the former Manukau City area, some local business improvement rates and some local wastewater scheme rates.

A further issue to note is that given that rates are subject to GST at 15 percent only 87 percent of rates as being raised for council purposes with the balance being paid to central government, and that of any actual rates increases 15 percent is due to the imposition of GST.

The rates differential applied to the business sector varied significantly between the legacy councils. The Auckland Council business differential in place for 2015/16 averages 2.76 times the residential rate with the council having announced its intention to reduce this differential over time. However it is understood this policy is now being reconsidered.

The Local Government (Financial Prudence and Reporting) Regulations also require councils to report against two rates affordability benchmarks. The first measures the extent to which actual rates collected is less than or equal to the quantified limit on rates set by each council in its financial strategy and LTP and the second measures the extent to which actual rates increases (how measured) are in accord with the limits on rates increases established in each council's financial strategy and LTP.

Auckland Council has met both benchmarks for the three years since the Regulations became operable (for example its self-established limit on average rates has been set at 4.9 percent). However as these benchmarks are measured against limits set by the council itself their relevance is questionable.

The Auckland Council has provided a detailed analysis of actual and projected rates increase as set out in Appendix E. It can be noted that the summary information is for general rates including the interim transport levy and excluding targeted rates. The starting point is 2011/12, the first full financial year for the new Auckland Council.

This rich information can be mined in detail but in summary the information is as follows:

- Total general rates revenue has increased by 22 percent over the five years 2011/12 to 2015/16 and is forecast to increase by a further 52 percent over the 10 year plan;
- Average rates per capita increased by 16 percent over the five year period 2011/12 to 2015/16 and are forecast to increase by a further 38 percent over the 10 year plan;
- The business sector's share of total rates declined slightly over the five year period between 2011/12 and 2015/16 from 33 percent to 32 percent, and based on current policies on the business differential will decline to 29 percent by 2025; and
- Average business rates increased by 12 percent over the 5 year period 2011/12 to 2015/16 and are forecast to increase by 21 percent over the 10 year plan.

Whether these increases are excessive or reasonable is a matter of opinion or judgement, based on Auckland's growth pressures and services delivered, and the need to overcome Auckland's infrastructure deficit. They can be benchmarked against other New Zealand councils but the uniqueness of Auckland's growth pressures limits the value of such comparisons. Clearly the increases are well above the rate of inflation.

ix. WATER CHARGES

The establishment of the Auckland Council saw a substantial change in arrangements for the provision of water and waste water services. From being a supplier only of bulk water (all seven legacy councils had their separate water retailing arrangements, but Franklin did not receive bulk water through Watercare) and managing waste water disposal for all but two of the legacy councils (North Shore and Rodney operated their own waste water systems), Watercare now provides an integrated water and waste water system for the whole city with a unified tariff structure, with the exception of Papakura which continues its previous private contractual arrangement. However storm-water management remains a direct council responsibility.

The new tariff structure reflects relatively modest increase in both water and wastewater charges. Watercare states this reflects a reduction of \$90 million in previously programmed capital expenditure as well as staffing reductions from 1100 staff in 2010 to 600 in 2012. Its website refers to 'regional cost efficiencies' of \$100 million which enabled it to reduce retail water charges from 1 July 2011 to a level it states is 30 percent less than they would have otherwise been. However it should be noted that actual water and waste-water charges have

increased since 2011/12, although it appears that in the former Rodney Council area there has been an actual reduction in average water charges per property.

Watercare also has a legislative requirement to be a minimum cost operator. Curiously, its Statement of Intent 2015 – 2018 with Auckland Council says nothing about tariff levels.

Information supplied by Watercare indicates that the average water charge for domestic consumers has increased from \$782 to \$850 over the five years 2011/12 to 2015/16, an increase of just under 9 percent. Watercare states that calculation of average business water charges is not useful because of the large range of volumes used, with 10 percent of customers accounting for 65 percent of volume.

The council's financial strategy provides for water charges to increase by 2.5 percent for the two years 2014/15 and 2015/16 and thereafter by 3.6 percent per annum.

x. OPERATING EXPENDITURE - LEVEL AND COMPOSITION

Table D4 sets out operating expenditures by council's themes or functional areas. The figures are the percent of rates that go to each are; note that 33 percent rates revenue is devoted to transport.

Table D4: Where rates are spent

Area of spending	Per cent of rates dollar spent in area
Governance	4%
Corporate Support	2%
Planning	5%
Economic Development	6%
Built and Natural Environment	8%
Solid Waste Management	1%
Storm-water and Flood Protection	5%
Transport	33%
Community (Sport, Leisure, Culture)	10%
Lifestyle and Culture	26%

Source: Auckland Council 2015a, p. 67.

