



**Submission to
Auckland Council
on the
proposed targeted rate
on commercial accommodation providers
as part of
the Auckland Council Annual Budget 2017/2018
consultation**

Date: 27 March 2017

Tourism Industry Aotearoa (TIA) welcomes the opportunity to comment on the proposed targeted rate on Auckland's commercial accommodation providers. This submission is filed without prejudice to TIA's future position. Our ability to prepare a comprehensive submission responding to the proposal relied on the provision by Auckland Council of information relevant to the connection between the proposed targeted rate and the benefits that would accrue. TIA does not believe that all relevant correspondence and data it has requested of the Council has been provided, and if that information is provided at a later date, we reserve the right to comment further. If Auckland Council does not have any further information, then we are concerned at the lack of an adequate evidential basis for the proposed targeted rate on Auckland accommodation providers.

TIA's submission comprises of this document and a number of supporting documents which are referenced on page 28 of this submission. These supporting documents form part of TIA's submission and should be read together with our main submission document.

EXECUTIVE SUMMARY

1. Commercial accommodation providers in Auckland are willing to pay their **fair share** towards tourism promotion.
2. There is, however, **no justification** for the proposed targeted rate solely on commercial accommodation providers. It is poorly designed and based on incorrect information. The targeted rate is **not the appropriate funding tool** for Auckland Council's purposes.
3. There has been very **limited information** sharing with the affected sector, few alternative funding streams considered, and no examination of the current level and effectiveness of the spending of Auckland Tourism, Events and Economic Development (ATEED).
4. It is **demonstrably unfair** and inequitable to target solely the commercial accommodation sector with a targeted rate when the benefits are spread across the entire Auckland economy.
5. The sector receives **9%** of the visitor spend in Auckland but is being asked to fund **100%** of Council efforts (through ATEED) to grow this spend.
6. The proposal has been **misleadingly described** as a Visitor Levy, when it clearly is not. Councils in New Zealand do not have the authority to impose a bed tax or visitor levy. The proposal is for an average rates increase of 150% on the owners of 330 buildings in Auckland from which commercial accommodation is provided. In some cases, the rates increase will exceed 300%.
7. The Council has **erroneously claimed** that the targeted rate can be passed on by showing a charge on the guests' bill. This is not correct. A visitor levy could be added to the bill; a targeted rate cannot.

8. The Mayor continues to insist that the rate can easily be recovered by accommodation providers adding \$6 to \$10 to the daily bill. This is **not correct**.
9. The **complexity** of the ownership arrangements in much of the commercial accommodation sector has been ignored. The building owners are frequently a different party to the operator of the accommodation.
10. Building owners will have to **absorb** the huge cost of the new rate, in some cases for years, before being able to pass it through to the operators of the accommodation service.
11. Strata title arrangements mean that there are actually over 3000 owners across the 330 properties. Many of these are **mum and dad Auckland investors** who are facing huge new costs that they **cannot recover** from the hotel operator, driving down the value of their investment.
12. In addition, a lot of accommodation business is contracted up to 3 years in advance and providers simply **cannot pass on increased costs** when prices have already been agreed to.
13. Auckland Council has incorrectly presumed that the overwhelming majority of visitors to Auckland stay in the commercial accommodation operated from the 330 targeted properties. In fact, only **a quarter** of the total visitor nights are spent with these providers.
14. In aiming to have visitors pay for the full cost of visitor services, the Council is **missing three-quarters of the target**.
15. If the true purpose of the targeted rate is to part-fund Auckland's huge infrastructure deficit, it is questionable whether this is an **'appropriate' funding mechanism** under the Local Government Act.
16. The Council has claimed the commercial accommodation sector gets 99% of its revenue from visitors to Auckland and somehow this justifies targeting the sector. This is **wildly inaccurate**. Aucklanders stay and use the sector's facilities to a far greater extent than this. It is also completely irrelevant – the share of income received from ratepayers is not the test to be used when determining the appropriateness of a targeted rate.
17. The commercial accommodation sector, along with all commercial ratepayers, is already **paying more than their fair share of rates**. The differential between commercial rates and residential rates is 2.7 to 1; something acknowledged in the Council documents as being unfair and needing to be reduced over time. There are other existing targeted rates. This new targeted rate would take the differential to between 6 to 1 and 8 to 1 for commercial accommodation providers.
18. ATEED's stated mission is to stimulate economic development for the benefit of the **entire city**. If funded directly by the commercial accommodation sector, all activities covered by this funding will instead have to be considered solely with regard to the

number of room nights generated. If the Council wishes to introduce user pays to ATEED, then the users doing the paying must get the benefit and this benefit must be measurable.

19. If the proposed rate was implemented, an **urgent and detailed review** of ATEED's visitor attraction and events programme would be required from the perspective of: how many commercial accommodation rooms does it fill?
20. The financial impact of the proposed rate is immense. It will **lower the valuations** of existing businesses by over \$400m, and may well force some smaller operators to **close down**.
21. Auckland Council is **incorrectly assuming** that the commercial accommodation sector can easily increase its room rates as these room rates have been steadily increasing in the last few years. However, in real terms room rates in Auckland are only now starting to return to the level of the late 1990s after more than a decade of decline.
22. Over the long term, the average return on funds employed in the accommodation sector in New Zealand has been around 4% pa. Returns of 7-8% are required to allow for refurbishment and updates. Focusing on the occasional spike in room rates for major events is a **misunderstanding** of how pricing works in the sector. This is no indication of the long-term returns to a business.
23. The proposed targeted rate will put a **strain on employment**. Accommodation providers will have to find cost savings and as employment costs can make up to 30% of accommodation operating costs, jobs are likely to be lost.
24. The Auckland Council has not recognised the **significant contribution** the commercial accommodation sector makes to promoting both their own businesses and the city, or the wider community contributions made. If the proposed rate goes ahead, operators will understandably and justifiably **review their current support** of joint marketing efforts and general community support.
25. The proposed rate is in **direct contrast** to the Central Government and ATEED's push to encourage new hotel and tourism development in Auckland. It will have an immediate impact on the **economic feasibility of new projects**.
26. Hotel owners and developers are reviewing their commitment to Auckland. More than **\$500 million in capital investment** could be immediately lost from Auckland if this rate proceeds.
27. Auckland's **economy will be damaged** by this poorly designed measure, and as Auckland is the international gateway, New Zealand's interests will also be harmed.

RECOMMENDATIONS

28. The Council must drop this proposal. There are other opportunities to meet the Council's budget objectives, without unfairly targeting just one sector that makes up less than 10 percent of Auckland's visitor economy.
29. Other options do not seem to have been adequately explored, including a review of the Council's costs structure, other potential revenue sources, and the management of its overall asset portfolio.
30. Of the limited options provided in section 2.3 of the Council consultation document¹, TIA favours option 1, the status quo, but believes there are ways for the cost per ratepayer (of 90c a week) to be reduced.
31. The Mayor has announced the appointment of an Expert Panel to review four main areas of Council expenditure, with a report back by September. TIA calls on the Council to add ATEED this year to the areas of expenditure to be examined by the expert panel, so that well-informed decisions can be made.
32. The accommodation sector is willing to pay its fair share. It is ready and willing to work with the Council to find a fair and sustainable way for the sector to make an appropriate contribution to the visitor and event promotion activities of ATEED.
33. In terms of providing for tourism related infrastructure, solutions that can be applied nationwide are eminently preferable to ad hoc measures from council to council. TIA is working closely with central government on the provision of national solutions.

