

STRENGTHENING AUCKLAND'S REGIONAL GOVERNANCE

PROPOSAL

FOR CONSIDERATION BY THE COUNCILS OF THE AUCKLAND REGION

4 December 2006

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INTRODUCTION

This report is part of a process designed to develop proposals to strengthen regional governance in Auckland. The work associated with this project has been undertaken as a collaborative exercise between the Chief Executives of the Auckland councils and central government officials.

The report builds on an earlier Issues and Options discussion paper released on 3 November. The earlier paper identified three broad governance options. Feedback has now been received from all councils on the draft governance options, and the associated issues of the reasons for change and the principles to assess options.

That feedback has been invaluable in formulating the commentary on governance options and proposal included in this paper.

The objective of this paper is to assist councils to formulate a proposal for submission to central government with a view to implementing the necessary changes required to enhance and strengthen regional governance.

Councils are asked to make formal resolutions on the report by 13 December.

EXECUTIVE SUMMARY

- The Auckland region's current governance arrangements are highly complex. They include the decision-making and activities of, and relationships between, central government, the Auckland Regional Council, seven territorial authorities and many other public and non-public agencies. Together these multiple parties provide significant infrastructure and services that are shaping the region's development and its ability to deal with future challenges and opportunities.
- On 15 September the Auckland Mayoral Forum initiated a project to strengthen regional governance. An Issues and Options discussion paper was provided to the eight Auckland local authorities to progress this. This report summarises feedback on the discussion paper, provided by the local authorities and an international commentary. It also highlights the key components of future governance change, and identifies two broad models for regional governance in Auckland. Councils are asked to make resolutions on the report by 13 December for delivery to central government.
- The international commentary reveals that metropolitan regions around the world are experiencing similar challenges to Auckland, and are also pursuing governance reform to better equip themselves for the future. The Issues and Options discussion paper covers all the main approaches practiced in such areas.

- The councils have expressed general agreement with the reasons provided in the discussion document for reviewing regional governance, and agreement around some specific options for solution. However, there is somewhat of a gap between the agreed case for change and what change is agreed, with some divergence of views on key issues.
- The councils all agree with the concept of developing "One Plan" for the Auckland region, which would build on and provide an integrating umbrella for existing and new regional strategies. Such a Plan would at a minimum provide direction and priorities for key infrastructure investments in the Auckland region. All councils agree there is a role for a collaborative forum in developing such a Plan.
- There are some questions about the desired scope of "One Plan", the extent to which it could bind the actions of councils and other parties, and how joint decision-making might work in practice.
- The councils also agree that there would be significant gains from central government aligning more closely with the region. The key mechanisms proposed include the development of national strategies that are linked to regional strategies and that guide funding and delivery, and long-term central/local government funding agreements, particularly for transport.
- There is also consensus from councils that one of the solutions to inadequacy of expenditure on regional

infrastructure and services, is to move beyond the existing funding sources and to empower the region to raise revenue from some new funding sources, such as fuel tax, bed tax and departure tax.

- The councils all agree that there is scope for expanding the shared services model to some other functions.
- However, the councils have diverging views about the reforms that they should be subject to. There is opposition to transferring assets and funding to other councils, particularly without any robust cost benefit being demonstrated, and opposition to take on new responsibilities without funding.
- A number of councils have expressed concern about the ARC's application of Metropolitan Urban Limits and their impact on local growth and development. While there are legal processes for sorting this issue out, it has strongly flavoured the responses of some councils to the governance options.
- Two different perspectives about what is "regionalism" have emerged in the feedback from councils on the Issues and Options discussion paper. These perspectives can be developed into two different governance models, which are presented in this paper:

- 1) Joint Binding Decision-Making With Club-Owned Delivery
- 2) A Stronger Regional Entity

- Both options incorporate the development of "One Plan"; collaborative forum; mechanisms to align central and local government strategy, funding and delivery; new regional funding sources; and shared services.
- The key differences between the options are in how regional decisions are made (jointly versus by a regional entity), and the mechanism to ensure that these are delivered on (by binding delivery of many parties to joint decisions, versus providing the regional entity with the capability to deliver).
- It is possible to mix and match components of these two models. This paper attempts to do that, presenting a single package of reforms for the consideration of councils, which aims to address the key reasons for strengthening regional governance in Auckland.
- The package comprises:
 - The creation of a Greater Auckland Council (GAC) – or council with some other appropriate new name, potentially new directly elected representation arrangements, a broader role and responsibilities, and access to new funding sources as well as regional rates. There are a variety of models that could be adopted with respect to representation on the GAC ranging from the status quo (as utilised for the existing ARC) to some other form such as alignment with Parliamentary boundaries.. The Council could be led by either a chair elected by the Council or by a regional mayor elected at large by

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the Auckland region. Its responsibilities would include the ARC's current functions plus an expanded role in regional economic development, tourism promotion and events management; funding and owning regional facilities and amenities, and advocacy to central government on regional issues. Its new funding sources would include regional fuel tax, development levies and departure tax for specific expenditure

- The establishment of a Regional Sustainable Development Forum, as a standing committee of the Greater Auckland Council, comprising elected representatives from all the councils of the Auckland region, plus central government and non-governmental representatives from time to time. This Forum would have similarities to the current multiparty Regional Growth Forum led by the ARC.
- The development by the Forum, of "One Plan" for the Auckland region to promote social, economic, cultural and environmental well being through prioritised action plans. It is envisaged that the process would produce a series of negotiated multilateral and or bilateral agreements with the objective of implementing and funding strategies.
- The development of new national strategies by central government, that link with and guide regional strategies, and importantly, guide central government funding and delivery.

