

Rating of the online accommodation sector

Proposal

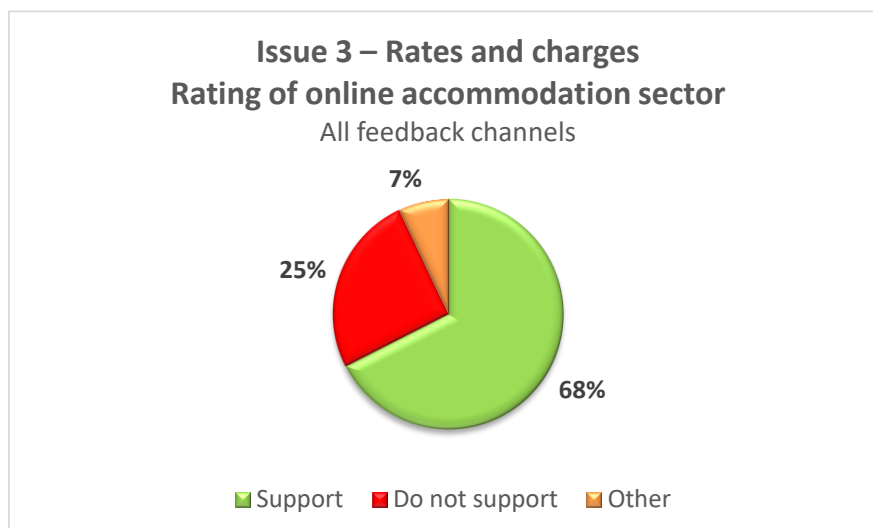
As part of the consultation on the long-term plan, the council sought the community's views on a proposal to change the amount of rates charged for properties let via web-based accommodation services, such as Airbnb and Bookabach. Under the proposal online accommodation providers across the region would be charged business rates (rather than residential rates) where they let their property for more than 28 nights. If the property was located in the APTR area then the APTR would also apply. The level of the rates will depend on the number of nights booked and location of the property as set out in the table below:

Number of nights booked	Rating treatment
Up to 28 nights	<ul style="list-style-type: none">continue to be rated as residentialAPTR does not apply
Between 29 and 135 nights	<ul style="list-style-type: none">rated as 75% residential and 25% business25% of the APTR will apply if the property is located within the APTR zone
More than 135 nights	<ul style="list-style-type: none">rated as businessthe full APTR will apply if the property is located within the APTR zone

The proposal only applies where an entire dwelling is let. It does not apply where only part of the dwelling is let, such as a bedroom or sleep-out.

Feedback

The council received 16,535 responses to this question. From these responses, 16,042 written feedback points were provided.



Key finding across all feedback received are:

- online providers are businesses and should pay business rates
- the proposed approach to online providers would make it fairer to hotels and motels
- the changes would be difficult to implement.

Mana whenua

Of the eight Iwi Authorities that provided feedback:

- five iwi supported the proposal

- two did not support the proposal
- one said the proposal was not applicable to them.

Stakeholders

Among accommodation sector stakeholders including Airbnb, Bachcare, Bookabach, Hospitality New Zealand, Property Council New Zealand, Tourism Industry Association, and Trademe (Holiday Homes) there was mixed support for the proposal. The majority did not support the application of the APTR citing the inequity of applying the rate to accommodation providers while not applying it to other tourism operators.

However, there was acknowledgment by the majority of stakeholders that in the event that the APTR continue to be charged then online accommodation sector should be treated equitably with other commercial accommodation providers. There was a variety of suggested amendments to the proposal including:

- adjustment to the tier structure and the proportion of rate that applies at each tier.
- to ensure equity between all providers the proposed changes should apply to parts of a property made available for short term rental, such as where a room or sleep-out is let

Some of the stakeholders also expressed concern about the problems in administering the rate including in particular identifying these properties. The same messages were mirrored by other business groups that were not accommodation providers, or their representatives, but had accommodation providers as part of their membership.

