

# Autonomy and authority

Considering the case for structural change

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# At the crossroads: Defer decisions or drive change?

## The local government sector has a significant opportunity to drive change

Local government and its services are fundamentally important to the future of Aotearoa New Zealand.

Councils sit at the heart of our communities and play a vital role in creating the local conditions for people to thrive. They have a deep understanding of the challenges facing their communities and how wider policy choices affect the local area.

A wide body of evidence shows that constraints and crises provides fertile ground for innovation and progress. There's a reason for that well-used political aphorism that you should "never waste a crisis." Turning challenges into opportunities is at the heart of good leadership, including for local government leaders.

## Increasing demands and heavy financial pressures

The longstanding financial pressures across the sector are unprecedented and getting worse. From the smallest councils to the biggest, we are seeing these pressures in play as councils wrestle with Long-Term Plans and rates rises.

They are grappling with a convergence of cost pressures—from the need to adapt to climate change, "unfunded mandates", and demand for infrastructure in high-growth areas (New Zealand Productivity

Commission, 2019)—to macroeconomic factors such as inflation and interest rates, and the financial implications of new policy settings.

Average rates increases across the country are sitting at 15%, according to data in draft Long-Term Plans across 48 councils, which averages at about \$8 more per week per household (Infometrics, 2024). Previously, rates rises averaged 9.8% in 2023 and 5.7% per year between 2002 and 2022.

In parallel, Councils are also navigating changes with declining community engagement with local government. Voter turnout in local body elections has been on the decline for over 30 years. In 1989, voter turnout was 56%, compared with 42% in 2022 (Department of Internal Affairs, 2022). Results over the past four elections show that turnout is stabilising at around 42% or 43%, which is markedly lower than central government elections. Voter turnout at the recent Tauranga election was the lowest in a decade at 31%.

## Doing nothing isn't an option

The debate around many of those challenges often turns to the **structure and organisation** of local government. The question is often: What make-up of local government is best suited to address these challenges? These judgements go to the heart of the issues related to autonomy of decision-making and local service provision and the authority for local political leaders

to take informed decisions. These issues also go to the heart of the application of the principle of subsidiarity including allocating roles appropriately between levels of government, coordinating implementation of decisions, and managing accountability and participation.

For local-government leaders tackling the most pressing issues, it is important to go into those discussions with a clear understanding of where structure and organisation can make a difference and where it can't. Otherwise, Councils may find themselves simply rearranging deck chairs and not addressing the critical decisions communities require.

Ignoring these increasing pressures and strategic challenges is not an option for councils. At the same time, these issues are complex, and this paper does not suggest there are any simple answers.

This paper aims to help navigate a way through the decision-making challenges, providing local government leaders with a framework for shaping the change they want for their communities.



# Where can structure and organisation make a difference?

## Let's first be clear about what we mean by "structure" and "organisation"

The structures and organisation of local government can be considered both in terms of:

- » relationship to communities of interest
- » economic geography (labour market, location of service centres)
- » the tiers of government—for example, territorial authorities and regional councils
- » population coverage—for example, how many people does one local authority serve, and
- » service mix and alternative forms of delivery.

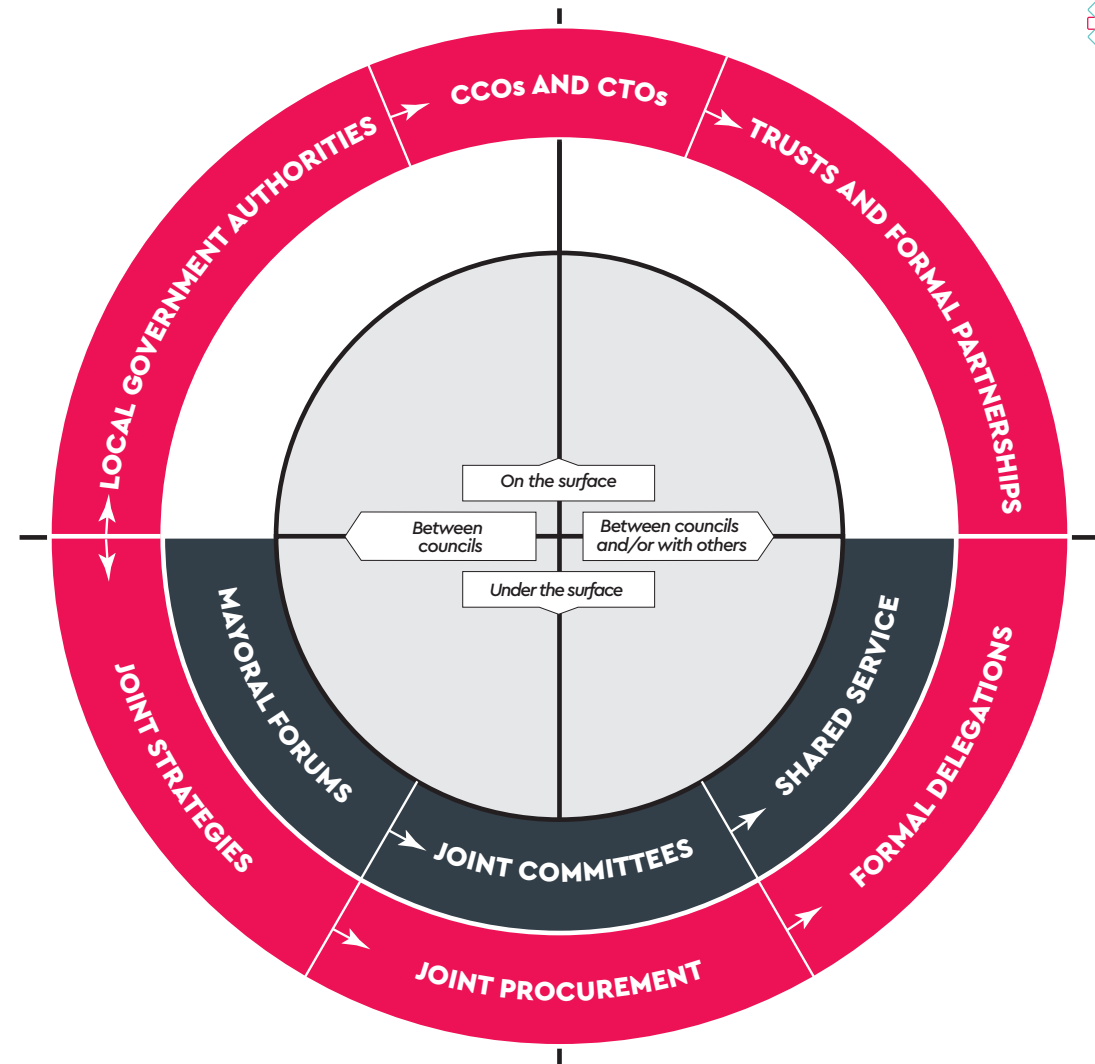
Particularly when measured by population coverage, New Zealand's local government is centralised and consolidated. Following the reforms in the 1980s, New Zealand went from having roughly one local government body for every 2,000 people to one for every 65,000. As a result, we have larger local government bodies, with the fourth-highest average local government size in the OECD (New Zealand Infrastructure Commission, 2022).

