

Wellington/Wairarapa Financial Analysis Report

To support a Head Start Proposal
Final Report



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Specific limitations of this analysis

This report contains high-level, indicative modelling results to inform councils' consideration of Head Start options. However, as noted throughout the report, it should not be relied upon for decision-making as it is based on unverified information and broad assumptions that may not be applicable once proposals are more fully developed. We recommend further, more detailed financial analysis is undertaken once the final shape of the proposal is further developed.

The findings of this report are significantly influenced by key judgements relating to the level and apportionment of regional council non-rates income and costs, the level and apportionment of central government subsidies and grants, and assumptions about establishment and transition costs and potential for savings. Changes to these assumptions could materially change the findings and conclusions of this report.



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Executive summary



Summary of key findings

Context

The Head Start process requires councils to assess their current governance and service delivery arrangements and demonstrate responsible and affordable asset management, infrastructure investment, and service delivery.

Financial impacts should not be viewed in isolation and, in terms of the case for amalgamation, relative differences in cost efficiency are not the most critical driver of the choice of model. Equal consideration should be given to the wider outcomes sought by councils through reform, including stronger regional leadership, effective local representation, improved service delivery, environmental stewardship and enduring partnerships with mana whenua and community.

Overall position

Collectively, the councils of the Wellington/Wairarapa region face significant financial headwinds, including rising input costs, high asset replacement costs, significant demands on investment, deteriorating operating budgets, and increasing debt servicing costs. These headwinds translate into increasing pressure on rates and worsening affordability.

Looking ahead, these pressures are forecast to continue, with councils' current projections indicating that, collectively, they expect rates revenue per rating unit to increase by an average of 5.7% per annum, with rates as a share of total revenue increasing from 49% to 62% over the next 10 years.

Councils also face significant exposure to risk from natural hazards, extreme weather and asset failure. Our analysis indicates several smaller councils, and the most indebted councils, are vulnerable to even moderately sized shocks.

Under a conservatively assumed \$50 - \$150 million shock, and in the absence of central government support, some councils would exceed their current

borrowing limits and/or exhaust their remaining borrowing headroom, while larger councils would face significantly diminished financial capacity. Of relevance to the amalgamation options under consideration, borrowing capacity is not always located where risk is concentrated.

Financial assessment of options

The amalgamation options under consideration have a range of potential financial benefits and costs that vary across the different configurations. The key findings of our assessment include:

- **Amalgamation options offer the potential for savings net of transition costs.** All amalgamation options have the potential to be net financially beneficial, but the extent of benefits varies with the scale and complexity of the option and depend on the assumptions made. On a per rating unit basis, the present value of net savings over 25 years falls within a narrow range of \$3,900 to \$4,500 across the options.
- **The potential loss of intraregional subsidies could offset any savings benefits for Wairarapa ratepayers.** Within the region, there are apparent mismatches between the amount of regional council rates revenue collected from ratepayers, and the regional council's estimated cost of delivering activities within those areas. This mismatch is most significant for Wairarapa. Even after reducing the level of regional costs and increasing the share of Centreport dividends allocated to Wairarapa, a significant funding gap remains. By comparison, the share of regional rates paid by Kapiti residents is sufficient to meet the costs of regional activities.
- **While a Wairarapa Unitary Authority would have choices about how to close that gap, it is plausible that rates revenue would need to increase to balance the budget.** A future Wairarapa Authority would need to weigh its options carefully, including considering changes to levels of service, finding

greater savings, and/or increasing revenue. Given the size of the funding gap, an increase in rates could outweigh any amalgamation-related savings under stand-alone configurations.

- **Amalgamation offers significant scope to increase financial resilience and reduce vulnerability to shocks.** This is probably the most certain financial benefit from amalgamation, with balance sheet consolidation relieving borrowing constraints for smaller councils and councils with higher levels of indebtedness. Given the significant risk profile across the region, amalgamation offers greater financial resilience through diversification of risk across geographies. These benefits are dependent on an amalgamated authority using this greater flexibility wisely.
- Our analysis indicates **all amalgamation options could absorb a significant shock while remaining within their LGFA debt limits and retaining borrowing headroom.** This indicates a significantly greater capacity to absorb unplanned costs relative to the status quo.
- **The largest configurations offer the greatest financial resilience benefits.** Under a \$150 million shock, the Single Regional Unitary and Western Area Unitary configurations retain approximately \$2.1–\$2.6 billion of borrowing headroom, compared with \$103–\$208 million for the North Western and Wairarapa Unitary configurations. A shock of this size would represent a much smaller share of annual revenue for the larger unitary options (around 6–7%) than for the Wairarapa (77%) or North Western (41%) Unitary options.

This high-level, indicative analysis is sufficient for supporting council decision making at this phase of the Head Start pathway. Further and more detailed analysis would need to be undertaken to ensure any future reform focuses as much on achieving the desired (and consistent) service levels and community outcomes as on pursuing potential efficiency savings.



Introduction



The Head Start process requires councils to demonstrate a sustainable future

Joint councils in the Wellington/Wairarapa region engaged MartinJenkins to undertake an indicative, high-level financial assessment of potential amalgamation options under the Government's Head Start pathway

The Head Start pathway requires participating councils across New Zealand to assess their current governance and service delivery arrangements and demonstrate responsible and affordable asset management, infrastructure investment, and service delivery.

Councils that are willing and able can lead their own reorganisation now. Government has signalled that those that do not come forward will be reorganised through a compulsory backstop process after the 2028 local elections.

Councils also need to consider whether existing arrangements will continue to meet community expectations regarding levels of service, deliver the economies of scale and simplified governance the reforms are intended to achieve, support the new planning system replacing the Resource Management Act, and maintain fair and effective local representation, while remaining affordable for communities.

Financial sustainability is a core test of Head Start proposals

Outline proposals are expected to demonstrate that a new unitary authority can stand on its own two feet. This means that:

- regional and territorial functions are consolidated into a single entity, removing duplication so that ratepayer funding is used efficiently across the combined organisation
- rates and other income generate sufficient revenue to fully-fund the operating and financing costs of the new authority over the medium-term, at levels that remain affordable for communities, and
- investment to maintain and renew assets, to meet future planning and regulatory requirements, and to provide for growth can be funded and financed on a sustainable basis.

A new unitary authority is expected to offer financial benefits compared to retaining the status quo

A larger, consolidated unitary authority has the potential to strengthen its balance sheet and maintain greater aggregate borrowing capacity, thereby contributing significant financial resilience benefits relative to individual councils. This is a particular benefit for smaller and more indebted councils, who are susceptible to financial shocks

under the status quo.

In addition, the greater scale of a combined authority, its ability to smooth investment (geographically and over time), and the potential for rationalisation of duplicated functions, mean there is the potential for cost savings compared with retaining separate councils. The extent to which these savings are realised will depend on the quality of implementation as well as how costs are allocated across the different configurations under consideration.

This report demonstrates how different unitary authority configurations could generate benefits for ratepayers of participating councils, collectively and individually. However, we note the analysis is high-level and indicative in nature and subject to several important limitations. Significant further work would be required to fully understand the financial benefits, costs and risks of any specific amalgamation scenario.



This analysis is high-level and directional, informed by council data and a common set of assumptions

Information inputs

In preparing this analysis, we have relied on information provided to us by participating councils and the modelling is underpinned by high-level assumptions developed in consultation with council officers and endorsed by Mayors and Chair.

Information collected from councils included long-term financial forecasts, capital investment programmes and supporting financial data. Specifically, this included Long-Term Plan and Annual Plan forecast financial statements (FY24–FY34), depreciation forecasts, selected balance sheet information (including debt and cash reserves, excluding water activities), rating unit projections, and long-term capital expenditure programmes (FY24–FY54).

Where councils had not already excluded water services from their forecasts, water activity financial information was obtained to enable these activities to be removed from the analysis. Kāpiti Coast District Council was treated as an exception, as water services will be delivered in-house.

Where required, adjustments have been made to improve comparability across options and consistency of assumptions. Key adjustments include normalisation of interest rates and assumed inflation rates.

Assumptions

The assumptions set out in this report guide the range of modelled outcomes and inform our overall conclusions regarding the financial viability and sustainability of the unitary authorities in each configuration.

In particular, assumptions have been made about inflation, interest rates, as well as fiscal rules (balanced budget approach has been adopted, consistent with LGA requirements). Configuration specific assumptions have also been made for each unitary option, including transition (set up) costs, ongoing efficiencies (savings), and timing of establishment and costs and benefits realisation. These assumptions were agreed by all councils as reasonable prior to commencing the analysis.

Changes to these underlying assumptions could have a material impact on the outcomes presented in this report.

There are several reasons why caution is warranted in interpreting the results

Basis of apportioning regional council costs

Greater Wellington Regional Council (GWRC) costs have been allocated using activity-specific drivers such as population, general rates proportions, work programme effort, and the location of costs and staff. We largely relied upon analysis undertaken by

GWRC, with several noted adjustments. Modelled financial outcomes are sensitive to this cost apportionment and further detailed work would be required to confirm these allocations as part of any future reorganisation.

Basis of apportioning NZTA subsidies

Current public transport funding arrangements include significant NZTA subsidies, with intra-regional transfers reducing the net costs of transport activities for some parts of the region. The modelling assumes these subsidies would be aligned to the underlying cost of service delivery, which has a material impact on estimated funding requirements and rating outcomes.

Level of overhead

The modelling includes assumptions about future overhead costs and applies adjustments where appropriate. The extent to which governance, management and support costs can be reduced or shared through reorganisation remains uncertain and could materially affect realised savings.

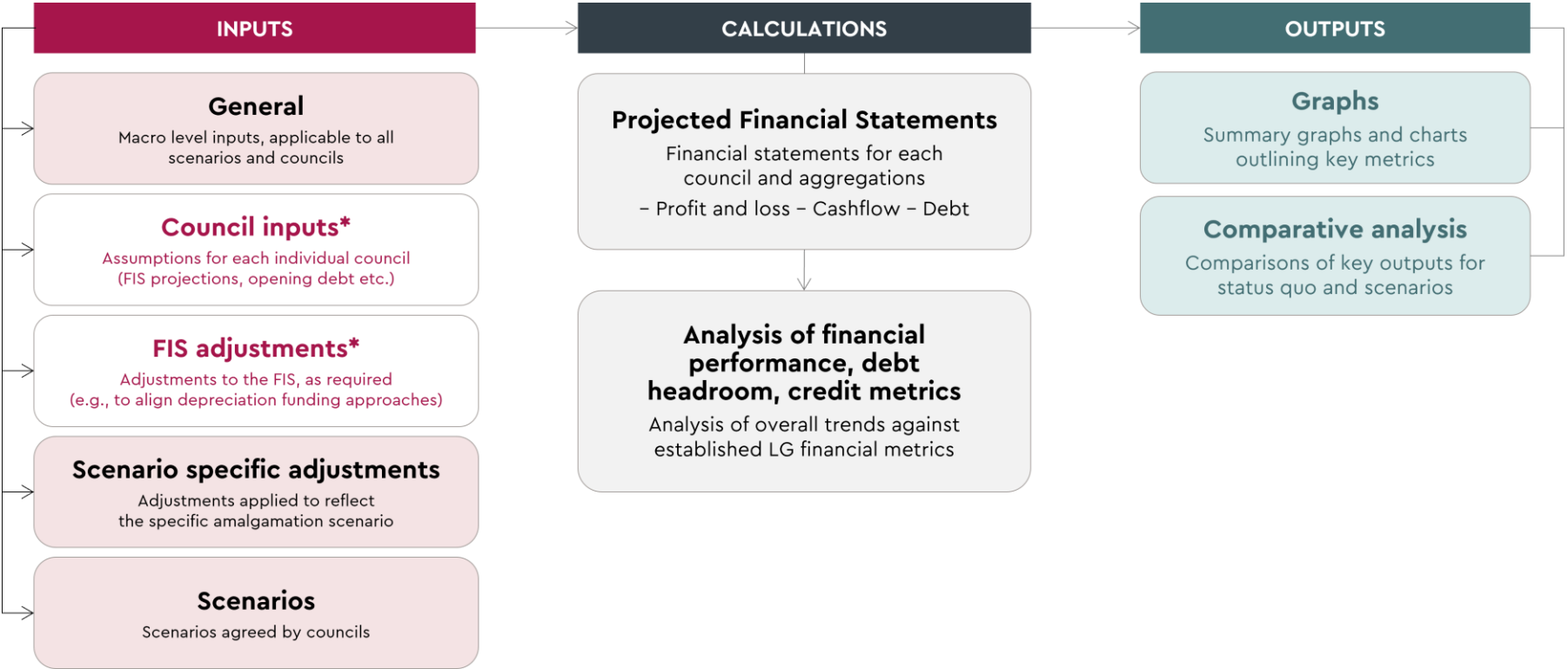
Levels of service differences

The analysis does not account for differences in service levels, standards and delivery models across councils. Changes to service levels, asset standards, or local delivery arrangements following reorganisation could result in costs that are higher or lower than those illustrated in the modelling.



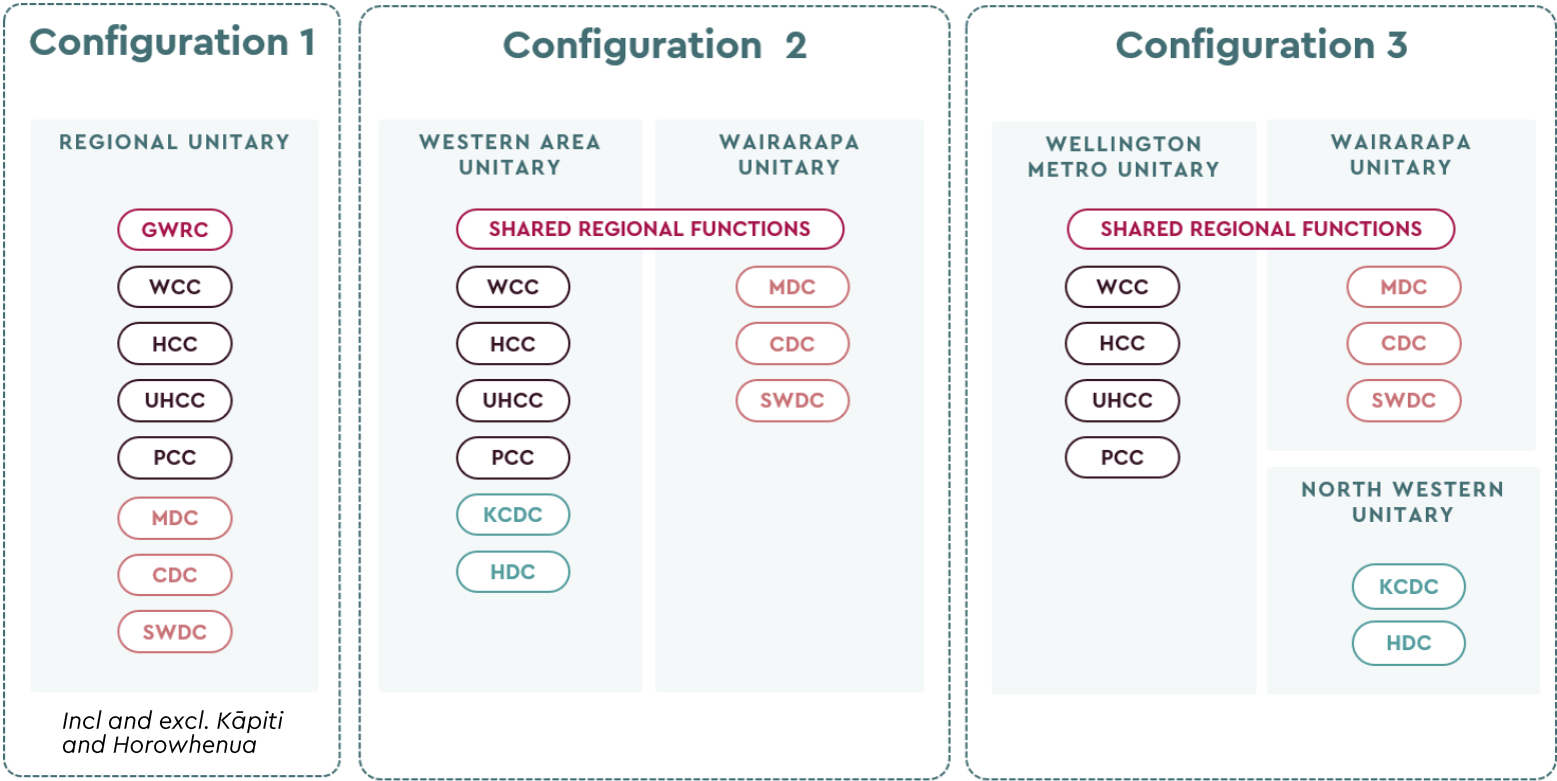
Model architecture

The model aggregates Funding Impact Statements provided by each council, with normalisations as required. It then allocates GWRC's non-rates revenues and expenditures to each district to provide a total cost to ratepayers. For each unitary option, we then add a provision for establishment and transition costs and apply scenario specific efficiency assumptions. The model then solves for required rates revenue to 'balance the budget' after accounting for non-rates revenue sources. The model creates a new funding impact statement and simplified financial statements for each unitary option, which is then used as the basis for comparative analysis across the different configurations. The use of the balanced budget rule and debt funding of capital expenditure (net of capital revenues) ensures application of a consistent financing strategy across the options.



Modelling spans three configurations, six unitary options and two variants

We were asked to model financial implications for six unitary options across three alternative governance configurations across the Wellington / Wairarapa region. The scenarios range from a single regional unitary authority through to multiple unitary authorities supported by shared regional functions. The financial modelling assesses financial outcomes for each unitary option using a common set of inputs and assumptions. For Configuration 1, we have also considered variants with Kāpiti and Horowhenua included and excluded.



Note: These options assume the functions of each organisation. All options also assume the use CCOs, and mana whenua representation and participation

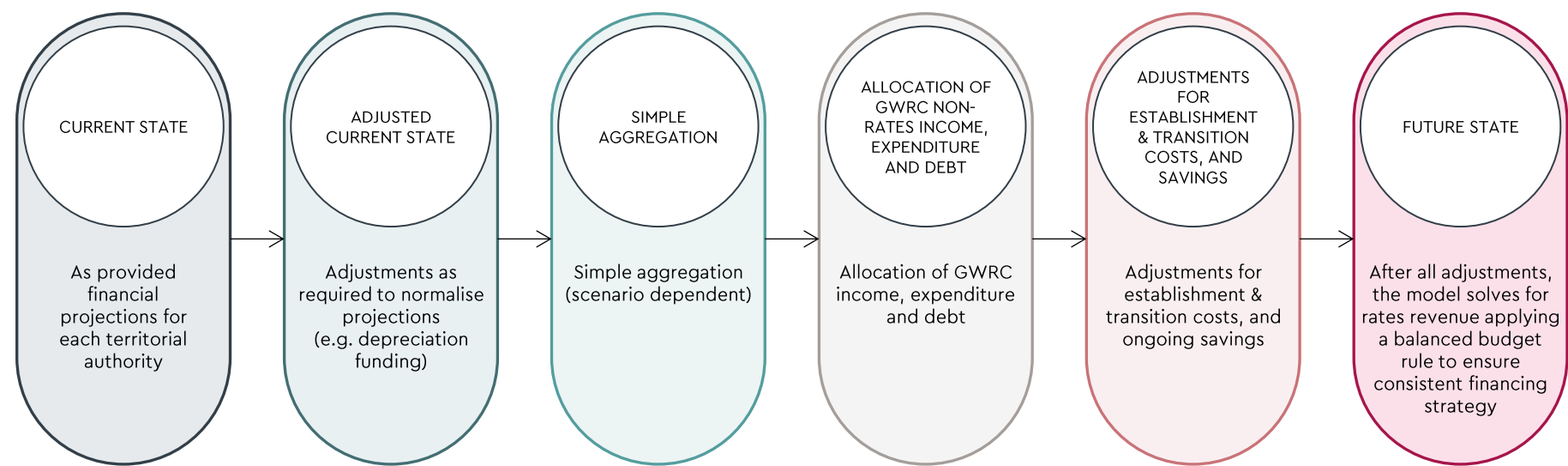


Modelling financial outcomes for each unitary option

The model builds up a projected future state scenario for each unitary option following a series of steps. We start with projected funding impact statements and starting net debt balances for each territorial authority and then make several minor adjustments to improve consistency of these scenarios. Importantly, these adjustments form part of all options, so they do not affect the comparative assessment of options.

