



## **Submission to Productivity Commission**

### **Local Government Funding and Financing Draft Report - July 2019**

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## Summary

Our submission to the Productivity Council is directed to section 6 Future Funding and Financing Arrangements – with specific focus on section 6.7 Funding to address pressures from tourism of the Local Funding and Financing Draft Report – July 2019.

The Commission has been requested to “look to bring new and innovative thinking to these issues” (terms of reference ii) and “provide practical ways to improve the funding and financing of local authorities” (terms of reference ii).

We are concerned that the Commission appears hesitant to investigate new options when considering funding for tourism and a number of times has suggested funding options for tourism are at direct contradiction to suggestions and comments made elsewhere in the Report.

We believe the suggestion of an accommodation levy to be a simplistic one. One that is often touted and one which, when investigated further, raises more issues and associated costs which outweigh the proposed purpose – that of increasing funding for local councils.

The report appears to under estimate the importance and impact of tourism on New Zealand as a whole. “Beyond the significant economic benefits it also grows employment, business opportunities and is the backbone of many communities”, Stephen England-Hall, TNZ CEO, Jul 18. The indirect value added of industries supporting tourism is valued at 4.3 percent of GDP. (Dept of Stats. Tourism Satellite Account).

We are concerned that the Commission dismisses other funding options (such as returning a portion of GST from international visitor spend) without investigating these, or the impact of its suggested accommodation levy, sufficiently.

## Introduction

Bed & Breakfast Association NEW ZEALAND Incorporated is a national association working exclusively to support bed and breakfast operators. It is a non-profit organisation incorporated under the Incorporated Societies Act 1908. The Association works to enable members to provide a world class service to their guests by the provision of best practice guidelines, business support and training. The Association works for its members and with other accommodation associations and tourism bodies to ensure the voice of bed and breakfast owners is heard in the tourism industry.

Bed & Breakfast Association New Zealand represents 200 small owner operated businesses throughout New Zealand. Bed and breakfast properties hold a niche position in the accommodation sector of the New Zealand tourism industry and have requirements and issues that are specific to this style of operation such as the size of operation, they are generally owner operated and their location.

## The Inquiry

Our understanding is that the Commission has been tasked to undertake an inquiry into local government funding and financing with the final report to provide findings and recommendations regarding the improvement of funding and financing arrangements for local councils.

## Local Government Funding and Financing Draft Report

### 6.7 Funding to Reduce Pressures from Tourism

- R6.7 The Government should legislate to enable councils in tourist centres to choose to implement accommodation levies to recover the tourism-induced costs of providing local mixed use facilities not otherwise charged for. Councils in tourist centres should make greater use where possible of user pays for mixed use facilities.
- F6.17 Greater user pays and accommodation levies are the two best options for recovering from tourists their share of the cost of facilities local government provides for which it cannot otherwise charge. These are the only options that target the right group, are practical, do not involve an industry subsidy, promote economic efficiency, are consistent with local autonomy, and have reasonably modest compliance and administration costs

## Specific Issues

### 1. Lack of anticipated (or sufficient) revenue resulting from any proposed levy:

- 1.1 The call for an accommodation levy ignores tourism figures showing commercial accommodation accounts for only 37% of visitors – the majority of visitors enjoy free accommodation and will, therefore, avoid paying the levy and avoid contributing to the cost of the mixed use infrastructure and services they use.
- 1.2 Accommodation spend only accounts for 10% of total tourism spend. There is greater potential to capture additional funding should the Commission and Government be prepared to investigate other options.

### 2. Lack of modelling around Auckland APTR:

- 2.1 Auckland Council introduced the APTR in 2018 and as yet there has been no modelling carried out to assess the impact of the rating increase. Whilst the APTR is based on the rating of properties we believe the issues resulting will be similar for any council introducing an accommodation levy. These issues have resulted in a decrease in anticipated income for the Council.
- 2.2 Issues identified thus far (Stuff 03.01.19; Herald 09.02.19) include lack of the Council's ability to find the appropriate properties to be targeted and the number of businesses that have closed as a result of the levy.

