



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

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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 154 financial members (not including affiliates) in our Queenstown Lakes District Council and Central Otago District Council's Territorial Local Authorities (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 Central Otago Branch President is Chris Buckley and our Wanaka based 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?
 - Queenstown Southern Lakes & Central Otago are heavily reliant on the Hospitality & Tourism industry. (See attached)
 - Industry is heavily reliant on Transient and Seasonal staffing
 - Short term accommodation
 - Middle Management employees are hard to attract
 - Affordable Housing
 - Affordable long term rental accommodation
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
Our region has had considerable population growth in recent years. The infrastructure has simply not coped and considerable investment is required in roads, public toilets and other infrastructure.

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

Central Otago and Southern Lakes are 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 lifestyles :

- Parks Freedom Camping
- Rural Roding with in the district
- Public amenities
- Rubbish removal and Management
- Short term accommodation causing issues in communities (parking/noise/overcrowding/lack of long term accommodation)

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. 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 is now New Zealand's number one export earner, with total expenditure by international visitors reaching \$14.5 billion in the year to March 2017. In the same year, domestic tourism contributed a further \$21.4 billion, taking the total value of the industry to almost \$36 billion.

Tourism is worth an estimated \$188 million to the Central Otago economy alone and may support as many as one in seven jobs in the region. Tourism also offers a host of other social and economic benefits, with expenditure by visitors helping to develop and sustain facilities and services that benefit other sectors of Central Otago's economy and communities across the region.

If consistent with national-level findings. Based on Statistics New Zealand's Tourism Satellite Account, 399,150 people were directly or indirectly employed in tourism in New Zealand in the year ending March 2017. This equated to more than 1 in every 7 jobs. The benefits of Tourism are felt widely across the region including accommodation and transport services, tourism activities and

attractions, shops, petrol stations, cellar doors, cafes, restaurants and other local businesses.

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?

- All Compliance costs

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?

As evidenced by the recent fires in Nelson, flooding events in Townsville, Australia and seemingly fierce hurricanes, cyclones and extreme weather patterns on the news regularly, the damage that 'Mother Nature' can unleash is frightening. These all mean infrastructure needs to be rebuilt, repaired and/or re-engineered. 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.

These costs are passed on through rates, particularly in our area with the ongoing issues of aging halls and the earthquake requirements for these to be accessible for public use. Unfortunately, due to the lack of knowledge all work is out sourced at huge 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?

Employee pay rates have forced companies to increase prices. Also with the increased health & safety requirements, these have required more funding. These costs are then passed on.

10. Do the prices of goods and services purchased by local government vary across councils? If so, what are the reasons for these differences?

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?

The above listed are not core business, however they are important to have managed and controlled growth. Councils should be involved in creating healthy communities. It would be short sighted for council not to have an interest in these areas.

12. Does the scope of activities funded by local government have implications for cost pressures? If so, in what ways?

Yes – ageing equipment/health & safety requirements.

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

Visitor numbers are a key driver of infrastructure needs in the Queenstown Lakes District. With predictions set to see increased visitors to our region this will continue to be a pressing and urgent issue. Any natural disaster will put significant cost pressures on our councils due to the aging and inadequate infrastructure.

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 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?

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.

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.
21. What incentives do councils face to improve productivity as a means to deal with cost pressures? How could these incentives be strengthened?
Personal responsibility of local government elected officials and employees much like the private sector would see better decisions and outcomes for rate payers.
22. What are the most important barriers to local government achieving higher productivity
Complex and costly administrative processes that currently exist in some Councils restrict productivity. For example, there are instances where the Licensing Inspector are insisting on interviewing prospective Duty Managers for an hour or more which is seems excessive and unnecessary. Red-tape is a key factor particularly in the alcohol licensing applications. It would be helpful if Council's streamlined the alcohol license and Manager Certificate application process in order to achieve the consistency. In Otago, many of our hospitality workers and members operate in two or more TLA's over their career. Often, we are met with queries and barriers due to Councils insisting on very different information. Productivity can be hindered when Council staff start asking for particular

information that is not necessary under the Sale and Supply of Alcohol Act (SASAA)

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?

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.

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.

27. How do councils manage trade-offs between the ability to pay and beneficiary pays principles? What changes might support a better balance?

