

28 February 2023

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Dear Panel Members,

Review into Future for Local Government: Hotel Council Aotearoa feedback on Draft Report

Hotel Council Aotearoa (**HCA**) is New Zealand's dedicated industry body for hotels and hoteliers. We refer to the draft Report into the Future for Local Government (the **Draft Report**).

We wrote to the Panel during its research phase and met with selected Panel members on 18 October 2022. We note that meeting was likely too late to be fully considered in the Draft Report. In addition to summarising key issues raised in our October meeting with the Panel, we now write to provide responses to the specific questions raised in the Draft Report.

Accommodation Provider Targeted Rate and Queenstown's proposed hotel bed tax

The Draft Report and comments made publicly by panel members suggest a drive towards localised bed taxes and/or targeted rates levied on hotels and other overnight accommodation providers.

In HCA's opinion, Auckland's Accommodation Provider Targeted Rate (**APTR**) was a catastrophically poorly-designed policy that did significant damage to: (a) Auckland Council's working relationship with the hotel sector; and (b) the reputation of local authorities for being stewards of their local economy and sound economic managers. Similarly, Queenstown Lakes District Council's repeated attempts to introduce a local bed tax (the **Queenstown bed tax**) have appeared at times to be a politicised exercise – "them" (being industry) and "us" (being QLDC and central government) – rather than a genuine attempt to work collaboratively with all stakeholders to achieve optimal outcomes.

We acknowledge ongoing pressures on local government resources and budgets, particularly in the wake of the COVID pandemic and recent natural disasters such as Cyclone Gabrielle. Tourism taxes are complex and should not be regarded as a "quick fix" for council budgetary pressures. They have long-lasting impacts not only on guest experience and desirability, but also on investment attraction over the medium and long-term.

Tourism taxes are not at all unusual around the world. They have been introduced in advanced and emerging economies at both national and regional levels. New Zealand already has a tourism tax – the international visitor levy (**IVL**) paid by most international visitors upon arrival at the border. The IVL *is not* distributed to local governments.

In most cases, hotel sector experts have considerably more expertise on tourism taxes than regional councillors and/or council bureaucrats. However, in regards to the APTR and Queenstown bed tax, attempts to share that expertise and engage in a genuinely collaboratively policy design process were largely ignored. In the case of the APTR, Mayor Phil Goff had made pre-election promises to introduce a "visitor levy" even

before he assumed the mayoralty, and even though regional authorities have no power or ability to introduce taxes on business revenue. The “bed tax alternative” that was ultimately introduced as the APTR was an almost complete departure from international best practice and precedent for tourism taxes. It was also introduced with almost comically undue haste given the complexity of these sorts of tourism funding mechanisms elsewhere.

Pre-requisites for new revenue-raising powers

Some might argue that the history of the APTR and Queenstown bed tax support the liberalisation of revenue-raising powers for local authorities. Instead, the APTR and Queenstown bed tax are clear evidence that regional authorities in New Zealand must not be granted additional revenue-raising powers unless and until:

- (a) Voter turnout levels have materially improved over the woefully low levels of today, such improvement indicating increased civic engagement and ratepayer support for wider council mandates;
- (b) Councils fully reform and overhaul their ratepayer engagement processes, including reforming current formal consultation processes which typically appear to be unstructured check-box exercises rather than genuine attempts to be guided by sector experts; and
- (c) Councils make meaningful investment to improve their own policy-making capabilities and sector-specific expertise, particularly in relation to categories of ratepayer/industry that they intend to “target” through novel revenue-raising techniques.

As it stands today, local authorities in New Zealand have proven themselves to be ill-equipped for new revenue-raising powers. Unless reforms are implemented to address the issues raised above, ratepayers can expect decision-making to be politicised, rushed and focused on short-term imperatives such as balancing today’s budget only and supporting the re-election of incumbent councillors rather than making optimal decisions for current and future ratepayers.

Removal of Panel recommendations around bed taxes and tourism levies

Hotel Council Aotearoa requests that the Panel refrain from making specific recommendations about tourism taxation in its final Report. With the greatest possible respect, we do not consider the Panel to be suitably qualified or well-informed on the issue of best-practice, first-in-class tourism taxation to make recommendations of this nature, particularly when tourism accounted for 9% of New Zealand’s GDP prior to COVID and was (and soon will be again) our country’s largest export earner.

Further comments are set out in Appendix 1 and Appendix 2 to this letter.

