

## **Submission to the New Zealand Productivity Commission Enquiry Into Local Government Funding and Financing**

This submission has been prepared on behalf of 60 businesses in the Queenstown Lakes District. It addresses questions 4, 5, 15-17, 27-30, 32, 37, 38, 41, 43.

### **Established Tax Principles (Q30)**

The submission urges the Commission to uphold and reinforce existing tax principles to guide tax policy development, namely: efficiency, equity and fairness, effectiveness in fiscal adequacy and affordability.

### **Tourism (Q4, Q5)**

We acknowledge that visitor numbers are a key driver of infrastructure needs in the Queenstown Lakes District.

At the same time tourism is the lifeblood of many businesses in the region and a significant source of regional employment. Visitor spending has massively increased demand for food and beverage services, cultural, recreational and gambling services, activities operators, retail sales, transport, trades, accommodation, etc. Arguably, every sub sector of the local economy and most residents benefit from tourism.

### **Long Term Planning and Consultation (Q15-17)**

We support the current requirement for councils to develop fully consulted long term plans. We endorse the observations of the office of the Auditor General that consultation documents be presented “in a form and manner that provides an effective basis for public participation”. We share concerns about the effectiveness of council consultations capturing a “reasonably representative cross-section of the community”, especially those most affected by proposed change.<sup>1</sup>

The QLDC did not consult with our businesses prior to proposing a bed tax/visitor levy as an additional funding mechanism for the district. The QLDC and local chamber of commerce recruited consultants to prepare a desk top study and report on funding options.<sup>2</sup> But the study’s authors did not consult the accommodation sector which they recommended be targeted for tax increases.<sup>3</sup>

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<sup>1</sup> Productivity Commission Issues Paper November 2018, p. 40.

<sup>2</sup> New Ways of Supporting Growth in Tourism in an Iconic Destination; Sapere Research Group (Stephen Batstone, Kieran Murray, Joanna Smith, Anna Livesey); July 2017.

<sup>3</sup> Kieran Murray-Nik Kiddle email.

There is considerable scope for improvement in the way QLDC develops funding proposals, especially by ensuring affected subsectors of the local economy are brought into formal consultations at an early stage. Council leadership should refrain from publicly promoting options and lobbying central government over options that have not been worked through with the local community. Formal accountability checks should be put in place to ensure consultations are undertaken in line with the Act.

### **Allocation of Costs (Q27-Q30, Q 41, Q43)**

Fairness and equity should remain a fundamental principle when apportioning cost burdens. The beneficiary pays principle should remain integral to that process. All businesses deriving income from visitor spending should fall within the purview of any newly recommended fiscal mechanisms for raising revenue for local infrastructure to support tourism.

Equity, fairness and affordability are reasons for widespread strong opposition to the QLDC's request for a visitor levy that would be applied only to the accommodation sector. Most accommodation providers in the district are deeply concerned about the proposed levy's administrative burdens, compliance costs, market distortions and risks to profits that could drive some out of business.

Setting a new targeted rate has been canvassed as an alternative option for commercial ratepayers in the Lakes District.<sup>4</sup> But the proposal failed to attract support from commercial ratepayers wary of adding fixed costs to bottom lines in a fluctuating market.

Some consider a more viable alternative to be the allocation to regions with a high visitor/ratepayer ratio of a share of GST generated by local visitor spending. There has been some discussion too about the option of legislating for regions to generate local expenditure taxes (see below for more comment on these options).

Rating differentials are currently employed in the Lakes District to generate revenue for infrastructure. Differentials typically apply at their highest levels to the formal accommodation sector. Other commercial ratepayers generally pay less, notwithstanding that most of them are deriving significant income from visitor spending. This submission agrees with concerns expressed in the Shand Commission report that "business differentials have been set in an arbitrary fashion historically and are not related well to the benefits received." They do indeed appear "subjective" and "essentially political".<sup>5</sup> The current bias against formal accommodation providers is plainly unfair and inequitable in the Lakes District where the bulk of the economy is geared to capture and is driven by visitor spending. The QLDC's proposal to add a new levy/tax to the accommodation sector would constitute double taxation.

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<sup>4</sup> Discussion and Decision Document – Funding Tourism Infrastructure – 08 October 2018; Dr Anthony O'Brien, Lincoln University

<sup>5</sup> Issues Paper, p. 47.

There is a strong case for a full scale review of business rating differentials in the Queenstown Lakes District. In order to fulfill the objectives of the key tax principles, disproportionate burden sharing targeting the formal accommodation sector should be removed and replaced with burden sharing based inter alia on the beneficiary pays principle. Such a reform would need to build in flexibility to extend to informal accommodation businesses, as well as including all other businesses with high levels of visitor engagement. Each of these subsectors (and their relative share of visitor spend) is defined in the Tourism Satellite Account. Burden sharing should be apportioned in line with the share of visitor spending in each subsector.

### **Existing Funding Mechanisms (Q31-Q32)**

The Productivity Commission's Issues Paper shows in Figure 4.4 that the QLDC has one of lowest debt per capita levels of any high growth council. If the District wishes to raise new capital for tourism infrastructure while respecting the tax principles including intergeneration equity, then raising the level of council debt should be on the agenda.