However, use of averages can be a distraction. The range of local government institutions varies markedly. We have a few large councils, and many very small ones. Half of the population is concentrated under the leadership of five councils.

Seventy-five percent of the population is governed by 19 councils. Twenty-two councils have fewer than 20,000 people. Thirty two councils have fewer than 10 people per square kilometre. We also have a number of urban areas that are split between multiple councils (e.g. Wellington/Hutt City/Porirua/Upper Hutt City/Porirua; Tauranga/Western Bay of Plenty; Christchurch/Selwyn etc). In this context, local government boundaries have not kept pace with changes in economic geography or increased urbanisation of society in general.

There are also vast differences in representation. In Auckland there are more than 80,000 people per elected member and at the other end of the extreme, in the Chatham Islands, there are 81.

Our local government also plays a smaller role in providing public infrastructure and services compared to other OECD countries. Only 26% of total public capital investment in New Zealand is by subnational governments, compared with the OECD average of 49% (New Zealand Infrastructure Commission, 2022). Therefore, when brought together, local government bodies in New Zealand service a large population, but with fewer levers than their international counterparts.



# Centralism vs localism?

## Discussions about structure and organisation can often seem binary

The structure and organisation of local government in New Zealand has been a constant discussion point since the current structure was put in place in the late 1980s.

On one side we have the push towards devolution and localism. This focuses on devolving power and decision-making to the people who live in a specific local area. It often goes hand-in-hand with the idea of smaller, more responsive forms of local government—something New Zealand is not seen as having.

By contrast, a push for greater centralism focuses on capturing efficiencies and economies of scale through amalgamations and larger government structures. It also enables the spreading of cost across larger population bases to address affordability issues for smaller communities.

## Localism and centralism can co-exist in theory, but this is a challenge to manage in practice

Getting the relationship between localism and centralism right is a delicate balance. In theory, they can co-exist—but in practice, it has proven hard to deliver on the expectations of local decision-making and control, and efficient service delivery. New mechanisms for local participation such as those available through participatory democracy mechanisms may offer a path through.

For example, even in a very centralised structure, you can have localism through devolving particular functions, harnessing local innovation, and having strong public participation in local decision-making. There are pockets of this happening right now across local communities.

## Is bigger always better?

The international literature on the case for increasing the scale of local government, by way of larger councils, is mixed. There are strong arguments mounted that size is not everything. Generally, scale tends to matter more when you have capital intensive investment requirements where there are arguments that support economies of scale or for spreading costs across a larger population. However, where local government provides a range of services that are more labour-intensive and often customer service-focused, then

it also makes sense to consider economies of scope—the wider the range of services, the most efficient the provision—these arguments particularly hold true for community service and community event type activities.

However, delivering services efficiently doesn't always require wholesale structural change. It might make sense to amalgamate certain services, such as water services delivery, while delivering other functions locally.

Where judgements are finely balanced, there are a range of options available that Councils should consider.

## Partnerships tackling environmental problems are drawing on localism

Approaches that draw on localism are being embraced under our current organisations and structures.

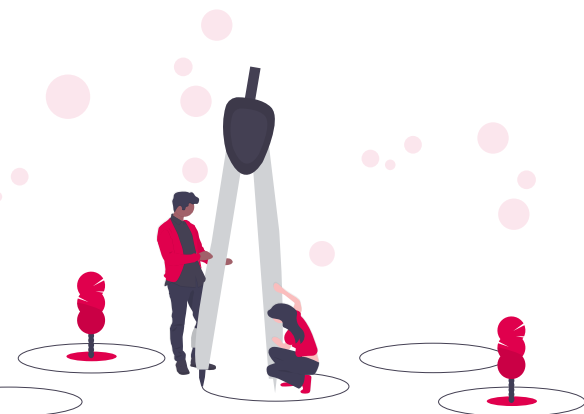
In the Bay of Plenty, the Regional Council has partnered with the iwi collective Te Wahapū o Waihi on a joint venture to restore mauri to the Waihi Estuary.

In Kaipara, through MartinJenkins' own work supporting councils, iwi, and landowners across the catchment, there we have seen a fantastic case study in new ways of working where central government supported local initiatives to remediate the Kaipara Moana.

## Local civil defence is an example of incorporating the benefits of centralism

Aotearoa New Zealand also has many longstanding embedded examples of bringing the benefits of a centralist approach to local delivery.

Many of our local civil defence groups act regionally, where a combination of local authorities come together to combine for the purposes of civil defence and emergency management. In these examples we have had exceptional experience of this model in action, however we have also had some practical examples that have challenged the tensions in the relationship between localism and centralism.



# Early moves by early movers

## The Government has said it does not intend to respond to the Future for Local Government report

In June 2023, the Future for Local Government Review Panel's final report made some recommendations about the future structure of local government across New Zealand. The Panel found that councils need new operating models and structures in the face of increasing challenges to the wellbeing of their communities. This review pulled together some of the themes of earlier similar work including by the Productivity Commission.

The Local Government Minister has said the Government prefers to focus on key issues facing local government, such as the need to reform funding and financing, and planning for long-term economic growth, housing and infrastructure. However, many of these issues still require individual councils to consider structure.

## LGNZ says local government is up for the conversation about structure

LGNZ members have since agreed there is a need for a fit-for-purpose system of local government that meets their communities' unique, local needs while addressing the complex challenges facing New Zealand.

They propose that in order to do both: *"We must collectively determine which services and activities are best delivered*

*locally, regionally and centrally—and how best to fund them. The form of a future local government system should follow these functions."*

*"While we need clarity on function first, after that local government is up for the conversation on form—and wants to lead it. There's an opportunity to transform the system as long as this is driven locally, with different places able to come up with their own solutions. Reorganisation might be right for some areas but not for others: one size doesn't fit all."*

*"These are essential elements of the transformed system:*

- » *power is devolved to local communities where that makes sense*
- » *a four-year term of local government*
- » *infrastructure investment that's fit for the future*
- » *continuous learning and system improvement*
- » *performance measurement and accountability*
- » *system stewardship is enhanced, including improving how local government honours and gives effect to Te Tiriti o Waitangi; and*
- » *opportunities to test out different governance and delivery approaches. This means recognising different areas need to be able to come up with their own solutions and approaches."*

## We can also see councils start to consider their future structure

Alongside the national debate, many councils are already starting to actively consider what their future structure and organisation needs to be to face the challenges ahead.