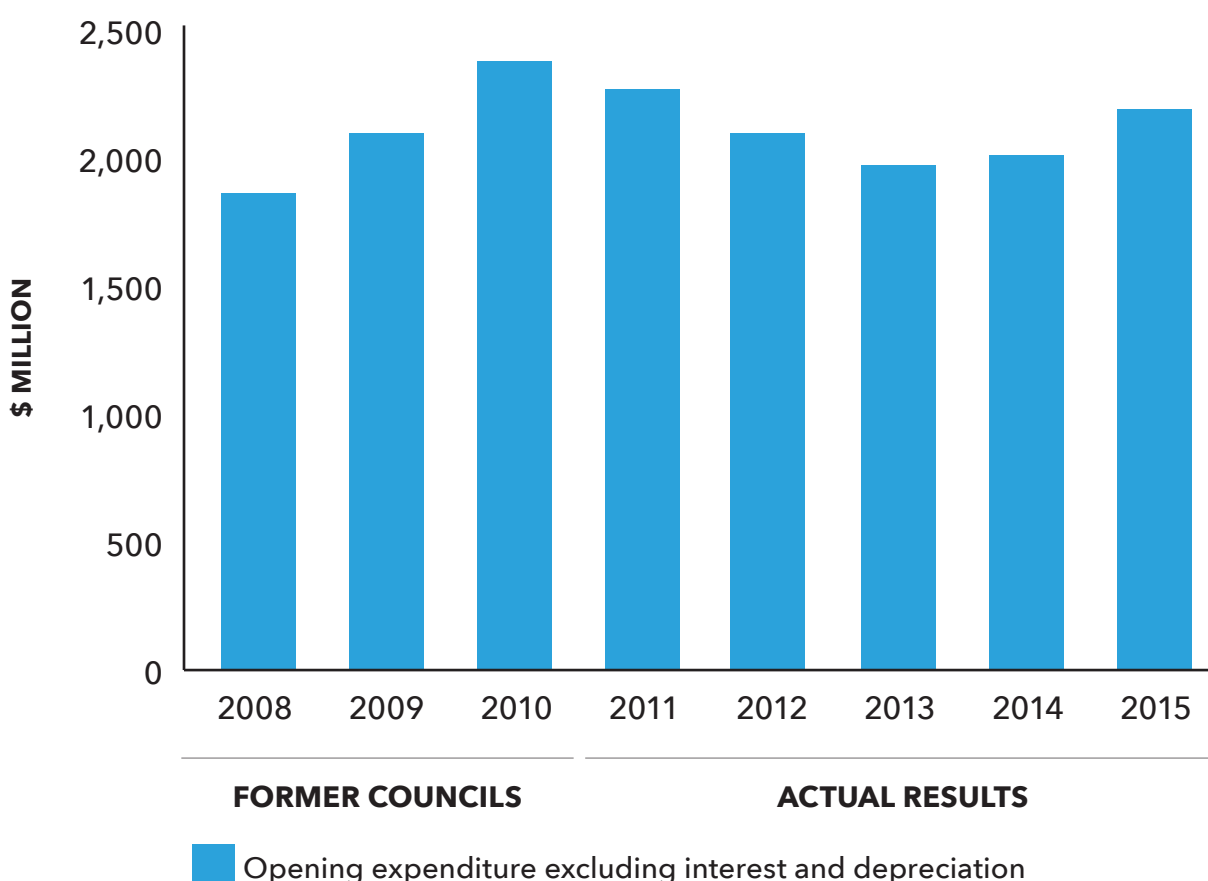
Table D1 in Section vi above set out operating expenditures based on major components or depreciation. 'Core' expenditures exclude operating costs which relate to the level of fixed assets and which are increased by ongoing capital expenditures. It can be seen that staffing costs are less than one quarter of total operating expenditures. The size of the depreciation funding cost is noteworthy, being more than staffing costs and reflecting the council's large capital assets base of almost \$39 billion at 30 June, 2015. This charge represents only about two thirds of fully funding depreciation on these assets. It will thus increase as the council implements its financial policy of moving to fully fund depreciation by the end of the current LTP in 2025.

Essential services benchmark; this measures the extent to which capital expenditure on network services equals or is greater to depreciation on network services assets.