INTRODUCTION

34. Tourism Industry Aotearoa (TIA) is the peak body for the tourism industry in New Zealand. With over 1,500 members, TIA represents a range of tourism-related activities including hospitality, accommodation, adventure and activities, attractions and retail, airports and airlines, as well as related tourism services.
35. The primary role of TIA is to be the voice of the tourism industry. This includes working for members on advocacy, policy, communication, events, membership and business capability. The Wellington based team is led by CEO Chris Roberts.
36. TIA's Hotel Sector represents the interests of over 140 hotel members throughout New Zealand, including international chains, large independent and privately owned hotels. Of these TIA hotel members, 38 hotels are in the Auckland region.
37. TIA's Hotel Sector is led by Hotel Sector Manager Sally Attfield, together with eight Regional Hotel Chairs. Paul Columbus, General Manager Novotel Auckland Airport, is the Regional Chair of the Auckland region.

¹ Source: Auckland Council, *Supporting document Annual Budget 2017/2018, Help guide Auckland's direction for 2017/2018* – as sourced from <http://www.shapeauckland.co.nz/media/1728/annualbudgetsupportinformation20172018.pdf>

38. Any enquiries relating to this paper should in the first instance be referred to Sally Attfield, TIA Hotel Sector Manager at sally.attfield@tia.org.nz or by phone on 021 993 656.

THE ISSUE

39. Auckland Council is proposing a targeted rate on Auckland accommodation providers in order to replace the \$27.8 million it currently provides from general rates to Auckland Tourism, Events and Economic Development (ATEED) for a broad range of services it collectively refers to as 'visitor attraction and major events'.

40. There has been no review of ATEED's spending. The \$27.8 million provided in 2016/17 for the above services will be provided again in 2017/18.

41. The Mayor has stated that the additional revenue from the proposed targeted rate will allow the Council to make additional borrowings to invest in roads and other infrastructure, without breaching its debt ceilings and preserving the current AA credit rating.

42. The Mayor has also stated that the targeted rate is needed to allow him to keep a promise to keep the general rate rise for 2017/18 to no more than 2.5%.

43. The proposal therefore has at least three purposes: to provide a new source of funding for a significant component of ATEED's activities; to allow the Council to borrow more for general infrastructure projects; and to keep an election promise.

44. This proposed rate will only apply to properties where short-term commercial accommodation is provided; not to long-stay accommodation, non-measured accommodation, or any of the many other sectors directly benefiting from visitor attraction and major events.

45. Auckland Council says it has identified 330 affected properties, with approximately 3,100 owners. The proposal is to apply the targeted rate at \$0.01394584 (GST inclusive) per dollar of the capital value of each of these properties.

46. Auckland Council assumes that accommodation providers working from these properties will be able to pass this targeted rate on to their guests.

OUR VIEW

The proposed targeted rate is inequitable

47. According to the Auckland Council Revenue and Financing Policy² and the Local Government Act, when setting a targeted rate, the Council needs to show the connection between who would pay the rate and who is receiving benefits from the services to be funded. TIA considers it an essential aspect of the Council discharging its fiduciary duty to ratepayers to have regard to their interests, including the extent of the benefits they may derive from the authority that they are compelled to fund.
48. Auckland Council claims that accommodation providers are the most immediate direct beneficiary of funding visitor attraction and major events expenditure. This assumption is **not correct**.
49. The most current calculation of the value of the Auckland visitor economy can be obtained from the Monthly Regional Tourism Estimates provided by the Ministry of Business, Employment and Innovation (MBIE). The figures for the 12 months ended January 2017 show that the annual tourism spend in the Auckland region is \$7,486m³ and that spend in commercial accommodation services in the Auckland region accounts for \$697m, which equals **9.3%** of total annual tourism spend in the Auckland region.
50. Four sectors as defined by Statistics New Zealand and MBIE receive a larger share of the visitor spend than commercial accommodation.

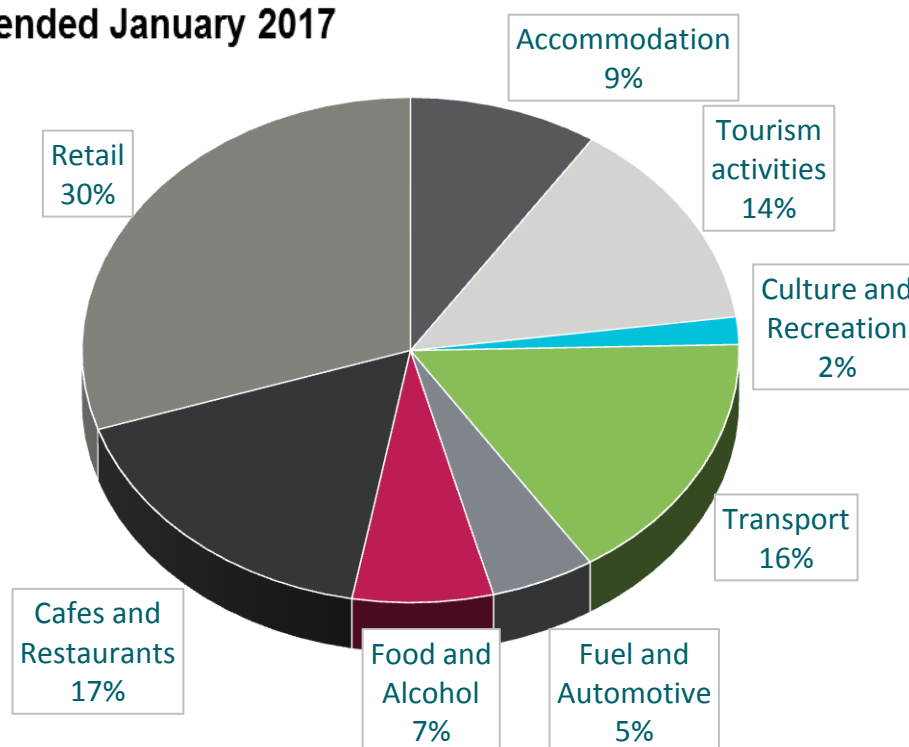
General retail sales make up 30% of total annual tourism spend in the Auckland region, food and beverage serving services 17%, passenger transport (excluding air) 16% and tourism activities 14%.

Other sectors that also benefit from tourism are alcohol, food and beverage sales (7%), fuel and other automotive products (5%) and cultural, recreation and gambling (2%).

² Source: Auckland Council, *Auckland Council Long-term Plan 2012-2022, Volume Three: Financial information, policies, fees*, p 149 – as sourced from http://www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/plansstrategies/Long_term_plan/Pages/Home.aspx

³ Source: Ministry of Business, Employment and Innovation, Monthly Regional Tourism Estimates 2017, as on 20/03/17 - <http://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/monthly-regional-tourism-estimates/annual-spend-grouped-by-region-country-of-origin-and-product-category>

Auckland Total Tourism Spend year ended January 2017



<i>Auckland Visitor spend year</i>	<i>Spend</i>	<i>Share of total visitor spend</i>
General Retail	\$2249m	30%
Cafes and Restaurants	\$1280m	17%
Transport	\$1211m	16%
Tourism activities	\$1015m	14%
Accommodation	\$697m	9%
Food and Alcohol supplies	\$518m	7%
Fuel and automotive	\$384m	5%
Culture and Recreation	\$131m	2%

Source: MBIE, Monthly Regional Tourism Estimates, YE Jan 2017

51. The quoted figures are the actual revenue derived from these services by international and domestic visitors. The revenue derived from spending by local residents on these services is **not** included in these figures.
52. The visitor economy is a **major employer** – one in every 8 New Zealanders is employed through tourism, more than 332,000 workers⁴. This includes 98,000 Aucklanders. A significant proportion of Auckland families rely on tourism for their household income.