Within those discussions, there is a big emphasis on maintaining localism while looking towards efficiency gains and financial sustainability.

For example, councils across the Wellington region have been publicly discussing reorganisation options over the last few months, with a focus on consolidation. They have suggested merging nine councils into three, with:

- » the three existing Wairarapa councils being merged into one
- » Kāpiti and Horowhenua councils merged into one, and
- » Hutt City, Upper Hutt, Porirua, and Wellington city merged into one.

With this suggested arrangement, there would still be one regional council.

Others such as the three Wairarapa Councils have also been in discussions on their future with a similar focus.

We have also seen discussions of structure within the context of Local Water Done

Well, with councils in the Wellington region working together to explore options for establishing a joint water services organisation.

## Water service delivery is an additional catalyst for change

The example of Local Water Done Well has also required many councils to consider the benefits of working together and the costs of working apart. Through this approach, local government is being challenged to consider how to remove barriers to longer term decision-making rather than short term point in time analysis of which Council has invested more or less within the recent political decision-making period. Central government can help, by enabling the use of mechanisms to enable intergenerational costs to be spread and shared.



# **A 4D framework to support decision-makers**

# Complex problems need systemic solutions



Councils are facing tough decisions about how to operate and function over the next 10 years to ensure they are fit both to address future challenges and take advantage of opportunities.

To support these decisions, a whole-of-system mindset is needed. Rather than analysing problems in isolation, a systems approach examines how an issue is influenced by surrounding factors.

For councils, this means working collaboratively across the whole system of interdependent parts that shape the communities to which they are accountable.

## A single lens isn't enough

As with the localism versus centralism discussions, often we can see local government organisational and structural change being considered in a narrow way—for example, using a single lens such as efficiency. We also see discussions about structure occurring before discussions about functions—one of the prominent criticisms made about the Future for Local Government Final Report.

A focus on a single aspect like efficiency ignores the complexities of local government's functions and context. Councils are dual-purpose institutions responsible not just for local service delivery but also for providing a layer of local democracy.

A focus on a single aspect like efficiency also doesn't allow a real discussion about trade-offs.

## Four key dimensions to consider when seeking system change

In this section we outline a framework based around four dimensions of effective decision-making, to support system change for local government.

This draws on previous work done in New Zealand—including the Future for Local Government Review and LGNZ's localism work—and similar frameworks in comparable systems like the UK.

With the ongoing debate about structure in mind, and its particular focus on amalgamation, our aim with this framework has been to identify the key aspects that decision makers will need to consider as

they evaluate options, engage with their communities, and then make decisions on organisation and structure.

We know that nothing about these discussions is simple, and we don't propose a shift in one direction or another—for example, devolution rather than centralism. Instead, we set out what we see as the key considerations for thinking through structural and organisation change of any kind.

There is significant overlap and interplay between the four dimensions, but separating out these areas and tackling them individually allows decision makers to delve fully into the intricacies of each one.

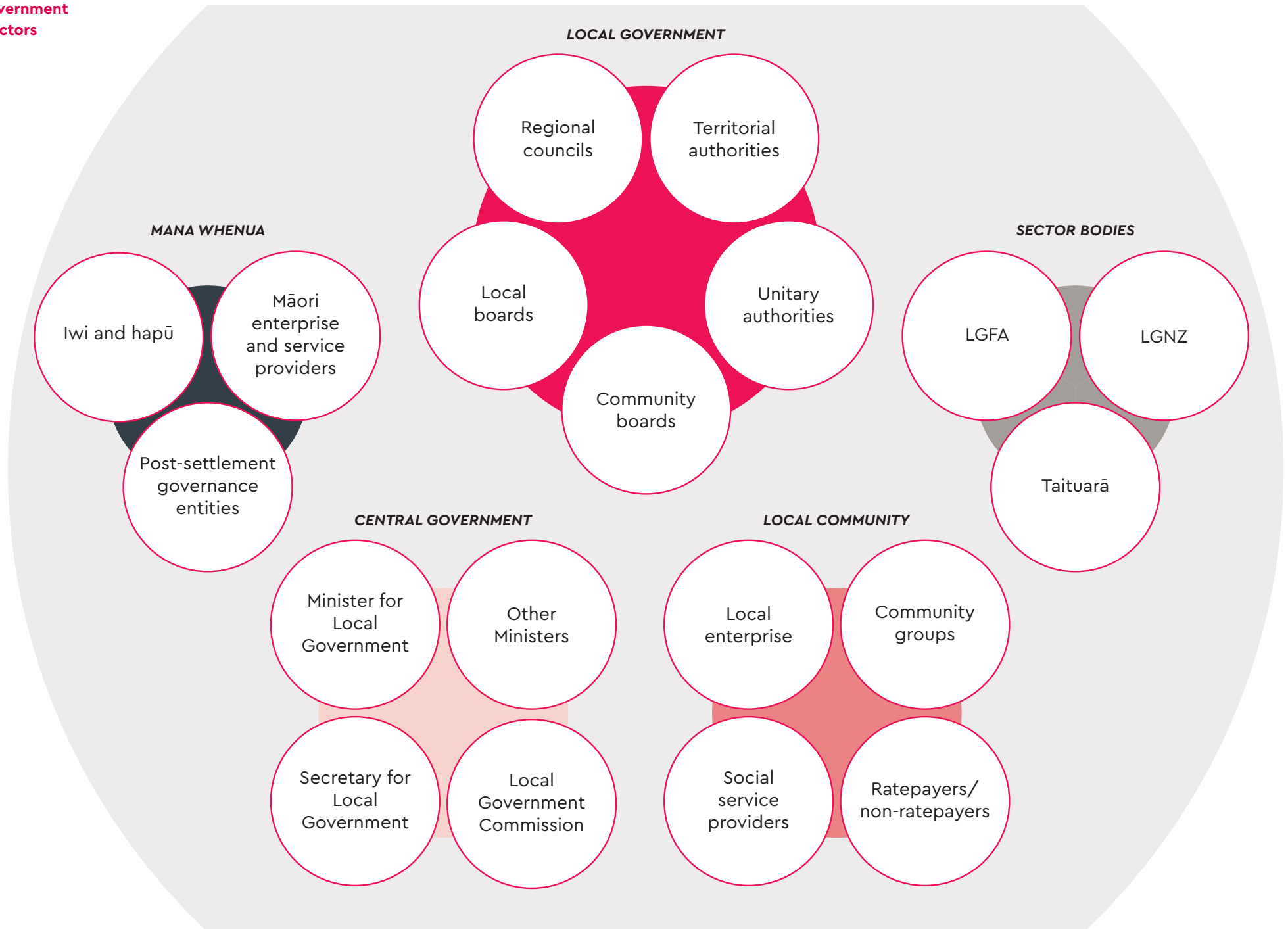
## Getting to positive, planned outcomes

We think this approach will help improve the chances of positive, planned outcomes. It also enables councils to make trade-offs within and across them.

