Submission on 10-year Budget 2021-2031

5 March 2021

Auckland Council
Te Kaunihera o Tāmaki Makaurau

HOTEL COUNCIL AOTEAROA

Contents

Purpose and scope ... 3

Summary ... 3

Hotel performance during COVID ... 4

Why continued suspension of the APTR is necessary – short version ... 8

Why continued suspension of the APTR is necessary – longer version ... 9

Auckland's tourism backbone ... 10

Uncertainty and the path to recovery ... 11

Statutory criteria ... 12

Background to analysis against the statutory criteria ... 12

APTR activities are not highest and best use of hotels' limited marketing funds in recovery ... 13

The APTR is not affordable for Accommodation Providers ... 14

Council's budget pressures and/or plans to replace the APTR in future are not enough ... 16

MIQ Hotels ... 16

HCA recommended next steps ... 17

Appendix 1: Employment impact on sample Auckland hotels ... 18

Appendix 2: Section 103 of the Local Government Act 2002 ... 19

Purpose and scope

1. This submission is the response of Hotel Council Aotearoa (**HCA**) to Auckland Council's 10-Year Budget 2021-2031 (**10-Year Budget**), with particular focus on the Accommodation Provider Targeted Rate (**APTR**). Council is seeking feedback on the following three options as part of its consultation process:

   Option 1: Resume the APTR as currently planned from 1 April 2021 raising around $14.2 million in 2021/2022 to help support $29 million of spending on visitor attraction, major events and destination marketing activity.

   Option 2: Reinstate the APTR from 1 January 2022 reducing the APTR revenue to around $7.2 million in 2021/2022 and lower spending on visitor attraction, major events, and destination marketing activity to around $21.8 million in 2021/2022

   Option 3: Reinstate the APTR from 1 July 2022 and lower spending on visitor attraction, major events, and destination marketing activity to around $14.5 million in 2021/2022.

2. These three options were first presented to Council's Finance and Performance Committee on 9 December 2020, before being included in substantially the same form in Council's 10-Year Budget "Long-term Plan Consultation Document" (the **Consultation Document**). The three options are analysed in further detail in section 7.10 of the 10-Year Budget "Supporting Information" document (the **Supporting Information**).

3. Our submission addresses why the APTR should be shelved entirely or suspended indefinitely as a result of the global COVID pandemic and actions taken by central Government to safeguard the health and wellbeing of all New Zealanders. We have not attempted to comprehensively collate or re-state arguments against the APTR, generally.

Summary

4. It is in the best interests of the wider Auckland community and economy that Council takes all reasonable steps to facilitate the fastest possible recovery of our tourism backbone (including hotels) after COVID.

5. As a direct result of COVID, the performance of Auckland hotels has collapsed with many now unprofitable. Current hotel operating conditions are unprecedented and radically different from when Council first introduced the APTR.

6. Hotels are in survival mode until normal inflows of international travellers resume – the evidence is irrefutable that "pivoting to domestic" is, on its own, insufficient to sustainably support Auckland's existing international-standard hotels in the short, medium and long-term.

7. Hotels are key tourism infrastructure and Auckland is our national gateway. Airlines, airports, domestic transport networks and hotels are all capital-intensive assets which together create the "tourism backbone" feeding visitors into Auckland's economy, with flow-on economic benefits supporting New Zealand's prosperity.

8. Once borders *do* start to re-open, the type of advertising and expenditure previously funded through the APTR is demonstrably not the highest priority or best use of *hotels'* limited marketing funds at this point in the cycle. Re-imposing the APTR before the hotel sector's full recovery would be contrary to the best interests of ratepayers. Instead, by deciding to actively support a high-quality,

sustainable tourism backbone, Council also assists the recovery of smaller, less capital-intensive tourism businesses, too.

9. Council's has not demonstrated that any of its three options satisfy section 101(3) of the Local Government Act 2002 (the **statutory criteria**). The analysis set out in the Supporting Information contains a number of assertions without supporting evidence. It fails to adequately consider *the current ability of hotels to pay their rates* in comparison to circumstances that existed before border closures. There is inadequate consideration of accumulated hotel losses during the last 12 months. Council's analysis of affordability appears inconsistent with similar analysis carried out with respect to individual ratepayers.

10. HCA proposes two options that more effectively respond to Auckland's realistic recovery prospects. In order of preference, HCA urges Council to:

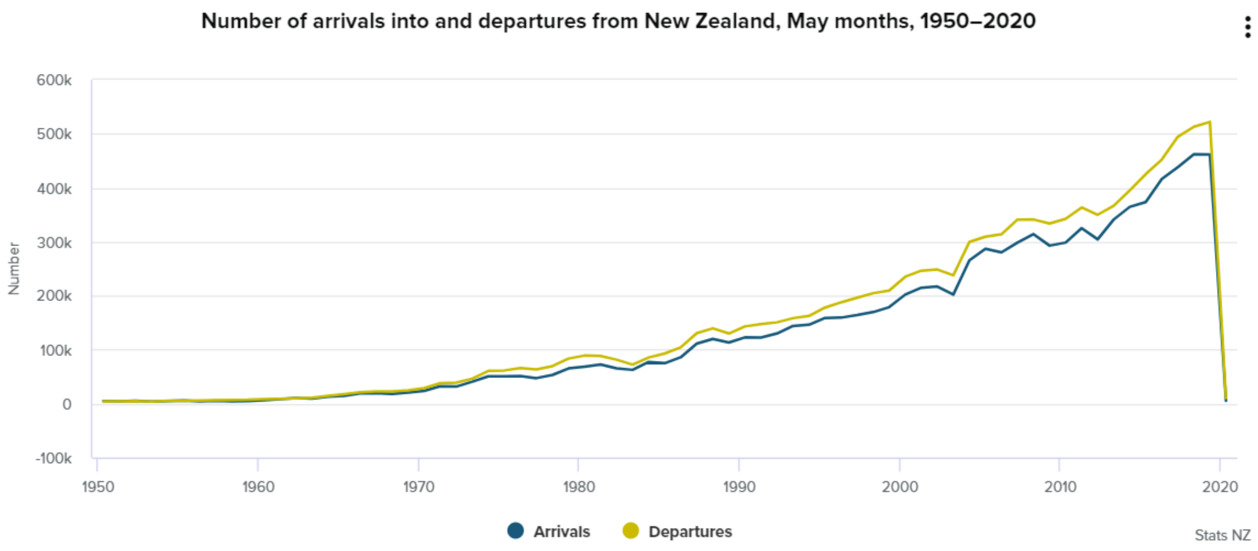
    (a) **Hotel Council Aotearoa Option 1:** accept that COVID has shown the APTR to be fatally flawed in execution and intent, giving Council an opportunity shelve it entirely and instead work collaboratively with the hotel sector and wider tourism industry on a fairer, fit-for-purpose alternative funding mechanism. Such an alternative mechanism should only be introduced within a reasonable timeframe after the sector's meaningful recovery from COVID and as part of a consistent, nationwide approach to the problem which includes buy-in from central government; or

