



**Submission to the
Productivity Commission - Local Government Funding and Financing
Issues Paper consultation document.**

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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 Back Packers.

We have 95 financial members (not including affiliates) in the Dunedin City and Clutha Territorial Local Authorities (TLA's)

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 Otago Branch President is Mark Scully, our Wanaka based Regional Manager is Charlotte Simpson.

We appreciate the opportunity to make a submission to the Productivity Commission.

1. What other differing circumstances across councils are relevant for understanding local government funding and financing issues?
2. What explains the difference between the amount that councils account for depreciation and the amount spent on renewing assets? Are changes needed to the methods councils use to estimate depreciation? If so, what changes are needed?
3. In what ways are population growth and decline affecting funding pressures for local government? How significant are these population trends compared to other funding pressures?
4. What are the implications of demographic changes such as population ageing for the costs faced by local government?
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.

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.

Tourism growth has been considerable in recent years. In that period there has been an exponential growth in peer-to-peer accommodation providers such as Airbnb, Bookabach and others. Businesses which have traditionally catered for that market (motels, hotels, campgrounds etc) have remained static and very few new businesses have been built. All of the growth in tourism has been taken up by the growth in private residences operating as commercial businesses in the short-term accommodation market, very few of which are treated as businesses. If all of these businesses were treated as businesses and charged appropriate fees (business rates and other Local Government charges) this would allow the Councils to receive additional income to offset the additional costs they incur to service the growing numbers of visitors.

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 has been handed over the Local Alcohol Policies (LAP's) from Central Government. These were introduced under the Sale and Supply of Alcohol Act (SASSA). 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 SASSA itself.

The flawed LAP process 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.

7. How is the implementation of Treaty of Waitangi settlements, including the establishment of 'co-governance' and 'co-management' arrangements for natural resources, affecting cost pressures for local government? How widespread is this issue?

8. How are local authorities factoring in response and adaptation to climate change and other natural hazards (such as earthquakes) to their infrastructure and financial strategies? What are the cost and funding implications of these requirements?

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 Roding 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.

10. Do the prices of goods and services purchased by local government vary across councils? If so, what are the reasons for these differences?

There is no doubt that goods and services vary across Councils, Auckland is a good example of this with the local fuel tax. Local services vary from Council to Council as does the level of delivery which could be managed. Within the Alcohol Licensing and environmental Health Departments there are so many procedural inconsistencies that cause increased cost to both our members and the regulating local authorities for little apparent gain in terms of a reduction in alcohol harm.

11. Is local government expenditure shifting away from traditional core business into activities such as economic development, sport and recreation and community development? If so, what is the rationale for this shift, and could these activities be better provided by other parties?

The recent Night Noodle Market in Christchurch is a good event for that city as it 're grows' but little consideration has been given to the impact it has had on the Christchurch Food & Beverage sector. We have members that own businesses both in Otago and Canterbury so this is a 'hot topic' at meetings and one which we should mention in this submission. The Night Noodle Market (NNM) has increased its running time from 4 days to 2 weeks during the peak summer period including Valentine's Day.

Valentine's Day is a day in which most Hospitality venues are at near full capacity. On February 14th 2017 our members reported being down in revenue by 32-42%. The organisers of events should consult prior to establishing and running events like this.

Our Canterbury members are committed to supporting events in Christchurch, but it must be done with consideration for the businesses it impacts and the lack of revenue going to established businesses that form the backbone of Christchurch city's economy. The Canterbury and Otago Branches are not opposed to the NNM but believes it needs to run for no more than 5 consecutive days at another time of year.

12. Does the scope of activities funded by local government have implications for cost pressures? If so, in what ways?

13. What other factors are currently generating local government cost pressures? What will be the most significant factors into the future?

Environmental responsibility and infrastructure - ie Ebikes Escooters, charging ports and expectation from international visitors that infrastructure like this is available.

14. How will future trends, for example technological advances and changes in the composition of economic activity, affect local government cost pressures?

