



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 107 financial members (not including affiliates) in the 3 Territorial Local Authority (TLA)

Hospitality NZ has a 115-year history of advocating on behalf of the hospitality and tourism sector and is led by Chief Executive, Vicki Lee. Hospitality NZ's Northland Branch President is John Maurice, and Northland Regional Manager is Kim Odendaal.

We appreciate the opportunity to make a submission to the Productivity Commission, and will relate this to the Whangarei, Kaipara and Far North District Councils.

### ***Question 1***

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

Affordability of the Region; as areas in Northland become more tourist focused, the cost of living increase.

Housing Affordability and Availability; again in high tourists areas such as Paihia in the Far North, housing is unavailable due to Peer to Peer accommodation providers such as Air BnB, driving up the rental prices.

Employment Prospects; Different regions have different focus on required skilled needed eg: Kaipara is more rural and relies on industries such as farming and trade compared to regions such as Whangarei and the Far North, where tourism is a focus and skills are required in that industry.

Demographics; Older populations have higher health concerns and require closer proximity to medial facilities/ care.

Amenities such as public transport.

Criminal/ Gang activity.

### **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?*

Great pressure is placed on councils where there are a small number of rate payers in highly populated tourist areas. Issues such as Freedom Camping continues to add to the funding pressures. Our members feel that local communities and rate payers are paying for infrastructure to be put in place for an activity that actively takes business away from commercial accommodation providers in those communities. Additionally those small number of rate payers are expected to fund infrastructure such as public toilets, rubbish removal, park maintenance etc.

With revenue outweighing occurred costs of accommodating tourists, this cannot be sustained for any length of time.

Rapid growth of Peer-to-peer Short-term Accommodation provider services, like Airbnb and Bookabach, has now made them a serious nationwide competitor for the commercial accommodation sector with important consequences for tourism and for tourist destinations. 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. This in turn puts pressure on housing prices because peer to peer short term accommodation providers are allowed to compete unfairly (unregulated) 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.

Hospitality NZ consider it is safe to say neither local nor central Government has properly or fully realised the impact the peer-to-peer accommodation business model is having, nor have they adequately planned or regulated for it. While a few Councils (Queenstown, Rotorua, and Auckland for example) have recently implemented policies and are attempting to somewhat rectify the issue, many are not interested in investigating or acknowledging the issue. The perceived cost to Council to enforce any implemented rules or policies is often used as an excuse not to.

There is additionally a significant shortage of ready and appropriately skilled people available for the tourism sector. This is exacerbated by tourism currently not being perceived by New Zealanders as a viable and legitimate career option, or given the gravitas it should through the education system.

### ***Question 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?*

Yes, cost shifting does massively impact local government, for example both the Far North, and Whangarei councils undertook implements Local Alcohol Policies at major costs. The Far Norths LAP was later abandoned achieving nothing but a major cost to rate payers. Whangarei did implement their LAP, but as the policy

is based on the Central Government's Sale and Supply of Alcohol Act (SASAA) 2012, it does not make sense that each of the 53 councils could go through this process. It should be kept at Central Government.

Better enforcement of Bylaws, such as infringement notices would additionally increase funds which would go back to local council and improve amenity and good order. All 3 councils in Northland have alcohol ban areas, yet it is very seldom enforced.

### ***Question 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.

### ***Question 10***

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

Service delivery varies from council to council as do the people who deliver the services, but can be managed by effective leadership. Excessive pay rises local councils award themselves need to be authorized independently and also should be justified.

### ***Question 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?*

Yes. Non-core activities, whilst not clearly defined, is a major increased cost local government. Understandably the rationale behind this is to create better community involvement and attract events to our areas, hoping to increase return.

The Whangarei District Council rented out council land to a 3<sup>rd</sup> party to host a series of Canopy Markets for \$1 which shows lack of business understanding,

whilst trying to increase rates to fund infrastructure, and directly competing with local business who pay rates all year round.

***Question 13***

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

One of the biggest concerns in our experience is that Councils look at an imbalance between revenue and expenses from the perspective of “insufficient revenue or underfunding”, when in reality in most cases it is “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 foremost, and be required to fully transparently justify their budgeting positions

***Question 15***

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

Long Term Plans are not every effective at all and very costly. Hospitality NZ, through its local Branches, made over 20 submissions to Council Long Term Plans in 2018. A lot of money is spent on these reports and for them to not be utilised to their optimum, there could be some scope in reducing costs by simplifying them. Our members have significant concerns with the transparency, financial prudence, decision making process, and accountability of Local Government.

***Question 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 consultation documents can be difficult to decipher and 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. Long Term Plans could be targeted to specific business/ industry/ house hold/ tax bracket etc.

***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?*

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.

***Question 28***

*Do councils currently distribute costs fairly across different groups of ratepayers? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across ratepayers?*

No, it is no secret that the rapid growth of Peer-to-peer Short-term Accommodation provider services, like Airbnb and Bookabach, has now made a serious nationwide competitor for the commercial accommodation sector with important consequences for tourism and for tourist destinations. Whilst Auckland council has recently tried to address this by including Peer-to-peer accommodation providers, they have only managed to issue the charge to a third of providers. 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. Additionally the Pan Tax proposal in the Far North was a concern for various property and business owners, particularly those with motels who feel the tax is onerous and does not properly reflect usage. The rationale for this discussion is the volume of wastewater / effluent discharged via toilet pans is not determined by the number of pans themselves, but by the number of people using those toilets, for eg: Ten people in a household using one pan will discharge the same volume as 10 people using 10 pans. The only difference between the two scenarios is water storage, whereby multiple pans would hold more stored water

### ***Question 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. A targeted rate is not able to be passed along to customers directly and 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.

### **Conclusion**

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