⁴ Source: Statistics NZ, *Tourism Satellite Account: 2016. The contribution made by tourism to the New Zealand economy*, October 2016

53. The MRTEs do not record the total tourism spend in Auckland. They do not include GST, airline revenue, spending by international students or all of the revenue earned by Auckland based travel companies. If these were all included, (as they are in the annual Tourism Satellite Account produced by Statistics New Zealand) the total Auckland tourism spend is over \$13 billion a year – with the commercial accommodation sector share reducing to around 5%. However, to keep things simple and consistent, we will use the MRTE estimate.
54. If ATEED is successful with its endeavours to stimulate visitor spend to a higher level than would otherwise have occurred, it could be reasonably expected that around 9% of that additional revenue will be received in the commercial accommodation sector.
55. This shows that the assumption that accommodation providers are the most immediate beneficiary of funding visitor attraction and major events expenditure is **wrong**. We fail to understand how it would be fair to target just the commercial accommodation sector with a targeted rate when multiple sectors benefit, with many benefitting to a greater extent than accommodation services.
56. The proposal also **completely ignores** the fact that many visitors to Auckland will just be visiting for the day. Although data on **day trips** to Auckland is limited, data collated for the Domestic Insight Growth Tool⁵ shows that there is a potential for more than 4 million day trips a year by New Zealanders to Auckland.
57. Direct spending into a sector is one measure of the income impact, but it is not the whole story. Spending into one sector begets spending into others. Tourists pay for accommodation, the accommodation providers pay their staff out of that revenue, the staff buy goods and services out of their wages, the stores they buy from employ staff - and on it goes. In the case of visitor spend, this is what TIA refers to as the 'Power of the Tourism Dollar' (see appendix 1).
58. Until now, the Auckland Council has accepted that the community as a whole is the real beneficiary of visitors coming to Auckland. It is simply **incorrect** to look at the first-round effects of any spending and then pick inequitably on just one sector.
59. In the Auckland Council's Long Term Plan 2012-2022⁶, the Council said in respect of tourism promotion:
The regional community as a whole benefit from this activity from the economic spillover generated by increased visitor numbers.
60. In the current Annual Plan documentation, there is **no explanation** as to why the Council has departed from this generally accepted view.

⁵ Source: <http://www.dgit.nz>

⁶ Source: Auckland Council, *Auckland Council Long-term Plan 2012-2022, Volume Three: Financial information, policies, fees*, p 103 – as sourced from http://www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/plansstrategies/Long_term_plan/Pages/Home.spx

61. The Council Annual Budget document claims that the commercial accommodation sector gets 99% of its revenue from non-Aucklanders. This is **incorrect**. In 2016, 13% of all commercial accommodation guest nights in Auckland were taken by Aucklanders.

Commercial guest nights in Auckland, year ended Oct 2016	Hotel	Motel	Backpacker	Holiday Park	Total
	7%	9%	1%	37%	13%
Aucklanders	302,019	147,369	8,269	162,353	3,556,088
Domestic	2,200,694	1,035,958	177,493	153,675	9,346,092
International	1,945,534	475,371	729,880	123,756	15,224,279
TOTAL	4,448,247	1,658,698	915,642	439,784	28,126,459

Source: Fresh Information Company (2017)

62. Hotels are also significant providers of other facilities – bars, restaurants, cafes, day spas, meeting and function venues - that have a high level of use by Aucklanders. Local residents are also significant users of the region's holiday parks and due to the housing crisis, an increasing number of Aucklanders are staying in motels.
63. In a letter to TIA dated 28 February 2017, Mayor Phil Goff stated: *I fully accept the economic benefits of visitors to Auckland are widely distributed. The critical point you are overlooking, however, is that nearly all the commercial accommodation sector's revenue is derived from visitors, unlike the other industries. This places the commercial sector in the best position to pass on the costs of the targeted rate to visitors to Auckland'.*
64. It is factually **wrong** to claim that nearly all of the sector's revenue is derived from visitors. It is an **irrelevant** factor anyway; the share of income is not the test to be used when determining the appropriateness of a targeted rate. What is important is what share of benefit a sector receives from council expenditure that it is being asked to fund. In this case, the commercial accommodation sector is being asked to pay 100% to receive 9% of any benefit that accrues.
65. The commercial accommodation sector, along with all commercial ratepayers, are already **paying more than its fair share of rates**. The differential between commercial rates and residential rates is 2.7 to 1; something acknowledged in the Council documents as being unfair and needing to be reduced over time.

There are other existing targeted rates, such as the City Centre Targeted Rate and Heart of the City contribution. For example, one of the hotels in the Auckland CBD already contributes close to \$30,000 pa in targeted rates in support of the Heart of the City and more than \$96,000 pa for the City Centre Targeted Rate. This new targeted rate would take the differential to between 6 to 1 and 8 to 1 for commercial accommodation providers.

Not a Visitor Levy

66. Auckland Council does not have the power to impose a visitor levy. While the Mayor announced this proposal as a Visitor Levy, it is most definitely **not**. It is a targeted rate, and a poorly targeted one at that.
67. The difference between a levy and targeted rate is **hugely significant**. A levy has in-built flexibility to move with occupancy rates (and is thus applied relative to affordability), whereas a targeted rate applies on an absolute basis. The proposed targeted rate is not inherently linked to occupancy, revenues, or capacity to pay it.
68. The proposed targeted rate is to be based on the building's capital value, not on the number of guests staying at that particular business. For example, a hotel with a capital value of \$50 million incurs a targeted rate of \$697,000 regardless of the number of guests staying at the property over the year. Whether the hotel has 45% or 95% room occupancy, the rate bill stays the same.
69. Auckland Council claims in its proposal that '*bed taxes are widely used in cities around the world*'. This may well be the case, but does not justify the targeted rate proposal. The bed taxes used overseas are **visitor levies and not a targeted rate**. Accommodation businesses are able to show the cost of a visitor levy on their guests' bills, but cannot show a targeted rate.
70. The Council Annual Plan document lists a number of New Zealand examples of targeted rates. Not one of these involves a targeted rate solely imposed on just one sector such as commercial accommodation providers, or a council rate that appears on the guests' bill. The targeted rates used elsewhere in New Zealand to support tourism promotion are all applied **much more widely** than this proposal. The approaches of other local authorities more accurately reflect the distribution of benefits in the visitor economy and the duty of local authorities to have regard to the interests of its ratepayers.

The targeted rate cannot simply be "passed on"

71. The assumption in the Council Plan that '*If they wish, the accommodation sector can pass through the costs of the rate by adding an Auckland Council accommodation sector targeted rate surcharge of around 4% to guests' bills*' is **incorrect and highly misleading**.
72. Mayor Goff's letter to TIA on 28 February 2017 assumes '*there is no impediment to adding an identifiable surcharge to guests' bills so long as the surcharge reflects a reasonable estimate of the apportionment of the targeted rate. This is the same approach used by holiday providers who choose to apply a surcharge on statutory holidays in order to cover higher labour costs on those days*'. It is **not** the same approach and this claim is **incorrect**. A visitor levy or surcharge could be added to the bill; a targeted rate cannot. This is another instance of the Council's proposal being based on mistaken facts.