We then construct a simple aggregation of all councils within a particular configuration. Based on information supplied by GWRC, we then allocate non-rates income and costs across the unitary authorities that form part of each configuration. We then make several adjustments, discussed later in this report, to reflect assumptions about establishment and transition costs and the scope for ongoing savings.

The output of these modelled scenarios forms the basis for the comparative options assessment in the report.



Integration costs and ongoing savings

The table below represents our view of reasonable assumptions based on a review of the available evidence including previous studies examining Wellington and Wairarapa local governance reform proposals, other New Zealand reports on local government reform (including analysis undertaken for the Royal Commission on Auckland Governance) as well as relevant international evidence. Further details on the findings of our rapid literature review can be found in the Technical Appendix.

Unitary options	Region	Western	Wellington Metro	Wairarapa	North Western
Characteristics					
No. of councils	8 or 10 + part of Horizons Regional Council (HRC)	6 + part of Greater Wellington Regional Council (GWRC) /HRC	4 or 5 + part of GWRC	3 + part of GWRC	2 + part of GWRC/HRC
Population	~465,000 – 560,000	~510,000	~415,000 – 470,000	~50,000	~90,000
Proposed assumptions					
Opex savings p.a.	3% - 5%	3% - 5%	3% - 5%	5% – 10%*	4% – 8%
Capex savings p.a.	1.0% - 2.0%	1% - 2.0%	1% - 1.5%	0% - 0.5%	0.5% - 1.0%
Integration costs	15-20% of opex	17-22.5% of opex	20-25% of opex	25-30% of opex	25-30% of opex
Timing of savings and costs	Savings are assumed to start two years after establishment and are phased in over 3 years (i.e. full savings by year 5). Half the integration costs are assumed to fall in the year immediately prior to establishment, with the remaining 50% spread over two years following establishment.				

The savings (efficiency) estimates are before accounting for transition costs and only apply to operating costs excluding depreciation and finance costs.

* Efficiency assumptions for Wairarapa do not account for recent analysis by Morrison Low which suggests the costs attributed to Wairarapa by Wellington Regional Council appear high relative to national cost benchmarks for unitary authorities and regional councils. We address this issue by making separate adjustments to the regional council cost allocations rather than through the efficiency assumptions above. These adjustments are discussed in the Technical Appendix.



Historic context



Local government has experienced significant cost pressure

Input costs have increased by more than general inflation

Historically, drivers of operating costs in the local government sector increased more slowly than consumer price inflation, reflecting the greater bargaining power that local councils have compared to households. In the last 15 years, that historical trend reversed. From the mid-2000s, local government input costs, as measured by the Berl Local Government Cost Adjustor, and general consumer prices began to diverge.¹

Over the last 15 years, local government operating and capital costs have increased by an average rate of 2.6% and 2.7% per year respectively, while consumer prices increased by 2.5% per year. This small difference has compounded into a significantly higher cost base over time.

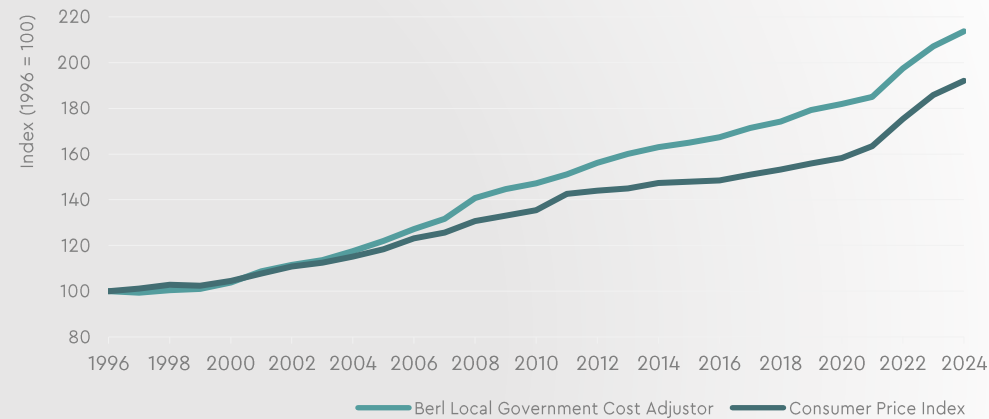
Cost pressures are especially acute in infrastructure services

The costs of infrastructure services rose rapidly from 2021 to 2023. Those increases not only compounded the costs of building new infrastructure but translated into significantly higher asset valuations and future replacement costs. These higher costs have added billions of dollars to future operating and capital costs across the country, just to maintain existing asset condition and levels of service. These cost increases also add to the cost of building new infrastructure to provide for population and housing growth.

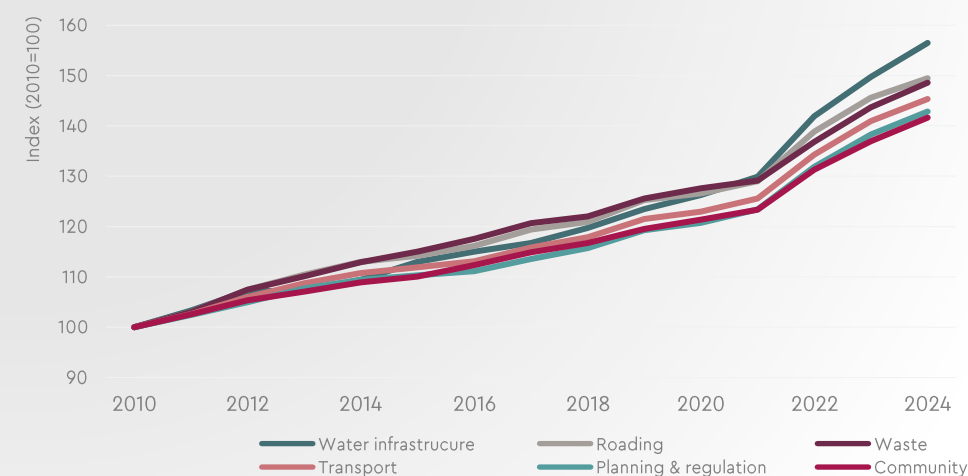
Like households, local councils are largely price takers when it comes to these costs, with broader economic trends driving the availability of labour, materials, and machinery, and factors such as aging infrastructure and government regulation driving the demand for investment.

Resource shortages and structural rigidities mean that, despite weakening inflationary pressures, the cost pressures facing local government are likely to persist for some time.

Local government input prices and consumer price inflation



Local government price index by activity group



¹ The LGCA is a composite index compiled by Berl that measures the changes in the prices of a basket of goods and services that are bought by local government in New Zealand.



Operating costs have accelerated over time

Operating costs are rising at an accelerated rate

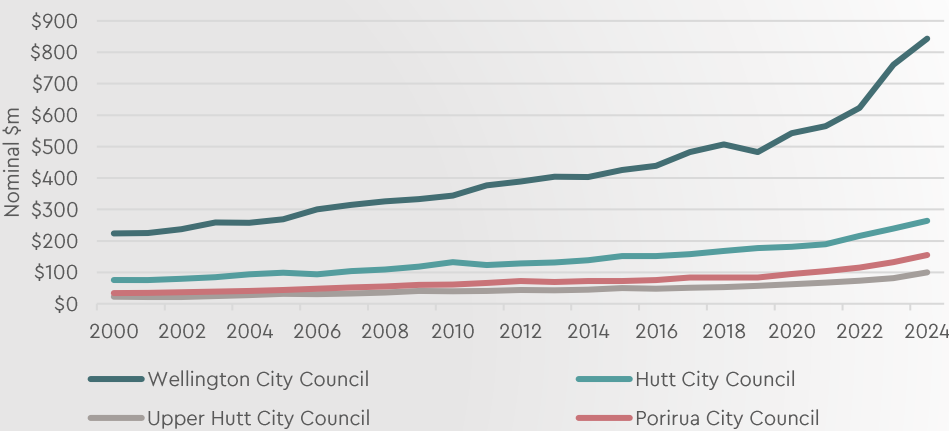
A combination of rising input costs and expansion of activities (including unfunded mandates) has resulted in operating costs for the sector rising over time. Over the ten years to 2024, total operating costs for the local government sector increased by 109%. This followed increases in operating costs of 96% over the previous decade and 56% in the 10 years to 2004.

PERIOD	% GROWTH IN LOCAL GOVT SECTOR OPEX
1995 – 2004	56%
2005 – 2014	96%
2015 – 2024	109%

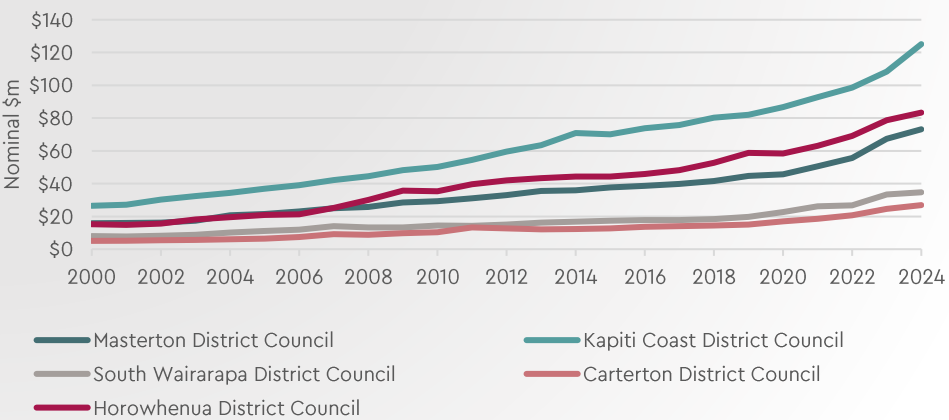
Within the Wellington region, the rate of increase in operating costs has also accelerated, with particularly significant increases over 2022 – 2024.

Horowhenua District has seen the lowest average annual increase over the past three years, at 9.7% per year. Costs at three of the city councils have grown at more than 14% a year, with Lower Hutt the exception at 11.8%. When comparing district councils, Masterton and Carterton have both seen costs increase at more than 13% a year on average.

Combined City Councils operating costs



Combined District Councils operating costs



Rates per dwelling continue to increase

Over the last ten years real rates per dwelling have increased by about 20% on average for the City Councils and 12% on average for the District Councils

Across the country, the combination of increasing operating costs and increasing investment is placing significant pressure on councils to raise revenues. This is exacerbating cost-of-living pressures in communities and putting the affordability of services under the spotlight.

Real rates per dwelling range between \$2,000 and \$3,500. Over the 10 years ending 2023, real rates per dwelling have grown between 0.3% per year (Kāpiti) and 2.6% (Carterton). Other areas that have seen real rates grow in excess of 2% per year on average include Wellington (2.2%), Porirua (2.1%), Horowhenua (2.1%), and South Wairarapa (2.0%).

There is a wide range of service levels occurring across councils funded by this measure of rates per dwelling. Benchmarking these services and their service level standards was outside the scope of this analysis.

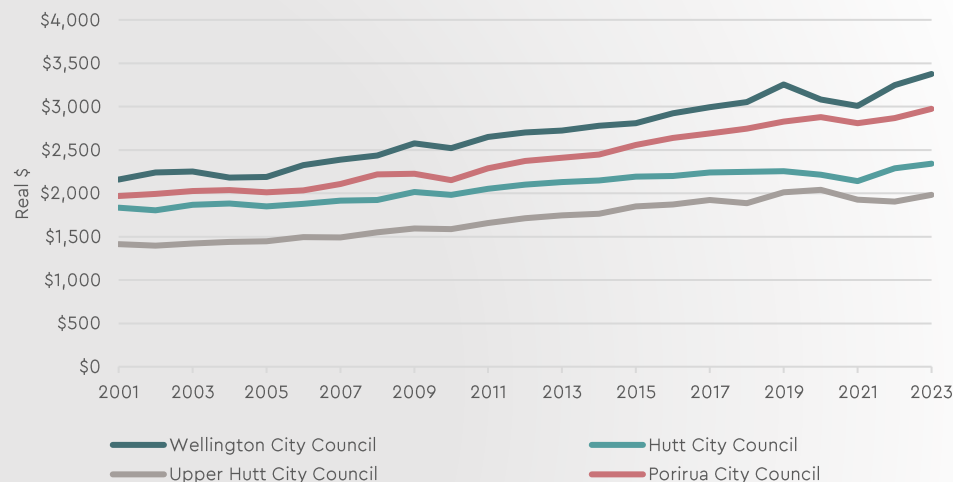
However, rates are decreasing relative to incomes

For the sector as a whole, affordability has been decreasing and is expected to continue in the near term, even as cost pressures moderate, because of increasing investment and forecast increases in water charges.

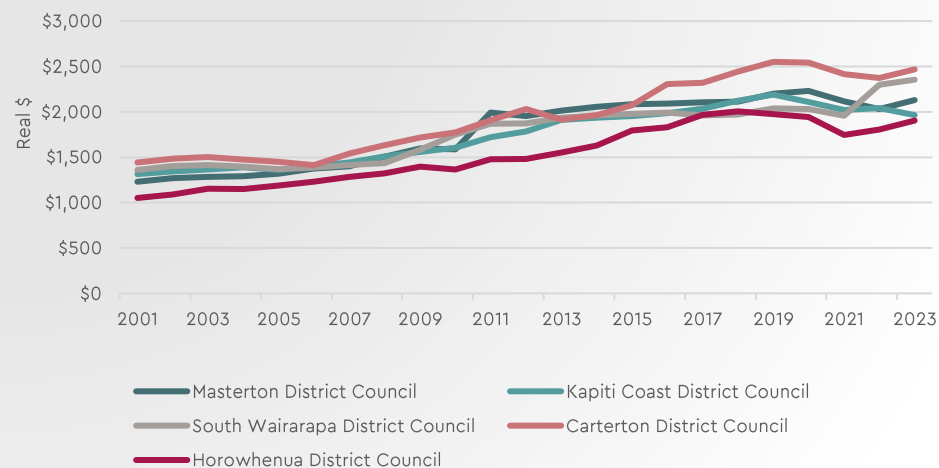
The potential implication of rates capping will have an implication for all councils. Introduction of rates capping without attention being paid to cost control, could require councils to increase borrowing further particularly given the need to invest in network infrastructure.

Balancing the need to maintain critical services and invest in infrastructure with the need to keep rates affordable will be an increasingly difficult challenge and require tough trade-offs.

Real residential rates per dwelling



Real residential rates per dwelling



Operating performance has deteriorated over time

Councils' operating balance has deteriorated over time, with accounting surpluses turning to deficits

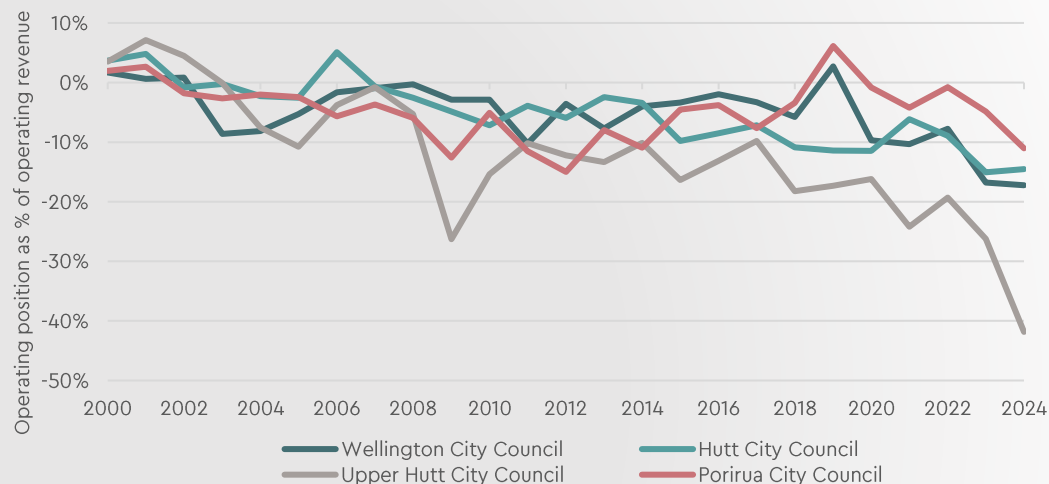
A consequence of operating costs rising faster than revenues is a deterioration in the council's operating balance. As shown in the charts, all territorial authorities in the Wellington region have seen operating performance deteriorate over the last 24 years, with councils generally running small surpluses in the beginning of the period, followed by deficits toward the end of the period.

While the period when deficits began occurring is different, the pattern for the Wellington region broadly matches the pattern for the local government sector as a whole.

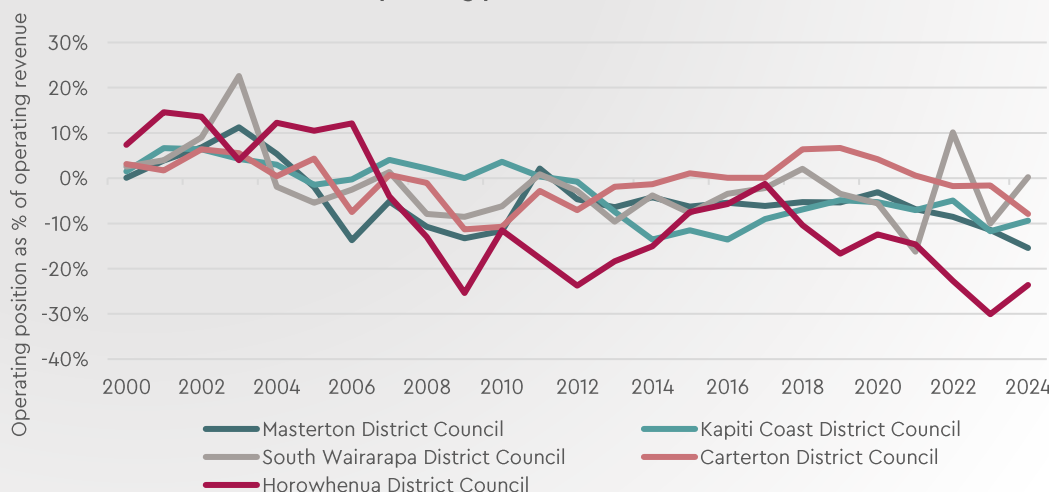
Operating deficits indicate that operating revenues are not sufficient to meet all of councils operating costs after interest costs and depreciation expense are accounted for.

From an intergenerational perspective, operating deficits benefit today's ratepayers at the expense of future generations, since current period revenues are not fully covering the costs of providing services and maintaining assets.

Combined City Councils operating performance



Combined District Councils operating performance



Borrowing patterns have varied over time

Borrowing in the Metro area increased significantly from the late 2010s, with debt rising earlier elsewhere in the region with a flatter profile later in the period

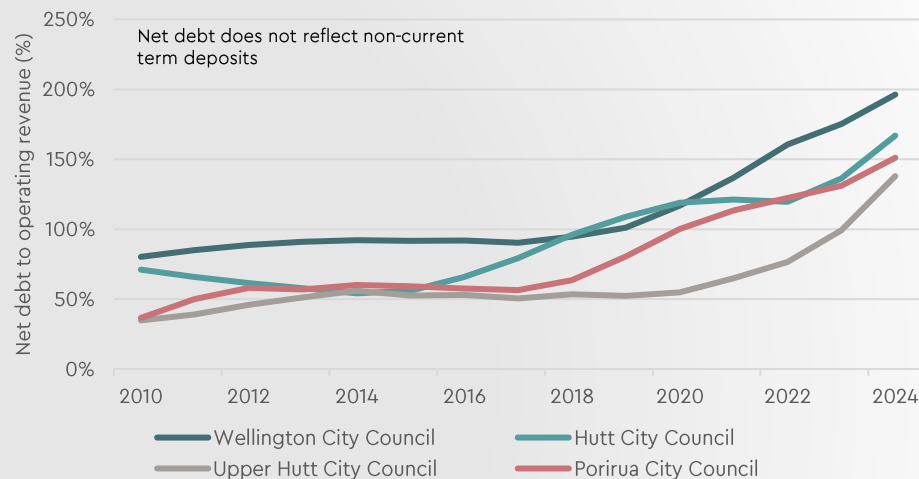
For the sector as a whole, the cumulative effect of cash operating deficits and increased capital expenditure has resulted in a significant increase in debt-to-revenue ratios.

