

Too big to fail. (Too small to succeed?)

Auckland One Year On
Colin James, 13 December 2011

1. The Auckland ash cloud

- The eruption of Mt Hide hasn't just changed the Auckland landscape. It has spilled ash across the country. Mayors and chairs elsewhere are worried Auckland will have too much clout and puzzle how best to react so as not to lose influence in the capital.
- The ash cloud has not yet dispersed. It has been thickened by the Upper North Island Strategic Alliance secondary eruption, which in theory covers half the population. Wellington mayor Celia Wade-Brown called a meeting on 16 November of all mayors and regional council chairs from Taranaki and Hawkes Bay to the top of the South Island in reaction. A South Island mayoral forum has also met.
- Before 2009, when Auckland's volcanic energy was still dormant and JAFAs were just JAFAs, its dysfunctionality was reassuring to the rest of this long skinny, sparse nation looking for a quiet life.
- But actually that sparse, skinny, No8 nation needs Auckland to be seismically quivering with innovation and enterprise. In the 2010s global economy vibrant cities (not cows or bungy jumpers) make vibrant national or regional economies. Wellington and Christchurch are not big enough.
- So Auckland is too big to fail. That's because if Auckland fails, New Zealand fails. Politicians in Wellington and economists enslaved to their models agree on this.
- But Auckland is also small in the world. Is it too small to succeed? Towns of a million or so are provincial in a 7-billion world. Even small Sydney and Melbourne are bigger.
- So Mayor Len Brown (an Australian introduced him as Lord Mayor Len Brown at the Be. Institute Leadership awards 10 days back) has work to do. So do his councillors, administration, local boards and service companies. And the central government.

2. Shocks and aftershocks in the wider environment

- Auckland is just one current destabiliser of local government. Here's a partial list:
 - The Environmental Protection Authority has a brief to inject more consistency into management of a range of environmental matters, including aspects of the Resource Management Act system. Though the present government does not propose expanding its remit, there is a logic in such an expansion over time.
 - The government has been readier to call in applications for major projects for decision at national level.
 - The government is issuing more national policy statements and national environmental standards, which guide and limit the discretion of regional, district and unitary councils.
 - Commissioners were sent in to override Canterbury region's rural-urban water standoff. The Land and Water Forum was set up to develop the basis for national policy. It has recommended a national water commission.
 - A government department was set up to fix Christchurch, which was a vote of no

confidence in the Christchurch City Council.

- A co-governance/co-management regime — the regional council and iwi — now manages the Waikato River.
- The National and ACT parties have agreed to legislate to replace the current "clutter of documents" in the resource managements system with "unitary plans".
- There is an urge in National and ACT to have mayors elected at large, with executive support, to counterbalance the influence of council chief executives.

- Councils are banding together in a variety of ways:

- shared services;
- a company that is a single buyer of some back office items, centred on the Bay of Plenty;
- a single roads plan in Southland;
- a single district plan for the three Wairarapa district councils;
- proposals for amalgamation (specifically, right now, Nelson and Tasman);
- the central North Island mayoral initiative and the South Island mayoral forum;
- a single seller of local authority bonds.

- The logical deduction to be drawn from this activity is that there are **too many tiny principalities in this realm**.

This fragmentation has in the past encouraged contempt for councils among central government politicians and departments and agencies. After all, local government as a whole spends 4% of GDP, against the central government's 35%. Who counts? Dunedin? Stratford? Hawkes Bay region?

The logical deduction from this is that pressure will grow to find ways to build bigger local government units or clusters.

3. What an outsider sees inside Auckland

[First, I must declare that I am in a technical sense an insider. I have owned a bach, a genuine bach, on Waiheke Island for 30 years.]

- There is a **mayor**, with his own executive. This gives him greater authority than previous mayors. Lobbyists apparently make a beeline for the mayor's office.

The greater mayoral authority hasn't stopped ministers trampling over him: Steven Joyce's initial supercilious scorn for the rail loop, the mayor's special project; Murray McCully's contemptuous (some would add contemptible) treatment of him over the Rugby World Cup opening night transport problems even though McCully was the cup tsar. As the *Herald* said in an anaemic piece on 28 October, Len Brown hasn't become the country's second most powerful politician, as Rodney Hide trumpeted — not by a long chalk. Prime Minister John Key barely troubles to disguise his annoyance that Brown beat John Banks. [The demeaning manoeuvres by Key and Banks in Epsom needed to scrape Banks into Parliament on 26 November are instructive.]

