



Submission

to the

Productivity Commission - Local Government Funding and Financing Issues  
Paper consultation document.

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Hospitality New Zealand Auckland Branch

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## Introduction

Hospitality New Zealand (Hospitality NZ) is a voluntary trade association which has operated since 1902 and currently represents over 3,000 hospitality businesses throughout New Zealand, including Taverns, Pubs, Bars, Restaurants, Cafes, Retail Liquor and Commercial Accommodation providers such as Camping Grounds, Lodges, Motels, Hotels and Backpackers.

We have 475 financial members (not including affiliates) in the 7 Territorial Local Authorities (TLA).

Hospitality NZ has a 115-year history of advocating on behalf of the hospitality and tourism sector and is led by Chief Executive, Vicki Lee. Hospitality NZ's Auckland Branch President is Russell Gray, and Auckland Regional Managers are Darelle Jenkins & Kim Odendaal.

We appreciate the opportunity to make a submission to the Productivity Commission, and will relate to the Auckland Councils.

1. What other differing circumstances across councils are relevant for understanding local government funding and financing issues?

The cost to tax and rate payers, and our members to negotiate and debate LAPs has been high in monetary and time terms. As at 2017, the process of LAPs had already cost over \$4m to local councils which in many cases excludes staff costs. This is, in part, due to drawn out legal appeals. Hospitality NZ and its members has spent over \$500,000 (excluding staff costs) representing the industry in various LAP hearings and appeals.

5. 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?

It is our view that the Government needs to focus on the role, capability, accountability and transparency of Local Government in relation to Tourism Growth. It has been our experience that in many areas of Local Government responsibility (such as alcohol-licencing, bylaws, targeted rates and resource consents) that Local Councils are becoming increasingly insular and dictatorial in their thinking and operation. In other words, they are becoming increasingly inclined to find ways to say 'no' to tourism businesses, rather than finding ways to say 'yes', or to find solutions. Auckland's Accommodation Provider Targeted rate is an example of this

and the pressure that was put onto Auckland Council which resulted in them deciding to charge 100% of the funds to 10% of the tourism revenue earners.

It is also our view that Government need to focus on and seriously consider, a nationwide strategy to ensure harmonious relationships between tourism and hospitality businesses and residents. Our members feel that the current reaction of most Councils to hospitality businesses is to find ways to restrict or limit their operation, or to try and shut it down completely. A nationwide strategy on harmonious relationships between tourism and hospitality businesses and residents could go some way to resolving this.

6. Is an expansion of local government responsibilities affecting cost pressures for local government? If so, which additional responsibilities are causing the most significant cost pressures and what is the nature of these increased costs? To what extent do these vary across local authorities?

Local Government have been given a hospital pass from Central Government in certain areas of Legislation. A good example is the Local Alcohol Policies (LAP's) which were introduced under the Sale and Supply of Alcohol Act (SASAA) 2012. The LAP's were a good example of Councils being expected to deal with a problem far beyond their control and policy staff not having a good understanding of SASAA itself. The flawed LAP process cost Council's and stakeholders throughout many TLA's, hundreds and thousands of dollars. Some poorly resourced Councils with limited funds waited to embark on the LAP process until their were some results from legal litigation. SASAA includes stringent criteria to deal with alcohol related harm, including National Default hours without putting it in the too hard basket and passing it to local authorities. Wellington Council has sensibly continued with the National Default Hours due to that Council not having an appetite to spend any more rate payer's money.

9. Why is the price of goods and services purchased by local government rising faster than the consumer price index? To what extent is this contributing to cost pressures for local government?

Cost of 'Council Support Services' is extremely high, and comes in second behind Roothing in Figure 3.1 of the Report. This is excessive and needs to be better managed and monitored. Quite often the cost burden of the support services is passed on to our members by charging higher fees to cover the administration of Council Staff.

15. How effective is the Long-term Plan process in addressing cost pressures and keeping council services affordable for residents and businesses?

Long Term Plans are not every effective at all and very costly. Hospitality NZ, through its local Branches, made over 20 submissions to Council Long Term Plans in 2018. The consultation documents can be difficult to decipher and quite often tend to have one suggestion for an answer which comes across biased. A lot of money is spent on these reports and for them to not be utilised to their optimum, there could be some scope in reducing costs by simplifying them.

16. 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?

The current LTP process doesn't ensure effectiveness at all and should be doing more to target those it could impact, for example, Business, Industry, house hold and tax bracket.

17. Is there scope to improve the effectiveness of Long-term Plan processes? If so, what, if any, changes would this require to the current framework for capital expenditure decision making?

It is our view that the Government need to focus on ensuring that Council consultations are easy for the average person to understand, that information is easily available and interpretable and that Councils undertake proper consultation with those who stand to be affected by their decisions and are fully transparent in their decision making. It is also our view that Government need to focus on and seriously consider, a nationwide strategy to ensure harmonious relationships between tourism and hospitality businesses and residents. Our members feel that the current reaction of most Councils to hospitality businesses is to find ways to restrict or limit their operation, or to try and shut it down completely. A nationwide strategy on harmonious relationships between tourism and hospitality businesses and residents could go some way to resolving this.

