Submission on 10-year Budget 2021-2031

16 April 2021

QUEENSTOWN LAKES DISTRICT COUNCIL

HCA
HOTEL COUNCIL AOTEAROA

Contents

Introduction

1. Hotel Council Aotearoa (**HCA**) is New Zealand's dedicated industry body for hotels and hoteliers. We represent over 140 hotels (15,600 guest rooms), including hotels located in the District.

2. We refer to the QLDC Ten Year Plan 2021-31 (the **Draft Plan**) and the accompanying consultation document (the **Consultation Document**). The Consultation Document calls for submissions on the Draft Plan to be received before 5:00 pm on Monday 19 April 2021 (the **Deadline**).

Summary

3. QLDC should accept that its visitor levy proposal is the wrong solution for the wrong problem at the wrong time. Now is not the time for bed taxes – and despite the "visitor levy" terminology chosen by QLDC, a bed tax is what this is.

4. QLDC's Mayor and Councillors are urged to show visionary leadership and abandon the visitor levy/bed tax experiment completely so that the District's tourism businesses can concentrate on rebuilding after COVID.

5. HCA has sympathy for QLDC's core problem – systemic underfunding by central government of tourism-related infrastructure. QLDC and HCA should work collaboratively and with other key stakeholders on agreeing principles for a fair, reasonable and nationally-endorsed funding model for the tourism economy that draws upon international best-practice and robust research. Solving this long-standing problem through genuine consultation and collaboration on reasonable timeframes would be the most important and enduring application of "reimaging tourism" after COVID.

6. The Consultation Document and Draft Plan contain no detail whatsoever about the visitor levy. This is hard to reconcile with it being an entirely new revenue source for QLDC and forecast to generate an amount equal to almost 10% of current annual QLDC revenues.

7. The lack of basic information about the proposed new visitor levy – such as: how it works, risks to implementation, market risks and alternative funding mechanisms – suggests these omissions may have been intentional.

8. It is surprising to us that QLDC looks to rely on a non-binding referendum completed during June 2019 (**June 2019 referendum**) as the basis for pushing through the Draft Plan now, some 22 months later and after the District's tourist economy has been devastated by COVID, border closures and the resulting collapse in international travel. It is hard to imagine how tourism could look more different today than it was in June 2019.

9. Queenstown is already expensive. A bed tax of 5% would increase total tax on commercial accommodation to 20% and decrease the region's price-competitiveness at the very time we need to rebuild demand after a global pandemic. Almost no other comparable destination globally imposes taxes of 20% on the cost of overnight accommodation. A regional bed tax is not the right response to the funding problem in the District and is not the right approach for New Zealand as a whole.

10. Bed taxes place a disproportionate burden on accommodation providers, while ignoring the impact on infrastructure from day-trippers, campervans and visitors who stay with friends and relatives, rather than in paid accommodation. Bed taxes also ignore the revenues earned by many non-accommodation, but tourism-focused businesses, such as businesses which specialise in offering tours.

11. QLDC's plans for use of monies raised through the visitor levy are opaque, unstructured and make no provision for industry involvement in decision-making, which is accepted best-practice for taxes of this type. QLDC has not addressed the market risk to future revenues that rely on the commercial performance of accommodation providers.

12. The consultation process should be halted and the Deadline extended so that deficiencies in the Consultation Document and Draft Plan can be remedied. Otherwise, ratepayers can have no confidence that QLDC has adequately discharged its legal responsibilities under the Local Government Act 2002. Ratepayers making submissions on the Consultation Document and Draft Plan are doing so on the basis on incomplete information.

What, exactly, is the "visitor levy"?

13. The Draft Plan and Consultation Document together contain 36 separate references to a "visitor levy". Anyone reading the Draft Plan and Consultation Document is simply assumed to know and understand what the visitor levy is. There is no explanation of how the visitor levy works and there is no reference in either the Consultation Document or Draft Plan to where further information about the visitor levy can be found.