73. The Commerce Commission has noted that accommodation providers would be in breach of the Commerce Act if they were to discuss a pricing approach, let alone agree to one. Furthermore, the Commerce Commission has **prosecuted** firms for adding 'surcharges' to cover normal operating costs that should be included in prices⁷. This is further evidence why accommodation providers, and all other firms, do not add a 'council general rate' surcharge to their bills.
74. The **complexity** of the ownership arrangements in much of the commercial accommodation sector has been ignored. There are property developers, building owners, hotel management contracts, franchise arrangements etc. Often the party receiving the rates bill is one or two stages removed from the provider of the guest services. There are contracts and lease arrangements in place which prevent the passing on of additional costs incurred by the listed building owner; in some cases, these arrangements can only be reviewed every five years.
75. Building owners will have to **absorb** the huge cost of the new rate, in some cases for years, before being able to pass it through to the operators of the accommodation service.
76. Strata title arrangements mean that there are actually over 3000 owners across the 330 properties. Many of these are **mum-and-dad Auckland investors** who are facing huge new costs that they cannot recover, driving down the value of their investment. In some cases, there are 30-year leases in place with the investor responsible for paying all rates, with no ability to pass on any increases.
77. In addition, owners of strata title-owned apartments in numerous properties across Auckland have indicated to TIA Hotel members they will withdraw their apartments from the hotel management pool if they have to pay the targeted rate. This will push apartment owners to the likes of Airbnb, who will not be subjected to these targeted rates under the council's proposal.
78. In those cases where the cost can be passed on to the accommodation provider, operators **cannot** simply pass on the increased costs to guests. Much accommodation business is contracted well in advance. Some individual operators have more than 50% of their business contracted at set prices for up to 3 years.
79. Twenty-four Auckland hotels have provided TIA with confidential data on their bookings and have agreed that we can share it in aggregated form. For these twenty-four hotels, air crew, tour bookings, MICE (Meetings, Incentive groups, Conferences and Exhibitions) bookings, group bookings, corporate bookings, business travel bookings and Free Independent Travel (FIT) bookings have already contracted 632,558 room nights in 2017; 318,329 guest nights in 2018; 90,225 room nights in 2019 and 500 room nights in 2020. These twenty-four hotels already have 1,041,612

⁷ Source: Commerce Commission, *Qantas fined \$380,000 over misleading adverts*, 10th of October, 2006 - as sourced from <http://www.comcom.govt.nz/the-commission/media-centre/media-releases/2006/qantasfined380000overmisleadingadv>

rooms contracted up to 2020. For 2017, pre-contracted room nights equal 35% of their total room capacity and for 2018, pre-contracted room nights equal 17.5% of their total room capacity. On top of these numbers, hotels have agreed allocations for up to 100% of their capacity over certain periods. Any new cost **cannot be passed on** to pre-contracted bookings. This is further evidence that the targeted rate cannot simply be passed on to visitors.

How the accommodation market works

80. Over the long term, the average return on funds employed for the accommodation sector in New Zealand has been around 4% pa. Returns of 7-8% pa are required to allow for refurbishment and updates. Focusing on the occasional spike in room rates for major events is a **misunderstanding** of how pricing works in the sector. The majority of rooms sold during a major event will still be for contracted business, like corporate, aircrew, group travel, at negotiated room rates. Only the remaining rooms are priced in response to the short-term demand. This is no indication of the long-term returns to a business.

81. If accommodation providers could simply put up their charges for every room sold any day of the year, they would. They all want to maximise their returns. But they can only charge what the **market will accept** at any given moment. If the targeted rate proceeds, the primary response will be to cut costs, including on staff and refurbishment; not to put up room rates.

82. The Mayor continues to insist that the rate can easily be recovered by accommodation providers adding \$6 to \$10 to the daily guest invoice. This is **not correct**.

83. Ciaran Handy, the Senior Director, Operations for Stamford Hotels, based in Singapore, wrote to Mayor Goff on 3 March regarding the impact on the Stamford Plaza Hotel.

"I think the Council's statement that hotels should pass the increase on to the visitors is preposterous and unexpectedly naive for a local government authority responsible for a modern first world city of Auckland's size and stature. If I could pass on a higher rate to our guests then I would. The nature of our business ensures that much of our existing rates are already committed and contracted for up to two years in advance so recuperating the tax is not an option."

Missing the Target

84. In his letter to TIA dated 28 February 2017, Mayor Phil Goff stated: *"The appropriate lens to assess the fairness and affordability of the proposal is the impact on the people who will ultimately bear its cost – visitors to Auckland."*

85. TIA takes issue with this approach. Visitor services should not be seen simply as a cost; they are an **investment to generate economic activity** for the benefit of the entire city. We expand on this later in our submission. However, if cost recovery from the visitor is the Council's intention, this proposal fails dismally.

86. Auckland Council has presumed that the overwhelming majority of visitors to Auckland stay in the commercial accommodation operated from the 330 targeted properties. This assumption **is factually incorrect**, so again the Council seems to be making decisions based on wrong information.

87. There are 28.2 million guest nights a year in Auckland. 16% of these nights are in hotels, 6% motels, 3% backpackers and 2% holiday parks – a rounded total of 26%. An additional 20% of guest nights are in other paid accommodation (including Airbnb and holiday houses) with a majority of 54% staying in unpaid accommodation (mostly with friends and family).⁸

Auckland Guest Nights, year ended Oct 2016	Hotel	Motel	Backpacker	Holiday Park	Other paid accommodation	Unpaid accommodation	TOTAL
	4,448,247	1,658,698	915,642	439,784	5,488,765	15,175,323	28,126,459
Share	16%	6%	3%	2%	20%	54%	100%

Source: Fresh Information Company (2017)

88. The commercial accommodation sector does not look after the majority of visitors to Auckland. It only sees a quarter of them. If all visitors to Auckland are the desired end target, only **one quarter** are reached by this proposed targeted rate. 'The appropriate lens' tells us this is **not fair or equitable**.

89. Airbnb has 6,000 properties in Auckland⁹ and that number has doubled in each of the last two years. Considering other providers like BookaBach and Holiday Homes, the number of rooms being rented out privately in Auckland to visitors is likely to be conservatively at least 10,000 rooms. **Non-measured accommodation** is a rapidly growing sector and is going to get significantly larger.

90. In deciding not to target the non-measured accommodation sector, the Council states that *'many holiday homes and properties available from Airbnb don't have a clearly identifiable part used for non-residential purposes making it difficult to rate them for their business activity'*.

91. The claim by Auckland Council that it is difficult to rate this non-measured accommodation activity seems to be a technical argument rather than an economic one. The Council is doing what is **administratively easy; not what is fair**. Again, this shows that the proposed targeted rate is inequitable and there is a disconnect between those who would have to pay the targeted rate and those receiving the benefits.

⁸ Source: Fresh Information Company (2017)

⁹ Source: Airbnb spokesman Brent Thomas, Radio NZ, 14 March 2017

Funding Infrastructure

92. TIA questions the true purpose of the targeted rate. The supporting document Annual Budget 2017/2018¹⁰ is **confusing and contradictory**.

93. At the front of Section 2.3 'Paying for tourism promotion', it states:

'The ratepayer funding that is freed up will be available for new infrastructure investments, including transport infrastructure projects. This will allow \$27.8 million of general rates funding to support \$180 million of capital expenditure over 5 years expanding to a total of \$250 to \$300 million over 10 years.'