We're also clear that form needs to follow function. Many of the factors we raise need to be considered across each council's different functions, and the outcomes of the analysis may vary from function to function.







# Four dimensions for decision makers to consider

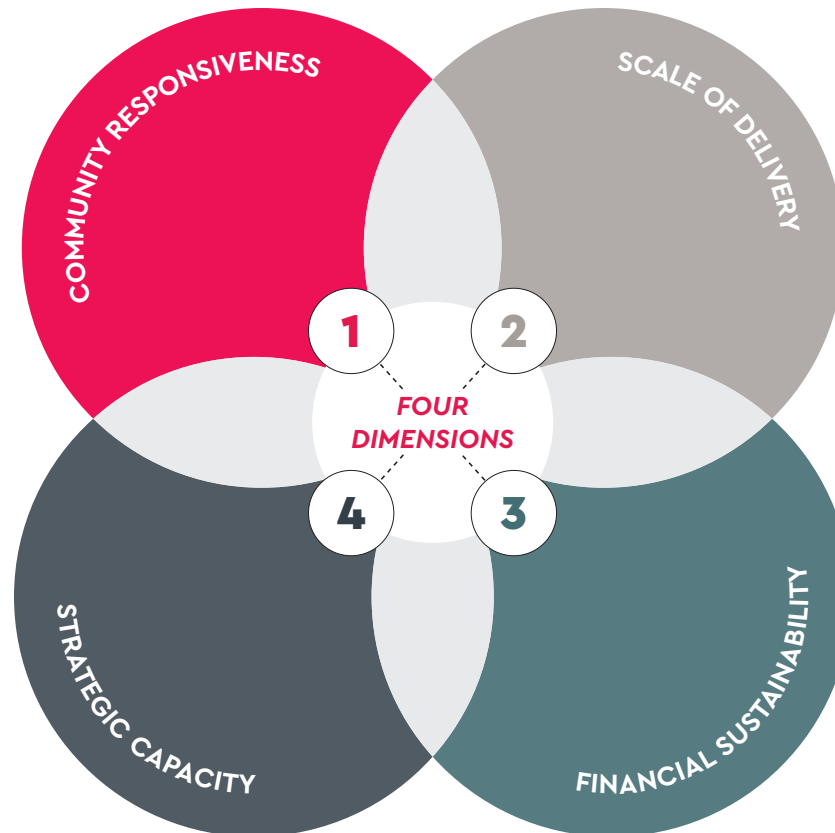
A framework for Councils to consider as they evaluate options, engage with communities and make make decision on organisation and structure.

## 1. Community responsiveness

- » How representative are we? Does our decision-making process bring in broad perspectives?
- » Do we have effective mechanisms for meeting our Treaty responsibilities and for understanding the needs of our Māori communities?
- » Can we show we understand and respond to the diverse needs of our community?
- » Do we have public support and sufficient social licence to operate?
- » Are the tensions and trade-offs relating to how decisions affect different members of our community well understood and evidenced?
- » What tools and approaches can we implement to increase representation?

## 4. Strategic capacity

- » Can we meaningfully measure our strategic capacity within the council (for example through performance measures, metrics, surveys, and comparisons)?
- » What capacity and capability will be most important for success? Do we have a pathway for the council to achieve that capacity and capability, including attracting and retaining talent?
- » Does the council have the capability to partner with other system participants, such as iwi and hapū, central government, funders, investors, and community partners?
- » Are we treating our council's officers professionally, and consistently with good-governance principles?
- » Are there other organisations who could do what we do more effectively for our communities?



## 2. Scale of delivery

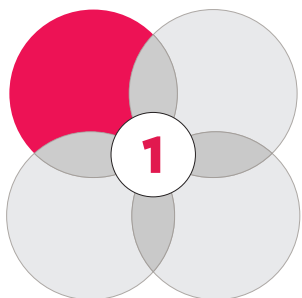
- » Which of our roles and functions lend themselves to being scaled up? Which ones do not?
- » Are there opportunities to harness scale —both with our regional neighbours and with iwi and hapū?
- » Are there opportunities for more community-led initiatives and more localised devolution?

## 3. Financial sustainability

- » Is the quality of financial information and analysis sufficient to enable the council to make informed decisions about what is affordable?
- » Do council officers feel empowered to give high-quality advice?
- » Are the costs of service delivery well understood and transparent?
- » Is the community's expected levels of service consistent with what they are willing and able to pay?
- » Are any cross subsidies well understood, tested, and accepted?
- » Are the costs of decisions now versus decisions later clearly identified, including the potential intergenerational impact and fairness?
- » Are we receiving good-quality advice on alternative tools and delivery models that could increase our financial sustainability?



# Community responsiveness



## Questions to ask

*How representative are we? Does our decision-making process bring in broad perspectives?*

*Do we have effective mechanisms for meeting our Treaty of Waitangi responsibilities and for understanding the needs of our Māori communities?*

*Can we show we understand and respond to the diverse needs of our community?*

*Do we have sufficient public support and social licence to operate?*

*Are the tensions and trade-offs relating to how decisions affect different members of our community well understood and evidenced?*

*What tools and approaches can we implement to increase representation?*

One of the main areas local government will need to think through when considering structural or organisational change is their ability to be responsive to local community voices. This challenge is varied given the high variation in the number of people per elected member. It is also important to ensure the needs of communities are well understood, including councils' specific responsibilities to iwi and Māori.

## Size vs representation: Are they counterposed?

Ensuring responsiveness to local communities can be difficult for both small and large councils. Smaller ones can struggle to find the necessary capacity and capability, while larger ones can be seen as too removed from the local community and its interests.

It's often noted that there's a relationship between the ratio of elected members to the population on the one hand, and trust in local government and voter turnout on the other. So, when the size of local government changes, concern about effective community representation is often front and centre.

However, there are many mechanisms you can use to enhance local democracy while you also move towards a more consolidated structure—for example, community and local boards, community committees, and community engagement tools like participatory democracy. These aim to ensure that local councils and their decisions reflect the communities they serve.

## Examples from Tāmaki Makaurau and Toronto

During the Auckland amalgamation, community representation and connection to local communities were actively considered as part of the debate. In the end, 21 local boards were established to maintain local representation and decision-making over local issues.

