**Introduction to MCK**

Millennium & Copthorne Hotels New Zealand Limited (NZX:MCK) is a hotel owner – operator based in New Zealand with 21 owned / leased / franchised hotels under the Millennium, Grand Millennium, M Social, Copthorne and Kingsgate brands. As part of the Millennium & Copthorne Hotels group, we are proud to be part of a global network of over 120 properties in gateway cities across Asia, Europe, North America, the Middle East and New Zealand. MCK is also the majority shareholder in land developer CDL Investments New Zealand Limited (NZX:CDI). With a history going back over two decades in the hospitality, tourism and land development businesses in New Zealand, MCK is able to comment on a number of matters with regard to local government funding and financing.

MCK welcomes the opportunity provided by the Productivity Commission to make submissions on local government funding and financing arising from its November 2018 Issues Paper. MCK's approach to its submissions is to use its most recent experiences with Auckland Council and other territorial authorities in relation to the imposition of the Accommodation Providers Targeted Rate (APTR) or 'bed tax' purpotedly to raise funding for infrastructure and other initiatives. MCK is also able to comment on its experience (through CDI) on such matters as development contributions and other mechanisms used by territorial authorities to raise / supplement funding for infrastructure development.

**Reference to the Shand Report (2007) – still relevant now.**

In the course of our research for this submission, we reviewed the report of the Local Government Rates Inquiry which reported to Government in 2007 (the "Shand Report"). It is interesting to recall some of the recommendations of that Inquiry, which we believe to be still relevant, with regard to our experience in recent years:

The Shand Report Panel identified as their first key principle **local empowerment**. The panel noted that each local authority will make different decisions about the desirable size and composition of its revenues and expenditures which is still correct, we believe that in the intervening decade or so, we would say that the panel's comment that it is not appropriate for central government to intervene directly in these decisions which may, on occasion, be wrong. We note the heavy involvement of central government after the Canterbury Earthquakes which was entirely appropriate and the likely creation of Urban Development Authorities which will have the power to go beyond local authorities existing powers. Because New Zealand is a small country, we believe that there should be a close relationship between central and local government on the question of infrastructure and funding of key assets. As a tourism related business, we submit that tourism is a national business creating benefits across New Zealand and not limited to certain areas.

The Shand Report Panel correctly noted that local authority decisions must be made with appropriate use of the decision-making framework – covering consultation, planning, and accountability – provided by the LGA 2002 and the Local Government (Rating) Act 2002. Using our experience with the APTR in particular, we submit that Auckland Council has amply demonstrated how a lack of consultation, research, analysis, poorly informed on the hospitality industry, reliance on short term planning and no accountability can result in a rate that is demonstrably unfair, counter to recognised principles of taxation or funding policies, and which creates a significant financial burden to a limited sector of the economy for demonstrably little or no tangible benefit.

We also note that the second principle identified by the Shand Report Panel, **sustainability with restraint**, still rings true today. The Panel noted that financial decisions must also be made within a policy framework that ensures affordability of expenditure and equity of funding over the medium to long term. In general local government is paying insufficient attention to these issues. The Panel recommended better analysis of revenue and financing policies and the application to local government of principles that already apply to central government through the Fiscal Responsibility Act 1994 and the State-Owned Enterprises Act 1986. In particular, this includes councils establishing medium-term financial targets. We strongly support this approach.

The Shand Report Panel identified a third key principle being **partnership between central and local government** and noted that this partnership could be made to work better. There is a need for better analysis, coordination, consultation, and guidance in the development of central government policies that impact on local government. We believe that the observation of the Panel in 2007, that there is inadequate capacity and resources within central government allocated to monitoring the operation of the LGA 2002 and Local Government (Rating) Act 2002, the two major pieces of legislation governing the operations of local government, still rings true today. For major pieces of tourism infrastructure, we submit that it is essential that local and central government work closely together to ensure that any financial charge, be they rates or taxes, fulfil the principles that we will refer to below in our answers to the various questions.