14. The visitor levy is nevertheless forecast to raise a fairly precise $162,857,000 in total over the final seven years of the period covered by the Draft Plan.

15. On average, the visitor levy is forecast to generate $23,265,290 in each year of operation, which is the equivalent of 9.8% of all revenue forecast to be collected by QLDC for 2021/22. The visitor levy is obviously a critical component of QDLC's future revenue and fundraising strategy.

16. Of the 36 references to "visitor levy", five of them are statements to the effect that if the visitor levy is not introduced, general rates would need to increase by an additional 2.3% for the last seven years of the plan. The politicised messaging is overt – *accept this levy on "outsiders" or else prepare for your own rates to rise*.

17. Remaining references to the visitor levy include confirmation it requires central government "support" and legislation to be passed. However, there is also a statement that "Council has temporarily halted the process for drafting the necessary legislation".

18. We are left to assume the visitor levy referred to in the Draft Plan is the same visitor levy described on QLDC's website at: https://www.qldc.govt.nz/your-council/major-projects/proposed-visitor-levy.

19. What little information there is about the visitor levy on the QLDC website is also unsatisfactory. By way of example, the complicated issue of whether increasing the cost of overnight accommodation might decrease demand is dismissed in fewer than fifty words: *"We don't anticipate a levy of 5% on top of the accommodation cost would have a significant effect on the majority of people choosing to visit and stay in the district – it's not an unusual model and doesn't deter people from visiting international destinations such as Whistler or Aspen."* For completeness, set out below is the proposed Queenstown Lakes District tax on accommodation alongside current levels of tax that apply to overnight accommodation in each of Whistler and Aspen:

Aspen	Whistler	Queenstown & Lakes Proposed
City of Aspen Tax: 2.4% Lodging Tax: 2% Colorado Tax: 2.9% Roaring Fork Transit Tax: 0.4% Pitkin County Tax: 3.6%	Provincial Sales Tax: 8% GST: 5% Municipal & Regional District Tax (bed tax): 3%	GST: 15% Visitor Levy (bed tax): 5%
11.3%	16%	20%

20. QLDC should be properly analysing (and sharing with ratepayers) levels of tax on accommodation in a number of competitor markets, including alternative holiday destinations in the Asia Pacific region and summertime destinations. QLDC should investigate whether bed taxes are going up, or down, in the aftermath of COVID. Basing fundamental policy change on what you "anticipate" rather than comprehensive research and analysis of international best-practice is certainly an unusual way of doing things. Do we aspire to be an internationally renowned destination, or will we shortcut our way to prosperity?

21. It is impossible for us to give a complete and reasoned response to the visitor levy proposal, and therefore to the Plan as a whole, because of the plain and obvious deficiencies of the Consultation Document. We reserve the right to make further comment after the Deadline.

22. We respectfully request that QLDC suspends the consultation process immediately, re-issues a new consultation document containing more comprehensive information about the visitor levy, and extends the Deadline so that all interested parties can give proper consideration to the nationally-important issues at stake.

23. Better yet, drop the visitor levy completely and work with industry and central government on something that's fair and reasonable, instead.

June 2019 referendum

24. On page 9 of the Consultation Document, reference is made to a non-binding referendum in June 2019 about the visitor levy (**June 2019 referendum**). Surely QDLC is not contending that the June 2019 referendum and supporting materials are somehow incorporated as part of its legally-mandated consultation on the Draft Plan?

25. In any event, the June 2019 referendum and supporting materials are a wholly inadequate foundation upon which to build the case for a new bed tax on accommodation. It is highly doubtful that the June 2019 referendum would comply with QLDC's own significance and engagement policy as at 2021: https://www.qldc.govt.nz/media/vjce04tv/d-qldc_significance-and-engagement-policy.pdf.