94. However, further on in the same section, when discussing why the Council is not prepared to wait for the national discussion on a nationwide visitor levy, it states:

"The council has rejected the option of waiting for central government to introduce a national bed night tax. There is no guarantee that this measure will be implemented or that the funding would be made available to the council. In addition, discussions between central government and the tourism sector in regard to a bed night tax have focused on using the revenue to fund tourism infrastructure. The council's proposal relates to expenditure on visitor attraction and major events."

95. Which is it? Is it to fund new transport infrastructure as stated in the first council statement, or is not for infrastructure but to fund visitor attraction and major events, as stated a few pages later?

96. If the true purpose of the targeted rate is to part-fund Auckland's huge infrastructure deficit, it is questionable whether a targeted rate on commercial accommodation is an **'appropriate' funding mechanism** under the Local Government Act. No specific benefit to the commercial accommodation sector has been demonstrated from unspecified general infrastructure spending by the Council.

97. The Mayor has specifically identified **transport links from the airport to the city** as the target for the infrastructure spend. Presumably, this is a reference to rail, as the main links to the airport are State Highways and the responsibility of NZTA. If part funding a rail link to the airport (to be completed in 30 years' time) is the end objective, a targeted rate on accommodation is clearly not an appropriate mechanism.

98. It seems that infrastructure funding has driven the decision-making behind the proposal, and that Auckland Council has attempted to justify the targeted rate *after* deciding that infrastructure needed additional funding. Commercial accommodation has been seen as an **easy target**, not the right target.

¹⁰ Source: Auckland Council, *Supporting document Annual Budget 2017/2018, Help guide Auckland's direction for 2017/2018* – as sourced from <http://www.shapeauckland.co.nz/media/1728/annualbudgetsupportinformation20172018.pdf>

Visitors are a benefit not a cost

99. The targeted rate proposal fails to recognise the **wider economic benefits** tourism delivers to Auckland and its residents. Tourism is a huge success story for Auckland and Auckland Council should support continued growth, not be placing barriers to growth.
100. In his response to TIA of 28 February 2017, Mayor Goff states, "*The intent of my proposal is to create an environment where residents are not paying for visitor attraction services*".
101. This approach is **badly flawed** and fails to recognise the nature of the visitor economy and the role of ATEED as a promoter of economic development. Visitor services are not just a cost that the Council should seek to recoup. As with its other activities, **ATEED invests in visitor promotion** in order to deliver an economic return to the city and its residents. Given the recent record growth in visitor expenditure, ATEED is 'backing a winner' in supporting tourism.
102. If the Council genuinely believes that visitor services are only a cost, and not an investment in economic growth, then the obvious answer would be to stop funding ATEED for these services. This is not an approach TIA supports.
103. The Council has **not conducted any review** of ATEED's expenditure on tourism and event promotion to determine how well it is doing in meeting the goals of stimulating economic development for the benefit of the entire city. TIA's view is that analysis of that, as an alternative to its proposed approach, is an essential component of this decision-making process.

ATEED's activities

104. ATEED's Statement of Intent¹¹ outlines five strategic objectives, one of which is to grow the visitor economy. In relation to this objective, it states:

The benefits of an enhanced visitor economy extend beyond the direct economic impacts that increased visitor numbers bring. A city that is attractive to visitors also attracts residents, students, migrants and investment, in turn providing jobs and an improved standard of living. In this way, the visitor economy underwrites much of the amenity of Auckland that benefits visitors and residents alike.

105. TIA is **totally supportive** of this Strategic Objective. This is why every region in New Zealand, every modern city in the world, funds a regional tourism organisation or has tourism support delivered by an economic development agency. The benefits from stimulating the visitor economy flow to the entire community.

¹¹ Source: Auckland Tourism, Events and Economic Development, Statement of Intent for Auckland Tourism, Event and Economic Development, 2015-2018 – as sourced from <http://www.aucklandcouncil.govt.nz/EN/AboutCouncil/representativesbodies/CCO/Documents/ateedstatementofintent20152018.pdf>

106. It is important to note that the ATEED objective is not to 'increase the number of visitors' or 'promote the interests of the accommodation providers'; it is to grow the visitor economy for the benefit of visitors and residents alike.
107. Requiring the commercial accommodation sector to pay for the full \$27.8 million that ATEED will spend under its wide definition of visitor and event promotion requires this expenditure to be viewed through a **different lens**. No longer can it be judged by the benefits accruing to the city as a whole; rather it must be solely considered in terms of the number of **additional room nights generated**. If the Council wishes to introduce user pays to ATEED, then the users doing the paying must get the benefit and this benefit must be quantifiable.
108. The Council has insisted that the \$27.8 million will all benefit the commercial accommodation sector. This is patently **incorrect**.
109. Over half of the \$27.8 million is spent on event promotion: \$14.4 million. Despite requests, **no breakdown** has been provided of this expenditure, but it is believed to include the World Masters Games, The NRL Nines, the V8 races and around two dozen other events. ATEED and the Council have provided no breakdown of these events in terms of their costs, revenue generated or the split between Aucklanders and non-Aucklanders.
110. The lack of information or explanation about these matters is concerning, and has meant that TIA has not obtained relevant information to provide a complete submission. In this regard, TIA notes the obligations of Auckland Council to consult in accordance with the principles set out in the Local Government Act. TIA considers it incumbent on Council to evidence and quantify the benefit of ATEED's activities.
111. The events ATEED delivers directly itself are primarily for the **enjoyment of Aucklanders**. They contribute greatly to the social fabric of the city but are not drivers of visitation. These include Diwali, the Lantern Festival, the Waka Festival and Pasifika. Many of the other events ATEED supports, are also for Aucklanders – such as The Farmers Santa Parade, The Auckland Pride Parade, the Auckland Writers Festival, The Takapuna Beach Cup etc. These events result in very little increase in demand for commercial accommodation. There is a **clear disconnect** between those who are now being asked to pay – the commercial accommodation sector – and those receiving the primary benefits – Auckland residents.
112. The other events that ATEED subsidises would almost all take place with or without ATEED's involvement. They include All Black tests, pop star concerts, and golf, yachting, tennis and running events. What needs to be determined is: what **additional visitor spend** is generated in Auckland from each event as a result of ATEED's involvement? The causal connection between ATEED's activities and the benefits is central to Council's proposal, but this assessment has **not been done** and the evidence TIA received to information requests to the Council are patently inadequate. ATEED does have overall economic evaluations of these events, which the Council has refused to release, but the Council has never, to TIA's knowledge, done a proper **cost benefit analysis** of the return that the Council gets for ATEED's contribution to each event.