Concerns about representation, and different tools for achieving it, can also be seen in international examples. In the wake of Toronto's amalgamation, there were concerns that residents' access to local decision-makers would be diminished (Miljan and Spicer, 2015). The response was to establish a network of community councils in Toronto.

## Representation isn't enough

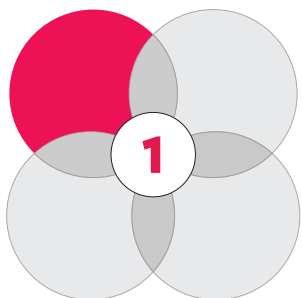
Evidence is clear that simply having representation in place isn't enough for effective local democracy—it's more complicated than that.

In the Auckland case, we've seen the debate about the "disempowerment" of local boards, with questions about their effectiveness, and the risk of them being easily captured by those with special issues to advance.

In its submission to the Royal Commission on Auckland's governance, Auckland City Council included research indicating a low level of public awareness or understanding of community board work before the amalgamation. Similarly, Toronto found that its community councils have largely fallen into a state of disuse and been reduced in number (Miljan and Spicer, 2015).



# Community responsiveness



## Auckland's current local boards

We saw these challenges play out in Auckland recently. Through its Representation Project, Auckland has reviewed representation across the council and the current number of local boards (Auckland Council, 2024). The current governance model is unchanged since it was set up in 2010.

As part of looking into consolidation, the review tested that empowered (and fewer) local boards may be better resourced to make important local decisions on behalf of their communities.

## Meeting Treaty obligations

Māori wards are seen as an effective way of recognising the significance of a Treaty-based relationship and ensuring Māori perspectives are brought directly to the council decision-making table (though they don't fully discharge councils' Treaty responsibilities).

LGNZ's view is that Māori wards have contributed to the highest representation of Māori elected members ever, and that they're a powerful tool for empowering local government to make decisions about their own communities.

## How to engage with and empower your communities

Effective representation is also about councils effectively engaging with and empowering local communities and making sure their voices inform and drive decision-making.

A key part of this is understanding the tensions and trade-offs involved with how decisions affect different members of your communities.

# Case Study

## Taupō District Council and Ngāti Tūrangitukua

In 2017, Mana Whakahono ā Rohe was introduced as a new statutory arrangement under the Resource Management Act (RMA), to provide a more structured relationship between tangata whenua (through their iwi authority or hapū) and local authorities. It's designed to help them discuss, agree on, and record how they will work together under the RMA.

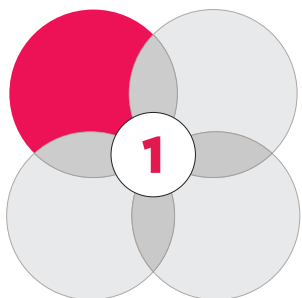
Taupō District Council and Ngāti Tūrangitukua used this statutory tool as a foundation and built on it further. After extensive discussion and negotiation, they created a new Mana Whakahono agreement that sets out to establish a genuine, equitable partnership covering issues under the RMA, the Local Government Act, and the Reserves Act.

The arrangement includes a co-governance committee, with equal numbers of council and Ngāti Tūrangitukua appointments. This gives mana whenua a voice in council matters and a key role in decision-making on specific matters that have been delegated to the committee.

Hinerauamoia Mohi, Chair of the Ngāti Tūrangitukua Māori Committee, emphasises the importance of this partnership in empowering hapū to share in decision-making for their town, highlighting the community's strong commitment to local autonomy. The Council and Ngāti Tūrangitukua have already worked together on several community-focussed initiatives, including a destination playground and a multi-million-dollar community sports facility.



# Community responsiveness



## Case Study

### Tackling the toughest issues: Irish abortion citizens assembly

The Irish Citizens' Assembly on abortion was an exercise in deliberative democracy that took place from November 2016 to April 2017. It consisted of 99 citizens randomly selected to represent the diversity of Irish society.

These citizens were tasked with examining the Eighth Amendment of the Irish Constitution, which effectively banned abortion in nearly all circumstances.

Over five weekends, the Assembly members engaged in informed discussions, listened to expert testimony, and reviewed public submissions. They concluded that the Eighth Amendment was not fit for purpose, and they recommended that it be repealed.

This led to a historic referendum in May 2018, where the Irish electorate voted overwhelmingly to remove the Eighth Amendment, thus allowing the Irish Parliament to legislate on abortion.

### Opportunities for participation

As well as thinking about representation, it's also important when exploring structural and organisational change to consider what tools are available to bring communities closer to decision-making.

Citizen-led decision-making is usually described as taking one or both of two forms—"participatory" and "deliberative". Both provide meaningful opportunities for citizens to be directly involved in policy decisions.

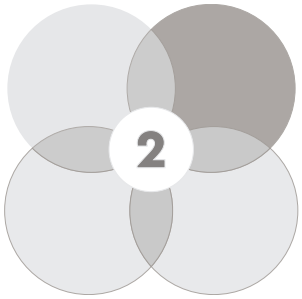
Mechanisms for "participatory" democracy capture the voices and views of large numbers of citizens. Increasingly powered by technology, these mechanisms are designed to involve all citizens who are willing and able to engage, with participants self-selecting.

"Deliberative" democracy on the other hand usually involves smaller groups of people who've been invited to participate. The group has a diverse membership that reflects the relevant population and is randomly selected to remove (observable) biases that can come with self-selection.

Both sets of tools offer opportunities for local government to harness community voices in local decision-making.



# Scale of delivery



## Questions to ask

*Which of our roles and functions lend themselves to being scaled up? Which ones do not?*

*Are there opportunities to harness scale—both with our regional neighbours and with iwi and hapū?*

*Are there opportunities for more community-led initiatives and more localised devolution?*

Discussions about the structure and organisation of local government more often than not touch on service delivery—including its effectiveness and quality, its efficiency, and the cost.

Some specific functions will always present opportunities to achieve scale in service delivery. We already see that with many local councils in New Zealand who are working across boundaries and sharing resources.

However, this won't be true for all functions. Decisions aimed at seeking benefits through consolidation at the organisational level need to be carefully thought through—there will be some cases where consolidation will make sense, and others where it won't.

### Identifying where potential economies of scale exist

Economies of scale exist when long-running average total costs fall as the scale of production increases. It's generally thought there will be more opportunities for this when fixed costs make up a large proportion of total costs.

For some services, like water, wastewater, and solid-waste management, economies of scale are more likely to be evident in some parts of the service delivery arrangement (like design, procurement, and programme management) than in others (like local works delivery).

