



tourism
INDUSTRY

ASSOCIATION NEW ZEALAND

The Local Government Rates Inquiry

Submission

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Introduction

1. This submission to the Local Government Rates Inquiry (“the Inquiry”) is from the Tourism Industry Association New Zealand (TIA), located at Level 4, Travel and Tourism House, 79 Boulcott Street, Wellington. If you wish to contact us regarding this submission, in the first instance, please telephone Simon Wallace, Policy Manager, on 04 494 1842 or e-mail him at simon.wallace@tianza.org.nz
2. TIA would like to thank the Inquiry Panel and Secretariat for meeting with a delegation from the tourism industry in March. This meeting was not only helpful in learning more about the Inquiry, but has assisted our Association in the preparation of this submission. In addition, we have found the *Background information for interested parties* as well as previous reports by the Local Authority Funding Project Team to be useful references in the development of this paper.
3. Our Association has worked and consulted widely with its Members to seek their views in the preparation of this submission. A number of TIA personnel also attended both council and public meetings in Hamilton, Auckland and Wellington, while TIA Members have been in attendance at various meetings around the country. On this occasion, we have also worked very closely with some of the country’s 29 Regional Tourism Organisations (RTOs). In considering our submission, we therefore recommend it be read alongside those submissions you may have received from RTOs, other tourism businesses as well as Business NZ of which TIA is a member.

We understand the objective of the Inquiry is:

To consider issues relating to current local government rating, and to other revenue-raising mechanisms, and to provide recommendations to the Government for enhancing rating and other funding mechanisms for local authorities.

TIA’s interest is therefore concentrated on those areas of the Inquiry most likely to impact or affect the tourism industry. In so far as the questions posed in *Part Three: Major Issues* of the *Background information for interested parties*, the questions of primary relevance to the tourism industry centre on:

- 3. Trends in the use of rating tools to fund services;*
 - 8. Exemptions from liability for rates, including Crown exemptions; and*
 - 9. Other revenue-raising mechanisms*
4. As well as addressing the above questions, Part One of this paper will describe the value of tourism to New Zealand at large and its connection with regions and their local government, Part Two will detail current investment models and Part Three will examine the use of current funding mechanisms in the Rating Act.

Recommendations

5. TIA recommends the Inquiry Panel note:
 - a) tourism is a key driver of development across all areas where local governments are charged with delivering outcomes to their communities. This includes outcomes that meet economic, as well as social, environmental and cultural measures (refer pages 8-9);
 - b) tourism is the country's largest export earner, employs one in ten New Zealanders and contributes nearly 10% to New Zealand's GDP (refer page 10);
 - c) the significant risks that exist to the tourism industry in New Zealand if current local government support for tourism is cut and/or tourism-related taxes such as bed tax are introduced;
 - d) the important role played by Regional Tourism Organisations (RTOs) as destination marketers and in some cases, destination managers for their regions (refer page 7);
 - e) that existing mechanisms and rating tools are adequate but are not being widely used or optimised, and our support for greater uptake of these existing tools (refer page 16); and
 - f) the examples of regions that currently use targeted tourism rates and TIA's support for funding models that "ring-fence" funding derived from these targeted rates for destination marketing and management (refer pages 17-18);
 - g) the tourism industry's opposition to industry specific taxes for tourism, in particular bed and airport taxes (refer pages 20-24);
 - h) the findings of the Lyons Inquiry in the UK that generally did not support tourism specific taxes, the Third Report of the Local Authority Funding Project that also did not support commodity-specific taxation, and the experience of overseas countries where bed taxes have not worked (refer pages 20-24);
 - i) alternatives to bed and airport taxes, specifically the GST contribution and increased central government support (refer pages 20-24); and
 - j) the offer to facilitate an industry reference group to inform the Panel of the industry's position with regard to local government investment in tourism development (refer page 26).