Local Boards

12 local boards supported the proposal for rating of the online accommodation sector and one did not. Specifically:

- The following local boards supported online accommodation providers that meet particular thresholds paying business rates and the accommodation provider targeted rate: Albert-Eden, Devonport-Takapuna, Henderson-Massey, Māngere-Ōtāhuhu, Orākei, Waitematā and Whau local boards (7 local boards).
- Five local boards supported the proposal in relation to the accommodation provider targeted rate (but did not mention business rates): Great Barrier, Hibiscus and Bays, Kaipātiki, Puketāpapa and Waiheke.

Consideration

When the APTR was consulted on as part of the Annual Budget 2017/2018 feedback from traditional accommodation providers included that it was unfair that online accommodation providers were not subject to the same rates charges as traditional providers. When the council adopted the APTR staff were directed to report back on a proposal for 2018/2019 to include online accommodation providers.

The purpose of this proposal is to make rates charges fairer between traditional accommodation providers, such as hotels and motels, and properties let via web-based accommodation services. Traditional providers pay higher business rates and also the APTR where applicable. However, owners of residential properties who let them out via web-based accommodation services pay lower residential rates and do not pay the APTR.

Changing the way the online sector is rated will ensure those providers are treated equitably with other commercial accommodation providers such as hotels and motels.

The key issues involved when considering the proposal are:

- Where the differential boundaries should be set?
- What level of rates to charge within each differential group?

Differential boundaries

The lower differential boundary of 28 booked nights allows property owners to let the property up to 4 weeks, for example while on holiday, while recognising the limited revenue generated. This is

consistent with the approach taken by Queenstown Lakes District Council (QLDC). Properties let for less than 28 nights will generate up to \$5,964 per annum using an average daily rate for the online sector of \$213.

The upper differential boundary was set at 135 booked nights which was the average point where the revenue gained from using a property for short term rental exceeds the potential from the annual revenue from using the property as a long term rental. This is a similar approach used by Rotorua Lakes Council to determine the commercial intention of the property owner but is lower than 179 booked nights used by QLDC.

Differential levels

Determination of the rates charges for the three categories of properties in the online sector is based on the scale of commercial offering and whether the property is located in an area currently liable for the APTR.

Consideration of the appropriate differential level for medium occupancy properties let between 28 and 135 nights requires an exercise of political judgement. A mix of 25 per cent business and 75 per cent residential rates acknowledges that owners of these properties are operating on a semi-commercial basis. Similarly applying 25 per cent of the APTR acknowledges that they are benefiting from the work that ATEED undertake.

Properties booked more than 135 nights should be considered business as they are producing annual revenue in excess of using the property for long-term residential use and are commercially viable as a business. It is proposed that they should therefore pay business rates and the full APTR.

Rates impact

Under the proposal, applicable rates will depend on:

- how many nights the property is let for each year
- which local board area the property is located within
- the capital value of the property.

If the property is let for 28 nights or less then there will be no change in rates as a result of this proposal. If the property is let between 29 and 135 nights then rates increases will be between 30 to 80 per cent depending on the APTR zone in which the property is located. If the property is let for more than 135 nights then rates will increase to levels paid by commercial accommodation providers (around 140 to 300 per cent depending on the APTR zone in which the property is located).

Impact on revenue

Proceeding with the proposal will not result in increased rates revenue. The total amount of rates collected from the APTR will remain the same but it will be spread differently over a broader ratepayer base. In particular traditional accommodation providers who are already paying the APTR will see a reduction in the level of the APTR charged of up to 27 per cent. The proposal will also reduce general rates for business ratepayers by up to 1.8 per cent but will not have a material impact on the level of general rates paid by other ratepayers.

Collection of rating information

Officers have put in place a process to identify online accommodation providers and collect the necessary information to rate them correctly. This process involves searching websites, working with other interested parties, such as hotel operators and body-corporates, and targeted communications with ratepayers. At the time this report was prepared officers have identified around 1,250 properties (approximately 15%). Information collection processes are continuing and officers expect this number to be higher by the time rates are assessed for 2018/2019. It will not be possible to identify all online accommodation providers without co-operation of the website operators involved. The website operators are constrained in how much they can assist by their terms of service and privacy settings.