The Royal Commission on Auckland's governance initially estimated that the structural change would result in efficiency gains of \$76 million to \$113 million per year. While there many opinions as to whether this has been realised, we know that at

least some efficiencies have been achieved.

The Tasmania Review that considered the future of local government there also noted that delivering services at greater scale would result in more effective and more sustainable delivery. The SGS Greater Hobart and KPMG South-East Councils feasibility studies identified potential efficiencies of, respectively, \$19 million and \$7.6 million per year as a result of consolidating councils.

### Large size = cost-effective?

However, new evidence raises a question as to how conclusively it can be said that local government's size affects cost-effectiveness.

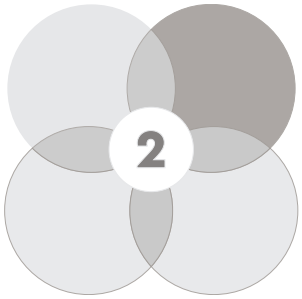
Our Infrastructure Commission (2022) examined this issue using data for three standardised types of local government services that together represent over 50% of total local government operating expenditure—namely:

- » road maintenance
- » building consent processing, and
- » overhead costs for governance and support services.

Across all three of those local government services, the Infrastructure Commission found that council size (measured by number of residents) was neutral for cost efficiency—in other words, that an increase in council size does not decrease or increase cost-efficiency. The Commission warned that future analyses of local government structures should not assume that structural changes will improve efficiency.



# Scale of delivery



So, while there can be efficiencies and economies of scale from consolidation for particular functions, there is a question about whether consolidation should be the sole focus for change. Further, discussions about consolidation need to take into account the benefits of tailored localised delivery in meeting community needs.

It will be important for your council to understand where the specific opportunities lie for particular functions in your local area.

## Carving out central government functions

Scale of service delivery also isn't just about adjusting current local government functions. Much of the debate around localism and scale centres on local government's ability to take on central functions and step into centrally led processes, creating bespoke local carve-outs. Local government is close to communities, and so can bring a depth of community knowledge that central government will never be able to.

As the New Zealand Initiative argues (2024), a local community should be able to negotiate their own carve-out if they think central government's regulations or policies aren't fit for local purposes. If that experiment succeeds, others could take it up; if it fails, the experiment would only have been relatively small-scale.

So, are there opportunities in your area for local government to take ownership of typically centralised functions?

## More use of locally led approaches

The debate around localism needs to look further than the issues of scale and devolution, as there will also be opportunities to make more use of locally led initiatives and approaches in the existing context.

In many cases, a localist approach will not in fact require central government to change anything and will enable it to harness scale in a different way.

Localised and devolved delivery, just like scale and joined-up delivery, can happen right now, and we're already seeing this.

## Case Study

### Kauraka e Mataku, kia Takatū: Ngāi Tahu Emergency Preparedness at scale in Te Waipounamu

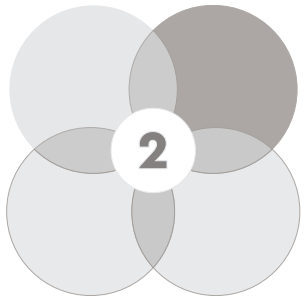
Te Rūnanga o Ngāi Tahu and the AF8 Programme are tapping into mātauranga Māori and Ngāi Tahu creation stories and weaving them with scientific knowledge to drive home the message of emergency preparedness.

It's highly likely that a magnitude 8+ Alpine Fault earthquake (AF8) will happen within the next 50 years. An earthquake of that size would cause widespread damage and disruption across Te Waipounamu (South Island).

This programme recognises marae led responses in emergency events and implements the values of manaakitanga and kaitiakitanga through providing aid and shelter.



# Scale of delivery



## Case Study

### Tasmania's review of local government: Scale of service delivery

At the same time as New Zealand's own Future for Local Government review, the Tasmanian Government commissioned the Local Government Board to review the role, function, and design of local government in Tasmania. The recommendations in the Board's final report, released in late 2023, included consolidating local councils to achieve efficiencies in service delivery.

The final report recommended a combination of larger, more capable councils and some targeted service sharing. This would achieve the required scale for the area, while still having councils that are local and responsive enough to cater to the unique and diverse needs of their communities.

The majority of new councils would have populations above 10,000, which the Board believed would give them sufficient scale to be viable, both in terms of financial sustainability and also their ability to meet administrative and regulatory requirements.

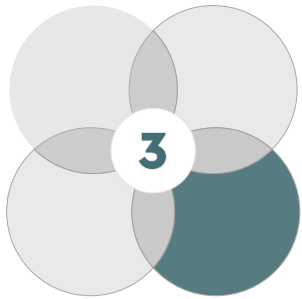
The Board adopted this approach after examining the impact of scale on the efficiency and effectiveness of council operations. The Board noted significant capability gaps with the existing councils, which were manifesting in substandard delivery of regulatory functions such as building and plumbing inspections and environmental health. Not only were these smaller councils failing to meet required standards, their per capita operating costs were also significantly higher.

The benefits of increasing scale across Tasmanian local government were also highlighted in the submissions the review received. 73% of local councils that submitted agreed that increased scale, through consolidating councils or some services (or both), would enable councils to provide better services. Nine councils advocated the merits of shared services, while six advocated for some form of amalgamation.





# Financial sustainability



## ? Questions to ask

*Is the quality of financial information and analysis sufficient to enable the council to make informed decisions about what is affordable?*

*Do council officers feel empowered to give high-quality advice?*

*Are the costs of service delivery well understood and transparent?*

*Is the community's expected levels of service consistent with what they are willing and able to pay?*

*Are any cross subsidies well understood, tested, and accepted?*

*Are the costs of decisions now versus decisions later clearly identified, including the potential intergenerational impact and fairness?*

*Are we receiving good-quality advice on alternative tools and delivery models that could increase our financial sustainability?*

The issue of financial sustainability can go hand in hand with the scale of service delivery, but we are purposely discussing them separately because of the complexity of these issues.

### Financial sustainability and size

Debates about council consolidation, amalgamation, and devolution often focus on the financial sustainability and viability of local councils. We know that our smaller councils in particular face financial struggles due to:

- » a small ratepayer base limiting their ability to invest in infrastructure
- » high fixed costs per ratepayer, and
- » lower purchasing power.

Physical infrastructure dominates the operating and capital expenditure of many rural or provincial communities, with dispersed populations and a large amount of roading and water infrastructure per head (Productivity Commission, 2019). The need to maintain and renew infrastructure can result in these councils having high fixed costs and a limited ability to reduce levels of service, leading to higher costs per ratepayer if the rating base isn't growing.

On the other side, larger councils generally have a bigger revenue base, and more purchasing power. Larger and consolidated local governments can offer greater fiscal capacity, more ability to borrow, and larger taxation capacity.