26. The June 2019 referendum is simply out-of-date and of questionable relevance post-COVID. It was carried out in "boom times" nine months *before* New Zealand's borders were closed in response to COVID, which had a devastating effect on numerous Queenstown Lakes District businesses and ratepayers. Comparison of Queenstown's hotel performance at, and 12 months after, the June 2019 referendum is startling:

Queenstown RevPAR (June 2019)	Queenstown RevPAR (June 2020)	Change
Occupancy: 65.5% Rate: $182	Occupancy: 19.8% Rate: $155	Occupancy: -45.7 pts Rate: -14.9%
RevPAR: $119	RevPAR: $31	RevPAR: -73%

27. Introducing a new bed tax at the bottom of the cycle following a global pandemic is a totally different proposition to introducing a bed tax during boom times. Funding models under consideration before the pandemic should be re-assessed by QLDC in light of new conditions.

28. It would be an extraordinary coincidence if the perfect funding solution during boom times also happened to be the perfect funding solution at the absolute bottom of the cycle, too.

COVID and other events subsequent to the June 2019 referendum

29. As part of central government's health response to the COVID pandemic, New Zealand's borders were effectively closed to international tourists on 19 March 2020.

30. On 14 April 2020, Mayor Boult was quoted in the *Otago Daily Times* as saying:

> *"The last thing in the world the accommodation sector needs is another cost".*
>
> *"The reality is now we're in a different world than we were three, six, 12 months ago, when it made perfect sense."*

31. Since Mayor Bolt made these astute and correct observations in April 2020, the situation *deteriorated even further* and borders have remained closed much longer than anyone originally anticipated. Businesses have experienced another 12 months of catastrophic trading conditions. Many tourism sector workers have sadly lost their jobs as a result.

32. On 17 October 2020, a new Labour government was elected. Labour's election manifesto included an explicit promise that there would be "no new taxes" in the next term (the **No New Taxes Promise**). This promise was made repeatedly throughout the election campaign, including in writing by Minister of Finance, Hon Grant Robertson: https://www.labour.org.nz/release-revenue-policy

33. Subsequent to the October 2020 election, Hon Stuart Nash was appointed as new Minister of Tourism. On 24 December 2020, the *Otago Daily Times* reported Mayor Boult as having met with the Minister of Tourism in November 2020, and with regards to the visitor levy:

> *The pair agreed to "keep talking about it", but both understood there would be "no intention of introducing it until normal trading conditions returned", Mr Boult said.*
>
> *"By 'normal' I mean we're back where everybody is making good money and we're seeing good flows of tourists through and accommodation providers are getting good occupancy rates."*

34. The COVID pandemic is by no means over. New Zealand's bubble with Australia is set to open on 19 April 2021, but there is no clear timeline for when borders will open to other countries. Our domestic vaccination programme has only just started. A lot of uncertainty remains.

35. If QLDC considers the recovery will be complete by 2024/25, then it should share its reasoning, assumptions and models with ratepayers as part of this consultation process. Presumably models exist in *some* form, since the Draft Plan anticipates the visitor levy generating $14,500,000 in 2024/25 and $22,935,000 in 2025/26.

36. Hotels and other accommodation providers have been *accumulating losses* since New Zealand's borders closed. Some have spent their accumulated renovation reserves staying open and servicing fixed costs and debt. Surely QLDC accepts that a return to "normal" includes allowing accommodation providers sufficient time to recover fully from COVID-related accumulated losses? "Good flows of tourists" is not the point at which the sector has recovered, it's simply the *start* of the recovery for commercial accommodation providers.

37. What grounds does QLDC have for being confident that central government will continue to support the visitor levy, notwithstanding it directly contradicts the No New Taxes Promise? On what grounds does QLDC consider the visitor levy would survive any change of government that may occur during the 10-year period covered by the Draft Plan? These are sensible and fair questions for QLDC to answer properly if it proposes to base a 10-year budget around this brand new source of revenue.

Bed taxes and Queenstown Lakes District

38. Bed taxes are not a new funding mechanism, internationally. However, there are multiple issues that should be carefully considered before a bed tax is introduced. Historically, bed taxes came about in the United States because neighbouring districts sought out novel ways to raise revenue from travelling salespeople conducting business in their region.