Within the Wellington region, net debt increased by between 70-90% of revenue over the five years to 2024. While borrowing levels have fluctuated more outside of the Metro area, most councils (with the exception of Carterton) have seen rises in net debt, with particularly significant increases in Horowhenua district.

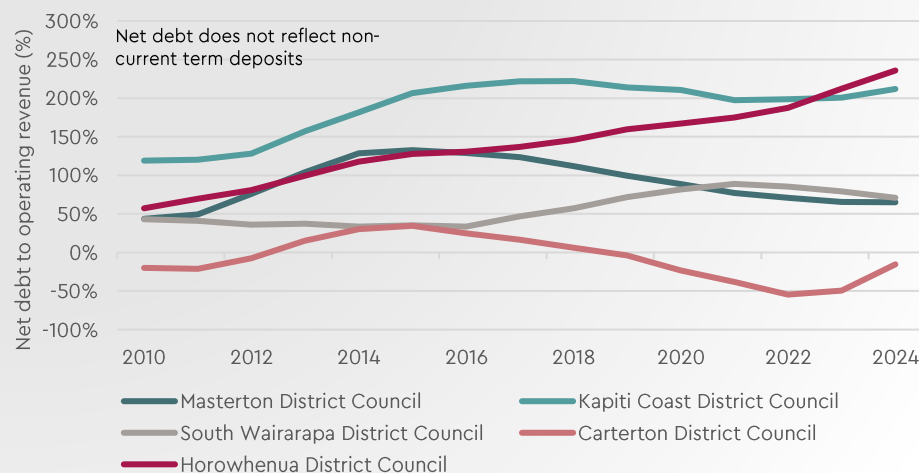
Horowhenua, Kāpiti, and Wellington City have recently had debt to revenue ratios approaching 200% mark, while Porirua, Hutt City, and Upper Hutt have increased from about 50% in 2010 to about 150% recently. Debt to revenue ratios for South Wairarapa, Carterton, and Masterton are similar in 2024 to their respective ratios in 2010.

The transfer of water debt to new water services organisations (Tiaki Wai and Waiti Waters) will result in significantly lower debt-to-revenue ratios for most councils (excluding Kāpiti Coast District Council as they retain water services in-house). However, as shown in the next section, debt levels are projected to increase over the coming decade, with several councils remaining vulnerable to shocks.

Combined City Councils average net debt to operating revenue



Combined District Councils average net debt to operating revenue



Financial outlook



Councils face sustained growth in costs

Operating expenditure is expected to continue growing across the region

Operating expenditure (including depreciation and interest) is projected to increase from approximately \$1.9 billion in FY25 to \$2.8 billion by FY34, representing average growth of around 4.3% per annum.

Growth rates vary across councils. Porirua is projected to experience the strongest operating expenditure growth at approximately 6.8% per annum, followed by Wellington City (5.0%), Hutt City (4.9%) and Upper Hutt (4.9%). By comparison, expenditure growth is more modest in Masterton (2.3%), Carterton (2.5%) and South Wairarapa (2.9%), reflecting differences in underlying assumptions including those related to scale, growth and investment requirements.

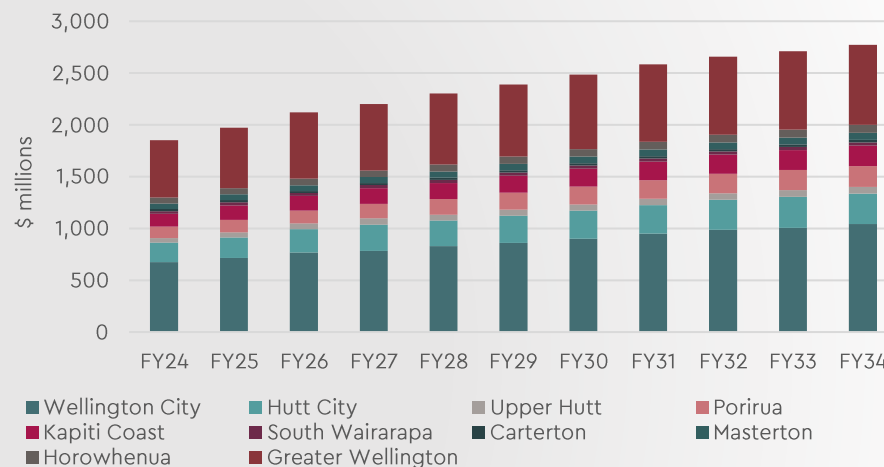
Long-term capital investment requirements remain significant

Councils are projected to undertake substantial capital investment over the medium and longer term to maintain, renew, upgrade and expand infrastructure. Wellington City and Greater Wellington account for the largest share of projected investment and together contribute approximately 63% of total capital expenditure between FY35 and FY52. Across the region, annual capital expenditure is projected to peak at approximately \$1.1 billion in FY49, highlighting the significant infrastructure requirements anticipated over coming decades.

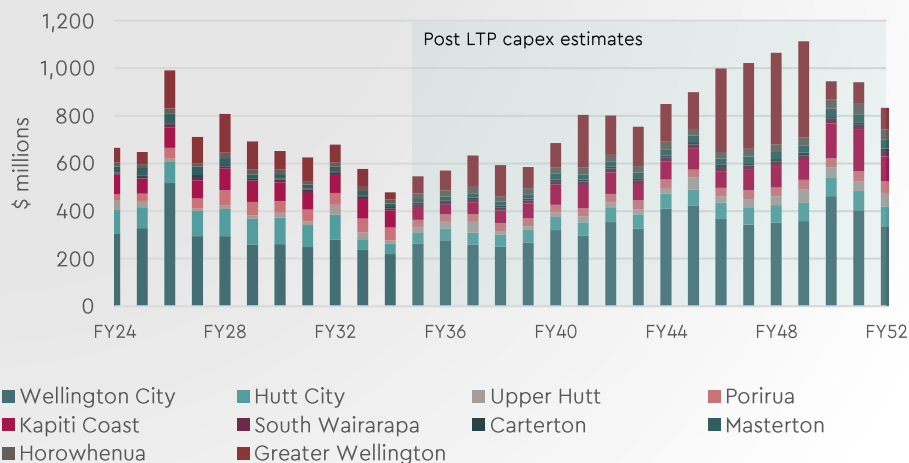
Greater Wellington's projected capital expenditure increases significantly beyond the current LTP period, indicating the potential for major regional infrastructure investment during the 2040s.

Note that the capex estimates for the FY35 – FY52 period were normalised in some instances (some councils recorded very high capital expenditure in 'year 11' while others had steep decreases in spending). In these instances, we smoothed capital profiles. We also adjusted flat capital profiles to reflect our asset revaluation assumptions. With the exception of Kāpiti Coast District Council, the capex projections exclude planned investment in water infrastructure.

Operating expenditure



Capital expenditure



Rates revenue is projected to continue increasing

Rates revenue is projected to increase steadily across the region

Total general and targeted rates revenue across the Wellington / Wairarapa region is projected to increase steadily over the forecast period, reflecting growing expenditure, infrastructure investment and financing requirements.

While all councils contribute to this increase, Wellington City and Greater Wellington are expected to account for the largest share of total rates revenue throughout the period.

By FY34, total rates revenue is projected to reach approximately \$1.8 billion, compared with just over \$900 million in FY24. The cumulative growth rate in aggregate rates revenue over the LTP period is projected to average 7.1% per annum.

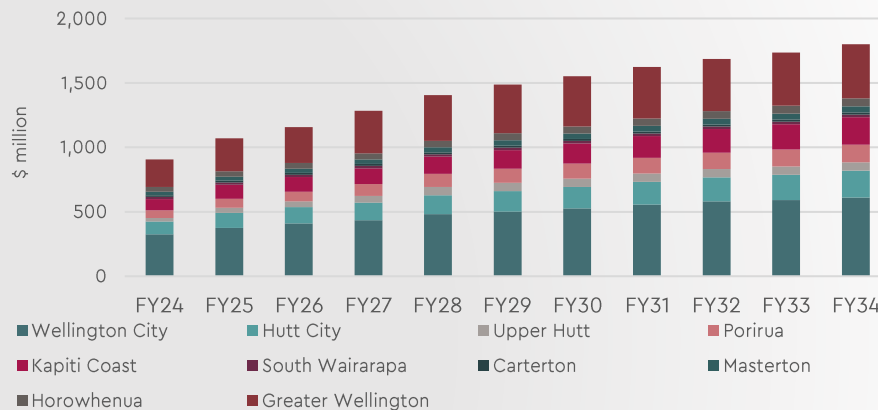
Rates per rating unit are set to increase across all councils

Rates revenue per rating unit is projected to increase across all councils over the forecast period, indicating that revenue growth is outpacing growth in the rating base.

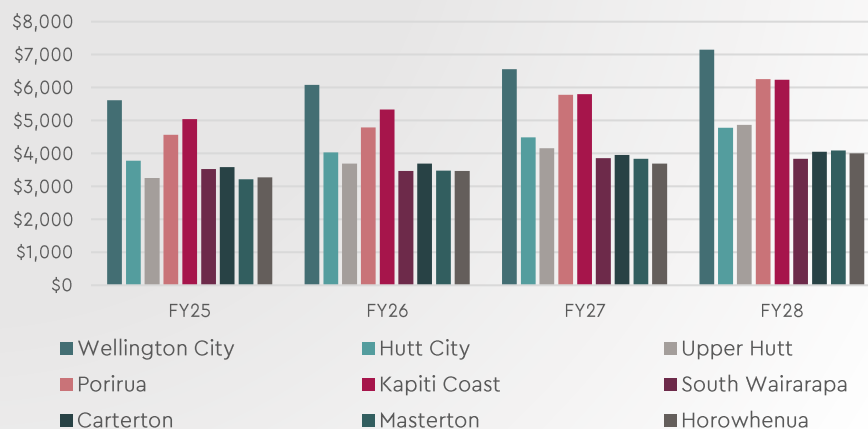
The strongest increases are evident in Wellington City, Porirua and Kāpiti Coast, while growth is more gradual in the Wairarapa councils and Horowhenua.

This reflects both increasing funding requirements and relatively modest projected growth rates across the region.

General and targeted rates revenue



Rates revenue per rating unit (includes GWRC rates)



Note that these figures exclude Horowhenua's "portion" of Horizons revenue



Non-rates revenue is growing slower than rates ...

Non-rates operating revenue is forecast to grow steadily

Non-rates operating revenue is projected to increase steadily across the LTP period, growing from approximately \$800 million in FY25 to \$971 million by FY34.

Growth is broadly consistent across the region, with Wellington City, Greater Wellington and Hutt City accounting for the largest share of non-rates revenue. However, growth in non-rates revenue is expected to be significantly slower than growth in rates revenue, resulting in a higher dependence on rates revenue as a source of council funding over time.

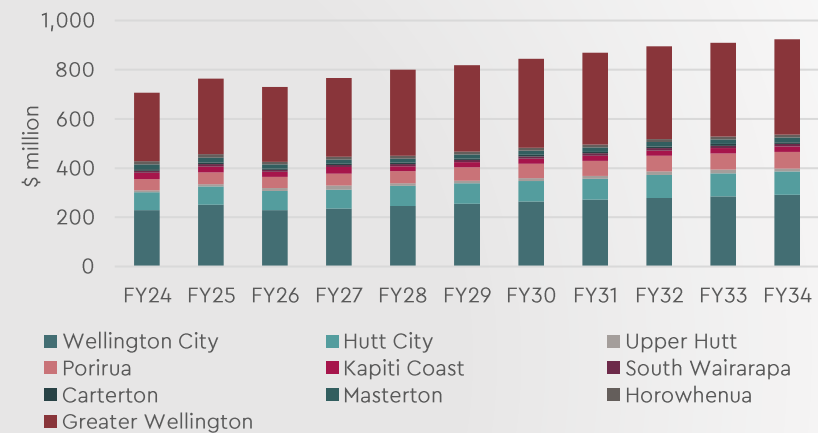
Historically, non-rates revenue has been a more variable and less reliable funding source than rates, limiting its capacity to offset rising expenditure pressures.

Capital revenue varies year-to-year with no clear upward trend

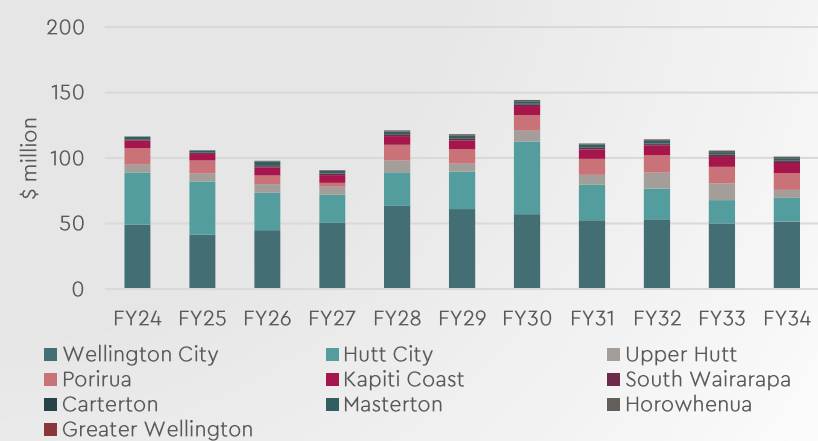
Unlike operating revenue, capital revenue is forecast to fluctuate from year-to-year, reflecting the timing of grants, subsidies, development contributions and other one-off funding sources.

Capital revenue peaks at approximately \$377 million in FY28 before declining to around \$153 million by FY34, with no sustained upward trend over the forecast period. This variability highlights the extent to which councils rely on less predictable funding sources to support capital investment programmes.

Non-rates operating revenue



Capital revenue



... resulting in a changing revenue mix over time

Councils are becoming more reliant on rates as a source of funding

Total revenue across the region is projected to grow steadily over the forecast period, reaching approximately \$2.93 billion by FY34.

However, rates revenue is expected to grow considerably faster than other revenue sources, increasing by an average of 7.1% per annum between FY24 and FY34, compared with 2.6% per annum for non-rates revenue.

As a result, rates are projected to increase from 49% of total revenue in FY24 to 62% by FY34, indicating a growing dependency on rates to fund council activities and investment.

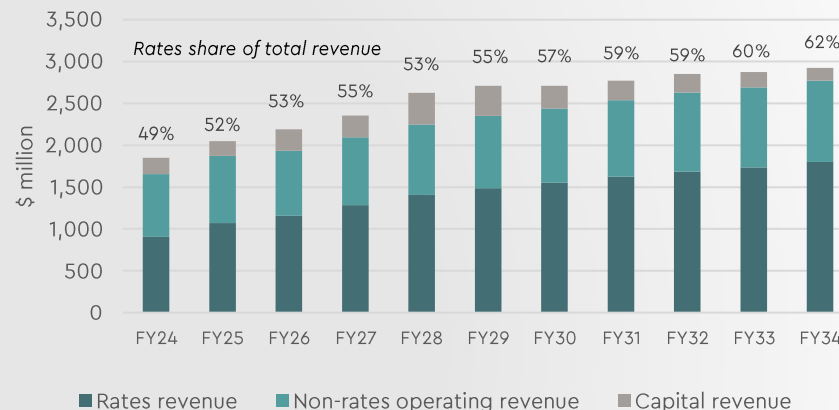
Growth in the rating base is expected to be modest and concentrated in the region's largest urban centres

The number of rating units across the region is projected to increase by 21,282 units between FY25 and FY34, equivalent to average growth of around 1.0% per annum.

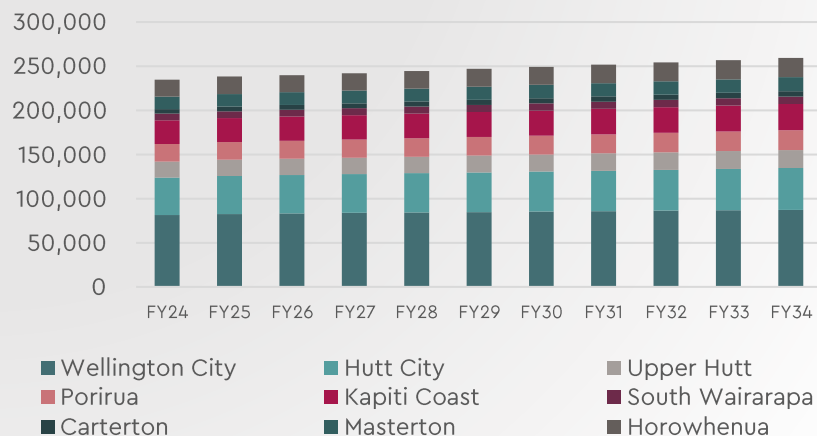
Wellington City and Hutt City account for almost half of this growth, adding approximately 4,800 and 4,000 rating units respectively, while growth in the smaller Wairarapa councils is more modest, with Carterton and South Wairarapa projected to add around 800–900 rating units each.

Overall growth in rating units across the region is projected to average 1.0% per annum between FY24 and FY34.

Increasing dependence on rates



Projected growth in rating units



Revenue growth is needed to improve operating performance and support increased borrowing

Revenue growth is projected to restore a near-balanced operating position

The combined councils are projected to steadily improve their operating position over the forecast period, moving from a deficit of approximately \$105 million in FY27 to near break-even by FY34.

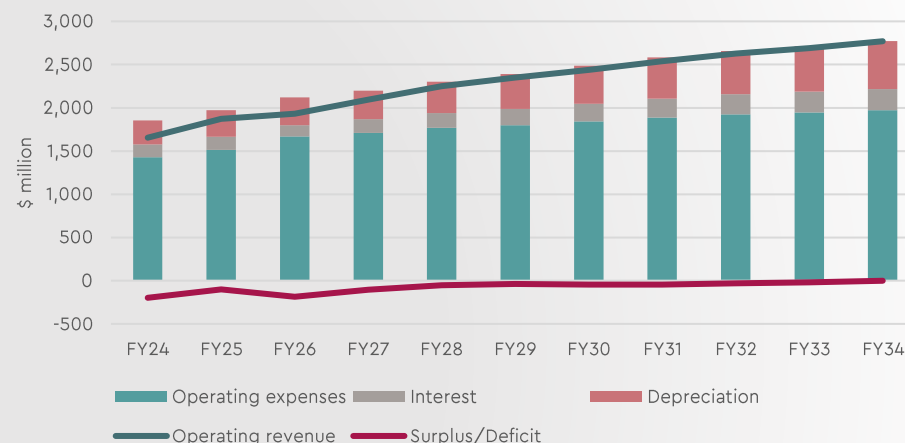
This improvement occurs despite significant infrastructure investment, with depreciation increasing from approximately \$333 million to \$556 million and interest costs rising by around 55% over the period. Revenue growth is projected to outpace the growth in expenditure, depreciation and financing costs, resulting in a progressively smaller operating deficit and an operating position that is broadly balanced by the end of the forecast horizon. This picture masks differences across the region, with Wairarapa councils projected to run persistent operating deficits (see Appendix A for further detail).