Modification of proposed option based on feedback

Some sector operators suggested shifting the differential boundaries higher to allow increased revenue before increased rates started to apply. The rationale is to make rates less burdensome for

operators with relatively lower bookings or lower than average room rates. The suggestion was that to be classified as medium-occupancy the operator should have at least 55 to 60 booked nights per annum. It was also suggested that the boundary before full business rates and APTR applied be raised to 180 nights. The rationale being that occupancy rates at this level are more in line with motels.

There are two ways in which the proposal could be modified in response to this feedback. These are:

a) Shifting the differential boundaries higher

Under this approach the threshold for the number of nights booked is raised for medium-occupancy and high-occupancy categories before increased rates apply. The level of rates charged for each category remains the same. This is set out in the table below:

Number of nights booked	Rating treatment
Up to 60 nights	<ul style="list-style-type: none"> continue to be rated as residential APTR does not apply
Between 61 and 180 nights	<ul style="list-style-type: none"> rated as 75% residential and 25% business 25% of the APTR will apply if the property is located within the APTR zone
More than 180 nights	<ul style="list-style-type: none"> rated as business the full APTR will apply if the property is located within the APTR zone

This approach would allow ratepayers to earn additional revenue before higher rates applied. Medium-occupancy operators would generate around \$12,800 per annum before rates would increase between 30 and 80 per cent (\$700 to \$1,900 per annum). While high-occupancy operators would generate around \$38,000 per annum before full business rates applied. At this point rates would increase between 140 and 300 per cent (\$3,400 to \$7,200 per annum).

It would also result in a ratepayer base that is smaller than proposed. The APTR for traditional providers would reduce by up to 19 per cent rather than 27 per cent under the proposal.

b) Introducing an additional differential category

Under this approach an additional differential category is added between medium-occupancy and high-occupancy operators. This new differential category would be charged 50 per cent business rates and 50 per cent of the APTR as laid out in the table below.

Number of nights booked	Rating treatment
Up to 28 nights	<ul style="list-style-type: none"> continue to be rated as residential APTR does not apply
Between 29 and 135 nights	<ul style="list-style-type: none"> rated as 75% residential and 25% business 25% of the APTR will apply if the property is located within the APTR zone
Between 136 and 180 nights	<ul style="list-style-type: none"> rated as 50% residential and 50% business 50% of the APTR will apply if the property is located within the APTR zone
More than 180 nights	<ul style="list-style-type: none"> rated as business the full APTR will also apply if the property is located within the APTR zone

This approach would not impact the thresholds for low-occupancy or medium-occupancy providers. However this approach would allow ratepayers to earn the additional revenue before full business rates and the APTR applied. Owners of properties let for up to 135 nights will generate around \$29,000 per annum before they would be classified as moderate-occupancy and rates would increase between 70 and 170 per cent (\$1,700 to \$4,100 per annum).

It would also mean that to be classified as high-occupancy a property would need to be let for more than 180 nights. As a result they would generate around \$38,000 per annum before full

business rates and the full APTR applied. At this point rates would increase between 140 and 300 per cent (\$3,400 to \$7,200 per annum).

It would also result in a ratepayer base that is smaller than proposed. The APTR for traditional providers would reduce by up to 23 per cent rather than 27 per cent under the proposal.

Consideration of statutory criteria

Council has consulted on this proposal in accordance with its obligation to consult on any changes to its rating system. In determining the appropriate sources of funding to meet its funding needs the statutory criteria in section 101(3) of the Local Government Act 2002 must be considered. A full analysis against the statutory criteria is set out in Attachment B Assessment against statutory criteria – General Rate and Attachment C Assessment against statutory criteria – APTR.