    (b) **Hotel Council Aotearoa Option 2:** continue the APTR's current suspension for the longest possible timeframe acceptable to Council which is consistent with Council's legal obligations under the statutory criteria, in the knowledge that no-one now expects international tourism or hotel profits to have fully recovered by 1 July 2022 (which is the longest suspension currently contemplated by Council).

Hotel performance during COVID

11. Hotel performance has clearly been negatively affected by COVID, but few outside the sector understand just how bad things really are.

12. In order to implement its "hard and early" health response to COVID, full border restrictions (**border closures**) were imposed by central Government from midnight 19 March 2020. From midnight 9 April 2020, a compulsory 14 days of managed isolation (**MIQ**) was introduced for all arrivals to New Zealand. International visitation dropped overnight to levels not seen since 1961, when Auckland's population was 450,000. As a direct result, the performance of New Zealand's hotel sector immediately collapsed and hotels started accumulating losses.



Source: International arrivals in May lowest in 61 years | Stats NZ

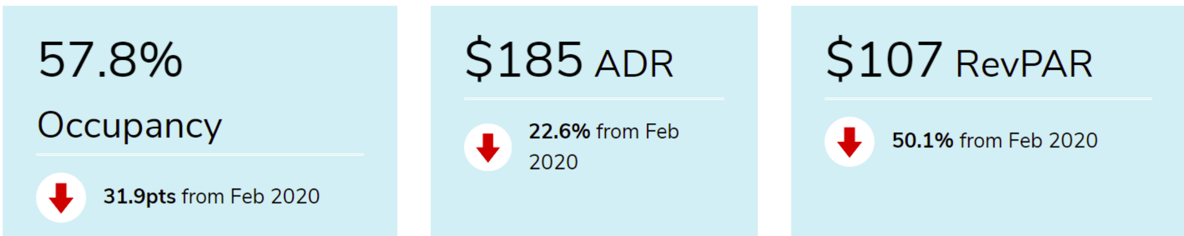
13. Despite subsequent attempts by Tourism New Zealand and RTOs to stimulate additional domestic travel, it is patently clear from widely-available hotel revenue data that this has been inadequate.

14. The primary performance measure for hotels is RevPAR (revenue per available room). RevPAR combines (a) average room rate (**rate**), and (b) average occupancy expressed as a percentage (**occupancy** or **occ**). RevPAR allows for comparison between different hotels, regions or (with currency adjustment) countries.

15. RevPAR *is not* a complete measure of hotel performance. It does not account for ancillary hotel revenues such as revenue generated from food and beverage (**F&B**), spa and other sources. RevPAR is not a measure of profitability – it does not account for costs of any kind, whether variable or fixed.

16. A large sample of New Zealand hotels periodically share rate and occupancy details with independent consultancy Fresh Info, which administers the Hotel Data New Zealand (**HDNZ**) monthly survey.

17. For the month of February 2021, HDNZ reported Auckland RevPAR as 50.1% below the levels achieved in February 2020 (when visitation from China had *already* fallen off in response to the first COVID cases in Wuhan).



Source: www.hoteldata.nz, Auckland region, February 2021

18. The sample of Auckland hotels participating in the HDNZ survey includes hotels currently in use as MIQ facilities. When those MIQ hotels are excluded from the sample, the numbers are even lower – 46% occupancy, $180 rate and RevPAR of just $82 (Note: analysis supplied by Fresh Info).

19. However, that *still* does not tell the full story. Auckland's MIQ hotels are taking 18 hotels (3,991 guest rooms) out of Auckland's supply (69 hotels and 9,691 guest rooms). This has the effect of pushing all transient hotel guests into the remaining, non-MIQ hotels, which drives occupancy higher than it would otherwise be. HDNZ RevPAR data can therefore be normalised by taking the HDNZ non-MIQ RevPAR ($82) and applying it across a full listing of Auckland's hotels, including MIQ hotels *added back as being empty* (**MIQ-normalised RevPAR**). MIQ hotels are added back as empty because MIQ work is not currently displacing any guests who want to visit Auckland – there are plenty of available guest rooms at locations throughout the city.

20. MIQ-normalised RevPAR at Auckland's hotels in February 2021 was $49, or **a 77% decline** on RevPAR achieved in February 2020 ($214).

21. And guess what? Those MIQ-normalised RevPAR results for Auckland are entirely consistent with HDNZ RevPAR figures for Queenstown in February: $59 and a 79% decline on February 2020.