Yours sincerely

Hotel Council Aotearoa



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Appendix 1: Response to Specific Queries in the Draft Report

Appendix 2: Hotel Council Aotearoa presentation to the Panel dated 18 October 2022

Appendix 1: Response to Specific Queries in the Draft Report

Page	Question	Hotel Council Aotearoa response
11	<p>Revitalising citizen-led democracy [Recommendations 1-5]</p> <p>What might we do more of to increase community understanding about the role of local government, and therefore lead to greater civic participation?</p>	<p>This question contains an assumption that “civic participation” is low because communities do not “understand” the role of local government. HCA queries this assumption. We consider the real issue – greater civic participation – is better dealt with in other ways.</p> <p>It is important to be clear-sighted about the problem New Zealand faces. Voter turnout is very low when compared with central government elections. Why is that? Interventions should be targeted at ensuring New Zealand reverses the trend of declining voter turnout at local level. We must live and die by this clear metric.</p> <p>HCA doubts that further “participatory democracy” interventions will lead to improved voter turnout. In fact, the opposite might be true if ratepayers interpret these reforms as creating new categories of favoured insiders. Voter turnout for central government elections is high without new participatory democracy interventions, so why does the Panel see them as being a priority for local government?</p> <p>Community understanding of the role of local government would be improved through clear and transparent reporting of key council decisions and individual councillor voting track records. This should be front and centre of any digital overhaul. While council agendas and minutes are generally already available online to anyone who is patient and good with Google, it would be helpful for there to be a concise, searchable and organised portal (consistent across all New Zealand councils) holding details of all council-level resolutions and policies on key topics.</p>
13	<p>Tiriti-based partnership between Māori and local government [Recommendations 6-11]</p> <p>(Note: no questions asked by the Panel)</p>	<p>For there to be trust and confidence in any democracy, there must be visibility on how individuals holding decision-making power are appointed and, if necessary, removed. If hapū/iwi and significant Māori organisations are to be given a preferential position in council consultation and decision-making processes, then it seems reasonable to require visibility on how individual representatives are selected to exercise kāwanatanga and rangatiratanga, and to interpret and apply Te Ao Maori.</p>

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		<p>Under the current structure of local government, individuals who have ceased to hold the confidence of ratepayers can be removed at the next election. Will the same be true of persons representing hapū/iwi and significant Māori organisations, or will such appointments be effectively unimpeachable? Consideration should be given to “recall powers” exercisable by the ratepayer/voter for all “top table” positions in local government, whether appointed or elected.</p> <p>This issue has real-world consequences, particularly in the area of targeted rates and other novel revenue-raising techniques. Iwi and Maori organisations are substantial and important investors in tourism-connected assets and businesses. There is the potential for conflicts of interest to emerge that might be hard to manage via the procedures/practices used for elected councillors.</p>
15	<p>Allocating roles and functions in a way that enhances wellbeing [Recommendations 12-13]</p> <p>What process would need to be created to support and agree on the allocation of roles and functions across central government, local government, and communities?</p> <p>What conditions will need to be in place to ensure the flexibility of the approach proposed does not create confusion or unnecessary uncertainty?</p> <p>What additional principles, if any, need to be considered?</p>	<p>The Panel is drawn to the concept of “subsidiarity”, which proposes that problems should be solved at the lowest possible level. We urge the Panel to recognise a distinction between <i>designing</i> solutions and <i>implementing</i> them. We do not agree that councils should be mandated to “re-invent the wheel” for similar problems that occur throughout New Zealand.</p> <p>The principle of “no taxation without representation” is one of the most important principles of a fair and well-functioning democratic government. Voter turnout at local body elections must be improved before council are rewarded with an increased functions, funding and powers. In addition, greater caution should be exercised whenever local authorities attempt to introduce taxes or levies that are designed to shift the economic burden for local expenditure to non-voting outsiders. These taxes are attempts to create taxation without representation and require meaningful checks and balances to avoid abuse.</p> <p>The principle of “simplicity” should be applied to any and all reforms of New Zealand’s local government landscape. We are a country with a relatively large land mass for a relatively low aggregate population. For reasons of history and geography, Aotearoa has a lot of different regional authorities (and many different hapū/iwi). We should not now consciously choose to implement bespoke systems of local government throughout the country.</p> <p>Reform is an opportunity to create new economies of scale and efficiencies, rather than fostering new inefficiencies and red tape.</p>