Debt increases to support planned investment, with affordability improving over time

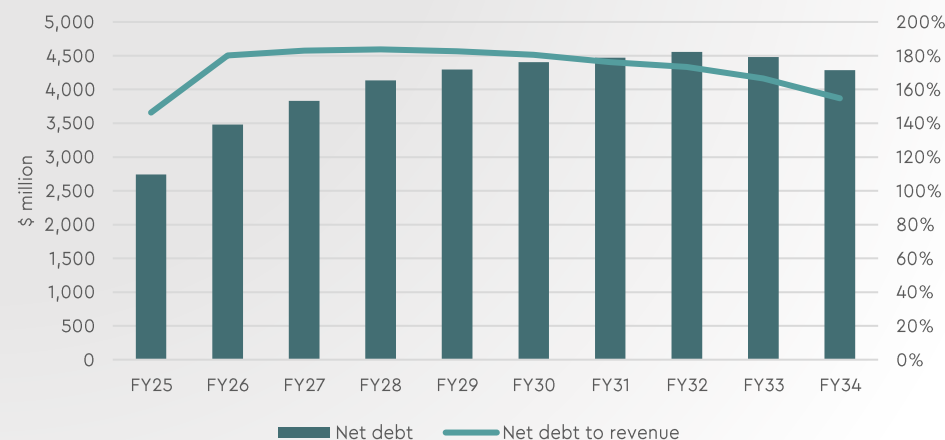
Net debt is projected to increase from approximately \$3.0 billion in FY25 to a peak of around \$4.5 billion in FY31–FY32, before reducing slightly to around \$4.3 billion by FY34.

While borrowing increases in absolute terms, growth in revenue helps maintain debt sustainability, with the net debt-to-revenue ratio remaining broadly stable at around 190% through the middle of the forecast period before declining to approximately 165% by FY34. This reflects projected revenue growth that keeps pace with increased borrowing requirements driven by capital expenditure in excess of depreciation expense.

Operating surplus / (deficit)



Borrowing



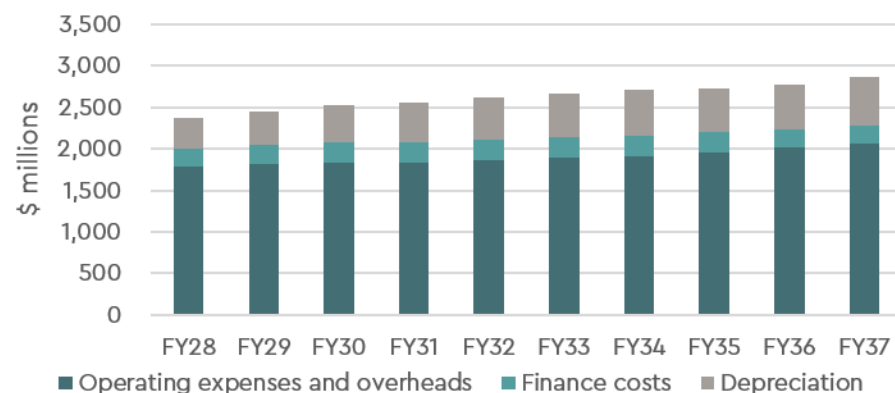
Overview of unitary options



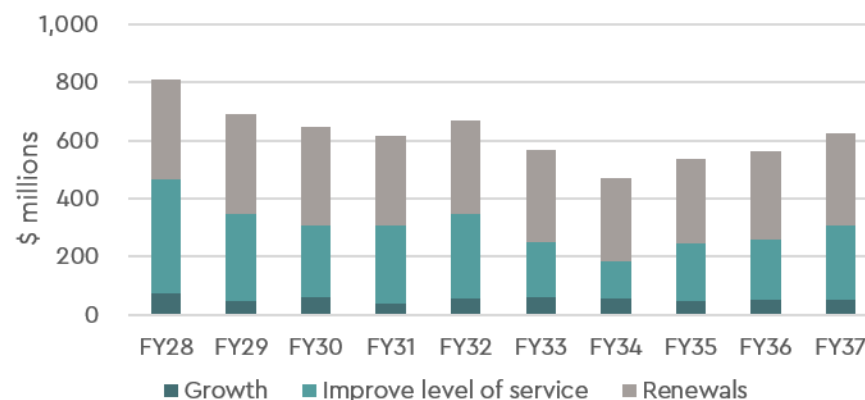
Configuration 1 – Single Regional Unitary incl. KCDC/HDC

Operating expenditure is projected to increase steadily over the forecast period, rising from \$2.4 billion in FY28 to \$2.9 billion in FY37. Operating expenses and overheads account for the largest share of expenditure, increasing from \$1.8 billion to \$2.1 billion, an average growth rate of 1.6% per annum. Capital expenditure is front-loaded, peaking at \$810 million in FY28 before declining to a low of \$470 million in FY34 before rising to \$620 million by FY37. Operating revenue grows from \$2.0 billion in FY28 to \$2.5 billion in FY37, while rates revenue increases from \$1.5 billion to \$1.8 billion over the same period. Borrowing increases in the early years with net debt rising from \$4.2 billion in FY28 to a peak of \$4.6 billion in FY32. Debt levels then improve steadily, with net debt declining to \$3.9 billion by FY37 and net debt-to-revenue reducing from a peak of 181% to 135%.

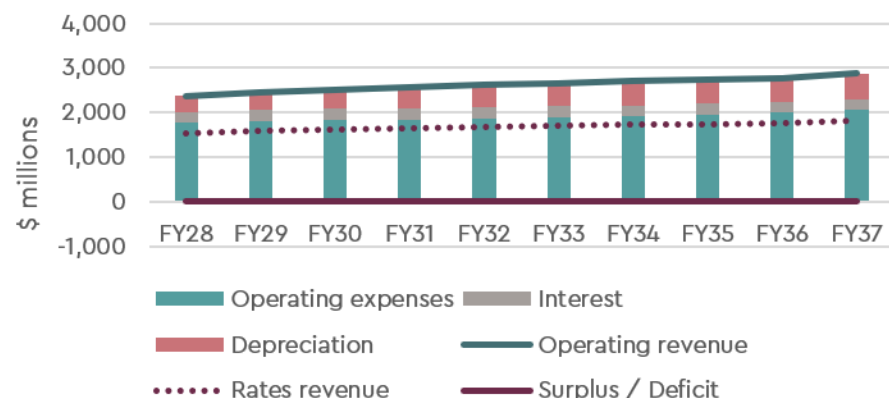
Operating expenditure



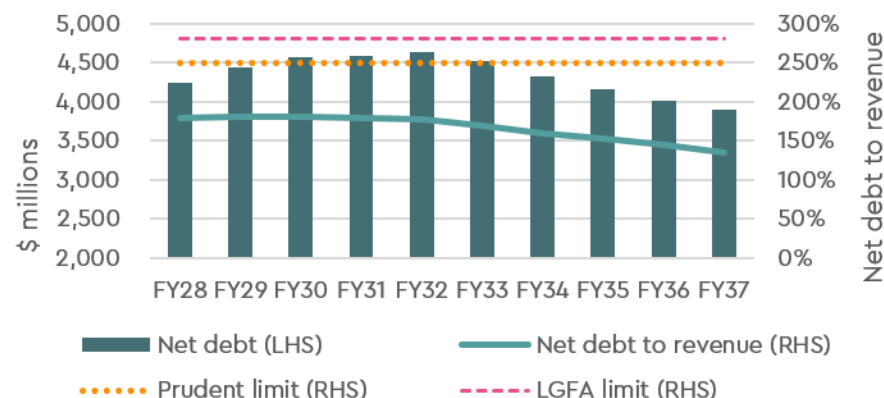
Capital expenditure



Operating performance



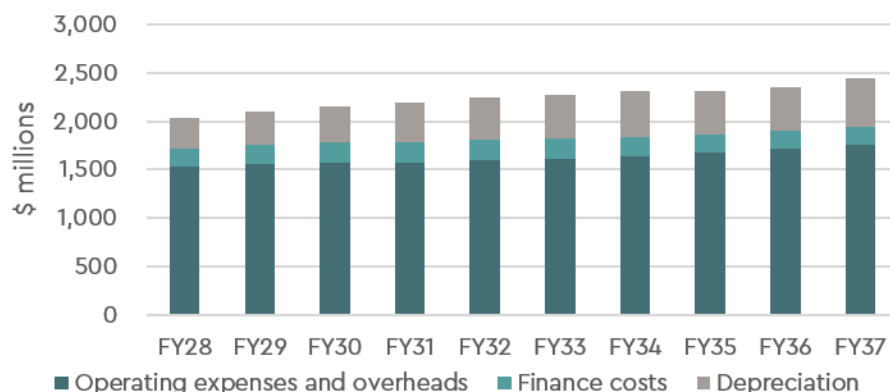
Net debt and net debt to revenue



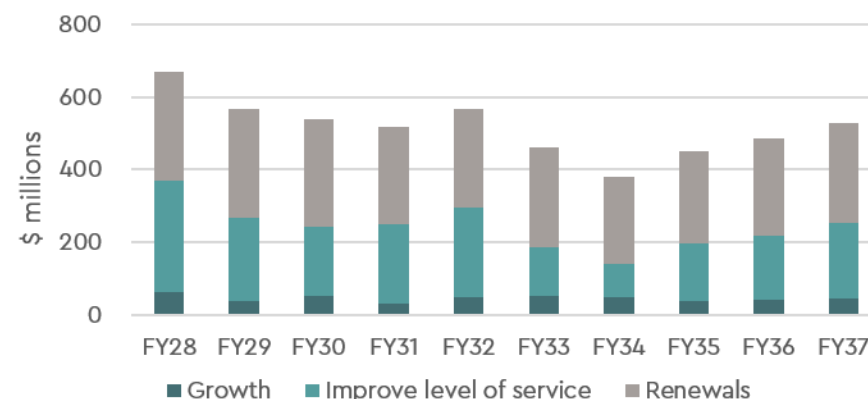
Configuration 1 – Single Regional Unitary excl. KCDC/HDC

Operating expenditure is projected to increase steadily over the forecast period, rising from \$2.0 billion in FY28 to \$2.5 billion in FY37. Operating expenses and overheads remain the largest component of expenditure, growing from \$1.5 billion to \$1.8 billion at an average rate of 1.5% per annum. Capital expenditure is highest in FY28 at \$670 million before declining to a low of \$379 million in FY34 and finishing at \$528 million by FY37. This reflects an overall reduction in capital investment over the period, driven primarily by lower expenditure on growth and level of service improvements. Operating revenue grows from \$2.0 billion in FY28 to \$2.4 billion by FY37, while rates revenue increases from \$1.3 billion to \$1.5 billion over the same period. Borrowing increases in the early years with net debt rising from \$3.6 billion in FY28 to a peak of \$3.9 billion in FY32. Debt levels then decline, with net debt reducing to \$3.2 billion by FY37 and net debt-to-revenue improving from a peak of 178% to 132%.

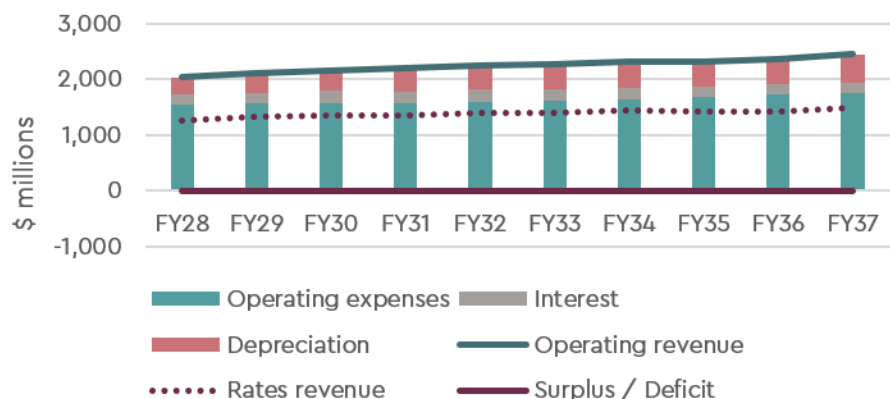
Operating expenditure



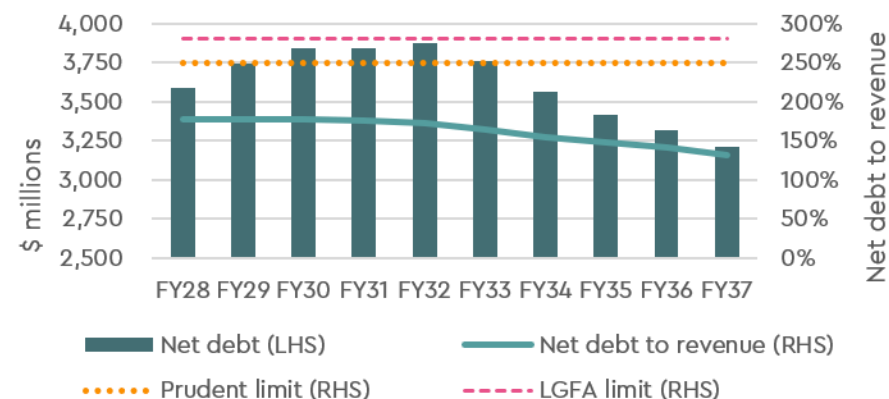
Capital expenditure



Operating performance



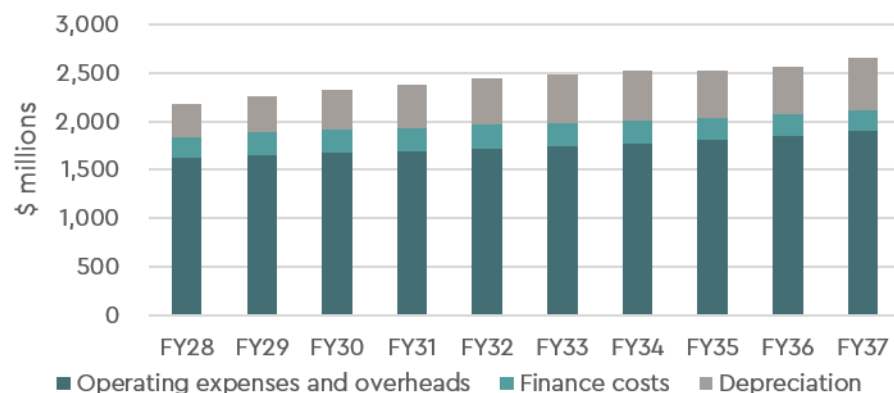
Net debt and net debt to revenue



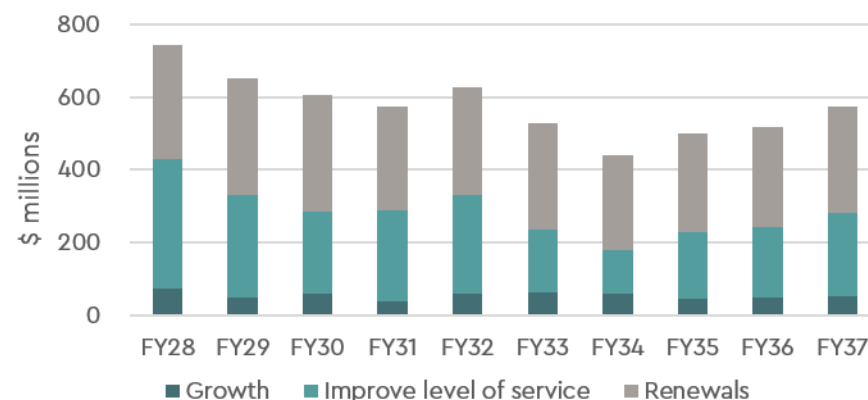
Configuration 2 – Western Area Unitary

Total operating expenditure is projected to increase steadily over the period, growing by an average of 2.2% per annum. Operating expenses and overheads increase gradually (1.6% p.a. on average), while depreciation grows more quickly and accounts for an increasing share of total expenditure, rising from \$336 million in FY28 to \$542 million in FY37 (5.5% p.a.). Capital expenditure is front-loaded, with the highest investment occurring in FY28 before moderating and remaining variable across the forecast period as assets are renewed and service improvements are delivered. Operating revenue grows from \$2.2 billion to \$2.6 billion over the period, while rates revenue increases at a slightly lower average rate of 2.0% per annum. Borrowing increases in the early years to fund integration costs, with net debt peaking at \$4.5 billion in FY32 and net debt to revenue reaching 191%. Debt levels then gradually decline, with net debt-to-revenue reducing to 145% by FY37.

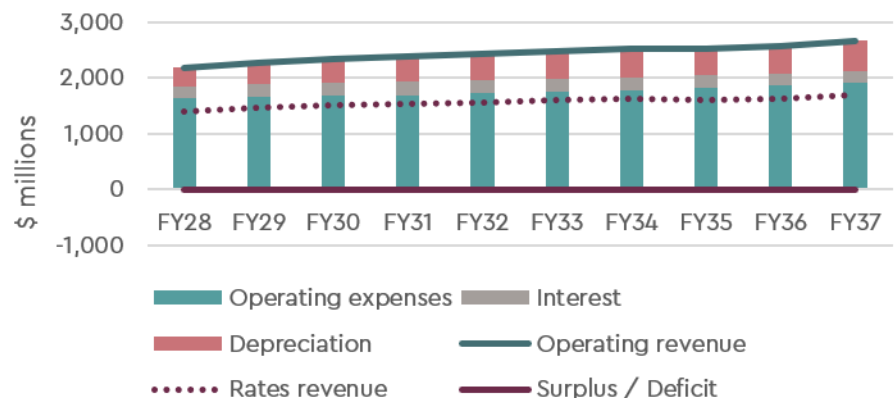
Operating expenditure



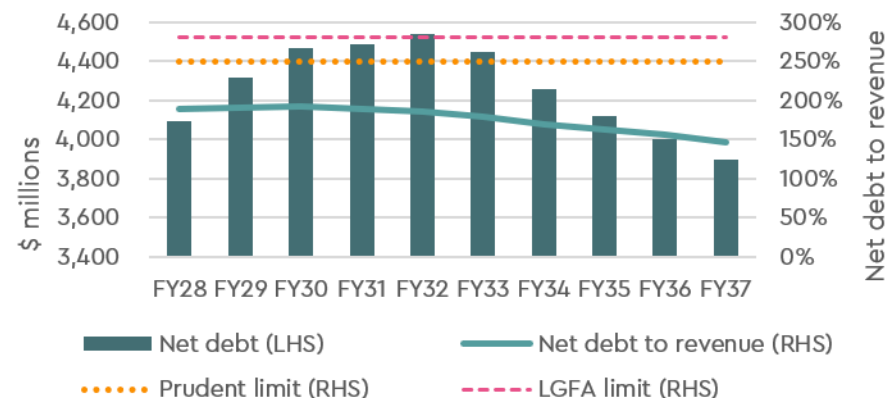
Capital expenditure



Operating performance



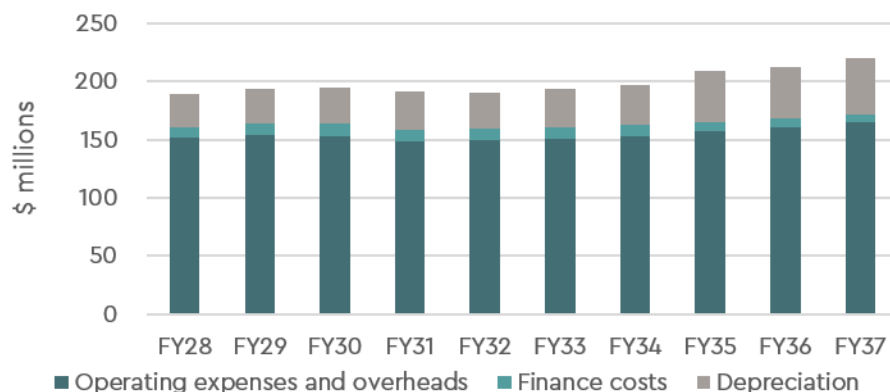
Net debt and net debt to revenue



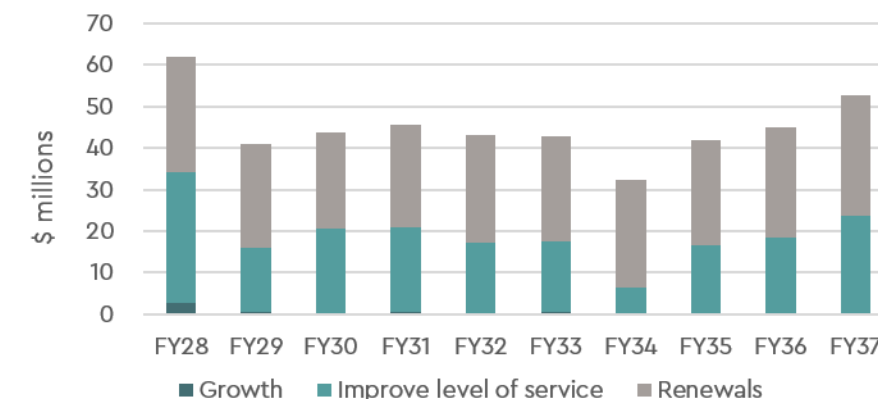
Configuration 2&3 – Wairarapa Unitary

Total operating expenditure is projected to increase from \$189 million to \$220 million over the period (a 1.7% annual growth rate), largely driven by rising depreciation costs. Capital expenditure declines initially before recovering slightly, with investment primarily focused on maintaining and renewing existing assets. Renewals remain relatively stable over time, while expenditure to improve levels of service varies from year to year. Growth-related capital investment is minimal, indicating limited demand-driven infrastructure pressures. Operating revenue increases in line with expenditure, growing from \$189 million to \$220 million, with rates revenue rising from \$130 million to \$146 million. Debt peaks at \$192 million in FY30 before steadily declining to \$100 million by FY37. Net debt reaches 98% of operating revenue in FY30 before falling to 45% by FY37.