About the Tourism Industry Association (TIA)

6. TIA advocates for the interests of the tourism industry in New Zealand. The businesses we represent generate more than 85% of New Zealand's tourism-related revenue.
7. Tourism is a \$17.5 billion industry (\$8.1b from international and \$9.4b from domestic tourism) with international tourist expenditure accounting for 18.7% of New Zealand's total export earnings.¹ The industry, directly and indirectly, employs 1 in 10 New Zealanders in a diverse range of businesses – the majority of which are small and medium sized enterprises (SME). Not only is tourism important because of its size, representing 9% of New Zealand's GDP, it is:
 - Highly employment intensive;
 - Regionally disparate; and
 - Very diverse - ranging from large stock exchange listed companies to small cottage industries.
8. These businesses cover a range of tourism-related activities – transport, adventure and activities, attractions and retail and related tourism services. In many cases, regional tourism businesses have developed around regional assets divested by other industries and have revitalised those assets and the communities that depend on them.
9. The tourism industry in New Zealand consists of more than 8,000 small and medium sized businesses. Of these businesses, most employ less than five people.
10. New Zealand welcomes more than two million overseas visitors to its shores every year. The domestic tourism industry is also important in helping to sustain a vibrant tourism industry, as evidenced by the more than \$9 billion that comes from domestic visitors each year.

¹ “Key Tourism Statistics – April 2007”, Ministry of Tourism website

Part One – Context – The Value of Tourism

Implications of Rates Inquiry for the Tourism Industry in New Zealand

11. Local governments around New Zealand can assist tourism to grow and prosper in their areas and tourism is frequently an opportunity for regional economic development if councils recognise the spin-off that tourism brings. Equally, local government can potentially harm tourism's prospects and as local authorities work on their Annual Plans and ten year Long Term Council Community Plans (LTCCP), most will review their funding priorities, look closely at their support for a range of ventures, including tourism, assess what return they are getting and decide if their investment is a good one.
12. Ongoing funding of RTOs, destination marketing and destination management is by no means guaranteed. Since tourism is sometimes regarded as a discretionary activity for local government, unless awareness of the tourism industry's contribution is raised and where cost pressures exist, ongoing funding cannot be taken for granted.
13. Local governments all around New Zealand are facing competing economic development priorities with their economic development agencies (EDA) assessing the worth of tourism ventures alongside those from many other industries. In the context of this Inquiry, the tourism industry will be emphasising the current contribution of tourism in terms of regional and national economies, in terms of rates revenue and GST generated, the risk of tourism-related taxes to business and to the regional and national economies.

The Role of Local Government in the Tourism Industry

14. Together with the Department of Conservation (DOC), local governments in New Zealand play a critical role in the tourism industry, principally through their investment in core utilities and infrastructure and through their management of the country's natural resources.
15. Local authorities provide the basic public amenities which communities and visitors alike utilise, namely water, sewerage, toilets, roads, lighting and in some areas, public transport. Some authorities also operate attractions such as museums, art galleries, gardens, events and sports stadiums, although increasingly commercial interests are now involved in public/private sector partnerships or sponsorship arrangements with local government in the funding of such activities.
16. By default, local governments are arguably the largest tourism operators in New Zealand. Tourism businesses also make a significant contribution to the rates take of councils. A case in point is the Hanmer Springs Thermal Pools and Spa, owned by the Hurunui District Council and a 2006 Tourism Industry Award winner. The profit made by the visitor attraction aids the district's finances and has a spin-off for ratepayers.

Case Study - Hanmer Springs Thermal Pools and Spa

The Hanmer Springs Thermal Pools and Spa, owned by the Hurunui Council and a recent Tourism Award winner, is proving to be a major fillip to the district's finances. A predicted surplus of more than \$1 million in the 2007-08 financial year is set to knock more than \$100 off every Hurunui ratepayer's bill. According to Hurunui Mayor, Garry Jackson, the Thermal Pools and Spa are "incredibly valuable" to the district's finances, injecting thousands of dollars annually that would normally have to be met by rates".² Profits from the Reserve also contributed \$350,000 to fund district libraries, cemeteries and toilets.