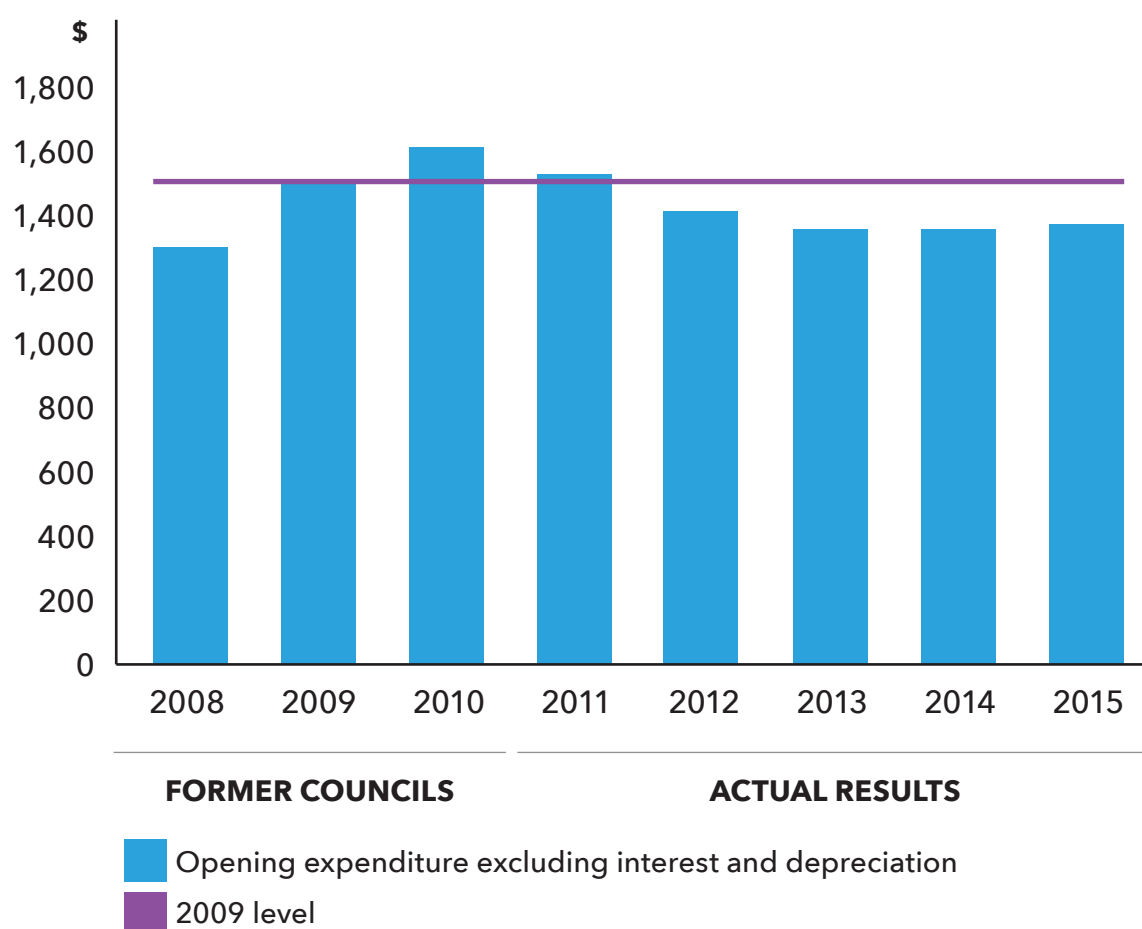
Operations control benchmark; this measures the extent to which net cash flow from operations is consistent with planned net cash flow.

Figures D2 and D3 set out core council expenditure (operating expenditures excluding interest charges and depreciation) both in total and on a per capita basis. It seems noteworthy that core council expenditure has been relatively static since 2011/12, and indeed has declined compared to that of the legacy councils. It has also declined on a per capita basis.

Figure D2: Core council expenditure 2008-2015



Source: Auckland Council

Figure D3: Core council expenditure per capita 2008-2015

Source: Auckland Council

xi. STAFF COSTS AND NUMBERS

Table D5 sets out the staffing expenditures of the council (termed employee benefits in the financial statements) over the previous four years.

Table D5: Staffing expenditures in \$million 2011/12 to 2014/15

Year	Council	Council Group
2011/12	429	655
2012/13	454	693
2013/14	462	730
2014/15	489	792

It can be seen that staffing expenditures are increasing faster in CCOs than in the council per se, notwithstanding staff reductions in Watercare discussed in Section ix above.

Table D6 sets out staffing numbers based on FTEs and is broken down in three ways: Auckland Council, Auckland Council Group including CCOs but excluding Ports of Auckland (POA), and the Council Group including POA.

Table D6 Staffing FTEs

	Auckland Council FTEs (excl. CCOs and POA)	Auckland Council FTEs	
		Excluding POA	Including POA
Legacy Councils		9,430	NA
ATA Design 1 July 2010		7,907	NA
ATA Design 1 November 2012		8,207	NA
30 June 2011	5,163	7,200	NA
30 June 2012	5,722	8,669	9,011
30 June 2013	5,956	8,683	9,206
30 June 2014	5,990	8,901	9,470
30 June 2015	6,088	9,154	9,678

Source: Auckland Council (August 2014) and Auckland Council Annual Reports

It can be seen that since the ATA design of 1 November 2012, total FTEs have grown across the Council Group by somewhat over 8 percent which is somewhat high for a period of less than 3 years, but less so when allowing for Auckland's growth in population and services. However it is significantly below the total FTE levels of the previous councils. However the FTEs of the council only (excluding CCOs) have increased by a relatively high 18 percent. The big increase in the 2011/12 requires further explanation and analysis.

The LTP does not contain the number of forecast FTEs – only forecast staff costs, which are discussed below.

There has also been considerable discussion on the average level of salaries paid by the Auckland Council. Its annual reports provide information on the number of staff paid more than \$100K per annum, as follows.

Table D7: Number of staff paid more than \$100k per annum

	Council	Council Group
2011/12	670	1,254
2012/13	811	1,500
2013/14	940	1,710
2014/15	1,005	1,912

A more relevant measure is the average employee benefit per FTE. This is as follows in Table D8.

Table D8: Average employee benefit per FTE in \$000 per annum

	Council	Council Group
2011/12	74.9	75.5
2012/13	76.2	79.8
2013/14	76.6	81.9
2014/15	80.3	86.5

These figures and the increase over this period of time need to be compared with government departments and the corporate sector to assist in drawing a conclusion as to whether average Council salaries are too high.

xii. COUNCIL FINANCIAL STRATEGY

The Local Government Act requires each council to determine a financial strategy.