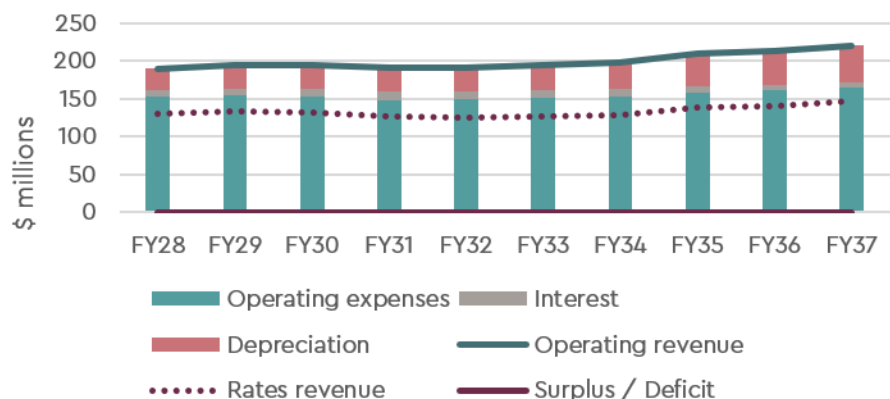
Operating expenditure



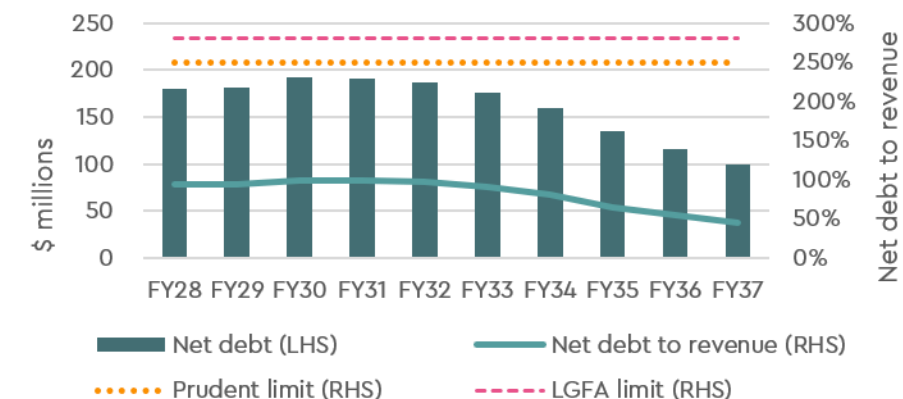
Capital expenditure



Operating performance



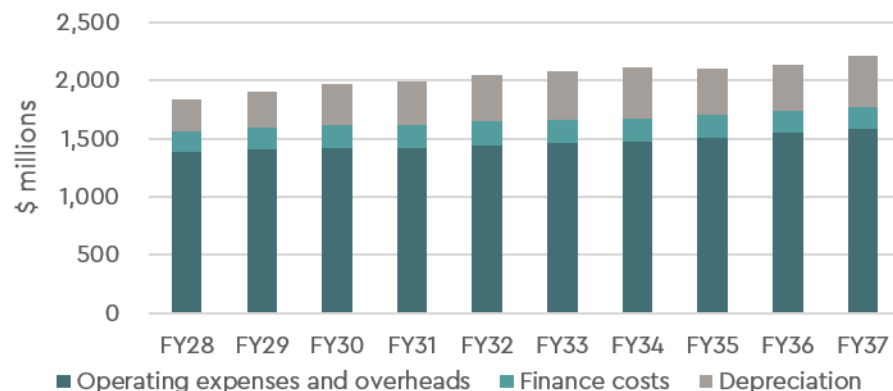
Net debt and net debt to revenue



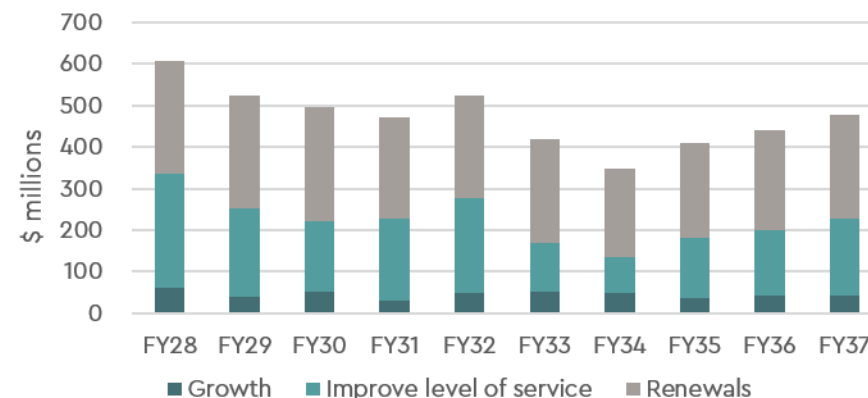
Configuration 3 – Wellington Metro Unitary

Total operating expenditure is projected to increase from \$1.8 billion in FY28 to \$2.2 billion in FY37, broadly in line with growth in operating revenue. Capital expenditure peaks at \$608 million in FY28, remains relatively flat in the early years, then declines before increasing again to \$477 million in FY37. Capital investment is characterised by larger year-to-year fluctuations, particularly in expenditure aimed at improving levels of service, with some variation also evident in renewal programmes. Operating revenue grows from \$1.8 billion to \$2.2 billion over the period, with rates revenue increasing from \$1.1 billion to \$1.3 billion, remaining the council's primary source of funding. Net debt increases from \$3.5 billion in FY28 to a peak of \$3.7 billion in FY32, before declining to \$3.2 billion by FY37. Despite the increase in debt in the early years, the net debt-to-revenue ratio improves over time, reducing from 188% in FY28 to 184% in FY32 and 144% in FY37.

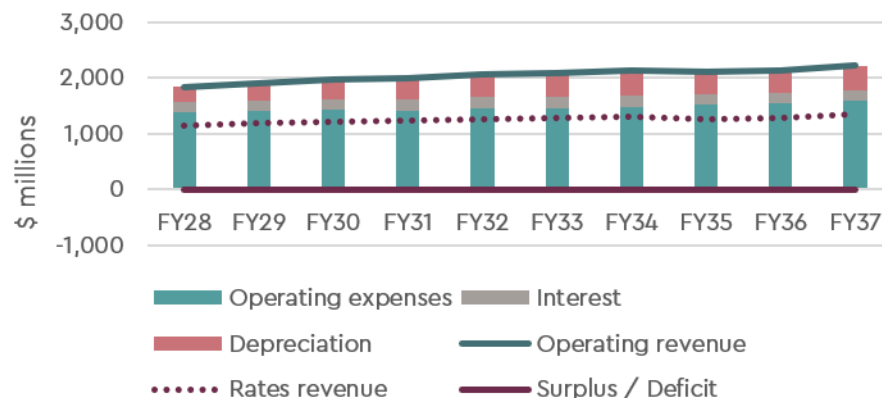
Operating expenditure



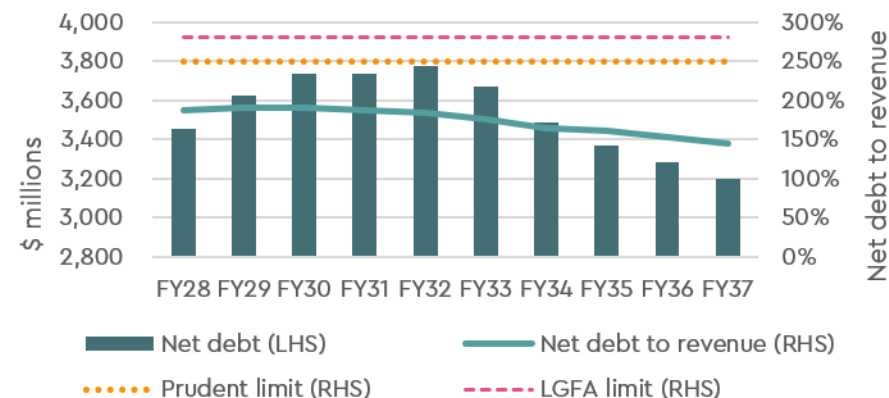
Capital expenditure



Operating performance



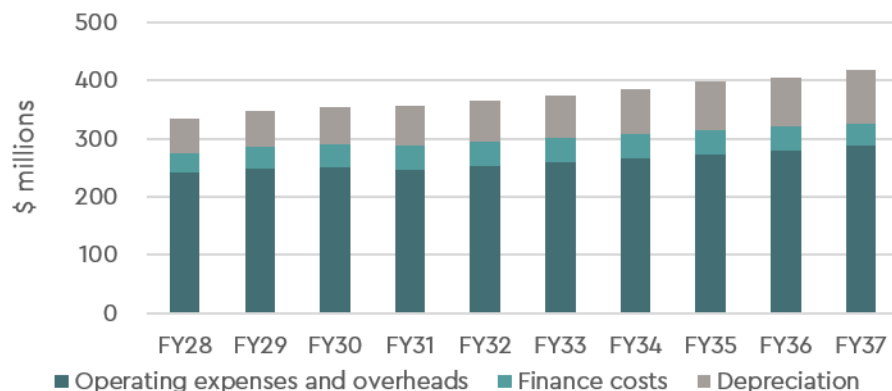
Net debt and net debt to revenue



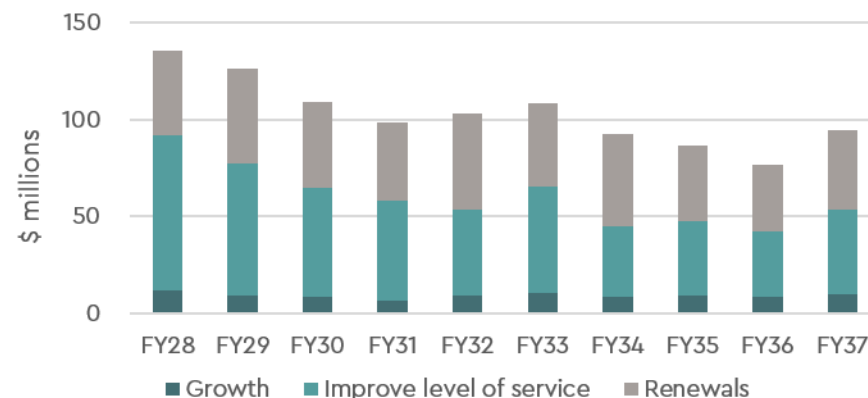
Configuration 3 – North Western Unitary

Operating expenditure increases steadily over the forecast period, rising from \$334 million in FY28 to \$419 million in FY37. Operating expenses and overheads grow by an average of 1.9% per annum, while depreciation increases more rapidly at 5.5% per annum, making up an increasingly larger share of total costs over time. Capital expenditure is highest in FY28 at \$136 million before generally declining, reaching a low of \$76 million in FY36 and ending the period at \$95 million. Operating revenue grows from \$334 million to \$419 million, with rates revenue increasing from \$256 million to \$326 million at an average rate of 2.7% per annum. Borrowing increases in the early years, with net debt rising from \$647 million in FY28 to a peak of \$780 million in FY33 before declining to \$691 million by FY37. Net debt to revenue follows a similar pattern, peaking at 212% in FY31 before reducing to 165% by FY37.

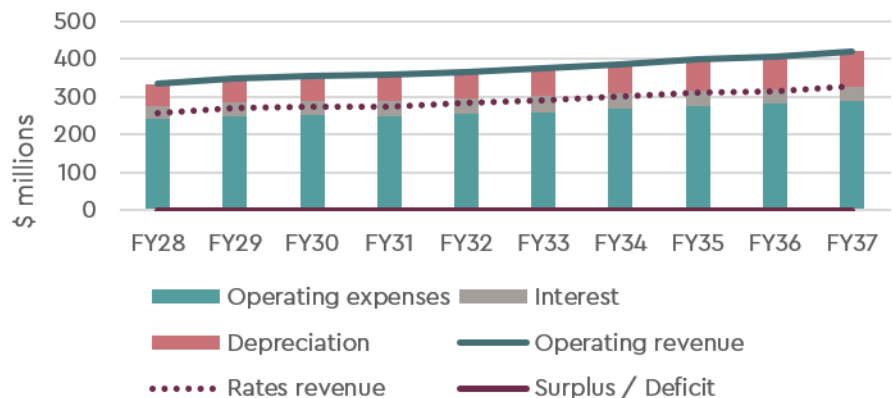
Operating expenditure



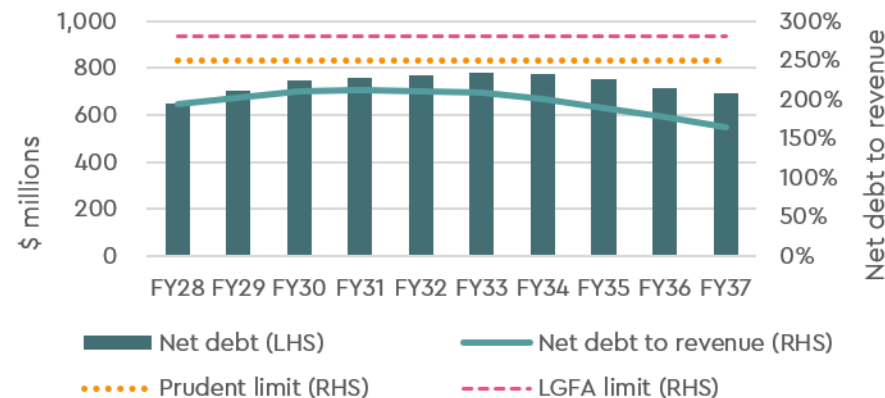
Capital expenditure



Operating performance



Net debt and net debt to revenue



Key findings



Establishment costs are assumed to vary based on the scale and complexity of each option

Estimating establishment and transition costs is challenging because each situation is unique and amalgamations often involve significant IT system integration costs, which are highly dependent on the particular circumstances.

Evidence from large scale amalgamations and other mergers indicates a wide range of potential costs. Obtaining accurate estimates of likely costs requires more detailed planning than is possible within the agreed scope and time available.

Instead, and following approaches used for other local government amalgamation modelling exercises, we include provision for establishment and transition costs based on a (top-down) assumption of a fixed percentage of operating costs.

We assume that half of the total establishment and transition costs fall in FY28, with the remaining half spread evenly over FY29 and FY30. The single unitary has the lowest aggregate costs reflecting the single transition process.

Provision for the cost to establish a single unitary ranges between \$234m and \$312m, while a Wairarapa Unitary is assumed to cost between \$38m and \$46m. Overall, the net benefit analysis is not particularly sensitive to this assumption, so if costs are higher, the payback period is expected to be slightly longer but still positive.

	Unitary option	% of opex (mid-point)	Indicative cost estimate	Total cost for configuration
1	Single regional	17.5% (15-20%)	\$273 million	\$273 million (\$236 million)
	Single regional (excl. KCDC & HDC)	22.5% (20-25%)	\$236 million	
2	Western Area	20% (17.5-22.5%)	\$281 million	\$323 million
	Wairarapa	27.5% (25-30%)	\$42 million	
3	Wellington Metro	22.5% (20-25%)	\$269 million	\$369 million
	North Western	27.5% (25-30%)	\$58 million	
	Wairarapa	27.5% (25-30%)	\$42 million	

Estimated cost savings

We applied different operating and capital efficiencies across the different configurations and unitary options (see slide 12 and Appendix C for further details). This results in a higher aggregate operating efficiency for a three-unitary scenario (\$1.2 billion versus \$1.1 billion under a single unitary). This is driven by higher relative efficiencies assumed for North Western and Wairarapa councils, where higher proportionate savings may be realised from areas with significant fixed costs, such as strategy, policy and regulatory services. This is consistent with studies that indicate diminishing returns to scale in operating costs. Conversely, capital efficiencies are greatest under a single unitary option, where economies of scale are assumed to translate into higher savings across a larger capital programme and due to greater buyer power.

		Operating FY30-FY52			Capital FY30-FY52		
	Unitary option	Operating expenditure (pre efficiency)*	Opex efficiencies*	Effective efficiency	Total capital expenditure*	Capex efficiencies*	Effective efficiency
1	Single regional	\$28.4 billion	\$1,080 million	3.8%	\$8.9 billion	\$128 million	1.4%
	Single regional (excl. KCDC & HDC)	\$24.2 billion	\$925 million	3.8%	\$7.4 billion	\$106 million	1.4%
2	Western Area	\$25.9 billion	\$988 million	3.8%	\$8.2 billion	\$117 million	1.4%
	Wairarapa	\$2.4 billion	\$168 million	7.1%	\$0.7 billion	\$2 million	0.2%
3	Wellington Metro	\$21.9 billion	\$835 million	3.8%	\$6.7 billion	\$96 million	0.4%
	North Western	\$4.0 billion	\$229 million	5.7%	\$1.5 billion	\$11 million	0.7%
	Wairarapa	\$2.4 billion	\$168 million	7.1%	\$0.7 billion	\$2 million	0.2%

Operating expenditure above *excludes* depreciation and interest. Both operating and capital efficiencies are phased in from FY30.

* Efficiencies and expenditure figures have been discounted to 2026 dollars.



Indicative net financial benefits by configuration

All amalgamation options have the potential to be net financially beneficial over a 25-year period, but the extent of benefits varies with the scale and complexity of the option. The single regional unitary authority (Configuration 1) delivers the largest absolute net benefit for a single council option, but all options have the potential to deliver meaningful savings. Whether these savings are realised or not is dependent on the quality of implementation.

On a per rating unit basis, the present value of net savings over 25 years falls within a narrow range of \$3,900 to \$4,500 across the options. The Wairarapa Unitary option appears to generate the highest NPV per rating unit, reflecting the assumed higher relative efficiency benefits. However, as noted on slide 37, the potential savings need to be weighed against the potential loss of the intraregional subsidy, which could outweigh any amalgamation-related savings.

Unitary type		Establishment costs	Cumulative efficiencies	NPV	NPV per rating unit
1	Single (incl. KCDC & HDC)	\$273 million	\$1,211 million	\$937 million	\$3,911
	Single (excl. KCDC & HDC)	\$236 million	\$1,031 million	\$795 million	\$4,113
2	Western Area	\$281 million	\$1,105 million	\$824 million	\$3,891
	Wairarapa	\$42 million	\$170 million	\$125 million	\$4,521
3	Wellington Metro Western Area (excl. KCDC & HDC)	\$269 million	\$930 million	\$662 million	\$3,996
	North Western	\$58 million	\$240 million	\$181 million	\$3,931
	Wairarapa	\$42 million	\$170 million	\$125 million	\$4,521

Notes: Results are modelled over FY28–FY52 and discounted to 2026 dollars using a 4.55% nominal discount rate (2.0% real Treasury SRTP plus 2.5% inflation). Establishment costs, operating and capital efficiencies and transition costs reflect the mid-point of the range of agreed modelling assumptions. Sensitivities to these assumptions are explored on the following slide. The Wellington Metro option is the same as a Western Area (excl. KCDC & HDC) option and so has not been repeated in the table.