Attachment A: Options Table

Rationale	Benefits	Risks/Issues	Impacts
General Rates			
Option One: Treat all online providers as business for general rates	Online accommodation providers operate in much the same way and receive similar levels of benefit as traditional accommodation providers who pay business rates	<ul style="list-style-type: none"> • Encourages those who intend to operate their property in a commercial capacity while dissuading those who do not • Treats online accommodation providers in a similar way to traditional providers by making them liable to fund councils general expenditure to similar levels 	<ul style="list-style-type: none"> • Does not allow for differences in affordability for individual online accommodation providers and may cause affordability issues for some • May drive avoidance behaviours particularly for those who do not intend to operate in a fully commercial capacity • It is difficult to identify individual providers based on the information publicly available
Option Two: Continue to treat online providers as residential for general rates	It is difficult to identify individual providers based on the information publicly available	<ul style="list-style-type: none"> • Avoids issues associated with trying to identify online accommodation providers • Does not cause affordability issues for any online providers 	<ul style="list-style-type: none"> • Online providers avoid additional general rates costs which traditional providers are currently required to pay • May contribute to owners of units currently being used as part of traditional serviced apartment accommodation switching to become an online provider.
Option Three: Introduce a graduated differential as proposed	Some online accommodation providers operate in similar ways and receive similar levels of benefit as traditional accommodation providers who pay business rates	<ul style="list-style-type: none"> • Treats online accommodation providers in a similar way to traditional providers by making them liable to fund councils general expenditure to similar levels • Encourages those who intend to operate their property in a commercial capacity • Allows for differences in affordability for individual online providers 	<ul style="list-style-type: none"> • It is difficult to identify individual providers based on the information publicly available • May drive avoidance behaviours

	Rationale	Benefits	Risks/Issues	Impacts
Option Four: Introduce a graduated differential as proposed : shifted boundaries to 60 nights and 180 nights	Some online accommodation providers operate in similar ways and receive similar levels of benefit as traditional accommodation providers who pay business rates	<ul style="list-style-type: none"> Treats online accommodation providers in a similar way to traditional providers by making them liable to fund councils general expenditure to similar levels Encourages those who intend to operate their property in a commercial capacity Allows for differences in affordability for individual online providers allows for additional revenue before higher rates apply 	<ul style="list-style-type: none"> It is difficult to identify individual providers based on the information publicly available May drive avoidance behaviours 	<ul style="list-style-type: none"> Around 35% increase in general rates for medium-occupancy providers and around 140% increase general rates for high-occupancy providers. Increased cost can be passed to customers as online providers have direct control over the prices set Around 1% decrease in general rates for other businesses
Option Five: Introduce a graduated differential as proposed: additional category for properties between 136 and 180 nights - 50% business	Some online accommodation providers operate in similar ways and receive similar levels of benefit as traditional accommodation providers who pay business rates	<ul style="list-style-type: none"> Treats online accommodation providers in a similar way to traditional providers by making them liable to fund councils general expenditure to similar levels Encourages those who intend to operate their property in a commercial capacity Allows for differences in affordability for individual online providers provides additional relief for properties let between 135 and 180 nights 	<ul style="list-style-type: none"> It is difficult to identify individual providers based on the information publicly available May drive avoidance behaviours 	<ul style="list-style-type: none"> Around 35% increase in general rates for medium-occupancy providers, around 70% increase for moderate-occupancy providers, and around 140% increase general rates for high-occupancy providers. Increased cost can be passed to customers as online providers have direct control over the prices set Up to 1.5% decrease in general rates for other businesses
Accommodation Provider Targeted Rate				
Option One: Apply the full APTR to all online providers where applicable (Zones A and B)	All online accommodation providers receive the same direct benefit from ATEED's spend on visitor attraction and major events.	<ul style="list-style-type: none"> Encourages those who intend to operate their property in a commercial capacity while dissuading those who do not Treats online accommodation providers in a similar way to traditional providers by making 	<ul style="list-style-type: none"> Does not allow for differences in affordability for individual online accommodation providers and could cause affordability issues for some May drive avoidance behaviours particularly for those who do not intend to operate in a fully 	<ul style="list-style-type: none"> Significant increases in rates (70% to 120% - Zone A, 35% to 60% - Zone B) for all online accommodation providers Increased cost can be passed to customers as online providers have direct control over the prices set Up to 55% decrease in APTR for