The Auckland Council's financial strategy as summarised in the LTP focuses on keeping increases in rates and council charges close to the rate of inflation. The strategy states that this will be achieved by:

- Maximising efficiency savings;
- Maximising the disposal of non-strategic assets;
- Maximising the return on Council investments; and
- Partnering with others and investigating alternative funding mechanisms.

These issues are discussed in turn.

Cost and Efficiency Savings

It can be noted that the Royal Commission did not envisage significant financial savings from the creation of a unified council. A report commissioned by the Royal Commission from the consulting firm Taylor, Duignan and Barry considered that savings, both on current and capital expenditure of \$76m to \$113m annually, amounting to around 3 percent of council costs would be possible. A submission from the Employers and Manufacturers Federation included a report from the consulting firm Deloitte suggesting that savings of around \$132m per annum should be achievable, comprising mainly procurement savings of \$91m per annum.

It is difficult to measure efficiency gains because of the need to determine the base against which the gains are measured. Efficiency gains may be a reduction in costs compared to the actual costs to deliver a service at current volume and quality levels. Given the different levels of service volume and quality between the legacy councils this creates significant data issues to be overcome. Or they may be based on comparison with budgeted levels yet to be achieved. For example, a decision not to undertake a particular initiative or project may be a saving but this is not the same as an efficiency gain.

A clear distinction needs to be made from 'savings' which result from decisions to reduce services or to reduce proposed capital expenditures, and 'efficiency gains' which result in delivering the same level and quality of service at reduced costs, through productivity gains and greater economy in purchasing. It appears that the use of the term savings in many Auckland Council documents refers to decisions not to undertake certain activities or projects, which may be a saving compared with previous budgets or plans, but are not an efficiency gain. This appears to be the basis of the claimed \$1.7 billion in efficiency savings stripped out of the council's budget when preparing the 2012 LTP and the further savings to \$2.74 billion in the 2015-2025 LTP, to reduce the proposed level of rates increases.

The ATA identified efficiency gains amounting to \$95 million but the extent to which these were implemented is not clear.

The Auckland Council (in a 2014 note for its Finance and Performance Committee) refers to \$81 million of efficiency savings achieved in its first full year of operation (2011/12) plus additional savings of \$50 million provided for in the 2012/13 draft annual plan, which are stated to have been confirmed by detailed annual budget reviews. To these savings totalling \$131 million have been added cumulative savings of \$14 million in 2013/14 and 2014/15 giving a cumulative total of \$159 million. However this is a relatively small figure compared to the annual operating expenditures of over \$3 billion.

Efficiency savings can also apply to capital expenditure as well as operating expenditures, through improved contracting procedures. The council paper (2014) indicates that these efficiency savings have been due to:

- Simpler and better information technology. The Council now has an integrated information system which after allowing for its development costs, could be expected to yield efficiency gains compared to the separate IT systems of the previous eight legacy councils;
- Better procurement and tendering processes, applying to both operating and capital expenditures, and also reflecting the advantages of purchasing in greater volume;
- Bringing more work in house to reduce expenditure on contractors and consultants; and
- Reducing office space and the number of buildings occupied.

The 10 year LTP provides for relatively small ongoing efficiency savings. To the baseline of \$183 million per annum stated to have been achieved to 30 June 2015 are added \$41 million in 2015/16, \$19 million in 2016/17 and \$17 million in 2017/18, reducing to only \$7 million per annum for the remaining 7 years.

A recent review for the council by Ernst and Young suggests further possible efficiency gains are possible through shared back office functions, rationalization of community assets (such as libraries and parks etc), standardisation of council office accommodation, greater development of existing Council properties, increases in some user charges, better utilisation of the Council's vehicle fleet and reductions in overlapping operational functions of CCOs (Ernst & Young, 2015).

However there is no discussion of the possible magnitude of such savings.

Efficiency gains may be validated and facilitated by the development of appropriate performance indicators for Council services and activities. The Council annual plan and report contain some 257 performance indicators but the great majority of these relate to service delivery, both process and output measures, rather than to efficiency

or productivity per se.

As with all local government units the Auckland Council is required to prepare an annual statement of service performance containing indicators which are audited by the Auditor-General.

The Royal Commission recommended the appointment of an independent Auckland 'Service Performance Auditor' to supplement the work of the Auditor-General in reviewing performance indicators included in the council's state of service performance (SSP) by reviewing efficiency and service delivery in more detail. However this recommendation was not acted on.

Disposal of non-strategic surplus assets

The LTP provides for revenue of \$700 million over the 10 years from the sale of surplus land and buildings.

Return on Investments

The LTP provides for \$1.3 billion of revenue from the council's investments in Auckland Airport and POA and from other financial assets held by the council. Ways of achieving or increasing these returns are to be pursued.

Partnering and New Funding Mechanisms

These may include Public-Private Partnerships (PPPs) and pursuing Government approval to motorway tolling, but the LTP contains no specific initiatives and the strategy is expressed in very general terms.

Other Aspects of the Financial Strategy

These include moving to full funding of depreciation, from the current 67 percent, by 2025 and limiting interest payments to 12 percent of revenues. This is further discussed below in Section xvi on council debt.

xiii. CAPITAL EXPENDITURES

Total capital expenditure in 2014/15 was \$1.546 billion. Table D9 shows the allocation between themes or functional areas.

