Hospitality New Zealand

TO THE PRODUCTIVITY COMMISSION

SUBMISSION ON LOCAL GOVERNMENT FUNDING AND FINANCING

15 FEBRUARY 2019

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About Hospitality New Zealand:

1. Hospitality New Zealand ("Hospitality NZ") is a member-led, not-for-profit organisation representing approximately 3,000 businesses, including cafés, restaurants, bars, nightclubs, commercial accommodation, country hotels and off-licences.

2. Hospitality NZ has a 115-year history of advocating on behalf of the hospitality and tourism sector and is currently led by Chief Executive Vicki Lee.

3. We have a team of eight Regional Managers located around the country, a National Office in Wellington and we have our own in-house Solicitor, and in-house Law Clerk, in Wellington.

4. Hospitality NZ has a Board of Management, made up of elected members from across the sectors of the industry, and an Accommodation Advisory Council, made up of elected members from the accommodation sector.

5. We also have 20 local branches covering the entire country, representing at a local level all those member businesses which are located within the region. Any current financial member of Hospitality NZ is automatically a member of the local branch.

6. In addition to the branches, Hospitality NZ has 16 Accommodation Sector Groups. The Accommodation sector groups are designed to ensure the local branches of Hospitality NZ have a strong accommodation focus in every region on issues relating directly to the commercial accommodation sector.

7. This submission relates to the November 2018 issues paper entitled Local Government Funding and Financing.

8. Enquiries relating to this submission should be referred to Nadine Mehlhopt, Advocacy and Policy Manager, at nadine@hospitality.org.nz or 0274 305 071.

Overview:

9. Hospitality New Zealand welcomes the opportunity to comment on the Productivity Commission's Local Government Funding and Financing Issues Paper November 2018 ("Issues Paper") and we would welcome and encourage the opportunity to work further with the Productivity Commission on this issue.

10. Hospitality NZ has 20 local branches around New Zealand, and as this paper relates to local government issues, those local branches that are interested in putting forward their views will be making independent submissions to the Productivity Commission on this issue.

11. Hospitality NZ is a member of Business NZ and we support the comments that they have provided in their submission.

12. Tourism Industry Aotearoa (TIA) is undertaking further work on shaping a position for Local Government Funding and Financing. Hospitality NZ will be working with TIA on that, and our further views will be incorporated into that work.

13. This Hospitality NZ submission is composed of two parts:

- Part One: general comments; and
- Part Two: responses to questions raised in the Issues Paper.

Part One – General Comments:

14. As Business NZ have noted in their submission, there are strong perceptions that local government is not as efficient or effective as it should be. This view is supported by Local Government New Zealand's own research.

15. The Local Government New Zealand's 2017 Survey[1] shows:
    - Local government's reputation remains low, and is particularly low amongst businesses;
    - Key priority areas for improvement continue to be sound financial decision making, delivering strong leadership to develop strategies for prosperity and wellbeing, and listening to, and acting upon, the needs of the community;
    - For businesses, those who are dissatisfied with the overall performance of the sector continue to outweigh those who are satisfied. This results in a nett satisfaction score of -6%, which is consistent with 2014 (-7%).
    - For businesses, in order for local government to improve its reputation it needs to focus on:
        - trust in spending decisions;
        - value for dollars spent;
        - listening and acting on business needs;
        - managing finances well;
        - strategies for developing prosperity and wellbeing.

16. Feedback from our members also indicates a decreasing level of trust in councils to be fiscally prudent and responsible. As an example, some councils are looking to increase alcohol licensing fees. However, despite continual requests, councils have been unable to provide sufficient evidence of budgeting, attempts at cost savings, plans for increasing productivity or a breakdown of current spending to support any increase in licensing fees.

