

21 August 2019

New Zealand Productivity Commission
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SUBMISSION ON LOCAL GOVERNMENT FUNDING AND FINANCING: DRAFT REPORT

Introduction

1. The Dunedin City Council (DCC) thanks the Productivity Commission (Commission) for the opportunity to comment on its draft report on local government funding and financing.
2. The four key pressure points identified in the draft report resonate with the DCC.
3. The DCC particularly supports the level of attention the draft report pays to increasing central Government collaboration with local government.

Supplying infrastructure to support rapid growth

4. Dunedin, like many other urban centres, is facing increased cost pressures as it invests for growth alongside funding the necessary infrastructure renewals to maintain day to day services.
5. Since being reclassified as a medium-growth city in 2017, the DCC has identified a shortage of residential development capacity as assessed through the National Policy Statement for Urban Development Capacity. A key driver of this shortage is the lack of serviceable land and the long lead-in times for infrastructure to be installed or upgraded to prepare land for development.
6. Despite this identified shortage, the DCC has seen strong building consenting activity for the last two years with no signs of activity diminishing in the coming year; 441 new homes were consented in 2018, and similar numbers are expected this year (the average over the last 20 years has been around 325).
7. The DCC recommends the Commission explore how central Government could facilitate meaningful dialogue between the market and the public sector, including local government. This would assist in ensuring the demand of goods and services required for infrastructure projects is managed in a way that achieves economies of scale in terms of cost, time and resources whenever possible.
8. The DCC agrees in principle with the Commission's recommendation for new funding for local government to incentivise preparation for rapid growth, allocated on the basis of new building work occurring within an authority's boundary. However, the DCC questions if this approach will:

- a) ensure there is consideration of long-term growth pressures, as well as more immediate ones,
 - b) ensure equity in allocation,
9. The DCC recommends regular review of the proposed building fund allocations to ensure the rapid changes around the country are identified and supported.
 10. The DCC agrees in principle that local government should explore the viability and feasibility of using Special Purpose Vehicles (SPVs) for financing options. The DCC requests appropriate SPVs be available for all councils rather than just high growth councils, and encourages the Commission to continue exploring SPV models that both fulfil local government, and the market's needs, as well as being palatable for the ratepayer.
 11. The DCC agrees with the Commission's recommendation that central Government, Local Government New Zealand and the New Zealand Society of Local Government Managers should work together to develop standardised templates both for the development contribution (DC) policies of councils and council assessments of DC charges for individual property developments. This is envisioned as being a DC best practice guide. The DCC believes local government is best placed to determine local solutions and policies for their rate payers and local developer community and should be encouraged, but not required, to use the standardised templates.
 12. The DCC recognises there are both positive and negative impacts associated with a new value capture funding tool for councils, and encourages the Commission to explore this tool further. The DCC agrees in principle that property owners with significant value increases resulting from council projects should contribute to the project itself. However, the DCC is concerned it could create unnecessary complexity for council and property owners. Additionally, the DCC notes there is an overall equity issue in raising revenue from capital gains. For example, if councils build infrastructure that devalues properties (e.g. landfills) would impacted property owners then be owed a capital rebate? The DCC also notes significant legislative change may be required to fully realise the potential of a tool like this.
 13. Whilst the DCC fully recognises that good asset management is crucial to local government's success, the DCC questions whether a capital charge for local government is an effective mechanism for incentivising good asset management. Firstly, the capital charge enforcement will create costly administration for local and central Government. And secondly, the financial burden occurred would be over and above current funding requirements for debt servicing and depreciation, which could also lead to councils raising rates to ensure services are maintained. The DCC encourages the Commission to continue exploring mechanisms to support local government in robust asset management.
 14. The DCC is cautious about commenting on the Commission's recommended vacant land tax. It is unclear in the draft report how the vacant land tax would impact the supply of housing, how great the administration burden would be, how the flow on effects would impact ratepayers, and whether legal restrictions to such a charge exist.

