19th August 2019

Submission : NZ Productivity Commission's Inquiry into Local Government Funding and Financing

Introduction:

Scenic Hotel Group (SHG) welcomes the opportunity to present a submission to the NZ Productivity Commission's Inquiry into Local Government Funding and Financing.

SHG is a wholly privately held New Zealand Hotel owner/operator managing 17 commercial accommodation businesses from the Bay of Islands in the north to Queenstown and Gore in the south. SHG has been in business for over of 30 years and employs in excess of 700 staff in the height of the tourism season.

Submission:

Whilst the terms of reference and the scope of the Productivity Commission's Inquiry covers many issues, SHG would like to make submissions specific to ***"Section 6 Future funding and financing arrangements"*** and more specifically, ***"Section 6.7 Funding to address pressures from tourism".***

1. **Background**

SHG accepts that visitor numbers clearly have an impact on infrastructure especially in tourism heavy regions such as Queenstown, Westland, Rotorua et al. SHG would, however, further argue that the growth in the tourism sector has only served to highlight and exacerbate the impacts of severe under-investment in critical infrastructure over time, and is in no way the sole reason for the shortfalls.

SHG agrees that substantially more resourcing and funding is required for infrastructure support and growth in almost all regions. SHG further accepts that the tourism industry, as one direct beneficiary of increased tourism, should pay its fair share in supporting regional infrastructure growth, again especially in those high-volume tourist locations where often the transient tourist population is larger than the stable ratings base

However, based on the Commission's own findings in Sections 5 of this report, SHG remain sceptical that any additional funding collected under the existing system will not be misallocated, misused or wasted. SHG firmly agree with Infrastructure New Zealand's findings that *"A fundamental revision of New Zealand's system of responsibilities for delivering public services is required before further resources are committed."*

2. Fairness and equitability

Section 6.1 of the report states that funding and financing instruments for local government should be:

> *"**Equitable and fair** taking account of who benefits from local government services, and also horizontal equity, vertical equity, affordability and inter-generational equity."*

First, SHG believe it is manifestly inequitable just to target the tourism industry to fund infrastructure on the basis that it is the whole economy, both local and central that reap the benefits from the visitor economy. If such was not the case, why would central government and local councils continue to press for growth in the industry?

Secondly, if it is accepted that the tourism industry should be helping to fund infrastructure, SHG submit it is even more inequitable to specifically target only the accommodation sector to bear the additional costs on behalf of the entire industry.

In terms of revenue, it is estimated that less than 10% of the total tourism spend is on accommodation, and in terms visitor nights, the Tourism Industry Association (TIA) estimates only 37% of all visitors spend the night in commercial accommodation or short-term rental accommodation such as Airbnb. This means that the Productivity Commission's recommendation of an accommodation levy will fail to reach upwards of 90% of visitor spend and two-thirds of visitor nights!

The TIA further point out that, as New Zealand travellers account for around 60% of all commercial bed nights, the proposed accommodation levy would see New Zealanders paying the most in bed taxes. This would be in direct contravention of the current government's sated policy of not raising taxes.

It Is SHG's view 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. SHG does 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.

SHG therefore find the Commission's confusion between "tourism industry" and "accommodation providers" to be a fundamental flaw in its final recommendation of a tourist accommodation levy.

As per the submission to the judicial review of the Auckland City Council's Accommodation Provider Targeted rate (APTR), SHG would further argue that the suggested 'pass-through' (or increasing accommodation prices to absorb this cost) is not always possible. Therefore, in New Zealand's already highly competitive accommodation market, commercial accommodation providers will end up paying the accommodation levy in full which reduces their profitability and has negative flow-on impacts to both the local and central economies.

Therefore, SHG do not believe it is either sustainable, equitable or fair that central or local government should be looking to remedy infrastructure funding shortfalls through targeted rates, levies or additional taxes applied to a small sector of the tourism industry.

3. Conclusion

SHG submit the following conclusions:

- Tourism has an effect of infrastructure.
- Under-investment in infrastructure has been an issue for some time and is not wholly related to tourism growth.
- A fundamental revision of New Zealand's system of responsibilities for delivering public services is required before further resources are committed.
- It is manifestly inequitable just to target the tourism industry to fund infrastructure.
- It is even more inequitable to specifically target only the accommodation sector to bear the additional costs on behalf of the entire tourism industry.
- The Productivity Commission's recommendation of an accommodation levy will fail to reach upwards of 90% of visitor spend and two-thirds of visitor nights.
- The proposed accommodation levy would see New Zealanders paying the most in bed taxes.
- SHG does not support targeted rates, bed-taxes or any other accommodation-only levy, rate or tax.
- SHG would argue that the suggested 'pass-through' (or increasing accommodation prices to absorb this cost) is not always possible in a competitive market.

Scenic Hotel Group again thank the Productivity Commission for the opportunity to make this submission and would be available to discuss anything contained herein in further detail should the Commission require.

Please feel free to contact the writer for any further information you may require in support of this submission.

Kind regards,

Gary Cole
Scenic Hotel Group