17. We are concerned that councils perceive and name the imbalance between revenue and expenses to be "insufficient revenue or underfunding", when in reality it is often

[1] http://www.lgnz.co.nz/assets/Uploads/44474-LGNZ-Reputation-Report-2017-FINAL.pdf

"overspending or insufficient cost management". Councils should be required to look at their budgets and revenue management from an "overspending and insufficient cost management" perspective first, and be required to be fully transparent in their budgeting positions and spending.

18. In November 2018, Hospitality NZ undertook a survey of accommodation members. The survey asked whether respondents considered government was supporting the accommodation industry in the following local government areas. The below responses indicate the percentage that agreed that there was support.
    - Building code approvals 67.3%
    - Local infrastructure 46.2%
    - Health and Safety audits 42.3%
    - Local council rates 19.2%
    - Non-compliant short-term accommodation providers 15.4%

19. The results indicate that our members do not feel adequately supported in those areas.

20. Our members ultimately want local government to:
    - Be transparent in their decision making and spending;
    - Be accountable and answerable for their decision making and spending;
    - Be fiscally prudent and responsible;
    - Reduce wasteful and unnecessary spending;
    - Significantly reduce their costs and overheads;
    - Undertake proper cost / benefit analysis of funding and financing decision making;
    - Reduce red-tape and bureaucracy;
    - Ensure that their funding and financing is sustainable, efficient, equitable, necessary, value for money, affordable; and
    - Undertake genuine consultation.

Part Two – Issues Paper questions and Hospitality NZ responses:

21. The Issues Paper contains 49 specific questions. Hospitality NZ will comment on a selection of questions where we have a specific view on behalf of our members.

Question 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?

22. Tourism growth brings a significant economic benefit to New Zealand. The recent Aotearoa New Zealand Government Tourism Strategy draft paper set out:
    - The tourism sector makes a significant contribution to New Zealand's economic success, accounting for over a fifth of exports.
    - In the year to March 2017, overseas visitor spend reached over $14 billion, as a result of compound annual growth of 7% in the previous five years.
    - Tourism also contributed $14.7 billion to GDP (and another $11.3 billion of GDP through the indirect value added by industries supporting tourism).
    - In the same year, tourism provided jobs for over 230,000 New Zealanders.

- Tourism creates inclusive growth by distributing economic opportunities and bringing social benefits across regions and communities outside of the main urban centres. For example, through job and business creation, tourism can help attract investment and retain the population and services needed to ensure the long-term sustainability of some communities.

23. While tourisms benefits are well documented, it is also known that increased tourism can lead to funding pressures, which are affecting many councils – in particular infrastructure, amenities, and waste services. These funding pressures may be more acutely felt in areas with low rate-paying bases, but high tourism numbers.

24. There is a need for significant infrastructure investment in some parts of New Zealand to support the local and visitor populations.

25. Most recently 28 councils received $8.5 million from the Tourism Infrastructure Fund (TIF) to assist with managing freedom camping issues. However, many of those councils also received additional funding from the TIF for the infrastructure needs of local *and* visitor populations. [2]

26. These funding pressures raise a number of concerns for our members:
    - That the burden of funding infrastructure or promotion is placed unfairly on one part of one sector within the wider tourism industry.
    - As rate payers, and businesses our members oppose increased rates to fund basic infrastructure they may not perceive to get a direct benefit from i.e. infrastructure for freedom campers.
    - Businesses would prefer to see central government funding of infrastructure, where local authorities do not have the financial capability to invest in it.

27. These pressures, and others, have manifested in an increase in the number of councils looking to use a targeted rate, or increased rates differentials, on accommodation providers to fund tourism infrastructure and/or promotion. Below we have examined how council funding pressures have manifested through the lenses of: accommodation provider rates; share economy (peer-to-peer short term accommodation); and freedom camping.

Accommodation Provider Rates discussion:

28. Recently, we saw the introduction of the Auckland Accommodation Provider Targeted Rate (APTR) on commercial accommodation to help fund the economic development agency, ATEED, tourism promotion.