Regional Tourism Organisations

17. Local authorities contribute varying amounts of funding to specific tourism related activities, for example, to fund RTOs and i-SITES (see paragraph below). The RTOs are the destination marketers who promote their areas and some are heavily involved in destination management and development, working very closely with their councils³. The RTOs are generally funded by councils and a number are supported through a mix of private and public investment. RTOs also produce advertising brochures, maps, guides and posters in conjunction with tourism operators to enhance the marketing effort.
18. There are over 85 i-SITE and private visitor information centres located throughout the country. The i-SITES are New Zealand's official network of visitor centres dedicated to providing free and objective information on tourism product. In some instances they are self-funded, especially those located in the major cities and visitor areas, but for the most part they depend on local government investment to remain operationally viable.
19. Major events are now also receiving local government funding as some councils recognise the economic benefits that such events bring to a region. Examples include Warbirds over Wanaka, the Rugby Sevens in Wellington and the V8 motor race in Taupo. In essence, local government exerts considerable influence on the tourism industry by virtue of its funding powers and investment, its support of RTOs and events, and its role in district planning, resource management and infrastructure development.

Market Failure

20. Susceptibility to market failure is the primary rationale for continued local and central government investment in marketing and destination development. Furthermore, RTO funding sourced entirely from the general rating base is unlikely to result in increased tourism funding given the current pressures on local authority expenditure.

² Christchurch Press, 13 March 2007.

³ Destination management is a term used to describe the services provided and managed by local authorities that both visitors and local people might use. For example, this includes public toilets, parks, gardens, footpaths and lighting. It may also include visitor information centres and attractions such as museums and art galleries.

21. A National Bank report on the tourism industry in 1997 and a second report by the New Zealand Institute of Economic Research (NZIER) in 2000 found that strong market failure was more likely in the tourism industry compared to other sectors.⁴ The National Bank report found that “*Government funding of destination marketing should be seen as an investment, not consumption*”, while the NZIER report said “*high tourism flows will bring benefits to particular regions, including the Rotorua and Queenstown areas, but increasing benefits to other regions may require initiatives on the supply side*”.
22. According to the National Bank report, market failure is likely to occur in the industry when two things happen:
- the private sector cannot capture all the benefit the activity brings, resulting in under-investment by market leaders and allowing other organisations to free-ride; and
 - the reluctance by small firms to invest in international marketing since travellers will not base their visit on going to one activity exclusively.
23. The very diverse and fragmented nature of the tourism industry in New Zealand is a further contributor to market failure. Without a critical mass, it makes it difficult for an industry-wide levy to be applied and collected. By comparison, the primary-based industries, such as meat, wool and pip-fruit, are able to fund marketing and destination activity through a statutory industry levy under the Commodity Levies Act.
24. In sum, the National Bank and NZIER reports underpin the rationale for the public sector to maintain its investment in tourism through destination marketing and management. With expenditure in the tourism industry so spread out and without any one group the primary beneficiary, the threat of market failure will always persist unless public sector investment continues. In emerging tourism regions, market failure is even more of a risk, because the rating base in these areas is usually low and there is already pressure on local government to meet the ongoing costs of infrastructure and core services.

Community Outcomes

25. Possibly the most significant change in the role of local government and its relationship with the tourism industry were amendments passed to the Local Government Act (LG) in 2002. Amendments to the LG Act 2002 required individual councils to have a role in achieving Community Outcomes for their citizens based around four themes - the economic, environmental, social and cultural well-being of their communities. On social issues, for instance, some local governments are now partnering in community initiatives to reduce crime, improve access to housing and assist in the provision of health services.

⁴ Sourced from a report by the National Bank in May 1997 and the NZ Institute of Economic Research in March 2000 on the concept of market failure and its relationship with the tourism industry

26. From a tourism viewpoint, community outcomes are starting to provide a formal opportunity for the tourism industry to better engage with their local authorities. The community's expectation for councils to be involved in economic issues has been an opportunity for the tourism industry to demonstrate its value and for councils to recognise the economic spin-off tourism brings. By the same token, it has been a threat, with some councils pushing for the liberalisation of rating powers and rating mechanisms such as bed taxes to increase revenue and fund competing economic development priorities. Councils' economic development agencies (EDA) are constantly assessing the worth of tourism ventures alongside those from many other industries.
27. The tourism industry's contribution to Community Outcomes should not only be viewed from a purely economic perspective. The tourism businesses below are examples of ventures that achieve environmental, social and cultural outcomes for communities, as well as the obvious economic benefits.