22. Bear in mind that February remains one of the "peak months" for accommodation demand in Auckland. If February during an America's Cup is *this* bad, the omens are not positive for the upcoming low season.

23. While performance in February 2021 was certainly affected by recent "flash lockdowns", the results are consistent with what the hotel sector has been experiencing ever since our borders closed. Since August 2020, MIQ-normalised RevPAR for Auckland's hotels has been: $22, $32, $53, $58, $53, $47, $49.

24. This sudden, severe and unprecedented drop in Auckland RevPARs is obvious from the data. However, RevPAR comparisons alone actually *understate* how bad things are for Auckland's hotels because:

- **Costs have not decreased in line with revenues:** While hotels have implemented various cost-control measures, fixed costs cannot be avoided and many variable costs do not correlate with reduced occupancies. As occupancy decreases, the average cost of production increases on a per room night basis. In other words, operating profit margins have evaporated.

- **Certain costs have increased as a result of COVID lockdowns and changes in central Government policies, generally:** Hotels have had to implement new COVID-related protocols around cleaning and contact-tracing. In addition, certain other central government policy changes have, or soon will have, the effect of materially increasing labour costs,

What happens to hotels in a Lockdown?

1 Revenue goes to zero and cannot be recovered later. You cannot stockpile yesterday's unsold hotel rooms.

2 Staff and property-related costs accrue: rates, finance, insurance & utilities. Hotels make losses.

3 Future demand softens and many forward bookings are cancelled – why risk another lockdown?

4 Outbound Auckland travel collapses, so non-Auckland hotels lose revenue and forward bookings, too.

5 After lockdown ends, hotels must "ramp up" and re-build occupancy from zero. Hotels makes losses during ramp-up.

which comprise the largest operating cost category for hotels. These policy changes include (a) increases in the minimum wage, (b) creation of a new public holiday, (c) increases in sick leave entitlements, (d) curtailment of hotels' ability to source experienced hotel workers from traditional sources including essential skills and working-holiday visa-holders, including a requirement that such visa-holders must in future be paid above the median wage (currently $25.50 and increasing to $27 from July 2021).

- **Ancillary revenue has declined:** F&B, spa and other ancillary revenue has fallen by a greater percentage than the overall reduction in hotel occupancy, since locals have also reduced their visits to hotel outlets and domestic travellers are more price-sensitive than international guests.

25. In common with similarly-affected hotels around the world, Auckland's hotels have responded to COVID by doing some, or all of, the following to control costs:

- Closing food and beverage outlets or reducing operating hours
- Closing accommodation floors
- Reducing service levels generally
- Going dark on broadly-targeted brand advertising programmes
- Suspending international marketing
- Freezing all new hires, unless mission-critical
- Reducing staff hours
- Being forced to make redundancies
- Halting capital investment and maintenance programmes

26. Unfortunately, most hotels have had to reduce staff hours and/or initiate redundancy processes. Hotel owners and general managers have faced the incredibly difficult task of delivering bad news to highly-valued associates, including employees who have built their careers in hospitality through many years of loyal service. **Appendix 1** contains details from three anonymised Auckland hotels showing the extent of employment loss as a result of COVID.

27. These cost-saving measures have not been enough. Hotels are capital-intensive, high-employment businesses and cannot easily hibernate or pivot to other business models. Hotels must pay ongoing fixed costs, which continue to accrue at pre-COVID levels. In addition, many categories of variable costs *do not* correlate with reductions in occupancy. The 31.9 percentage points of lost occupancy experienced by Auckland hotels between January 2021 and January 2020 *has not* resulted in an equivalent 35% reduction (31.9/(57.8+31.9)) in variable costs because that level of cost-cutting is impossible if the hotel remains open.

28. Costs that continue to accrue for Auckland's hotels at largely pre-COVID levels include:

- Rates

Cost control & COVID

Reducing hours

Closing restaurants

Shutting floors

Redundancies

Delaying renovations

Freezing hiring

Rates

Insurance

Interest

Utility Costs

APTR?

- Property insurance
- Operating insurance
- Interest expense on borrowings
- Fixed components of utility costs, such as lines charges
- Emergency/critical maintenance

29. While break-even points vary from property to property, in order to generate operating profits it is not unusual for hotels to require occupancy around 65-70%. Depending on prevailing labour and other cost levels, this break-even point can be even higher in some markets.

30. If border closures are bad news, lockdowns are even worse.

31. During periods of lockdown, hotel revenues fall to zero. Hotel associates cannot "work from home". The experience of a hotel stay cannot be home-delivered by Uber or experienced virtually by Zoom. Hotel room-nights cannot be stockpiled for later – there's no such thing as pent-up demand for yesterday's unsold room-night. Once a lockdown ends, hotels must "ramp up" from zero and re-build forward bookings. Repeated lockdowns – and Auckland has now experienced four – start to impact on guest booking patterns. Why would you book a hotel room well in advance if (a) there's plenty of availability, and (b) there might be a flash lockdown that forces cancellation of your stay? *Perhaps Wellington might be a better destination for your next corporate event?*

32. Hotels are simply not profitable at the low levels of demand generated in Auckland since our borders closed in March 2020. In addition, during periods of lockdown, hotels accumulate massive losses on a daily basis.

33. No one with any reasonable level of understanding of hotel economics could argue that Auckland's current operating environment for hotels is sustainable. It is not.

Why continued suspension of the APTR is necessary – short version

34. Given the APTR is calculated on static property valuations and not actual achieved revenue, it imposes an excessive fixed cost on hoteliers at a time when fixed and variable costs are already exceeding revenues.

35. Reinstatement of the APTR at any time in the near future may be the proverbial "straw that breaks the camel's back" for many hotels. The closure of hotels or the degradation in quality of hotel stock breaks Auckland's tourism backbone making it much harder to attract high-value visitors once borders re-open.