113. The Council Annual Plan document¹² claims the events ATEED contributed to in 2015/16 generated \$44.75 million in tourism expenditure in 2015/16. What is not stated is: what impact did ATEED's investment make to this level of expenditure? Can ATEED claim credit for 5%, 10%, or maybe 20% of this overall spending?
114. If we make some generous assumptions and allow ATEED to claim a quarter or 25% of the spending associated with these events, this amounts to \$11.2 million. As commercial accommodation operators receive 9% of the tourism spend in Auckland, they may have received around \$1 million in additional revenue as a direct result of ATEED Events programme – a programme they are now being asked to fund to the tune of \$14.4 million.
115. In other words, they are being asked to hand over \$14.4 million, to at best get \$1m back.
116. ATEED's \$995,000 spend on attracting international students is included in this proposed rate but this market has virtually no benefit for the commercial accommodation sector. The spending is intended to deliver benefits, but these benefits go to the **education sector**; not to the commercial accommodation sector.
117. ATEED's \$637,000 spend on working with MFAT and NZTE to attract hotel investment in Auckland is included in this proposed rate – bizarrely the existing operators are being asked to pay for efforts to attract their competitors to the city.
118. ATEED has \$2.365 million to spend on the Auckland Convention Bureau. The Bureau promotes Auckland as a destination for business events and it does work with some hotels that have convention facilities. However, the Bureau also finds business for **council-owned facilities** like the ANZ Viaduct Event Centre, Aotea Centre and The Cloud. Commercial accommodation providers are now being asked to fund a body that takes business off them.
119. Many hotel and motel guests **do not benefit** at all from ATEED activities e.g. business travellers. Many business people, public servants and politicians come to Auckland, attend meetings and stay overnight. These 'non-leisure' visitors make up a significant proportion of the total number of guests staying in commercial accommodation (for TIA's Auckland member hotels it is 38% of total visitor nights for YE Dec 2016), but there is no clear link to ATEED's expenditure. These visitors would be travelling to Auckland anyway.

¹² Source: Auckland Council, *Auckland Council Long-term Plan 2012-2022, Volume Three: Financial information, policies, fees* – as sourced from http://www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/plansstrategies/Long_term_plan/Pages/Home.spx

120. If the proposed rate was to be implemented, an **urgent and detailed review** of ATEED'S visitor attraction and events programme would be required. As it would now be entirely funded by the commercial accommodation sector, only activities that could be shown to deliver a significant direct return for that sector in terms of additional bed nights could be funded in future.

Impact on the targeted businesses

121. As referenced above, Auckland Council suggests that Auckland accommodation providers simply pass on the targeted rate to their visitors. Indeed, it was labelled a 'visitor levy' or 'bed tax' and it was only after complaints from the tourism industry that the Council accepted that it should correctly be referred to as a targeted rate. However, as recently as February 2017 in official notices sent to Auckland ratepayers, the proposal was still being described as a Visitor Levy. It is hard not to draw a conclusion that ratepayers were being **deliberately misled**.

122. Treating the targeted rate like a visitor levy and putting it on the guests' bill is **not an option**, both from a commercial and legal perspective. As a result, the financial impact on accommodation providers is substantial. To the extent the proposal is based on the premise that the cost can and will be passed on, it rests on a mistaken assumption.

123. The proposed targeted rate aims to add \$27.8m in operating costs to the owners of 330 properties from which commercial accommodation is offered. The average rate increase for these 330 properties is 150% and some are facing increases of more than 300%. Loading this targeted rate onto a few hundred properties will save the average Auckland ratepayer **90 cents a week**.

124. On average, the TIA member hotels in Auckland will see an increase of Council rates of \$500,000 per year. This ranges from a hotel with a lower capital value that will see a targeted rate of \$20,000 to a hotel with a higher capital value that will see a Council rate increase of \$1.5m. This is on top of the current Council rates the hotels are paying.

125. A CBD Backpackers with a capital value of \$18m will have to pay a targeted rate around \$251,000; an inner city motel with a capital value of \$4.8m will have to pay a targeted rate around \$67,000 and an outer city motel with a capital value of \$1.5m will have to pay a targeted rate around \$21,000¹³.

126. The Auckland Council Oral Hearing on 20 March 2017 was given the example of one small motel in the Rodney District whose council rate bill is set to go from \$8,805 to \$36,805 – an increase of 418%.¹⁴

¹³ Source: Hospitality New Zealand, *Auckland Targeted Rate of Commercial Accommodation Proposal and Discussion*, 20th Feb 2017

¹⁴ Source: Presentation to Council Hearing by Troy Clarry, 20 March 2017

127. The Waipuna Hotel and Conference Centre has indicated that their Council rates will triple from the current \$200,000 per annum to over \$600,000. As a result of this increase, the Chief Executive of the Mount Wellington Licensing Trust responsible for the Waipuna Hotel and Conference Centre has indicated that they will have to review their gifting programme to local community groups.

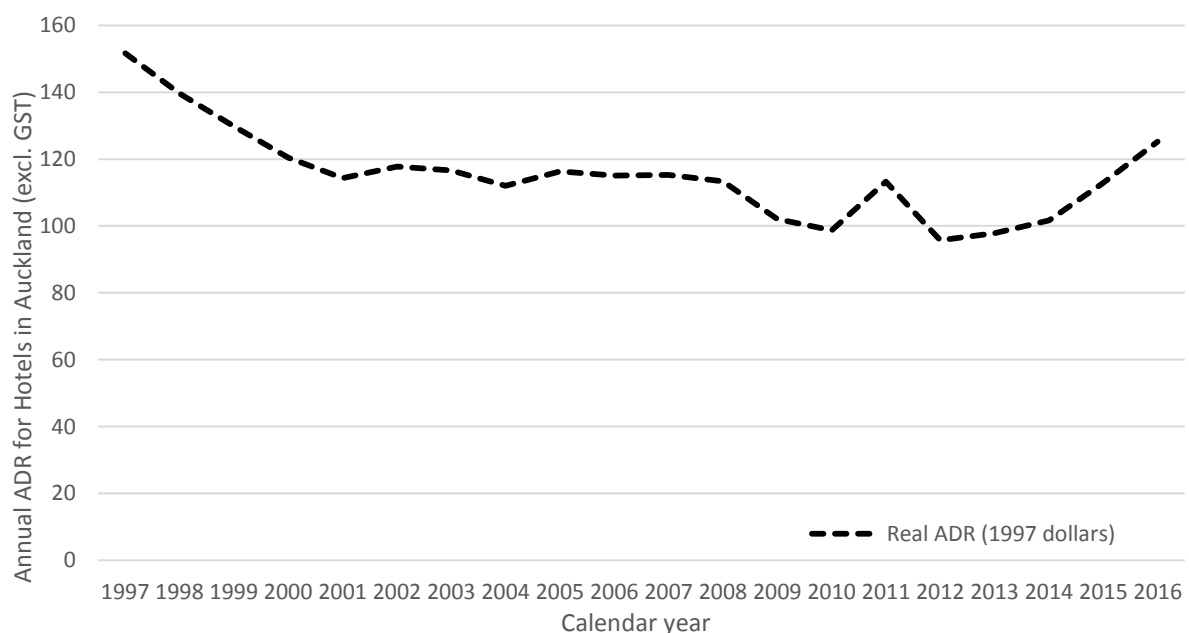
128. The financial impact of the proposed rate is immense. It is very likely that this rate increase will drive some smaller operators in the motel, backpacker and holiday park sector **out of business**, and will significantly lower the valuations of these businesses.

129. An appropriate capitalisation rate for the land and building used to provide commercial accommodation in Auckland (being the rate of return on the cost of a property based on the income that the property is expected to generate) is between 6% and 7%. On this basis, the \$27.8 million in additional operating costs represents a collective write-down on balance sheet valuations for these properties of between **\$400 and \$450 million**.

Industry returns are not excessive

130. Auckland Council seems to assume that the commercial accommodation sector can easily increase its room rates as room rates have been steadily increasing in the last few years. This is **incorrect**.