- Multi-year funding agreements between central and local government.
- Amendment of transport legislation to enable the Regional Land Transport Strategy to specify both major projects and areas for focus and activity. In addition it has been suggested that while membership of the Regional Land Transport Committee needs to be broad to include interested stakeholders, voting should be restricted to those responsible for funding implementation of the Regional Land Transport Strategy.
- Amendment of water legislation to enable Watercare to pay its territorial authority owners a dividend, to be used on stormwater, in the first instance to replace funding currently coming from Auckland Regional Holdings (and allow that to be used for transport).
- The investigation by the councils of an expansion of shared services arrangements, and ways of optimising current rates bases and tools.
 - The package identified above has been assessed against both the reasons identified for seeking to strengthen regional governance and the principles to be recognised in any reform. That assessment has confirmed that the proposal addresses many of the issues identified as requiring attention and provides a framework for allowing the region to move forward to the next stage of its development and operation.

- Following consideration of the proposal by the councils of the region, there will be a need to engage with Government to establish the nature and timing of the required legislative and organisational changes. Particular attention also has to be made to determining the mechanism for, and scope of input and consultation with, both the public and Tangata Whenua. To date their input has been limited and this will need to be remedied through the next phase of this project.

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BACKGROUND

Auckland's Current Regional Governance Arrangements

Three spheres of government undertake decisions and activities in the Auckland region:

- Central government
- The Auckland Regional Council (ARC)
- Seven territorial authorities (the Auckland City, Manukau City, North Shore City, Waitakere City, Rodney District, Papakura District and Franklin District Councils).

Franklin District Council represents a geographic area that falls within both the Auckland and Waikato regions. For the purposes of transport, the Auckland region is deemed to include the whole of the Franklin District.

In addition, most of the region's territorial authorities also have community boards, which represent smaller geographic areas. These provide an important democratic input to the decisions of territorial authorities, and may undertake specific delegated local responsibilities.

Each sphere of government has specific responsibilities, but there is also considerable overlap and interaction between them. Broadly speaking, central government has primary responsibility for the delivery of international relations and social services such as health, education, and income support. The local authorities provide some property related infrastructure and services including land use and

environmental management, water, wastewater and stormwater, solid waste and local community facilities. All three spheres of government have different but overlapping responsibilities for transport, parks and reserves, community development, economic development, civil defence, recreation and events. The ARC's current primary responsibilities include:

- Regional land use and environmental regulation
- Regional Parks
- Transport planning and funding for passenger transport

Central government expenditure in the region is significantly greater than local government's, reflecting the smaller role of local government in NZ relative to most other parts of the world, where local government is also responsible for services such as education, health, police and fire. Central and local government finances in Auckland (as in other parts of NZ) are also very independent when compared with other parts of the world, with central government relying heavily on income tax and local authorities on property rates to fund their respective services. Transport is the most significant activity funded in roughly equal amounts by each sphere of government, and the area that involves the most complex interactions.

The public elects politicians to Parliament, the ARC, territorial authorities and community boards on a triennial basis. The Auckland Energy Consumers Trust and the Auckland, Counties Manukau and Waitemata Health Boards also comprise publicly elected representatives.

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Both central and local government appoint boards for a range of entities that also make significant decisions in Auckland. These entities include Transpower, the Government's transport funder, Land Transport NZ, its state highway agency, Transit NZ, the rail infrastructure owner, Ontrack; the ARC's Auckland Regional Transport Authority and Auckland Regional Holdings, Watercare Services Ltd and local water retailers; economic development agencies; property development companies, etc. There are also several non-governmental corporate agencies that have a significant public impact, including infrastructure providers such as Telecom.

The region's eight local authorities, and often central government and non-governmental agencies, come together frequently in regional forums to develop regional strategies for growth management, transport, economic development and civil defence.

The current governance arrangements in the Auckland region are highly complex as are the problems. They involve decisions by multiple parties about infrastructure and services that shape the region's development and its ability to deal with future challenges and opportunities.

Strengthening Regional Governance Project

The Strengthening Regional Governance project agreed to by the Mayoral Forum on 15 September involved the investigation of:

- Which sphere of government (national, regional or local) is best placed to make which decisions;
- Investigation of possible structural reforms including transfers of key functions and funding, joint ownership and shared services; and
- Possible changes to representation and central, regional and local intergovernmental relationships.

It was decided at the outset that the project would not consider amalgamating territorial authorities.

The process to address these issues has involved:

- The production of an initial paper identifying a range of options and issues associated with strengthening regional governance. This was made available to councils on 3 November.
- The initial paper was then used as a basis for discussion by individual councils and key stakeholders (including central government agencies) with a view to receiving feedback on the preferred option/s and or preferences. The feedback has now been received and forms the basis of the material contained in this report.
- The preparation of this, a final paper, for consideration by the councils, as the basis for submission to central government of a preferred proposal, together with identification of its level of support from councils..

