Understanding the Financial Model

Assumptions, data sources and limitations

1. Purpose of the model

Environment Southland has developed a financial model to support local government reform discussions in Southland. The model compares the relative financial implications of different structural options using a common set of data sources and assumptions.

The model is intended to support informed discussion. It does not recommend a preferred governance model, predict the final cost of reform, or replace wider consideration of representation, service delivery, statutory obligations, local voice, community outcomes and implementation risk.

Its main purpose is to help answer questions such as:

- where costs may reduce under different structural options;
- where costs may increase;
- how transition costs could affect the timing of any savings;
- how sensitive the results are to different assumptions; and
- how the treatment of regional functions affects modelled outcomes.

The model is best understood as a decision-support tool. Its value lies in making assumptions visible and testable, rather than providing a single definitive answer.

2. Southland Financial Context

Southland's councils are responsible for a large and ageing asset base, with around $7.6 billion in assets at replacement value, and significant future investment required in areas such as water, roading and flood resilience. Across the underlying council programmes, this includes around $1.85 billion of capital expenditure over the decade to 2034, within approximately $4.95 billion of total operating and capital outlay.

This context is important as most cost pressure sits in long-term infrastructure investment and asset renewal, rather than operating costs alone. Structural change may influence how services are organised and where efficiencies can be found, but it will not remove the need to invest in the region's core infrastructure.

This means structural reform should not be seen as a complete solution to rates affordability pressures. Even where efficiencies are possible, they are likely to be modest relative to the scale of long-term infrastructure and asset renewal costs.

3. What the model is testing

The model currently tests four different ways local government services could be organised in Southland, including options where existing councils are combined into one organisation, where more than one unitary authority operates, and where territorial authority services and regional services are organised differently. These

options provide a consistent basis for comparison, but other approaches may also exist and could be modelled in future.

The model compares these options against a common financial baseline, a sum of the four Council's Long-term Plans. This allows the relative cost implications of each option to be considered in a consistent way.

The model does not assume that structural change automatically produces large savings. Instead, it tests where savings may reasonably occur, where additional costs may arise, and how the timing of those costs and savings affects the overall financial result.

4. Data sources

The model is based primarily on published council financial planning information. This includes:

- the 2024-34 Long-term Plans of Southland councils;
- relevant water services information;
- annual report information where required; and
- council financial data and assumptions reviewed with senior finance staff from each council.

Using Long-term Plan information provides a consistent starting point because it reflects the services councils currently plan to deliver, and the expenditure required to support those services over time.

The model also draws on publicly available information from previous local government reform processes, including the Auckland Council amalgamation experience. Auckland is used as a reference point because it is one of the few recent New Zealand examples of large-scale local government reorganisation with publicly available information. It is not treated as a direct comparator or predictor of Southland outcomes.

5. Model development and review process

The financial model was developed by an independent financial advisor, Tanea Hawkins of Strategic Finance Partners. The model was independently reviewed and validated before being presented to the Southland Mayoral Forum in mid-June.

Following that presentation, a separate independent advisor, Scott Hamilton of Rautaki Consulting, worked with senior finance staff from each Southland council to test and review the model inputs and assumptions.

This review process focused on ensuring the model had a consistent and reasonable financial base. Senior finance staff from the councils:

- agreed that the 2024–34 Long-term Plans should be used as the basis for the financial inputs;
- reviewed the financial information used for their own council;
- advised on how water services costs should be separated from other council costs;
- identified what each council includes within corporate overheads;
- worked through differences in how councils categorise costs so the model could apply a more consistent set of corporate overhead assumptions; and
- tested and provided advice on what may be fair and reasonable to assume for potential savings, transition costs and related inputs.

This process helped improve the consistency and robustness of the model. However, the assumptions remain modelling assumptions. **The review process should not be read as each council formally approving or endorsing the savings, duplication or transition cost assumptions used in the model.**

The model therefore reflects a combination of independent advice, council financial information, input from senior council finance staff and judgement about reasonable assumptions for comparative modelling purposes.

6. Core modelling approach

The model starts with councils' planned operating expenditure and applies assumptions about potential savings, duplication and transition costs. It is not revenue or asset based and interest and depreciation have been excluded because these costs do not materially change as a result of council structure.