Community Outcome	Tourism Business	Actions
Environmental	Real Journeys, Fiordland and Southland	Offering a range of tourism experiences, the company funds a number of conservation projects in the South Island from a levy on its passengers. Examples include dolphin research, protection programmes for endangered birds and wilding pine eradication. The company is also involved in community beach clean-up programmes in Fiordland National Park and Stewart Island.
Environmental	Black Cat Group Lyttelton and Akaroa	Helps protect the rare Hector's Dolphin through visitor education, support of dolphin research and assisting DOC's work around Banks Peninsula, both financially and practically.
Environmental	Tourism Holdings Limited (THL)	One of the country's largest tourism businesses has formed an environmental partnership with BP aiming to raise \$200,000 a year and support various community environmental projects.
Cultural	Footprints Waipoua, Northland	Runs walking and interpretative tours through Waipoua Forest, home of Tane Matua Ngahere, the Father of the Forest. Works in partnership with the Northland RTO to deliver a cultural tourism product.
Cultural	Shantytown, West Coast	This replica pioneering town is one of the region's major tourist attractions. Shantytown is now a community asset and has used its cultural tourism appeal to expand and host conferences and events.
Social and Environmental	Karori Wildlife Sanctuary, Wellington	Karori Wildlife Sanctuary is a protected natural area in the middle of Wellington City. Its development has been an example of a true community enterprise with the Sanctuary now enabling people of all ages to experience New Zealand's native flora and fauna in a rare city location.

Postcards from Home

28. In 2003, Local Government New Zealand (LGNZ) and the Ministry of Tourism (TMT) produced and launched *Postcards from Home* in response to the New Zealand Tourism Strategy 2010 (NZTS2010) of which 10 of the 43 recommendations required local government to engage more actively with the tourism industry. *Postcards from Home* set out a number of key strategic priorities. These included clarifying local government's role with regard to the tourism sector, raising tourism's awareness in the local government sector and its importance for local communities, and establishing a framework for action by the local government sector. The key strategic aims were to:

- provide and manage tourist-related infrastructure in consultation with the private sector;
- engage communities in planning for tourism which is socially, economically, environmentally and culturally sustainable;
- take a lead role in local destination management; and
- facilitate regional tourism marketing.

The Economic Value of Tourism to New Zealand

29. As detailed in paragraphs 6 and 7, the tourism industry is hugely valuable to the New Zealand economy. It is the country's largest export sector with international expenditure accounting for nearly 20% or one fifth of New Zealand's total export earnings. Tourism is also the only export sector that pays GST to the Crown, which in 2005 was in excess of \$500 million, and it directly and indirectly employs more than 10% of New Zealand's workforce.

Tourism in New Zealand – the Numbers

- Expenditure of \$17.5 billion (\$8.1 billion in international revenue and \$9.4 billion in domestic revenue)
- 9% of GDP
- Largest export sector - \$8.1 billion and nearly 20% of export earnings
- Employs more than 10% of the workforce, 1 in 10 New Zealanders
- More than \$500 million in GST to the Crown, the only export sector paying GST

30. In economic speak, the so-called “multiplier” effect demonstrates how tourism contributes to the economy beyond the visible tourism product, such as transport operators and accommodation providers⁵. In fact, a further \$5.8 billion in value-

⁵ The income multiplier measures the extra spending in the economy created as a result of visitors' spending. The employment multiplier measures the extra jobs created by visitors' expenditure and the government revenue multiplier measures the impact on government revenue related to expenditure by visitors

added spend is made in industries that support tourism, such as hospitality and retailing.

31. Local government's investment in the tourism industry is rewarded with many tourism operators now offering quality visitor attractions and events that are able to draw people to a particular region. Expenditure by visitors, both domestic and international, can bring in millions of dollars to an area and in recent decades, many regional economies have experienced growth in their tourism sector (see paragraph 32 below) while other industries such as agriculture and manufacturing have been static or declining. In fact, compared to other industries, tourism has been a standout performer, having displayed sustained and rapid growth since the 1970's.

32. The table below demonstrates tourism's contribution to regional GDP i.e. when considered alongside all other industries. As one might expect, the tourism industry contributes proportionately more to the regional economy in the South Island than it does in the North Island. In particular, tourism is the biggest contributor to the economy in the West Coast (37.4%), Otago (23.6%) and Northland (20.9%) regions. By comparison, the tourism contribution to the Taranaki economy is proportionately small (5.7%) due to the prevalence of the oil and dairy industries and Wellington (7.1%) because of the government sector. A further point to note is that tourism's contribution to the regional economies has generally increased over the data period, 2000-2003.

