



Submission

to the

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

February 2019

**On behalf of**

Hospitality New Zealand Bay of Plenty Branch

Hospitality New Zealand Gisborne Branch

Hospitality New Zealand Thames 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.

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 Bay of Plenty Branch President is Mr Reg Hennessy, Thames Branch President is Mr Jamie Oliver and Gisborne Branch President is Mr Darryl Monteith,

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

We have answered the questions that are relevant to our members and the ones that are most concerning to the overall sustainability and survival of our Members businesses.

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?

The three regions (particularly Bay of Plenty) have had considerable growth in population with the migration out of Auckland in recent years. The infrastructure has simply not coped and considerable investment is required in roads and other local infrastructure. There is much community frustration with the recent central government adjustment to roading priorities which has downgraded the proposed improvements to SH2 west of Tauranga. The considerable delays experienced by commuters every day and by visitors on weekends and holiday periods is causing immense frustration. Visitors to the region are now considering other regions for their holiday destination to avoid the significant travel delays

4. What are the implications of demographic changes such as population ageing for the costs faced by local government?

The BOP region has a very high level of aged population. BOP DHB statistics show that in every age group above 50 years the population ratio is greater than the national average. This places additional stress on amenities and facilities used by the elderly plus subsidised services such as public transport

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?

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.

The greatest population growth and resultant pressure is felt in Bay of Plenty (Tauranga, Rotorua, Taupo districts) and Thames Coromandel district

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. 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.

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?

The view is that there is insufficient pressure on Local Government to ensure costs are constrained. The reason for this is that simply they can charge ratepayers whatever they like and the ratepayers have to pay the charges or ultimately lose their property (witness the protracted battle fought and lost by Penny Bright in Auckland). The only constraints on Local Government are at the polling booth every three years where Councillors risk losing their considerable remuneration if enough voters feel sufficiently aggrieved to vote them out of office.

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?

There are numerous examples of councils spending unwisely in an awkward attempt to create events and amenities without any obvious cost-benefit analysis undertaken

Example. Rotorua Lakes Council effectively underwrote the Mudtopia Festival held in December 2017. The festival ultimately cost the council almost \$750,000 including capital costs of \$170,000 and the Council has since announced it will no longer fund the festival.

Example. Tauranga City Council has already spent \$2.5 million on converting a busy car park in Mount Maunganui into an open pedestrian space. This is largely a flat concrete surface which was quickly taken over by skateboarders and other accompanying youths. The facility is now undergoing a significant overhaul to try and appease a growing disquiet from local businesses and residents who find the change has made no positive improvement to the area (less car parking available and a largely unusable open space created)

Example. Tauranga City Council has already spent more than \$355,000 on converting an open space into a temporary retail and dining precinct. Additionally the operators were given the space for free where they could operate from temporary facilities giving these operators a considerable financial advantage over existing businesses who are committed to long commercial leases, high levels of rent and all the associated costs incurred by such traditional businesses. The council has given a clear commercial advantage to temporary businesses at a cost to the rate payers (many of whom are commercial businesses competing for the same market)

Example. Tauranga City Council has already spent \$14 million purchasing 21 homes developed by Bella Vista because the properties were found to be unfit for habitation. Families living in these homes were displaced and the properties remain vacant almost twelve months after they were evacuated. The Council has incurred a further \$2.8 million costs for building, geotechnical and structural assessments, solution assessment, legal advice, communications, security, investigations and homeowner support. The Council has recovered \$10 million leaving a net cost of \$6.8 million. The Council has budgeted a total of \$11.5 million costs relating to the Bella Vista situation.

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.

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.

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?

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%

<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

There are over 4,000 such properties currently operating in Rotorua, Tauranga, Taupo, and Thames-Coromandel districts. Were these 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.

On Friday 29 June 2018 the Rotorua Daily Post published an article "Holiday Rental property rules are set to change". Noted in the article was that "The plan change would now be notified with a public notice, where submitters had the ability to appeal". On Monday July 2<sup>nd</sup> 2018 four days after the published article) Rotorua Lakes Council Mayor and staff met with industry operators and representatives to discuss concerns previously raised by the industry about the rapid growth in Holiday Rental Accommodation. At that meeting it was explained by the council team that the new "Plan Change 6" had already been voted on the previous week by the councillors and that this was locked in. There was absolutely no opportunity to submit anything. The council had also admitted that prior to that change all Holiday Rental Properties had been operating in a non-compliant manner and each property should have had a resource consent.

The effect of RLC's "Plan Change 6" is that Holiday Rental accommodation has inadvertently been opened completely for the residential live-in and housing stock investor. You only require a resource consent if you have more than 12 people staying at the property, and there must be at least one car park for every 4 people. There are no Health and Safety requirements or guide lines for Holiday Rental Hosts in the RLC 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 fair greater, no responsibility, no hassles with domestic tenants or locked into agreements or complicated eviction notices” ..... so why wouldn't you?

One commercial accommodation provider decided to “test the waters” by placing their personal home on the Airbnb market over the peak season 2018/2019 summer. This was no waterfront mansion, it was a standard residential home in an inner city suburb, next to and across the road from commercial businesses. It was advertised for rent on Airbnb from December 24<sup>th</sup> 2018 through to January 17<sup>th</sup> 2019. During this period the owner and his small family accommodated themselves as best they could within his motel business.

The process of renting in Airbnb was seamless and without any difficulty. All guests prepaid, the owner had a small commission to pay to Airbnb but even after that the owner cleared over \$20,000 over the 25 day period. That's more profit from a private dwelling than the motel owner can achieve from his commercial business in a full month.

Yes that reflects a change in the marketplace (many customers now prefer a private dwelling over a multi-room establishment). However most councils are not treating these new businesses as the businesses they are and are thereby subsidising those small businesses at the cost of the larger established businesses.

All of this causes one to wonder why councils appear to be so reluctant to address the issue. They certainly have the ability and they are also very aware of the impact this has on the marketplace (councils are an integral part of this change by allowing businesses to operate in a residential environment). The simple answer is votes. If councils implement greater controls on these businesses they see the possibility of losing more votes than they will gain. Councillors concerns for the community wellbeing are overridden by their concerns for their continued remuneration.

## Conclusion

It is apparent that while Councils operate with honourable intentions many of their decisions appear to be ill considered with the primary concern being to appease the voters. Councils are directing funds into costly events and amenities which often prove to be considerably more expensive than forecasted. There also appears to be very little accountability by Council simply because they know even if they exceed their budget they can always recover costs with a simple stroke of the pen by putting up the rates.

Central Government needs to create a system of 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 fairly.