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 effective at all and are costly. Hospitality NZ, through its local Branches, made over 20 submissions to Council Long Term Plans in 2018. Generally, our feedback was that information pertinent to our members businesses (for example definitions of commercial accommodation) can be very hard to find within the Council documentation and policies. Further, some Councils did not offer the opportunity for submitters to be heard via oral deputation.

Our members have experienced hostility during consultation processes, especially when querying or challenging proposed Council policies or plans. On occasion our members have felt that genuine consultation was not undertaken but rather Council appeared to be paying lip-service to any consultation. Access to adequate information is another issue as information that does not support Council's apparent favoured position are often not included in the consultation process.

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.

18. How much scope is there for local government to manage cost pressures by managing assets and delivering services more efficiently?
19. What practices and business models do councils use to improve the way they manage their infrastructure assets and the efficiency of their services over time? How effective are these practices and business models in managing cost pressures? Do councils have adequate capacity and skills to use these practices and business models effectively?

20. How do councils identify and employ new technologies to manage their infrastructure assets and produce services more efficiently? How effective are councils in using new technologies to manage cost pressures? Please provide specific examples of the use of new technologies to manage cost pressures.

21. What incentives do councils face to improve productivity as a means to deal with cost pressures? How could these incentives be strengthened?

22. What are the most important barriers to local government achieving higher productivity?

Complex and costly administrative processes that currently exist in some Councils restrict productivity. For example, there are instances where the Licensing Inspector are insisting on interviewing prospective Duty Managers for an hour or more which is seems excessive and unnecessary. Red-tape is a key factor particularly in the alcohol licensing applications. It would be helpful if Council's streamlined the alcohol license and Manager Certificate application process in order to achieve the consistency. In Otago, many of our hospitality workers and members operate in two or more TLA's over their career. Often, we are met with queries and barriers due to Councils insisting on very different information. Productivity can be hindered when Council staff start asking for particular information that is not necessary under the Sale and Supply of Alcohol Act (SASAA)

23. How does local government measure productivity performance? Are these metrics useful? If not, what metrics would be better?

24. To what extent and how do councils use measures of productivity performance in their decision-making processes?

25. Do councils dedicate sufficient resources and effort toward measuring and improving productivity performance? If not, why not, and how could effort toward measuring and improving productivity performance be increased?

26. What measures do councils use to keep services affordable for specific groups, and how effective are they?

27. How do councils manage trade-offs between the ability to pay and beneficiary pays principles? What changes might support a better balance?

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?

It's 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. 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

Below is a current advertisement taken from the official Airbnb website. The owner states they can rent their 1 bedroom apartment in Dunedin for \$165 per night. If this online accommodation provider rents their apartment for say 150 nights per year, they would earn a gross total of \$24,750 and not have to pay any commercial rates.

Our inner city one bedroom apartment is in easy walking distance to all the city attractions, cafes, restaurants and shops & offers park & harbour views.

Contemporary & private with fully equipped kitchen & cosy bedroom with comfy king size bed & a sound proof internal shutter.

Easy parking options.

Lift access to all levels.

Continental breakfast for first morning provided.

Barbecue for use on balcony overlooking park.¹

¹https://www.airbnb.co.nz/rooms/16677105?adults=2&toddlers=0&guests=1&s=_3j-i9lY

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.

In the year 2000 NZ visitor arrivals was less than 1.65 million. In 2018 it had increased to 3.8 million, an increase of 130%. That growth in beds required is not reflected in the growth in commercial beds sold. Quite simply the growth has been taken up by the rapid expansion in residential based accommodation businesses.

In the past four years alone the number of properties marketed on Airbnb has increased from 2,000 to over 40,000 nationally. The numbers doubled from 2014 to 2015, doubled again in 2016 and doubled again in 2017 (data provided ex www.airdna.co). Half of all properties rented this way are entire homes, homes which are no longer available on the traditional rental market for families to live in. This has further implications on the nation's homeless which the various Councils are required to control and in many cases subsidise.

