

17 September 2021

By email only: **Jim Palmer**
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Dear Panel Members,

Review into Local Government: funding pressures and sector-specific taxes

Hotel Council Aotearoa (**HCA**) is New Zealand's dedicated industry body for hotels and hoteliers. We represent over 140 hotels (15,600 guest rooms). We refer to the Review into the Future for Local Government (the **Review**).

Request to present to the Review

Auckland Council's Accommodation Provider Targeted Rate (**APTR**) and the Queenstown & Lakes District Council's efforts to introduce an overnight accommodation bed tax (**Queenstown bed tax**) each provide clear examples of stresses in our system of local government funding. In our opinion, the Review Panel's work would be greatly assisted if Panel members become familiar with the brief history of the APTR and Queenstown bed tax. We write to request a substantive meeting with the Review Panel so we may present further information on these topics and respond to any queries that arise.

Our opposition and our sympathy

It is well-known that HCA and almost all affected commercial accommodation providers are vehemently opposed to the APTR and Queenstown bed tax. Certain accommodation providers have pursued legal action against Auckland Council that is now awaiting judgment by the Court of Appeal.

What is less well-known is that the accommodation sector and wider tourism industry have a great deal of sympathy for an argument sometimes made by local authorities to justify bed tax: *councils do not share in the taxes already paid by tourists when they travel, but councils are responsible for tourism-facing infrastructure in their districts*. In HCA's view, the overall framework for local government in New Zealand is a key impediment to all affected stakeholders working collaboratively on optimal solutions to this problem.

In other words, we believe the Review's work could potentially have a major impact on the shape of tourism in New Zealand.

The hotel sector's consistent opposition to the APTR and Queenstown bed tax should not disqualify us from commenting on matters such as local government consultation processes, technical policymaking expertise and the way in which novel local government revenue-raising methods have become politicised. Frankly, the hotel sector now finds itself in the position of having unwanted

expertise on these matters. We believe this expertise would be of considerable assistance to the Review Panel in its enquiries.

Unintended consequences of novel revenue-raising methods

In HCA's submission, budget pressures and malleable interpretation of checks and balances in the Local Government Act 2002 (LGA) is leading to poor policymaking. Local authorities have become increasingly creative in their revenue-raising methods, with a number of unintended consequences. The APTR has demonstrably hurt our discrete industry segment, but it also sets a bad precedent for New Zealand as a whole. In time, local authorities will inevitably target the commercial revenues of other sectors as well.

Through its introduction of the APTR, Auckland Council moved unambiguously into the realm of imposing what are effectively taxes on business revenues. This radical change from normal rating policies was justified on grounds barely more sophisticated than, "You benefit from what we do".

The APTR is a *Frankentax* – an extraordinarily high rate on property values designed to approximate a percentage-based sales tax on accommodation provider revenues. Council leaders openly acknowledge that the APTR works this way. New Zealand's system of local government funding never contemplated councils introducing their own quasi-sales taxes, but it has already happened with many people not even realising.

The prospect of councils having free rein to introduce sales taxes raises numerous questions. Do local authorities have the fiscal expertise necessary to design and implement sales taxes? Are LGA consultation requirements, timeframes and independent review processes adequate for this purpose? Do we really want aspiring mayoral candidates to use sector-specific taxes as a political tool for drumming up voter support at the ballot box? *I'll make them pay so you don't have to*. In any event, is 35% voter turnout sufficient mandate for such measures?

Not the Kiwi way

With regard to the accommodation sector specifically, we question whether it's the Kiwi way for councils to blatantly target foreign and domestic visitors (and the businesses that cater to them) as a convenient source of revenue. *You're not from here and you don't get to vote*. That attitude led to the messy local governance structures in USA and Europe, where counties, states and other territorial authorities impose a confusing mismatch of different regional sales taxes and imposts.

More generally, with a population of just five million people, New Zealand should not be allowing our local authorities to replicate the worst aspects of overseas politics and tax policy. We are not a federacy. We should be wary of political structures that move us towards pitting one region against the other. Regional authorities should not be competing against each other to become the best at raising revenue. Regional authorities should also not implement "bad" local policies as some sort of bargaining chip to force through the policy they really want at a national level. None of this will turn out well for New Zealand in the long run.

Conclusion

Once again, we have not attempted to rehash the detailed arguments for and against the APTR and the Queenstown bed tax. We acknowledge that broad scope of the Review's terms of reference. HCA strongly believes that events surrounding the APTR and Queenstown bed tax are an ominous sign of what's to come in New Zealand unless fundamental issues in local government are properly

resolved. Since the Review will undoubtedly include consultation with local authority mayors, councillors and bureaucrats, we want to put on record our willingness to support the Review's work by also providing industry's considered views on the relevant topics.

We welcome the opportunity to contribute productively to the important work of the Review and look forward to hearing from you.

Yours Sincerely

Hotel Council Aotearoa

A handwritten signature in blue ink that reads "James Doolan". The signature is written in a cursive, flowing style.

James Doolan, Strategic Director

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