29. In the Buller region, our members analysed the council proposed rates differentials and found that *"53 commercial accommodation operators make up only 25% of all Buller accommodation providers, but are paying 75.8% of the rates burden of this group."* What this shows is that an unfair share of council funding is being paid by commercial accommodation providers who already have higher costs, overheads and compliance costs

[2] Tourism Infrastructure Fund – Round 2 funding recipients

without the introduction of a further targeted rate. This creates an extremely uneven playing field for commercial accommodation operators to compete in.

30. Our members are particularly concerned about:
    - This arrangement unfairly places the burden of funding infrastructure or promotion on just one part of one sector within the wider tourism industry.
    - As rate payers, businesses oppose increased rates to fund basic infrastructure they may not perceive to get a direct benefit from i.e. infrastructure for freedom campers.
    - Businesses would prefer to see central government funding of infrastructure, where local authorities do not have the financial capability to invest in it.

31. Our view is that where funding is necessary to support tourism infrastructure and the tourism economy, the burden should fall on all those that benefit from it not just accommodation providers.

32. Our accommodation members do not support targeted rates, bed-taxes or any other accommodation-only levy, rate or tax (either locally or nationally) as these do not accurately capture all those who benefit from tourism infrastructure and the tourism economy.

33. We believe that councils looking to remedy funding pressures through targeted rates, increasing general rates, levies and taxes (for example a bed-tax) applied to a small sector of businesses is neither sustainable, equitable or fair. For example, in Auckland the APTR was initially levied on commercial accommodation providers only. In the view of our members the APTR, was ill conceived, inequitable, and implemented without sufficient consultation, cost/benefit analysis and without adequate basis.

34. As targeted rates are usually based on the capital value (CV) of the building there is no direct link to the visitor which the rate is suggested to be targeting. Instead, the targeted rate becomes a new fixed cost to the business. 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 rather than as an additional surcharge. However, as many accommodation business enter into pre-contracted rates with commercial travel agents and other corporate or Government organisations, their room rates are locked and cannot be amended to account for the targeted rate until the contract term expires. This represents a direct loss to commercial accommodation providers.

35. The ability to legally pass on the cost of the targeted rate, via a surcharge, is questionable.[3] 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.

36. Even if the cost of the targeted rate could be passed on as a surcharge, it would be impossible to accurately calculate the amount required to recover the cost of a targeted rate. In order to implement a surcharge accurately, an accommodation business would

[3] https://tia.org.nz/assets/Uploads/Legality-of-Surcharging-Proposed-Targeted-Rate-on-Accommodation-Providers2.pdf

need to know its exact occupancy in advance year-round. If a business has projected 75% occupancy for the year but the business only reaches 68% the projected surcharge would be insufficient to cover the targeted rate. Likewise, if a business does better than projected it will have overcharged its customers.

37. Because the targeted rate is a fixed rate and not a tax/levy based on business levels, if a business sells no rooms or only a small number of rooms, they will still pay the full targeted rate.

38. While Auckland Council did subsequently apply the APTR to some parts of the share economy peer-to-peer accommodation provider sector, it was only applied to those who advertise whole premises online. It has been widely publicised that Auckland Council is having difficulty identifying all the properties and owners of peer-to-peer accommodation who should now be paying the APTR (often incorrectly labelled as bed-tax in the media)[4].

Recommendation

39. Long-term planning and prudent budgeting with a focus on growth and investment to futureproof the tourism sector is needed rather than ad-hoc levies, rates or taxes to address issues once they have arisen.

40. It is our view that there needs to be due consideration, focus and consultation to a sustainable, equitable and nationwide approach to adequate funding of infrastructure. This should not be left up to individual councils.

41. Tourism infrastructure funding should be delivered in such a way that relevant and necessary infrastructure is built and that funding models are sustainable.

42. All funding decisions at local (and central government) level are fair and equitable to those required to pay.

43. The potential proliferation of targeted rates to fund infrastructure throughout the country should be halted.

Share economy: peer-to peer short-term accommodation providers discussion:

44. Julie and Simon let out their rooms to guests for a profit. Julie and Simon pay residential rates and do not pay tax.