The mayor appears to have done a good job of

- spreading responsibility and roles among the somewhat disparate set of councillors;

- working with the administration to get four plans and strategies up;
- feeling his way through to something vaguely workable in providing for an iwi voice on council business;
- being a unifying figure (despite a truly awful speechifying style); and
- setting himself up thereby for a second term.

- However, seen from outside the mayor does not yet appear to have generated a whole-of-Auckland ethos. He comes from Manukau but is running a city that looks to many to be operating as if it is an extension of the old Auckland city.

Well, the old Auckland city is the original Auckland. The other three cities and outer suburbs were outgrowths of that original Auckland, not distinct localities. The rest of New Zealand thought of "Auckland" , not of Manukau or Waitakere or North Shore.

But is this sustainable? The answer may lie in how the local boards develop.

- There are the **councillors and the council administration**. The administration looks to have done a good — some say first-class — job of overseeing the transition of services from seven jurisdictions to one (though pushing through rate levelling will be politically fraught). It has produced, in quick time, the spatial plan, the development strategy, the central city plan and the long-term plan. From the outside the top administration looks professional; Roger Blakeley has been highly praised to me in government circles.
- There are the **local boards**. Mike Reid will assess them later today. I will just note, first, that I think it far too early to get an accurate read on what powers and delegations the boards will end up with five years hence and the degree to which these will vary from board to board and, second, that I see the board chairs have formed a sort of forum which insists on a direct relationship with the mayor.

I also have a question: if you are a lobby group and you are working out whom you want onside in addition to, or instead of, the mayor and to whom would you make your pitch, will it be the local boards chairs or the councillors? It will be interesting to watch from outside how that eventual settles.

- What I see is a structure that looks a bit like federal United States:
 - A directly elected executive mayor ("president"), with a "White House" staff
 - A "house of representatives" of directly elected councillors
 - A "senate" of representatives of boards ("states").

For electoral system junkies like me, how this plays out over time will be fascinating. One important difference with the United States Congress is that the "senate" doesn't get to vote on measures, which are the sole prerogative of the "house of representatives". But many citizens will judge the council on the state of services in their local areas (parks, sportsgrounds, libraries and so on) and this may in time give local boards significant political leverage beyond their formal powers.

How that plays out will be closely watched from Wellington and Christchurch and smaller places.

- There are the **council controlled organisations**, which deliver a large proportion of the services and have their own boards, akin to state-owned enterprises. Their role will be analysed later today. Their precise influence on the distribution of power will probably take some time yet to settle.

- I note, finally, that the council has a big **balance sheet**. That might give it a degree of autonomy and opportunity for initiatives central government ministers disagree with and a capacity to wait out an unfavourable minister for an alternative one or to box a minister in. Ministers are already inclined to opine that Auckland Council is "going beyond its mandate", as one put it to me.

4. An even wider Auckland

- An interesting outgrowth of the new Auckland is the Upper North Island Strategic Alliance. Originally intended to link the cities and regions of an alleged "golden triangle" — Auckland, Hamilton/Waikato and Tauranga/Bay of Plenty — it was widened to include Whangarei/Northland to dampen political sensitivities in the north at being treated as second class and on the basis that Whangarei is a significant port because oil imports are channelled through there to the refinery.
- The alliance comprises Auckland, Hamilton, Tauranga and Whangarei cities and the Bay of Plenty, Waikato and Northland Regional Councils. Smaller district authorities are to "have opportunities to be involved in discussions and background analysis and ... to comment on work being undertaken".
- The agreement traverses 12 "first order issues" (notably economic, transport, ports, tourism, water and population) and eight "second order issues".
- It is notable for two reasons:

It aims to set up a wider economic and population region, based on Auckland and comprising just over half the total population and half the national GDP.

It will, if successful, centre half the economy on Auckland. If it acts in a concerted fashion, central governments will find it hard to ignore.

- Its initial reports are very general and also suggest that the linkages are tenuous at best, a geographical construct rather than a natural entity. There is a great deal to be done before this can be seen as a genuine "alliance" and more than a putative super-region.