Rationale	Benefits	Risks/Issues	Impacts
	<p>them liable to fund councils general expenditure to similar levels</p>	<p>commercial capacity</p> <ul style="list-style-type: none"> It is difficult to identify individual providers based on the information publicly available 	<p>traditional accommodation providers</p>
<p>Option Two: Continue to not apply the APTR to any online providers where applicable (Zones A and B)</p>	<p>It is difficult to identify individual providers based on the information publicly available</p>	<ul style="list-style-type: none"> Avoids issues associated with trying to identify online accommodation providers Does not cause affordability issues for any online accommodation providers 	<ul style="list-style-type: none"> Online accommodation providers avoid additional general rates costs which traditional providers are currently required to pay May contribute to owners of units currently being used as part of traditional serviced apartment accommodation switching to become an online provider. <ul style="list-style-type: none"> No immediate change to rates Over time there may be a slight increase in the APTR as owners of existing serviced apartment used for traditional accommodation switch to become an online accommodation provider
<p>Option Three: Introduce a graduated differential for online providers for the APTR as proposed</p>	<p>Some online accommodation providers operate in similar ways and receive similar levels of benefit from ATEED's spend on visitor attraction and major events as traditional accommodation providers</p>	<ul style="list-style-type: none"> Treats online accommodation providers in a similar way to traditional providers by making them liable to fund councils general expenditure to similar levels Encourages those who intend to operate their property in a commercial capacity Allows for differences in affordability between online providers 	<ul style="list-style-type: none"> It is difficult to identify individual providers based on the information publicly available May drive avoidance behaviours <ul style="list-style-type: none"> Significant increases in rates (60% to 200%) for online accommodation providers who let their residence for more than 135 nights. Material increases in rates (15% to 50%) for online accommodation providers who let their residence between 28 and 135 nights. Increased cost can be passed to customers as online providers have direct control over the prices set Up to 27% decrease in APTR for traditional accommodation providers
<p>Option Four: Introduce a graduated differential as proposed : shifted boundaries to 60 nights and 180 nights</p>	<p>Some online accommodation providers operate in similar ways and receive similar levels of benefit from ATEED's spend on visitor attraction and major events as traditional accommodation providers</p>	<ul style="list-style-type: none"> Treats online accommodation providers in a similar way to traditional providers by making them liable to fund councils general expenditure to similar levels Encourages those who intend to operate their property in a commercial capacity Allows for differences in 	<ul style="list-style-type: none"> It is difficult to identify individual providers based on the information publicly available May drive avoidance behaviours <ul style="list-style-type: none"> Significant increases in rates (60% to 200%) for online accommodation providers who let their residence for more than 180 nights. Material increases in rates (15% to 50%) for online accommodation providers who let their residence between 60 and 180 nights. Increased cost can be passed to customers as online providers have

Rationale	Benefits	Risks/Issues	Impacts
<p>Option Five: Introduce a graduated differential as proposed: additional category for properties between 135 and 180 nights rated as 50% APTR</p>	<p>Some online accommodation providers operate in similar ways and receive similar levels of benefit from ATEED's spend on visitor attraction and major events as traditional accommodation providers</p>	<ul style="list-style-type: none"> • Treats online accommodation providers in a similar way to traditional providers by making them liable to fund councils general expenditure to similar levels • Encourages those who intend to operate their property in a commercial capacity • Allows for differences in affordability between online providers • Provides additional relief for properties let between 135 and 180 nights 	<ul style="list-style-type: none"> • It is difficult to identify individual providers based on the information publicly available • May drive avoidance behaviours • Significant increases in rates (60% to 200%) for online accommodation providers who let their residence for more than 180 nights. • Large increases in rates (30% to 100%) for online accommodation providers who let their residence between 135 and 180 nights • Material increases in rates (15% to 50%) for online accommodation providers who let their residence between 28 and 135 nights. • Increased cost can be passed to customers as online providers have direct control over the prices set • Up to 23% decrease in APTR for traditional accommodation providers

Attachment B: Assessment against statutory criteria – general rates

When deciding from what sources to meet its funding needs, council must consider the matters set out in section 101(3) of the Local Government Act 2002, see below. This involves elected members exercising their political judgement and considering the proposal in the context of council's funding decisions as a whole.

