

## Transition Costs and Job Losses of the Super-city

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### Summary

- **We estimate that transition costs will be in the range of \$574 to \$753 per ratepayer.**
- **The lowest transition costs are expected to be 34% higher than under the Royal Commission recommendation**
- **We estimate that job losses will be in the range of 539 to 817 as a result of the amalgamation**
- **The lowest job losses are expected to be 57% higher than under the Royal Commission recommendation**

### Introduction

The Government has proposed a super-city structure which is substantially different from that which is proposed in the Royal Commission Report<sup>1</sup>. In particular, their proposal does away with the second tier of representation which, under the Royal Commission's recommendation would have been responsible for managing community assets (such as libraries, parks, community halls and pools). This means that we would expect greater amalgamation of these functions.

The present note sets out a preliminary and high-level economic analysis which attempts to re-estimate the transition costs of the Super-city in light of the Government's decision to amalgamate activities of the Community Assets under one unitary authority. The basis of the analysis is the Taylor Duignan Barry Report (TDB)<sup>2</sup>. Details of the worksheet are available in the appendix.

We also make some attempt to estimate the total number of expected job losses that are implied by the assumptions made in the TDB/ RV report.

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<sup>1</sup> *Making Auckland Greater, 2009*

<sup>2</sup> "Auckland Governance, Volume 1; Appendix 2"

## Transition Costs

The principle difference between efficiency gains between the TDB report and the proposed structure is the expected additional savings from efficiency gains in OPEX related to the Community Assets and Governance. Together these comprise the largest OPEX of the Auckland Councils – and the Government Proposal will be expected to have substantially increased efficiencies in these costs available to the Unitary Authority.

We expect a related increase in transition costs due to this greater centralisation of power. We follow the method for estimating transition costs outlined in TDB. Their approach is to apply a range of ratios to the annual efficiency savings. We do the same, for the higher annual efficiencies that would be expected from the amalgamation of Community Assets and Governance.

To re-estimate efficiencies from Community Assets, we assume that the full 100% of amenable OPEX is available for efficiency gain (as opposed to the 75% - 100% range used by TDB).

Surveys of shared service delivery models cited in TDB indicate a efficiencies in the range of 10 – 15%<sup>3</sup>. We have therefore taken cost savings to be available for the total amenable OPEX expenditure of \$687. We have estimated these savings to be in at the conservative end and in the order of 10%. This yields an efficiency saving of \$51 m .

The second major departure from the TDB report is in the efficiency gains from Regulation, Governance and Planning. Given the scrapping of the second tier, and the limited powers held by the community boards, it seems likely that there will be greater efficiencies in regulation, planning and governance . The TDB report assumes that 25% of amenable OPEX is not available for savings. We adjust this to assume that all amenable OPEX of \$315m will be available for savings. TDB use a median savings assumption of 8% (range of 7.5 – 15%) . We have used the upper end of this range of 13% due to the efficiencies available through greater amalgamation.

To calculate the transition costs, we use the adjusted annual efficiency gains, and apply the ratios used by TDB as outlined in Table One. **We estimate that transition costs will be in the range of \$574 to \$753 per ratepayer.**

However, due to the fact that the rating base is not the same as the residents; and that the burden of rates often fall on residents rather than rate-payers through increased rents, cost of services etc., it is worthwhile estimating the transition costs in terms of the average cost per resident . **We estimate that transition costs will be in the range of \$220 to \$289 per Aucklanders.**

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<sup>3</sup> Page 13, TDB Report

**Table One: Estimated Range of Transition Cost of Super-City**

	<b>Method (Ratio)<sup>i</sup></b>	<b>Royal Commission</b>	<b>Government Option</b>
Total	Westpac Merger (2.1)	\$ 283,284,750	\$ 379,627,500
	Suncorp/Promina (1.7)	\$ 229,325,750	\$ 307,317,500
	One Cornwall (1.6)	\$ 215,836,000	\$ 289,240,000
	<b>AVERAGE TOTAL COST</b>	<b>\$ 242,815,500</b>	<b>\$ 325,395,000</b>
Per Aucklander	Westpac Merger (2.1)	\$ 216	\$ 289
	Suncorp/Promina (1.7)	\$ 175	\$ 234
	One Cornwall (1.6)	\$ 164	\$ 220
	<b>AVERAGE COST (Per Resident)<sup>ii</sup></b>	<b>\$ 185</b>	<b>\$ 248</b>
Per Ratepayer	Westpac Merger (2.1)	\$ 562	\$ 753
	Suncorp/Promina (1.6-1.8)	\$ 455	\$ 610
	One Cornwall (1.6)	\$ 428	\$ 574
	<b>AVERAGE COST (per Ratepayer)<sup>iii</sup></b>	<b>\$ 482</b>	<b>\$ 646</b>

