



Submission

to the

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

February 2019

Hospitality New Zealand South Canterbury Branch
Central South Island Regional Manager: Anna Halliday

PO BOX 503, Wellington

027 549 8975

anna@hospitality.org.nz

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 68 financial members (not including affiliates) in the greater South Canterbury Region operating under the 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 South Canterbury Branch President is Kristy Phillips and our Christchurch based Regional Manager is Anna Halliday.

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.

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 role, capability, 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 and resource consents) that Local Councils are becoming increasingly insular and dictatorial in their thinking and operation. In other words, they are becoming increasingly inclined to find ways to say 'no' to tourism businesses, rather than finding ways to say 'yes', or to find solutions.

Tourism growth brings a significant economic benefit to New Zealand. The recent Aotearoa New Zealand Government Tourism Strategy draft paper set out:

- The tourism sector makes a significant contribution to New Zealand's economic success, accounting for over a fifth of exports
- In the year to March 2017, overseas visitor spend reached over \$14 billion, as a result of compound annual growth of seven per cent in the previous five years.
- Tourism also contributed \$14.7 billion to GDP (and another \$11.3 billion of GDP through the indirect value added by industries supporting tourism).
- In the same year, tourism provided jobs for over 230,000 New Zealanders

While benefits from tourism are well documented, it is also known that increased tourism can lead to funding pressures, which are affecting many Councils in the South Canterbury area – in particular infrastructure, amenities, and waste services. These funding pressures may be more acutely felt in areas with low rate-paying bases, but high tourism numbers. Tekapo, Twizel and Omarama are good examples of this issue with huge highway usage, very few areas with proper restroom facilities along the route, and council waste services stretched to the maximum.

Additionally, local businesses are struggling to retain staff because worker accommodation is non-existent as submitted by this hospitality business owner from Twizel:

“Local government does not buy in to the fact that Hospitality and Tourism go hand in hand – we are finding this up here in Mackenzie, especially with being pro-active in worker accommodation – no rentals/housing = no skilled workers = poor service = dissatisfied customers. This lessens the impact on the overall experience of travelling in NZ. This is not only Hospo but across the board. The local businesses here have started a process towards lobbying Council for some input and assistance”.

Councils looking to remedy funding pressures through targeted rates, increasing general rates, levies and taxes (for example a bed-tax) applied to a small sector of businesses is neither sustainable, equitable or fair. For example, in Auckland the APTR was initially levied on commercial accommodation providers only. In the view of our members the APTR, was ill conceived, inequitable, and implemented without sufficient consultation, cost/benefit analysis and without adequate basis.

As targeted rates are usually based on the capital value (CV) of the building there is no direct link to the visitor which the rate is suggested to be targeting. Instead, the targeted rate becomes a new fixed cost to the business. Meaning, if the cost of the targeted rate is to be passed on, it needs to be included in the headline price of the room rather than as an additional surcharge. However, as many accommodation businesses enter into pre-contracted rates with commercial travel agents and other corporate or Government organisations, their room rates are locked and cannot be amended to account for the targeted rate until the contract term expires. This represents a direct loss to commercial accommodation providers.

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?

Local Government have been given a hospital pass from Central Government in certain areas of Legislation which they are now required to enforce. A good example is the Local Alcohol Policies (LAPs) which were introduced under the Sale and Supply of Alcohol Act 2012 (SSAA). The LAPs are a good example of Councils being expected to deal with a problem far beyond their historical remit and policy staff not having a good understanding of SSAA itself. The flawed LAP process cost Councils and stakeholders throughout many TLAs, hundreds and thousands of dollars.