131. As can be seen below, adjusted for inflation room rates in Auckland are only now starting to return to the level of the late 1990s after more than a decade of decline. In 1997-dollar terms, the average daily room rate in 2016 was still **22% lower** than in 1997.



Source: Fresh Information Company (2017)

132. The recent growth in the sector follows a prolonged period of flat-lining and negative growth. While the industry is generally trading favourably now, it follows years of low returns. This rate proposal appears to be based on the current short-term growth and it would be highly unlikely such a rate would have been targeted at the accommodation sector even three years ago. TIA urges the Council to take account of the future interests of its community and its ratepayers, and to foster a **sustainable operating environment** for commercial accommodation providers. The targeted rate proposal appears designed to solve an immediate problem at the expense of the long term.
133. Room rates in Auckland are still below room rates in other international cities. For example, in 2016 the Average Daily Rate (ADR) in Singapore was US\$203.16, Tokyo \$176.64 and Sydney \$163.93. In comparison, the ADR in Auckland was US\$127.10. This clearly shows that the ADR in Auckland is far below the ADR in comparable international cities. Accommodation providers need to be making sufficient returns to reinvest back into their properties, and returns need to be high enough to attract much needed new investment. With an ADR of US\$127, coupled with high construction costs, new **hotel investment in Auckland remains a marginal proposition**. The additional rates burden would make many proposals infeasible.
134. Dynamic pricing is a pricing tool that accommodation operators use to manage supply and demand, just as airlines do. While the hotels charge peak room rates, for example for the Adele concert or the World Masters Games, this is in response to normal supply and demand. A \$600 room rate is only possible for some rooms at some properties for a very limited number of days of the year. Only a small portion of overall rooms can be dynamically priced, due to the contracts in place. An ADR of US\$127 across all Auckland hotels in 2016 is clear evidence that rates are generally much lower.

Capital value

135. The proposal assumes that *'Capital value has the strongest link to the accommodation sector's revenue potential and hence the likely benefit received and the ability to meet the additional costs. Capital value reflects several indicators of revenue potential including size, amenity and location'*.
136. TIA would like to see any ATEED data that demonstrates a business with a higher capital value receives more benefit from ATEED's actions than a business with a lower capital value.
137. The proposal states that the capital value of hotels, and hence their share of rates, may be overstated. *"The council will need to consider adjusting current valuations to remove the portion of the building not used for accommodation such as conference facilities, restaurants and bars"*. These are far from the only non-accommodation services that these properties provide. TIA is interested to see how Auckland Council aims to do this.

138. Furthermore, there are a number of buildings/complexes that are rated as one building but represent mixed use, i.e. they include commercial and retail, and these buildings are not strata titled. We would like to hear how Auckland Council aims to adjust for this.

139. The consultation document is silent on what Auckland Council intends to do when the capital value of properties providing commercial accommodation business change: will the Council adjust its proposed targeted rate downwards?

The targeted rate will negatively affect employment

140. The proposed targeted rate will put a strain on businesses and employment, affecting staff remuneration, potential staff retrenchment and limited investment in training/development of staff. Due to the competitive nature of the sector, many accommodation providers will have to absorb the increased rate, which will have an impact on profitability. Costs will therefore need to be reduced. As employment costs can make up to 30% of accommodation operating costs, **jobs are likely to be lost** and hours reduced for others. Operators have already indicated to TIA that the targeted rate will affect staff remuneration and that there will be potential staff retrenchment.

141. As earlier stated, around 98,000 Aucklanders are employed in the visitor economy. Linked Employer-Employee Data (LEED)¹⁵ employment count and earnings for the accommodation sector in the Auckland region¹⁶ show how many people are employed in the Auckland accommodation sector and their total earnings. The most recent period available is 2015:

	Number of people	Earnings \$(000)
YE March 2015	9,093	246,891

Source: Statistics NZ (2017)

142. The commercial accommodation sector offers a diverse range of careers and also offers opportunities to new migrants and those with limited skills. If the proposed targeted rate will be allowed to proceed, it is likely to have a significant impact on employment in Auckland.

The proposed targeted rate ignores the sector's own contributions

143. The accommodation sector is a **significant contributor** to Auckland's economy. Data from the 2015 TIA Annual Operating Survey, shows that TIA's 38 Auckland hotel members contribute \$363m pa to the Auckland region through wages and salaries (\$161m), food and beverage purchases, council rates (currently \$8.4m) and other expenditure. Central Government also benefits significantly through GST, company tax and income tax.

¹⁵ LEED uses administrative data from the Inland Revenue taxation system and business data from Statistics NZ's Business Register to match employers and employees information together

¹⁶ Auckland region = Rodney District; North Shore City, Waitakere City, Auckland City, Manukau City, Papakura District, Franklin District

144. The wider contributions the commercial accommodation sector makes to Auckland City are also being **ignored**. This contribution includes sponsorship, pathways to work for young unemployed, and community support.
145. The sector invests a lot of effort (time and money) in marketing, including directly contracting with airlines and international tour companies. There is a clear correlation between the accommodation sector's own marketing efforts and the number of visitors they attract.
146. Auckland hotels regularly travel overseas to meet key decision makers and attend international tradeshows to first promote Auckland as a destination and then their respective hotels as an international meetings/leisure destination.
147. All hotels support international marketing efforts by hosting familiarisation trips for visiting travel agents and decision makers. These are often in conjunction with ATEED, Tourism New Zealand and on many occasions directly organised by the individual hotel or hotel group in conjunction with Inbound Leisure or Meetings Organisers.
148. As an example, in 2016 The Langham Auckland alone provided ATEED, Tourism New Zealand and Inbound Industry Partners over 250 room nights either on a complimentary or hugely discounted basis, with a value in excess of \$50,000. The overall industry's contribution in this sphere is very significant.
149. On average, the TIA hotel members in Auckland spend \$1.26 million each on marketing annually. That is a total spend of almost **\$43 million a year**. This ranges from smaller hotels that might spend \$10,000 up to large hotels that spend well over \$1.5m in annual marketing. The visitors attracted by this marketing bring wide benefits to the region through their spend on other services e.g. food and beverage services, entertainment, retail and transport.
150. If the proposed rate goes ahead, the commercial accommodation sector will be forced to find cost savings. Operators will understandably and justifiably **review their current support** of joint marketing efforts and general community support.

Deterring reinvestment and new investment

151. Both the Auckland Council and the Government have identified the need for new hotel developments in Auckland to keep pace with population and tourism growth. Furthermore, one of ATEED's key focus areas is to facilitate new 'smart money' (productive foreign investment).¹⁷
152. Half a dozen new hotels are under construction or are committed in Auckland; all of these commitments were made before the proposed targeted rate was announced.

¹⁷ Source: Auckland Tourism, Events and Economic Development, *Statement of Intent for Auckland Tourism, Events and Economic Development, 2015-2018* - as sourced from <http://www.aucklandcouncil.govt.nz/EN/AboutCouncil/representativesbodies/CCO/Documents/ateedstatementofintent20152018.pdf>

These new hotels are **not enough**. According to NZTE's Project Palace report, an additional 4,300 more rooms are needed in Auckland by 2025; that is, within the next 8 years. This proposed rate is in **direct contrast** to the Central Government and ATEED's push to encourage new hotel and tourism development in Auckland city and region.