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The councils will consider this paper over the period to 13 December. Formal resolutions made by the councils will provide the basis of, and accompany the proposal(s) to be put to Ministers for their consideration.

Reasons for Strengthening Regional Governance

The reasons for strengthening regional governance articulated in the Issues and Options discussion paper included:

- Producing one vision for the future, unified leadership and one voice for discussions with central government on social, economic, environmental and cultural regional issues
- Having more strategic and operational linkages to Central Government that allow for agreement on strategies and their associated delivery and funding within a framework of certainty
- Delivering on decisions once they are made, including providing more certainty about funding and service delivery
- Delivering greater value for money for Aucklanders, through improving service standards, greater consistency and reducing costs through, amongst other things, shared services.
- Making decisions about interrelated issues in a more integrated way, more quickly and without re-litigation but without diluting community engagement.

- Facilitating local democracy and diversity and helping to address emerging local social problems.

The discussion paper also articulated that improvement to governance should be focused on addressing the following perceived problems:

- There is generally adequate strategy but this is not fully integrated or aligned into an overall direction that indicates the region's priorities
- The region fails to deliver on strategy because of fragmented powers and accountabilities for funding and service delivery and commitment to fund
- Some decisions appear to be "mis-located" (undertaken at the national or local sphere of government when the impacts are mostly regional)
- There is heavy reliance on voluntary and statutory joint decision-making fora but these are not able to 'bind' or influence expenditure and other decisions of sovereign organisations. Non-funders also have significant influence on decision making particularly in the area of transport.
- The result is a lack of certainty (especially in funding), clarity, understanding, mandate, leadership and single voice for Auckland with central government.
- There is insufficient revenue at the regional level.

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- There are inefficiencies and inconsistent standards and financial impacts due to duplication and transaction costs.

Principles for Evaluating the Options

The Issues and Options discussion paper identified a set of principles against which to evaluate the options. These principles suggest that a good governance model for Auckland would:

- Give effect to the purpose of local government to enable democratic local decision-making and action by, and on behalf of, communities; and promote the social, economic, environmental, and cultural well-being of communities in the present and for the future.
- Better enable the achievement of a unified vision and plan for the Auckland region to increase its international competitiveness and long term sustainability.
- Ensure that decisions are taken at the level of governance closest to those affected, best informed and best placed to deal with consequences, and coordinated between the different spheres of government.
- Provide for clear accountability to the public for outcomes, use of public funds and stewardship of public assets – no taxation without representation.
- Be cost efficient and effective.

- Deliver equitable impacts across the region.

Be resilient into the future, and be able to deal with increasing uncertainty, complexity, diversity and change. Additions were made to these principles through the feedback process.

Governance Options

The Issues and Options discussion paper identified three possible regional governance models:

- Model I: Voluntary Cooperative Decision Making and Delivery (Enhanced Status Quo)
- Model II: Joint Binding Decision Making
- Model III: Multifunctional Regional Authority (Integrating Strategy and Delivery)

A fuller description of the models is available on request.

In addition, the Issues and Options discussion paper identified a set of initiatives sought from central government. These include the need for:

- Increased participation in regional fora.
- The development of national strategies which link to and guide regional strategies, and which also guide national funding, delivery and priorities.
- Long term funding agreements with the region that contribute to the implementation of regional strategies.
- Enabling the region to raise new sources of funding for regional infrastructure and services.

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These same initiatives would be sought from central government alongside any of the three regional governance models. The role of central government in achieving regional outcomes is considered fundamental especially in key areas of infrastructure and services such as Transport.

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FEEDBACK ON ISSUES & OPTIONS DISCUSSION PAPER

The eight local authorities provided written feedback to the Issues and Options discussion paper. Full copies of this feedback are available on request.

In addition, as part of the project it was agreed that an international commentary be carried out by Greg Clark (Advisor on City and Regional Development at the Department for Communities and Local Government, UK, Global Practice Advisor at the London Development Agency, and advisor to the OECD on City and Regional Development). A full copy of his commentary is available on request.

The feedback of the councils and the international commentary are summarised below. The feedback is presented under the following headings:

- Reasons for strengthening regional governance
- Ingredients for successful regionalism
- Overarching governance models
- Strategy Representation and Inter Government Relationships
- Transport, Water, Economic Development Regional Facilities and Services
- Other Comments.

Reasons for Strengthening Regional Governance

The feedback provided by each council to the Issues and Options paper demonstrates that there is general consensus and agreement with the

- Reasons provided in the discussion paper for reviewing regional governance,
- Principles for evaluating options,
- Need to act regionally,
- Need to create a unified regional mechanism through which central government can both align itself and engage.
- Some specific options for solution.

However, there is somewhat of a gap between the agreed case for change (the reasons for reviewing regional governance) and the emerging agreed change. This is documented further below.

In addition, councils commented that the reasons for strengthening regional governance and the principles should additionally articulate:

- The priority of addressing funding issues
- The importance of central government in the region and the opportunities for improved interaction with the local authorities
- The different national, regional and local interests in particular issues and implications for where decisions are best made
- The differences between rural and urban issues
- Growth management issues.