Table D9: Total capital expenditure 2014/15

Area of capital spending	\$ million
Transport	703
Water and Waste-Water	273
Parks	117
Storm Water	63
Other (including sports, leisure and culture)	390
TOTAL	1,546

Source: Auckland Council (2015b), p. 68

Table D10 lists some of the major individual projects.

Table D10: Major individual projects 2014/15

Project area	\$ million
Roads and footpath renewals and reconstruction	350
New electric trains and depot	204
Water and wastewater management and upgrades	153
Local and regional parks	133
Storm-water and flood protection	97
City Rail Link	92
Hunua No. 4 water supply	61

Source: Auckland Council (2015b), p. 68

The Auckland Council's financial policy provides for capital investment to be funded as follows: building and purchase of new assets to be funded from borrowing; renewal of existing assets to be funded from rates revenue; additional assets and infrastructure to accommodate growth to be funded from development contributions.

Reflecting this policy, table D11 sets out sources of funding for capital expenditures in 2014/15 and 2013/14 (in \$ million).

Table D11: Sources of funding for capital expenditure in \$million

	2013/14	2014/15
Operating funds	604	472
Grants and subsidies	175	139
Development contributions	66	108
Assets sales	17	48
Borrowings	753	844
TOTAL	1,615	1,611

It can be seen that in the last two years less than half capital expenditure is funded by borrowing.

Part 3 of the Council's Annual Report analyses the extent to which capital expenditure in the council's functional areas reflects the need to meet additional demand, to improve the level of service or to replace existing assets.

Table D12: Purpose of capital expenditure

	2013/14	2014/15
To meet additional demand	299	366
To improve service level	763	762
To replace existing assets	491	448
Increase in reserves/investments	62	47
TOTAL	1,615	1,611

Source: Auckland Council Annual Report; Funding Impact Statement

xiv. THE LONG TERM PLAN (LTP) 2015-2025

Council Long-Term Plans (LTPs) provide extensive information on council plans for the next ten years and provide a good degree of assurance to citizens and ratepayers that future issues have been considered in some detail and that the council has some sense of direction. The LTP includes the 10 year budget; prospective financial statements for each of the 10 years; a report of the Auditor-General; detailed budgets, strategies and policies for all areas of council activities; the council infrastructure strategy; the financial strategy; revenue and financing policy and information on local board activities.

It can be noted that the LTP comments that, 'Aucklanders have no appetite for large increases in Council rates or Council debt' (Auckland Council, 2015a, p.12).

The Auckland Council LTP is dominated by discussion of capital expenditure on infrastructure. There is no point in detailing this here. However the LTP clearly illustrates that the main cost drivers over the period of the plan relate to its capital expenditure plan totalling some \$18.7 billion over the 10 year period. Of this amount some \$7.9 billion or 43 percent relates to transport and \$4.7 billion or 25 percent to water supply and waste-water.

This capital expenditure will lead to additional operating costs and additional interest charges through increased debt and higher depreciation charges, particularly as the council moves to full funding of depreciation by 2025.

It is beyond the purpose of this report to analyse whether the intentions set out in the LTP reflect sound expenditure policies. It can only be said that notwithstanding some controversy, the LTP has been adopted by the full council, has been the result of extensive consultation, has been reviewed by the Auditor-General as set out above and provides transparency against which to judge council's performance.

The Auditor-General's Report on the 2015-2025 Long Term Plan

The Local Government Act requires the Auditor-General to review the LTP so as to be able to express an opinion on a number of matters, including whether the LTP provides a reasonable basis for long-term integrated decision making and coordination of the council's resources, the information and assumptions underlying the forecasts in the LTP are reasonable, and the council's financial strategy and associated financial policies support prudent financial management by the council.

For the Auckland Council LTP 2015-25 the Auditor-General has provided an unqualified audit opinion. While this audit opinion does not endorse any of the policies included in the LTP or provide any assurance that it will be implemented, it does provide some assurance that the LTP is not unrealistic and that the information it contains is reasonably accurate.

For the extensive consultation undertaken by the Auckland Council in preparing the LTP the Auditor-General also has a role to review consultative documents and to advise whether they provide a reasonable basis for consultation with the community.

xv. BALANCE SHEET ISSUES

Table D13 summarises Council Group assets and liabilities over the past four years.

Table D13: Council Group assets and liabilities 2011/12 to 2014/15 in \$million

	2011/12	2012/13	2013/14	2014/15
Current assets	806	1,006	898	1,013
Property, plant and equipment	33,276	34,212	36,906	38,897
Other non-current assets	1,630	1,837	2,070	2,257
TOTAL ASSETS	35,712	37,055	39,874	42,167
Current liabilities (excluding borrowings)	710	727	821	832
Borrowings	5,032	5,884	6,341	7,334
Other non-current liabilities	1,707	1,616	1,567	1,922
TOTAL LIABILITIES	7,449	8,227	8,729	10,088
EQUITY	28,263	28,828	31,145	32,079

Source: Auckland Council audited financial statements.

xvi. AUCKLAND COUNCIL DEBT

Auckland Council's debt stood at \$7.3 billion at 30 June, 2015 and is forecast to increase to \$11.6 billion over the term of the LTP. Given that some public and political concern has been expressed about the level of this debt, the issue is further analysed here.