153. The proposed targeted rate will have an immediate impact on both the underlying value of existing accommodation assets and the feasibility of new projects. With the potential to add millions of dollars in bottom-line costs, this will clearly impact on the **economic feasibility** of some hotel developments. TIA has received clear indications that developers are reviewing their plans and reconsidering their investments based on the proposed changes. If the proposed rate will go ahead, it will be major deterrent to the much needed new hotel development in the Auckland region.

154. As Dean Humphries from Colliers, who is involved in many of the new hotel developments in Auckland and across New Zealand, points out in his interview for NBR of 22 Feb, 2017¹⁸:

"Several hotel feasibility studies and projects in Auckland are likely to be scrapped if the council imposes rates increases of 150%-plus on the accommodation sector to fund ATEED. Colliers International hotels and tourism director Dean Humphries says he had major developers contacting him yesterday to say the proposed rates increases will have a major impact on their businesses and new development may be stopped.

The targeted rate increase will heavily discourage any new development, which is already extremely marginal due to excessively high land and building costs. I have already been contacted by a party looking to develop a new hotel in Auckland and they are now reviewing the viability of the project.

On one hand, the government and ATEED are trying to promote new development and on the other hand Auckland Council is effectively discouraging new development."

Dean Humphries makes further comments on the impact on investment in one of the supporting documents to this submission.

155. CP Group the largest hotel owner and developer in Auckland and New Zealand, has put four planned hotel developments in Auckland on hold.

"Four new hotels totalling 600 new hotel rooms in Auckland are at risk of not proceeding if Auckland Council's proposed targeted rates increase is implemented, due to its negative impact on the financial viability of the new hotels.

This would mean over 600 full-time, part-time and casual jobs and over \$200 million in the building industries will be lost to the Auckland economy over the next 2 years.

¹⁸ Source: NBR, *Hotel development in danger of halting with 150% council rates increases*, 22th of February, 2017 - as sourced from <https://www.nbr.co.nz/article/hotel-development-danger-halting-150-council-rates-increases-sl-p-199803>

Auckland Council would also lose \$2 million in annual rates from the new hotels not proceeding. In addition, suppliers to the hotels such as food and beverage, cleaning, laundry and operating supplies would lose out on business if the hotels were not built.

CP Group would now instead look overseas at hotel investment opportunities where the investment climate by central and local governments was more favourable”.

156. In his letter to Mayor Goff on 3 March, Ciaran Handy, the Senior Director, Operations for Stamford Hotels, based in Singapore, stated:

"As with the other hoteliers, I will have to consider carefully how the hotel can make up the deficit due to the increase in council rates of nearly \$1 million to a total of just under \$1.5 million per year. As with the other major Auckland hotels, we will most likely be forced to accommodate the deficit by making employment cuts, ceasing the outsourcing of housekeeping, reducing the variety of produce obtained from the local Auckland and New Zealand community and reducing the services to the trade community.

If it becomes operationally unfeasible or financially unsound to continue the operation of a hotel in Auckland, we may be obliged to consider pulling our operations out of Auckland altogether in favour of entering another domestic, regional or international market with friendlier policies."

157. The owner of another major Auckland Hotel has informed the Council that it has put on hold a \$35m refurbishment due to get underway in the middle of this year, because of the threatened rate rise. The owner has in excess of \$125 million in capital that it was intending to deploy in Auckland. It is now looking to spend its capital in other cities *"with a more accommodating business environment"*.
158. Auckland operates in a **global and competitive tourist market**. International hotel developers can make their investments anywhere in the world. Many cities are incentivising new investment; Auckland is doing the opposite with this proposed rate.
159. A developer with a property in Auckland will have multiple options for its use; hotel, retail, office accommodation, apartments. The hotel option becomes **significantly less attractive** if this proposed rate is imposed, as it is a cost that none of the other development options face. The rate will distort market decisions.
160. The \$27.8m that Auckland Council is looking to collect from the proposed rate is relatively insignificant in terms of funding challenges facing Auckland city, but will pose a **considerable financial burden** on Auckland's commercial accommodation sector.
161. The information provided to TIA in the past few weeks by hotel owners and developers suggests that at least **\$500m in investment capital**, and possibly multiples of that, will be immediately lost to Auckland if this targeted rate proceeds.

Other options

162. The Mayor has proposed a targeted rate because he does not have the authority to impose a bed tax. In 2015, Ernst & Young was commissioned by Auckland Council to provide a review of alternative sources of financing¹⁹. The review indicates that *there are legislative barriers to implement a bed tax, that it would be too 'industry specific' and might create a threat to the tourist industry*.
163. The report indicates that *implementing a bed tax is complex and with limited strategic alignment*. Ernst & Young say that there are other options that are less complex and more strategically aligned, such as asset optimisation. Examples would be partial or full sell down of Auckland International Airport shares or partial or full sell down of Auckland Council's Diversified Financial Assets Portfolio.
164. Ernst & Young also recommend that *Auckland Council continues to engage with the tourism industry and the wider public to consider strategies for capturing revenue from Auckland's transient population*. This clearly has **not happened** so far.
165. In a section on the Border Clearance Levy (travel tax), Ernst & Young indicate the importance of improving the attractiveness of Auckland as a gateway to New Zealand and the importance of maximising the tourism spend to Auckland. It is clear that the proposed targeted rate is doing exactly the opposite.
166. We are deeply concerned by the lack of thought that has gone into this proposal. It appears there was a desire to find a new income stream - some money from somewhere, anywhere - and hotels, motels, hostels and holiday parks looked like an **easy target**.
167. TIA is convinced that there are **other options**, such as a review of the Council's costs structure, that are preferable to and more equitable than imposing higher rates on businesses. We cannot see evidence that internal costs have been fully reviewed to meet the Council's rate-rise cap of 2.5%. We are convinced that there are other opportunities to meet the Council's budget objectives without unjustifiably targeting a sector that supports so much economic activity for Auckland.
168. We are of the opinion that the process of proposing a targeted rate to the commercial accommodation sector has suffered from **undue haste** and lack of consultation with the affected sector. There has been very limited opportunity for sector input, very little information sharing with the affected sector, no alternative funding streams considered, and no examination of the current level and effectiveness of ATEED spending.

¹⁹ Ernst & Young, *Auckland Council Alternative Sources of Financing*, 11 November 2015 - as sourced from <http://www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/reports/technicalpublications/Documents/alternativefinancingev.pdf>

169. A proposal as radical as the targeted rate should have been included in the Long Term Plan (LTP) public consultation process, not suddenly appear in an Annual Plan discussion. **The proposed targeted rate for 2017/18 must be withdrawn** to allow for a proper discussion based on facts and true industry engagement.

170. The Mayor has announced the appointment of an **Expert Panel** to review four main areas of Council expenditure, with a report back by September. TIA applauds this approach but is bewildered that a similar approach has not been taken for ATEED. TIA calls on the Council to add ATEED to the areas of expenditure to be examined by the expert panel this year, so that well informed decisions can be made, to replace the rushed, unjustified and damaging targeted rates proposal.

FOLLOW-UP PROCESS

171. TIA wishes to participate further in any follow-up process, including any formal meetings, to ensure that the potential impacts on tourism and the commercial accommodation sector are adequately represented.

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Supporting Documents:

The following documents also form part of TIA's submission to the Council:

- 1. Key Facts on the Proposed Targeted Rate**
- 2. NZIER review of the Auckland targeted rate proposal**
- 3. Letter of Support from Colliers International**
- 4. Letter of Support from Horwath HTL**
- 5. Letter of Support from Bed and Breakfast Association**
- 6. Letter of Support from Marriot Hotels NZ**