Net financial benefits are robust to varying assumptions

We tested the sensitivity of net financial benefits to alternative assumptions. We created an optimistic case, where we used the lowest estimate for integration costs and the highest efficiency rate to derive benefits. We also created a pessimistic case, where we applied the high-cost estimate for integration costs and the low estimate for efficiency rates. We also applied Treasury's higher discount rate to the base case.

The net present value (NPV) remains positive for each alternative scenario, meaning there is a degree of resilience in the options, even when some assumptions are less favourable. It also means that any amalgamation is not dependent on a single optimistic assumption.

Unitary type		Base case (4.6% discount rate)	High discount rate (10.5% discount rate)	Optimistic case <i>Lower integration costs, higher opex and capex efficiencies</i>	Pessimistic case <i>Higher integration costs, lower opex and capex efficiencies</i>
1	Single (incl. KCDC & HDC)	\$937 million	\$330 million	\$1,287 million	\$587 million
	Single (excl. KCDC & HDC)	\$795 million	\$279 million	\$1,093 million	\$496 million
2	Western Area	\$824 million	\$275 million	\$1,143 million	\$504 million
	Wairarapa	\$125 million	\$43 million	\$188 million	\$67 million
3	Wellington Metro Western Area (excl. KCDC & HDC)	\$662 million	\$204 million	\$930 million	\$393 million
	North Western	\$181 million	\$62 million	\$266 million	\$97 million
	Wairarapa	\$125 million	\$43 million	\$188 million	\$67 million



Intraregional subsidies – Wairarapa funding gap

There is an apparent mismatch between the amount of regional council rates revenue collected from Wairarapa ratepayers and GWRC's estimated cost of delivering activities in the Wairarapa. Even after reducing the level of regional costs and increasing the share of Centreport dividends allocated to Wairarapa, a significant funding gap remains.

One way to interpret the GWRC analysis is that Wairarapa ratepayers are recipients of an intraregional subsidy, with rates revenue collected from the Wairarapa falling short of regional expenditure by around \$29.8 million in FY26. However, recent analysis by Morrison Low suggests GWRC costs appear high relative to smaller regional council and unitary authority benchmarks.

To account for this, we have reduced costs associated with regional activities delivered in the Wairarapa by 10%, or \$7.4 million. We have also made a small adjustment to GWRC's assumed ownership share of Centreport, increasing Wairarapa's ownership from 10% to 15.4%, in line with the basis for determining shareholdings at the time Centreport was incorporated. This reduces the estimated intraregional subsidy to \$22.5 million. The apparent funding gap for a Wairarapa Unitary Authority (relative to Budget) is lower, at approximately \$8.0 million, due to Masterton District Council operating a significant surplus.

While a Wairarapa Unitary Authority would have choices about how to close this funding gap, it is plausible that rates revenue would need to increase to balance the budget. A future Wairarapa Authority would need to weigh its options carefully, including considering changes to levels of service, finding greater savings, and/or increasing revenue. Given the size of the funding gap, an increase in rates could outweigh any amalgamation-related savings.

FY26 \$000s	% of GWRC	Wairarapa's share of GWRC	CDC	MDC	SWDC	Total incl. GWRC	Adjustments made to GWRC	Net starting position
Rates revenue	7%	19,968	13,577	33,689	18,319	85,553		85,553
Non-rates revenue, including capital revenues	7%	30,275	7,119	32,741	12,866	83,001	188	83,189
Total revenue		50,243	20,695	66,430	31,185	168,554		168,742
Operating expenses	13%	74,526	16,568	43,438	24,448	158,980	(7,453)	151,527
Finance costs	8%	2,599	203	1,061	544	4,407		4,407
Overheads and support costs	n/a		(1,740)	(3,299)	(980)	(6,019)		(6,019)
Depreciation expense	8%	2,935	4,997	14,805	4,121	26,858		26,858
Total operating expenditure		80,059	20,029	56,005	28,132	184,225		176,773
Net operating position		(29,816)	667	10,425	3,053	(15,672)	7,264	(8,031)
Implied subsidy (expenditure less revenue)		29,816				29,816	(7,264)	22,552



Intraregional subsidies – North Western funding

We also examined whether Kāpiti ratepayers also benefit from an intraregional subsidy in the similar way to Wairarapa ratepayers. Our indicative analysis suggests Kāpiti District ratepayers fully fund their share of GWRC's costs. In 2025/26 financial year, we estimate regional council rates contributed by Kāpiti district ratepayers (after including the district's share of non-rates revenue) exceeded GWRC's estimated costs of delivering services in Kāpiti by \$3.1 million, or approximately 1% of expenditure.

As such, the removal of intraregional subsidies would not be expected to have a material impact on net financial benefits for Kāpiti ratepayers.

FY26 \$000s	% of GWRC	Kāpiti's share of GWRC	KCDC	HDC	Total
Rates revenue	9.4%	26,037	38,024	18,164	114,580
Non-rates revenue, including capital revenues	13.7%	58,392	114,024	43,954	184,015
Total revenue		84,429	152,048	62,118	298,595
Operating expenses	13.4%	76,822	87,247	53,038	209,502
Finance costs	6.4%	2,079	15,464	5,869	23,412
Depreciation expense	6.4%	2,348	37,309	11,002	50,658
Total operating expenditure		81,249	140,020	62,304	283,573
Net operating position		3,179	12,028	(186)	15,022
Contribution to regional subsidy (expenditure less revenue)		(3,179)			(3,179)



Testing financial resilience

Financial resilience is not determined solely by current debt levels. Councils also need the capacity to respond to unexpected costs arising from events such as flooding, infrastructure failures, or major unplanned asset renewals.

Unplanned events and rising investment requirements are increasing financial pressure on councils

Recent events have shown how quickly councils can face major unplanned costs from flooding, storm damage, slips, transport disruption and infrastructure failures. These shocks are occurring alongside rising investment requirements and affordability pressures. Government has [recently](#) proposed changes to ensure councils are managing risks related to natural hazards by requiring councils to plan for how to adapt to climate related natural hazards in the highest-priority areas. Plans must also include the indicative high-level cost estimates of response options, and how the costs are intended to be met.

Risk exposure varies across the region, but all councils face significant long-term pressure

Across Wellington / Wairarapa, councils face different exposure to natural hazards, flood protection, coastal risks, ageing infrastructure and transport disruption. Some smaller councils have narrow rating bases but still face potentially significant environmental and infrastructure risks.

Borrowing capacity and financial resilience are unevenly distributed across the region

Financial capacity is not always located where risk occurs. Some councils are constrained by high debt, while others have modest debt but limited revenue capacity. Collectively, the region has more borrowing capacity than individual councils, but under the status quo that capacity is not evenly distributed.

Shock assessment

We tested the effect of a \$50m shock and a larger, \$150m shock on each council's debt-to-revenue position and remaining borrowing headroom based on FY32 forecasts. This is a conservative assumption.*

A FY32 reference point was chosen because, by then, councils would have incurred all debt-funded establishment and transition costs but would be yet to fully realise the benefits of operating and capital efficiencies. This is likely to be the most financially vulnerable point for the newly amalgamated entities.

The shock assessment provides an indication of how resilient individual councils would be to plausibly sized shocks, by testing their ability to absorb additional costs while remaining within borrowing limits. The analysis demonstrates the uplift in financial resilience available under the various amalgamation options.



* The Treasury estimated the Cyclone Hale, Auckland Anniversary heavy rainfall, and Cyclone Gabrielle events caused between \$9 and \$14.5 billion of physical damage to households, businesses, and infrastructure. For scale comparison, the August 2022 flooding event that impacted Nelson had an total estimated cost of the recovery of \$77.1 million, with an estimated 30% covered by insurance and central government contributions. The weather event affecting Western Bay of Plenty in early 2026 has an estimated recovery bill of \$28.6 million, including approximately \$15.8 million to be funded by Council.

Some councils are more exposed to shocks than others

Financial resilience varies across the region

Some councils are expected to be constrained by relatively high debt levels. Horowhenua is the most heavily indebted council and is projecting net debt in excess of 250% from FY27. Wellington City and Hutt City are also projecting net debt exceeding 200% of revenue. Other councils have lower debt levels but remain vulnerable to financial shocks because of their smaller revenue bases and lower absolute borrowing capacity.

A \$50 million shock would represent between **79% and 225% of annual revenue for the Wairarapa councils**, compared with approximately 6% for Greater Wellington. Under a \$150 million shock, the disparity becomes more pronounced, with a shock of that size equivalent to between **237% and 674% of annual revenue for the Wairarapa councils**, compared with 19% for Greater Wellington.

Under a moderate-to-large shock, and assuming an absence of central government support, several councils would exceed their borrowing limits and/or exhaust their remaining borrowing headroom, while larger councils would retain some borrowing capacity.

Borrowing capacity is not always located where risk occurs

While the region collectively has substantial borrowing headroom, much of that capacity is concentrated in Greater Wellington and Porirua and is not necessarily aligned with where financial risks or unplanned costs are most likely to arise. As a result, councils face markedly different capacities to absorb major shocks. Under the current system, financial capacity and risk exposure are not evenly aligned and the benefits of geographical risk diversification are limited.

Council		FY32 Position	Shock as a % of revenue		Net debt to revenue post-shock		Remaining headroom	
	Net debt-to-revenue limit (LGFA)	Net debt-to-revenue pre-shock	\$50m shock	\$150m shock	\$50m shock	\$150m shock	\$50m shock	\$150m shock
 Greater Wellington	280%	163%	6%	19%	169%	182%	\$868m	\$768m
 Wellington City	280%	205%	6%	17%	210%	221%	\$632m	\$532m
 Hutt City	280%	214%	18%	54%	232%	268%	\$134m	\$34m
 Upper Hutt City	280%	99%	63%	190%	163%	290%	\$92m	-\$8m
 Porirua City	280%	88%	26%	79%	114%	166%	\$316m	\$216m
 Kapiti Coast	280%	184%	25%	74%	208%	258%	\$146m	\$46m
 Horowhenua	280%	238%	72%	215%	309%	453%	-\$20m	-\$120m
 Masterton	175%	19%	79%	237%	98%	256%	\$48m	-\$51m
 Carterton	175%	-66%	225%	674%	159%	608%	\$4m	-\$96m
 South Wairarapa	175%	97%	168%	503%	265%	601%	-\$27m	-\$127m



Financial resilience improves under all unitary configurations but is largest under the single regional unitary

Aggregation of balance sheets significantly improves the ability to absorb financial shocks

Financial resilience improves under all unitary configurations. By broadening the revenue base and combining borrowing capacity across a larger rating population, amalgamation reduces the relative impact of unplanned costs, such as on individual communities.

Under a \$150 million shock scenario, **all configurations remain within their LGFA debt limits and retain positive borrowing headroom**, indicating a greater capacity to absorb significant unplanned costs than under the status quo.

Larger configurations retain greater financial flexibility following a shock

While all configurations offer resilience benefits, the greatest benefits are associated with the larger unitary options. Under a \$150 million shock, the single regional unitary and Western Area Unitary configurations retain approximately \$2.1–\$2.6 billion of borrowing headroom, compared with \$103–\$208 million for the North Western and Wairarapa Unitary configurations. A shock of this size would also represent a much smaller proportion of annual revenue in the larger options (around 6–8%) than for Wairarapa (77%) or North Western (41%) unitary options.

This suggests that larger configurations are better able to absorb and diversify risk and maintain financial flexibility following a major shock, although all options remain better positioned than the status quo.

		FY32 Position	Shock as a % of revenue		Net debt to revenue post-shock		Remaining headroom		
		Net debt-to- revenue limit (LGFA)	Net debt-to- revenue pre- shock	\$50m shock	\$150m shock	\$50m shock	\$150m shock	\$50m shock	\$150m shock
	Regional	280%	177%	2%	6%	179%	183%	\$2.7 billion	\$2.6 billion
	Regional ex. KCDC & HDC	280%	173%	2%	7%	175%	180%	\$2.4 billion	\$2.3 billion
	Wairarapa	280%	96%	26%	77%	122%	173%	\$308 million	\$208 million
	Western Area	280%	186%	2%	6%	188%	192%	\$2.2 billion	\$2.1 billion
	Wellington Metro	280%	184%	2%	7%	187%	191%	\$1.9 billion	\$1.8 billion
	North Western	280%	211%	14%	41%	225%	252%	\$202 million	\$103 million



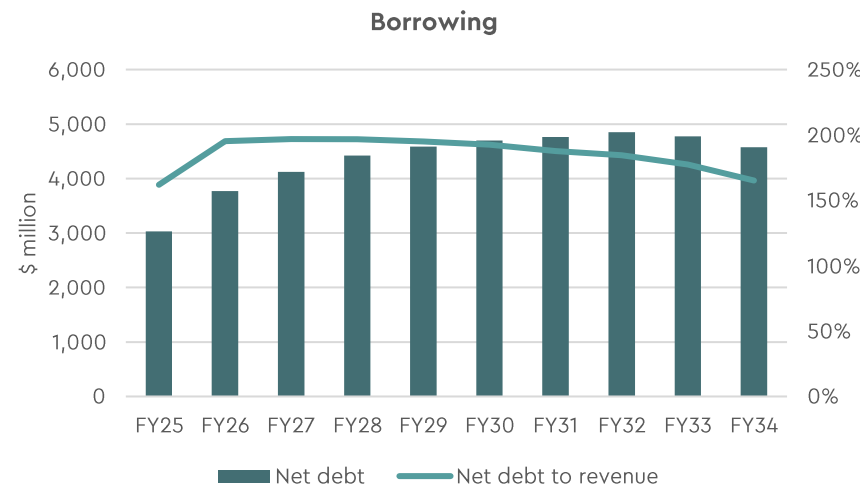
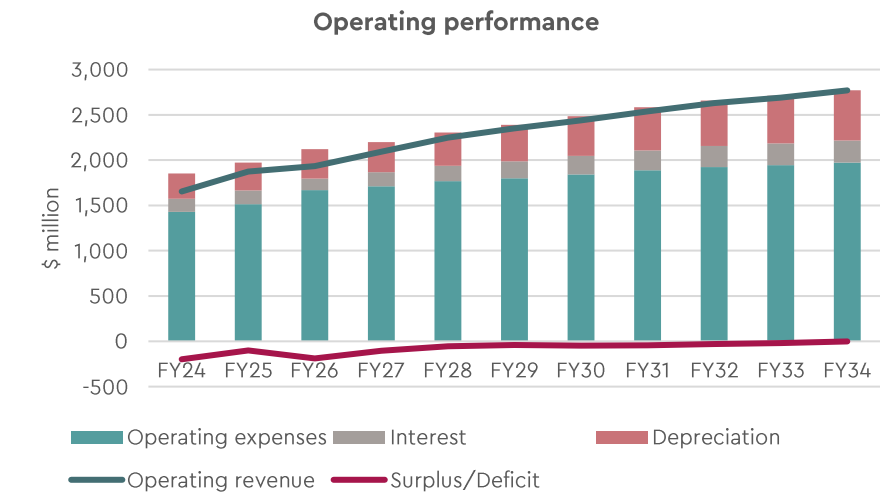
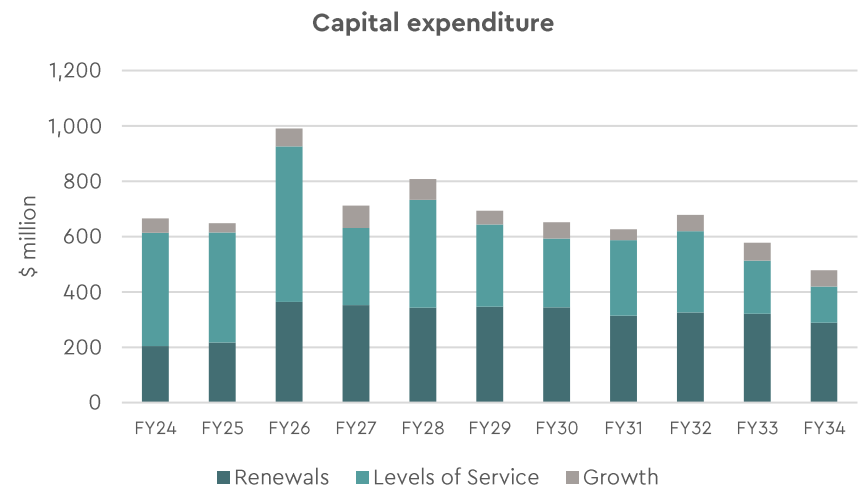
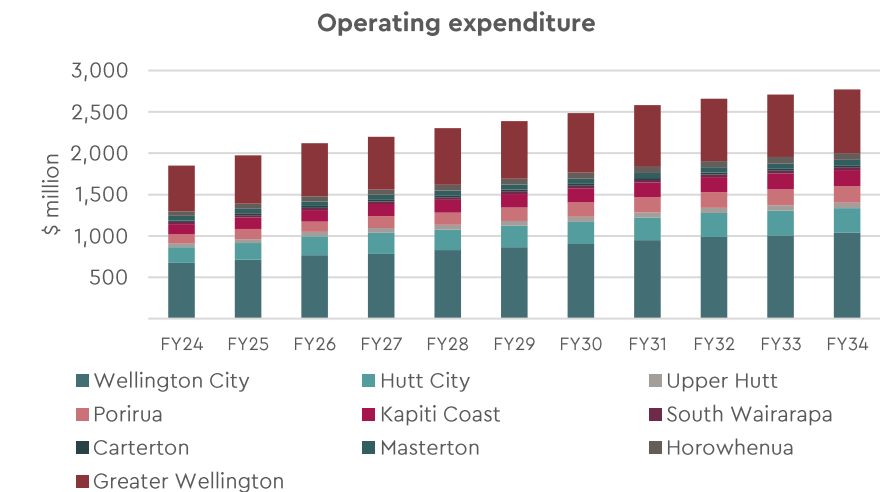
Appendix A