The approach is based on several core principles:

Existing services are assumed to continue

The model assumes councils continue to deliver broadly the services currently reflected in their Long-term Plans. It does not model either major service reductions or additional increases in levels of service beyond those already included in councils' 2024-34 Long-term Plans.

This is important because savings from structural reform should not be confused with savings that could only be achieved by reducing services.

Councils are assumed to be operating efficiently

The model starts from the position that each council is currently delivering its planned services efficiently. It therefore does not assume large efficiency gains across all expenditure simply because structures change.

Savings are only modelled where there is a reasonable basis to assume that functions currently delivered by more than one organisation could be consolidated.

Core council services and corporate overheads are treated differently

The model distinguishes between core council services and corporate overheads.

Core council services such as roading and public transport, flood management and community facilities are often place-based, statutory or operational in nature, and still need to be delivered regardless of the number of councils.

Corporate overheads include areas such as finance, information technology, human resources, communications, governance support and other organisational overheads. These are the areas where structural change may create some opportunity to reduce duplication.

As a result, the model assumes higher potential savings in corporate overheads and lower potential savings in core service delivery.

7. Savings assumptions

Savings from structural change are likely to be modest and realised over time, rather than immediate. The Auckland Council amalgamation used an efficiency target of 3.4%. While Auckland is not a direct comparator for Southland, it provides a useful New Zealand reference point for testing whether the model's savings assumptions are broadly reasonable. This cautious approach is also consistent with the recent LGNZ Headstart Report from Martin Jenkins, which notes that benefits of scale are "neither automatic nor free", that savings can be slower to arrive than expected, and that early-stage benefits should be estimated conservatively.

Three key savings assumptions underpin the model:

Most council services would still need to be delivered
Structural change does not remove the need for core council services such as roading and public transport, flood management, environmental monitoring, biosecurity and community facilities.

The replacement of the Resource Management Act 1991 currently going through Parliament may change how planning, consenting and compliance functions are delivered in future, but those arrangements are not yet settled and have therefore not been reflected in the model.

Savings are more likely where similar support functions can be consolidated
Some efficiencies may be possible where multiple organisations currently maintain separate corporate systems and teams.

Savings take time to realise
Organisational change generally requires design, transition, systems work and implementation before ongoing savings can be achieved.

The model therefore treats savings as gradual and long-term. It does not assume that savings are fully available from day one.

The detailed percentage assumptions and dollar impacts for each option are set out in Appendix A. These show the assumed corporate overhead savings, core council services savings, regional duplication costs and transition costs applied to each option. The appendix is intended to make the assumptions transparent, rather than present the model outputs as forecasts.

8. Transition cost assumptions

All structural reform options are assumed to involve transition costs. These are costs incurred to move from the current arrangements to any new structure such as organisational design, governance and legal establishment, systems integration, information management and data migration, workforce change, redundancy or redeployment costs and change management.

The model treats these costs separately from ongoing operating savings. This is important because transition costs are likely to occur early, while savings are expected to build progressively over time.

The model assumes that transition costs are significant and front-loaded. This means they occur before the full financial benefits of any structural change are realised.

Appendix A sets out the modelled transition costs for each option, including Year 1 costs, total transition costs. This helps show the relationship between upfront transition costs and the time required for ongoing savings to recover those costs.

9. Regional function assumptions

The treatment of regional council functions are key assumptions in the model. These functions include services such as flood management, land and water management, biosecurity, coastal and marine management, and environmental data and science. These are often organised around catchments and ecosystems rather than territorial authority boundaries.

Environment Southland senior staff undertook a preliminary functional assessment to consider how current regional council activities might operate under a two-unitary model, and whether those activities could be

separated, should continue to be delivered on a Southland-wide basis, or would be absorbed into wider organisational overheads.

The assessment grouped activities into three broad categories: regional functions with a strong case for Southland-wide delivery; separable functions that could potentially sit within each unitary council; and corporate overhead functions.

The assessment then considered how work might be allocated between an urban and a rural unitary authority. The allocation was not based on population or perceived benefit. It was based on an estimated allocation of the resources likely to be required to deliver the activities in each area.

When these functional assessments were applied to Environment Southland's operating services, excluding corporate overheads, the averaged result used in the model was that the urban council would carry 20% of Environment Southland's operating service costs, while the rural council would carry 80%.