39. Many of the practical and theoretical issues around implementing successful "tourism taxes" (note: not necessarily bed taxes) have been highlighted by research published well after the June 2019 referendum, including the research recently cited by the United Nations World Trade Organisation (https://www.unwto.org/covid-19-oneplanet-responsible-recovery-initiatives/funding-for-a-regenerative-future-could-tourism-taxes-be-part-of-the-answer) and by Tourism Industry Aotearoa (https://www.tia.org.nz/news-and-updates/industry-news/tourism-taxes-the-global-context-for-a-nz-discussion/).

40. Nothing in the Consultation Document, Draft Plan or June 2019 referendum gives ratepayers any confidence that the complicated issues surrounding tourism taxes generally, or bed taxes in particular, have been fully considered by QLDC in the wake of COVID.

41. Ratepayers have only ever been provided with one solution – the solution now presented as a *fait accompli* by QLDC in the Draft Plan.

42. Given the paucity of consultation material provided about the proposed visitor levy, at this stage we will limit our comments on the visitor levy itself to the following key observations:

    42.1. Queenstown is already expensive. A bed tax of 5% would increase total tax on commercial accommodation to 20% and decrease the region's price-competitiveness at the very time we need to rebuild demand after a global pandemic. Very few comparable destinations globally impose taxes of 20% or more on the cost of overnight accommodation. When we already have 15% GST, a regional bed tax of 5% is not the right response to the QLDC funding problem and is not the right approach for New Zealand as a whole.

42.2. Bed taxes place a disproportionate burden on accommodation providers, while ignoring the impact of day-trippers, campervans and visitors who stay with friends and relatives. Bed taxes also ignore the revenues earned by many non-accommodation, but tourism-focused businesses, such as businesses which specialise in offering tours. A tourism funding solution imposed on all businesses and consumers in the tourism economy – rather than just commercial accommodation – would share the burden more evenly amongst all end-users of QLDC infrastructure.

42.3. A bed tax calculated as a percentage of rooms revenue is not fair for end-users and distorts future development. If a bed tax is the only solution, a set dollar amount per room-night (rather than a percentage of the room rate charged) is a more transparent and fair way to collect it. All overnight tourists use infrastructure in the same way, irrespective of whether they stay in high-end or budget accommodation. QLDC should not be imposing policies that effectively tilt the playing field in favour of low-cost accommodation types. The unintended consequence of percentage-based bed taxes is to incentivise more low-cost accommodation and dis-incentivise high-end accommodation development, which is a perverse outcome and bad for Queenstown and Lakes.

42.4. QLDC's plans for using monies raised through the visitor levy are opaque, unstructured and make no provision for industry involvement in decision-making. Industry participation in spending decisions is accepted best-practice for modern tourism taxes. It is unclear exactly what the terms "tourism-related infrastructure", "visitor related operational expenditure" and "visitor relation portion" mean. QCDC has designed the visitor levy so that it has wide discretion on how the moneys raised are spent – this is not how bed taxes work elsewhere and ratepayers should be concerned.

42.5. Revenue generated from the visitor levy is likely to vary dramatically from forecasts depending on the actual achieved performance of commercial accommodation businesses. Even assuming the visitor levy passes into legislation, there is no discussion anywhere in the Consultation Document or Draft Plan about this *market risk* to QDLC's future financial position. Surely taxes on variable, sector-specific, third-party revenue streams require more comprehensive analysis (and risk disclosure) than traditional local body rates imposed on comparatively static property valuations? What happens to visitor levy income and QLDC revenues *next* time we have an international pandemic, major terrorist incident, natural disaster affecting Queenstown Lakes District or global financial crisis? Will we simply stop servicing debt? The Consultation Document appears to assume the return of boom times from 2024/25 and an uninterrupted period of prosperity for the following seven years.