Status quo financial projections



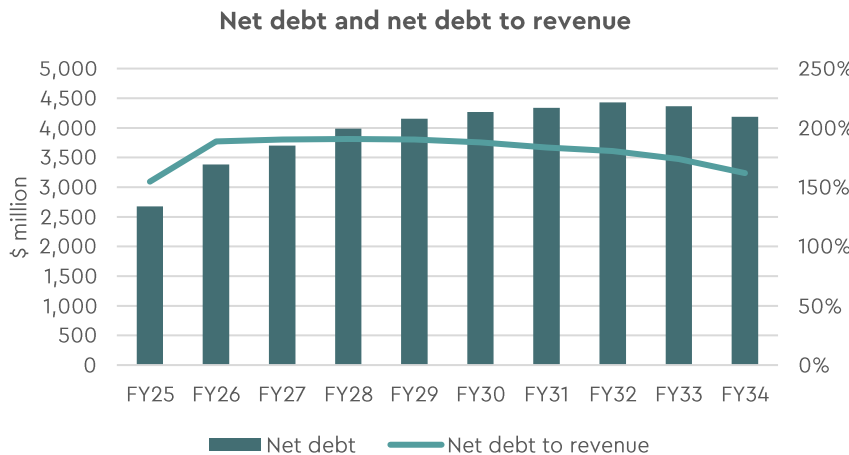
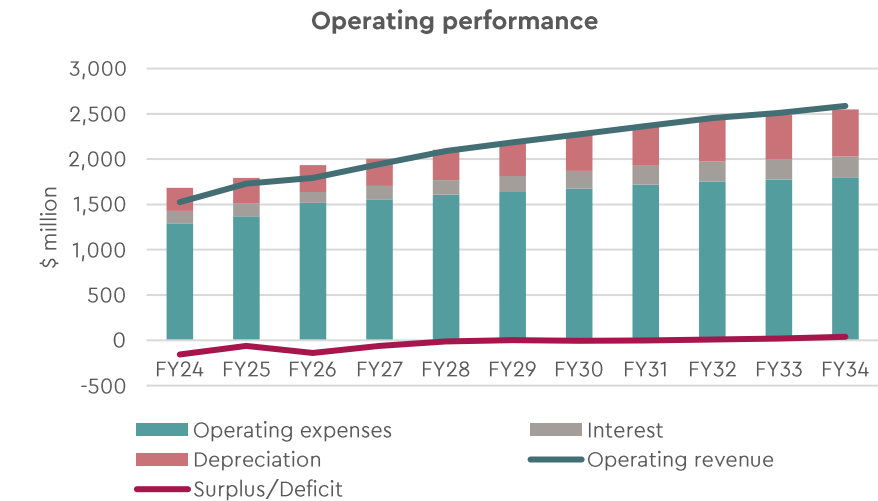
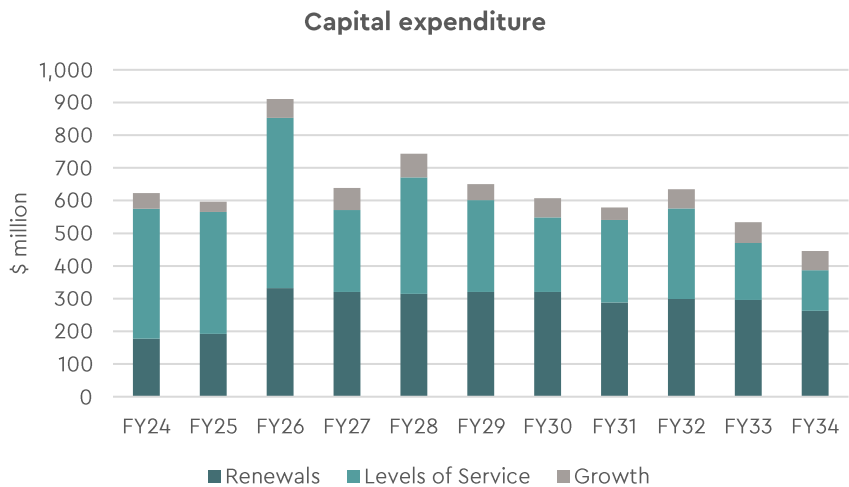
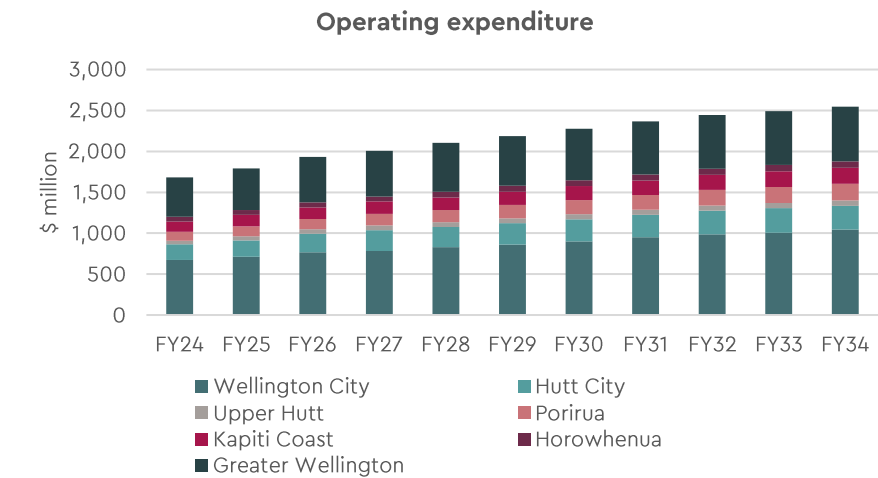
All Councils (Status Quo)

All councils see total operating expenditure (including depreciation and interest) increase from \$1.9 billion in FY24 to \$2.8 billion by FY34. Capital expenditure peaks in FY26 with a spend of \$991 million and gradually declines to \$478 million by FY34. Renewals taper slightly, but investment in levels of service decreases markedly over time. Operating performance improves over the period, reaching a small deficit of \$1.1 million in FY34, versus a deficit of \$198 million in FY24. Net debt to revenue peaks at 197% in FY27, with borrowing reaching a maximum of \$4.8 billion in FY32.



Western Councils (Status Quo)

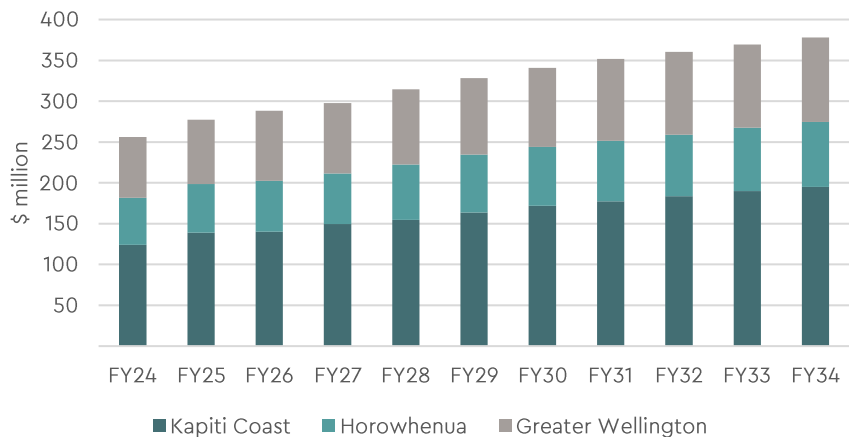
Operating expenditure is projected to increase steadily over the forecast period, rising from \$1.8 billion in FY25 to \$2.6 billion in FY34, an average annual increase of 4.0%. Capital expenditure declines from FY28 to FY34, with a short break in the trend expected in FY32. Operating revenue grows from \$1.7 billion in FY25 to \$2.6 billion in FY34, while rates revenue increases from \$1.0 billion to \$1.7 billion over the same period. Borrowing increases in the early years with net debt rising from \$2.7 billion in FY25 to a peak of \$4.4 billion in FY32. Debt levels then improve steadily, with net debt declining to \$4.2 billion by FY34 and net debt-to-revenue reducing from a peak of 190% to 162%.



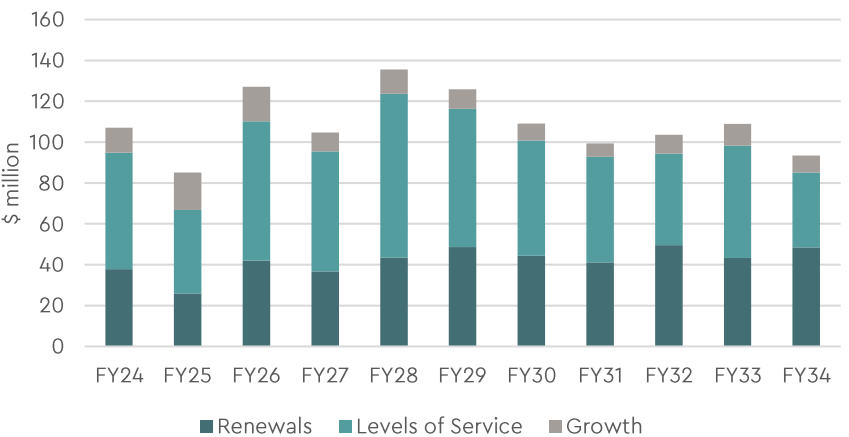
North Western Councils (Status Quo)

Operating expenditure is projected to increase steadily over the forecast period, rising from \$280 million in FY25 to \$380 million in FY34, an average annual increase of 3.5%. Capital expenditure generally declines from the peak in FY28, with a short break in the trend in FY32 and FY33. Operating revenue grows from \$250 million in FY25 to \$400 million in FY34, while rates revenue increases from \$175 million to \$315 million over the same period. An operating deficit is achieved annually until FY32. Borrowing increases until FY30, but net debt-to-revenue is generally flat over this period, before reducing from 200% to 142% in FY34.

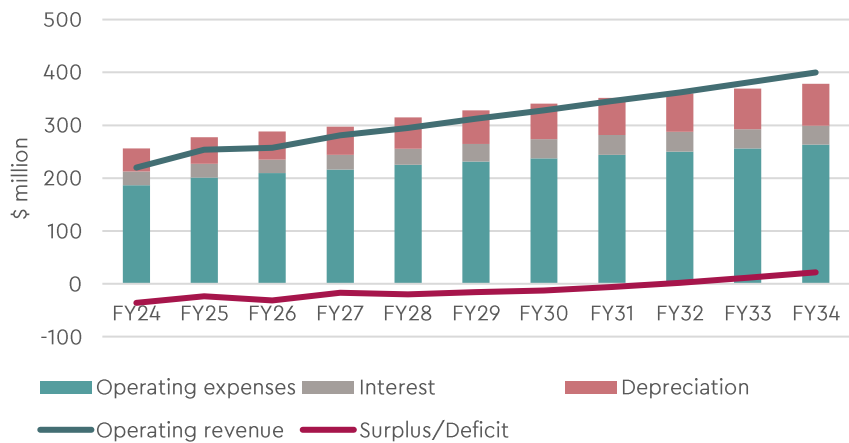
Operating expenditure



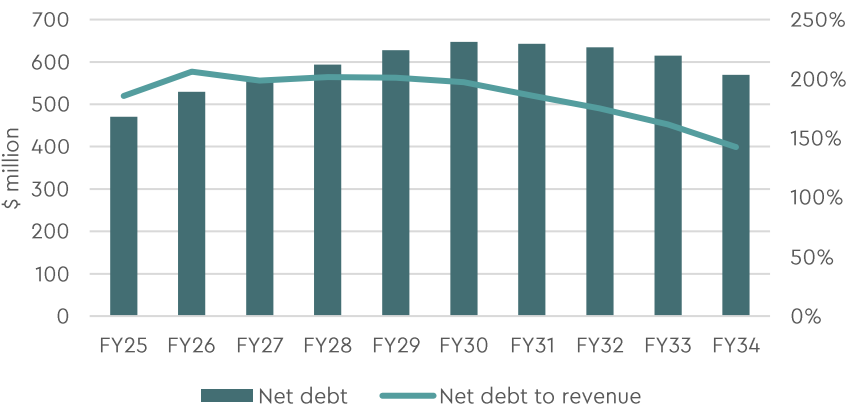
Capital expenditure



Operating performance

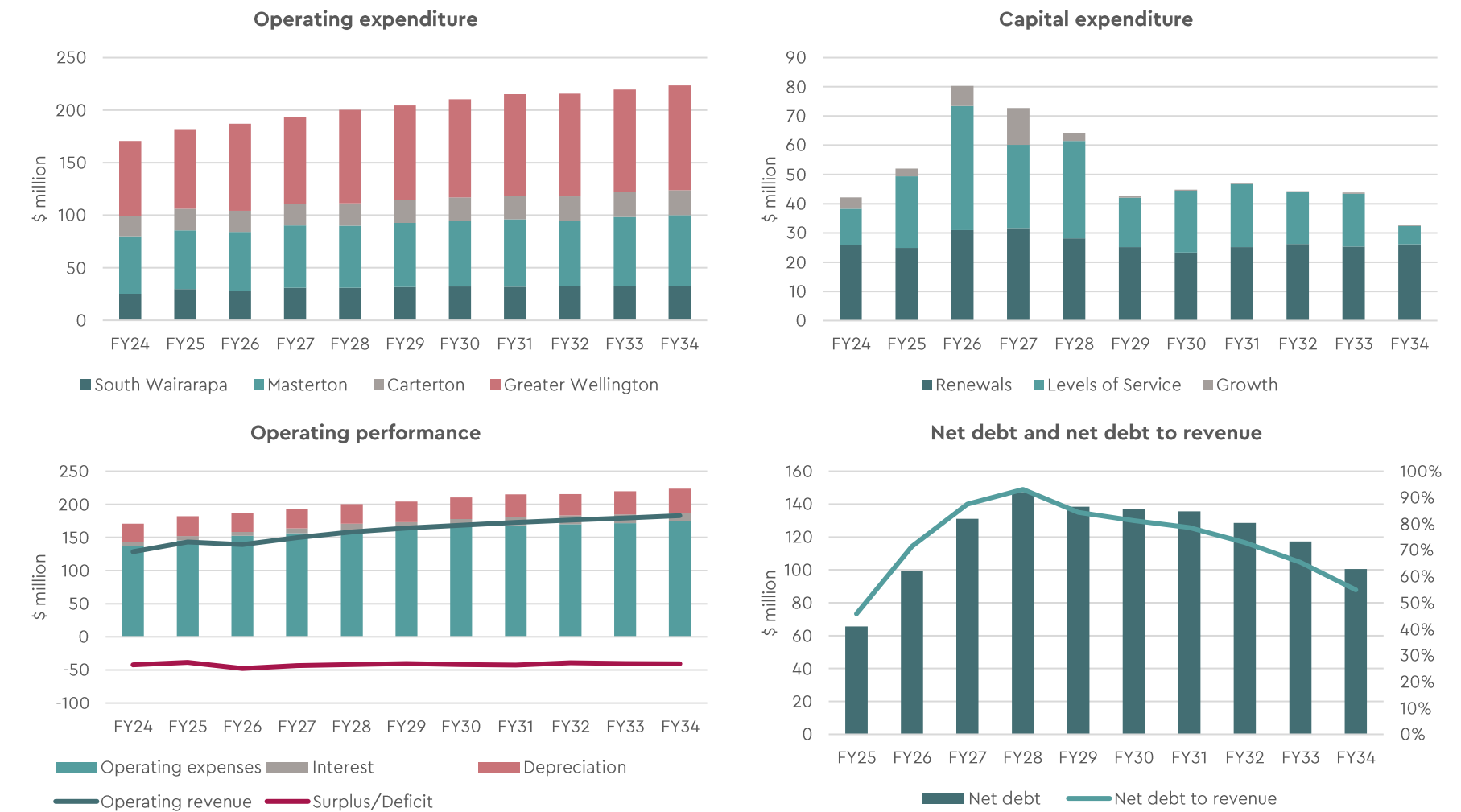


Net debt and net debt to revenue



Wairarapa Councils (Status Quo)

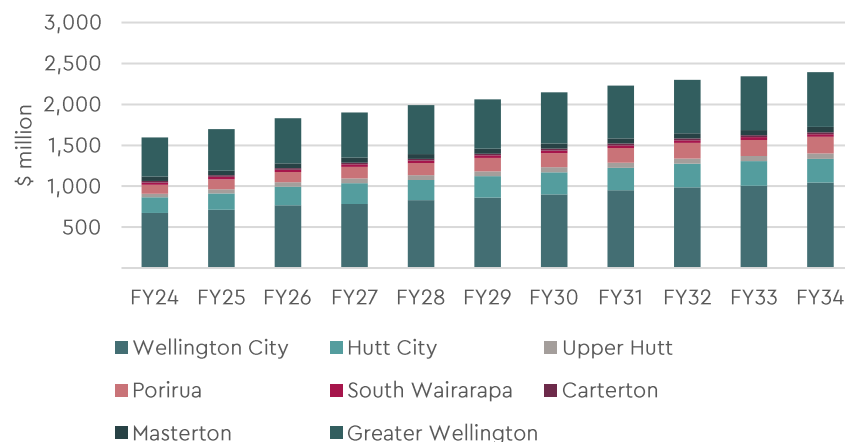
Opex increases from \$146 million in FY28 to \$175 million in FY34 (2.0% p.a.), while capex declines from an \$80 million peak in FY26 to \$33 million by FY34, mainly due to lower levels of service investment. Operating revenue grows from \$143 million to \$183 million and rates revenue from \$62 million to \$68 billion (1.1% p.a.). Operating deficits range from \$39 million in FY25 to as much as \$48 million in FY26. Net debt peaks at \$147 million in FY28 before reducing to \$84 million by FY34, improving net debt-to-revenue from 93% to 45%.



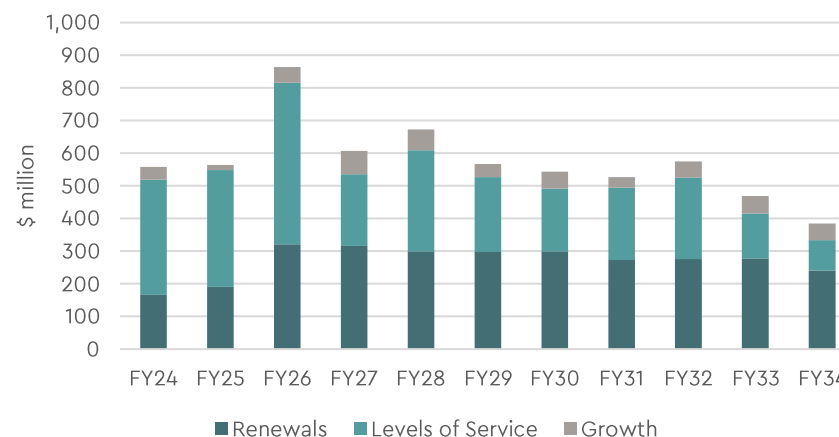
All Councils excl Kāpiti and Horowhenua (Status Quo)

Opex increases from \$2.0 billion in FY25 to \$2.8 billion by FY34 (3.0% p.a.), while capex declines from a \$864 million peak in FY26 to \$385 million by FY34, mainly due to lower levels of service investment. Revenue increases at a faster rate, with operating revenue growing from \$1.6 billion in FY25 to \$2.4 billion by FY34, and rates revenue from \$897 million to \$1.5 billion (5.8% p.a.). Net debt peaks at \$3.9 billion in FY32 before reducing to \$3.7 billion in FY34. The operating deficit narrows from \$77 million in FY25 to \$23 million by FY34.

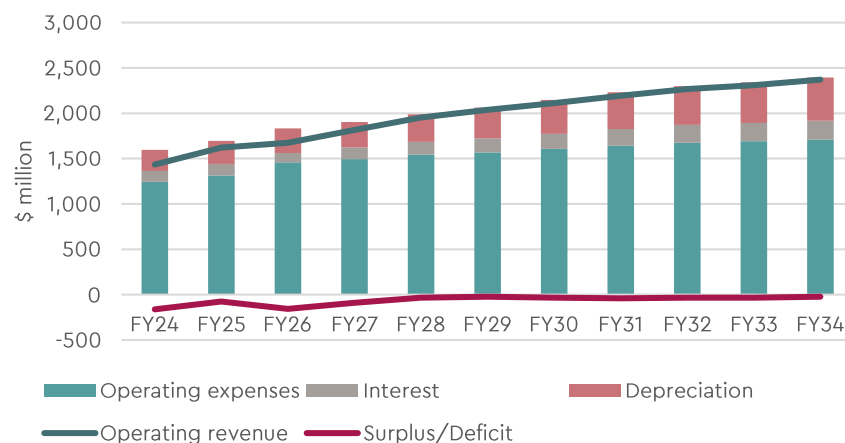
Operating expenditure



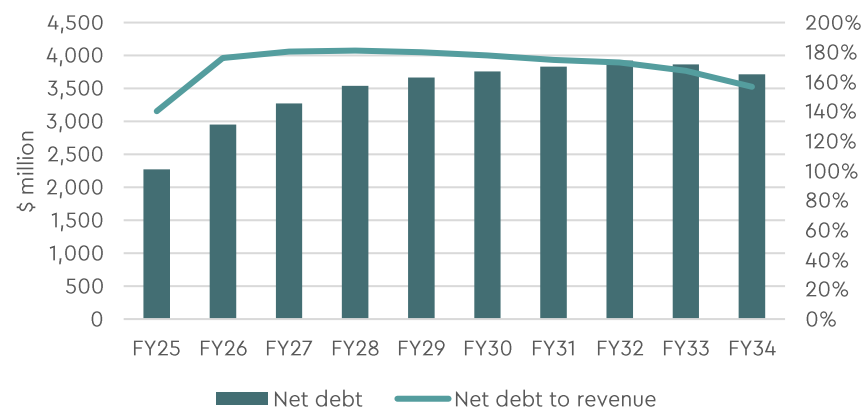
Capital expenditure



Operating performance



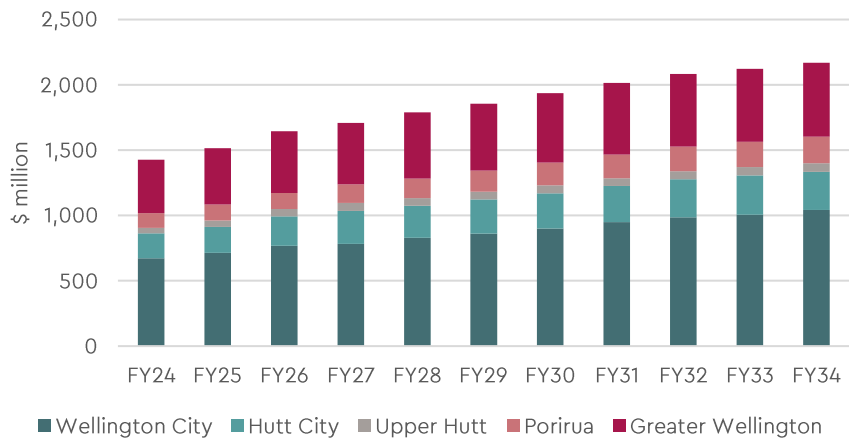
Net debt and net debt to revenue



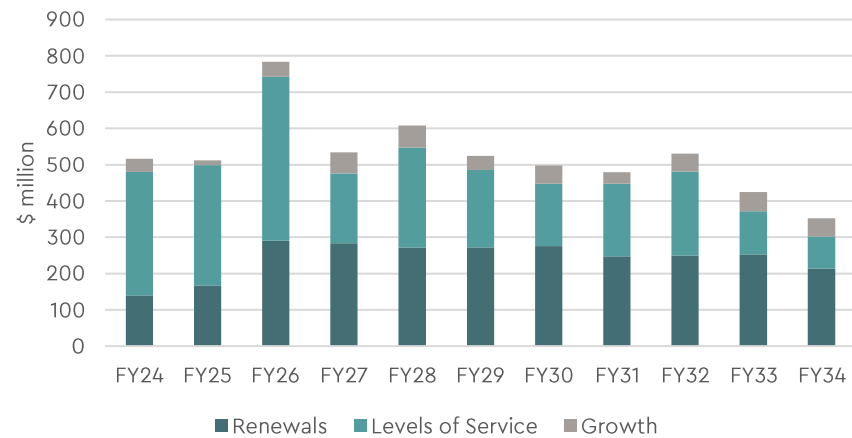
Wellington Metro Councils (Status Quo)

Opex increases from \$1.5 billion in FY28 to \$2.2 billion in FY34 (4.3% p.a.), while capex declines from a \$783 million FY26 peak to \$352 million by FY34, mainly due to lower levels of service investment. Revenue keeps pace, with operating revenue growing from \$1.5 billion to \$2.2 billion and rates revenue from \$851 million to \$1.4 billion (5.9% p.a.). Operating deficit is \$38 million in FY25, improving to an operating surplus of \$18 million by the end of the period. Net debt peaks at \$3.8 billion in FY32 before reducing to \$3.6 billion by FY34, improving net debt-to-revenue from 189% to 165%.

