HOTEL COUNCIL AOTEAROA

Future for Local Govt.

18 October 2022

Introducing HCA

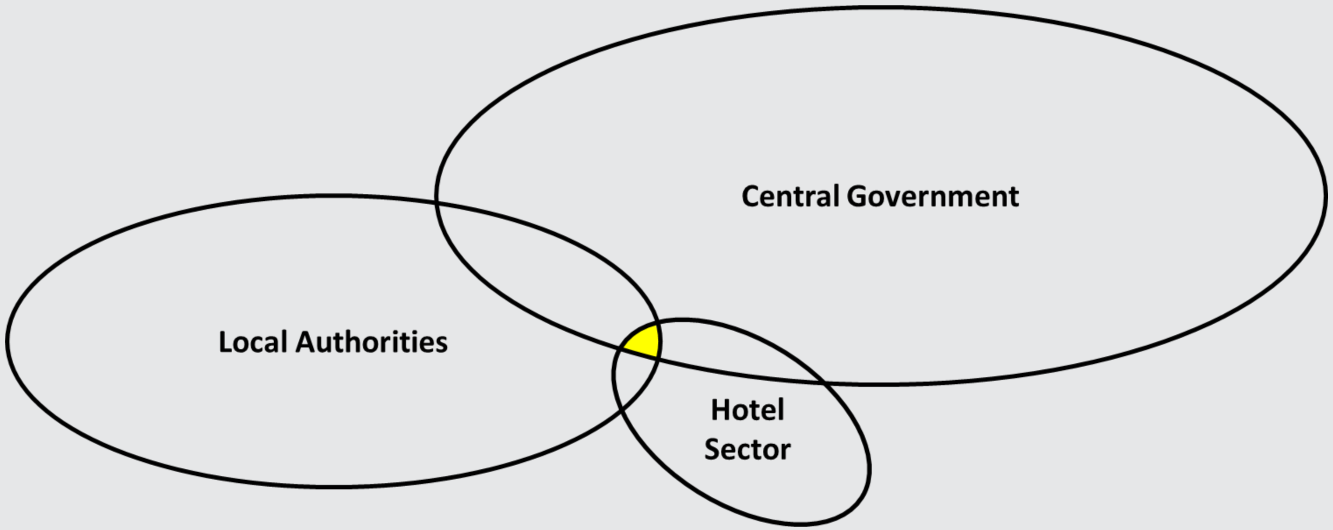
Why is HCA here?

- Hotel Council Aotearoa (HCA) is **opposed to localized bed taxes and targeted rates designed to mimic bed taxes**.
- Auckland's Accommodation Provider Targeted Rate (APTR) was a catastrophically poorly-designed policy that did significant to 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.
- Constitutionally in NZ, the APTR was a significant and fundamental change in how local authorities raise funds. It was a revenue tax disguised as a rate on capital values, and Auckland Council openly admitted as much.

What does HCA support?

- HCA agrees wholeheartedly that **local authorities are being put in an unfair and untenable position when it come to funding infrastructure for tourism**.
- HCA supports a fair, reasonable and nationally-endorsed funding model for the tourism economy that draws upon international best-practice and robust research.
- HCA was part of a consortium of sector groups and private companies that made a proposal to central government in 2021 for a new tourism funding model, one component of which was a national bed tax.

“Small” problem with large consequences



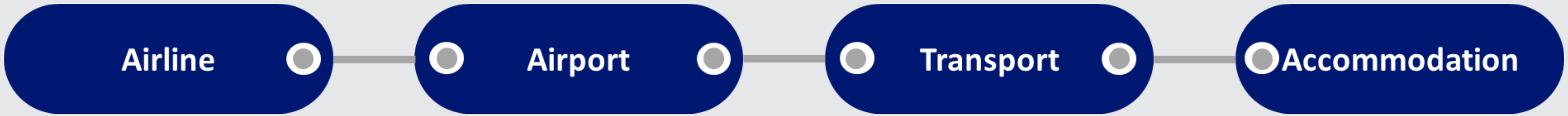
- Local level tourism funding decisions can affect New Zealand’s entire tourism industry, with national consequences.

Tourism – economic context

- Pro-COVID Largest export earner and largest services export.
- $41.7 billion in YE2020 spending, 7.9% of all NZ workers, $3.87 billion in GST, 3.65 million annual international visitors (dropped to 52K in YE2021)
- Even more critical to many regional economies – whereas once we mined/logged the West Coast, now we are stewards for the environment and show it off to outsiders…
- We compete for international visitors. Physical beauty balanced with other physical disadvantages (e.g., isolation, weak in-country transport infrastructure, weather).