Table: Tourism Contribution to Regional Economy

Regional Council	Regional Gross Domestic Product (GDP) (1)			Tourism Expenditure in Region (2)			Tourism Contribution to Regional GDP		
	2001	2002	2003	2001	2002	2003	2001	2002	2003
	\$ (million)			\$ (million)					
Northland	3,106	3,370	3,243	547	578	677	17.6%	17.1%	20.9%
Auckland	40,277	43,301	47,689	3,148	3,628	4,094	7.8%	8.4%	8.6%
Waikato	10,119	11,087	10,598	1,154	1,373	1,562	11.4%	12.4%	14.7%
Bay of Plenty, Gisborne	7,094	7,552	7,720	976	1,063	1,177	13.8%	14.1%	15.3%
Hawke's Bay	3,839	4,122	4,318	300	284	357	7.8%	6.9%	8.3%
Taranaki	4,600	4,678	4,414	182	209	250	4.0%	4.5%	5.7%
Manawatu-Wanganui	5,201	5,557	5,594	398	461	586	7.7%	8.3%	10.5%
Wellington	17,046	18,283	19,286	1,047	1,185	1,378	6.1%	6.5%	7.1%
Total North Island	91,281	97,951	102,863	7,752	8,781	10,082	8.5%	9.0%	9.8%
Tasman, Nelson	2,080	2,282	2,343	313	318	308	15.0%	13.9%	13.2%
Marlborough	1,045	1,161	1,193	172	198	185	16.5%	17.0%	15.5%
West Coast	755	804	779	211	245	291	28.0%	30.4%	37.4%
Canterbury	13,237	14,195	15,074	1,503	1,705	1,947	11.4%	12.0%	12.9%
Otago	4,683	5,127	5,411	1,105	1,178	1,275	23.6%	23.0%	23.6%
Southland	2,861	3,120	3,023	258	290	350	9.0%	9.3%	11.6%
Total South Island	24,661	26,688	27,824	3,563	3,933	4,356	14.4%	14.7%	15.7%
New Zealand	115,941	124,639	130,687	11,346	12,741	14,465	9.8%	10.2%	11.1%

Source:

(1) Regional Gross Domestic Product, Statistics New Zealand, 2007

(2) Tourism Expenditure in Regions, Ministry of Tourism

33. In the case of the West Coast, diverse opportunities in industries such as tourism, horticulture and the creative industries were seen as the way forward when indigenous logging was stopped by the Government in 2000. From a tourism viewpoint, the strategy led by the West Coast Development Trust involved facilitation of social and community support to build positive community attitudes towards visitors. This included working closely with local government personnel to improve their perception of visitors and the economic

value they could bring to the region. The result has been better provision of visitor services and infrastructure. At the same time, a concerted effort was made to better align with DOC as managers of the West Coast public conservation estate so as to grow tourism in a sustainable and environmentally friendly way. A combination of these and other factors has contributed to the West Coast success.

34. To further demonstrate tourism's value to regional economies, an economic impact survey of tourism in Rotorua, conducted in 2004, confirmed the importance of tourism as a major industry in the city.⁶ The survey involved more than 300 businesses that provide goods and services directly to visitors in Rotorua. The main findings of the report found that visitors' annual expenditure was \$393 million with the industry employing 4,500 people. The report also found that on an average day in Rotorua:
- over \$1.1 million is spent by visitors
 - nearly 3,500 visitors arrive in Rotorua and stay an average of 2.3 nights; and
 - around \$274,000 in household income is received by 22,000 households.
35. The Rotorua survey provided an analysis of visitor consumption of food in the city by detailing the quantity of actual food items consumed. This revealed that on an average day visitors consumed 40 different food and beverage items and 30 tons of food. The items, including milk, tea, coffee, beer, wine, cereals, meat, fruit and vegetables, provided evidence of how visitors eating and drinking habits benefit a range of other industries beyond the direct tourism sector.