**MCK'S ANSWERS TO THE VARIOUS QUESTIONS RAISED BY THE COMMISSION**

| **Q1** | **What other differing circumstances across councils are relevant for understanding local government funding and financing issues?** |
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| | We perceive that the differences arise depending on each council's priorities for funding and whether they actually have a well thought out vision for their territory and whether they are minded to act and allocate fairly. Our experience is that where a council or territorial authority reacts to short term issues, it will likely create longer term problems and result in unfairness.<br><br>MCK's experience with Auckland Council's APTR and Queenstown Lakes District Council's ("QLDC") proposed bed tax show a similarity in that both were arguably triggered by sudden reactions to a perceived funding crisis or a need to raise additional funding to cover a perceived or actual shortfall. Our view in both cases is that both councils sought to find the easiest solution rather than engage in a constructive discussion with the tourism industry and agree on a solution that would be proportionate and fair.<br><br>It can be done. In CDI's experience, the issues tend to surround the level of development that the council is looking to approve and prioritise. Our experience with Selwyn District Council after the 2010/2011 earthquakes was exceptionally good in that the Council was proactive about consenting developments to meet the needs of displaced Christchurch residents who needed to be rehoused, put a realistic development contribution on new developments, worked collaboratively with developers including CDI to stage and progress new subdivisions in a manner that allowed for rapid development but not overdevelopment of land and made its future plans and intentions clearly known to all relevant parties. |

| Q3 | **In what ways are population growth and decline affecting funding pressures for local government ? How significant are these populations trends comparted to other funding pressures?** |
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| | From our perspective, local government will always be behind the curve when it comes to predicting future growth trends and where population increases in a region or where other pressures such as tourism expand over a relatively short time, these will always create funding issues for local government.<br><br>These pressures can be expressed in many ways. For example, where increased tourism results in services being disproportionately used or misused by visitors, locals will complain that visitors are not paying their fair share or any share. From a residential development perspective, this leads to 'lumpy', unpredictable and arguably arbitrary increases in Development Contributions and Infrastructure Growth Charges which only serves to increase the cost of the end-product and thus hurts the end consumer. From an employer perspective, this creates shortages of labour and other pressures, wage / salary imbalances not to mention affordability of housing and other resources.<br><br>We also understand that retail development near well-developed population areas is becoming harder to undertake and as a consequence, is being pushed out to more remote areas which in turn create other infrastructure and transport issues and cost / employment pressures. Conversely, tourism operators and visitors will complain that local authorities are not investing enough funds or providing sufficient resources for tourists who come to the region and who provide a benefit to the region through their presence or increased spending.<br><br>To be fair, we can understand that there will always be a time lag between population movements and adjustments in local government spending, that it to say that the usual scenario is that local government will be playing 'catch up'. With most councils under debt pressure, we do not see a 'build it and they will come' attitude except when it comes to unnecessary facilities such as convention centres in Queenstown and Wellington.<br><br>As the Shand Report pointed out, with better analysis of the financing and expenditure policies with a more carefully thought out strategy, we believe that Councils will be better able to predict what the pressure points are and what the costs of providing additional or improved infrastructure is likely to be on a realistic basis. In MCK's experience, only one Council has actually undertaken the exercise in a measured and thoughtful manner, being Selwyn District Council. |
| **Q5** | **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?** |
| | As our response to Q2 indicates, growth, including tourism growth, will always create funding pressures for local government.<br><br>Increased tourism over the last few years has resulted in a number of issues being raised in various parts of New Zealand, most of which relate to infrastructure. MCK can provide two distinct examples – the purported rationale for the APTR in Auckland and the debate on the proposed 'bed tax' in Queenstown. |