Adapting to climate change

15. The DCC agrees with the Commission's recommendation that central Government take the lead on providing high-quality and consistent science and data, standard setting, and legal and decision-making guidance for climate change adaptation. However, the DCC recommends the Commission amends this statement to recommend central Government's role be primarily driven by the Climate Change Commission.
16. The DCC would also like to see central Government's role expanded to include a clear mandate for partnering with councils in the coordination of national adaptation planning to ensure plans and policies are workable at the local level and that delivery is shared amongst the many different players. This approach would also make use of the relationships that exist between local government and the community to address climate change challenges.
17. As the DCC responds to climate change, partnerships are proving to be essential in ensuring opportunities are realised, communities supported and empowered to work towards positive and regenerative outcomes, and activity is coordinated. Inclusive thinking has been invaluable to the DCC, ensuring local context and knowledge are embedded and actions can be taken forward collaboratively.
18. In South Dunedin, the current focus area for adaptation activity in Dunedin, the community are working in partnership with other stakeholders including the DCC, Ngāi Tahu, the University of Otago, the Otago Regional Council and GNS Science. The DCC appreciates the steps being taken at the central Government level to take a cross-cutting approach when it comes to responding to climate change and agrees with the draft report recommendation that further central Government support and guidance is needed. The DCC encourages any moves by the Commission to encourage central Government to strengthen its cross cutting and supportive role in climate change adaptation work, recognising the critical interdependencies of many areas of work. For example, climate change objectives could be embedded into the purpose of Kāinga Ora to deliver low carbon communities and minimise adding new climate risks.
19. The DCC strongly agrees with the draft report that the institutional and legislative frameworks need to move from their current focus on recovery after an event towards reducing risk before an event and the council asks the Commission to consider how central Government support local government and other agencies with day to day assessments of the future climate impacts of new policies, plans, proposals or other business as usual activities on future risk. Without this type of support, there is a risk of organisations continuing to make decisions at all levels that increase emissions, are at odds with adaptation activity, and add new risks regardless of the institutional and legislative changes.
20. The DCC agrees central Government should extend the role of the New Zealand Transport Agency in co-funding local roads to include assistance to councils facing significant threats to the viability of roads and bridges from climate change.
21. The DCC agrees with the Commission's recommendation that central Government creates a climate-resilience agency and associated fund to help at-risk councils redesign, and possibly relocate and rebuild wastewater, stormwater and flood-protection infrastructure threatened by the impacts of climate change.

22. The tangible transfer of good practice is an area where the DCC recommends the Commission could focus attention. To achieve this, the DCC would like to see the establishment of a contestable adaptation fund, in partnership with agencies such as the new Infrastructure Commission, Treasury and MBIE, where successful application is predicated on criteria such as partnership (e.g. between councils, iwi, the community and other agencies, and minimising duplicated efforts). Alongside funding successful bids would receive on the ground guidance and expertise from central Government departments. This type of approach would support activity and go some way to ensuring New Zealand utilises good practice when it comes to adapting to climate change.

Coping with the growth of tourism

23. A current major concern of late for the DCC is the impact of visitor growth on the city. The large and rapid increase in tourism is placing considerable pressure on several types of infrastructure in popular tourist destinations, such as Port Chalmers. Port Chalmers has seen exceptional tourism growth in the form of cruise ship visitors, with visiting ship numbers rising from 89 in 2017-18 to an expected 130 in 2019-20. Such a rapid increase puts strain on local roads, parking, public toilets, water and wastewater.

24. The DCC recognises there are many cultural, social benefits and economic benefits from tourism. However, the DCC notes the importance of value over volume, especially when it comes to the environment. Ensuring there are appropriate resources such as adequate infrastructure, is critical in managing growth and spreading investment and resources across all areas. The DCC encourages the Commission to explore ways in which central Government can help local government to ensure tourism growth is managed as sustainably as possible.

25. The DCC agrees with the Commission's recommendation central Government should legislate to enable local governments in tourist centres to implement an accommodation levy, and that the Government should provide funding from the international visitor levy to local government in tourist centres for new infrastructure.