DOC Economic Impact Analysis

36. In 2006, DOC completed a series of case studies on the economic benefit derived from some of New Zealand's national parks and other public conservation lands. The findings by DOC indicated the importance of the conservation estate to the economy and in particular the contribution made by tourism to the regional economies. The analysis was valuable in estimating "how much extra money is pumped into a local economy, the number of new jobs created and the contribution to a region's household income and to business profits as a result of a national park or conservation area".⁷ The analysis also confirmed the well-known social and environmental benefits of conservation experiences.
37. Below are snapshots from the case studies done on the Abel Tasman National Park, the Queen Charlotte Walkway, the West Coast public conservation lands, the Fiordland National Park and the Tongariro National Park.

⁶ Economic Impact Survey of Tourism in Rotorua, prepared for Tourism Rotorua Marketing by APR Consultants, June 2004

⁷ The value of conservation: What does conservation contribute to the economy? Department of Conservation, October 2006, p.6

National Park/Area	DOC Spending Per/yr	Jobs (no. of FTEs, employees and self-employed) per/yr	Output (total turnover) per/yr	Value added income (household income plus returns to business capital) per/yr	Household income (what households earn before tax) per/yr
Abel Tasman	\$1.2m	370	\$45m	\$18m	\$11m
Queen Charlotte	\$0.2m	98	\$9.4m	\$4.3m	\$2.5m
West Coast Conservation Estate	\$13m	1814	\$221.6m	\$117.7m	\$62.1m
Fiordland	\$8.8m	1600	\$196m	\$78m	\$55m
Tongariro	n/a	570	\$43m	\$20m	\$14m

Source: The value of conservation: What does conservation contribute to the economy?
Department of Conservation, October 2006.

38. It is clear the tourism industry's contribution to the New Zealand economy is a strong and valuable one. As demonstrated, in some regions, tourism is the major industry and driver of economic growth. Meanwhile, the DOC economic impact analyses indicate the country's scenery and environment provide the recreational opportunities that underpin tourism in New Zealand. The economic value, together with the social, environmental and cultural benefits that tourism clearly delivers, is evidence enough to justify continued local government investment and achieve the Community Outcomes required of them.

Part Two – Investment Models

39. A variety of models by which local government invests in tourism exist around the country. The main structures include an individual EDA with a tourism function, a combined EDA-RTO model, or a stand-alone RTO. The governance structures for both EDAs and RTOs are varied and can include:

- Charitable trusts
- Incorporated societies
- Companies; and
- Council Controlled Organisations

40. Because of the activity an EDA is involved in, it tends to be able to leverage more public and private sector investment than an RTO might be able to. Current examples of work where EDAs are involved include:

- attracting investment;
- business support programmes;
- community based projects;
- infrastructure issues e.g. water, energy, telecommunication, roads;
- labour market issues;
- management of i-SITES;
- providing incentives and grants; and
- managing visitor programmes e.g. events

41. There are some clear strengths and weaknesses to be derived from a combined EDA-RTO model.

Strengths	Weaknesses
Better integrated economic development strategy for a region.	EDA does not always understand tourism dynamics or the skill needed to run an RTO.
Tourism industry considered seriously with other industries as an economic development driver.	Economic development activities may eclipse tourism interests.
Improved economies of scale, especially in regions with lower rating bases.	There is no demarcation of responsibilities, often leading to poorly coordinated strategy.
Pooling of resources and expertise e.g. opportunity to better integrate training capability.	Only 0.5FTE or less may be available to do a job needing 1FTE.

Better aligned position in terms of regional branding e.g. tourism branding consistent with whole of region branding.	A region's tourism strategy may not align with the economic development strategy.
EDAs have better channels to access central government funding because of the range of activities they are involved in.	Tourism contribution is not recognised by the region as it is grouped with overall economic development activities.

42. Current examples of combined EDA-RTO models include Enterprise Northland, Venture Taranaki, Hawke's Bay Inc, Enterprise Coast (Kapiti-Horowhenua), Go Wairarapa and Venture Southland.

Case Study – Enterprise Northland

Enterprise Northland is a successful example of a combined EDA-RTO model. As the table above (paragraph 32 - tourism contribution to regional economy has indicated) illustrates, the tourism industry is now the dominant sector in the Northland economy and its success as a region rivals that of the West Coast. The industry employs one in nine Northlanders and brings in excess of approximately \$600 million to the region.