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| | In Queenstown, Mayor Boult has actively campaigned for a ‘bed tax’ to fund infrastructure as a direct result of increased visitors and a low rating base and has publicly stated that QLDC will be unable to maintain or improve existing visitor infrastructure effectively in future without a visitor levy. We are aware that Mayor Boult and the QLDC have been consulting with central government for a law change to make this happen. MCK has also been very active along with other hotel and accommodation owner / operators to advise Mayor Boult and the QLDC a visitor levy solely on accommodation providers would be unfair and would not solve the issue and that a more realistic solution is a wider tourism charge if central government is not prepared to allocate a proportion of revenue collected from the QLDC area through Goods and Services tax.<br><br>We are aware that other regions are considering the imposition or a bed tax or visitor levy.<br><br>In Auckland the APTR was brought up as part of the statutorily-required revision of the Long Term Plan. In order to raise additional funding for its CCO ATEED (Auckland Tourism, Events and Economic Development) from accommodation providers in the Auckland Council catchment area, purportedly for additional tourism promotion and to free up other infrastructure funding, Auckland Council engaged in a truncated and flawed consultation process to justify its reasoning and imposed the ATPR without consideration to how accommodation providers would pass this on to end consumers. |
| **Q6** | **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 to these vary across local authorities?** |
| | From MCK’s perspective, we say that the expansion, particularly of Auckland Council and its Council Controlled Organisations (CCOs) has contributed to cost pressures.<br><br>Looking back at the 2009 Report of the Royal Commission on Auckland Governance and the submissions and debate of the time, it was anticipated that by creating the Auckland Supercity as recommended that there would be a number of tangible and intangible benefits such as a more streamlined planning and consenting process though a single authority, cost savings as a result of a reduced but more efficient management system, improved partnerships between Auckland and central government, best practice financial management by Auckland Council and other such benefits. MCK’s experience over the past decade is mixed. While there have been some improvements since adoption of the Auckland Unitary Plan, we would argue that Auckland Council is just as difficult to deal with, if not more so, than ever.<br><br>MCK interacts with Auckland Tourism Events & Economic Development (ATEED) as ATEED has a mandate from council in relation to tourism and events. The mandate does result in vague and meaningless statements such as “*coupling tourism innovation with broadening the major events portfolio*” and “*exploring all cross-industry opportunities connected to the visitor economy*” as well as “*helping to develop more appealing and accessible tourism infrastructure and experiences and increase investment in tourism product that reinforces Auckland’s inherent strengths and identity*”. In reality, ATEED frequently duplicates work that the private sector, including MCK, already undertakes but adds further cost to MCK as a result of such duplication. Those costs were the justification for the imposition of the APTR and do not represent any additional productivity or gains in synergy and simply create additional cost pressures for |

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| | ratepayers. Further we question the rigour of ATEED's analysis in its return on investment calculations which could lead to more wasteful use of resources.<br><br>From CDI's land development perspective, we see these pressures in the way that other CCOs are operated and we would note how Watercare and Auckland Transport in Auckland are run.<br><br>The introduction of Watercare and Auckland Transport have added further layers of complexity in land development due to additional and lengthy processes that only add additional time and costs that may not be able to be passed on to end purchasers of residential sections and thus become a fixed cost for developers. As each CCO is responsible for its own financial performance we believe that they align their performance, metrics and strategic direction to suit their own agendas and not necessarily in the wider public interest. This in turn means that there is a lack of alignment between CCOs or between the CCO and Auckland Council's own planning and strategy which we believe result in outcomes which do not necessarily benefit the wider public. In addition, Auckland Transport, and to a lesser extent Watercare, have varying and disconnected approval processes that are lengthy, difficult to adhere to and which are also costly. Their internal policies are often in conflict with each other and neither party is able, or willing, to concede to or develop pragmatic solutions. |
| **Q11** | **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?** |
| | From MCK's perspective, looking at what ATEED does, we strongly say that this is the case. Auckland Council, through ATEED, has expanded widely into such issues as economic development and event planning and management that it does not have competencies nor expertise in.<br><br>While we have no issue with Councils looking at assisting economic development for their region and 'non-core' issues, we do have an issue with the funding of such activities and our position on the APTR is that all sectors which benefit be treated fairly and receive a proportionate benefit for the proportionate share of the costs. Further the lack of discipline in assessing priorities coupled with the lack of expertise often result in duplication and wasting public funds with little or no accountabilities. |
| **Q12** | **Does the scope of activities funded by local government have implications for cost pressures? If so, in what ways?** |
| | It is probably fair to say that some local authorities do not have a coherent scope of activities to fund and even if they do, we believe the assessment / research / project analysis as well as the estimated return on investment are not carried out with enough rigour. This results in erroneous conclusions rather than an objective and facts-based analysis.<br><br>The recent de-funding of the Auckland Santa Parade demonstrates some of the issues in this space. It was widely reported that ATEED declined to find the parade from its Major Events Fund |