36. Even if some hotels can survive Council's reintroduction of the APTR (whenever that may be), all it will achieve is to (a) increase the hotel sector's accumulated losses, and (b) delay the hotel sector's eventual COVID recovery, which is not in the best interests of Auckland ratepayers or the regional and national economies. Hotels are already spending their "furniture, fittings and equipment" (**FF&E**) sinking funds in order to meet costs.

37. Our submission could end at this point, and it would contain sufficient information for Council to fully justify delaying reintroduction of the APTR for at least 3 more years, or even permanently shelving it.

Why continued suspension of the APTR is necessary – longer version

38. The APTR was first imposed in 2017, at which time Auckland was:

- experiencing high occupancies and rising RevPARs
- welcoming increasing international visitation
- planning for significant international events such as APEC, the America's Cup and co-hosting session of the ASEAN Regional Forum
- actively encouraging development of new hotels to meet an anticipated shortfall in international-standard rooms
- anticipating opening of the New Zealand International Convention Centre (**NZICC**) in 2021.

39. Council required central government support for a bed tax. Consequently, the APTR is a "work-around" – a bed tax disguised as something else. Since it is technically a *rate*, the APTR is calculated on the basis of a hotel's CV, even though it is common knowledge that the formula was set so as to replicate a bed tax on future estimated revenues.

40. The hurried introduction of the APTR was justified by Council on the grounds that the hotel sector benefits from Council's in-house visitor attraction, destination marketing and major events activities (**APTR activities**). The hotel sector's opposition to the APTR was unfairly characterised as being driven by greed, or a case of free-riding. The considerable complexity of the issues at hand appear not to be fully appreciated or robustly investigated.

41. Accommodation providers are not irreparably opposed to everything Auckland Unlimited does. We do not deny that destination marketing, visitor attraction and the staging of major events are good things for Auckland ratepayers – both individuals and commercial enterprises such as hotels. We acknowledge that Auckland Unlimited has dedicated employees, clever ideas and a meaningful mandate.

42. Then, as today, the hotel sector disputed the claimed effectiveness of APTR activities *to drive fee-paying guests into international-standard hotels*. The hotel sector also disputed the disproportionate liability to fund APTR activities that was imposed on hotels in particular, and the accommodation sector more broadly. The nexus between APTR activities and the "benefits" asserted to flow to Auckland's accommodation providers *has never been proven*, despite Council having more than four years to do so.

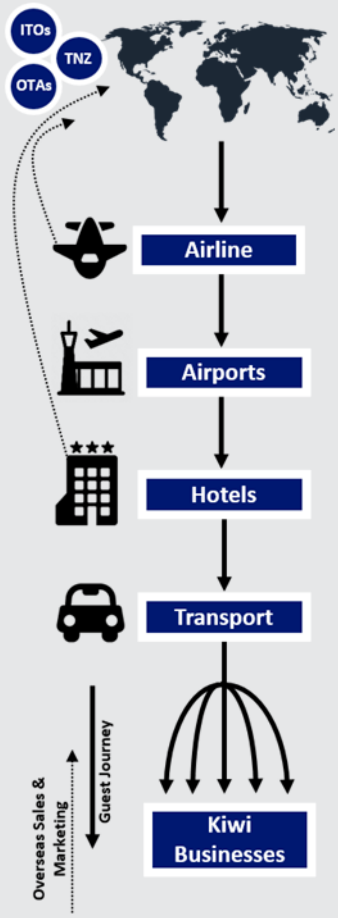
43. Council's original justification for the amount and structure of the APTR included no meaningful analysis of downside risk to hotel revenues. Despite the fact that hotels have been, and always will be, subject to the vagaries of the wider business cycle, Council appeared to assume that good times would never end for Auckland's accommodation sector.

44. Council has never attempted to demonstrate how its apportionment of APTR activity costs between hotels, other accommodation providers, other tourism businesses (including Auckland Airport) and general ratepayers is "fair", despite repeatedly describing it as such in its communications.

45. Some members of HCA – but not HCA itself – remain engaged with Council in expensive and time-consuming legal action against the APTR. From the outside, it appears the matter is driven by politics, rather than doing what's best for Auckland ratepayers and the region's tourism businesses, generally.

46. COVID gives Council the opportunity, even the *obligation*, to step away from the APTR for good.

Tourism Backbone



47. Just four years after introduction of the APTR, the sad reality for Auckland today is that we are:

- in the middle of a global pandemic
- experiencing half-empty hotels and declining rates
- welcoming fewer international visitors than at any time since 1961 – borders remain closed
- cancelling a wide array of international events, and experiencing first-hand what happens when events such as the America's Cup are held within closed borders
- bracing ourselves for a wave of new hotel openings that will increase rooms supply and place further downward pressure on RevPAR
- rebuilding the NZICC after it was severely damaged in the city's largest ever fire

48. If the APTR was the answer in 2017, how can it possibly *still* be the answer in 2021?

Auckland's tourism backbone

49. No city can have global aspirations without successful and sustainable international-standard hotels.

50. Hotels, airlines, airports and transport infrastructure are key tourism infrastructure. Together, they form the "tourism backbone" for *any* destination. The quality and reach of our tourism backbone is vitally important for a geographically isolated destination such as New Zealand. We market and "sell" our offering to international travellers *while they are still overseas*. On the global stage, Auckland competes for attention with other destinations that *also* have beautiful scenery, a tier one airline and international-standard hotels. As is always the case in business, the competition does not remain static.