5. Central government

- The central government is vastly bigger in Auckland than Auckland is. The central government spends \$18 billion and Auckland spends \$3.5 billion.

New Zealand is the most centrally-governed country in the OECD by far. Education, publicly-funded research and science, health services, the police and other elements of the "justice" and "corrections" system, defence facilities and most social and housing assistance are delivered and/or supervised/monitored from Wellington.

Local government is kept deliberately short of funds through denial of new funding sources. Neither major party shows any sign of budging on that. The present government canned the regional petrol tax (apparently against Treasury advice).

- Because the central government has been the government in and for Auckland far more than the Auckland cities have been, the Auckland Council's success or otherwise depends in part on how seriously ministers and departments engage with Auckland. There are signs this is improving but off a low base.

There is a ministerial group with a watching brief. It has met once a month. Its role is to

oversee contact between the two bureaucracies, work out a response to the spatial plan and to keep ministers comfortable with the evolution of super-Auckland, this being the first time the cabinet has "worked hand in glove" with a local government, as one minister puts it. This may develop into a template for working with any other super-cities or regional groupings that develop. It has noted one benefit: six more schools are planned for Auckland, the location of which in the past would have been decided by the ministry but can now be informed by and built into the spatial plan.

Some in the Wellington bureaucracy have recognised this. Better infrastructure (schools, parks, shopping centres, etc) is thought likely to ameliorate some of the alienation and poor social outcomes in some neighbourhoods — and should be in place before the houses. One view is that having to deal with Auckland and respond to the spatial plan is forcing departments to get their act together individually and as a group, to integrate and align with the plan. There is some nervousness that the council may, at least politically, push into areas now in effect the preserve of central government, such as social development and intervention, that the mayor might become, as one puts it, "mayor of social development", which is illustrative of what "might be portable" to other councils once they see what Auckland is doing.

The bureaucracy maintains a sort of embassy in Auckland, the Auckland Policy Office (APO) which meets fortnightly with top city staff. It comprises seconded staff from the Economic Development, Environment and Transport which between them provide most of the staff, the Ministry of Culture and Heritage, the Departments of Prime Minister and Cabinet, Social Development, Building and Housing, Labour, Internal Affairs, the Treasury, the State Services Commission and the Environmental Protection Authority.

Behind this there is a departmental chief executives group (ACE) roughly correlated with the APO membership. It meets from time to time (most recently a couple of months back) with Auckland chief executive Doug McKay and senior managers.

Some argue that the engagement by the social agencies is better than by the economic agencies but this may simply reflect partisanship.

- It may be too early — after only one year — to judge whether the central government is taking Auckland as seriously as its importance to the economy suggests it should. It is wary of Auckland "going beyond its mandate" (*as noted above*). The rail link disagreement, the decision to give planning powers to Auckland Transport and the Rugby World Cup opening experience were not evidence of enthusiastic collaboration. Another looming fight is over city limits to housing development: the city wants to discourage sprawl, with attendant transport and infrastructure costs, while the central government wants sections and houses to be less unaffordable and will be armed with a Productivity Commission report and other research which says people rate housing top concern.

But there is respect among ministers for the administration's professionalism in getting the city up and running efficiently and developing the plans.

6. Where does the rest of New Zealand go?

- Logically, the rest of New Zealand will react in some way to Auckland's perceived weight and to any perceived favouritism from the central government. The nature of that reaction will depend both on what the central government does and on local initiatives.
- In that context, note that the National-ACT support agreement for this parliamentary term

endorses a far-reaching reform of the Resource Management Act and the replacement of the current "clutter" of documents with "unitary" plans, that is, one for each district council, with regional council input. The new Minister of Local Government, Nick Smith, has long preferred unitary councils to the two-level regional/district split. But should this tiny — even if long and skinny — country be heading for 66-odd councils, as this implies, or would a dozen be more appropriate?

- Next, note that it is not a big step from Canterbury's water commissioners and the Canterbury Earthquake Recovery Authority to a super-Christchurch or super-Canterbury. (Whether it initially includes Waimakariri and Selwyn districts is moot.)

Super-Christchurch/super-Canterbury is attractive to some in the cabinet and the bureaucracy but not (yet) at the top level. After the angst of creating super-Auckland, the cabinet is not enthusiastic to kick the amalgamation ball but if the ball starts rolling it will likely keep it rolling.