- Since SSAA fully came into force (December 2013) it has become apparent the LAP process is substantially flawed. We have seen first-hand elements being introduced to LAPs that are beyond the authority of a Council (ultra vires) and the length of the appeal process has increased significantly.
- Council's application and implementation of LAPs has been inconsistent and often poorly executed.
- Approximately half of all Councils have adopted LAPs however, the majority of these were appealed by either regulatory bodies or commercial interests.
- LAPs have placed a significant cost pressure on Local Councils resulting in higher costs to tax and rate payers as well as our members. As at 2017, the LAP process had cost over \$4m to local councils which in many cases excludes staff costs. This is due, in part, to drawn out legal appeals. Hospitality NZ and its members have spent over \$500,000 (excluding staff costs) representing the industry in various LAP hearings and appeals. This is a significant amount of money to be spent on reaching an outcome (introduced through regulatory creep) that could otherwise have been achieved through Councils pre-existing responsibilities and powers.

These incrementally increasing costs of regulation are a good example of generic council processes becoming more expensive. Yes the council are sustaining more costs by hosting bigger and flashier public events, but mostly they are spending more money on regulatory processes because national policy makers do not seem to be able to define best practice guidelines with any pragmatism and clarity.

As defined by ¹ www.localcouncils.govt.nz The purpose of local government is –

- To enable democratic local decision-making and action by, and on behalf of, communities
- To meet the current and future needs of communities for good-quality local infrastructure, local public services **and performance of regulatory functions in a way that is most cost-effective for households and businesses.** (Local Government Act 2002, section 10 (1)).
- The role of local authorities is to lead and represent their communities. They must engage with their communities and encourage community participation in decision-making, while considering the needs of people currently living in communities and those who will live there in the future

Within the Alcohol Licensing and environmental Health Departments there are numerous procedural inconsistencies that cause increased cost to both our members and the regulating local authority for little apparent gain in in terms of alcohol harm reduction which is the common goal that we are all striving for.

1

http://www.localcouncils.govt.nz/lqip.nsf/wpg_url/About-Local-Government-Local-Government-In-New-Zealand-Councils-roles-and-functions#WhatDoOurCouncilsDo?

As with the inconsistencies around application of local licensing rules and repetition of administration across several councils within a small area, the many and varied costs incurred by local government can sometimes double up resources in rural areas where the likes of the Waimate District Council, Waitaki District Council and McKenzie District Council operate. A solution to the stretching of resources because of more and more compliance costs and services required is to amalgamate some of the smaller regional councils, as noted by a business owner in Timaru:

“The amalgamation of several local councils would reduce the cost of replicating many back-end resources e.g. – payroll, HR, training, ICT, CEO’s etc. Whilst we don’t want to lose representation in the regions, we as businesses are always looking for stream-lining of processes and systems to be the most efficient use of time and resources and maybe councils should be thinking that way as well. The cost of three mayors, three sets of councillors, three sets of administrative staff and accounts management, plus the physical buildings all add up.”

In a small regional area, the centralisation and rationalisation of all these fixed costs would ensure a more cohesive and efficient council operation so the money goes to where it is needed, ie roading and amenities infrastructure.

Question 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?

As evidenced by the recent forest fires in Nelson, massive flooding events in Townsville in Australia, and seemingly fierce hurricanes, cyclones and extreme weather patterns on the 6 o’clock news every night, the damage that Mother Nature can unleash is frightening - every aspect of bigger storms, drier or wetter weather patterns and higher sea levels means more infrastructure to be rebuilt, repaired or re-engineered for greater strength and stability. Costs to build and maintain water courses, waste systems, shoreline roading and other critical infrastructure will continue to rise as concrete and steel become more expensive to manufacture due to increasingly stringent environmental requirements.

Coastal townships such as Timaru and Oamaru along with celebrated natural environments like Moeraki, Shag Point and the Penguin Colonies are tourist draw cards and contribute to the overall tourism dollar spent (GDP) - however, if sea levels rise significantly, these destinations will be lost or damaged in spite of (no doubt) massive effort & expenditure by local councils.

Question 13.

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

- We are concerned that “Council Support Services” is the second largest expense within the total operating expenditure^[1].