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| | and that this had been signalled for many years given that fact that the Parade was known to be loss-making. Organisers of the Parade had been told to seek funding from the community events budget instead as the Major Events fund was directed to other events such as the Lantern Festival and Diwali as ATEED claims these events had more potential to attract visitors from outside Auckland and from overseas.<br><br>We have seen a number of justifications for the funding of other events such as the Adele concerts, World Masters Games, All Blacks test matches and the ASB-sponsored tennis events. It is often claimed that these events attract both domestic and international visitors in numbers that often exceed the total number of room nights which are available in Auckland. Subsidising private events seems unjustified when these are already well-promoted with any direct benefits not flowing through to the (public) funding provider. |
| **Q13** | **What other factors are currently generating local government cost pressures? What will be the most significant factors into the future?** |
| | In very general terms we feel that there is a structural inability to prioritise projects efficiently and appropriately and scant regard for the obligation under section 100 of the Local Government Act which requires local authorities to ensure that their projected operating revenues meet their projected operating expenditure. This inability generates cost pressures in of itself.<br><br>As a consequence, infrastructure funding for Future Urban Development Areas is an area that currently generated cost pressures for local government and, in our opinion, will continue to do so.<br><br>Infrastructure funding in general places a huge financial commitment on local authorities' balance sheets as high borrowing costs to forward fund lead-in/ head-works infrastructure must be addressed. Whilst there are other funding mechanisms being used overseas to fund infrastructure, these are largely untested in New Zealand and in certain instances will require significant changes to existing legislation.<br><br>Alternatives that could be considered include Developer Funding or Public Private Partnerships to fund essential lead-in/head-works (either permanent or temporary infrastructure) by reputable and well-funded parties for projects of size and scale. We have noted the creation of the Interim Infrastructure Transactions Unit as part of Treasury which will be expanded into a new National Infrastructure Body later this year and incorporate the National Infrastructure Advisory Board's functions as well. We would expect that this new body would be open to examining different options and projects beyond primarily public sector infrastructure projects and make recommendations accordingly. Whilst this may cause local government to pick winners (so to speak), this is not necessarily viewed as being a bad thing as we believe that the wider benefits can outweigh the negative implications which would manifest themselves in terms of the financial commitments made by Council borrowing for development contributions. |
| **Q15** | **How effective is the Long-term Plan process in addressing cost pressures and keeping council services affordable for residents and businesses?** |
| | MCK's view is that the LTP process is not effective in addressing cost pressures and does not keep services affordable for businesses. This was demonstrated in the way that the APTR was |

