

Economic Impact of Super City Amalgamation on Peripheral Councils (Manukau, Waitakere, Rodney, North Shore, and Franklin)

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Summary

The present note sets out a preliminary and high-level economic analysis of the short-run economic impact of the Super City amalgamation on the “Peripheral Regions” (Manukau, Waitakere, Rodney, North Shore, and Franklin).

A previous note¹ estimated that the ongoing reduction in local government expenditure on suppliers and employees would be in the region would be \$181 m per annum. To the extent that this reduction in expenditure does not translate into a reduction in rates in these peripheral region, this will have a negative impact on jobs and GDP of these peripheral regions.

We estimate the short-run economic impact of centralisation in local government spending on peripheral regions as follows:

- Rodney- a fall in regional GDP of up to \$74 million per annum and loss of 270 jobs
- Waitakere - a fall in regional GDP of up to \$139m per annum and loss of over 680 jobs
- Manukau City : a fall in regional GDP of up \$189 million per annum and loss of 702 jobs
- Franklin District : a fall in regional GDP of up to \$41 million per annum and 113 jobs
- North Shore: a fall in regional GDP of up to \$162 million per annum and 658 jobs.

The size of these effects are due to the fact that Council spending comprise such a large portion of the Regional Council’s GDP.

These effects will be lessened to the extent that ratepayers in each region receive a reduction in their rates bills. However, evidence suggests that efficiency savings in public sector are often captured within the bureaucracy and tends not to translate into lower taxes or cheaper prices. Moreover, since Auckland City has the highest cash expenditure per resident, we would expect Auckland City ratepayers to gain a reduction in their rates and Manukau to experience an increase – suggesting that for many of these peripheral regions, the net impact would continue to be contractionary.

¹ Vaithianathan, Rhema (May 2009) Transition Costs and Job Losses of the Super-city. Available from the author.

Introduction

The Super City amalgamation is expected to streamline and centralise the processes of Local Government in the Auckland Region (Royal Commission, 2008). One of the results of this is an expected reduction in expenditure in all councils. However centralisation of local government services would tend to imply that local contractors and employees are replaced by international/ national large scale operators who can utilise economies of scale to deliver cheaper services. Therefore, to peripheral councils, which are small and for which local government expenditure might be a significant component of regional GDP, the reduction in expenditure would have a “de-stimulatory” effect.

Chart 1 shows the each Council’s expenditure as a percentage of GDP.

Council Expenditure is a substantial portion of the GDP of the local community....

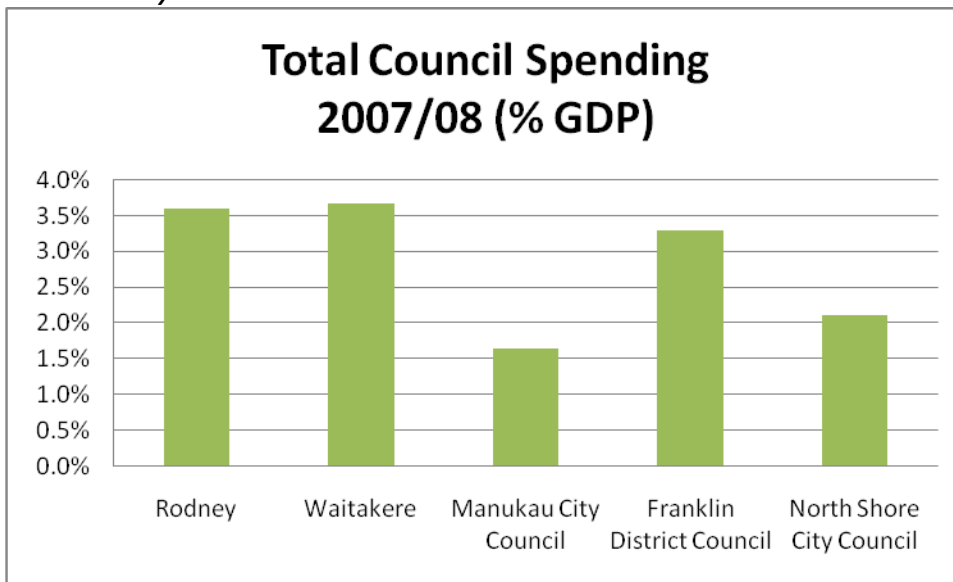


Chart 1: Council Expenditure as a % of GDP

Expenditure is from the 2007/08 Cash Flow Statements taken from the Annual Report of each council. GDP for all but Franklin district is the 2007 GDP figure produced by Berl, inflated by 2%.

This note estimates – at a high-level and using results from our previous work, the impact of the Supercity amalgamation on the economies and employment of peripheral council regions.