### Amalgamation in Australia

We have seen this play out quite prominently in Australia.

In 2008, Queensland's local government went through significant amalgamation, which resulted in 70% of local government

being merged into larger entities. One of the drivers was the financial sustainability of these councils, which failed to comply with the Queensland Treasury Cooperation's financial sustainability indicators (McQuestin, 2022).

Similarly, the Tasmania Future of Local Government review also noted that one of the main drivers of change was financial and operational sustainability, with the current system of local government being structurally unsustainable in the medium to longer term.

It's important that advice to councils and council decisions are informed by the financial viability of the services received by their communities, as well as by the impact this has on the financial viability of the council itself.

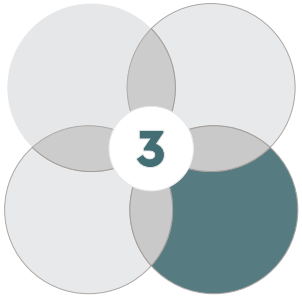
A study of amalgamation in Tasmania's Tamar Valley (merging George Town and West Tamar Councils) found there could be indicative savings of around \$1.3 million per year over 10 years (KPMG, 2018).

However, the financial advantages of council consolidation aren't straightforward. Since the mergers in Queensland, projected savings predicted from the amalgamations largely failed to materialise.

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# Financial sustainability



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## **Structure—not the main driving force**

Therefore, while consolidation can provide financial gains, it shouldn't be seen as the main driving force for financial sustainability. Financial sustainability can be influenced by a range of factors, such as debt caps and rating bases, and it can be improved through a range of mechanisms.

The Local Government Association of Tasmania (2019) made a similar point, arguing that cost savings should not be the primary goal of reform, and that problems caused by a lack of sufficient funding or defects in the funding process are unlikely to be solved through structural reform. They noted that these problems raise questions about the equitability of local government funding, not structure.

# Case Study

## **Council-Controlled Organisations as an alternative delivery model**

Local government is facing significant financial challenges in its role of providing services to communities, mainly because of aging assets and limited funding. CCOs offer a potential solution.

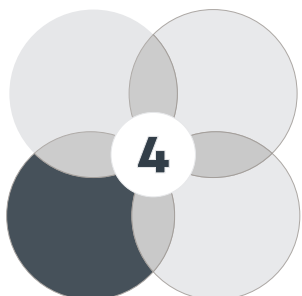
CCOs are community-owned entities that provide services to the community—meaning they must be accountable to the community as they carry out commercial activities. They can ensure that services are delivered with a defined focus, commercial expertise, and independence, which has financial advantages.

CCOs provide for:

- » a focus on a specific area with a limited set of business objectives, rather than the multi-faceted and often competing objectives that councils and central government face—that tighter focus can improve governance, strategy, risk management, and ultimately outcomes
- » a structure that insulates a council from financial liability and risk and provides for a broader range of funding sources
- » greater transparency and accountability, with specific performance measures and regular reporting against them—this will often provide more rigorous accountability than if the functions were carried out from within the council, and
- » an ability to respond more quickly and flexibly to opportunities and challenges, and greater continuity in investment and decisions.



# Strategic capacity



## **?** Questions to ask

*Can we meaningfully measure our strategic capacity within the council (for example, through performance measures, metrics, surveys, and comparisons)?*

*What capacity and capability will be most important for success? Do we have a pathway for the council to deliver that capacity and capability, including attracting and retaining talent?*

*Does the council have the capability to partner with other system participants, such as iwi and hapū, central government, funders and investors, and community partners?*

*Are we treating our council's officers professionally, and consistently with good-governance principles?*

*Are there other organisations who could do what we do more effectively for our communities?*

Strategic capacity is the dimension that draws it all together. Strategic capacity is less about financial sustainability, and more about councils having the skills and resources needed to act as high-capacity organisations and to identify and respond to pressures facing their community.

We are seeing this issue of strategic capacity become more and more prominent in reform discussions overseas, particularly in Australia. There, local government reforms have slowly shifted from economies of scale and efficiencies towards strategic capacity, which can be seen as building on economies of scope.

### **What does strategic capacity look like?**

Put simply, strategic capacity is the ability of councils to set key directions and priorities and develop strategies to achieve the outcomes the community wants.

For councils, this means the following:

- » the ability to employ a wider range of skilled staff and providing meaningful career pathways
- » expertise, knowledge, creativity, and innovation
- » advanced skills in strategic planning and policy development
- » effective regional collaboration and community engagement
- » credibility for more effective advocacy
- » being a capable partner for other system participants (iwi/hapū, central government, funders, investors, and community partners), and
- » resources to cope with complex and unexpected change.

### **What shapes strategic capacity?**

We know that smaller councils can struggle to attract the skills and capability they need, which makes it harder for them to have strategic capacity. By contrast, larger councils can invest strategically in economic development and attract businesses and residents.

However, size is not the only influence on strategic capacity. All councils can lean on partnerships and relationships to ensure they are able to drive change.

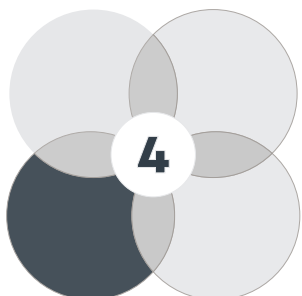
Citizens can play a meaningful role in the increasingly complex and specialised tasks that councils need to perform, through tools such as deliberative and participatory democracy (Mike Reid, 2019). Evidence is growing that citizens are becoming more directly involved in the business of governing.

Councils are responsible for a complex investment and service-delivery mix, and they need to be well informed so they can assess whether they're getting the high-quality advice necessary for supporting good decisions.

The Office of the Auditor General also holds up an important mirror on local government's capacity and capability to deliver their core functions, including by overseeing the procuring of more than \$8 billion in goods and services annually. The OAG also provides important advice to councils on developing meaningful performance measures and information that in turn supports communities to hold councils accountable.



# Strategic capacity



## Increasing your council's strategic capacity

A range of mechanisms can increase strategic capacity within councils —including establishing common standards and guidelines, sharing resources and staff, joint procurement, providing services across boundaries, coordinating decision-making and acting jointly, and forming separate bodies such as CCOs and CTOs for shared service delivery or commercial delivery.

The nature of that arrangement needs to be informed by the decision-making rights and capacity and capability required in the area concerned. Finally, and critically, the capacity and capability for councils to maintain effective and meaningful relationships with iwi and hapū within their rohe or takiwā.