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<p>Local government as champion and activator of wellbeing [Recommendation 14]</p> <p>What feedback do you have on the roles councils can play to enhance intergenerational wellbeing?</p> <p>What changes would support councils to utilise their existing assets, enablers, and levers to generate more local wellbeing?</p>	<p>Councils have clearly struggled to perform their traditional core roles properly. For example, central government is now forced to untangle systemic underinvestment in water infrastructure. These failures detract from intergenerational wellbeing because future generations are being asked to carry the can for decisions (or inaction) over the past fifty years.</p> <p>HCA sees no evidence that councils (and past/present/future councillors) have any particular skills or expertise in “enhancing intergenerational wellbeing” in a general sense. We question whether “innovation and experimentation” are the best characteristics for local government institutions and/or councillors.</p> <p>Auckland Council attempted “innovation and experimentation” with its APTR. The experiment has been a catastrophic failure for Auckland and New Zealand. Destination marketing and event attraction in our country’s key gateway city for international travellers will soon be left effectively unfunded – this is a direct consequence of Auckland Council’s “experimentation” around tourism taxes and refusal to do meaningful research and analysis of international best-practice.</p> <p>Innovation and experimentation is for entrepreneurs, not for local government councillors. Local government should be applying best practices, not constantly seeking out novelty in the solutions they implement.</p> <p>The clearest way for councils to benefit future generations is to ensure that council-controlled infrastructure is planned, developed, constructed, maintained and replaced in the most cost-effective and efficient manner possible. Council services should be delivered cost-effectively and with the highest possible levels of customer-satisfaction. Again, greater focus on the basics would lead to better long-term outcomes for society as a whole and individual ratepayers.</p> <p>To the extent that “intergenerational wellbeing” refers to issues such as the economy’s response to climate change and other similar matters, HCA considers consumers and businesses will drive society’s localised response in a far better way than councils and councillors could ever hope to do. Where regulatory intervention might be needed, central government should take the lead setting national priorities and strategic direction, with any local government roles being clearly defined (and fully funded) by central government. New Zealand is simply not large enough to</p>
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		need different regional approaches to climate change and other similar issues of global importance.
19	<p>A stronger relationship between central and local government</p> <p>To create a collaborative relationship between central and local government that builds on current strengths and resources, what are:</p> <ol style="list-style-type: none"> the conditions for success and the barriers that are preventing strong relationships? the factors in place now that support genuine partnership? the elements needed to build and support a new system? the best options to get there? potential pathways to move in that direction and where to start? the opportunities to trial and innovate now? <p>How can central and local government explore options that empower and enable a role for hapū/iwi in local governance in partnership with local and central government? These options should recognise the contribution of hapū/iwi rangatiratanga, kaitiakitanga, and other roles.</p>	<p>It strikes us that much of the discussion around the relationship between central and local government could equally apply to the relationship between local government and industry. Does the Panel see any benefit in local government looking to improve its relationship with industry (including industry representative groups such as Hotel Council Aotearoa)?</p> <p>In Hotel Council Aotearoa’s opinion, the relationship between central and local government has, over time, become more politicised than should be the case. This is a consequence of local government’s expansion into areas previously the domain of central government. Depending on the political allegiances of local authority mayors and or central government Ministers, the relationship between central and local government can range between highly collaborative at one extreme, to highly combative at the other.</p> <p>Mayors and other local government leaders appear happy to leverage relationships with central government when it suits their purposes to do so. Hotel Council Aotearoa considers far greater transparency is needed, since private sector groups are often not given the same level of access to local or central government that each branch gives the other. Proactive publication of ministerial diaries and/or the Official Information Act are inadequate mechanisms for ensuring industry groups have sufficient visibility around “collaboration” between central and local government that at times veers towards consciously excluding other important stakeholders.</p> <p>In relation to the APTR and Queenstown bed tax, it appears from media reporting that there was considerable dialogue between central and local government on these issues, yet ongoing refusal to engage more meaningfully with industry stakeholders and experts.</p> <p>A “stronger relationship” between central and local government should not be at the expense of a strong relationship between local government and industry/commercial ratepayers.</p> <p>Refer also to our comments above concerning Recommendations 6-11.</p>