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The international commentary of the Issues and Options discussion paper generally endorses the need to address this regional governance and the three draft options put forward.

The international commentary notes that Auckland is not alone in its drive to strengthen its regional governance, and that indeed it should do so if it wishes to equip itself to address current and future challenges and opportunities. Key observations made by the commentary include:

- City –regions around the world are experiencing similar symptoms of global change as those articulated in the Auckland Issues and Options Discussion Paper (growth and increasing demographic diversity, economic, environmental and social challenges, increased cross-geographic interdependence, difficulties funding infrastructure etc).
- These pressures are increasing the national importance of city-regions and sub-national governance, and driving metropolitan or regional governance reform in the cities of many OECD countries currently.
- The objectives of the reforms have included efficiency, equity, economic competitiveness, upscaling infrastructure investment, community identity and future proofing.
- A range of new governance arrangements are being adopted, and the success of these is context dependent – i.e. dependent on the circumstances and issues faced.

Regional governance reforms that have been most effective have had an evolutionary dimension.

- The governance models considered in the Discussion Paper represent a mainstream and widely accepted range of practices internationally, and give rise to choices and options that are well within the norm for a large city within a developed nation. Indeed, the proposals developed in Auckland might well be regarded as an important step in ensuring that governance arrangements in the Auckland region keeps pace with arrangements in other large OECD countries.

Ingredients for Successful Regionalism

The international commentary notes that successful metropolitan regions have most of the following ingredients:

- An understanding of the functional interdependence of different parts of the region
- Leadership, vision and accountability to achieve the vision
- An understanding of the region's contribution to the nation
- An international context for assessing regional challenges
- Long term focus on fundamental issues
- A single, coherent, purposeful plan that integrates different strategies
- The engagement of different tiers of government
- The fostering of greater investment and financing capacity including from the private sector

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Feedback from the international commentary identifies the key strengths and weaknesses of the three draft models in the Issues and Options discussion paper as follows:

- Large scale implementation capability
- The use of projects or events to catalyse positive change
- The benchmarking of progress against agreed goals
- The building of regional identity, using champions and the media.

Overarching Governance Models

The feedback from councils identified a range of views on the three governance models that were outlined in the discussion paper:

- Manukau and Waitakere City Councils and Franklin District Council express a preference for the binding joint decision-making features of Model 2, with Manukau particularly seeing it desirable to continue this through into delivery via club ownership of regional entities.
- Papakura and the ARC express a preference for the multifunctional regional authority of Model 3, proposing further work to decide how far to take this model and how quickly.
- Rodney District Council proposes an alternative involving dual membership on the regional authority.
- Auckland and North Shore City Councils have not expressed any preferences for any of the three models, although they have made comments, which have been incorporated.

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SUMMARY OF INTERNATIONAL COMMENTARY ON GOVERNANCE MODELS

MODEL	STRENGTHS	WEAKNESSES
<p>1: Voluntary Cooperative Decision Making & Delivery</p>	<p>Effective mechanism for coordinating policy</p> <p>Provides unifying sense of purpose</p> <p>Improves efficiencies</p>	<p>Implicit incentives to decentralization can result in failure to contain sprawl with social & economic consequences, undermine central economic zone & result in lost competitiveness over long term.</p> <p>Struggles to increase scale of investment in infrastructure & amenities.</p>
<p>2: Shared Binding Decision Making</p>	<p>Binding nature increases potency of strengths of cooperation:</p> <p>Effective mechanism for coordinating policy</p> <p>Provides unifying sense of purpose</p> <p>Improves efficiencies</p>	<p>Effectiveness of arrangements varies over time with skills of executive staff & relationships between elected members</p> <p>Negotiations prior to binding decisions can be costly</p> <p>Compensations sought during negotiations can skew policy over long term</p> <p>Risk of local authorities breaking away from arrangements</p> <p>Can reduce democracy, accountability & public visibility</p>
<p>3: Multifunctional Regional Authority</p>	<p>Highly visible, understandable form of regional governance providing direct accountability to citizens</p> <p>Adds substantially to the identity of the region & provides clear vision</p> <p>Multifunctional nature can aid integration, scale & delivery</p>	<p>Dependent on skills and strengths of elected regional leaders & their staff</p> <p>Regional/local division of labour & relationship can be uneasy</p> <p>Can be difficult to coordinate between metropolitan core & rest of region</p> <p>Central government can find it difficult to define its role & create mechanisms for cooperation</p>

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The international commentary also raises some pertinent questions about the models including:

- Do the collaborative fora focus on metropolitan or wider regional coordination?
- What is the role of the central city municipality, particularly under the joint decision-making models: leader, "first amongst equals" or "one of a crowd"?
- What part does central government play: does it provide incentives, participate in decision-making & cooperation, or simply observe?

Strategy, Representation and Inter-governmental Relationships

All councils express support for an overarching vision and action plan for the region ("One Plan") developed collaboratively by the councils in a regional forum of some sort. However, it is unclear at this point whether there is agreement on the:

- Scope of the Plan,
- Which organisations should be involved in developing it
- What their decision-making powers should be, and
- Whether the Plan should be binding on all of these organisations and if so, how.