45. Nigel and Wendy let out their rooms to guests for a profit. Unlike Julie and Simon, Nigel and Wendy must pay to ensure the rooms are compliant with the Building Act, the Health

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[4] NZ Herald – Only a third of liable Airbnb hosts in Auckland paying 'bed-tax'

and Safety Act, District Planning requirements under the Local Government Act and alcohol licensing requirements under the Sale and Supply of Alcohol Act. Nigel and Wendy have to pay tax. Moreover, because Nigel and Wendy operate in Auckland, they also have to pay Targeted Accommodation Rates on top of commercial rates.

46. Julie and Simon's business is called peer-to-peer accommodation or commonly known as Airbnb and Bookabach. Nigel and Wendy's business is called commercial accommodation because it's a motel. Despite the primary purpose of both businesses being the provision of accommodation for profit, the difference in title means Nigel and Wendy must meet extra compliance obligations to ensure an overall safe guest experience and pay higher rates to contribute to the societal cost of infrastructure: roading, footpath, refuse, waste, water, and sewerage. However, Julie and Simon do not.

47. Nigel and Wendy, and our accommodation members, simply desire rates and regulations to be applied fairly across all accommodation providers; peer-to-peer operators and commercial accommodation. 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 by the tourism and accommodation sector. Peer-to-peer operators are able to compete unfairly as they do not have the same or similar council rates, compliance costs and other commercial charges as commercial accommodation providers.

48. Unfair competition from peer-to-peer operators was identified as a top issue of concern for our members in a November 2018 Hospitality NZ accommodation survey. In particular, 61.1% of respondents said that peer-to-peer accommodation was negatively affecting their business.

49. In that same survey, our accommodation members identified non-compliant peer-to-peer accommodation was the top issue of concern. Only 11.8% of respondents believed that their local council was addressing the issue, while only 5% believed that their council was actively enforcing any current rules in place.

50. We acknowledge that peer-to-peer accommodation plays an important role in the tourism economy in New Zealand. However, as it stands, operators and users of peer-to-peer accommodation are not adequately contributing to the infrastructure they use or meeting the cost of the externalities they generate, unlike traditional commercial accommodation. This consequently contributes to funding pressures on local government.

Recommendation:

51. A national regulatory framework for peer-to-peer short-term accommodation, to ensure that regulations, rules, and compliance are consistent across the country. This would ensure that peer-to peer accommodation providers are treated as a business where they operated as a business. Ways to achieve this include:

a. A national portal where peer-to-peer accommodation operators register;
b. Compulsory New Zealand Business Number registration;
c. Obtain resource consent;
d. Obtain building consent (or change of use building consent);
e. Require a building warrant of fitness;
f. Register with local councils;
g. Adhere to standards and regulations;
h. Be defined and rated as commercial when they are operating commercially; and
i. Pay a fair share of targeted levies, taxes or rates that applied to traditional commercial accommodation providers.

52. Regulation of the peer-to-peer accommodation sector to ensure it is contributing to, not negatively affecting, the housing market (both for home buyers and the long-term rental market). The general consensus amongst our members is that Queenstown[5] has developed the best model, so far, in identifying and regulating peer-to-peer accommodation; Hospitality NZ is committed to working with the Government, other industry bodies and the peer-to-peer accommodation sector to develop robust, fair, consistent and appropriate regulation to ensure that peer-to-peer accommodation becomes a valued contributor to a well-functioning tourism system.

Freedom Camping Discussion:

53. 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 paying[6,7,8].

