Hospitality New Zealand Wellington Branch

SUBMISSION ON
Productivity Commission – Local Government Funding and Financing Issues Paper consultation document
February 2019

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 Backpackers.

The Wellington Branch of Hospitality New Zealand includes and represents 322 Hospitality and Commercial Accommodation businesses throughout the Wellington, Hutt Valley, Porirua, Kapiti Coast and Wairarapa areas. This submission is made on behalf of the Wellington branch of Hospitality New Zealand.

Hospitality New Zeal has a 115-year history of advocating on behalf of the hospitality and tourism sector and is led by Chief Executive, Vicki lee. Hospitality New Zealand's Wellington Branch President is Matt McLaughlin and our Regional Manager for the Branch is Nick Hill.

We appreciate the opportunity 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 profitability of our member's businesses.

We would like to speak to our submission.

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5. To what extent is tourism growth resulting in funding pressures for local government? Which Council are experiencing the greatest pressure and how is this manifesting?

We believe that local government needs to reassess their strategies regarding how they engage with perceived issues relating to the tourism and hospitality industry. Our understanding of local government reactions to industry related issues in other regions is that the easiest (and often most profitable) solution is pursued with little regard for the impact that may inflict on the industry.

We have seen discussions around various issues result primary in an 'increased fees' or 'additional cost' on business operators approach. This has taken the form of increased alcohol licencing fees, targeted rates on commercial accommodation businesses and increases to resource consent costs.

These sorts of solutions put significant financial stress on an industry which is already among the most regulated in the country and who work often already work off profit margins of 10% or lower. It is our opinion that local governments are too inclined simply make the industry pay for their own funding issues than to perform substantial research into acceptable solutions for both parties.

We recently submitted on a proposed alcohol bylaw by Hutt City Council which would see the alcohol licencing fees increased by beyond 80%. During the consultation process we directly asked Hutt City Council if they had reviewed alternative funding methods or looked into possible impacts of enacting the fee increase. We were advised that such reviews were unnecessary as the council simply had the ability to increase the fees to cover their costs – this response, we feel is a prime example of local councils taking the easy route without hesitation and passing the cost to local business.

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.

6. Is an expansion of local government's 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 extend do they vary across local authorities?

The shifting of responsibility from Central Government to the local authority has produced costing pressures in some areas of legislation. Perhaps the biggest example of this related to the hospitality industry is the Local Alcohol Policies (LAP's) which were introduced with the Sale and Supply of Alcohol Act 2012 (SASSA). The introduction of LAP's left local government with the expectation that they were to deal with a problem that had long been a national discussion and the relevant decisions were left with their regional policy staff, who lack the level of understanding around SASSA that the previous national discussions held.

The LAP processes across various local authorities has cost the tax and rate payers dearly while simultaneously costing our members staggering amounts in order to negotiate and debate proposals on matters that we see as beyond the scope of local government.

Hospitality NZ and its members spent over $500,000 (excluding staff costs) representing the industry in various LAP hearings and appeals and the relative costs incurred by local councils has not gone unfelt either. Wellington Council for example, has sensibly continued with the National Default Hours due to the lack of appetite to spend any further rate payer's money debating the matter. Similarly, Christchurch City Council engaged in their LAP process in 2013 and as of February 2019 there remains no LAP in place as proposals too date have all be thrown out – at the cost of rate payers money.

In both these examples, the local authorities failed to introduce policies which were hospital passed to them by Central Government, at the cost of rate payers money – as the issues they relate to far exceed the ability of local government to efficiently manage or control.

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?

Increases to the minimum wage, particularly Central Government's target of $20/hr will result in that cost being passed along to the customer – for local councils this will result in higher expenditure in the goods and services that they currently rely on.

The resultant factor of this is that as council expenditure goes up in particular departments, the cost recovery mechanisms (i.e rates etc) will likely be adjusted to account for this. Businesses already dealing with the pressures of increasing wage costs could then also find themselves paying more in rates so that local council can cover for the flow on affects they encounter – a double hit to business operators.

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

Absolutely the prices of goods and services purchased by local government vary between councils. Local services vary drastically, particularly between City and Regional councils where vastly different demographics and requirements are present. As an example, within the Alcohol Licensing and environmental Health Departments there are so many procedural inconsistencies that cause increased cost to both our members and the regulating local authorities for little apparent gain in terms of a reduction of alcohol harm.