Debt Prudence Indicators

As mentioned above the Local Government (Financial Reporting and Prudence) Regulations 2014 provide for councils to publish each year in their annual financial statements, annual plan and annual report their achievement or otherwise against various benchmarks. There are three indicators for debt; the debt affordability benchmark, the debt servicing benchmark, and the debt control benchmark.

The debt affordability benchmark has three components, measuring net debt as a percent of total revenue, net interest as a percent of total revenue and net interest as a percent of annual rates income. The Auckland Council

has set a limit of 275 percent for the first component, 15 percent for the second component (but with a target of 12 percent) and 25 percent for the third component. It has met these benchmarks for all three components. For 2014/15 the results were 192 percent actual net debt as a percent of total revenue, 12 percent net interest as a percent of total revenue, and 21 percent net interest as a percent of annual rates income.

The debt servicing benchmark measures the extent to which interest and other debt charges are less than 15 percent of its revenue. This limit of 15 percent is prescribed for councils having population growth as fast as or greater than the national average. Auckland meets this benchmark, with borrowing costs as a percent of revenue being 11.8 percent in 2014/15, 11.4% in 2013/14, 10.7 percent in 2012/13 and 9.5 percent in 2011/12.

Figure D4: Key prudential ratio: interest/revenue



Source: Auckland Council.

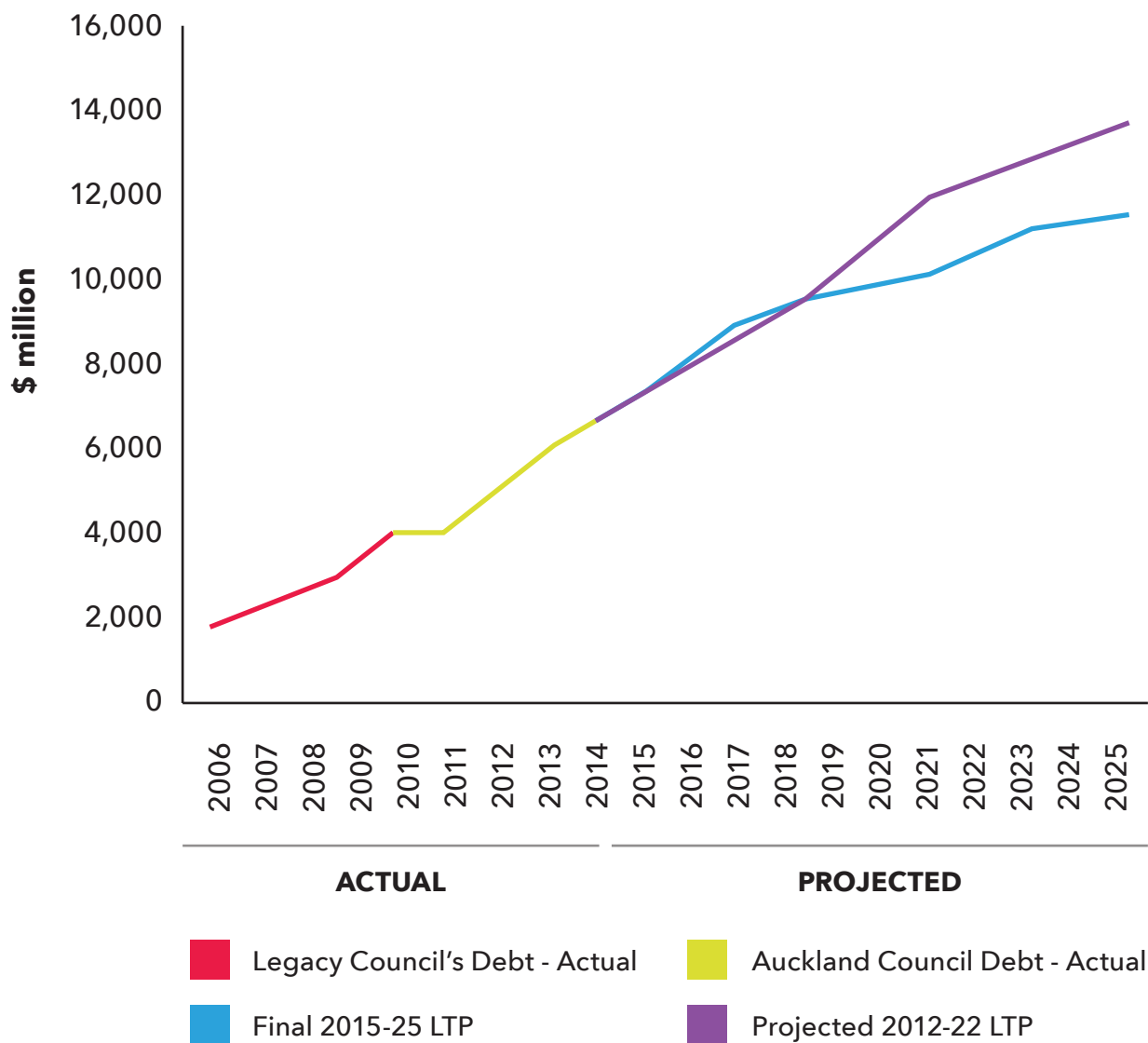
The debt control benchmark measures the extent to which actual net debt is consistent with the planned level of debt as set out in the LTP. Auckland Council met this requirement in all 4 years except 2011/12 when actual net debt was 4 percent higher than planned at 30 June 2012.