101(3) The funding needs of the local authority must be met from those sources that the local authority determines to be appropriate, following consideration of,—

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

The following section considers the proposal to charge online providers business rates against the criteria in section 101(3) of the Local Government Act 2002.

The community outcomes to which the activity primarily contributes

General rates fund a broad range of council activities that contribute towards the outcomes set out in the Auckland Plan. These are:

- A fair, safe and healthy Auckland
- A green Auckland
- An Auckland of prosperity and opportunity
- A well connected and accessible Auckland
- A beautiful Auckland that is loved by its people
- A culturally rich and creative Auckland
- A Maori identity that is Auckland's point of difference in the world.

General rates are used as general revenue and can be used to fund the operating and capital costs of any activity that council undertakes. Where practicable and cost-effective the council will seek to recover the cost to providing its services from individuals or group of beneficiaries (or causers of costs) where they directly benefit from, or impose costs on, council undertaking an activity. The council uses general rates to fund activities:

- which have a 'public good' element, e.g. civil defence
- where it wishes to subsidise the provision of services because of the wider social benefits they provide e.g. libraries
- where the application of fees and charges causes affordability issues.

The outcomes of councils general activities affect online providers in similar ways to both residential and business properties. The nature of activities therefore does not provide rationale for distinguishing between the two.

The distribution of benefits between the community as a whole; any identifiable part of the community; and individuals

The assessment of benefits received from activities which provide general public services are subjective in nature as it relies on the application of individual judgement to determine how benefits lie across individuals and groups. For example, the assessment of benefits from transport activities will vary depending on how much weighting is given to businesses providing them access to customers and a workforce, in comparison to the weighting given to individuals who have access to goods and can gain meaningful employment.

Online accommodation providers do not gain any additional benefit above that received by other residential ratepayers from the provision of infrastructure that supports development. This is due to online accommodation providers primarily operating out of existing residences where the planned infrastructure capacity, and subsequent cost to council, does not take into consideration any additional capacity requirement. On the other hand, online accommodation providers receive additional benefit from the provision of public transport that provides accessibility to their location, particularly in central locations.

It is therefore not possible to say with certainty that online accommodation providers receive any more or less benefit from general council activities to which other forms of charging do not apply. For this issue the distribution of benefits does not provide rationale to either rate them as residential or business.

The period in or over which the benefits are expected to occur

The period over which benefits are expected to occur is current. The expenditure of general rates revenue primarily funds operating costs for the current period. A very small portion of general rates is sometimes used to fund capital grants for community organisations. These activities are currently being funded from general rates and other funding sources are not appropriate.

The extent to which the actions or inactions of particular individuals or as a group contribute to the need to undertake the activity

Council decided to charge business higher rates partly because they cause increased cost to council for the provision of transport and stormwater services. In relation to online accommodation providers, they do not cause increased cost for stormwater infrastructure as impervious surface areas allowed under the Unitary Plan are no different from other residential properties. However, accommodation providers in general encourage visitor attraction through the provision of accommodation services and drive increased cost in transport infrastructure caused by the increased number of visitors to Auckland.

Activities associated with accommodation providers create extra demand on transport infrastructure due to increased traffic movements and associated parking. They will also drive increased demand on passenger transport services.

Accordingly there is rationale for charging online accommodation providers higher rates based on the increased driver on costs to council.

The costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities

General rates raise revenue that can be used to fund any of councils activity. As such they do not add transparency or accountability to the extent that user fees and targeted rates can.

