

1 February 2019

New Zealand Productivity Commission
PO Box 8036
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SUBMISSION ON LOCAL GOVERNMENT FUNDING AND FINANCING: ISSUES PAPER

Introduction

1. The Dunedin City Council (DCC) thanks the Productivity Commission for the opportunity to comment on the *Local government funding and financing: Issues Paper*. We look forward to continuing the conversation at the meetings scheduled for March 2019, and through consultation on the Commission's draft report later in the year.
2. At this stage, our submission identifies issues we would like the Productivity Commission to consider comprehensively as the inquiry on local government funding and financing progresses. We have organised these issues into three broad topic areas: partnerships, innovation, and funding and financing tools.
3. For us, the inquiry is timely. In our 10 year plan 2018-28 - a forward-looking plan to enhance our vibrant city as a compelling place to live, work and visit - we noted the significant pressures on the cost of delivering our services, and that rates increases lower than the local government cost index are not sustainable without cutting services or taking on excess debt. The affordability of rates is particularly important in Dunedin, where an increasing proportion of ratepayers are older and/or on fixed incomes.
4. The cost pressure points identified in the issues paper align closely to those we identified in our 10 year plan. We support the level of attention the issues paper pays to increasing central Government expectations on local government as a cost pressure. In Dunedin, we have also observed increasing service-level expectations from ratepayers as a cost. This service level creep manifests in a number of ways, from demand for longer opening at community pools to demand for more activities in public spaces to accompany major events, for example, activating the Octagon and key routes for pedestrian enjoyment during a Rugby World Cup or Ed Sheeran concert. In part, this arises from an increasing demand for cities of any size, including small cities like Dunedin, to provide big city amenities.
5. We invite the Commission to note and explore the advantages to communities that could be realised by central Government partnering and engaging with local government in new ways. Our recommendation at this point is for any proposed changes to the local government funding and financing system to be more enabling than prescriptive or restrictive, so as to support enhanced delivery by local government.

6. In spite of the challenges posed by increasing costs, our regular Residents' Opinion Surveys show community satisfaction with the DCC is high. During the year 2017/18, 70% of residents were satisfied with our facilities, infrastructure and services, with only 7% dissatisfied. On this basis, we consider Councils need to be supported to continue to meet the needs of the local communities they serve, addressing the priorities they identify to enhance their well-being and delivering on the broader agenda of the Government.

Partnerships

7. Central Government and local government are partners in delivering good outcomes for communities.
8. We encourage the Productivity Commission to address how central Government can enable local government to more effectively fulfil responsibilities assigned to it. Noting the work currently underway to reinstate the four aspects of well-being in the Local Government Act, we ask the Commission to investigate how the flow-on benefits of this – in terms of the purpose and the powers of general competence for local government – might be optimised through a smart partnership approach.
9. We commend the Productivity Commission for exploring central Government's role as a partner with local government in mapping out and funding large-scale climate change adaptation and we look forward to the Commission's recommendations on this issue.
10. In recent years, changes made at the central Government level have expanded the responsibilities and requirements of local government in a number of areas. Freedom camping legislation, Building Act reform, the introduction of new drinking water standards, and the introduction of measures to address earthquake-prone buildings are some examples of changes that have expanded our regulatory responsibilities and required us to meet higher standards. While such changes often lead to positive outcomes for our communities, they do carry costs. We encourage the Productivity Commission to address how central Government can ensure councils have appropriate sources of funding in place when new responsibilities or standards are transferred or imposed.
11. To this end, we encourage the Productivity Commission to look at how central Government decision-making processes, including the legislative process, can fully acknowledge the financial impacts on local governments and how they will be addressed.
12. We also encourage the Productivity Commission to explore how local government can partner effectively with the private and non-governmental sectors to enhance service delivery and community outcomes (beyond simply 'contracting-out'). The revitalisation of Dunedin's warehouse precinct shows how collaboration between a council and private parties has improved the city. Working with stakeholders such as heritage building owners, businesses and residents, we helped to transform what was a run-down and neglected area into a vibrant urban space that is becoming one of Dunedin's popular attractions. By contributing funding and expertise in urban design and heritage building re-use, we helped to create an environment where heritage building owners are motivated to invest in improving their buildings, and where new and existing businesses are

attracted to set up shop. We are interested in the Commission's assessment of how cost-sharing models like this can be employed in other areas to support enhanced, but affordable, service delivery and city development.

13. At the DCC, we recognise good local democracy often calls for extensive engagement from local government's community partners, including Māori as Treaty of Waitangi partners, and special consultative procedures. We encourage the Productivity Commission to investigate and comment on how central Government might assist local government to support our partners, particularly Treaty partners, where their resources are put under pressure by requirements to engage. These pressures exist for our voluntary sector partners and others.

Innovation

14. All of our decision-making begins with our vision: 'Dunedin is one of the world's great small cities'. From this starting point, we have engaged extensively with the community and stakeholders to develop a strategic framework that supports decision-making by identifying key priorities for investment, effort and development. These key priorities are articulated through eight key strategies. Our strategic framework aids efficient, equitable and effective DCC decision-making. We recommend the Productivity Commission explore ways central Government could assist other councils to enjoy similar benefits.
15. We encourage the Productivity Commission to look closely at how legislative and central Government reporting/compliance/process requirements on local government might be eased to open up opportunities for other priorities to be delivered.
16. We encourage the Productivity Commission to comment on potential advantages and challenges of councils working with other agencies to deliver customer-focused service provision. This follows from the Section 17A review process that encouraged councils to explore working together to provide shared services such as procurement, HR and civil defence services.

Funding and financing tools

17. The property-based rating system is less responsive to economic activity than other taxes. Local government needs support to respond to rising costs, increased responsibilities, and rising expectations around service levels that are symptomatic of economic fluctuations.
18. We encourage the Productivity Commission's questioning about restrictions on local government's ability to use funding tools to fund activities. We consider local government should be empowered to choose the most appropriate mix of tools to fund their activities. We encourage the Productivity Commission to interrogate the rationale of restrictions such as the 30% cap on certain targeted rates as per section 21 of the Local Government (Rating) Act 2002.
19. We encourage the Productivity Commission to investigate and report on the advantages (and any disadvantages) of local government retaining the GST charged on rates to support delivery against increased responsibilities.

Concluding remarks

20. Once again, we thank the Productivity Commission for the opportunity to provide input at this early stage of the local government funding and financing inquiry. We see the publication of the issues paper and our response as the beginning of a conversation, which we look forward to continuing as the inquiry progresses through 2019. We look forward to picking up the conversation on 5 March, when we will be meeting with the Productivity Commission and our colleagues from neighbouring councils here in Dunedin.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Dave Cull', written in a cursive style.

Dave Cull
Mayor of Dunedin