A variety of views were expressed about representation on the regional authority. While several councils favour the status quo, others suggest some form of territorial authority

representation on the regional authority either instead of, or as well as a regional forum comprised of representatives from all the councils. Manukau City Council favours a regionally elected leader for the regional entity.

It is important to note the international commentary that regardless of the governance model, there will always likely be some non-alignment between local government geographic boundaries and market geographies or social or environmental regions. This requires collaboration between governments and government agencies, both across geographic areas and between national and local spheres. This collaboration requires incentives and the involvement of national governments, as well as bottom up efforts.

Transport, Water, Economic Development, Regional Facilities & Services

All councils support mechanisms to achieve greater alignment between the region and central government on transport strategy, funding and delivery, and all agree a new funding source (for example, regional fuel tax) is needed to fund improved transport. A variety of views were expressed about whether ARTA should expand its responsibilities to include State Highways and/or local roads. Manukau and Waitakere City Councils favour moving to club ownership of ARTA by all the local authorities. These TLAs do not wish to see ARTA manage local roads. They envisage ARTA being able to set a regional transport levy, which is separate from, but binding on the ARC and other TLAs. There was also a view expressed that the assets of Auckland Regional Holdings (or at least the non Port assets) should be used to

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capitalise ARTA and be available for more direct control by ARTA.

There is a majority view that vertical integration of water is not an option that warrants further investigation. There is a majority view that Watercare become a CCO under the ownership of the current shareholders and that any dividend be applied solely for stormwater projects. There were differing views expressed by the ARC, Papakura and Franklin. The ARC's position is that Watercare should be returned to the ARC, and that the ARC use the dividend to fund stormwater.

All councils agree that the responsibilities of Auckland Plus should be expanded in line with recommendations of the Metro Project. Manukau would like to see club ownership of Auckland Plus. Waitakere City supports regional entity ownership of Auckland Plus, as does the ARC and Papakura, and has a firm view that local delivery be conducted by TLA controlled economic development agencies. Some councils think that the regional authority should own and fund Tourism Auckland, some support club ownership, and one council (Waitakere) does not support any guaranteed local authority funding of tourism.

All of the councils support investigating the establishment of a regional development agency to better ensure implementation of the Regional Growth Strategy.

All councils also seem to support some way of regionalising funding for regional facilities (such as the Auckland Philharmonia) so long as the definition of what is regional and

of priority is decided via an agreed strategy, and the funding and governance regime ensures that regional organisations are accountable to the funders. Some councils were of the view that governance arrangements should reflect funding commitments and that further work was required on a funding formula that could involve factors such as areas of benefit or population.

The councils also made some other key comments, including:

- Concern that the ARC's use of its power to enforce metropolitan urban limits conflicts with the development objectives of some of the territorial authorities. A number of councils expressed this as a desire to see the ARC's "right of veto" on the metropolitan urban limits reviewed. It should be noted that there are alternative processes for sorting this issue out (including the ability, outside the Local Government Auckland Amendment Act process, of territorial authorities to instigate changes to the Regional Policy Statement and challenge the ARC's decisions at the Environment Court). However, perceptions around this issue have strongly flavoured some councils responses to the governance options.
- The desirability of renaming the Auckland Regional Council so as to avoid confusion with Auckland City Council
- The opportunities through the governance review of standardising delivery forms into council controlled organisations and consolidating shareholder representative groups and electoral colleges.

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Reasons for Divergence of Views

Although not explicit there appears to be a number of reasons behind the divergence. These include:

- The tight timeframe has reduced the ability to investigate radical change with significant rigour or consultation
- The way the initial paper was written, with the view from some that it was too conceptual and would have benefited from a case study approach on certain key areas impeding performance within the region
- That there was no clear identification in the initial paper of what was broken, and this identification used as a touchstone or reference point for any suggested change
- A very strong sense that changing functions and responsibilities without a fundamental change in funding (both quantum and sources) will not achieve anything and merely further exacerbate the current frustration and fragmentation within the region
- A concern amongst councils about "giving things up" or passing functions across to another entity without clarity about what will be achieved and or foregone from the perspective of the donor
- A lack of trust as between the various parties and a general concern about the strengthening of one entity at the expense of another

- A concern that structural reform by itself is insufficient to address the key problems relating to strategy implementation, funding and infrastructure
- A lack of clarity and understanding from the original paper as to what is national, regional and local and how that would impact on roles responsibilities and funding
- A belief by some that some of the issues faced by the region could be remedied, in part if, the ARC decided to increase its rates particularly for transport issues
- Resistance to assessing significant change within such a short timeframe, compounded by a lack of clarity about the timeframe over which change would actually occur and how it would impact on key areas such as transport, water etc
- Concerns over the diverging interests between rural and urban interests within the region and a recognition that by acting collectively there is a risk that size will determine control at the expense of those who are smaller
- Local representation of communities was not dealt with in any of the options.

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KEY COMPONENTS OF FUTURE GOVERNANCE REFORM

Feedback on the Issues and Options discussion paper highlighted several issues that required further analysis. These included the issues of funding; the national, regional and local characteristics of different decisions; and the features of the "One Plan" ..

Each of these issues is further discussed below.

Funding

Councils have unanimously endorsed the proposition that funding is one of the key strategic issues facing the region.

