Submission on Productivity Commission Report - Local Government Funding

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Date: 27 August 2019

Dear Sirs

I wish to make some brief comments on the Productivity Commissions report around funding options for Local Government.

Firstly, it appears obvious that New Zealand as a whole, and some specific locations particularly, lack adequate infrastructure to cope with population and/or tourism growth. Recent trends have moved faster than governance and/or planning expertise.

As suggested by the report, the current tools used to fund these requirements are a critical part of the solution, however the report draws conclusions around additional punitive options without any justification or consideration of the equity issues involved. Further, in some critical regions which drive large amounts of Goods and Service Tax benefitting all New Zealand, additional Government funding is required.

My concerns, in some areas supported by the report includes:

1. Lack of analysis to justify some of the conclusions
2. Concern around local government decision making and quality of expenditure
3. Lack of consideration of other funding alternatives
4. Lack of understanding of the scale of the issue
5. No consideration of the governance of additional taxes
6. Lack of equity in concepts suggested

Lack of analysis to justify conclusions

Tourism is blamed for many of the issues around a lack of services, roading, etc, particularly in the case of the Queenstown area. An analysis will show that in the last 10 years, only three small commercial accommodation providers opened in the area, while significant residential areas were developed. Commercial accommodation capacity in the area since 2010 has increased by less than 5% while pupil numbers have increased by 69%. The roads are clogged at times from children going to school and/or tradesman busy on development, and/or freedom campers who do not stay at commercial accommodation nor pay for the infrastructure they do use. Water, wastewater and roads may be under resourced, but it cannot be from a significant increase in hotel guests.

Other area, e.g. the Bay of Plenty also have an infrastructure deficit, but tourism is not blamed as its cause, as like much of Queenstown, it is predominantly due to residential growth. In the same manner that no credible analysis has been undertaken to identify the cause of infrastructure shortage, to date there have been no economic studies to justify or validate the effect of the tax on operators and/or the local tourism community.

Concerns around the decision making and quality of expenditure

Local Government has a poor record of decision making in its expenditure. Who will ensure that the right roads are built? Allowing local authorities to directly source revenue from additional taxes will encourage and result in wastage in pet projects subject to political pressure.

Lack of consideration of other funding alternatives

Imposing costs now, to fund infrastructure works designed to benefit future generations means that the current citizens, or hotel owners paying the tax in the case of a bed tax, are paying for future generations; sometimes referred emotively albeit accurately, as intergenerational theft.

Queenstown has a low level of indebtedness compared to other Councils; they should be encouraged to use that leverage as part of the solution and spread the burden to those benefiting both now and in the future.

Regardless however, Government should recognise that high tourism visitation areas such as Queenstown, contribute significant GST and other related taxation revenue for the benefit of all New Zealand, and these areas need additional support to maximise the opportunity.

Lack of understanding of the scale of the issue

The report suggests that bed taxes are to be preferred in areas with many accommodation providers and the alternative of drawing on the recently introduced visitor levy for those areas without commercial accommodation. Both concepts are flawed in equity and adequacy.

It is conceded by Queenstown Council that the level of bed tax provisionally sought, will not adequately provide for Council's analysis of what is required in the region. In the case of the visitor levy, it is already hypothecated to sustainable tourism and conservation. Even if it was not the case, the sum involved being approximately $70 million net of collection and administration charges, is hopelessly inadequate for the level of infrastructure required in those non-accommodation regions.

No consideration of governance of additional taxes

New Zealand's taxation system is simple, transparent and fair. Bed taxes are none of these. Commercial accommodation providers will find various ways, e.g. adjusting accommodation versus food charges, to avoid and/or limit their cost. Additional and ongoing regulation will be required.

Some organisations such as Airbnb have stated they are in favour of a bed tax. This is unsurprising as their commissions will increase at no cost to them. However other organisations and arrangements will seek to avoid the cost.

How will the tax be collected? How will the tax be monitored? Who will the tax capture? Once introduced in Queenstown other regions will lobby to have them introduced. How will it be ensured that the taxes are applied to infrastructure investment, rather than sending more Councillors on visits to sister cities?

Lack of equity in concepts suggested

Bed taxes are predominantly paid for by the hotel owners, and not by anyone one else in the region who benefits from tourists. Hotel pricing is not elastic. Hotels are already highly competitive. Their product has no shelf life and an unsold bed is never recovered. Occupancy and rate are not mutually exclusive. A 5% tax on turnover has an effect of a new cost in the order of 25% of net earnings.

Supporters of a bed tax ignore the fat that the consumer looks at the total price, not a price exclusive of taxes. Few New Zealanders know the tax-exclusive price of petrol.

Tourists staying at hotels, as opposed to freedom campers who clog the roads and toilets [or adjacent parks and paddocks], already pay 15% for the privilege of staying at a hotel or motel. The report states that a visitor level, in the form of a bed tax should be introduced. A bed tax is a tax on hotels, not a visitor levy. A visitor levy produces a levy on all visitors. A bed tax does not capture guests staying with friends or other similar arrangements. My Australian friends staying at my home use infrastructure in the same manner as a hotel guest.

How is it equitable that restaurants, ski fields, golf courses, transportation and visitor attractions should avoid paying their share of cost towards the infrastructure their guests use?

Conclusion

New Zealand has an infrastructure issue. The Productivity Report considers in some depth the quality and options for local government in funding. However, it takes a simplistic approach lacking analysis as it veers into the area of infrastructure for tourism areas.

The tourism industry contributes more to the overall tax take than any other industry. Central Government needs to assist in areas that cannot provide adequate infrastructure, to ensure that tax take continues to grow. It is simple concept of investing today in areas that can drive higher revenue tomorrow. There is a need to invest for the benefit of the entire country and this should be recognised and planned for by Wellington.

It is also critical that Government ensure that any additional funding proposals are thoroughly researched, and preferred solutions are simple, transparent and equitable ensuring that all beneficiaries pay their fair share.