**Notes:**

- i. Ratio is based on the rates given in TDB , page 22.
- ii. Assumed 1.3 million residents.
- iii. Assumed 504,000 ratepayers.

**Potential Job Losses**

We also estimate the total job losses that we expect to result from the Super-city. Of the OPEX costs amenable to savings, one-third are related to staff costs<sup>4</sup>. We therefore assume that one-third of all OPEX efficiencies across all functions are due to staff savings.

We use the average per-staff cost of \$75,362 which we derive by dividing total staff costs in the Councils by the total staff<sup>5</sup>. Dividing the total implicit staff savings (i.e. 33% of total OPEX efficiencies) with the average staff cost yields an estimated staff loss of 540 jobs (or 8% of total staff). We estimate that the Royal Commission structure would have resulted in 344 jobs lost.

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<sup>4</sup> Table 3, TDB.

<sup>5</sup> Table 2 & 3 , TDB

This is a very conservative figure as we would expect staff savings to be a disproportionate contributor to the efficiencies of scale. We therefore re-calculate the job losses if, rather than 33% the staff component of savings was 50%. This yields job losses of 817 jobs.

### **Limitation of the Analysis**

As noted in the TDB report, these are extremely high level figures. To accurately and robustly estimate these costs would require considerable modelling of all phases of the transition process.

We concur with TDB in their sentiment that there is a need for a detailed set of cost benefit analyses to be developed in order to evaluate the costs, benefits and unemployment implications of various alternative structures.

### **About the Author**

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Transition Costs and Job Losses of the Super-city					
Rhema Vaithianathan		Staff Savings(RC)	Staff Saving (Govt.)	Median Efficiency Savings (Royal COmmison)	Median Efficiency Savings (Government Option)
Total Staff Costs	\$ 479,000,000				
Total Staff #s	\$ 6,356				
Average Compensation per staff	\$ 75,362				
<b>WaterCare</b>					
CAPEX 07-27	\$ 5,100,000,000				
Annual Savings	\$ 12,750,000			\$ 12,750,000	\$ 12,750,000
OPEX		\$ 4,000,000	\$ 4,000,000	\$ 12,500,000	\$ 12,500,000
<b>StormWater</b>					
CAPEX 07-27	\$ 1,800,000,000			\$ 12,500,000	\$ 12,500,000
OPEX	\$ 92,000,000	\$ 1,104,000	\$ 1,104,000	\$ 3,450,000	\$ 3,450,000
<b>Waste</b>					
OPEX	\$ 95,000,000	\$ 1,140,000	\$ 1,140,000	\$ 3,562,500	\$ 3,562,500
<b>Transport</b>					
OPEX	\$ 586,000,000				
less ARTA	\$ 401,000,000	\$ 4,812,000	\$ 4,812,000	\$ 15,037,500	\$ 15,037,500
CAPEX	\$ 570,000,000			\$ 28,500,000	\$ 28,500,000
<b>Community Assets</b>					
OPEX	\$ 687,000,000	\$ 6,595,200	\$ 16,488,000	\$ 20,610,000	\$ 51,525,000.00
<b>Regulation, Planning, Governance</b>					
OPEX	\$ 315,000,000	\$ 8,316,000	\$ 13,104,000	\$ 25,987,500	\$ 40,950,000.0
<b>TOTAL</b>		<b>25,967,200.00</b>	<b>\$ 40,648,000</b>	<b>\$ 134,897,500</b>	<b>\$ 180,775,000</b>
Redundancies		344.57	539.37		

		57%	8%		
<b>Transition Costs</b>					
<b>Method</b>	<b>Royal Commission</b>	<b>Government Option</b>			
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<b>AVERAGE TOTAL COST</b>	<b>\$ 242,815,500</b>	<b>\$ 325,395,000</b>	34%		
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