51. The tourism backbone is comprised of large-scale, capital-intensive, network businesses and government-owned infrastructure. Consequently, these assets are all sensitive to construction/labour costs, changes in interest rates, and weaknesses within the network. Very few countries can quickly add new airlines, airports, transport networks or hotels to their nation's tourist offering – development timelines are long and returns are typically generated over extended timeframes, rather than during one or two good seasons.

52. International guests tend to judge a destination not on any one-off meal, attraction or in-country experience, but on the overall quality of its tourism backbone, which can be as much a part of the typical experience as a destination's natural surroundings. Visitors to New Zealand spend much of their time on a flight, in overnight accommodation or travelling between attractions. The airline, airport, hotel and domestic transport network are

inevitably a lens through which visitors judge the entirety of their in-country experience.

53. *How do I get there? Is the airline safe? What are the hotels like? How easy is to get around?* These are the questions that international tourists typically ask themselves before they leave home. Travellers consciously and subconsciously consider the tourist backbone when comparing New Zealand (or Auckland) with alternative destinations.

54. All international guests must travel along the tourism backbone before they are in position to visit Auckland's attractions and spend money in smaller, less capital-intensive "mum and dad" businesses.

55. Central and local governments certainly recognise the importance of air connections and airports – this is implicit from the direct financial support made available by government to these businesses *even before COVID hit*. Central Government is a majority shareholder in Air New Zealand and has already provided substantial loan support to help it navigate the effects of COVID. Further equity injection is likely. Auckland Council is a substantial shareholder (18.09%) in Auckland International Airport and has already indicated that it expects to receive no dividend income from that investment in the current financial year (previously forecast to be $58 million). Central and local government also administer our domestic transport infrastructure.

56. In this country's recent history – and in many other countries still – governments have felt compelled to invest public money developing new hotels and convention centres so as to stimulate increased travel to a chosen destination.

57. Hotels have certain characteristics similar to other tourism backbone infrastructure:

- large, purpose-built, capital-intensive assets with long development timelines and payback periods
- relatively low yields on asset value, so typically leveraged
- exposed to the business cycle – performance moves in line with economic conditions substantially outside of any one hotel's direct control
- reliant on complicated sales/distribution networks and dynamic pricing
- heavy reliance on service, standard operating procedures and best practice, delivered via high levels of employment creation

58. However, unlike the rest of the tourism backbone, hotels operate in a highly competitive commercial environment. State-sanctioned monopolies, duopolies and oligopolies are not the norm for hotels, which must compete against each other and also against cheaper forms of lodging and accommodation.

59. Hotels in New Zealand are no longer publicly owned, which is the way it should be. However, central and local government should not simply dismiss the sector entirely if they aspire to maximise this country's tourism potential. Policymakers still have a critical responsibility to nurture a well-functioning and sustainable hotel sector. Without the right hotels being developed and operated by private investors, a destination's tourism backbone is broken. This creates negative flow-on effects for all downstream businesses that rely on tourist patronage.

Uncertainty and the path to recovery

60. It is now widely accepted that recovery in travel and tourism after COVID will be measured in *years*, not weeks or months. At this point, Council should be thinking about how to protect its hotel stock

for the benefit of the community as a whole. It serves no benefit for Council to exacerbate a "boom and bust" hotel development cycle.

61. As at 5 March 2021, New Zealand's international borders remain closed to non-resident travellers and Auckland is in Level 3 lockdown, which means most travel to and from Auckland is prohibited, even for New Zealand residents.

62. There is no announced timeline for re-opening of New Zealand's borders generally, or for the creation of COVID-safe "bubbles" with individual countries. Central government has indicated that any relaxation in New Zealand's border policy will depend on (a) establishing a robust and effective screening process for international travellers, which might include pre-travel and on-arrival COVID tests, vaccination passports and/or quarantine, and (b) ensuring that New Zealanders are sufficiently protected from COVID through vaccination. Beyond that, there is no committed timeline or criteria for a return to open borders. Aside from a limited number of border and health workers, New Zealand's COVID vaccination programme has not commenced. No indication has been given as to what percentage of New Zealand's population would need to be vaccinated before Government considered the programme to be "complete".

63. It is possible – likely even – that Auckland will continue to experience flash lockdowns throughout 2021 and until central Government is comfortable that its vaccination programme has succeeded.

64. Since COVID began, politicians and others without deep experience in hotel operations and marketing have confidently asserted that there is a wave of demand building for international guests to quickly return to New Zealand once borders reopen. The recovery will be swift, we have been told, even while others speculate that airline connectivity may take years to rebuild and business travel volumes might *never* return to what they were pre-COVID. When borders eventually do reopen, how many intending travellers might decide that 3, 10 or 24 hours in an airplane to reach New Zealand is perhaps no longer a sound personal health choice?

65. In its decision-making around the APTR, Council has a clear opportunity to assist the region's economic recovery by making the <u>right and sustainable choice</u>: Permanently remove the APTR to help drive the fastest possible sector recovery after COVID. Work collaboratively with industry to come up with a funding mechanism that is fair and fit-for-purpose throughout the cycle, not just during "good times".

Statutory criteria

Background to analysis against the statutory criteria

66. The Council is required to consider any changes to the APTR (including any decision it takes to reintroduce the rate) against the criteria in section 101(3) of the Local Government Act 2002. The relevant provision is set out in full in **Appendix 2**, since it is of critical importance as Council considers what next to do with respect to the APTR.

67. The Supporting Information contains what we assume to be Council's application of the statutory criteria in this case. The analysis falls down on at least two counts:

- The APTR activities being funded do not benefit accommodation providers at all because they displace higher-priority spending that would otherwise be made directly by those accommodation providers.

- The amount being collected by applying the APTR in its current form is hugely disproportionate to the claimed benefits for accommodation providers – the burden of the APTR is fundamentally different in 2021 to what it was in 2017.

