Submission to the NZ Productivity Commission Enquiry into local Govt Funding and Financing

This submission is a personal submission from Alexander James (Jim) Moore based in Queenstown and currently employed as a General Manager of a Hotel in Queenstown– with 35 years experience in the Hospitality Industry. This submission does not represent either my Employer or the Owner of the Hotel that I run – the views are mine and are personal.

The comments made are largely around Queenstown and the current issues faced by QLDC but also in regards to funding in other parts of the country to fund perceived infrastructure shortfalls some of which may be based on increased tourism.

General Context

The NZ Tourism Industry has grown revenues in the last few years with double digit growth of 15-18% increases in International expenditure for the last 3 years - however when considered over a longer period 4 of the last 10 years expenditure has actually decreased and 2019 looks as though we may be headed to another downward cycle.

There is a need to understand the cyclical nature of the industry and that there are many drivers and obstacles to growth. What we see today can not be expected to continue and it appears that some parties see the industry as a "cash cow" that can be targeted for shortfalls in their funding.

Many Tourism businesses have done well in the last few years but have suffered from years of under capitalization and under investment due in many cases to poor returns on their investment during more difficult times.

Tourism is not just about International visitors, domestic visitors make up large percentages of many tourism businesses and therefore also need to be considered as well when looking at cost impacts and revenue opportunities.

This submission comments on the following questions

Q1 What other differing circumstances across councils are relevant for understanding local government funding and financing issues?
Q5 To what extent is tourism growth resulting in funding pressures for local government? Which councils are experiencing the greatest pressure, and how is this manifesting?

- Your paper appears to have covered many reasons there are differences per region such as ability to borrow and the levels of rate rises over the past 20+ years. If there is not already there should be a mechanism for auditing Councils as to whether they have taken reasonable steps to fund infrastructure with the current tools available before looking for new tools.

- In the case of QLDC they have one of the lowest increases in rates of any council of under 2% (figure 4.7)– when they could have had reasonable increases over the years they chose not to and now have a shortfall of investment. They also appear to have one of the lower debt levels for the councils particularly for the high growth councils.

- There appears to be a desire for Councils to target "new" forms of funding – with many of them looking at bed taxes which are seen as an easy form of funding, targeting tourists and not a rate payer base. This may be a popular way of funding as someone else pays – but it is neither fair nor reasonable.

- Queenstown has had significant visitor growth but this has not been the only factor in our issues. Growth has been exacerbated by a number of things – not just a growth in Tourism. Population growth from new residents from overseas, an increase of people due to the Christchurch Earthquakes and also as a result of the increased house values in a number of places such as Auckland has resulted in people moving out of places like that to live and work in Queenstown. It therefore should not be tourism business that face the sole burden of additional funding

- Factors such as the ratio of visitors to ratepayer is completely different in different areas. Each Region is somewhat unique and has its own set of challenges depending what their infrastructure needs are and funding base - what happens in Auckland is not the same as Queenstown.

- The impact of Central Government actions have on regions should be a consideration for their level of funding. Central Government in the last National Government promoted Project Palace encouraging more investment into regions where they perceived there would be hotel shortages – this promotion is likely to cause both an over supply of Hotel rooms in places like Queenstown but also add to the woes of the region by creating growth at a currently unsustainable level. CG should therefore assist in funding the infrastructure required to manage this growth so that it occurs in a sustainable manner and protects the environment. It is vital that we continue to attract visitors to New Zealand and therefore any negativity around our ability to cope with numbers harms this impacting on CG revenues.

- Councils should also consider what their past actions have done to cause some of these issues - currently there are 2 Hotels being built in Queenstown with a 3rd that was completed late last year. Only 1 has car-parking – and that one does not have sufficient parking yet Queenstown has parking issues. The cost to provide these carparks are yet another additional drain on LG funding.

- While there are regions such as Queenstown that have struggled to keep up with growth in tourist numbers there are other regions in New Zealand that would welcome more tourists to help drive economic growth so it is not about cutting growth but maybe about promoting this in areas outside of the areas that already have concerns. Tourism NZ has started this – but the push for more and more hotels in places like Queenstown just puts more pressure on already strained resources.

Q16 How effective are councils' Long-term Plan consultation processes in aligning decisions about capital investments and service levels with the preferences, and willingness and ability to pay, of residents, businesses and other local organisations?

- Ideally the local community would feed more into the long term plan and that the Council would listen to what was suggested - in Queenstown we do seem to have various talkfests that come up with suggestions only for Council to change and to for the suggestions to be ignored.

Q28 Do councils currently distribute costs fairly across different groups of ratepayers? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across ratepayers?

- In general targeted rates in Queenstown seem to distribute costs reasonably fairly. Hotels however do appear to pay significantly more than other commercial rate payers in a number of areas where the differential is higher - this equates to 20-25% more for these rates. On top of this a pan tax or rate per toilet is in place – this being acceptable to cover costs directly related to waste. The only issue I have with this is that Council could be more transparent with how the differentials have been calculated.

- In the case of Auckland the targeted rates on Accommodation providers does not seem to meet the requirement of being fair and reasonable.

- The Auckland example of this is still not being collected from a large sector of the accommodation industry - let alone all of the downstream (and in many cases primary) benefactors of Tourism.