### 3. Cost of collection of levy:

There is a cost to the collection of any proposed type of levy regardless of its type and we are concerned at the lack of investigation into collection methods, their cost and the dismissal of the negative impact these costs will have on businesses – particularly smaller owner operated properties. The cost of collection for all parties can easily be avoided by using the current collection method in place – GST. Further:

#### 3.1 Councils:

- 3.1.1 The report suggests that each council will be required devise and set up its own collection method at its own cost. It will also have to define the property type and criteria relating to the levy to be collected.
- 3.1.2 How will the councils ensure the charging of the levy is fair and inclusive of all accommodation properties? This is the problem Auckland Council currently faces and for which a judicial review has been undertaken. Not all properties are listed on Airbnb (or other Online Travel Agents) who is willing to collect such a levy nor are many smaller properties required to register to pay GST.
- 3.1.3 The ongoing monitoring of small properties which open and close frequently, and many of whom operate on a seasonal basis, will place additional cost on the local council.
- 3.1.4 All costs by Council are ultimately covered in part by the rate payers.

#### 3.2 Properties:

- 3.2.1 The report suggests that “some of the effect of the levy could be transferred to owners of accommodation businesses in the short term.” (pg 177).
- 3.2.2 We believe it is unacceptable to push the cost of collection onto one sector of the tourism industry – accommodation, forcing an increase in their operational cost.
- 3.2.3 97% of all enterprises in New Zealand (figure from MBIE) are small businesses. All our members are small businesses. It is often simply not financially feasible for these businesses to absorb additional costs – particularly those for levies which will already have a negative impact on their business.
- 3.2.4 The cost of developing systems for levy collection may not be significant to larger companies but to small owner operated bed and breakfast properties it will form a higher percentage of their total expenses.
- 3.2.5 The cost of developing these systems and the time incurred in collection of any levy will either:
  - be passed on, therefore resulting in a further accommodation price increase; or
  - be absorbed causing further financial stress and strain on smaller owner operated properties.

### 4. Creation of an uneven competitive environment

- 4.1 The inconsistent charging of levies across properties in regions and councils creates an uneven competitive environment in a number of ways:

- accommodation levies may or may not be charged in neighbouring regions;
- larger properties (or property chains) may have capacity to absorb some of these costs or the entire levy allowing them to keep their prices lower.

4.2 This uneven competitive environment impacts negatively on our members as they are small operations and operators may be forced to absorb the cost of the levy rather than passing this on to their guests via a price increase to stay competitive.

## **5. Decrease in accommodation spend:**

5.1 The Report notes that there may be a minor decrease in accommodation spend and assumes that “tourist patronage is substantially inelastic (insensitive to change in price)” (pg 177). Price is a definite factor when choosing accommodation hence the reason nearly every major booking engine gives travellers the option to sort accommodation results by price.

5.2 Bed and breakfast operators are small businesses with less accommodation rooms available than bigger accommodation types (such as motels and hotels) and any potential decrease in guest nights has a magnified negative impact on them.

5.3 Any resulting decrease in accommodation spend will result in a decrease in spend in the local community. Bed and breakfast properties are often not able to take advantage of large company discounts due to their size. Therefore much of their money goes directly to their local community especially on items such as fresh produce, laundry, power and staff.

## **6. Inconsistency in the amount of levy to be charged by local councils:**

6.1 Allowing local councils to create ad hoc levies or one off fees creates confusion among both tourists and property owners.

6.2 There is already a lack of consistency in rules and regulations around the operation of bed and breakfast properties from local council to local council. There is also a lack of transparency around these rules and regulations with local council staff often unsure which rules apply to which properties. This has been demonstrated in Auckland.

6.3 The confusion caused by inconsistency and lack of transparency around rules and regulations deters potential bed and breakfast owners from opening businesses as they perceive these to be detrimental to their businesses. Or operators choose to simply ignore their responsibilities.

## **7. Increase taxation on New Zealanders:**

7.1 Figures reported below show that 60% of tourism in New Zealand is domestic tourism, therefore, an accommodation levy will be another form of tax on New Zealanders.

7.2 Page 163 of the report states that:

*“In addition, it is argued that citizens find income tax and GST far less painful forms of taxation because money gets taken either before it gets into taxpayers’ pockets (income tax) or in the act of spending (GST). In each case, the tax is deducted automatically while rates require property owners to make explicit payments from their existing funds to councils.”*

We believe an accommodation levy (most likely to be shown as an addition to the accommodation bill presented) will be viewed in the same light.

7.3 Price and value for money perception are closely related. The report does not comment on the impact of perceived negative value for money the additional cost of a levy may cause. A levy may result in negative property reviews resulting in a decrease in night stays and further loss of income.