68. The Supporting Information starts with the following extraordinary statement:

> *"The circumstances caused by COVID-19 are unprecedented. However, even in these circumstances <u>the link between undertaking visitor attraction, major events, and destination marketing activity and the benefits to accommodation providers remains fundamentally the same</u>. Borders will eventually reopen and investment in visitor attraction will be needed to get the visitor economy up and running." [emphasis added]*

69. Other questionable claims include:

> *"Events are one of the primary drivers of visitation to Auckland."*
>
> *"[APTR activity] expenditure will deliver <u>immediate benefits</u> from attracting domestic visitors and promote Auckland as a destination for when borders open delivering benefits at that time and into the future." [emphasis added]*

70. Council's application of the statutory criteria to reintroduction of the APTR can be paraphrased as follows: The same analysis we did in 2017 still applies. That seems a cavalier way for Councillors to discharge a legal obligation such as section 101(3) in the middle of an unprecedented global pandemic.

APTR activities are not highest and best use of <u>hotels'</u> limited marketing funds in recovery

71. The hotel sector does not dispute that "investment" of some kind is necessary to help the recovery of Auckland's battered tourism economy. Hotels will be investing heavily to drive demand into their properties in the fastest and most efficient ways possible. Given then extended periods accumulating losses experienced to date (and likely to continue until borders reopen), *hotels must prioritise immediate and near-term bookings*.

72. If generalised visitor attraction, major events and destination marketing is "needed to get the visitor economy up and running", then Council's analysis against the statutory criteria should include details of how effective those activities have been in driving immediate bookings over the last 12 months since borders closed. How, exactly, will generalised destination marketing deliver "immediate benefits" once borders reopen?

73. During the COVID crisis, extraordinary financial support has been delivered by central Government into regional destination marketing and events. This spending may very well have assisted the *wider tourism economy*, helping small businesses survive and retain employees through COVID. What cannot be denied is that *limited benefit has flowed through to international-standard hotels*. This is obvious from a cursory look at RevPAR statistics since March 2020.

74. Prioritising long-term events makes no sense *for accommodation providers* in the current climate or as soon as borders reopen, even though those events may be important for the wider Auckland visitor economy. Right now, major events continue to be subject to COVID risk. What happened to hotel bookings made in connection with Auckland Round the Bays on 28 February 2021? Cancelled, with hotels once again losing money after processing costs and related work.

75. Events are unlikely to be a *primary* driver of visitation to Auckland for some time after borders reopen. Open borders allowing free movement of international travellers – leisure and business travel alike – will release hotels to start immediately tapping into demand from international free

independent travellers (**FIT**). FIT is the typically the highest-paying and most profitable guest segment, as opposed to group or wholesale bookings made a long time in advance for accommodation during major events.

76. If, indeed, there *is* pent up demand for travel to Auckland and New Zealand, *from the perspective of accommodation providers* the highest and best use of limited funds once borders re-open is to directly target FIT and corporate demand to maximise rate/occupancy and quickly refill empty hotels. Effective strategies and activities might include the following:

- Rebuilding decimated sales and marketing teams, including re-hiring past employees with industry expertise and customer connections
- Dialling up online and digital sales & marketing campaigns, including aligning messaging and timetables with Tourism New Zealand and RTOs
- Travelling to newly re-opened target markets to engage in direct selling with key wholesale, corporate, and group clients, as well as travel intermediaries and inbound tour operators
- Establishing programs, practices and messaging to reassure international travellers that the relevant hotel is sanitised and COVID-safe
- Targeted campaigns that induce near-term bookings at the relevant hotel, amplifying the particular strengths of that hotel with regard to a specific identified customer niche (golfers to golf resorts, wealthy travellers to luxury hotels, businesspeople to CBD properties, etc)
- Any and all actions that induce immediate direct bookings by highest value FIT and corporate travellers

77. The asserted link between various Council-hosted events on one hand, and hotel profitability on the other, was tenuous enough back in 2017. As we recover from COVID, the benefits of APTR activities do not exist until much later in the cycle. Every dollar paid by a hotel to the Council as APTR will decrease the amount that same hotel can direct towards its own more urgent and tailored sales and marketing activities.

78. None of the above analysis is in any way diminishes the importance of the work that Council/Auckland Unlimited carries out in normal times. HCA has an excellent working relationship with Auckland Unlimited and we recognise the importance of hotels and RTOs cooperating to amplify their marketing reach.

79. While hotels and other accommodation providers are focused on immediate visitation and cash-flow, Auckland Unlimited should continue to work on its programme of events that have true potential to attract international and domestic travellers back to Auckland in future. The funding model is the problem here because it stops hotels from making the best spending decisions to drive a fast recovery – not the people or APTR activities themselves. Council and central government certainly have funding constraints as a result of COVID, but they are without doubt better placed than hotels to fund activities that will strengthen the recovery in the medium- and long-term. Hotels must use every cent to drive business <u>today</u>.

The APTR is not affordable for Accommodation Providers

80. Reintroduction of the APTR also fails the statutory criteria because the amount of the rate is excessive and unaffordable.