54. 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.[9]

[5] More information can be found here: https://www.qldc.govt.nz/services/rates/short-term-accommodation/
[6] https://www.stuff.co.nz/taranaki-daily-news/news/102793228/freedom-campers-sneaking-into-campground-showers
[7] https://www.nzherald.co.nz/bay-of-plenty-times/news/article.cfm?c_id=1503343&objectid=11779167
[8] https://www.stuff.co.nz/national/77907984/freeloading-freedom-campers-cost-holiday-park-up-to-50000
[9] https://www.stuff.co.nz/national/109843271/freedom-camping-hot-spots-overrun-with-visitors--and-rubbish

55. Additionally, local rate payers are often left to foot the bill for clean-up and new infrastructure. [10,11,12,13] 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.

56. Consequently, our members feel that the Government and their local councils should be doing more to control freedom camping and its associated issues.[14]

57. 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.

Recommendation:

58. Freedom campers appropriately and fairly contribute to the cost of the infrastructure and facilities that they need and are using.

<u>Question 6:</u>

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?

59. We believe that increased local government responsibilities are causing significant cost pressures for local government.

60. Local Alcohol Policies (LAP) introduced under the Sale and Supply of Alcohol Act 2012 (SSAA) are an example of the expansion of local government responsibility that places a significant cost pressure on local councils.

61. Local councils are free to choose whether or not to introduce an LAP. If they choose to do so, they must follow the processes set out in SSAA.

[10] https://www.stuff.co.nz/travel/news/109814123/kaikura-district-council-unable-to-police-freedom-camping-without-bylaw
[11] https://www.stuff.co.nz/travel/travel-troubles/109279886/do-kiwis-like-stinky-people-freedom-campers-bemoan-golden-bay-facilities
[12] Above 9.
[13] https://www.newshub.co.nz/home/new-zealand/2019/01/thames-mayor-says-freedom-campers-are-an-unwanted-burden.html
[14] https://www.stuff.co.nz/taranaki-daily-news/news/109461850/freedom-campers-ignoring-new-plymouth-district-council-rules

62. LAPs have the power to:
    - Limit the location of on, off and club licensed premises in particular areas or near certain types of premises or facilities;
    - Limit further on, off and club licences in a particular area;
    - Restrict or extend the maximum trading hours set in the Act;
    - Recommend discretionary conditions to be applied to licences or kinds of licences; and
    - Impose 'one-way door' restrictions that would allow patrons to leave licensed premises but not enter or re-enter during specified times.

63. LAPs cannot include policies unrelated to licensing and must be reasonable and consistent with the object of SSAA. LAPs must be reviewed no later than every six years after coming into force.

64. However, SSAA itself sets out the licensing process and along with other tools (such as District Plans) enables the licensing authority decision makers to impose all the above restrictions and conditions on an individual case-by-case basis, regardless of whether an LAP is in force or not.

65. Since SSAA fully came into force (December 2013) it has become apparent the LAP process is substantially flawed. We have seen first-hand elements being introduced to LAPs that are beyond the authority of a council (ultra vires) and the length of the appeal process has increased significantly.

66. Council's application and implementation of LAPs has been inconsistent and often poorly executed.

67. Approximately half of all councils have adopted LAPs, however, the majority of these were appealed by either regulatory bodies or commercial interests.

68. LAPs have placed a significant cost pressure on local councils resulting in higher costs to tax and rate payers as well as our members. As at 2017, the LAP process had cost over $4m to local councils which in many cases excludes staff costs. This is due, in part, to drawn out legal appeals. Hospitality NZ and its members have spent over $500,000 (excluding staff costs) representing the industry in various LAP hearings and appeals. This is a significant amount of money to be spent on reaching an outcome (introduced through regulatory creep) that could otherwise have been achieved through councils pre-existing responsibilities and powers.

69. Furthermore, the three-year terms of local government often means new governance groups, mayors, and councillors put a different, and often conflicting, lens on council policies. This results in additional costs of time and money for local businesses. For example: The current Christchurch City Council, after undertaking most of the LAP process, voted to defer the LAP to the next council elected in after the 2019 local body elections. This may mean the whole process gets started all over again, which will cost council, agencies, communities, and business even more money that it has done so far.