- The Issues Paper states that the Council Support Services category has grown by 48% between 2009 – 2017^[2], which is at a higher rate than core infrastructure, core services, and non-core categories.
- It appears that this factor is generating significant local government cost pressure, and that it will be the most significant factor into the future.
- It is our view that there needs to be a robust investigation into the necessity, efficiency, justification, and cost of all council support services.

[1] Page 12 of the Issues Paper

[2] Page 37 of the Issues Paper

Question 14.

How will future trends, for example technological advances and changes in the composition of economic activity, affect local government cost pressures?

Environmental responsibility and infrastructure will continue to grow in demand, thereby increasing the need for councils to futureproof the cities and regional towns of New Zealand. Electric cars, Ebikes, Escooters and charging ports will be necessary costs that council will have to prepare for now. Deliberate marketing of our tourism brand as 'clean & green' will generate an expectation from international visitors that infrastructure like this is readily available.

High speed internet connections are not currently available in rural South Canterbury, and again, the expectation from international visitors is high in this area. Although the government and Chorus are rolling out fibre in some provincial towns, getting the rural areas connected will be a mammoth task. Spark is now streaming the Rugby World Cup games but country pub owners and hoteliers who do not have access to fibre have no alternatives available for their customers. How is it that going to the local pub and having a beer while watching the All Blacks with your mates has become so difficult?

Question 15.

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

Long Term Plans are not effective at all and are costly to sustain. 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.

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 current LTP consultation process doesn't ensure accountability or effectiveness at all and needs to be doing more to target consultation with those it could impact. For example, business and industry bodies should be advised and asked to prepare statistics or relevant information for presentation; professional bodies who advise any affected entity should be invited by default, and residential and commercial property owners specifically identified and invited to have input.

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?

In our view, the Long-Term planning process needs to be made easy for the average person to understand. Information should be readily available. Councils should undertake proper consultation with those who will be affected by their decisions and be transparent in their decision making.

- It is our experience that proper, if any, cost/benefit analysis is rarely undertaken where Councils are considering funding sources for activities. Where it is undertaken, the information is difficult to find.
- Hospitality NZ, through its local Branches, made over 20 submissions to Council Long-Term Plans in 2018. Generally, feedback from our members is that information pertinent to their businesses is difficult to find within the Councils documentation and policies. Further, some Councils did not offer the opportunity for submitters to be heard via oral deputation.
- On occasion our members have felt that genuine consultation was not undertaken but rather Council appeared to be paying lip-service to any consultation.
- Once the consultation process was completed, in many instances it was not evident from subsequent documents produced by councils as to whether points in the submissions made had even been actually, or fairly, considered.
- It is next to impossible to reconcile the LTP consultation process with actual Capital Investment decisions made by the council.

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.

Question 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 to deliver services more efficiently and manage assets in a more pragmatic and transparent way as discussed in Q6.

- Repetition of administration across several councils within a small area and the many and varied costs incurred by local government can sometimes double up resources in rural areas where the likes of the Waimate District Council, Waitaki District Council and McKenzie District Council operate.
- A solution to the stretching of resources because of more and more compliance costs and services required is to amalgamate some of the smaller regional councils

In a small regional area, the centralisation and rationalisation of all these fixed costs would ensure a more cohesive and efficient council operation so the money goes to where it is needed, ie roading and amenities infrastructure.

Question 22.

What are the most important barriers to local government achieving higher productivity?

- Our members have had numerous experiences with council staff either not being adequately trained, qualified, or competent in their roles or in the areas of legislation or policies that they are tasked with monitoring or enforcing. All of which lead to low productivity.
- Our members have also experienced what appears to be unnecessary, processing delays, requirements for triplicate or quadruplicate copies of paperwork, notifications going missing, informal and formal policy changes not being notified to those affected, multiple council staff members attending jobs, hearings, or meetings where one person should be sufficient.
- Those experiences have shaped our view that local government's internal processes and policies are an important barrier to Local Government achieving higher productivity which should be looked at and addressed.

Question 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?

We have not been privy to any information that leads us to believe councils in any area conduct measuring of performance or productivity of this sort - possibly due to privacy considerations.