Additionally, net interest to total rates income should not exceed 21 percent with a risk limit of 25 percent.

Notwithstanding some public controversy about the level of Auckland Council's debt, debt appears to be within prudent limits, although compared to other councils it is high and growing. The market judgment on prudence is reflected in the Council's credit rating which is currently a high AA. It can be noted that the Standard and Poors' 2014 review of Auckland Council's credit rating referred to its 'very strong financial management', 'low level of contingent liabilities and strong budgetary flexibility' and 'strong liquidity' which it saw as mitigating the council's relatively high level of debt.

It can be noted that the increase in Auckland Council's debt to 2025 does not result in the Council exceeding its benchmark of limiting interest payments to 12 percent of revenues. This is assisted by the policy of moving to full funding of depreciation by 2025.

Figure D5: Auckland Council group debt



Source: Auckland Council.

Two recent publicly available reports commissioned by the Council from Cameron Partners and Ernst and Young have examined the options available to the Council should it wish to expand its capital expenditure program. The Cameron Partners report concludes that Auckland has limited ability to take on further debt if it wishes to retain its current credit rating (Cameron Partners, 2015). The possibility of selling "non-strategic" assets is one of the options suggested to provide further funds for additional capital expenditure. The Ernst and Young review raises possible savings options, which are mentioned above in the Section 12 discussion of efficiency savings (Ernst & Young, 2015).

xvii. SUMMARY CONCLUSIONS

(a) Given population growth and other demands for increased services total council operational expenditure has grown relatively modestly over the past five years.

(b) It is a matter of judgment and opinion whether the level of rates increases set out in Section viii and in the Appendix E are excessive or reasonable. They are well above the rate of inflation, but allowance needs to be made for Auckland's growth and the pressures this creates, as well as for the infrastructure deficit.

(c) Staff numbers (FTEs) have also grown by around 9 percent across the Council Group (excluding POA) since 2012 which may be regarded as relatively high, but less so when allowance is made for the population increase of 5 percent during that period. However total Auckland Council FTEs are significantly below the total numbers of the previous councils.

(d) Thus there has been some restraint on operating expenditure and this reflects some efficiency gains, although the size of these is difficult to determine.

(e) A notable feature is the increase in capital expenditures both since 2010 and projected for 2015-25. This will put pressure on rates through increased depreciation and through the council decision to fully fund depreciation by 2025.

(f) The establishment of Watercare as an integrated water and waste water agency appears to have generated efficiency gains in both operating and capital expenditure.

(g) The council's debt is relatively high and growing due to expanding capital expenditure but remains within prudent benchmarks, as reflected by its high credit rating. However recent analysis confirms that there is limited room for the council to take on more debt.

Appendix E: Auckland Council rates 2011/2012 - 2024/2025

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue (gen rates + ITL):														
Business \$	407,587,662	437,218,215	450,910,049	454,639,693	477,893,478	495,818,218	514,545,518	527,318,762	548,326,573	572,721,032	596,046,697	622,133,867	649,115,569	674,431,291
Residential \$	730,118,044	762,445,741	796,377,852	838,048,780	931,756,161	978,839,019	1,032,864,825	1,039,423,543	1,100,952,809	1,166,046,644	1,236,403,556	1,308,827,103	1,385,072,693	1,466,712,296
Farm & lifestyle \$	76,452,493	67,068,780	70,129,125	74,315,955	71,962,901	75,625,262	79,829,533	81,128,825	85,931,292	91,011,979	96,503,459	102,156,244	108,107,345	114,479,459
Total \$	1,214,158,200	1,266,732,735	1,317,417,026	1,367,004,427	1,481,612,539	1,550,282,499	1,627,239,876	1,647,871,130	1,735,210,674	1,829,779,656	1,928,953,713	2,033,117,214	2,142,295,608	2,255,623,046
Average rates:														
Business \$	12,624	13,447	13,721	13,666	14,167	14,480	14,798	14,902	15,231	15,615	15,956	16,354	16,761	17,119
Residential \$	1,908	1,978	2,044	2,125	2,330	2,411	2,506	2,478	2,580	2,682	2,792	2,902	3,017	3,141
Farm & lifestyle \$	3,223	2,808	2,905	3,041	2,904	3,007	3,125	3,121	3,250	3,378	3,517	3,656	3,800	3,956
Total \$	2,767	2,867	2,950	3,024	3,232	3,332	3,444	3,427	3,547	3,671	3,800	3,933	4,071	4,213
Ave rates per capita \$	629	636	654	677	733	759	789	783	818	854	893	933	974	1,018
Targeted rates revenue \$ (excl ITL)														
	83,521,873	99,070,012	98,178,447	107,904,949	116,499,349	123,490,283	126,723,446	130,014,625	135,872,295	143,348,425	147,708,257	152,648,725	157,865,428	162,425,807
Average rates increase:														
Business		6.5%	2.0%	-0.4%	3.7%	2.2%	2.2%	0.7%	2.2%	2.5%	2.2%	2.5%	2.5%	2.1%
Residential		3.7%	3.3%	4.0%	9.6%	3.5%	3.9%	-1.1%	4.1%	4.0%	4.1%	4.0%	3.9%	4.1%
Farm & lifestyle		-12.9%	3.5%	4.7%	-4.5%	3.5%	4.0%	-0.1%	4.1%	4.0%	4.1%	4.0%	3.9%	4.1%
All		3.6%	2.9%	2.5%	6.9%	3.1%	3.4%	-0.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Per capita		1.1%	2.8%	3.6%	8.3%	3.5%	4.0%	-0.8%	4.4%	4.4%	4.6%	4.4%	4.4%	4.5%
Headline GenR increase														
	3.94%	3.6%	2.9%	2.5%	2.5%	3.2%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Implied incr in (GenR+ITL)														
	3.94%	3.6%	2.9%	2.5%	6.9%	3.1%	3.4%	-0.6%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