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

70. We are concerned that "Council Support Services" is the second largest expense within the total operating expenditure[15].

71. The Issues Paper states that the Council Support Services category has grown by 48% between 2009 – 2017[16], which is at a higher rate than core infrastructure, core services, and non-core categories.

72. It appears that this factor is generating significant local government cost pressure, and that it will be the most significant factor into the future.

73. It is our view that there needs to be a robust investigation into the necessity, efficiency, justification, and cost of all council support services.

__Question 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?

74. We do not see the current Long-Term Plan process as effective and believe that there is scope to improve it.

75. It is our experience that proper, if any, cost/benefit analysis is rarely undertaken where councils are considering funding sources for activities. Where it is undertaken, the information is difficult to find.

76. Hospitality NZ, through its local branches, made over 20 submissions to Council Long-Term Plans in 2018. Generally, feedback from our members is that information pertinent to their businesses is difficult to find within the council's documentation and policies. Further, some councils did not offer the opportunity for submitters to be heard via oral deputation.

77. On occasion our members have felt that genuine consultation was not undertaken but rather council appeared to be paying lip-service to any consultation.

78. Once the consultation process was completed, in many instances it was not evident from subsequent documents produced by councils as to whether points in the submissions made had even been actually, or fairly, considered.

[15] Page 12 of the Issues Paper
[16] Page 37 of the Issues Paper

79. In our view, the Long-Term planning process needs to be made easy for the average person to understand. Information should be readily available. Councils should undertake proper consultation with those who will be affected by their decisions and be transparent in their decision making.

Question 18:

How much scope is there for local government to manage cost pressures by managing assets and delivering services more effectively?

80. We believe that there is enormous scope for local government to manage cost pressures, and to deliver services, more efficiently

81. Refer to our response to questions 6 and 13.

Question 22:

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

82. We agree with the barriers to achieving higher productivity identified in the Issues Paper.[17]

83. Our members have had numerous experiences with council staff either not being adequately trained, qualified, or competent in their roles or in the areas of legislation or policies that they are tasked with monitoring or enforcing. All of which lead to low productivity.

84. Our members have also experienced what appears to be unnecessary, processing delays, requirements for triplicate or quadruplicate copies of paperwork, notifications going missing, informal and formal policy changes not being notified to those affected, multiple council staff members attending jobs, hearings, or meetings where one person should be sufficient.

85. Those experiences have shaped our view that local government's internal processes and policies are an important barrier to local government achieving higher productivity which should be looked at and addressed.

Question 24:

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

86. We are not aware of any available information relating to productivity-related performance. This highlights the need for greater transparency and accountability in local government.

[17] Issues Paper at 43.

Question 26:

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

87. In our experience and in the experience of our members, local councils are not effectively keeping their services affordable for specific groups. Local councils do not appear to be considering the costs and benefits, distribution of benefits, or affordability of their activities or services, in their decision-making process.

88. An example of this was the introduction of the APTR (discussed above). At the time, Auckland Council did not provide, or appear to undertake, any proper cost / benefit analysis for the APTR. Nor did they take into consideration the distribution of benefits for the activity and service that they wished to fund, nor did they appear to consider any measure about the affordability of the service.

89. Our members provided actual business figures to Auckland Council that showed the impact and unaffordability of the APTR. Our members view was that until they provided their business figures (replicated below), Auckland Council had not even considered, let alone used any measure of, the affordability to those businesses in their decision-making process.