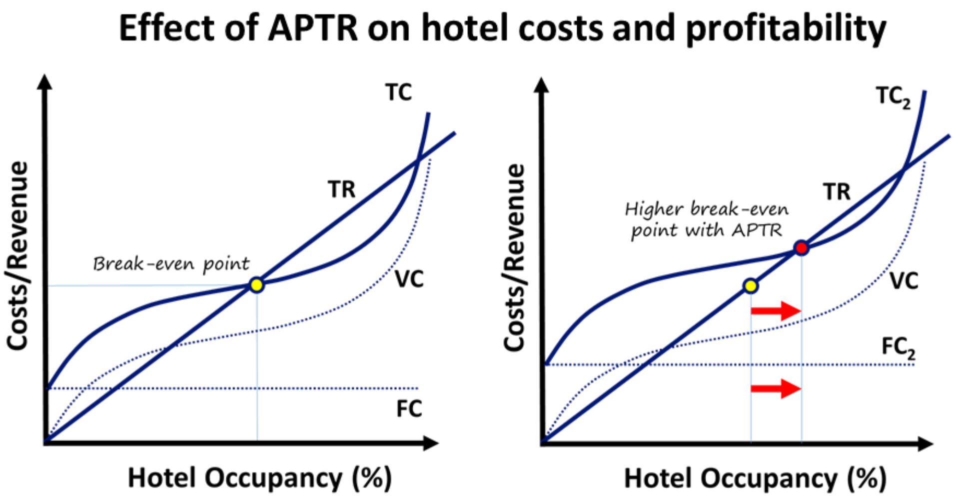
81. When hotels are effectively accumulating losses, a disproportionately-calculated targeted rate is of no benefit whatsoever to them, and is in fact highly damaging. The additional fixed cost may push hotels deeper in loss-making territory or into receivership, resulting in permanent loss of key city

infrastructure and jobs, both at hotels and in downstream tourism economy businesses. The tourism backbone would be broken.

82. APTR is calculated on the basis of a hotel's CV, a workaround designed in 2017 to approximate a tax on hotel revenue. However, hotel revenues have plummeted as a result of COVID. The rate calculation was questionable when first introduced. In light of COVID, it is stretching credibility to claim it still "works". If reintroduced now, the additional fixed cost of the APTR means that hotels would need to generate even higher levels of occupancy before reaching break-even point.

83. Few sectors can prove themselves to have been as negatively affected by COVID as the hotel sector. Hotel rooms cannot be taken online, stored up for later or home-delivered. International guests have been prohibited from visiting, and domestic guests have (understandably) limited their travel to Auckland in light of virus fear. However, hotels are key tourism infrastructure and a necessary ingredient in our city's recovery once borders reopen.

84. It does not promote the current or future interests of the Auckland community for Council to take actions that might contribute to hotels closing permanently, or lead to a slow degradation of current hotel rooms supply. Conversely, if Council provides long-term certainty to hotels, avoids adding to fixed costs (doing all it can to keep hotel overheads low) and ensures it does not add to current cash-flow constraints, it will be acting in the best interests of Auckland ratepayers.



FC = fixed costs, VC = variable costs, TC = total costs, TR = total revenue

FC_2 = fixed costs (incl. APTR), VC = variable costs, TC_2 = total costs (incl. APTR), TR = total revenue

85. In this context, reference is made to the memorandum dated 4 December 2020 to Finance and Performance Committee Members headed "Rates Affordability" (**Rates Affordability Memorandum**), which was Attachment D to the open agenda for the Committee meeting on 18 February 2021. https://infocouncil.aucklandcouncil.govt.nz/Open/2021/02/FIN_20210218_ATT_9560_PLANS.PDF. The Rates Affordability Memorandum addresses, for the purposes of the statutory criteria, "the extent to which rates affordability has been affected by the impact of COVID-19 on the Auckland economy and ratepayers".

86. The Rates Affordability Memorandum analyses rates affordability for individual ratepayers after COVID. However, the approach is illustrative of the sort of analysis that is likely legally required in relation to accommodation providers, as well. Of note:

- Rates affordability is defined as "having sufficient income to pay for rates expenditure without unreasonably compromising other expenditure"

- An "approximate threshold for rates affordability" is "where rates exceed 5 percent of gross household income"

87. It seems obvious that reintroduction of the APTR will unreasonably compromise hotels' ability to meet other costs. Many hotels are currently loss-making, so new fixed costs will increase losses by a corresponding amount.

88. It *cannot* be reasonable against the statutory criteria to impose an additional fixed cost on accommodation providers during a global pandemic at the same that our borders remain shut to customers who previously accounted for 57 per cent of revenues. APTR activities are in no way the highest and best use of marketing funds for rebuilding after a pandemic – it is unreasonable and unfair to insist that ratepayers fund Council's generalised destination and marketing spending when those ratepayers are fighting for their commercial livelihoods.

89. Finally, if the Council considered the APTR *was* affordable in 2017 when set against CVs to replicate a bed-tax at approximately 2-4 per cent of hotel revenues (depending on rating zone), how can it remain "affordable" in Council's view in 2021 when hotel revenues have halved and losses are piling up? For many hotels, the rate will far exceed 5 per cent of "gross household income", if the equivalent measure in this context is to apportion the new rate against hotel earnings after interest and tax.

Council's budget pressures and/or plans to replace the APTR in future are not enough

90. We acknowledge the Council's own budget pressures, but that alone does not discharge Council's obligation to apply the statutory criteria properly.

91. We also note Mayor Goff's recent comments in the media that there are "fairer" alternatives to the APTR (see: Auckland mayor supports bed tax despite pricey defense of tourism tax | BusinessDesk). However, once again, suggesting that in future the Council might revoke the APTR in favour of a better regime is not sufficient to discharge Council's obligation to apply the statutory criteria properly today.

92. For the reasons outlined above, we see no way the Council can claim to have satisfied the statutory criteria for reintroducing the APTR on any of the dates set out in the three options.

MIQ Hotels

93. With regard to MIQ hotels, the Supporting Information states:

> *"While operating as MIQ facilities we continue to view [MIQ hotels] as commercial accommodation providers as they are undertaking accommodation services with intention to provide a profit."*

Council's approach on this matter is surprising.

94. Thirty-two hotels (comprising more than 6,000 guest rooms) in Auckland, Hamilton, Rotorua, Wellington and Christchurch are currently contracted by the Government to provide managed isolation stays. To put that into perspective, New Zealand has 40 public hospitals in total.