If super-Canterbury transpired, Fran Wilde's attempt to build a super-Wellington might get legs. Right now it is resisted, not least by Wellington city which thinks it is a "smart city" and sees the surrounding cities as feeder suburbs. But some less formalised arrangement centred on Wellington city does appeal to Wellington city, especially if the central North Island mayors called together by Mayor Wade-Brown get used to cooperating on ad hoc projects (such as direct flights to Asia and better freight coordination) and form a regular forum or even alliance.

- If a super-Canterbury and super-Wellington were to evolve — say, over the next five to 10 years — where does that leave everyone else? The answer may be in emulating the Upper North Island Strategic Alliance. The logical groupings would be (1) a central New Zealand alliance anchored on Wellington and including New Plymouth, Napier-Hastings, Palmerston North and Nelson cities and the major regional councils and (2) a South Island alliance, anchored on Christchurch.

If later this decade we do have super-Canterbury and super-Wellington and/or "alliances", where would smaller councils fit in. Would that be as adjunct observers with occasional speaking rights as in the UNISA? Or would they over time (prodded by the move to unitary plans) cede sovereignty to regional councils and/or decide amalgamations are sensible?

This latter development is more likely if Auckland's local boards are seen to work because past experience would suggest a degree of localness would still be necessary. Note that Auckland's local boards are not the same as community boards. They are much bigger. In theory, they could have significant devolved activities/functions/responsibilities/funding.

7. Will Auckland be the Auckland New Zealand needs?

- Whether the rest of New Zealand acknowledges it or not — and Federated Farmers emphatically does not — lifting real wages faster than the OECD average rate will depend on Auckland becoming a "global city": that is the view of senior ministers and of the Ministry of Economic Development. While primary resources and tourism generate cash flow and some higher-income activities can be based on primary resources (and minerals exploitation does pay high wages, as Western Australia and Queensland demonstrate), it is innovation-based activities (like the TIN-100) that generate sustainably higher real incomes. And, while those activities can take place anywhere (and enhance any base

material, including milk), they are much more likely to be found in a big, or at least biggish, city that can attract and accommodate a critical mass of the inventors and entrepreneurs who generate those activities.

This thinking draws on the Phil McCann thesis: that for routine economic activities that draw on readily acquirable knowledge the world is flat but those engaging in non-routine, high-knowledge-intensive activities congregate in "spike" cities or regions (for example, Silicon Valley for computing, London for finance). This is the "creative class" identified by Richard Florida. McCann's findings from stacks of spatial economics data indicate that not only do "creative class" individuals earn high incomes but the incomes of those in routine activities in those "spikes" are also higher.

The hope is that Auckland will become a "spike" city sustaining higher real incomes. "Smart" Wellington and IT-tech Christchurch might feed into a "spike" Auckland but not substitute for it. They are too small.

Research by McCann and Arthur Grimes of Motu published last year suggest Auckland doesn't yet have the pulling power of a "spike" centre. While it is the biggest city in the country and the only realistic candidate for spikedom, McCann and Grimes characterised it as in a peripheral part of a peripheral region (Australasia).

I note in passing that making Auckland the "world's most liveable city" doesn't cut the mustard. It needs also to be super-smart, the place where truly bright people want to live, think, work and make lots of money doing real things. Lying on the beach and swanning around the viaduct is for after you have made the money.

- A subsidiary question is whether there is yet an Aucklandism to go with Auckland, in the sense that there is Londonism (or a Shanghai-ism or New Yorkism. That is, is Auckland economically (and socially) independent of the rest of the country? Or it is just a service centre for cows and tourists elsewhere in the country? I don't have an answer to that question but I think we can say that Auckland is such a large part of the population and GDP that if it fails, New Zealand fails.

That is, Auckland is too big too fail.

- But McCann and Grimes seem to be suggesting it is too small to succeed.
- That is the challenge for Mayor Len Brown and his office and his councillors and their administration and the local boards and the council-controlled service companies: to make Auckland bigger than it appears. To do that they will need central government ministers and bureaucrats fully aligned.

A year on, looking in from the outside, that doesn't seem to be happening. I look forward to hearing through the rest of the day that I am wrong or maybe that I should just be patient — that these are early days and judging Auckland only one year on is far too early. In that event I will be able to lie around at my bach in peace next month on the world's most liveable island.