



Submission

to the

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

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Hospitality New Zealand Canterbury 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 Back Packers.

We have 371 financial members (not including affiliates) in the Canterbury Branch of Hospitality New Zealand

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 Canterbury Branch President is Peter Morrison, our Christchurch based Regional Managers is Anna Halliday.

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

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.

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 (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. The Christchurch LAP process is a good example of significant cost spent by the Council trying to embark on a process that was too premature due to the City still being in a state of flux.

SASSA 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. CCC commenced this process in the early stages of 2013 and now in February 2019 we still do not have a LAP. 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 Rooding 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. Within the Christchurch City Council, we have found that unnecessary multiple sub-committees are created to deal with one policy and this often causes delay in decision making instead of getting on with the task at hand.

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?

Councils are not set up like private enterprises so cannot operate the same way. In the case of Christchurch City Council, they have been slow in getting facilities and infrastructure off the ground which in turn has had a detrimental impact on the lack of events to the City since September 2010. Facilities and events are a crucial component to the economic growth of any city as it attracts international and domestic investment.

The Canterbury Branch of Hospitality New Zealand have been calling for events to Christchurch to help ease the financial burden many of our members are carrying due to restricted visitor numbers and the competition of peer to peer accommodation providers.

The recent Night Noodle Market is a good event for the City but little consideration has been given to the impact it has had on our Food & Beverage sector. 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.

The Canterbury Branch is 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 Branch is 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?

As stated above, local governments are not set up like modern businesses and cannot react and make decisions quickly and effectively. If a government operated business is losing money it can take months before it is realised and further time before it is

deliberated on how to solve the issue. Private sector businesses have stringent reporting and the ability to adapt quickly. A review of what each local government

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.

Also the challenges around climate change and sea level rise which will influence council spending on cycle ways, and tourist attractions across Canterbury and New Zealand. The changes around the Hokitika river mouth and how that has affected the tourist areas (accommodation and hospitality providers too) on the beachfront are not dissimilar to what Sumner may face if we get more dramatic weather events and the sea levels rise as well.

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?

We believe there is a large amount of scope as per the reports cited examples. For most of our members this would be viewed as a necessity and expectation.

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, in the Waimakariri Council the Licensing Inspector insists on interviewing prospective Duty Managers for an hour or more which 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 Canterbury many of our hospitality workers and members operate in three 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)

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?

Performance reviews, objectives and goals should be set, monitored and managed, perhaps by a non-biased, independent party. If an independent party was engaged to monitor productivity and performance this could ensure complete transparency.

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. 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 small one-bedroom house for \$140 per night, If this Online Accommodation provider rents their house, for 136 nights, they would earn a gross total of \$19,040.00, and not have to pay any commercial rates.

Experience comfort and luxury in our newly furnished, super-sized one bedroom apartment in the heart of Christchurch. With brand new leather couches, king sized bed and hotel grade linen this is a hotel experience without the exuberant price. All major tourist attractions are a short walk away. A separate toilet and queen-sized sofa bed means we can easily host 4 guests. Free secure carpark too! Perfect for

families wanting modern convenience or corporates looking for more space and luxury.¹

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.

The Freedom Camping Act 2011, allows people to camp freely in any local authority area, unless prohibited through a bylaw or another enactment. Where local rules have not been established, freedom campers can stay centrally (at no cost), where they would otherwise pay to stay with a small or medium sized accommodation provider e.g. motels, holiday park and camp grounds, directly affecting small and medium accommodation providers. Some accommodation providers have reported freedom campers using their showers and other facilities without paying²

The lack of uniformity in the regulation of freedom camping at a local level only exacerbates problematic behaviour or issues associated with freedom camping. For example, the environmental impacts of freedom camping which are well known and have left the public, Councils and businesses desperate for a solution.

Additionally, local rate payers are often left to foot the bill for clean-up and new infrastructure. Our members are deeply concerned that their communities are paying for infrastructure to be put in place that actively takes business away from commercial accommodation providers in those communities.

Consequently, our members feel that the Government and their local Councils should be doing more to control Freedom Camping and its associated issues.

¹ <https://www.airbnb.co.nz/rooms/23790374?location=Christchurch>

<https://www.stuff.co.nz/taranaki-daily-news/news/102793228/freedom-campers-sneaking-into-campground-showers>

² https://www.nzherald.co.nz/bay-of-plenty-times/news/article.cfm?c_id=1503343&objectid=11779167

As an aside, it is arguable that New Zealand is not deriving the full economic value from freedom camper tourists currently because they do not contribute to other sectors such as accommodation, and food and beverage that other tourists would contribute to. The current model allows for volumes of tourists over high-value tourists who can increase our economic revenue. This model is not sustainable and central and local government action is required to ensure New Zealand tourism attracts value over volume with respect to freedom campers.

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

We believe that some of the Local Government funding tools currently available are not being used effectively. More effective/efficient use of current funding tools should be explored before new levies, rates or taxes are introduced.

As such we do not support the current ad-hoc approach of Councils imposing levies and rates (and taxes if they were permitted to) when addressing funding shortfalls. This approach has the potential to significantly increase the cost to visitors in certain areas. It also has the potential to shift the pressures of visitor numbers and infrastructure to neighbouring Councils; to potentially shift numbers of visitors into options like freedom camping; and unfairly discriminate against one particular business or industry sector.

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

Conclusion:

1. We thank the Productivity Commission for the opportunity to provide input into the Local Government Funding and Financing issues consultation.
2. We would be happy to discuss any parts of this submission in more detail, and to provide any assistance to the Commission that may be required.

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