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

The aforementioned Hutt City Council's proposed alcohol fees bylaw is an ideal example of local government asserting a cost/rate/fee to assist their own cost recovery. We do not feel that the expenditure noted by the council can be related directly to the services they provide hospitality operators – the amount they wish to recover is beyond the scope of licencing fees in our opinion. The implications of this are that significant financial pressure will be placed on small business owners and potentially result in closures

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

Changes in technology such as transport options becoming increasingly privatised (i.e UBER, eScooters, Ride Sharing) poses infrastructure issues which need addressing at cost. Additionally, the increasing viability of electric vehicle poses local councils with the need to produce charging stations to remain relevant.

Changes to environmental awareness and responsibility means that local councils need to assess outdated systems in areas such as waste management and devise new environmentally friendly alternatives.

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 (LTP) are essential, as the money is borrowed now and paid for by future generations through infrastructure put in place now. The 'get Wellington moving' idea as an example of this.

We accept that it must be difficult to forecast for these things and also to understand how technology may move in the future. We do have concerns that we may be investing too much on longer term plans when by the time we are ready to act on certain projects, cheaper alternatives may have appeared.

That said and while we appreciate the ability to provide submissions on Long Term Plans and understand their importance, the process used in their formulation are not the most transparent. Information required by the public and stakeholders to effectively address aspects of the LTP's is not, in our opinion, easy to locate or gather from council documentation and policies. While some information related to aspects of the LTP's are made readily available, we tend to find that access to adequate information which does not support the proposal can be difficult to access.

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

Poor evaluation and use of data are often a breaking point for productivity by local government. We often see over simplified interpretations of data used to reinforce 'good performance' where further digging would clarify the data not to be supportive.

A general culture of risk adversity is also seen as a significant barrier to improving productivity. As mentioned in our response to Question 5, we often find that local councils will often take the 'route of least resistance' (at least by their stand point) of simply increasing fees to deal with cost recovery issues – as Hutt City Council is looking to do. Oppositions to increases such as this often ask councils to simply research alternative ways to recover cost such as reviewing their own processes in search of inefficiencies and savings – however this is most often met with a lack of willingness to explore a riskier option, but which may potentially provide fruitful outcomes for all involved.

25. Do council's dedicate sufficient resources and efforts toward measuring and improving productivity performance? If not, why not, and how could effort toward measuring and improving productivity performance be increased?

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

Internally, Wellington City Council currently do a poor job of this. As an example, the Tory Street closure. No consultation with local businesses, $140,000 spent on the work and it was cancelled half way through the "trial" (as it was called). Complete waste of money and no accountability to keep that in check.

We have additionally been made aware of a laneway development that Wellington Council spent $25,000 on 'opening' with stages, bands, speakers and catering. Despite that we were advised that around 10 people turned up to the event. This level of mismanagement needs to be held accountability by a third party as we originally suggest.

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?

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 recent years, Peer-to-peer accommodation options, such as Airbnb and Bookabach, have become serious competitors to the commercial accommodation industry. Our message remains that our members simply want a fair and level playing field if they are to share the market with these alternative accommodation options. Peer-to-peer operators do not require the same building, operational, or regulatory compliance required of the rest of the commercial accommodation industry – presenting a considerably lower costs of operation and the ability to unfairly compete on pricing.

Additionally, while being exempt from those requirements, peer-to-peer operators benefit directly from tourism promotion, which is often funded by the tourism and commercial accommodation sector.

The idea that the vast majority of peer-to-peer accommodation are anything other than commercial accommodation businesses operating without regulation is an insult to the hotels and motels who comply fully and have done long before the arrival of the peer-to-peer boom.

We strongly support the introduction of commercial rates and compliance costs to peer-to-peer accommodation properties.

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?

The targeted rate as implemented in Auckland is considerably different in practice than it was portrayed to the public and across the media, in both how it is calculated and who it affects. The public misunderstanding of how targeted rates function was evident in its constant mislabelling as a 'bed tax'.

In practice the targeted rate in Auckland is a fixed cost, attributed to the capital value (CV) of the accommodation property, it has no direct link to the visitor which the rate is suggested to be targeting.

In addition to this, the targeted rate was not even able to be passed along to the customers directly as originally suggested by the council, if the cost of the targeted rate is to be passed on, it needs to be included in the headline price of the room. This presents significant problems when consideration is given to the significant portion of rooms provided through pre-negotiated contracts which infer that room rates cannot be adjusted.

The calculations aside, the scope of the targeted rate was also questionable. As it was geographically outlined and included properties which overwhelmingly deal in corporates and trade workers, unrelated to tourism-type visitors which the rate was supposed to target.

The impact of the Auckland targeted rate is considerable. Unfair in its cost and calculation, who it affects and how operators are left to financially account for it.

We attend that funding tools such as targeted rates are not only a significantly unfair and unbalanced funding method for local councils to employ, but they have the potential to financially cripple businesses.