Methodology

Output

Previous work by the author calculated that there would be a reduction in total spending by the Super City of \$ 180,775,000 per annum². This is the amount of direct local government expenditure that we expect will be withdrawn from the larger Auckland economy. This was based on the modelling undertaken by the Royal Commission, and updated to reflect the scrapping of the tier-two councils, and the higher level of efficiencies we would expect to gain.

The \$181 m is an aggregate saving figure for the whole region. In order to estimate the economic impact on each council, we need to disaggregate and “distribute” these savings to each peripheral region. We undertake this in two ways:

- **Method (i). Auckland City takes its fair share of savings.** We assume that the savings will be distributed in relation to the total cash expenditure on employees and suppliers as reported in each Councils’ Cash Flow Statements for the 2007/08 year. For example, Rodney District Council has 8% of total disbursements made by all Councils in the region, so they are allocated 8 percent of the 181m as it’s expenditure withdrawal.
- **Method (ii) Auckland city suffers no reduction in expenditure.** We assume that the impact of the \$181m is felt only in the peripheral council areas.

Method (ii) is more realistic given that centralisation will invariably mean a larger amount of spending within the Auckland City region. The resulting disaggregate savings provide an estimate of the amount of cash that will be “withdrawn” from the local economy by local government.

However, the total economic impact is larger than this due to the need to calculate second and subsequent round effects. We employ economic “multipliers” to calculate the total short term economic impact. The multiplier effects are those additional subsequent effects that are felt in the local region as a result of scaling back of local council expenditure and employment. Most economic impact assessments tend to utilise output multipliers and employments multipliers to estimate these indirect, flow-on effects on output and on total regional employment.

Table 1 provides a selection of output multipliers for New Zealand. We use the lowest (1.82) and the highest (3.5). This is taken from the NZIER regional multipliers for local government. They are based on the New Zealand Statistics’s inter-industry tables but updated by NZIER³. I also provide the multiplier from the 1996 NZ Statistics inter-industry tables (Table 5) which is 1.98.

Employment

Previous work by the author calculated that there would be a reduction in Full Time Equivalent employees of 540. Again, the estimated job losses were calculated using aggregate data. To

² “Transition Costs and Job Losses of the Super City”. Vaithianathan, 2009. Unpublished mimeo. Available from author upon request.

³ The exact methodology used to update these multipliers by the NZIER is not documented by their literature to my knowledge.

disaggregate these effects we “distribute” the 540 FTE on the basis of the Councils’ share of FTEs as reported in the Annual Report of 2007/08⁴. Again, method (i) assumes that Auckland City takes its fair share of job losses; method (ii) assumes that Auckland City does not suffer any net job losses.

In addition to the direct loss of jobs in local Government, there are additional jobs which sustain these Council jobs. Typically, economic job impact assessments estimate the total job losses using an employment multiplier. Table 1 provides a range of employment multipliers used in estimates of regional effects of various projects. We apply employment multipliers of 1.73 to 3.63 to reflect the range of multipliers currently used in other studies.

Output Multipliers		
New Zealand Statistics Input Output Tables for the Local Government Sector	1.98	Table 5, Statistics New Zealand , Inter-Industry Tables (1996)
Regional Impact of Local Government	1.82-3.35	Appendix B, University of Auckland , Economic Contribution to the Auckland Region, NZIER, 2006
Employment Multipliers		
Waitaki local district impact of operational phase	1.78-1.93	Economic Impact of the Possible Weston Cement Plant, Copeland , (2006).
Impact of University of Auckland on regional employment	2.3-3.63	University of Auckland , Economic Contribution to the Auckland Region, NZIER, (2006)
Impact of Technology Park on Employment in the Region and North Shore	2.235	Economic Impact of the Technology Office Park on the North Shore and New Zealand Economy, Christoph Rainer and Kerim Peren Arim (2004)

Table One: Multipliers Used for Regional and National Economic Impact Studies.

⁴ Note that for Franklin we use employees and not FTEs as they do not report the latter. This might slightly exaggerate the job losses in Franklin.

Results

Rodney

Rodney District spends \$80m per year on payment to suppliers and employees. This is 3.5% of total regional GDP. We estimate that RDC total spending will fall by between \$13m and \$22m. This will have large economic impact of the local economy, reducing total regional output by between \$25m and \$74m. For a small regional economy of the size of Rodney, this constitutes up to 3.4% of local GDP⁵.

RDC employs 472 FTEs. We expect that they will lose between 45 and 75 jobs, however, once the multiplier effects are taken into effect we estimate that total job losses in the region will be between 122 and 344. The smaller figure relies on Auckland city taking its share of job cuts. The larger figure assumes that all council job losses are suffered in the periphery and the upper end of the multiplier effects estimated by NZIER.

Waitakere

Waitakere City Council spends \$149m on payment to employees and suppliers and represents 3.7% of local GDP. We estimate that the immediate expenditure by WCC will fall by between \$35m and \$56m. The total economic impact is expected to be a fall in economic output in the region of between \$47m and \$139m. This has a large negative impact and constitutes up to 3.5% of local regional GDP.