	Motel 1-14 Rooms Whangaparaoa	Motel 2-10 Rooms Papakura
2016/17 Rates	$13,692	$10,200
Capital Value	$1.8 million	$1.3 million
Proposed Targeted Rate	(CV x 0.01394584) $26,148	(CV x 0.01394584) $18,800
TOTAL NEW RATES per annum	**$39,840**	**$29,000**
% Increase in rates	290.1%	284.3%
Revenue and Profit		
Gross Revenue 2015/16	$529,000	$174,000
Rent to Landlord	$132,000	$48,000
Salary drawn down	$52,000	$14,800
Net Profit before Tax (excl. TR)	$27,000	$0.00
Less Targeted Rate	$26,148	$18,800
Net Profit before Tax (incl. TR)	**$852**	**-$18,800**
Associated reduction in business value	$132,740	$94,000

90. It is our view that councils could do much more to minimise their costs, and cut wasteful spending to assist with keeping rates affordable.

Question 27:

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

91. Our responses to Questions 5 and 26 show that, particularly in the case of accommodation providers, most councils are not managing these trade-offs properly.

92. An example of mismanaging the trade-off is the imposition of targeted rates to fund tourism infrastructure on traditional commercial accommodation providers only. Doing

this places the entire burden on commercial accommodation, rather than distributing it across all who benefit from the tourism sector.

93. Likewise, failing to impose commercial ratings on the share economy peer-to-peer accommodation providers where they are clearly operating commercially also fails to distribute the burden fairly across the beneficiaries.

94. We believe that a nationwide regulation that defines and treats all accommodation providers as commercial, when they are operating as such would be a good example of striking a better balance of the above principles.

95. We recommend that in order for councils to strike a better balance between the ability to pay and the beneficiary pays principle, councils should:

    a. Focus on the wider picture of what they are trying to achieve when creating and implementing policies rather than looking at what is immediate, obvious or convenient.
    b. Undertake mandatory proper cost/benefit analysis and provide objective justification when looking to impose any targeted rates/levies. This should be based on evidence-based studies first.
    c. The decision-making processes should require proper consultation, cost/benefit analysis and their decisions should be objectively justifiable.

<u>Question 28:</u>
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.

96. We do not believe that councils currently distribute fairly across different groups of rate payers.

97. Please refer to our responses to Questions 5, 23, 26, and 27.

<u>Question 31:</u>
How effectively is the existing range of local government funding tools being used?

98. 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.

99. For example: our experience is 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.

100. 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.

<u>Question 32:</u>

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?

101. We believe that there may be cases where funding tools like targeted rates could be appropriate – particularly if it can be objectively shown that a particular group receives distinct and separate direct benefits, activity, or services compared to other ratepayers.

102. However, given our current experiences we strongly submit that the use of any funding tools like targeted rates must be strictly controlled. A full cost/benefit analysis should be undertaken as a first step. A full and detailed analysis of the planned targeted rates (including costs and planned cost minimisation) must then be made available and in an easily understood format. Any proposed targeted rate must go through the proper consultation process, be fully justified, have a time or funding limit, and a review period.

103. The funding raised from the use of such tools should be ring fenced for the purposes for which it was collected. A full audit should be provided to the targeted rate payers.

104. We remain wary of the ability for councils to impose targeted rates (or local taxes of any kind) because in our experience, they appear to be viewed, and used, as an easy way for council to raise revenue without adequate justification or analysis.

<u>Question 37:</u>

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

105. We agree that there are certain circumstances where there is a case for greater central government investment into tourism infrastructure, given its benefits to New Zealand as a whole, and that New Zealanders are also the users and beneficiaries of improved infrastructure. The Queenstown-Lakes District Council's arguments for improving infrastructure highlighted in the Issues Paper is a key example of this.[18]

106. We are concerned with the impacts of central and local government collision. For example: The International Visitor Levy is about to be introduced, and part of that funding is ring-fenced for infrastructure, yet there are councils who have, or are planning to, introduce additional targeted rates or "bed-tax" for infrastructure. Another example, as we set out above, are the central government funds available (TIF and PGF), yet councils are not making use of them.

[18] Issues Paper at 53.

<u>Question 49:</u>
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?

107. 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.

<u>Conclusion:</u>

108. We thank the Productivity Commission for the opportunity to provide input into the local government Funding and Financing issues consultation.

109. 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.