A failure to allocate sufficient funding to transport, economic development and tourism, stormwater and regional facilities has been highlighted as a key problem inextricably linked with the performance of current governance arrangements. In this context the need to address funding is seen as a critical determinant of the success, acceptance and durability of the overall reform package.

Funding solutions are seen as being critical regardless of the regional governance model.

Two funding issues are being articulated:

- First, there is uncertainty that the current available funding sources from each sphere of government will be

made available and allocated to regional infrastructure and services (reflecting regional priorities). Central government, territorial authorities and the ARC are all responsible for funding decisions relating to infrastructure and services with significant regional characteristics. Sub-optimal investment arises because of fragmented decision-making; unclear accountabilities; lack of agreement about regional priorities; and an unwillingness to fund (at the local level) when the benefits are experienced regionally.

- Second, current funding sources are inadequate to meet future infrastructure and services being planned now.

At present the major funding sources available for regional infrastructure and services comprise:

- Local authority property rates, user charges and investment income; and
- Income tax and road user charges funding from central government, via annual appropriations to service agencies, fees for services (e.g. public transport and economic development) and capital contributions to transport.

Councils in the Auckland region receive approximately \$2.1 billion per annum from their "own sources", including rates, fees and charges, income from investments, and financial contributions. Just over \$1 billion of this comes from rates, and approximately \$650 million from fees and charges. In addition to the \$2.1 billion from "own sources", the region

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receives approximately \$400 million per annum from central government for transport – including for local roads and passenger transport. Analysis has shown that the current Auckland regional contribution to the consolidated fund in tax and levies exceeds what the region receives from central government.

The region is clear that its current revenue, even with the revenue increases forecast in LTCCPs, will not be sufficient to fund all the services and infrastructure needed for a world class city. Work is still progressing on identifying the exact size of the gap however some estimates have been developed. The “Auckland Strategic Alignment Project” has estimated a ten-year funding shortfall of \$3.68 billion for transport. This is the difference between the funding available and the cost of required projects (based on the Regional Land Transport Strategy). This excludes any shortfall for state-highways. The shortfall for passenger transport and local roads is estimated at approximately \$1.5 billion each.

Previous work on estimating the gap for stormwater has found that, in order to adequately treat the region’s stormwater discharges, the region would need to spend at least \$2 billion more than the available funding over the next 20 years (and possibly a great deal more than this). Work is currently underway to refine these figures and also to incorporate water and wastewater expenditure requirements.

In addition to shortfalls for transport and stormwater, the region will struggle to find sufficient funding for world-class

regional facilities. For example, a Bill is being promoted by Auckland City Council for a regional levy for eleven regional facilities. Notwithstanding the merits or otherwise of this Bill, its proponents aim to raise \$20-\$30 million per annum – some of this displacing existing funding, but a lot of it new. Major facilities such as a world cup stadium and international conference facilities would require resources significantly greater than this.

The key constraint for the councils is their heavy reliance on property rates. Most councils face considerable pressure to keep rate increases at, or below, the rate of inflation at the same time as delivering more. Specific issues include:

- There is increasing ratepayer resistance to rates increases as evidenced by the call for a national rates enquiry, despite rates as a percentage of GDP remaining stable or declining over the last 40 years.
- Unlike the central government tax bases of income and sales, property rates are highly visible and do not grow with the economy. While the high visibility helps hold local government accountable, it is a real challenge for councils to communicate what ratepayers get for their money. Most councils in the region make good use of targeted rates, but there is no evidence that this has made rating more popular.
- Property taxes are economically efficient and have worked well for councils providing property-based services such as refuse collections and flood control. Services provided by local government have broadened

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considerably, however, and for many services such as passenger transport, there is a weak connection between those paying rates and those receiving the benefits.

- Other issues include that rates are a tax on wealth but don't always reflect "ability to pay"; and that property revaluations can cause major shifts in the incidence of rating without resulting in a net change in revenue.
- Studies of local government funding across a range of jurisdictions in other parts of the world have found that over-reliance on any one funding source is inherently risky, and a broad income base is desirable.

Work outside this project is being undertaken on the sustainability of current local government funding sources. That work is highlighting several issues including the recognition that:

- Some local authorities are only just beginning to make fuller use of their current funding powers (although in the Auckland region most councils use targeted rates and make good use of development contributions to fund growth-related infrastructure)
- Some local authorities may need to increase rates further than they have been in recent years
- There may be a need to more actively explore alternative financing mechanisms for infrastructure such

as public private partnerships and/or the greater use of debt.

There is a range of paths that should be pursued to address the gap between current funding and planned expenditure on regional infrastructure and services, including:

- Councils making more effective use of their current funding powers as outlined above;
- Achieving economic efficiencies and value for money gains from both the greater integration of services within the region and rationalisation of roles and responsibilities that will arise from any reform of Governance;
- Ensuring that the existing central government funding flows support regional priorities and provide greater long term certainty
- Providing the region with the ability to raise funding from new sources for regional functions. It has been assumed that new funding sources such as Regional Fuel Tax and Regional Development Levies will need to be made available to fund regional functions alongside governance reform.

The proposal outlined in this paper is designed to provide greater certainty that available funding would be allocated to implement strategies.

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it also assumes an extension of shared services to achieve efficiencies.