With the increasing development of traditional business areas (for example Central Business Districts) for apartments and residences, hospitality businesses in general, but especially those that operate in the night-time economy, are being increasingly pressured and restricted by Council rules and regulations. What the Government should be doing is looking to promote and expand the night-time economy, provide protection for existing businesses and strengthen existing use rights – which would operate both ways for businesses and residents.

28. 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?

No, it is no secret that the rapid growth of Peer-to-peer Short-term Accommodation provider services, like Airbnb and Bookabach, has now made a serious nationwide competitor for the commercial accommodation sector with important consequences for tourism and for tourist destinations. Whilst Auckland council has recently tried to address this by including Peer-to-peer accommodation providers, they have only managed to issue the charge to a third of providers<sup>1</sup>. Our accommodation members, simply desire a fair and level playing field with regard to rates and regulation for peer-to-peer operators. At present, peer-to-peer operators do not require the same building, operational, or regulatory compliance and therefore do not attract the associated costs that commercial accommodation providers do. Yet they benefit from tourism promotion, which is often funded from the tourism and accommodation sector. This also allows them to unfairly compete on pricing due to not having the same or similar Council rates, compliance costs, and other commercial charges.

This in turn puts pressure on housing prices because peer to peer short term accommodation providers are allowed to compete unfairly with New Zealanders for a place to live: either by renting or purchasing a first home. In effect, New Zealanders are locked out of the housing market

In a November 2018 Hospitality NZ survey of our accommodation members, unfair competition from peer-to-peer home-based short-term accommodation providers was identified as the second highest factor impacting negatively on their commercial performance (behind the increased costs of online travel agents). 61.1% of respondents said that peer-to-peer accommodation was negatively affecting their business.

In that same survey, our accommodation members identified non-compliant peer-to-peer accommodation was the top issue of concern.

This, coupled with rapid visitor growth and lack of commercial accommodation development in many of the busiest tourist regions, has also created increased demand for this type of product.

**31. How effectively is the existing range of local government funding tools being used?**

Auckland's APTR is an example of an ineffective used funding tool. Targeted rates can make sense if used correctly but for Accommodation to pay 100% of the tourism funding when they only receive 10% of tourism revenue is unfair.

**32. 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?**

It would appear that some Councils have not, and are not, considering use of or application for, the Tourism Infrastructure Fund or the Provisional Growth Fund and

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<sup>1</sup> <https://www.stuff.co.nz/business/industries/109708363/auckland-council-estimates-only-one-third-of-airbnb-hosts-who-should-be-paying-bed-tax-are>

that some Councils do not possess the resources or capability to make the applications to either of the Funds.

It is our view that continued 'money grabs' from Council by way of targeted rates, or ever-increasing general rates and levies, or through any potential ability to apply a tax of some sort (for example a bed-tax) on a small sector of businesses is neither sustainable, nor is it equitable or fair.

For example, in Auckland the Accommodation Provider Targeted Rate (APTR) was initially only levied on commercial accommodation providers and in the view of our members, was ill conceived, inequitable, and implemented without sufficient consultation, nor a proper cost/benefit analysis and without adequate basis.

For motels, most of which are leased, the rates burden generally falls to the motelier so the APTR represents a direct new fixed cost to the business. A targeted rate is not able to be passed along to customers directly. A targeted rate is usually based on the capital value (CV) of the building and has no direct link to the visitor which the rate is suggested to be targeting. Meaning, if the cost of the targeted rate is to be passed on, it needs to be included in the headline price of the room.

Due to a large proportion of accommodation business being conducted through precontracted rates with commercial travel agents and other corporate and Government organisations this results in room rates that cannot be amended to account for the targeted rate until the contract term expires. This represents a direct loss to commercial accommodation providers. The ability to legally pass on an amount incurred from a targeted rate, via a surcharge, is questionable. Generally speaking there is no more right to do this than having a surcharge to cover the cost of increased general rates, toilet paper or pillow <sup>2</sup>.

34. In addition to restrictions on how targeted rates are applied and the types of services where user charges can be levied, do any other restrictions on existing funding tools unduly limit their uptake or usefulness?

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37. Under what circumstances (if any) could there be a case for greater central government funding transfers to local government? What are the tradeoffs involved?

Auckland should definitely have a case for funding from central government. Auckland is NZ's gateway, it is our tourist's first and last impression. It needs to accommodate and encourage further and future travel. Similar to QLDC's

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<sup>2</sup> 20 <https://tia.org.nz/assets/Uploads/Legality-of-Surcharging-Proposed-Targeted-Rate-on-AccommodationProviders2.pdf>

infrastructure argument that NZ's tourism brand could be damaged from a diminished Queenstown experience. This also applies to Auckland as it needs to impress and currently with the current lack of CRL, no vacancies in peak summer and increased numbers of homelessness in the CBD, the NZ brand is at risk. There are a large number of negative reviews online and in blogs about Auckland which cannot continue. Accommodation owners are paying an extremely large amount in targeted rates and these are the businesses that cop the negative reviews when a lot of the time, the review is based on their city experience not their room.

### Conclusion

We thank the Government for the opportunity to provide input into the Productivity Commission's Local Government Funding & Financing issues paper.

We would be happy to discuss any parts of this submission in more detail, and to provide any assistance to the Government that may be required.