The funding problem we must all solve together

43. HCA has sympathy for QLDC's core problem – the ongoing failure by central government to adequately "share" the massive contributions already made directly and indirectly by tourism to central government coffers. Tourists already contribute through GST receipts on tourist expenditure, and through profits tax and PAYE generated by tourism-focused businesses. Successive central governments have systemically underinvested in tourism infrastructure – they have been happy to *receive* the financial benefits of tourism throughout New Zealand, but they have all failed to

adequately reinvest in under-strain infrastructure, leaving local authorities and ratepayers to fund the shortfall.

44. The problem is particularly severe in Queenstown Lakes District given the relatively low ratepayer population in comparison with the number of transient visitors. But the problem is in no way unique to the District.

45. It is misleading and wrong to suggest that <u>tourists</u> have been underpaying or under-contributing to the costs they impose on the District or New Zealand as a whole. The problem is not tourists and how much they pay. The problem is the flow of funds between central government and local authorities such as QLDC.

46. New Zealand either already has, or is considering proposals for, the following taxes and levies imposed on tourists or tourism: (a) border levies for costs of border processing on arrival and departure; (b) international visitor levy for tourism-related and conservation projects; (c) 15% GST on all purchases (without any tourist rebates) for general government purposes; (d) for self-drivers, national and regional fuels excise taxes; (e) accommodation provider targeted rate in Auckland for marketing and promotion of tourism and events by local authority; (f) visitor levy in Queenstown Lakes District for tourism-related infrastructure and operating expenses by local authority; and (g) proposed departure tax for aviation fuels research. New access charges for our conservation estate are understood to be under active consideration. Without a national solution to the tourism funding problem, its seems inevitable that different central government departments, local authorities and private sector interest groups will continue to insist that taxing non-voting tourists is the best solution to their particular problem.

47. In the context of all tourist destinations around the world planning to soon re-open borders and welcome back international travellers, it would be hugely unfortunate if New Zealand's central and local authority politicians continued to repeat the fiction that tourists in Aotearoa "do not pay their way". It is also the wrong time to raise prices without improving the overall experience. Tourists already pay more in tax to stay in Queenstown Lakes District than in many comparable destinations worldwide – it is not the tourists' fault that most of their tax is paid through a 15% GST, which is not partially remitted to QLDC. It is not the tourists' fault that successive QLDC administrations have chosen not to raise general rates and/or underinvested in infrastructure.

48. Let's stop bashing foreign tourists for domestic political gain.

HCA's call to action – true collaboration and reasonable timeframes

49. HCA considers solving the long-standing funding problem for all of New Zealand – not just the Queenstown Lakes District – would be the most important and enduring application of "reimaging tourism" after COVID. However, the solution must be properly researched, fairly applied and introduced *at the right time*, not in a manner that could slow the recovery after COVID. Local and central government should take up Hotel Council Aotearoa's call for all stakeholders to work collaboratively on an enduring solution to the funding problem.

50. HCA supports a fair, reasonable and nationally-endorsed funding model for the tourism economy that draws upon international best-practice and robust research. Our members have made substantial long-term investments in New Zealand's visitor economy and we have deep expertise in the matters under consideration. We want what's best for Aotearoa New Zealand. QLDC should join HCA in genuine collaboration to achieve the best possible response to the infrastructure funding shortfall, rather than forcing through its wrong solution to the wrong problem at the wrong time.

About Hotel Council Aotearoa

Hotel Council Aotearoa (**HCA**) is an advocacy-focused organisation with a mission to educate and influence key decision-makers on matters of importance to the New Zealand hotel industry. HCA's target membership encompasses hotel owners, general managers, operators/brand companies, consultants, academics, advisors and other organisations and individuals having a close professional connection with the hotel industry. HCA currently represents over 140 New Zealand hotels, comprising over 15,600 guest rooms or 5.6 million available room-nights per annum.

To learn more about HCA or to become a member, please visit www.hotelcouncilaotearoa.com or email admin@hotelcouncilaotearoa.com.

HOTEL COUNCIL AOTEAROA

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