WCC employs 932 FTE, and the direct impact is expected to be a loss of between 89 and 147 jobs. However, once the regional employment effects are taken into account we estimate a total loss of between 249 and 680 jobs.

Manukau City Council

MCC spends a total of \$203m on suppliers and employees. This is around 1.7% of total regional GDP. We estimate that the MCC will reduce total expenditure by between \$57m and \$35m. Applying the output multiplier we estimate that the total regional output will fall by between \$64m and \$189m, representing up to 1.9% of local regional GDP.

MCC employs 962 FTE, and we estimate that they will lose between 92 and 152 jobs as a result of the amalgamation. Once we take into account the multiplier effects, we estimate that there will be between 247 and 702 jobs.

Franklin District Council

The FDC spends \$44m on suppliers and benefits, which represent 3.4% of local regional GDP⁶. We estimate that they will cut back expenditure by between \$8m and \$12m, which will be expected to have total economic effects of between \$14m and \$41m. This represents up to 3.1% of local GDP.

⁵ We use BERL's regional GDP estimates for the size of the local economy in 2007 as reported by each Council. Franklin does not report its GDP so we estimate it using RDC per capita GDP.

⁶ Franklin GDP is estimated using the per capita GDP for Rodney.

FDC employs 155 employees and we expect that there will be a loss of between 15 and 24 jobs. The total job losses experienced by the region is estimated to be between 41 and 113.

North Shore City Council

NCC spends \$174m on suppliers and employees. This represents 2% of the total regional GDP. We estimate that amalgamation will cause it to reduce its spending by between \$30m and \$48m. This will result in a short run contraction in the economy of between \$54 and \$162m. This represents a fall of up to 2% of the local GDP.

NCC employs 901 FTE, and we expect their job losses to be between 86 and 142 FTE. The total regional job losses are expected to be between 240 and 658.

Limitation of the Analysis

Multiplier analysis has a host of limitations that are well documented elsewhere⁷. New Zealand Statistics does not produce regional input output tables nor employment based input-output tables, and therefore all previous studies which estimated regional effects adjusted National multipliers for regional effects.

In the case of our example, we might expect larger “leakages” since we are interpreting the multipliers as applying to an even smaller area than a “region”. For example, it is clearly not the case that all Council workers live within the boundaries of the Council. However, this is only an effective leakage (in the sense of an “import”) if that worker lives in Auckland City. If the worker lives in another region, then we will be counting his reduced spending – but including it in the neighbouring region’s economic impact. Therefore, the overall impact of leakage due to the unit of analysis being somewhat smaller than a region should not be a major concern.

Efficiency Savings and Rate Reductions

The analysis above has assumed no change in rates. However, the extent to which efficiency savings flow into reduced rates is uncertain. There is considerable evidence that following privatisation, efficiency savings did not in fact flow through to the customers as reduced prices but to executives as increased compensation⁸. For example following privatization in the UK Electricity Industry, top executive salaries increased three-fold. This is not due to managerial talent because there was virtually no change in personnel in the executive management team. New Zealand’s own experience with privatisation of such services as Telecom suggests that while there were large job losses, and possibly some efficiency savings, these were not delivered to customers.

One reason for this is that when efficiency savings are realised through privatisation they are often captured by “insiders” such as Executives or Board members who due to their better bargaining power, or knowledge can negotiate increased returns. Certainly recent reports of large salaries paid for the Transition Board members who will oversee the formation of the

⁷ See for example page 12 of the NZIER Report.

⁸ “Increases in Executive Pay Following Privatization”, Catherine D. Wolfram (2004) Journal of Economics, Management and Strategy Pages 327 - 361

Super-city confirms this. The more dissipated interests of consumers or shareholders make them less powerful in bargaining over obtaining some of these savings.

Of course extracting efficiency savings by making people redundant is unpleasant work, and managers need to be compensated to undertake these activities. Therefore, higher compensation and bonuses might be justified. However, this does mean that not all the cuts to costs are actually worth making.

Moreover, as we do not yet know the new rating formula, it is difficult to gauge what the impact on ratepayers in each City Council will be. To try and make a rough calculation, we calculated the total cash payment to employees and suppliers per capita for each regional council. We compared this with what the costs would be if spread across all individuals in the "Super-city". This provided us with an estimate of which were the relatively more expensive city councils – and therefore the ones that are most likely to see a drop in rates (see Figure 2).

Figure 2 suggests that Auckland City is likely to experience the largest reduction in rates followed by Rodney. Manukau City is likely to experience the largest increase in rates.

Given our discussion above, it is unlikely that there will be particularly large positive offsetting effects on the peripheral regions due to rate reductions.