95. MIQ hotels have, in effect, been repurposed and handed over to the government to assist in our border management programme. MIQ hotels and their teams are helping to keep all New Zealanders safe from COVID. Most hotels in the programme answered an SOS call from government

and agreed to provide assistance, even though border closures were originally anticipated to last for only 3-6 months.

96. MIQ hotels are not providing short term accommodation to transient visitors under any normal interpretation of those terms. "Guests" at these hotels have no control over whether they isolate in Auckland or somewhere else entirely. They are not allowed to leave the MIQ hotel, cannot attend events of any kind (whether or not facilitated by APTR activities), and seem unlikely to have returned to New Zealand on the strength of anybody's destination marketing. Many MIQ "guests" are likely to be Auckland residents already, meaning there is no net increase in overnight visitor stays in Auckland from their period in quarantine. Why not also deem private hospitals and retirement homes to be currently *"undertaking accommodation services with intention to provide a profit"*?

97. It seems wrong, both in fact and in terms of reading the mood of the nation, to characterise the service of MIQ hotels in this way.

HCA recommended next steps

98. Auckland Council must seize this opportunity to solve the problem of the APTR by shelving it entirely. A decision should be made and communicated quickly, rather than working to the timeframes in place for the 10-Year Budget generally. The days are getting colder – both literally and figuratively – as the next low season approaches.

99. Permanently removing the APTR would be the strongest possible message to Auckland's accommodation sector that Council understands the fight for survival when international borders are closed for the foreseeable future. Permanent removal of the APTR is not only a *forward-thinking, justifiable and necessary investment by Council* in Auckland's tourism backbone, it also ensures compliance with section 103 of the Local Government Act. The investment will benefit not just hotels and hotel workers, but also the broader national tourism economy and Auckland's community as a whole. Auckland and New Zealand need hotels to survive and help drive the economic recovery after COVID.

100. The April-June 2021 portion of APTR has already been invoiced and in many cases paid by accommodation providers. Council should act quickly and decisively to communicate that the APTR does not need to be paid and/or will be rebated quickly.

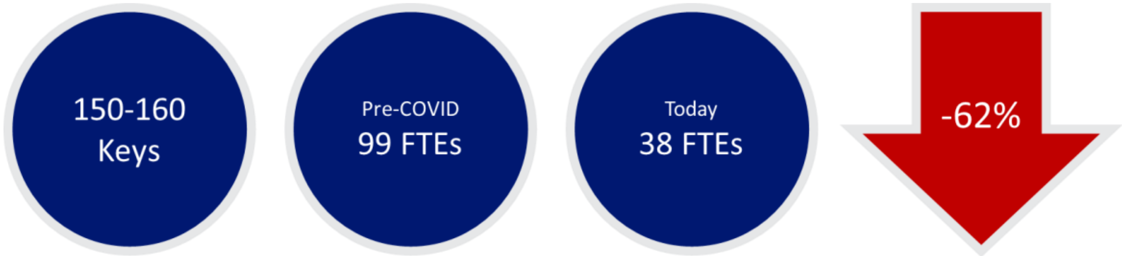
101. HCA would strongly support Council's case for continued central government funding of RTOs over the short- to medium-term as New Zealand faces a multi-year timeframe for recovery after COVID. Auckland is New Zealand's largest city and principal gateway for international tourists. It is right that central government funds strategic and future-focused aspects of the recovery. Council and HCA should work collaboratively on this.

102. Auckland Council 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.

103. True recovery must start <u>now</u>, and permanently shelving the APTR is a first and vital step.

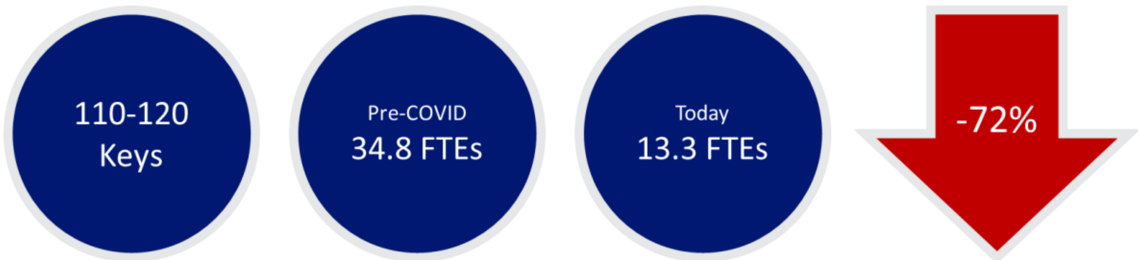
Appendix 1: Employment impact on sample Auckland hotels

Hotel A



Hotel B

Hotel C



Appendix 2: Section 103 of the Local Government Act 2002

101 Financial management

(1) A local authority must manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community.

(2) A local authority must make adequate and effective provision in its long term plan and in its annual plan (where applicable) to meet the expenditure needs of the local authority identified in that long-term plan and annual plan.

(3) The funding needs of the local authority must be met from those sources that the local authority determines to be appropriate, following consideration of,—

- (a) in relation to each activity to be funded,—
  - (i) the community outcomes to which the activity primarily contributes; and
  - (ii) the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals; and
  - (iii) the period in or over which those benefits are expected to occur; and
  - (iv) the extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity; and
  - (v) the costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities; and
- (b) the overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental, and cultural well-being of the community.

Note: *This document was originally submitted to Auckland Council on 5 March 2021 in order to be included in the meeting agenda and attachments for the Regional Stakeholder "Have Your Say" Event scheduled for 10 March 2021 and to be held at Reception Lounge, Auckland Town Hall, 301-305 Queen Street, Auckland. This version includes correction of typographical errors in the original submission.*

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.

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