

20 July 2011

Donald Riezebos
Chief Executive Officer
Local Government Commission
PO Box 5362
Wellington 6145

Dear Sir

PROPOSAL FOR THE UNION OF NELSON CITY AND TASMAN DISTRICT

Tasman District Council elected members and staff have now had the opportunity to review the draft reorganisation proposal for the union of Nelson City and Tasman District, the Commission's decision report and the two supporting reports. We have identified what we consider are a number of factual errors, omissions and unsubstantiated assertions in the reports, particularly the Strateg.Ease report, that we wish to bring to the attention of the Commission.

Council is concerned to ensure that members of the public are able to submit on the draft reorganisation proposal in the context of information contained in the reports being correct. We also wish to clarify with the Commission that our interpretation of the reports is correct through raising these matters with you.

Please note that this is not the formal submission of Tasman District Council on this matter. It is an interim communication raising some concerns about the factual basis of the reports.

Tasman District Council will consider whether to make a submission on the draft reorganisation proposal in due course.

Council notes that at the same time as the Commission's report and the draft scheme were released, the Commission released two reports, the first a report dated May 2011 from Strateg.Ease and the second, an internal report from presumably staff at the Local Government Commission entitled "Background Report on Communities of Interest and Planning in Relation to the Proposal for the Union of Nelson City and Tasman District" dated 13 June 2011.

Release of these two reports by the Commission indicates clearly that the Commission intended that, to inform the public submission process, these reports be read at the same time as its decision report and its draft reorganisation proposal.

As noted above Council has identified a number of factual errors, omissions and unsubstantiated assertions, particularly in the Strateg.Ease report, which may lead the public to draw inappropriate, and at times false, conclusions about the existing situation with regard to the provision of good local government in the Nelson and Tasman region/district. Council's analysis of the Strateg.Ease report is set out in tabular form in an appendix attached to this letter.

The report entitled "Background Report on Communities of Interest and Planning in Relation to the Proposal for the Union of Nelson City and Tasman District" also contains statements that are inaccurate. While we have concerns relating to these matters, we recognise that this report is more subjective and we may, therefore, address our concerns in any submission the Council may decide to make.

The most significant factual errors, omissions and unsubstantiated assertions in the reports include:

- 1 The ability of the existing local authorities to borrow to discharge their responsibilities more efficiently and effectively.

The Strateg.Ease report claims a new merged council would have a far stronger balance sheet, and therefore be able to do things that the two independent Councils cannot do. In the Executive Summary, the report implies that one of the key benefits of amalgamation is that it will enable the new Council to "fund an extra \$177.4 million of expenditure" through additional borrowing capacity.

We have looked carefully at this claim. The reality is that the whole is only as good as the sum of the parts. Just bringing two things together does not change the debt, or the assets, or the ability of ratepayers to afford the debt servicing costs. At the moment Tasman District Council's policy is to limit its debt to no greater than 20% of its assets. Nelson City Council uses different limits which are more restrictive than Tasman's. For some reason the consultants have suggested that a new council could increase the limit to 25%. The existing Councils could change their debt ratio limits to enable them to raise more debt. Higher levels of debt will not be any more affordable whether one or two councils govern the same number of people. The Strateg.Ease report also identifies that both Councils currently have sufficient borrowing capacity to meet current and future needs.

Council's calculation of the so called "additional borrowing capacity", based on its existing policy limit of "no greater than 20% of its assets" is \$119.3 million. This is only marginally more than the sum of the existing additional borrowing capacities, available to each of the two councils as they are now, calculated on the same basis. As the claimed additional borrowing capacity of \$177.4 million is suggested as one of the major benefits of amalgamation, the report should explain to the public why 25% was chosen and what the potential implications of the increase in debt would be for ratepayers.

Council has grave concerns about the number of errors in the debt figures and information within the Strateg.Ease report, particularly around the use of the inaccurate current debt figures. These matters are outlined in detail in the Appendix attached to this letter.

2 The extent of the proposed savings as a result of the predicted reduction in staff numbers.

The Strateg.Ease report states that it is possible to make a gross saving of \$4.7 million, through a significant number of staff reductions across the two Councils. In the summary it assesses the savings from this area as \$3.7 million. This is partially offset by an acknowledged but underestimated increase of \$400,000 in costs of elected members.