29. Do councils currently distribute the costs of long-lived infrastructure investments fairly across present and future generations? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across generations?
30. 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?
31. How effectively is the existing range of local government funding tools being used?
Our members do not agree with the inconsistent, subjective and ad hoc approach with which some Council's approach short-falls in funding.
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 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 new direct 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 pre-negotiated contracts 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 pillows.²

²<https://tia.org.nz/assets/Uploads/Legality-of-Surcharging-Proposed-Targeted-Rate-on-Accommodation-Providers2.pdf>

With regards to Food and Beverage, we feel there are an ever increasing amount of mobile food operators 'setting up shop' in close proximity to our members outlets. There is wide spread concern within the sector of the impact these mobile food operators are having on the local businesses. The mobile food operators have an offering that is readily available, from the rate and fee paying operators already established within the community, only at a discounted rate. Perhaps this is due to the fact the mobile food operators do not have the same compliance and operation costs that local businesses endure. There appears to be no rules

governing their trading apart from only having to comply with local parking rules. We have these mobile food operators parking their cars in the public car spaces provided at St Clair the night before to 'save the car spaces'. So when they arrive the following morning with their food truck, they have no issues with locating car park spaces.

33. What is the rationale underlying councils' approach to levying rates? What are the costs and benefits of shifting from a capital value system to a land value system?
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?
35. How does the timing and risk associated with future funding streams influence local authority decision making about long-term investments? What changes to the current funding and financing system (if any) are needed to address these factors?
36. What are the pros and cons of a funding system where property rates are the dominant source of funding? Does the local government funding system rely too heavily on rates?
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?

We agree that there are certain circumstances where there is a case for greater central Government investment in certain key areas. Quality of drinking water in New Zealand has been a hot topic recently and has the potential to taint our Tourism image offshore if not managed well. If a region required funding from the central Government to help it reach the prerequisite water quality standards now imposed; given it's benefits to New Zealand as a whole (global perception), and that New Zealanders are also the users and beneficiaries of this improved infrastructure and water quality, then that would be a considered appropriate.
38. Do local authorities have sufficient financial incentives to accommodate economic and population growth? If not, how could the current funding and financing framework be changed to improve incentives?

39. What funding and financing options would help councils to manage cost pressures associated with population decline? What are the pros and cons of these options?
40. Are other options available, such as new delivery models, that could help councils respond to funding pressures associated with a declining population? What conditions or oversight would be required to make these tools most effective?
41. What are the pros and cons of local income and expenditure taxes?
42. What are the advantages and disadvantages of a local property tax as an alternative to rates?
43. Are there any other changes to the current local government funding and financing framework, such as new funding tools, that would be beneficial?
44. How can the transition to any new funding models be best managed?
45. To what extent does the need for particular funding tools vary across local authorities?
46. To what extent are financing barriers an impediment to the effective delivery of local infrastructure and services? What changes are needed to address any financing barriers?
47. What role could private investors play in financing local government infrastructure and how could this help address financing barriers faced by local governments? What central government policies are needed to support private investment in infrastructure?
48. If New Zealand replaces rates on property with a local property tax, should it also adopt tax increment financing as a way to finance growth-related infrastructure investments? What are the advantages and disadvantages of tax increment financing?
49. How effective are the current oversight arrangements for local government funding and financing? Are any changes required, and if so, what is needed and why?
[We believe that greater oversight arrangements are needed for local Government funding and financing as the current arrangements are at times inadequate as](#)

highlighted by our responses above. In our experience, Councils should be required to have greater transparency, information availability, accountability and cost management requirements. This would ensure that Councils are answerable to their constituents and aid in improving the public perception of Councils.

Conclusion

It is imperative that Councils align themselves with our industry to be knowledgeable. This will lead to clear and effective communication and better decision making.

Long-term plans that are fully supported via a transparent process and business buy in.

Councils need to consult with HospitalityNZ and move away from only inviting the big operators. Majority of HospitalityNZ members are the business owners, they are responsible for the day to day running of the business.

Central Government needs to create a system ensuring greater accountability for Council funding decisions. Central Government should also set a common definition of what constitutes a business so that all businesses are treated equally, as our members livelihoods are at stake here.