## **8. Assertion that tourists do not pay enough:**

8.1 Whilst the Association acknowledges that local councils require additional funding to ensure their infrastructure and services are sufficient and cover the peak tourist season we disagree with the assertion that tourists do not pay enough.

8.2 International visitors may not pay the “equivalent of the portion of residential rates” (pg 174) for local mixed use tourism infrastructure and services. However, they do pay GST and other taxes (eg. fuel) and therefore contribute fully to the New Zealand economy. In 2017 GST collected directly from tourism equated to approximately 18% of the total GST collected. (Dept of Stats and IRD). As tourism spend has continued to increase we are sure that once figures become available they will show the percentage of total GST collected from tourism will also have increased.

8.3 Domestic visitors, however, do pay a share of domestic rates, etc. albeit in their own region. An accommodation levy on domestic visitors appears to be “double dipping” as they pay for infrastructure and services in other regions and are then required to pay again in the areas they visit by both GST and the levy.

8.4 The GST paid by international visitors is new money flowing directly into the economy. An accommodation levy paid by domestic visitors is simply recirculating money from one region to another and adds no benefit to the total New Zealand economy overall

## **9. GST rebate viewed as a subsidy:**

9.1 On page 140 of its report the Commission provides definitions for the terms “public goods” and “private goods”:

*“Local public goods include a broad spectrum of objects, facilities and endeavours that local governments provide and maintain for their residents to enjoy. Examples include parks, reserves, gardens, squares, public monuments and works of art, waterfront development, and the design and layout of streetscapes and pedestrian areas.”*

Many of these public goods are advertised and promoted as tourist attractions by both Tourism New Zealand and Regional Tourism Offices. These are not private goods and are not businesses in their own right generating their own income. As the report notes, these goods are classed as Mixed Use (available for both tourists and residents to use). They are promoted with the view that the tourists coming to view or participate in these goods will spend money in local businesses (cafes, bars, restaurants, supermarkets, chemists, petrol, etc.) thereby improving the local economy. Investing a portion of GST collected on the improvement of “local public goods” can hardly be seen a subsidy of the tourism industry as the benefit of the spend is not only for international visitors but for the local community and New Zealand as a whole.

## Conclusion

Bed & Breakfast Association does not agree with the suggestion to allow councils to impose ad hoc accommodation levies and fully supports the Tourism Industry Aotearoa’s suggestion of providing local government with a share of the GST paid by international visitors.

Fiona Rollings

On behalf of Bed & Breakfast Association NEW ZEALAND incorporated

## Current relative tourism accommodation figures:

### Tourism Satellite Account 2018, Statistics New Zealand

For the year ended March 2018

- Total tourism expenditure was \$39.1 billion, an increase of 7.7 percent (\$2.8 billion) from the previous year.
- International tourism expenditure increased 9.6 percent (\$1.4 billion) to \$16.2 billion, and contributed 20.6 percent to New Zealand’s total exports of goods and services.
- Domestic tourism expenditure increased 6.5 percent (\$1.4 billion) to \$23.0 billion.
- Tourism generated a direct contribution to gross domestic product (GDP) of \$15.9 billion, or 6.1 percent of GDP.
- Tourism is our biggest export industry, contributing 21% of foreign exchange earnings.
- The indirect value added of industries supporting tourism generated an additional \$11.1 billion, or 4.3 percent of GDP.
- 216,012 people were directly employed in tourism (8.0 percent of the total number of people employed in New Zealand), an increase of 2.6 percent from the previous year.
- Tourists generated \$3.7 billion in goods and services tax (GST) revenue, with \$1.7 billion coming from international tourists.
- Overseas visitor arrivals to New Zealand increased 7.8 percent.

### **Tourism Industry Association**

TIA estimate that only a fraction of visit spending actually occurs within what are commonly considered tourism businesses.

Current tourism spend

- 42% of spend takes place in retail shops, cafes, petrol and other local businesses;
- 18% of spend is made up via food and beverages;
- 10% of spend is in accommodation.

Accommodation:

- 30% commercial accommodation
- 7% in an Airbnb or holiday house
- The balance enjoyed free accommodation – mainly with friends or relatives

Domestic vs. International Visitors:

- Domestic tourists account for 60% of commercial guest nights.

### **Bed & Breakfast Association**

Our survey of our members show:

- 83% of guests are international
- Approximately 46% of bookings are received via Inbound Tour Operators or direct.
- Approximately \$13.3m was spent on accommodation in Bed & Breakfast Association Member Properties in 2018.