Performance reviews, objectives and goals should be set, monitored and managed. Ideally by a non-biased, independent third party. If an outside party was engaged to monitor productivity and performance this could ensure complete transparency.

Question 26.

What measures do councils use to keep services affordable for specific groups, and how

effective are they?

In our experience and in the experience of our members, Local Councils are not effectively keeping their services affordable for specific groups. Local Councils do not appear to be considering the costs and benefits, distribution of benefits, or affordability of their activities or services, in their decision-making process. It is our view that Councils could do much more to minimise their costs, and cut wasteful spending to assist with keeping rates affordable.

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?

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.

- Imposing targeted rates on traditional commercial accommodation providers to fund tourism infrastructure is not distributing costs fairly across all ratepayers. Doing this places the entire fiscal burden on commercial accommodation, rather than distributing it across all who benefit from the tourism sector as a whole.
- Likewise, failing to impose commercial ratings on the Share Economy Peer-to-Peer Accommodation Providers where they are clearly operating commercially also fails to distribute the burden fairly across the beneficiaries.
- We believe that a nationwide regulation that defines and treats all accommodation providers as commercial when they are operating in the same way as a commercial business would be a good example of striking a better balance of the above principles.

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. In effect, New Zealanders are locked out of the housing market

Below is a current advertisement taken from the official Airbnb website, the owner states they can rent their small one bedroom house for \$140 per night, If this Online Accommodation provider rents their house , for 136 nights, they would earn a gross total of \$19,040.00, and not have to pay any commercial rates.

Experience comfort and luxury in our newly furnished, super-sized one bedroom apartment in the heart of Christchurch. With brand new leather couches, king sized bed and hotel grade linen this is a hotel experience without the exuberant price. All major tourist attractions are a short walk away. A separate toilet and queen-sized sofa bed means we can easily host 4 guests. Free secure carpark too! Perfect for families wanting modern convenience or corporates looking for more space and luxury.²

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

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.

Question 31.

How effectively is the existing range of local government funding tools being used?

Our members do not agree with the inconsistent, subjective and ad hoc approach with which some councils approach short-falls in funding.

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.

- We believe that there may be cases where funding tools like targeted rates could be appropriate – particularly if it can be objectively shown that a particular group receives distinct and separate direct benefits, activity, or services compared to other ratepayers.
- However, given our current experiences we strongly submit that the use of any funding tools like targeted rates must be strictly controlled. A full cost/benefit analysis should be undertaken as a first step. A full and detailed analysis of the

² <https://www.airbnb.co.nz/rooms/23790374?location=Christchurch>

planned targeted rates (including costs and planned cost minimisation) must then be made available and in an easily understood format. Any proposed targeted rate must go through the proper consultation process, be fully justified, have a time or funding limit and a review period.

- The funding raised from the use of such tools should be ring fenced for the purposes for which it was collected. A full audit should be provided to the targeted rate payers.

We remain wary of the ability for Councils to impose targeted rates (or local taxes of any kind) because in our experience, they appear to be viewed, and used, as an easy way for council to raise revenue without adequate justification or analysis.

Question 37:

Under what circumstances (if any) could there be a case for greater central government funding transfers to local government? What are the trade-offs involved?

We agree that there are certain circumstances where there is a case for greater central government investment in certain key areas. Quality of drinking water in New Zealand has been a hot topic recently and has the potential to taint our tourism image offshore if not managed well. If a region required funding from the central government to help it reach the prerequisite water quality standards now imposed; given its benefits to New Zealand as a whole (global perception), and that New Zealanders are also the users and beneficiaries of this improved infrastructure and water quality, then that would be considered appropriate.

Question 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?

- We believe that greater oversight arrangements are needed for local government funding and financing as the current arrangements are at times inadequate as highlighted by our responses above.
- In our experience, Councils should be required to have greater transparency, information availability, accountability, and cost management requirements.
- This would ensure that Councils are answerable to their constituents and aid in improving the public perception of Councils.

Conclusion

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