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21	<p>Replenishing and building on representative democracy [Recommendations 15-20]</p> <p>How can local government enhance its capability to undertake representation reviews and, in particular, should the Local Government Commission play a more proactive role in leading or advising councils about representation reviews?</p> <p>To support a differentiated liberal citizenship, what are the essential key steps, parameters, and considerations that would enable both Tiriti- and capability-based appointments to be made to supplement elected members?</p>	<p>Local government should not lead “representation reviews” at all. Since voter turnout of local authority level is woefully low, such reviews should be implemented top-down until those metrics improve. New Zealand does not need, and should not aspire to having, multiple different systems of local government created on the back of local “representation reviews” through which local government judges its own effectiveness. We support centralised administration of local government processes – it is a clear and obvious opportunity for greater efficiency and clarity in local government.</p> <p>Essential key steps, parameters and considerations are listed in our previous comments above.</p>
23	<p>Equitable funding and finance [Recommendations 21-25]</p> <p><i>“24: That central government reviews relevant legislation to: a. enable councils to introduce new funding mechanisms, b. retain rating as the principal mechanism for funding local government, while redesigning long-term planning and rating provisions to allow a more simplified and streamlined process.”</i></p> <p><i>“The Panel considers that legislative and policy changes should be made to make additional funding tools broadly available to local government, including [...] bed taxes and visitor levies that are charged to visitors to fund</i></p>	<p>There is no quick solution to council funding pressures, and it would be wrong to pretend there is. “New funding mechanisms” is definitely not the panacea for all local government ills.</p> <p>It seems clear that contestable funds and other mechanisms by which central government positions itself as “chief chucker at the lolly scramble” need to be dialled back. Wherever possible, distribution of funding by central government to local authorities should be formula-driven, repeatable and politically neutral. Emergency funding should be the principal exception to this rule (while of course remaining politically neutral).</p> <p>The word “equitable” within the heading to this section of the Draft Report suggests that councils (and by implication councillors) have been the victims of inequitable revenue-sharing as between central and local government. This may be true, and figure 23 of the Draft Report certainly supports the contention that we have an <i>allocation</i> problem between central and local government. In recent times, councils have themselves <i>created</i> inequality as between ratepaying businesses through the rushed introduction of targeted rates. This is what happened with the APTR.</p>

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	<p><i>infrastructure which has to be built to specifications beyond the needs of locals in order to accommodate peak demand (driven by tourism numbers)”</i> <i>[Extract from para 8.5.1]</i></p> <p>What is the most appropriate basis and process for allocating central government funding to meet community priorities?</p>	<p>Again, it is important to note that the APTR in Auckland was demonstrably an inequitable funding mechanism, and fully understood as such by some councillors and bureaucrats. Auckland Council has subsequently conceded that accommodation providers generally receive less than 10% of the benefit of tourist spending, yet the APTR targeted accommodation providers with a targeted rate on property values intended to raise 50% of Auckland Council’s annual expenditure on destination marketing and event attraction. No other tourism-connected business was required to pay this new rate.</p> <p>Councils have work to do to prove they can be trusted with new revenue-raising powers. Past attempts by Auckland Council and QLDC to introduce new tourism taxes have, in HCA’s opinion, been rushed, politicised and poorly-conceived.</p> <p>In Hotel Council Aotearoa’s opinion, regional authorities in New Zealand should not be granted additional revenue-raising powers unless and until:</p> <ul style="list-style-type: none"> (a) Voter turnout has materially improved over woefully low turnout levels seen today, such improvement indicating ratepayers’ support for wider council mandates; (b) Councils fully reform and overhaul their ratepayer engagement processes, including reforming current formal consultation processes, which typically appear to be unstructured check-box exercises rather than genuine attempts to be guided by sector experts; and (c) Councils make meaningful investment to improve their own policy-making capabilities and sector-specific expertise, particularly in relation to categories of ratepayer/industry that they intend to target through novel revenue-raising techniques. <p>It seems trite, but the most appropriate basis for allocating central government funding to meet community priorities depends on the essential nature of the thing being funded and its overall importance to New Zealanders’ wellbeing. Different sectors may have different funding options available. Methodologies for allocation of funding and/or new revenue-raising powers may have significant impacts over the medium and long-term, particularly when they affect infrastructure investment by private investors.</p>

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		<p>Again it seems trite to say, but whenever local decisions have national consequences, particular care needs to be taken with both the allocation of central government resources and the creation of new localised fundraising mechanisms. (Seventy percent of international tourists to New Zealand pass through Auckland, even though Auckland may not be the driver of their decision to visit. Auckland should not be granted free reign to implement local tourism taxes that may impact on visitation levels or the international visitor experience <i>to New Zealand as a whole</i>.) The Draft Report describes a need for “national consistency” when a revenue tool might impact on a “wider national policy goal”. This is absolutely on point when it comes to Tourism, yet the Panel still recommends new localised bed taxes.</p> <p>Pre-COVID, tourism was responsible for 9% of New Zealand’s GDP and was our country’s largest export earner. International tourism will only increase further from pre-COVID levels, in line with emerging economy growth and increasing global prosperity. Central government in New Zealand generates significant tax receipts from tourism by collecting 15% GST on every dollar spent by both domestic and international tourists. This generated almost \$3.9 billion in the year preceding COVID, of which \$1.8 billion was from international tourists (who have no recourse to New Zealand’s health, education or welfare systems). These are clearly not small amounts, particularly in light of Auckland’s destructive APTR being designed to raise just \$19 million annually.</p> <p>There is clearly a long-running tension between central and local government on a fair and equitable apportionment of existing tourist tax receipts (principally through GST, but also the IVL) to the regions that physically host tourists. Private industry should be involved alongside central and local government to resolve this allocation problem. Instead, the APTR in Auckland and QLDC’s drive for a local bed tax became politicised as a result of central government’s insistence that central funding, or a “share of the GST”, was simply off the table. Clear-sighted analysis of all options might show that GST is the best and most efficient method for collecting tourism tax and allocation could be fairly easily solved by formula, taking into account factors such as the number of available beds in a region, annual visitation levels or relative share of overall spending. Australia funds regional tourism expenditure partially through the allocation of Australian GST to state governments.</p>