With uniform rates, we would expect Auckland City rates to fall the most and Manukau City rates to rise....

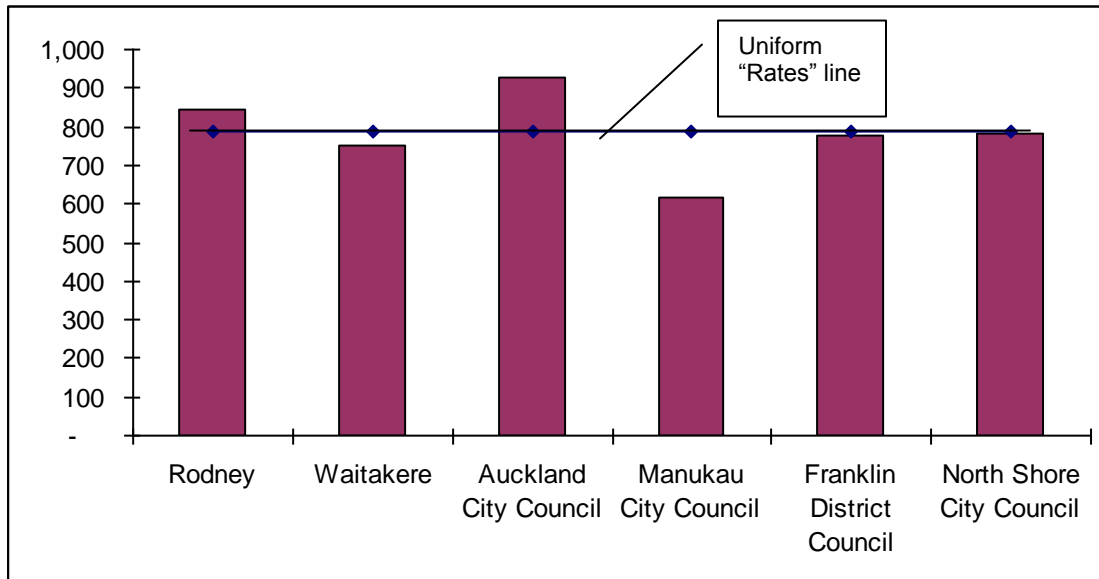


Figure 2: Local Council "costs" per capita (2007/08)
Source: 2007/08 Annual Reports

About the Author.

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Appendix: Detailed Effects

	Rodney	Waitakere	Manukau City Council	Franklin District Council	North Shore City Council
Direct Withdrawal of Spending on Contractors and Employees					
Total amortised using total cash expenditure, method (i)	\$ 13,740,339	25,612,976	\$ 34,969,866	\$ 7,597,395	\$ 29,968,258
Total amortised using total cash expenditure assuming no change in ACC, method (ii)	\$ 22,199,800.82	41,382,018.28	\$ 56,499,628.09	\$ 12,274,854.24	\$ 48,418,699
Direct Loss of Full Time Jobs					
Total amortised using total FTE, method (i)	45	89	92	15	86
Total amortised using total FTE, assuming no job losses in ACC method (ii)	74	147	152	24	142
Total Economic Impact Of Spending Reduction					
Total lost Output					
Max (multiplier = 3.35)	46,030,136.78	85,803,470.79	117,149,051.45	25,451,274.28	100,393,662.78
Max Multiplier excluding Auckland	\$ 74,369,332.76	138,629,761.24	\$ 189,273,754.09	\$ 41,120,761.72	\$ 162,202,640.19
Min (multiplier = 1.82)	25,007,418	46,615,617	63,645,156	13,827,259	54,542,229
Min (multiplier = 1.82) excluding Auckland	\$ 40,403,637.50	75,315,273.27	\$ 102,829,323.12	\$ 22,340,234.72	\$ 88,122,031.39
Total Economic Impact Of Spending Reduction (% regional GDP)					
Total lost Output	2.1%	2.1%	1.0%	*	1.2%
Max (multiplier = 3.35)	3.4%	3.5%	1.6%		2.0%
Max Multiplier excluding Auckland	1.1%	1.2%	0.5%		0.7%
Min (multiplier = 1.82)	1.8%	1.9%	0.8%		1.1%
Min (multiplier = 1.82) excluding Auckland	0.0%	0.0%	0.0%		0.0%
Indirect Effect on Employment					
Max (multiplier = 3.63)	164	325	335	54	314
Max Multiplier excluding Auckland	270	533	550	89	516
Min (multiplier = 1.78)	81	159	164	26	154
Min excluding Auckland	132	261	270	43	253
Total Effect on Employment					
Max (multiplier = 3.63)	210	414	427	69	400
Max Multiplier excluding Auckland	344	680	702	113	658
Min (multiplier = 1.78)	126	249	257	41	240
Min excluding Auckland	207	408	422	68	395