Northland was the first region to formally respond to the New Zealand Tourism Strategy 2010 and with the collective resources of the EDA, developed its own strategic tourism plan. The strategy focused on sustainable growth and the formation of a sustainable tourism charter, more Maori involvement in tourism and product development aligned with Tourism New Zealand's international marketing strategy. To back this up, the valuable resource and skill of the EDA allowed a Tourism Development Group to be formed.

The Tourism Development Group that includes EDA and RTO representatives meets on a quarterly basis to ensure the Northland tourism strategy's recommendations are carried through to implementation. The Group is divided into six groups that focus on policy and regulatory issues, product and cultural development, web development for the interactive traveller, seasonality issues, sustainable management and DOC, and finally training and Qualmark.

With the backing of Enterprise Northland, the Tourism Development Group and private sector investment, the Northland RTO is now more than just a marketing organisation. It has the ability and resource to work closely with individual operators on business plans, quality product development, yield and sustainable practices. For example, the region now boasts some of New Zealand's iconic visitor activities, such as Dive Tutukaka and Footprints Waipoua to name just two.

The tourism example in Northland is replicated in other industries with development groups for forestry, aquaculture, marine, creative and pastoral industries. It is this cohesion that has attracted the confidence of the private sector which is now a major investor in the initiatives promoted by the various development groups throughout Northland and has resulted in rapid regional economic growth.

43. In short, the current investment models for RTOs vary considerably from place to place. The main centres, as well as regions where tourism is the lead industry such as Rotorua and Queenstown, are able to sustain and fund effective stand-alone RTOs. In smaller regions and where tourism is not the main economic driver, the success of the combined EDA-RTO model is dependent on good collaboration, as in Northland, and recognition by the EDA that tourism can contribute to economic growth and an integrated economic development strategy.

Part Three – Rating Mechanisms

44. The Inquiry's *background information for interested parties* (p.12, question 3. examines:

3. Trends in the use of rating tools to fund services and poses the following questions:

- *To what extent could greater use of the available rating tools assist local government to address equity issues for particular groups of ratepayers?*
- *What are the barriers to the optimal use of the range of tools?*
- *How can these barriers be addressed?*
- *Does the rating system need to be changed to address any continuing anomalies or inequities?*

45. On the whole, the tourism industry believes existing rating tools are adequate, however, some could be utilised more effectively. As detailed on page 8-9 of the background paper, these include charges and fees (user pays), targeted rates, development contributions and central government contributions.

User Charges

46. TIA believes charging for the use of private goods achieves greater efficiencies. For example, commercial charging for services such as waste and wastewater fairly targets users and raises revenue as the use of such services increases. Another example includes the provision of rubbish disposal bins for ratepayers which ignores the actual amount of rubbish generated by households. It is also counterproductive in that the full costs of disposal are not met by each household. A commercial user pays system for water and waste would not only signal to ratepayers the real costs of the services, but act as an incentive for all users to be more energy efficient and environmentally conscious.

Targeted rates

47. Currently available under Schedule Three of the LG Act 2002, targeted rates enable local authorities to charge defined groups of ratepayers where it is clear they benefit from existing services. Targeted rates should only be used where a clearly identified community is provided with an obviously different or superior level of service to that experienced by other ratepayers. Targeted rates tend to work better when they are introduced with the agreement of the business community for a specific activity. For example, there are some councils that have a targeted rate on the business sector for destination marketing activities, as is the case in downtown Wellington and Taupo.

48. The tourism industry supports the use of targeted rates on the strict proviso that the revenue collected is "ring-fenced" and re-invested into the destination marketing and management of the region. We do not support narrow and ill-defined taxes that target a specific industry when the benefits of that industry's

efforts are spread across wider industry sectors. The proposal last year by central government to fund Auckland’s Rugby World Cup stadium with a bed tax is a case in point (see paragraphs 58-73 for further discussion on bed tax).