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		<p>As regards tourism funding, Hotel Council Aotearoa supports <i>genuine</i> dialogue between central government, local government, industry and other key stakeholders on principles for a fair, reasonable and nationally-endorsed funding model for the tourism economy that draws upon international best-practice and robust research. Such a funding model may well include levies on overnight stays and/or other tourism product. We are not diametrically opposed to bed taxes <i>per se</i>.</p> <p>Hotel Council Aotearoa is surprised that the Panel considers itself to be sufficiently well-informed to make the specific recommendation in favour of localised bed taxes and visitor levies. Few international tourism experts would regard a system of numerous different bed taxes to be a first-in-class or modern solution to New Zealand’s so-called tourism funding problem.</p> <p>Hotel Council Aotearoa can only assume that there has been lobbying in favour of localised taxes from local authorities and/or their representative organisations. There are many reasons why localised tourism taxes and visitor levies are a terrible approach for a low-population, “touring” destination such as New Zealand, yet the Draft Report presents them as being an obvious and harmless remedy to a simple problem. That is simply not correct.</p> <p>For clarity: to the extent that “new funding mechanisms” for local authorities means opening the way for introduction of new localised bed taxes and/or targeted rates such as the APTR, HCA advises against them in the strongest terms possible. In our opinion, the Draft Report falls well short of providing reasoned justification for localised bed taxes. Any representations in favour of such taxes by local authorities should be thoroughly tested through genuine consultation with industry groups such as Hotel Council Aotearoa, not accepted on face value and given additional credence through being specified in the final Report that may be issued by the Panel.</p> <p>We request that the Panel refrain from making specific recommendations about tourism taxation in its final Report. If, however, the Panel decides to include specific recommendations in favour of new local bed taxes, we consider it would provide balance if the Panel included commentary on how Auckland’s APTR created inequality and fell well short of best, or even “good”, practice on any reasonable analysis.</p>

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	<p>System Design [Recommendations 26-28]</p> <p>What other design principles, if any, need to be considered? What feedback have you got on the structural examples presented in the report?</p>	<p>Hotel Council Aotearoa has no particular feedback on the structural examples in the Draft Report. We support any attempts to simplify and streamline the system of local government in New Zealand. Bearing in mind New Zealand’s small population, there are way too many different councils, boards, CCOs etc. in Aotearoa and the result is that ratepayers are disengaged from local government. As a nation, we must strike a better balance between localised decision-making and centralised system-design.</p> <p>As explained above, there needs to be complete systemic transparency on all elected and appointed decisionmakers in local government. Recall provisions should be considered to ensure all decisionmakers are ultimately answerable to a constituency that has the power and ability to change strategic direction. Political meritocracy is important. Bad policymakers must be subject to being given the boot by citizens or else it will not be true democracy.</p>
27	<p>System support and stewardship [Recommendation 29]</p> <p>How can system stewardship be reimagined so that it is led across local government, hapū/iwi, and central government? How do we embed Te Tiriti in local government system stewardship? How should the roles and responsibilities of ‘stewardship’ organisations (including the Secretary of Local Government (Department of Internal Affairs), the Local Government Commission, LGNZ, and Taituarā) evolve and change?</p>	<p>Hotel Council Aotearoa has no specific feedback on these questions outside of comments made above in relation to other topics. We do note that LGNZ – presumably in fulfilment of its stewardship role – felt obliged to make submissions to the Supreme Court in relation to litigation concerning the APTR. We note that LGNZ has never reached out to Hotel Council Aotearoa to discuss the pros and cons of localised bed taxes and/or better solutions to New Zealand’s tourism funding problem.</p> <p>In the Panel’s opinion, is there any role for private industry to play in the stewardship and support of local government?</p>

Appendix 2: Hotel Council Aotearoa presentation to the Panel dated 18 October 2022

[See attachment “HCA - Future for Local Government Review Draft Report Feedback (Appendix 2).pdf”]