### **Funding Tools to Encourage Growth (Q37, Q38, Q41)**

This submission agrees with the Infrastructure New Zealand and the New Zealand Initiative that councils should be able to share in taxes paid to central government through regional deals.<sup>6</sup>

In the Queenstown Lakes District the GST take is considerable and returning some of it to the region makes sense. Regions with high visitor to ratepayer ratios should receive a central government credit structured as a guaranteed share of GST earnings from visitor spend. That way funding for infrastructure would be put in synch with demand for infrastructure and services in any given region, whether it goes up or down.

International visitor expenditure throughout New Zealand in the year ended September 2017 was \$10.4 billion and the GST take was \$1.56 billion.<sup>7</sup> Queenstown alone took in around \$2.2 billion in visitor spending which delivered around \$332 million in GST for central government. Simply setting aside 10% of that revenue for approved local government infrastructure projects would ease the burden tremendously at local ratepayer level and serve as a solid and sustainable central government investment in New Zealand's tourism future.

Eligibility for sharing in central government GST revenue could be carefully proscribed to ensure only regions with a visitor/resident ratio of "X" would be able to secure funding. Central government would need to set the ratio. Funding eligibility should also be contingent on precisely defined project proposals.

Should central government resist rebating a defined portion of GST then regional councils might wish to appeal for a right to raise their own expenditure taxes, as is common in many offshore federal jurisdictions. Allowing regions to generate

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<sup>6</sup> Issues Paper, p. 54.

<sup>7</sup> MBIE: *Key Tourism Statistics*, 22 November 2017.

their own transaction tax would be a significant development in New Zealand fiscal policy. It could offer local councils great freedom in revenue generation. It could pose challenges in aligning revenue with planned expenditure. But the potential for such a tax to be applied equitably across all businesses would ensure equity and affordability. Spreading the tax burden across all transactions (or across the subsectors identified in the Tourism Satellite Account) would offer an opportunity to apply very low levels of taxation per transaction and yet generate significant revenue. We do however acknowledge observations in the Issues Paper that it could lead to duplication of IRD resources.<sup>8</sup>

Submitted on Behalf of:

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| 1. Absoloot Backpackers, Queenstown     | 33. Hurleys, Queenstown  |
| 2. Adventure Hostel Queenstown          | 34. Lakefront Apartments, Queenstown                             |
| 3. Alexis Motel, Queenstown             | 35. Lakefront Backpackers,<br>Queenstown                         |
| 4. Alpine Lodge, Queenstown             | 36. Lakeside Motel, Queenstown                                   |
| 5. Alpine Motel, Wanaka                 | 37. Manata Lodge, Queenstown                                     |
| 6. Alpine Village, Queenstown           | 38. Nomads, Queenstown   |
| 7. Amber Court, Queenstown              | 39. Peppers Beacon, Queenstown                                   |
| 8. Amity Lodge, Queenstown              | 40. Pinewood Lodge, Queenstown                                   |
| 9. Archway Motels, Wanaka               | 41. Platinum Queenstown Luxury Villas                            |
| 10. Arrowfield Apartments, Arrowtown    | 42. Property Management Queenstown                               |
| 11. Aspen Lodge, Queenstown             | 43. Queenstown Motel Apartments                                  |
| 12. Autoline Motel, Queenstown          | 44. Queenstown Stays   |
| 13. Base, Queenstown                    | 45. Ramada Hotel & Suites,<br>Queenstown                         |
| 14. Bella Vista, Queenstown             | 46. Settlers Cottage Motel, Arrowtown                            |
| 15. Bumbles, Queenstown                 | 47. Sofitel, Queenstown  |
| 16. Caples Court, Queenstown            | 48. St James Apartments, Queenstown                              |
| 17. Chalet Queenstown                   | 49. The Black Sheep, Queenstown                                  |
| 18. Clearbrook Motels, Wanaka           | 50. The Flaming Kiwi, Queenstown                                 |
| 19. Colonial Motel, Queenstown          | 51. The Glebe, Queenstown  |
| 20. Coronation Lodge, Queenstown        | 52. The Lodges, Queenstown                                       |
| 21. Cranbury Court, Queenstown          | 53. The Loft Hidden Hills, Wanaka                                |
| 22. Earnslaw Lodge, Queenstown          | 54. The Oaks, Queenstown   |
| 23. Eichardts Private Hotel, Queenstown | 55. The Spire, Queenstown  |
| 24. Fairway Motel, Wanaka               | 56. The Waterfront, Queenstown                                   |
| 25. Four Seasons Motel, Queenstown      | 57. Villa del Lago, Queenstown                                   |
| 26. Gateway Apartments, Queenstown      | 58. Whistler Holiday Apartments                                  |
| 27. Gibbston House, Gibbston Valley     | 59. Wyndham Garden, Queenstown                                   |
| 28. Haka Lodge, Queenstown              | 60. Youth Hostel Association of New<br>Zealand, Southern Region* |
| 29. Highview Apartments, Queenstown     |  |
| 30. Holiday Inn, Queenstown             |  |
| 31. Hospitality Services Ltd, Auckland  |  |
| 32. Hotel St Moritz, Queenstown         |  |

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<sup>8</sup> Issues Paper, pp 55-56.

\*YHA NZ Southern Region supports this paper with the proviso that there should be no additional levies on visitors.