26. The DCC requests current central Government tourism funding models, such as the Tourism Infrastructure Fund, not be replaced by the proposed funds above and rather that the proposed fund be additional.

Accumulation of responsibilities

27. The DCC has observed increasing service-level expectations from ratepayers as well as an accumulation of responsibilities from central Government, which when added together come at a considerable cost. This increase in costs manifests in a number of ways, from demand for longer opening hours at community pools to new water regulations requiring greater investment than previously planned. To this end, the DCC encourages the Commission to look at how central Government decision-making processes, including the legislative process, can fully acknowledge the financial impacts on local government and explore how they will be addressed.

28. The DCC is concerned the current methodology for preparing the Local Government Cost Index is insufficient for forecasting the prices that local authorities are likely to face. The DCC supports the

Commission's recommendation that local government carry out more frequent reweighting, and for the methodology to include output indices and to disaggregate by council type.

29. The DCC requests the Commission re-explore the Crown's rates exemption. Most Crown land is currently exempt from rates. This includes land occupied by institutions such as schools' universities and hospitals, as well as the conservation estate. The DCC agrees with the Commission's previous inquiries, that central government should pay rates on its properties with rebates / exemptions being determined on a case by case basis.
30. The DCC believes local government is best placed to determine local solutions and policies for their rate payers and community and should be allowed to decide individually whether it is appropriate to include an adjustment for anticipated price inflation when they set rates each year.
31. The DCC, recognises good local democracy often calls for extensive engagement from community partners, in particular with Mana Whenua as Treaty of Waitangi partners. These engagement processes can often be long-running and resource intensive. Rather than just examining the Treaty cost on councils, the DCC encourages the Commission to investigate and comment on how central Government might assist councils to enable their partners, particularly Treaty partners, to engage where their resources are put under pressure by such processes. These pressures also exist for our voluntary sector partners and others.
32. The DCC is hesitant to endorse the Commission's proposal of reducing the frequency of Long-Term Plans (LTP) from every three to every five years on the basis of reducing the administration burden on councils. The DCC believes any cost / time savings produced by reducing the frequency would be outweighed by the frequency of amendments a five-year LTP would require.
33. The DCC also notes a change to the LTP cycle from three to five years would result in at least one, and possibly two elected councils fully bound by decisions of the previous council, over any given ten-year period.
34. The DCC agrees with the Commission's overall recommendation that the Local Government Act needs to be reviewed to clarify and streamline the required contents of LTPs to reduce duplication, ease the compliance costs and help make them more accessible documents.
35. The DCC would like to see the Commission focus on how to return the LTP to its intended purpose: to discuss the issues communities face and the choices before the community and the local authority, with the final plan being a statement of medium-term intent. The current legislation has been framed in a way that disciplines such as asset management are made practical necessities by requiring disclosure of information in the LTP. The result is a document that is lengthy and contains detail many ratepayers do not need or want. Some disclosure requirements, such as those around assets, could be removed as there is already a practical requirement to prepare asset management plans. Asset disclosures should focus on the envelope for capital spending in each group and significant capital projects.
36. The DCC thanks the Commission for its in-depth commentary on the funding and financing challenges facing local government in the provision of three waters services. The DCC acknowledges the need for improvements across this sector and is looking closely at the

implications of the Government's proposed reforms to strengthen the regulation of drinking water, wastewater and stormwater announced on 31 July 2019.

37. The Government's three waters proposals are far-reaching. They include the introduction of a dedicated water regulator and measures to strengthen compliance, monitoring and enforcement of drinking water regulations. They also include a new obligation on local government to ensure communities in their districts have access to safe drinking water, and to work with non-council suppliers struggling to maintain their supplies.

38. The DCC encourages the Commission use its final report on the local government funding and financing inquiry to assess and respond to the funding and financing issues the Government's three waters proposals raise.

Concluding remarks

39. Once again, we thank the Productivity Commission for the opportunity to provide input on the local government funding and financing draft report. We look forward to the continuing conversation as the draft report is finalised.

Yours faithfully,

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

Dave Cull
Mayor of Dunedin