It is administratively more difficult to charge business rates to online accommodation providers than to traditional providers. Information on online providers is not readily available and it is difficult to identify

individual providers based on the information publicly available. A range of options that may be available and require further investigation to assist collection of this information are:

- Web searches
- Information from neighbours and competitors
- Introduction of bylaws
- Unitary plan amendments
- Legislative change.

The extent to which this will impact on rates will depend on how many online providers are able to be identified. Councils use a range of processes to determine rating treatment. Without the co-operation of the companies providing these web-based services then the existing processes may not be sufficient to identify all online accommodation providers. Experience from Queenstown Lakes District Council indicates that when combined with changes to planning rules a significant portion of online providers are able to be identified through time. Any impact to rates revenue can be managed through adopting a prudent approach to rates setting.

Consideration of overall impact

Having considered the above criteria, the council needs to consider the proposal in terms of the overall impact on the community. This involves elected members exercising their judgement and considering the proposal in the context of council's funding decisions as a whole, not just in relation to this activity.

Matters for council to consider as part of this overall political judgement could include:

- The affordability of the rate on online accommodation providers: This proposal will increase rates for online providers particularly for those who let their residence for more than 135 nights. However, they can decide whether to absorb the increased cost or pass it on to their customers as they have direct control over the prices they set. Whether or not they choose to pass on the increased cost, and how, is entirely up to each accommodation provider to decide individually.
- The impact of the proposal on traditional accommodation providers: This proposal will mean that council will be treating online accommodation providers in a similar way to traditional providers by making them liable to fund councils general expenditure to similar levels.
- The impact of the proposal on other ratepayers: This proposal will broaden the ratepayer base for businesses and has the potential to marginally reduce the amount of rates paid by other business by up to 1%. The structure of the business differential and the relative sizes of the business and non-business sectors results in no meaningful impact on non-business ratepayers.

Attachment C: Assessment against statutory criteria - APTR

When deciding from what sources to meet its funding needs, council must consider the matters set out in section 101(3) of the Local Government Act 2002, see below. This involves elected members exercising their political judgement and considering the proposal in the context of council's funding decisions as a whole.

101(3) The funding needs of the local authority must be met from those sources that the local authority determines to be appropriate, following consideration of,—

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

Last year when the council introduced the APTR it considered the matters set out in section 101(3) of the Local Government Act 2002 in relation to traditional accommodation providers. The following section considers the proposal to charge online providers the APTR where applicable against the criteria in section 101(3) of the Local Government Act 2002.

The community outcomes to which the activity primarily contributes

The community outcomes to which the activity (visitor attraction) primarily contributes is set out in the LTP 2015-2025 as:

1. An Auckland of prosperity and opportunity
 - through promoting Auckland as a business and leisure visitor destination and attracting visitors to attend events that are unique to Auckland
2. A culturally rich and creative Auckland
 - providing opportunities to showcase Auckland's unique arts and culture through support for and delivery of a portfolio of major events including the annual Auckland Diwali, Lantern and Pasifika Festivals
 - growing Auckland's visitor economy through promotion of and support for a range of culturally focussed visitor products
3. Te hau o te whenua, te hau o te tangata
 - celebrating and showcasing Māori culture and identity through major sporting and business events including a Māori Signature Festival for Auckland

The activities that ATEED undertakes in the visitor attraction area strongly support these outcomes:

- Expenditure under the headings of Tourism, Major Events, the Auckland Convention Bureau and Brand and Marketing are all undertaken to build the visitor economy and create Auckland as a destination.
- Auckland festivals support the “culturally rich and creative” component of the outcomes and add to the overall attractiveness of Auckland.
- The External Relations and International Education categories of expenditure involve working with central government to attract business and build the education sector.

Some of these outcomes relate to the overall prosperity and cultural richness of the city, and suggest a general rate mechanism may be appropriate. Others are more focused on the visitor economy and support the concept of a targeted funding mechanism.

The distribution of benefits between the community as a whole; any identifiable part of the community; and individuals

The intent of the proposal is to more fairly apportion the burden of rates between online accommodation providers, traditional accommodation providers, and other ratepayers.