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| | implemented in very quick time without, in our view, proper consultation or in a way that was justifiably fair to the tourism / accommodation industry. |
| **Q16** | **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, business and other local organisations?** |
| | Two words – "they aren't".<br><br>This is primarily due to two reasons – a general failure to properly calculate the true costs of capital investments and the true capacity needed for infrastructure taking into account future growth and an assumption that businesses are in a position to pay regardless of the size / amount of the charge, possibly in the belief that ultimately the charge / rate will be paid by an end consumer.<br><br>Our experience across New Zealand also shows that consultation by local authorities has become a simplistic tick box exercise. For example, in the consultation process for the APTR, ratepayers were asked a question as to whether they supported accommodation providers paying a targeted rate without any background information as to actual visitor spend, the practicalities of pass-through and other detailed information that should have been provided to get an informed response. We are aware that feedback ranged from ratepayers assuming that accommodation providers were benefiting hugely from increased tourism, had made superprofits or capital gains from increases in their valuations and other such uninformed assumptions and comments. When presented with detailed submissions outlining the impact of the APTR and actual visitor spend, Auckland Council chose to ignore this information and imposed the APTR anyway. |
| **Q17** | **Is there scope to improve the effectiveness of the Long-term Plan processes? If so, what, if any changes would this require to the current framework for capital expenditure decision making** |
| | MCK believes that there is ample scope for improvements, particularly as three years between revisions is not that long a time frame between revisions.<br><br>Based on our most recent experiences, we would have thought it not unreasonable to commence the consultation process at least 24 months prior to the deadline for implementing any changes to the LTP to allow for proper consultations and hearings to be conducted. Proper consultation requires competent and robust analysis of the merits of the LTP, the impact of changes and should be independent of political considerations. |
| **Q18** | **How much scope is there for local government to manage cost pressures by managing assets and delivering services more efficiently?** |
| | There is definitely scope for more efficient asset use and service delivery. A recent example of this which was repeated in many areas, much to our horror, was the proposal to create / build convention centres in Queenstown and Wellington in addition to those promoted by Central Government in Christchurch and Auckland. To our way of thinking, the allocation of resources |

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| | to an asset which would take up significant resources, would likely be underutilised and deliver substandard returns demonstrated a fundamental inability of some local authorities to prioritise critical projects in a way that would benefit more ratepayers and in the long term would create less pressure on future costs. A 'zero budget' approach might also help<br><br>Consideration should be given to alternative funding models as we have outlined in our answer to Q13 above. Developer Funding or Public Private Partnerships to fund essential lead-in/head-works (either permanent or temporary infrastructure) by reputable and well-funded parties for projects of size and scale should be considered and we look forward to how the new National Infrastructure Body which will be formed later this year will address this. |
| **Q19** | **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? <u>Do councils have adequate capacity and skills to use these practices and business models effectively?</u>** |
| | We answer the third leg of this question, that is the capacity and skills to use best practice and efficient business models for infrastructure by councils.<br><br>In our experience, our answer to the question is generally no, unless there is a lot of forethought which had gone into the process. |
| **Q28** | **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 amongst ratepayers?** |
| | Based on our experience with the APTR, the answer to this question is a resounding no.<br><br>From what we have seen of Auckland Council's calculations and rationale for the APTR, it is clear to us that they did not apply this targeted rate fairly or in a way proportionate to the amount of visitor spending from all visitors to Auckland. MBIE statistics clearly show that the percentage spent by visitors is approximately 10% of total visitor spend and despite this, Council's APTR put 100% of the cost of the rate on to accommodation providers alone without any thought or intention on obtaining any contribution from any other sector of the tourism industry.<br><br>As stated above, had a proper consultation process been conducted and a proportionality exercise been undertaken, a targeted rate could have been applied fairly across all sectors of the tourism industry in order to achieve the aims of the APTR. As things stand, it is highly unlikely that the industry will have any level of trust in Auckland Council going forward. The issue that the tourism industry will face if the APTR is deemed to be legal is that other local authorities will adopt the same unfair and disproportionate model which would have significant financial consequences for accommodation operators and the wider tourism industry. |
| **Q29** | **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?** |