- By increasing rates for accommodation businesses what it is doing is pushing up prices and or reducing the owner's returns on their capital employed – making Auckland and NZ less competitive and less attractive to the visitors we seek to attract.

- Being based on capital value a targeted rate does not recognize that these businesses will at some stage have less occupancy and lower revenues whether it is through new players in the market, a business downturn or both – with a targeted rate they will pay the same amount now and when business is not as good as it is now. While some businesses will be able to absorb this cost in good times it could be fatal in tougher times. This would appear not to be fair nor reasonable

Q30 What principles should be used to appraise current and potential new approaches to local government funding and financing, and how should these be applied? What are appropriate trade-offs across these principles?

Q32 Is there a case for greater use of certain funding tools such as targeted rates and user charges? If so, what factors are inhibiting the use of these approaches?

- A Fair and Reasonable approach to funding requirements for Councils should be the tenant for any collection of rates or taxes. It does not make sense to me to use a blunt tool such as a bed tax to inflict a tax on a small portion of an industry.

  To use an analogy and to put this in context. If this were to apply to another industry - what if the Wellington City Council needed to raise more funding and they decided that the people that used the IT industry could afford a bit more and the companies involved seemed to be doing well so could collect more rates. If the Council then decided that only the big players in that market such as IBM could be used to charge its clients more but smaller players did not need to collect the same rates that would not be fair nor reasonable on that industry and particularly the large businesses that were collecting the rates asit would make them less competitive.

- If this is the case a Bed Tax is neither a fair nor reasonable way to collect a shortfall in rates . While potentially perceived as a simple way of collecting revenue –it does not spread the collection to cover all sectors of the industry.

- As hoteliers we are generally against a straight bed tax. If there is a legitimate need to collect more to cover visitor related expenses then most of us are happy to pay a fair share of this. I personally would prefer a consumption tax such as a visitor levy of sorts over a bed tax and definitely over increases in targeted rates against only a small sector.

- A visitor levy allows some leeway to be able to on charge this to the end user on the bottom of an invoice. As a consumption tax it also means that lower sales would mean lower tax. (it is still debatable that increases in costs and remaining competitive with other destinations will mean that owners absorb most of this cost.)

- The Auckland Council have shown that by giving Councils a tool to collect rates via a targeted rate can be used in an unfair way with what is essentially a pseudo bed tax – with the added negative that it can then not be passed directly on to the end user.

Box 5 Possible spillover benefits from Queenstown's tourism industry Queenstown-Lakes District Council notes that greater infrastructure investment is needed to maintain Queenstown's international visitor experience. A paper commissioned by the council argues that investments to maintain or enhance the town's tourism experience would buy significant regional and national benefits. One reason for this is that visitors who come to New Zealand because of Queenstown spend a further $157–$254 million per annum in the rest of the South Island (excluding Queenstown). The paper also argues that there is potential for negative spillovers if insufficient infrastructure investment resulted in a significant deterioration of the tourism experience in Queenstown: Queenstown's position as New Zealand's most popular tourist destination (after Auckland), and the strong association between the Queenstown and New Zealand brands also means that New Zealand's tourism brand could be damaged from a diminished Queenstown experience. Source: Martin Jenkins (2018, p. 1).

I have read Martin Jenkins report and agree with the above which points to a need to recognise Queenstown as a destination of significance to Central Govt and deserving of further CG investment to preserve what has been called many times the "Jewel in the Crown".

Martin suggested that the Industry pay more of the costs of Tourism. What I did not get from the report was the recognition that our visitors already pay significantly above what other commercial rate payers pay - the Hotel I run has a rates bill of over quarter of a million dollars – paying for roading, water, waste and tourism marketing fees. If I compare this to another business and common rate the valuation I would pay approx. 70% more than a commercial ratepayer that is not a hotel.

There also does not appear to be a lot of consideration for the fact that some of the additional costs are required whether we get additional tourists or not and also that with this growth comes additional development levies and additional rate payers to spread the burden. Further to this some of the additional spends could be avoided and/or are not directly linked to Tourism but the Council is trying to say they need a bed tax to pay for it all

Q41 What are the pros and cons of local income and expenditure taxes?
Q45 To what extent does the need for particular funding tools vary across local authorities?
Q43 Are there any other changes to the current local government funding and financing framework, such as new funding tools, that would be beneficial?

Much of this is answered above

In Queenstown's case I would say yes but this may not be relevant in other locations. I support allowing a Tourism Levy (but not a bed tax) whereby the wider industry pays a greater amount to ensure that the experience of our tourists is positive.   Other rate payers should also pick up targeted rate increases to bring them more into line with the hotels and other businesses that will pick up the levy. Residential rates should also have some increases.

This would be on the basis that the collection is transparent, it is ring fenced for projects that enhance tourism and that the industry that collects the rates also has input in how they are spent.

There is a danger that Council would "double dip" with both increased targeted rates and a levy on the same businesses.

There would be an opportunity to actually give hotels and tourism businesses some relief from targeted rates to make up for the cost of collecting a levy.

Clearly the issue with granting one region the opportunity to collect a consumption tax would all of the Councils would be lining up with dollar signs in their eyes to collect a bed tax. An unfair and unreasonable tax on a small sector of the market.

Thanks

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