In the Queenstown Lakes District the GST take is considerable and returning some of it to the region makes financial sense. Regions with high visitor to ratepayer ratios should receive a central Government credit structured as a guaranteed share of GST earnings from visitor spend. This way funding for infrastructure would be in synch with demand for infrastructure and services in any region.

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 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%.¹

¹<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). 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

As we are all well aware given the media interest around this 'hot topic', these such properties exist in the QLDC and CODC areas – 2885 cumulative rentals just in Queenstown alone (Airdna.co as @ 11 January 2019). 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 studio for \$222 per night, If this Online Accommodation provider rents their house, for say 136 nights, they would earn a gross total of \$30,192.00, and not have to pay any commercial rates.

- FREE WiFi -

This funky studio is situated on the upper level of the property.

It has stunning views of Lake Wakatipu & the Remarkables mountain range with its own balcony and BBQ and access to the Spa pool & Patio on site.

https://www.airbnb.co.nz/rooms/21541910?location=Queenstown%2C%20Otago&adults=2&guests=1&s=p_vKSnS

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?
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 Council's approach short-falls in funding.
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.

For example, in Auckland the Accommodation Provider Targeted Rate (APTR) was initially only levied on commercial accommodation providers and in the view of our members, was ill conceived, inequitable, and implemented without sufficient consultation, nor a proper cost/benefit analysis and without adequate basis.

For motels, most of which are leased, the rates burden generally falls to the motelier so the APTR represents a new direct fixed cost to the business. A targeted rate is not able to be passed along to customers directly. A targeted rate is usually based on the capital value (CV) of the building and has no direct link to the visitor which the rate is suggested to be targeting. 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.

Due to a large proportion of accommodation business being conducted through pre-negotiated contracts with commercial travel agents and other corporate and Government organisations this results in room rates that cannot be amended to account for the targeted rate until the contract term expires. This represents a direct loss to commercial accommodation providers. The ability to legally pass on an amount incurred from a targeted rate, via a surcharge, is questionable. Generally speaking there is no more right to do this than having a surcharge to cover the cost of increased general rates, toilet paper or pillows.²

²<https://tia.org.nz/assets/Uploads/Legality-of-Surcharging-Proposed-Targeted-Rate-on-Accommodation-Providers2.pdf>

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?
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?
In our Council areas, with a very large visitor population outweighing the small rate-payer base, rate-payers simply cannot afford to pay for visitors or the replacement / upgrading of infrastructure. Freedom Camping numbers continue to increase, in an already busy Tourism area. Why should rate-payers continue to pay for the non-paying freedom campers that our Councils are building infrastructure for and providing free rubbish removal?
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?
Where tourist numbers outnumber ratepayer base. This data may be expensive and time consuming to collect. (also refer to answer 32)
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?
Sharing in central Government GST revenue to the regions with a large visitor spend. Spreading the tax burden across all transactions (or across the subsectors

identified in the Tourism Satellite Account) would offer an opportunity to apply very low levels of taxation per transaction and yet generate significant revenue. We do however acknowledge observations in the Issues paper that it could lead to duplications of IRD resources.

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?
42. What are the advantages and disadvantages of a local property tax as an alternative to rates?
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?
This would require full consultation.
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?
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?
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 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 and stand at the coal face of the Hospitality and Tourism sector.

Controls need to be put in place around Short term accommodation, as they do not pay commercial rates but run a commercial activity while removing long term accommodation from the community. This forces long term accommodation rates to increase with less stock and damaging and tearing apart communities. We believe there should be a full study undertaken re there not being enough staff accommodation in the QLDC area.

Bed tax alone we believe at this stage is not necessarily the best solution for revenue generating through our Council. Only on the basis of it representing the easiest to implement & especially inappropriate if the private non-commercial accommodation options are not included equally across the board.

When one also considers that there are 30-50% day visitors in our region whom do not necessarily stay in Wanaka or Queenstown (as an example) – these visitors are not being targeted. The Flow-on effects from a commercial accommodation collected and administered bed-tax are far-reaching and potentially damaging. Whilst a fairer all tourism based businesses charging visitors a very small extra “user Pay” option fairly collects funds. Also from the significant number of day visitors whom in reality represent the most demand on infrastructure in terms of shorter-term parking, toilets, parks and roads especially to skifields & to National Parks.