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| | Based on our experience, the answer is no. We can (partly) understand why as the temptation is there to 'front-load' the developer here and now with the costs of the present-day infrastructure.<br><br>The question of future generations is far harder to predict with accuracy. While we are not opposed to some contribution for future development (similar to what hotel operators do for fixtures, fittings and equipment), for example, development contributions on stormwater / wastewater should be levied appropriate to the size of the development being consented to with a small factor to allow for some predicted future growth for undeveloped sites but not, say, for a hypothetical doubling of capacity in the future which may or may not eventuate.<br><br>In addition, it is often the next generation that is burdened with the costs of upgrading or replacing historic infrastructure which at the end of its economic life. Replacement of such infrastructure is typically funded through rates that are paid by the current / future generation, so spreading additional infrastructure costs to future generations will only put further financial pressure on future generations. Such burdens, when coupled with contributions for new-build infrastructure could be financially unsustainable. |
| **Q30** | **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?** |
| | We believe that fairness and proportionality should be the paramount principles in relation to any charges, taxes or rates that are imposed by local government. The principles are well known at the central government and Treasury level and are consistent with international practice.<br><br>Again, using the APTR as an example, a sector which only receives 10% of total visitor spend should not be forced to bear 100% of the burden of a targeted rate which purports to help tourism infrastructure. |
| **Q31** | **How effectively is the existing range of local government funding tools being used?** |
| | While the question posed by the Discussion Paper focuses on whether Councils should set a rate based on capital value, annual value or land value, the issues covered in this part of the paper and under Q45 should, in our view, be looked at together to answer this question as worded.<br><br>Local government funding is comprised of the following primary sources: rates, user fees and charges, development contributions or infrastructure growth charges, grants from central government or associated bodies (such as NZTA), vested assets, regulatory income (such as a petrol tax) and interest and dividends. As stated in the Discussion Paper, the majority of councils rely heavily on rates for their funding.<br><br>On top of that, local authorities have access to the debt markets including through the Local Government Funding Agency (LGFA) which was created in 2011 and provided over $1 billion worth of lending to local authorities for the year ending 30 June 2018. LGFA is now the largest issuer of NZD securities after the New Zealand Government. Councils such as Auckland Council can also access other debt markets through their own bond issues although the size of such |

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| | issues is limited and Auckland Council is statutorily authorised to seek foreign funding in foreign currencies.<br><br>Councils therefore have access to wholesale and retail tools for their funding and have statutory obligations under the Local Government Act to ensure that their projected operating revenues meet their projected operating expenditure (section 100).<br><br>Larger councils such as Auckland Council who have to raise significant amounts of funding for their operations must out of necessity use all funding tools available to them. Unsurprisingly, this has meant that therefore that Auckland Council has a significant amount of debt of approximately $8 billion and that figure will continue to increase as it seek to raise over $1 billion annually.<br><br>In that context, local governments will naturally seek to adopt a valuation system that has revenue integrity and is highly efficient from their point of view. Capital values on both the land and improvements, however unfair and inaccurate to the actual value of a property, serve this purpose but as the Discussion Paper notes, does not necessarily encourage best use of the land or discourage holding undeveloped land. In this sense, a land tax approach is probably the preferable approach but this would depend on how it is structured.<br><br>Neither ratepayers nor the debt markets should be seen as a bottomless pit. Rates add an additional cost to property ownership and in an environment where residential housing affordability is decreasing, an increasing charge or set or charges can and do act as a deterrent to ownership in certain areas and increased costs of renting residential properties. Council's ongoing borrowing costs also add cost to ratepayers. In this regard, it can be strongly argued that while the tools available to local governments may be used effectively from their point of view, it results in overall costs to the ratepayer / developer increasing. |
| **Q32** | **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?** |
| | From our experience, Auckland Council is anything but inhibited in the use of targeted rates and increased development contributions to boost its income and cover budget shortfalls. At the risk of being a broken record, we believe that the imposition of any rate, targeted or general, which has not been properly thought through, which is disproportionate and unfair, will be challenged.<br><br>It is worth bearing in mind what section 16 of the Local Government (Rating) Act 2002 requires in relation to targeted rate, namely:<br><br>*A local authority may set a targeted rate for 1 or more activities or groups of activities if those activities or groups of activities are identified in its funding impact statement as the activities or groups of activities for which the targeted rate is to be set.*<br><br>Section 16 needs to be read together with Part 6 of the Local Government Act 2002, particularly section 77 (1) (a) and (b) which refer to decision making and read:<br><br>*A local authority must, in the course of the decision-making process,—*<br>a) *seek to identify all reasonably practicable options for the achievement of the objective of a decision; and* |