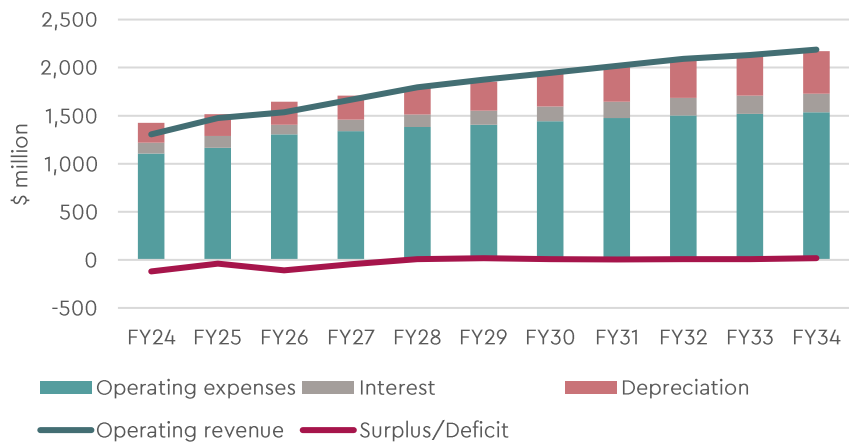
Operating expenditure



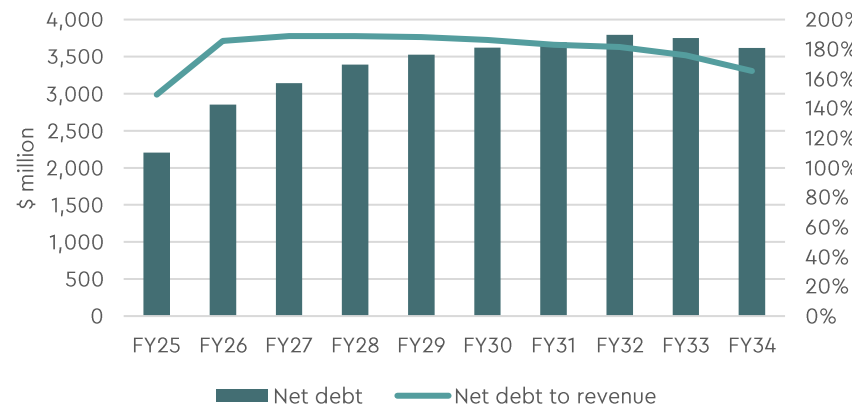
Capital expenditure



Operating performance



Net debt and net debt to revenue



Appendix B

Basis for allocating regional council costs and non-rates revenue



Allocating regional costs (excl Metlink)

GWRC provided us with their analysis of regional cost attribution for Wairarapa and Kāpiti areas. This is based on an approach applied in previous Wellington region local government reform processes, including analysis for the Local Government Commission in 2013.

The table below summarises the findings from a rapid assessment of cost allocations to Wairarapa and Kāpiti respectively undertaken by GWRC for the purpose of the Head Start process. It is based on estimated costs for 2025/26 and a rapid review of cost drivers.

Both MartinJenkins and GWRC note further more detailed work would be required to further test and refine this. However, we consider the cost allocation exercise is a suitable basis for the purposes of this indicative, high-level financial modelling exercise.

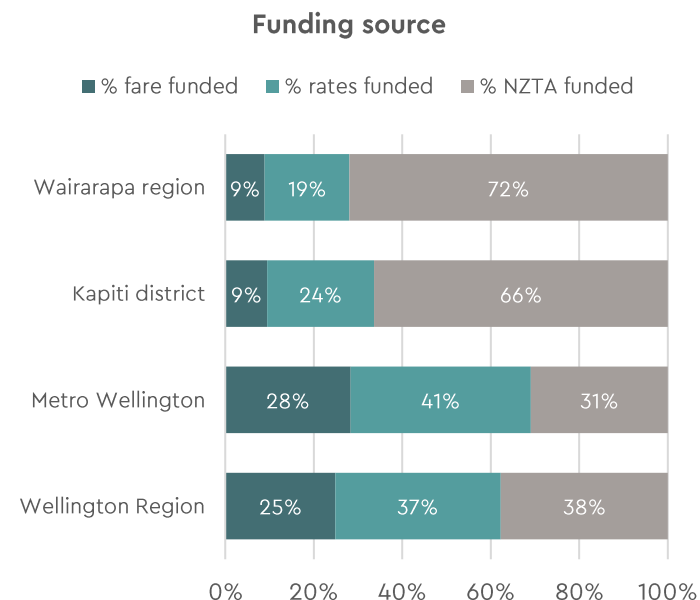
Metlink costs are excluded from the table below, as these have been further analysed by Metlink and are presented on the following slide.

		Wairarapa		Kāpiti		
		Opex \$m	Allocation %	Opex \$m	Allocation %	Allocation basis
Regional strategy and partnerships		\$3.3	10%	\$3.7	11%	Population and location of iwi
Investments		\$1.0	10%	\$1.1	11%	General rates proportion
Environment and Flood Protection	Environmental strategy and policy	\$6.3	30%	\$3.2	15%	Proportion of work programme
	Environmental restoration and recreation	\$19.1	38%	\$6.4	16%	Proportion of work programme, location of cost and staff
	Integrated catchment management	\$3.1	42%	\$1.1	19%	Proportion of work programme, location of cost
	Environmental knowledge and insights	\$7.1	30%	\$3.7	15%	Proportion of work programme
	Flood protection and control works	\$7.8	19%	\$1.9	6%	Location of cost, proportion of work programme

Allocating Metlink revenues and costs

According to analysis undertaken for the Head Start process by Metlink, expenditure for both the Wairarapa and Kāpiti is disproportionately higher than the number of service kilometres provided, with train track access and maintenance costs the primary driver. More than 70% of the net cost for both Wairarapa and Kāpiti is funded via NZTA subsidies, which exceeds the benchmark 49%. This results in a lower level of rates revenue required under the current model, with the implied intra-regional subsidy totalling an estimated \$15.4 million.

	Wairarapa	Kapiti	Metro Wellington	Total
% of expenditure	7%	12%	82%	100%
% of service kilometres	2.8%	8.5%	88.7%	100%
Total expenditure	\$24.6m	\$43.2m	\$304.9m	\$372.6m
% of net cost NZTA funded	79%	73%	43%	50%
Implied intra-regional subsidy	\$6.4m	\$9.0m	(\$15.4m)	
Normalised % of GWRC funding required	8%	14%	78%	100%



Adjustments to regional council revenues and costs

While we are broadly comfortable with the cost allocation approach and assumptions used by GWRC, there are two areas where we consider adjustments are warranted as part of our analysis, to the benefit of the Wairarapa region.



CentrePort dividend

Applying the original basis for apportioning ownership implies ~15% allocated for Wairarapa, an increase on GWRC's assumed 10% allocation. We note this may have tax related implications (associated with the current structure) which we explored with relevant Chief Executives and Chief Financial Officers.

We do not propose to attribute Centreport ownership to Kāpiti, since we assume if Kāpiti does not form part of a Wellington Unitary, it will form part of a Unitary that currently forms part of the Horizons Regional Council area, which is a Centreport shareholder. Kāpiti did not have a specific representation in 1989 when the current Councils were allocated their shareholdings.



Reduction of GWRC costs

Recent analysis by Morrison Low concluded that costs incurred by GWRC for the Wairarapa are higher than what would otherwise be expected. This is consistent with the conclusion of earlier work in 2013 by MartinJenkins and TDB Advisory.

For the Wairarapa Unitary, we have reduced GWRC operating costs (including overheads) by 10%, consistent with the lower end of the band in the Morrison Low report.

We consider this to be prudent given work on service levels and standards has not yet been undertaken and was not benchmarked in the Morrison Low analysis.

Other assumptions

Discount rate – Following New Zealand Treasury guidance, we calculate net present values using 2.0% real rate for non-commercial activity plus inflation. This compares to the current LGFA 10 year rate of about 5.3%. As a sensitivity test, we use a 8% real rate plus inflation.

Population/rating units – outside the LTP period, we have used StatsNZ population forecasts and historical ratios to derive projected rating units.

Amenable opex – outside of the LTP period, operating costs have assumed to grow by 2.5% p.a.

Capital expenditure – outside of the LTP period, councils' capex projections have been inflated to reflect assumed asset revaluation rates.

Integration costs – fully debt funded, and treated as an 'Increase in investment' on the Funding Impact Statement

Depreciation – outside of the LTP period, depreciation is calculated on the 30 year infrastructure strategy capex projections using the existing weighted average useful life.

Borrowing – we assume that capex will be financed with debt, offset by capital revenues and depreciation, and that debt-to-revenue is maintained at no more than 210%, leaving headroom for unforeseen circumstances.

Finance costs – we assume a flat rate of 5.5% per annum, based on a base rate of 5.25% and a margin of 0.25%.

Non-rates revenue – Non-rates revenue is projected forward at 2.5% p.a. growth.

Rates revenue – the model solves for rates revenue required to achieve a balanced budget.



Appendix C

Evidence on costs and benefits of amalgamations



Evidence base

We undertook a rapid targeted review of the literature including:

Previous reports and studies examining Wellington and Wairarapa local governance reform proposals

Other New Zealand reports, notably analysis undertaken for the Royal Commission on Auckland Governance

International evidence on local government reforms in Australia, Canada and the UK

While far from definitive, this evidence base offers guidance as to the range of potential financial outcomes that might be expected, and which can help inform broad assumptions regarding:

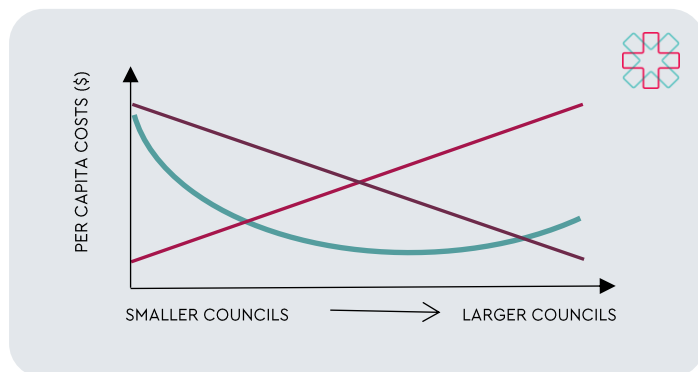
- Operating and capital savings
- Integration costs
- Timing of costs and benefits

The following slides summarise the key findings from the targeted review.

Optimal size of local government

There is no consensus on the optimal size of local government.

Some studies find **smaller councils are more efficient**, while others find that **larger councils are more efficient**. Several studies find a **U-shaped cost curve** (where per capita costs first decline with population, then level off, consistent with diminishing returns to scale).



New Zealand studies find no evidence of an unequivocal relationship between size and cost-effectiveness in local government.

Previous analysis of governance options for the Wellington and Wairarapa Regions found:

there are likely to be efficiency gains from combining councils of up to around 50,000 people

But, beyond that, there is no evidence of additional (relative) efficiency gains from amalgamation. Larger scale amalgamations are expected to generate efficiencies, but only up to a point.

Evidence suggests that, despite efficiency and productivity improvements, **amalgamation does not necessarily translate into lower overall costs due to offsetting factors** (e.g., harmonisation of employment terms and conditions at higher levels, standardisation of service levels at higher levels, pressure to standardise fees and charges at lower levels).

Scope for functional efficiency

Evidence suggests that **when considering the optimal structure of local government, it is necessary to differentiate between different functions of local government.**

Previous analyses of the scope for local government amalgamation in New Zealand has concluded that:

For capital and expert-intensive activities, like transport, roading and water services, economies of scale merit regional or network scale delivery models. This is regardless of the structure of other local government functions.

For activities where there is scope for standardisation, common systems and processes, and workflow optimisation (e.g., some strategy and planning activities, certain regulatory functions), there is scope for both economies of scale and scope.

For locally-based, labour-intensive activities and services, there is limited scope for efficiency and potential for diseconomies of scale.

Larger councils have greater potential to realise efficiencies through procurement and supply chain rationalisation.

Whether improvement in cost-effectiveness can be realised across functions that do not exhibit scale economies depends on non-structural considerations including leadership, culture, technology, and organisational management.

Assumptions from previous NZ studies

WELLINGTON/WAIRARAPA

In a 2013 analysis, MartinJenkins/TDB assumed a total level of savings of 3% from amalgamation of Wairarapa Councils. This was applied across total operating expenditure with no allowance for capital efficiencies. But the study made significant adjustments to reduce GWRC's estimated "Wairarapa subsidy" in four areas: forestry costs; CentrePort dividends; resource management (based on benchmarked costs for other unitary authorities); and democratic services.

In a separate 2013 analysis, TDB analysis suggested:

- a single authority could result in an overall cost saving of around 3%
- a Wairarapa unitary authority could result in a cost saving of around 14%

The Wellington Region Local Government Review Panel (Palmer report) estimated savings of between 2.5% and 3.5% arising from local government reform. A separate Joint Working Party examining Wellington region local government reform estimated operating savings of 3 to 4%.

AUCKLAND GOVERNANCE REFORMS

Advice to the Royal Commission projected savings on total expenditure from the formation of Auckland Council in the range of 2.5% to 3.5%, with \$81 million of savings in year 1 and a total of \$1.7 billion in savings over 10 years.

- These estimates were based on an estimated potential for total operating expenditure savings of 3 to 4%, and capital expenditure savings of 2 to 3%.
- Estimated operating savings on 'amenable expenditure' – i.e., operating expenditure excluding depreciation and interest costs - are higher at 5 to 7%, meaning it is important to match the assumed rate of efficiency with the appropriate expenditure base.

International evidence on efficiencies

EVIDENCE FROM AUSTRALIA

The Victorian State Government claimed amalgamation would yield direct cost savings of 20%, but studies reported net savings were around 8.5%, most of which was derived from competitive tendering rather than restructuring.

In South Australia, the authorities promised savings of 17% but only achieved 2%. A report by the Local Government Boundary Reform Board argued recurrent savings were conservative because it had been agreed there would be no reduction in staffing levels and because efficiencies were offset by an increase in service levels rather than leading to rates reductions.

In Queensland, a sweeping 2008 amalgamation (which halved the number of councils) saw some initial savings, but these were offset by medium-term costs increases leaving little sustained financial benefit a decade on.

EVIDENCE FROM THE UK

The Gershon Efficiency Review in the United Kingdom targeted 7.5% in cumulative operating savings (2.5% p.a. for three years), although subsequent analyses and surveys suggest realised savings of only 5% were achieved, largely through IT and shared services.

The international literature contains several cautionary findings:

- Cost savings are often over-estimated and are often delayed
- Transition cost are often under-estimated
- Cost savings achieved in one area are often applied elsewhere, rather than resulting in rates reductions

Timeframes for upfront costs and savings

EVIDENCE

Even where there are expected ongoing net savings from amalgamation, the costs of change can be significant and are front-loaded.

Estimating costs is challenging because each situation is unique and amalgamations often involve significant IT systems integration costs which are case dependent.

A UK study of local service mergers found transition costs equalled between 18% and 59% of the first two years' of estimated savings.

Large scale amalgamations in other industries, for example banking, typically cost 1.5 to 2 times the estimated full year efficiency gains.

Post-merger reviews report that first-year and second-year savings are small or negative, with mergers often resulting in a "dip" in performance until new structures settle.

Larger amalgamations were found to have slower pay-back periods, with 5-10 years a realistic payback period.

ASSUMPTIONS

In advice to the Royal Commission on Auckland Governance Reform, TDB made the following assumptions:

1	2	3
Integration costs were assumed to fall within the range of one to two times the aggregate level of efficiency gains	Costs were distributed 15% in the 18 months prior to establishment; 25% in each of years 1-3; and 10% in year 4	Reorganisation benefits (savings) were assumed to accrue as follows, expressed as a cumulative percentage of total savings: 0% in year 1, 10% in year 2, 25% in year 3, 50% in year 4, and 100% in year 5 onwards



Other considerations

Analysis of financial benefits, costs and risks of amalgamation also need to consider:

DISTRIBUTIONAL IMPACTS

Assuming that any new council transitions over time to setting rates more uniformly, then territories that have relatively high rates (e.g. relative to property value) are likely to see their rates reduce in relative terms, while territories with relatively lower rates will pay more.

Even with operating efficiencies, it is unlikely these redistributive impacts will be enough to fully offset the distributional impacts.

Rating differentials and rates transitions therefore need to be considered carefully.

TREATMENT OF CROSS-SUBSIDIES

For services provided by regional councils, there can be a significant mismatch between the cost of providing services within a given territory, and the revenue collected from ratepayers in that territory.

In previous analysis of Wellington and Wairarapa amalgamation options, studies concluded the financial impacts on Wairarapa ratepayers will depend on the level of efficiency gains achieved and whether the current regional subsidy benefitting the Wairarapa continues. Depending on the funding model for regional activities, these subsidies could have a material impact on financial outcomes under different amalgamation scenarios.

BALANCE SHEET IMPACTS

An often overlooked benefit from previous analyses of the financial impacts of amalgamation are the positive balance sheet impacts, including strengthened borrowing capacity for some individual authorities, and greater financial resilience to absorb shocks. This was confirmed in the recent LGNZ Lessons from Auckland session.

Recent analysis for of Wellington, Porirua, Lower Hutt, Upper Hutt and Wellington Regional Council indicated that the combined councils would have \$2 billion in aggregate borrowing headroom which provides significant capacity to absorb shocks. This would increase to \$2.6 billion with reference to LGFA's 280% lending limit.





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