The two-unitary scenario also includes a duplication cost. This recognises that, where regional functions currently delivered once across Southland are split between two unitary authorities, additional cost may arise from duplicated capability, systems, management, coordination or service delivery requirements.

In the model, this has been treated as an ongoing duplication cost for the two-unitary option of 10% of Environment Southland's operating costs (excluding corporate overheads), which is in the order of $4 million per year. This is considered to be a conservative approach with some functions likely to have significantly higher duplication costs under a two-unitary model.

This assumption does not mean duplication is inevitable in every two-council structure. Rather, it reflects the risk that some regional services would need to be replicated across more than one organisation if there were no shared delivery arrangement.

Shared service models, joint delivery arrangements or a regional business unit could reduce some of this duplication. This is the logic behind options such as the two territorial authorities plus regional business unit model, where regional and shared services are assumed to be delivered once across Southland rather than fully duplicated.

As with the other model assumptions, the regional function assumptions are indicative and intended to support comparison between options. They are not a final service design, funding allocation or implementation plan. The model is sensitive to these assumptions, so any future detailed design work would need to test how regional functions could be governed, funded and delivered in practice.

10. Treatment of water services

Water services are treated carefully in the model because water reform processes and delivery arrangements may sit on a different pathway from wider local government reorganisation.

Where relevant, water-related operating and capital costs have been separated so that the model does not overstate savings or costs from local government structural change.

11. What the model shows at a high level

The modelling supports several broad conclusions:

- savings from structural change are likely to be modest and realised over the longer term;
- transition costs are likely to be significant and occur early;
- results are sensitive to assumptions, particularly around how regional functions are treated;

- the model is best used to compare the relative financial implications of options, rather than predict exact future costs.

These findings do not mean that structural change should or should not proceed. They mean that any discussion about reform should be based on realistic assumptions about the scale, timing and uncertainty of financial impacts.

12. Limitations of the model

The model has several important limitations:

It is not a forecast

The model does not forecast actual future expenditure, rates or organisational costs. It tests indicative financial impacts under selected assumptions. Actual outcomes would depend on decisions that have not yet been made, including governance design, implementation timing, staffing structure, systems choices, service levels and transition arrangements.

It is not a rates model

The model considers costs and potential savings. It does not determine future rates. Even if savings were achieved, future councils would need to decide how those savings were used.

It does not assess every reform consideration

The model focuses on financial impacts. It does not assess democratic representation, local voice, partnership arrangements, statutory effectiveness, service quality, organisational culture, community identity, implementation deliverability, environmental outcomes or broader social or economic impacts.

It depends on assumptions

The results are sensitive to assumptions, particularly corporate overhead savings, council service savings, transition costs, timing of savings and treatment of regional functions.

13. Frequently asked questions

Is the model recommending a preferred option?

No. The model compares options using a common set of assumptions. It does not recommend a preferred governance structure.

Does the model show what rates will be?

No. The model is not a rates forecast. It shows indicative cost and savings impacts under different assumptions. Future rates would depend on future council decisions.

Why are savings relatively modest?

The model assumes councils are already delivering their services efficiently. It also assumes that most services still need to be delivered under any structure. Savings are therefore mainly expected where similar corporate or support functions can be consolidated.

Why are transition costs included?

Any significant organisational change involves cost. These costs may include systems integration, legal establishment, organisational design, workforce change and implementation support. Excluding these costs would overstate the near-term financial benefit of reform.

Why do regional functions matter so much?

Regional functions often operate across boundaries and at catchment or regional scale. If those services are divided between organisations or require additional coordination, costs may increase. If they are delivered once across the region, those additional costs may be avoided.

Why use Auckland as a benchmark?

Auckland is one of the few recent New Zealand examples of large-scale local government reorganisation with publicly available financial information. It provides a useful reference point, but it is not directly comparable to Southland and is not used as a prediction.

Does the model include service reductions?

No. The model assumes broadly current levels of service continue. It does not rely on reducing services to generate savings.

Does the model include water services reform?

Water-related costs are treated separately where relevant.

14. What the model does not tell us

The model does not tell us which governance structure is best. It does not determine whether reform should proceed, what communities prefer, how representation should work and how local decision-making should be protected.

The model provides one part of the evidence base: a structured financial comparison. It should be considered alongside wider evidence about representation, local voice, statutory responsibilities, deliverability and implementation risk.