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| | b) *assess the options in terms of their advantages and disadvantages*<br><br>MCK has joined a number of other hotel owner operators in a judicial review action which seeks to overturn the APTR on several grounds including the failure to follow both Acts accordingly.<br><br>That said, given that both MCK and CDI have a presence across New Zealand, we do pose the question as to whether some sort of National Infrastructure Charge is something which is viable. We put this as an idea to spread the overall costs for essential infrastructure over a larger catchment and substantially reduce the unit cost. The end benefit would be increased economic growth which would benefit all New Zealanders. Currently, the debate and the applicable theory seems to be in favour of regionalisation such as the Auckland petrol tax but there does not appear to be a consistent pattern. Central government appears to be in favour of deregionalisation and this is apparent in the form of recent international visitor levies. We accept that the imposition of a national levy which creates benefits in areas away from those who pay it may not be welcomed politically but given the small size of New Zealand's population, we submit that such options need to be actively considered. |
| **Q33** | **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?** |
| | Our answer to this questions reflects our cynicism of the process – while there are statutory constraints at the moment, nevertheless Councils are looking at raising the most revenue possible from rateable assets and from their point of view, a capital value system delivers the most revenue from the most number of rateable assets.<br><br>The downsides to both approaches occurs when there are market corrections and overall values come down. Although there is traditionally a gap between the capital value used by councils and what is a true market value, councils are reluctant, for obvious reasons, to reduce their capital value / rateable value calculations as to do so may result in significant reductions in revenue which cannot be supplemented otherwise. |
| **Q36** | **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 short, yes. MCK is not an expert in this area but would observe that local government funding is generally constrained to rates and other user charges.<br><br>We have noted that in other forums, alternative mechanisms such as infrastructure bonds, public-private partnerships and value capture rating models have been suggested as possible means outside of rates. These may require changes to the Local Government Act / Local Government (Rating) Act and therefore a matter for central government to determine.<br><br>As detailed in our response to Q13 we have noted the creation of the Interim Infrastructure Transactions Unit as part of Treasury which will be expanded into a new National Infrastructure Body later this year and incorporate the National Infrastructure Advisory Board's functions as well. We would expect that this new body would be open to examining different options and |

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| | projects beyond primarily public sector infrastructure projects and make recommendations accordingly.<br><br>Also, as detailed in our Q31 response, larger councils such as Auckland Council have to raise significant amounts of funding including a significant amount of debt and as a result now need to raise over $1 billion annually.<br><br>Ratepayers nor the debt markets must be seen as a bottomless pit. While rates are necessary to provide localised funding for infrastructure and other necessities, they are an additional cost to property ownership. The current environment where residential housing affordability is decreasing means that an increasing charge or set or charges can and does act as a deterrent to ownership in certain areas. Council's ongoing borrowing costs also add cost to ratepayers. |
| **Q37** | **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?** |
| | MCK believes that there is a very strong case to argue in favour of greater central government transfers, particularly of revenue derived from increased visitor spending in the form of GST or from regional fuel taxes. While we understand that this is method of funding is not preferred by central government / Treasury, we submit that it should be looked at as an option for major infrastructure such as roading or other transport links.<br><br>As mentioned above, we believe that QLDC has had discussions with central government about such a transfer but were declined. QLDC's response was to then look at a local visitor levy. |
| **Q41** | **What are the pros and cons of local income and expenditure taxes?** |
| | Without commenting in detail, we concur with the points made in the Discussion Paper, namely that linking council revenue sources with economic activity may risk volatility in council finances and that local taxes will be costly to implement and may defeat the purpose for which they may be implemented.<br><br>We have also noted some of the interim conclusions of the Tax Working Group, namely that any tax must adhere to the principles of efficiency, equity and fairness, revenue integrity, fiscal adequacy, compliance and administration costs, and coherence as well as predictability and certainty. We would be concerned that if local income and expenditure taxes were to be introduced, there would be a variety of different rates, a lack of coherence of the policy of taxes and arbitrary implementation to meet budget shortfalls or pet projects. We do not have confidence that local government has the necessary oversight structures or disciplines to ensure that any local income or expenditure taxes would meet the criteria above and be implemented fairly and effectively. |
| **Q42** | **What are the advantages and disadvantages of a local property tax as an alternative to rates?** |
| | We think that there may be significant disadvantages to a local property tax. Our primary concern about calling it a property tax is that the scope of such a tax may go well beyond the |

scope contained in the Local Government (Rating) Act 2002 as to how and over what Councils can set rates including Uniform Annual General Charges and Targeted Rates.