The benefits that accrue to traditional providers were considered when the council made its original decision to introduce the rate. Particular feedback received from traditional accommodation providers from consultation of the APTR noted that some accommodation providers were unfairly excluded from the proposal i.e. online providers such as Airbnb. Acknowledged at the time, online accommodation providers also derive direct benefit from the expenditure. This proposal specifically responds to this issue.

ATEED's activity in this area is focused on and measured by increased number of visitors to Auckland. One of the key measures of ATEED's Statement of Intent is "visitor nights".

Most of the expenditure in this part of ATEED's activities is targeted at attracting visitors to Auckland and growing the visitor economy. The Tourism, Major Events, Brand and Marketing and Auckland Convention Bureau activities are designed to bring in visitors, international and domestic, who will stay in the Auckland region, which directly benefits all accommodation providers.

Auckland Festivals are of benefit to the wider Auckland community but also support the Auckland brand as a culturally diverse and vibrant city. Expenditure on these festivals primarily benefits Auckland residents.

In terms of the distribution of benefits factor it is clear that all accommodation providers receive an immediate direct benefit from ATEED's expenditure in attracting visitors to Auckland, but other businesses also benefit, as does the wider community. The benefits may be felt differently depending on geographic location.

The period in or over which the benefits are expected to occur

The period over which benefits are expected to occur is current. The expenditure on visitor attraction is funded from operating revenue on the basis that the benefits primarily accrue in the period in which the activity occurs. Expenditure on Major Events and Auckland Festivals in particular attract visitors at the time of the event expenditure. Tourism expenditure will have an impact both in the period in which the expenditure is incurred and in the next few years. Other categories of spend will have both a shorter and medium term impact.

Accordingly, given the short to medium term impact of the expenditure, rates (whether targeted or general), rather than borrowing, are an appropriate funding source.

The extent to which the actions or inactions of particular individuals or as a group contribute to the need to undertake the activity

Visitor attraction is funded to support the community outcomes as described above. It is not undertaken to offset any action or inaction of individuals or groups.

The costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities

Transparency and accountability for this activity have already been enhanced through the introduction of the APTR. New governance arrangements that give traditional accommodation providers a role in determining how the revenue is spent are progressing. This gives traditional accommodation

providers an incentive to scrutinise the expenditure and provide advice on how to get best value for money. Should this proposal proceed then online providers should also be given the opportunity to take part in the governance arrangements.

It is administratively more difficult to charge the APTR to online accommodation providers than to traditional providers. Information on online providers is not readily available and it is difficult to identify individual providers based on the information publicly available. A range of options that may be available and require further investigation to assist collection of this information are:

- Web searches
- Information from neighbours and competitors
- Introduction of bylaws
- Unitary plan amendments
- Legislative change.

The extent to which this will impact on rates will depend on how many online providers are able to be identified. Councils use a range of processes to determine rating treatment. Without the co-operation of the companies providing these web-based services then the existing processes may not be sufficient to identify all online accommodation providers. Experience from Queenstown Lakes District Council indicates that when combined with changes to planning rules a significant portion of online providers are able to be identified through time. Any impact to rates revenue can be managed through adopting a prudent approach to rates setting.

Consideration of overall impact

Having considered the above criteria, the council needs to consider the proposal in terms of the overall impact on the community. This involves elected members exercising their judgement and considering the proposal in the context of council's funding decisions as a whole, not just in relation to this activity.

Matters for council to consider as part of this overall political judgement could include:

- The affordability of the rate on online accommodation providers: This proposal will significantly increase rates for online providers who let their residence for more than 135 nights. It will also moderately increase rates for online providers who let their residence between 28 and 135 nights. However, they can decide whether to absorb the increased cost or pass it on to their customers as they have direct control over the prices they set. Whether or not they choose to pass on the increased cost, and how, is entirely up to each accommodation provider to decide individually.
- The impact of the proposal on traditional accommodation providers: This proposal will broaden the ratepayer base for the APTR and has the potential to reduce the APTR for traditional accommodation providers by up to 23 per cent.