



Submission

to the

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

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Hospitality New Zealand Southland 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 110 financial members (not including affiliates) in our 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 Southland Branch President is Aaron Mills and our Southland 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?
  - Short term accommodation
  - Middle Management employees are hard to attract
  - Affordable Housing
  - Inner City building projects
  - SIT (zero fee's initiative)
  - Rental Shortage
  - We rely on a co-operative market
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?
  - Swords plan for 10k population increase
  - Increase in workers at Tiwai and Alliance
  - Small community large swing in working market
4. What are the implications of demographic changes such as population ageing for the costs faced by local government?

Southland is facing two demographic challenges. These destinations are ideal for semi-retirement & young travellers looking for experiences and adventure. The latter placing pressure on all services related to the adventure life styles:

- Parks Freedom Camping
- Rural Roding within the district
- Public amenities
- Rubbish removal and Management
- Limited cultural diverse offerings
- Limited Entertainment offerings

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?

- Venture Southland – how to attract people to the region
- Direct Invercargill flights (starting midyear)

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?

Definitely Local Government has incurred considerable costs as a result of Central Government delegating responsibility. Local Alcohol Policies (LAP) is a very good example of this where Councils were encouraged to consult and implement policies which were arguably unnecessary.

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.

Rotorua District for instance commenced this process in 2013 and their LAP is still not yet finalised. It has gone through an extremely long and costly process involving numerous public consultations, hearings, reviews and appeals. The Policy which currently awaits sign off from ARLA carries no conditions which are not already well covered by existing legislation which makes the whole expensive exercise somewhat pointless.

The Christchurch LAP process is another 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.

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?
  - Increase in rates, closing high risk areas such as the Museum
  - Outsourcing the decision making processes, means increase in cost
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.

10. Do the prices of goods and services purchased by local government vary across councils? If so, what are the reasons for these differences?
- Transportation costs
  - Lower population, less buying power means higher cost
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, Tourism – Venture Southland, Stadium Southland
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?
- City Building projects, influx of workers
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 an effective tool if you can get communities and the business sector to buy into them, unfortunately current long-term plans do not have Hospitality/Tourism buy in. Councils need to engage/consult the industry prior to the submission process. HospitalityNZ would welcome the opportunity to be consulted.
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?
- Hold regular business sector meetings
  - Use of community funding such as ILT
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?
- There needs to be engagement with local businesses and set timings that suit the Hospitality and Tourism Sectors and encourage submissions. 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. A nationwide strategy on harmonious relationships between tourism and hospitality businesses and residents could go some way to resolving this.

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.
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.
  - Increase online payments to reduce costs / overheads
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?
  - Population Growth
  - Integration of overseas residents
  - Ability to adapt to change
  - Knowledge and ability to adapt to change and Challenges
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?

There is no evidence to suggest that councils do anything to monitor or control performance or to justify expenditure. If such measures are undertaken then it needs to be readily available to the public who are supplying such funds.

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

We assume the fees are reviewed, however HospitalityNZ has never been engaged to assist with this. With 110 members in Southland we would welcome the opportunity to work with our local authorities to get a fair and balanced model.

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?

NO, the management of Air BnB, book a bach & private short-term rentals is not enforced. This causes huge resentment between Commercial Accommodation providers and councils. The rapid growth of peer-to-peer short-term accommodation provider services, like Airbnb and Bookabach, has changed the marketplace considerably. As stated earlier (see #5 above) the growth in tourism numbers in NZ is not mirrored in the growth of commercial accommodation providers. The number of commercial beds available is largely unchanged since the year 2000. According to Stats NZ, the total number of such establishments remains at just under 3,000 and the number of beds at 133,000. Establishments rose in that time by only 34 and beds by 12,000. During this same period total guest nights have risen by about 50%.<sup>1</sup>

<sup>1</sup><https://www.stats.govt.nz/information-releases/accommodation-survey-july-2018>

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](http://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.

Residential based businesses are now a serious competitor for the commercial accommodation sector nationwide with important consequences for tourism and for tourist destinations. We acknowledge that this is simply a change in the marketplace and reflects a change in the needs of the traveller. However what we do not accept is that these new entrants into this marketplace are not treated as commercial businesses and nor do they contribute to Local Authority costs by way of commercial rates or other local levies paid by traditional commercial businesses

Most local authorities do not treat boutique accommodation providers as commercial businesses. Auckland has tried to remedy this by way of their targeted rate however it's not working. In January 2019 Auckland Council estimated there were 8300 Airbnb properties in Auckland, with 3800 liable for the bed tax (hosts are exempt if they rent out their property for fewer than 28 days per year) - of whom 1285 had been identified. Only one in five properties are being charged the appropriate level of rates. Very few other councils have followed Auckland's lead. and recently Rotorua Lakes Council voted to do nothing to address this growing problem

These such properties exist in Southland – 255 just in Invercargill City alone. If these were to be levied as commercial properties instead of residential this would provide significant additional funding to the councils concerned and put the owners of such businesses on a level footing with their business competitors.

Below is a current advertisement taken from the official Airbnb website, the owner states they can rent their one bedroom cottage for \$130 per night, If this Online Accommodation provider rents their house, for 136 nights, they would earn a gross total of \$17,680.00, and not have to pay any commercial rates.

*Well appointed cottage with full kitchen, queen size bed, separate living, sky tv in the living and bedroom, private patio. Relaxing decor, warm and private. Free Wifi. Handy to town, walking distance to shops and park.<sup>2</sup>*



<sup>2</sup><https://www.airbnb.co.nz/rooms/9330841?location=Invercargill%2C%20Southland&adults=2&guests=1&s=vwg7a9Xd>

There are no Health and Safety requirements or guide lines for Holiday Rental Hosts in our district. There is nothing stopping a 2-bedroom apartment / house hosting 12 people. In effect this sends a direct message to the commercial operator .... “Don’t buy a commercial accommodation operation, buy some houses and rent them on Air BnB, the returns are far greater, no responsibility, no hassles with domestic tenants or locked into agreements or complicated eviction notices” ..... so why wouldn’t you?

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?
  - What is being given back - ability to renew our resources
31. How effectively is the existing range of local government funding tools being used?
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?
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?
  - Ability to renew/reuse our resources for the future

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?
- Environmental impact
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?
- Job assist programs, business support
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?
- Relevance to cost of living / earnings
42. What are the advantages and disadvantages of a local property tax as an alternative to rates?
- It factors in local issues and future planning
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?
- Engage local businesses
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?
- Accountability and being able to shift the blame
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?
- Richardson's / Invercargill Licensing Trust
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?

### 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.