One advantage of the current law is that it is fairly limited in scope which restricts Councils' abilities to go further than rates based on properties and the principles in their long-term plan and funding impact statement in accordance with section 23 of that Act. The current disadvantage that results is that because there are significant differences between Councils in both documents there is therefore no long-term certainty. This is not a model that could be used for taxation.

Treasury has made it clear in numerous papers and submissions that there are clear objectives to the New Zealand tax system of which we generally agree with and we also believe the following are the most important:

- A system that is efficient, simple and fair;
- A system that promotes long-term sustainability and productivity of the economy
- A system that treats all income and assets in a fair, balanced and efficient manner;
- An overall tax system that operates in a simple and coherent manner.

If we take the example of the APTR, it fails on all of these points. The targeted rate was not efficient, has proved not to be simple given the remissions that Auckland Council have been forced to make to recognise unit title owners and apartments that are not subject to management, fails to promote long-term sustainability as it targets a minority sector of the tourism industry and does not in any way promote additional productivity as it is a significant cost. In MCK's opinion, it does not treat all income and assets in a fair, balanced or efficient manger and although it is supposedly based on capital value, it has not proved to be simple or coherent.

Auckland Council continues to defend its position on the APTR and has argued that it could / would meet these principles but given our experience with the APTR, we are extremely sceptical that a future rate / targeted rate / user charge would meet these principles, much less be properly thought through and not simply a knee-jerk reaction to a budget or project shortfall.

Any tax (as opposed to rates) must be consistent with the Treasury / central government principles. We believe that this is impractical given the differing needs and demands of local authorities and as such, central government should not grant local government significant delegated powers to raise taxes in their regions as we fear it could get out of control. If rates are turned into taxes, we would expect that any legislation such as the Local Government (Rating) Act 2002 would need wholesale redrafting and would need to be very prescriptive in order to ensure that common principles were being followed in all regions. That said, we fear that if Councils required changes to the taxation legislation, there would be ongoing complexity and bureaucracy as changes to the property tax legislation would create a significant workload at both a central and local government level to the detriment of all.

| **Q45** | **To what extent does the need for particular funding tools vary across local authorities?** |
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As stated above, the various tools and approaches vary significantly with regard to the size of the council / local authority and what they are prioritising. Using the examples we have referred

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| | to above, we can understand that Auckland Council and Queenstown Lakes District Council would want to use a targeted rate for tourism purposes given the number of visitors to both regions annually. We would not, however, expect to see that approach taken by other regions such as Gore or Opotiki where the pressures created by tourism are not as significant.<br><br>In principle, neither MCK nor CDI oppose councils using the toolbox as appropriate to their size and the matter to be funded or prioritised. As we have stated above, we expect that any charge or rate must be fair, proportionate and coherent. |
| **Q47** | **If New Zealand replaces rates on property with a local property tax, should it adopt tax increment financing as a way to finance growth-related infrastructure investments? What are the advantages and disadvantages of tax increment financing?** |
| | Unless there is a sufficient level of predictability and transparency, we think that this is not a good idea. Additional reasons are set out in our responses to Q42 and Q49. |
| **Q49** | **How effective are the current oversight arrangements for local government funding and financing? Are there any changes required, and if so, what is needed and why ?** |
| | Based on our experience, MCK's position is that the current oversight arrangements need significant improvement.<br><br>MCK's reasoning for this stems from the lack of consultative procedures which led to the APTR being brought in and the lack of understanding as to how the targeted rate could or rather could not be passed on to the end-consumer which is what Auckland Council envisaged but failed to execute.<br><br>Further, we maintain that the controls over certain CCOs remain opaque. For example, it is hard to get a clear picture of ATEED's accounts and expenditure and requests for further information and clarification are generally ignored. Increased transparency is required in order to maintain proper oversight. |

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