# Case Study

## Core principles for infrastructure decision-making

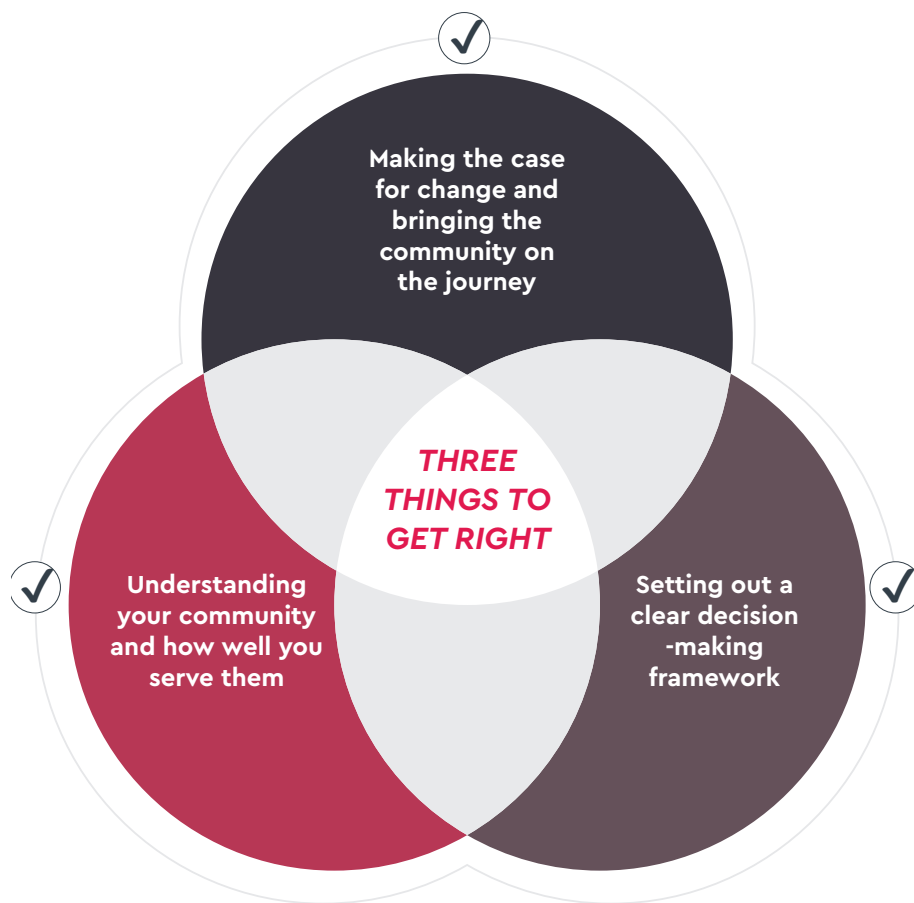
The New Zealand Infrastructure Commission Te Waihanga does extensive, high-quality research on the quality of infrastructure investment decision-making in Aotearoa New Zealand. Based on international evidence that it has adapted for local conditions, the Commission has set out core principles for infrastructure decision-making in its strategy Rautaki Hanganga o Aotearoa 2022–2052:

- » Infrastructure problems and opportunities are quantified as part of long-term planning
- » Delivery agencies identify infrastructure needs in response to quantified infrastructure problems
- » Delivery agencies invest in feasibility studies to scope potential options
- » Where infrastructure need is identified, steps are taken to ensure potential options can be delivered affordably
- » A detailed analysis of a potential project is undertaken through a business case
- » Delivery agencies assess alternative funding sources for each potential project
- » Meaningful stakeholder engagement is undertaken at appropriate points throughout project development and delivery
- » All information supporting infrastructure decisions is publicly released
- » Stages and post completion reviews are undertaken and publicly released
- » Where a project is funded as part of a broader programme, the corresponding decision-making process is robust and transparent and prioritises value for money.



**Getting ready to  
create change**

# How to prepare for the big decisions



Local authority decision makers are in good company when they get criticised for kicking the can down the road on hard decisions, particular those relating to infrastructure. Much of the work on the New Zealand Infrastructure Commission and the proposed Infrastructure Agency is aimed at ensuring decision makers are better informed about the long-term impact of decisions.

We see this issue play out most directly in the area of mitigating and adapting to climate change. It's too late to undo the changes already in train—we need to adapt to living with climate change. We're making progress in reducing emissions (and must continue to do so), but we're well behind in our efforts to adapt. Unless we get better organised and more proactive, we'll be constantly scrambling to recover from the devastation caused by the latest record-breaking weather event.

## How to prepare for the challenging decisions

The next few years will see local government having to front challenging conversations with communities, neighbouring councils, iwi and hapū, and central government. This means that decision-makers will be faced with extremely tough and challenging decisions that will have long lasting community impacts.

The significance and importance of decision-making in this situation will require disciplined thinking and quality advice. Therefore, alongside the four dimensions, we have set out three foundations to drive settle.

## Three things to get right

### Understanding your community and how well you serve them

You already know it's important to understand your local communities and gather insights into how well you're performing and serving your community.

Part of this process of understanding is about building partnerships. You're not in this alone, and strengthening partnerships, both locally and across borders, to build a clear vision and align agendas will be at the front of any change.

### Setting out a clear decision-making framework for a specific decision

Decision-making should be guided by clear principles and frameworks to ensure that tough decisions can be made. This will help you work through complex issues and evaluate different trade-offs that need to be made.

The case study on this page presents an example of a decision-making framework that we used to support Napier City Council make a challenging decision about their role in council housing.

### Making the case for change and bringing the community along on the journey

Develop a clear case for change, including gaining top down and bottom-up buy-in. A key step in this is ensuring the challenges being faced are well understood, and that the options are being fully examined.

Transparency around existing performance also helps catalyse honesty about the need for change—and there are innovative new practices in place across the country that exemplify good practice.



# About the authors



**Sarah Baddeley**

Sarah Baddeley is a Partner and Board member at MartinJenkins. Known for tackling complex problems, she offers strategic insights and practical solutions. Trained as a commercial regulatory economist at the New Zealand Treasury, Sarah's experience spans the public and private sectors, covering water, energy, transport, labour markets, housing, environment, and local government.

She has led assignments on joint ventures, collaborative work, and partnerships between local and central government, community organisations, and mana whenua. Sarah excels in strategic reviews, business cases, section 17(a) reviews, budget bids, and multidisciplinary analytical thinking.



**Susan Burns**

Susan is a Managing Principal at MartinJenkins. She has a proven record of successfully leading complex policy projects. Susan is a thoughtful analyst and strategic thinker who can look across systems to analyse and resolve difficult policy problems.

Susan has in-depth knowledge and experience in policy areas related to local government, housing, and urban development. With extensive experience providing Ministers and Elected Members with high-quality analysis and advice, Susan has a fine understanding of the need to balance official priorities with practical realities.

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