Tourism – policy and strategic context

- Isolation makes New Zealand a “touring destination”, which impacts on target market and creates a **gatekeeper problem**.
- Perpetual pursuit of the “high value” traveller (drive “value over volume”). But how? It is not just a marketing problem.
- New Zealand must drive improvements in the product. Every international destination that has successfully shifted its tourism positioning has fixed the “guest journey”:



Hoteliers and local authorities <u>want the same thing</u>

- Dial up public infrastructure investment to so tourists are given a better experience.
    - $25 million Tourism Infrastructure Fund is woefully insufficient
- Repeatable, consistent investment that is not subject to political whim or “picking winners”.
- Infrastructure improvements needed so that permanent residents see the benefits of tourism, rather than only experiencing tourism as a cause of overcrowding.

… but there is not unlimited capacity to tax accommodation

FY2020 Accommodation Spending	5%	2.50%	1%
$ 3,200,000,000	$ 160,000,000	$ 80,000,000	$ 32,000,000

Local authority funding has become politicized

- APTR/bed tax touted as a pre-mayoral election policy – “Tourists must pay for the damage they cause”, “Hotels benefit when we support events”, “It’s only the cost of a cup of coffee” and “Without this tax on tourists, <u>your</u> rates will increase”.
- Minimal research as to overseas best practice and/or context of foreign bed taxes.
- Hypocritical approach to GST. Even if moneys aren’t hypothecated to tourism/local authorities, we can’t pretend that it’s not there… <u>It’s not hotel sector’s fault that central government isn’t reinvesting tourism tax take through local authorities</u>.
- Do we have a tourism funding problem, or an **allocation and reinvestment problem**?

Revenue taxes at local authority level are a big deal

- Very low levels of public engagement in local authority elections
- Questionable depth of policymaking and “Treasury-style” economic expertise
- Limited knowledge of how the targeted business sector *really* works, so high risk of unintended consequences
- High churn of elected officials and policy advisors
- Weak processes for creation of new regulations (in comparison with central govt legislation)
- LGA clearly not enacted with revenue taxes in mind – creative application of the law
- At odds with national philosophy of “one simple GST”

APTR is a poor precedent for revenue taxes

- Councils could conceivably create business revenue taxes targeting multiple different sectors (with ratable premises) using the same rationale as APTR:
  - Alcohol retailers to pay for the damage caused by alcohol abuse
  - Petrol retailers to pay for climate emissions
  - Private schools to pay for public education
  - Sex premises to pay for health/welfare initiatives
- Novel business sector revenue taxes could be highly popular – but socially divisive – at the ballot box.
- Targeted rates can lead to “them and us” politics if overused.

Why APTR was hated

- It could not be "passed through" to guests. *[Note: "pass through" means all hotels being able to directly charge guests the exact same amount as the tax/rate – e.g. $10 per room night or 5% of room revenue.]*
- Different hotels were exposed to different burdens (due to different capital values).
- Different hotel ownership structures affected in different ways (depending on who has responsibility for property rates, as opposed to business expenses).
- Minimal sector supervision of council spending, which was tagged for additional marketing only, not infrastructure improvement.
- No consideration of NZ's competitive position internationally – particularly with respect to Australia (10% GST and no bed taxes) and USA bed tax jurisdictions (which have much lower sales tax levels).

Why APTR was hated (cont.)

- No sensitivity to forward bookings and rate guarantees already given.
- Incapable of adjustment upon dramatic fall in demand (COVID-19 border closures). Suspension was necessary to prevent insolvency of small operators.
- Unequally applied to other accommodation types, especially alternative accommodation such as Air BnB.
- Blind to other businesses who benefit from tourism – accommodation receives 10c out of every $1 spent only. What about transport, retailers, restaurants, attractions, etc?
- Refusal to engage in proper dialogue around *solving the real problem* – central government underinvestment in tourism infrastructure and failure to share the spoils of tourism with local authorities.

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Talking Points

Local Government Funding

1

Local authorities having the freedom to impose effective revenue taxes on selected business sectors is a big deal.

2

Auckland's APTR is a salient example of what can go wrong when things become politicised.

3

Local authority revenue-generating techniques can conflict with NZ's national policy goals.

4

Local authorities and hoteliers are aligned that central government must invest more in Tourism.

5

In relation to Tourism, policymakers must be sensitive to the "guest journey", not one region only.

6

New Zealand is particularly susceptible to the gatekeeper problem.

7

Council control over spending decisions is admirable, councils designing the collection mechanism is not.

HCA

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