Both models also assume an increased revenue base obtained from new funding sources available to the region.

Although there is further work to be undertaken, the assumption is that the quantum to be sourced from the new sources would be agreed as part of the strategy development and prioritisation process involving the regional body and Central Government.

National, Regional or Local?

Consideration of which sphere of government (national, regional or local) decision-making and delivery of services takes place are issues that go to the heart of changes to improve Auckland's governance structures. For some issues there is a very dominant geographic community of interest and it is very clear where decision-making should lie. However, there are valid national, regional and local interests in some other issues. This means that a judgement needs to be made about where decisions are best made, or a multi-layered approach to decision-making adopted involving all spheres of government. Delivery is also likely to involve multiple agencies.

The key considerations in coming to a view about where decisions are best made and delivered on, involve an assessment of whether particular issues and services have:

- Regional vs. local impacts

- Economies of scale or constant returns to scale
- Dispersed benefit or local identification with a service or asset
- The desirability of consistency vs. diversity and choice

An assessment of local examples against these kinds of criteria would reveal the level of complexity and interdependency of the current arrangements. Improving upon current arrangements will likely require better interactions between the spheres of government and a "horses for courses" approach to locating decisions and delivery.

The international commentary makes it clear that there is no single 'right' answer and these complex issues are often managed through a multi-dimensional response

The international commentary highlighted the following issues as areas of focus for metropolitan regional governance:

- Urban form
- Environmental management
- Water, transport, waste management
- Energy
- Economic development and tourism
- Events promotion
- Investment facilitation

Not surprisingly, the Strengthening Regional Governance project has focused on the need to improve Auckland's governance performance in most of these areas. Currently, many of the decisions, and much of the provision of services

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related to these issues, are made either by central government or by territorial authorities within the region. Clearly there are national, regional and local interests in these issues. The question to address is whether the regional interests are appropriately reflected in the current decision-making and delivery arrangements. The governance options under consideration by the councils make different judgements about whether agencies representing a collection of local interests or a single regional interest is the best way to make decisions on such issues.

One Plan and Regional Forum

The feedback from all councils identified support for "One Plan" produced collaboratively by a regional development forum or assembly. All councils agree that this should provide an umbrella for or incorporate existing regional strategies, plus some new ones, and that it should provide common vision, direction, principles for decision-making, priorities and a plan for action and investment. It would not replace existing strategies.

Set out below are a number of issues relevant to the concept of a One Plan.

- **Scope** - All councils agree that the scope of action and investment should at a minimum include urban form, transport, water, economic development and regional facilities. The proposal is that under either governance model, the scope of One Plan embrace the four well-beings and go beyond the key issues of infrastructure to

include social and cultural issues and functions undertaken by central government and corporates. This could include, amongst other things, education, immigration policy, health, justice, national facilities, energy, telecommunications and broadband.

- **Membership** – It is proposed that the membership of the regional fora that develops One Plan at a minimum comprise elected representatives from each council. There would be benefits of central governance and non-governmental agencies being involved for at least some of the time.
- **Decision Making** – There are two separate issues to be considered regarding the decision making remit of the regional fora. Firstly, are the decisions made by the fora binding on the membership or are they recommendations to another (pre-eminent) regional entity? Secondly if they are binding decisions, how are such decisions made – one vote per organisation or some other method such as weighted voting depending on, for example, financial obligation, population, etc.

Factors to be Considered in Securing Change

To date this project has sought to achieve an agreed position from the councils of the Auckland region that can be proposed to central government. However, while the councils share the view that change is desirable, they have diverging views about the nature of that change and the timeframe over which it would be undertaken. Where there is agreement it focuses on initiatives that, on their own, are

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potentially insufficient (such as the development of "One Plan" for Auckland and an extension of shared services), or that focus on central government. There is a lack of consensus about the changes local authorities should be subject to.

The lack of consensus, while not surprising, must be both acknowledged and addressed if change is to be secured. Although consensus is not derived on all issues, there is a majority view on a number of issues.

Previous experiences of change processes highlight the need to identify experiential and behavioural factors that impact on peoples' perceptions, starting points and ability to change. Earlier in the report several issues were identified that influence the perceptions and thinking of those involved in this process. While not exhaustive, the key factors affecting change as highlighted in the commentary and feedback received relate to:

- Cynicism – there is a degree of cynicism that this is yet another process designed "to reshuffle the chairs" without any corresponding change in attitudes, behaviours and or the quality and cost of the services provided to the citizen, or the level of funding required to make a difference.
- History and past grievances have produced a lack of trust and long held tensions between different spheres of government, expressed in criticisms about their relative performance. This gives rise to the view of some that change should be focused on a particular council – the

ARC – and/or on central government rather than across the board. It is also clear that various parties see reform as an opportunity to redress past grievances.