Notes:

- All revenue numbers exclude GST. All average rates include GST.
- Rates revenue numbers are presented on a budget to budget basis as this the context within which rates increases are debated and decided by the council.
- Numbers (including rateable properties) from 2016/17 to 2024/25 were estimated based on the rating policy, the budget and the forecasting assumptions included in the LTP2015-2025.
- Average rates = budgeted revenue divided by number of rateable properties plus GST.
- Average rates per capita = revenue from residential and farm & lifestyle divided by population.

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Foreword

This report (commissioned by the Committee for Auckland) is an inquiry into the governance of Auckland Council. Governance includes the structure of Council (governing body, Council-Controlled Organisations, the mayor, local boards) and the distribution of duties and decision-making. It examines the location of power but not the personalities of office holders.

Getting structures and decision-making rules right makes good outcomes more likely. Structures and rules, however, are not the only determinants of good outcomes; good outcomes also depend on the implementation of decisions and the judgement of people involved in the process.

Our report has not covered the quality of decision-making or the implementation of decisions and processes. For this reason, some areas of Council activity that are of concern to the public – such as whether the Council is focusing on the right areas of spending or its management of the unitary plan process – are not addressed in this report.

This report places the creation of the unitary council in the context of decades of fragmented local government across the region, a lack of coordination with and investment by central government, an infrastructure deficit and a rapidly growing and changing population. The Auckland Council has inherited the assets and debts (and choices) of previous councils as well as the decisions made by the Auckland Transition Agency. It has had to create structures and processes for the largest local government body in Australasia, mostly from scratch.

The first five years have been about designing and bedding in new structures and developing region-wide strategies, plans, budgets and services. We believe credit must be given to Auckland Council and its staff for the hard work that has gone into building such a large and complex organisation, while maintaining services and functions for the public. We do not agree with those who want to start again and build a new council structure. Nor do we see the need to re-litigate its outer boundaries.

The unitary structure has created a regional government for Auckland, a unified rating system, and a single integrated plan encompassing land use, transport, infrastructure and housing to guide investment. That said, there are on-going issues that need to be sorted. Good structures may make good outcomes possible, but they cannot guarantee them. For example, a single local government entity for the region makes it easier for central government to meet and negotiate joint solutions to the challenges facing Auckland whether those challenges are in transport, housing or jobs. But it does not guarantee that central and local government will engage constructively with each other or even that both parties want the same outcomes.

We note that while some commentators have made claims about the Super-City being designed to cut rates, cost-cutting was not the intention of the Royal Commission on Auckland Governance. The Commission recommended the unitary structure primarily with a view to creating a unified regional planning and decision-making body with strong leadership. Given the financial policies of the Auckland Council are a key aspect of the public's assessment of the reforms, our report includes a preliminary analysis of the financial impact of its establishment. Our analysis notes that efficiency is hard to measure. It should also be noted that reduced budgets may run at odds with the need to invest significantly in infrastructure for a rapidly growing city.

We do think that the governance system could be improved, particularly with regards to local engagement and participation. The Royal Commission on Auckland Governance highlighted two major problems facing the region: regional governance was weak and fragmented; and community engagement was poor. While the first of these

problems has been addressed, the second remains a major issue for Auckland. While community engagement with local body issues is not a problem unique to Auckland, the sheer size of the Council may undermine the public's sense that they can get involved with or influence decision-making. Auckland Council needs to work harder to create a better balance between the regional and the local. The internal boundaries of wards and local boards, and the numbers of elected representatives, will need to adapt to the growth in population, especially given that there is already an unusually high number of residents per elected office-holder. The proper means for representation of Māori remains controversial and this needs to be strengthened.

It was clearly unreasonable to expect that issues such as transport or the quality of the region's infrastructure could be instantly resolved simply by reorganising the governance of Auckland. The physical infrastructure and utilities have been problematic for several decades, whilst access to housing has emerged more recently as a major problem especially for younger families. Population growth is adding to demand for services at a time when the region is still in catch-up mode from previous under-investment. For many citizens today Auckland is far from being the 'world's most liveable city'. If that is the vision being articulated on behalf of the citizens of the region, then it is more appropriate and timely to engage with these outstanding issues and challenges rather than re-litigating the concept (or boundaries) of the unitary council.