When the consultants calculated what they believed was an appropriate number of staff for a new merged council, they benchmarked their figures against the staff employed by Tauranga, Palmerston North and Dunedin City Councils. They considered that these Councils' populations were about the same as a combined Nelson – Tasman Council.

A key error in this analysis is that all three of these City Councils are not unitary authorities. They have regional councils with associated staff (and other resources) to carry out the regional functions that Nelson City and Tasman District Councils currently undertake, the latter over a very large area. If the staff needed to undertake the regional council functions were added to the Strateg.Ease numbers, they would have finished up with significantly increased staff numbers.

Tasman District Council is concerned that the consultant's comparison of the two existing medium sized unitary Councils and then one merged unitary council, with city councils that have no regional responsibilities is flawed. It is a misleading and highly optimistic comparison and it does not seem to be evidence based. Ultimately the staffing numbers will be determined by any new Council. Is there further evidence to suggest why Strateg.Ease has used the staffing numbers they have in the report? Is there any justification for why the staff required to undertake the regional council functions seem to have been ignored?

Council is concerned that a balance between costs and savings is not achieved in the report. Staff savings are identified as a benefit, but many of the costs are not identified or quantified, for example:

- the transition costs of joining two organisations together, particularly in light of the Auckland experience with IT costs and integration of various systems (e.g. rating systems)
- the additional costs of an increased number of elected members and the extra support and infrastructure they will require
- the potential other costs or loss of income (e.g. 2% reduction in New Zealand Transport Agency funding)
- the cost of integrating planning documents, bylaws, long term plans, etc.

The report appears to imply that all the costs fall in the first year but savings continue on into the future. However, national and international experience indicates that many of the transition costs may be significant and may continue on into the future.

Statements on assumed savings without detailing potential increases in costs are likely to have a major influence on ratepayers' perceptions of the overall benefits of the

reorganisation proposal. Therefore, it is important that accurate and balanced information is provided to the public.

- 3 The extent to which the combined region is suffering from the local authorities existing inabilities to advocate regionally or grasp opportunities.

The report fails to identify where there have been lost opportunities to the region and why those opportunities have been lost. It appears that the report authors have picked up unsubstantiated views raised in submissions. The report should be more specific on the opportunities that have been lost through having two Councils rather than one. It should demonstrate that the specific reasons for these opportunities not being taken up are a result of having two Councils rather than one.

- 4 Impact on rates

Nowhere in the reports is there a clear discussion on the impact of rate changes on the ratepayers in Tasman District or Nelson City. This is likely to be an important consideration for ratepayers in both areas. For example, if the business differentials are removed from the Nelson business area, there could be significant rates increases for property owners in residential areas. Another issue is the risk of increased rates for Tasman ratepayers as Tasman has the greater proportion of capital value in the region. Our figures show that as a result Tasman ratepayers finish up paying for the greater proportion of the new combined operating cost. The omission of some scenario analysis of the rating impact is a major flaw in the reports.

Summary

As noted above, Council is concerned to ensure that members of the public are able to submit on the draft reorganisation proposal in the context of correct and balanced information being contained in the reports. Council considers that the public will not have that opportunity given the substantive inaccuracies identified above and the numerous other factual errors, omissions and unsubstantiated assertions identified in the attached Appendix.

Council considers that it is regrettable that the Strateg.Ease consultants never came back to the two Councils to check the accuracy of their interpretation of the information provided or to ensure it was used in the correct context. While some of the matters raised in the Appendix could be construed as fairly minor and individually may not be significant in terms of the conclusions, we have included them as collectively they paint an incorrect picture. Council considers that if consultants use numbers and information then they have an obligation to ensure they are correct, particularly when the public may use that information to make such an important decision on the future governance of the Tasman and Nelson area.

In view of these concerns Council resolved at its meeting on 19 July 2011 to write this letter to the Commission and to "ask the Local Government Commission to withdraw the Strateg.Ease report on the union of Nelson City and Tasman District which contains inaccuracies; to correct the errors, omissions and unsubstantiated assertions contained in

the report; then re-issue the report, undertake publicity that the corrected report is available and extend the submission deadline”.

A delegation from TDC would be happy to meet with the Local Government Commission to assist with factual clarification of any of the matters raised in this letter. We believe such a meeting would be of significant assistance to new members of the Commission.

Yours faithfully



Paul Wylie
Chief Executive

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