- The tensions between regional and local interests also affect the preferences expressed by the different councils about the different governance models. The stronger regional entity model would accord different weight to regional versus local interests than would the joint decision making model, and would produce different decisions on issues that are currently a matter of debate, such as the region's urban form and metropolitan urban limits.
- An added variation to this theme is difference between rural and urban interests. The rural local authorities point out that some of the governance problems and solutions to them are urban, and they fear being disadvantaged in the process. For example, they are least happy with the concept of funding regional facilities and are unclear whether becoming owners and/or customers of Watercare would be of any benefit to the rural areas.
- Councils are in general unwilling at this point to transfer assets and funding between each other, without clearly identified efficiencies and benefits to be derived for their communities.
- Councils are also unwilling to take on responsibility for funding new activities from existing sources, evidenced

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by reaction of both ARC and most territorial authorities to funding regional facilities.

There does appear to be some willingness to consider the ceding of sovereign decision making by giving a regional collaborative forum and One Plan the power to bind local authorities. Though there is some agreement on the concept there is no agreement at this point on what may be binding and what may not. The issue of voting also needs to be further developed.

The councils agree that central government should develop new national strategies to guide national funding & delivery, enter into long term funding agreements with the region, and enable the region to raise new funding sources. Central government's view on these changes is as yet unclear.

Two Views of What is Regionalism

Two different perspectives about what is "regionalism" have emerged in the feedback from councils on the Issues and Options discussion paper. These perspectives can be developed into two different governance models:

- 1) Joint Binding Decision-Making With Club-Owned Delivery
- 2) A Stronger Regional Entity

These two models are outlined in the following table and paragraphs. Differences between the two are highlighted in italics.

Under the Joint Binding Decision Making model, if the current fragmentation between funders is maintained, the options envisage a Regional Assembly with the power to bind councils to fund the priorities outlined in its strategies, backed up by long-term funding agreements. Alternatively, the Stronger Regional Entity model would locate funding with strategy and delivery, creating an agency with responsibility for particular functions that would also have the scope and mandate to fund the plans and strategies for that function.

Both models assume an extension of shared services to achieve efficiencies.

Both models also assume an increased revenue base obtained from new funding sources available to the region. Although there is further work to be undertaken the assumption is that the quantum to be sourced from the new sources would be agreed as part of the strategy development and prioritisation process involving the regional body and Central Government.

Under the Joint Binding Decision Making model the Regional Assembly would make some binding decisions. There are two distinct models for how such decisions would be made: the first envisages one vote per council, the other envisages some kind of weighted voting, perhaps based on population represented by the councils. It is unclear yet what decisions would need to be binding.

Under the Stronger Regional Entity model, its regional fora would make recommendations rather than decisions. The

requirement to bind the actions of other parties is eliminated because the regional entity can itself give effect to regional strategies itself by funding and or delivering regional functions such as transport, economic development, water and regional facilities.

At a macro level the concept of a joint binding decision-making body raises several questions about:

- Scope – what does it cover and what doesn't it?
- Who services the entity – does it have its own secretariat or is it a subset of an existing entity and or mechanism?
- Overlap of Roles – what does the entity do that the current Regional Council does, what is the need of a Regional Council? Indeed, taken to its ultimate conclusion, the Regional Assembly could replace the ARC, as a United Council.

Similarly there are several questions at a macro level relating to an stronger regional entity, such as how it engages and interacts with other entities and Central Government.

It is possible to mix and match components of these two models. The final section of this paper attempts to do that, presenting a single package of reforms for the consideration of councils, which aims to address the key reasons for strengthening regional governance in Auckland.

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	JOINT BINDING DECISION MAKING & DELIVERY	STRONGER REGIONAL ENTITY
Who makes regional decisions	<i>Independent Regional Assembly, comprising representatives from each council. Other parties could attend without decision rights.</i>	<i>Directly elected regional entity</i>
What decisions does it make	<p>Strategy, regulatory & expenditure decisions about regional land use, transport, regional facilities, water, economic development and tourism.</p> <p>Regional advocacy positions on energy, telecommunications, broadband, education, health, housing immigration, safety etc.</p> <p>All of these decisions are articulated in One Plan & regional strategies produced by the Regional Assembly & subsidiary regional forums.</p>	<p>Strategy, regulatory & expenditure decisions about regional land use, transport, regional facilities, water, economic development and tourism.</p> <p>Regional advocacy positions on energy, telecommunications, broadband, education, health, housing immigration, safety etc.</p> <p>All of these decisions are articulated in One Plan & regional strategies, which the regional entity is accountable for producing with input from other parties (via its regional forums).</p>
How do national, local & non-governmental interests have input	<p><i>Via participating (without decision rights) in Regional Assembly & subsidiary regional forums.</i></p> <p>Central government also directs via legislation, national strategy & policy and funding agreements</p>	<p><i>Via the Regional Sustainable Development Forum (a standing committee of the regional entity) and other regional forums, comprising representatives from each council, central government & non-governmental interests, which makes recommendations</i></p> <p>Central government also directs via legislation, national strategy & policy and funding agreements</p>
How are these decisions given effect to	<p><i>By binding Regional Assembly members (the councils) to fund, regulate & implement decisions in One Plan and regional strategies</i></p> <p>By advocating to influence the decisions of other parties</p>	<p><i>By the regional entity governing the regional components of transport, regional facilities, bulk water services, economic development & tourism and funding these except bulk water services.</i></p> <p><i>By the regional entity regulating land use and environmental effects</i></p> <p><i>By the regional entity advocating to influence the decisions of other parties; using the Regional Sustainable Development Forum as one vehicle to do so</i></p>

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