



Submission

to the

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

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Hospitality New Zealand Palmerston North 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 ninety financial members (not including affiliates) in the Palmerston North 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 Taranaki Branch President is Colleen Maxwell, our Taranaki based Regional Manager is - Adam Parker

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

## 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?**

It is our view that the Government needs to focus on the accountability and transparency of Local Government in relation to Tourism Growth.

It has been our experience that in many areas of Local Government responsibility (such as alcohol-licencing, bylaws, targeted rates etc.), that Local Councils are showing an trend in saying 'no' to tourism businesses, rather than finding opportunities to say 'yes', or find viable solutions.

Our members feel that the current reaction of most Councils to hospitality businesses is to find ways to restrict or limit their operation. A potential solution to this, is for Government to focus on creating a more harmonious relationship between tourism and hospitality businesses and residents on a national level.

A topic which appears to have a somewhat conflicting argument surrounding it, is Freedom Camping. The argument is that generally speaking, local council do not want to limit tourism to the region by restricting, or even banning Freedom Camping from the Manawatu region. However, the impact on local commercial accommodation providers is somewhat harmful, and has been an issue throughout 2017 and 2018, alongside peer to peer accommodation.

The Freedom Camping Act 2011, allowed people to camp freely in any local authority area, unless prohibited through a bylaw or another enactment. However, if local rules have not been established e.g. the ability to stay wherever they wish at no cost to the camper, as opposed to paying to stay at small to medium sized accommodations, this directly affects smaller accommodation providers. Some accommodation providers (Holiday Parks and camp grounds for example) reported freedom campers using their showers and other facilities without paying.

Statistics from a Manawatu source, claim that a large proportion of total tourism expenditure is spent in the Food and Beverage industry, conversely, the majority of freedom campers tend to use their own cooking facilities, after utilising large chain supermarkets, therefore not only taking business away from our commercial accommodation sector, but also our food and beverage sector.

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

A potential solution is to consider targeting rates against Freedom Campers for use of space and facilities. These rates are paid by our commercial accommodation members; therefore, our members feel that there should be some level playing field in this area.

### **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?**

The increases to the minimum wage, particularly Central Government's target of \$20/hr will result in that cost being passed along to the customer – locals councils will no doubt see a higher expenditure for good and services in comparison to what they currently rely on.

This results in an upward trajectory for council expenditure in certain departments. The cost recovery mechanisms (i.e. rates etc) will most likely be adjusted to account for this. Smaller businesses who are feeling the pressures of increasing wage costs could then also find themselves paying more in rates so that local council can cover for the flow on affects. Basically, a double hit to business operators.

### **Question 15.**

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

In the opinion of our members, Long-Term Plans are costly to sustain, and do not appear to provide any value to the general public. The general feedback from our members is that they have found great difficulty in finding Hospitality specific issues and solutions (in the Government's policies and documentation. Not to mention a less than positive attitude towards the transparency, financial prudence, decision making process, and accountability of Local Government.

### **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?**

The rapid growth of Peer-to-peer Short-term Accommodation provider services, such as Airbnb and Bookabach, has created major nationwide disruption for the commercial accommodation sector. Our accommodation members, feel that local councils should impose 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 itself. This in turn allows them to reduce the market price of accommodation, due to not having the same or similar Council rates, compliance costs, and other commercial charges.

Moreover, peer to peer accommodation puts equal pressure on housing prices because the short-term accommodation providers are allowed to compete unfairly with New Zealanders for a place to live: either by renting or purchasing a first home. In effect, New Zealanders are locked out of the housing market.

Recently our Palmerston North Hospitality NZ Branch discovered data from the AirDNA website (a snapshot in to somewhat reliable data on the peer to peer accommodation sector) confirming a 61% increase in peer to peer accommodation occupancy from May 2017, to January 2018. In addition, the data confirms a 100% increase in revenue for these short-term accommodation providers in the last 6 months. We believe this upward trend correlates with the downward trend in overall commercial accommodation occupancy. 4.

In a November 2018 Hospitality NZ survey of our accommodation members, unfair competition from peer-to-peer home-based short-term accommodation providers was identified as the second highest factor impacting negatively on their commercial performance (behind the increased costs of online travel agents). 61.1% of respondents said that peer-to-peer accommodation was negatively affecting their business.

In that same survey, our accommodation members identified non-compliant peer-to-peer accommodation was the top issue of concern.

4. <https://www.airdna.co/vacation-rental-data/app/nz/manawatu-wanganui/manawatu-district/overview>

**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 is our view that the implementation of targeted rates by council, or the continually increasing rates and levies, or the ability to apply a tax of some sort (*for example a bed-tax*) on a small sector of businesses is simply not fair or sustainable.

Auckland has been a prime example of this. The policy is considerably different in practice, than it was portrayed to the public and across the media. For example: The public constantly label targeted rates as 'bed tax', which is a clear misunderstanding of how targeted rates work in reality. <sup>5</sup>.

In addition, the council originally suggested that the targeted rate could be passed on to the customer, if this was implemented, the cost of the targeted rate needs to be included in the advertised price of the room. Some of our members hold pre-negotiated contracts, where the room rates are not adjustable, and therefore this creates a significant problem when passing on the rate to paying customers.

It is our view that the implementation of targeted rates by council, 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.

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

## **Question 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?**

Recent evidence from a local development agency claimed that the Manawatu District has a dominance of domestic visitors due to the extensive events calendar in Palmerston North.

It is in our opinion, although it is positive to see domestic tourists flock to the region, the LDA statistics show a need to increase funding for marketing and advertising overseas, or somehow specifically target international tourists. Supporting organisations such as Tourism New Zealand, and local development agencies such as the 'Central Economic Development Agency' (CEDA), go hand in hand for increasing population not only to the Manawatu region.

Government Funding for local development agencies such as CEDA, could help with the development of more consistent 'product' for the region. Consequently, leading to a potential knock on effect of long term or permanent international immigration.

In our members opinion, building the capacity of visitor sector businesses could not only bring new clientele to the commercial food and beverage and accommodation sector, potentially resulting in regional and tourism growth through a more desirable place to live.

## **Conclusion**

We thank you for the opportunity to submit to the Productivity Commission on the recent 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. Please contact us on the details at the top of this paper.