15. Concluding comments

The financial model provides a transparent way to test how different structural options may affect costs over time. Its strength is not that it predicts a single answer, but that it makes assumptions visible and allows those assumptions to be tested.

The results should therefore be read as indicative and comparative, not as a forecast of actual rates, budgets or implementation costs. Financial analysis is an important part of the reform conversation, but it is only one part of the broader assessment needed to determine the future shape of local government in Southland.

Appendix A: Key modelling assumptions and model outputs

This appendix brings the key output figures together with the main cost bases and modelling assumptions. The figures are indicative and are intended to support comparison between options. They are not implementation budgets, forecasts or final cost estimates. The model results change if the assumptions change.

The model applies a common methodology across each option, but the assumptions differ depending on the structure being tested. The key variables are:

- assumed savings from corporate services;
- assumed savings from council service delivery;
- assumed cost of duplicating regional functions, where relevant;
- transition costs;
- implied annual savings once the model reaches its target state; and
- the indicative number of years required to recover transition costs through annual savings.

The model assumes the 2028/29 financial year as the first year of implementation of any new structure. Key forecast costs in that year are set out below:

2029 starting cost base	Amount
Core council services operating costs	$187.3m
Corporate overhead costs	$69.0m
Capital works forecast	$157.7m

Note: The model is cost-based. Interest and depreciation are excluded because these costs do not materially change as a direct result of council structure. Capital works are included to show the scale of the programme, but the current model does not assume capital works savings.

Model outputs

LG restructure option for Southland	Description	Annual savings from 2034 (note, no further amalgamation costs)	Annual savings %	Cumulative savings to 2034 (taking into account amalgamation costs)
One Unitary council (for all of Southland)	One unitary authority for Southland	$9.8m	3.4%	$23.0m
Two Unitary councils (1 urban and 1 rural)	Two unitary authorities (rural and urban with the urban based largely based on Invercargill City Council's footprint)	$2.2m	0.8%	$-15.1m
Two Unitary councils + Regional Business Unit	As above plus a regional business unit delivering regional and environmental functions	$4.8m	1.7%	$2.4m
One Unitary council + Regional Business Unit	One unitary plus a regional business unit delivering regional and environmental functions	$9.0m	3.1%	$19.3m

Savings and duplication assumptions

The model applies different assumptions by option, reflecting the extent to which organisations are combined, whether existing services remain place-based, and whether regional functions are duplicated or delivered once.

Savings over a 6-year period from 2029 to 2034 are shown. The duplication impact is also based on the 6-year period through to 2034.

Option	Corporate overhead saving assumption	Modelled corporate overhead savings impact to 2034	Core council services saving assumption	Modelled core council services savings impact to 2034	Regional duplication assumption	Regional duplication impact to 2034
One Unitary council (for all of Southland)	8%	$30.8m	2% for ICC, SDC and GDC; 0% for ES	$15.7m	0%	$0.0m
Two Unitary councils (1 urban and 1 rural)	6%	$23.1m	0% for ICC; 2% for SDC and GDC; 0% for ES	$7.7m	10% regional duplication	$-23.9m
Two Unitary councils + Regional Business Unit	5%	$19.3m	0% for ICC; 2% for SDC and GDC; 0% for ES	$7.7m	2% partial regional duplication	$-4.8m
One Unitary council + Regional Business Unit	7%	$27.0m	2% for ICC, SDC and GDC; 0% for ES	$15.7m	0%	$0.0m

Transition assumptions

Transition costs include upfront costs associated with establishing new arrangements, including systems, establishment costs and redundancy-related costs. These costs are modelled separately from ongoing savings because transition costs are expected to occur early, while savings are expected to build over time.

Option	Year 1 transition cost	Total transition cost	Indicative years to recover transition cost
One Unitary council (for all of Southland)	$16.0m	$23.5m	2.6 years
Two Unitary councils (1 urban and 1 rural)	$14.9m	$22.0m	10.3 years
Two Unitary councils + Regional Business Unit	$13.7m	$19.8m	4.4 years
One Unitary council + Regional Business Unit	$15.9m	$23.4m	2.8 years

Note: Dollar values are modelled estimates based on the assumptions in the financial model and are presented to show relative scale between options. They are not budgets, forecasts or implementation cost estimates. Figures have been rounded for readability.