49. Below are examples of local authorities around New Zealand who have some form of targeted rates applying either to tourism businesses on their own or across all businesses:

Council	Rate Type	How it works	Strengths	Weaknesses	TIA Assessment
Wellington	Downtown levy on all CBD businesses.	Businesses pay a levy which goes to the RTO and event development. The levy is re-invested solely for the purpose of destination marketing.	Easy to administer. RTO does not have to fundraise. Not derived from general rates so less opposition. Stakeholders find it easier to ascertain benefits.	Businesses outside the CBD free-ride unless they pay a voluntary levy into the RTO’s partnership programme. Some stakeholders pay twice like hotels that make voluntary contributions to specific campaigns.	✓ Businesses know how funding is deployed and participate in decision-making and investment process.
Tauranga	Targeted rate on all CBD businesses.	Money is re-invested into western BOP economic development fund that includes financing the RTO.	Targeted rate works well with buy-in of participating businesses for economic development of whole region.	Businesses in outlying areas of Waihi Beach, Paengaroa and Te Puke benefit from promotion without paying targeted rate.	✓ Model is successful as Council works with businesses that participate in decisions on economic development strategy.
Taupo	Targeted rate on commercial properties (called a marketing development rate).	Targeted rate meets 65% of RTO and i-SITE funding. The remaining 35% is from general rates.	Rate is well received as businesses know the value of tourism promotion in a visitor town. Money promotes other economic	Businesses, such as apartments, rented out to visitors, are “free-riders”. Only land based businesses can be levied, so tourism operators on Lake Taupo	✓ Funding ring-fenced for tourism promotion, so businesses know where money is going.

			development activities.	don't pay.	
Hurunui	Tourism promotion targeted rate.	District promotion funded entirely by properties Council considers receive direct benefit from tourism and district promotion.	Council has a key role in the district promotion, working closely with businesses to drive economic growth. Targeted rate is 'ring-fenced' and re-invested in tourism promotion.	Some businesses excluded that benefit from tourism promotion.	✓ Targeted rate generally works well as those who pay it have the most benefit. Hanmer Spa makes a significant contribution to the district's financial reserves.
Queenstown	Tourism Marketing Levy.	Levy is collected from all commercial businesses to fund RTO. Some other businesses elect to pay a voluntary membership fee.	Model works due to prominence of tourism as the region's main economic driver.	Apartments, currently rated as residential, but rented out to visitors don't pay, nor do coaches that use residential parking areas impacting on local residents.	✓ Targeted rate works well as tourism is the mainstay of the local economy.

Development Contributions

50. Development contributions are increasingly being considered as an appropriate revenue raising mechanism for local governments as a way of collecting revenue where growth imposes increased infrastructure burdens. While in particular cases, there may be justification for development contributions to be used, for example to meet costs of water and sewerage upgrades, as with any targeted rate, the danger is the money collected may be used on activities unrelated to the costs associated with such a development.
51. In concluding this section, our Association reiterates its support for existing rating tools which we think are adequate. We support the better utilisation of user charges but only where the services and goods provided clearly benefit the user. Targeted rates should only be used where the specific groups are the clear beneficiaries and the rate has the buy-in and investment of all those involved while development contributions should only be allocated to the actual costs associated with a specific development.
52. The Inquiry's *background information for interested parties* (p.18, question 8. examines:

8. Exemptions from liability for rates, including Crown exemptions poses the following questions:

- *Is the rationale for exemptions on Crown and non-Crown land still valid?*
- *Are the current statutory provisions for exempted land reasonable and appropriate?*
- *Are there other categories of land that should be recognised for the purposes of the exemptions?*
- *What would be the impact of reducing or removing exemptions?*

53. TIA's main concern here relates to the operational areas of airports and national parks and reserves.

54. Our Association supports the current Crown exemption for operational areas of airports. The operational areas of airports are principally the areas where aircraft land, taxi, park and take off and together with the passenger arrival and departure areas and immigration and customs processing areas, these spaces provide "public good" services. In the case of Auckland International Airport which provides its own sewerage, roads, reticulated water and waste system, storm-water disposal and refuse collection, removal of the current exemption would result in duplicate rate payments to the Manakau City Council.

55. In the case of national parks and reserves that constitute a large proportion of total land in some local authority areas, the current Crown exemption does result in a narrower rates base, particularly in regions such as the West Coast and Southland. To rate public conservation lands, however, could merely be seen as "cost-shifting" since DOC would then be required to meet its rate commitment from a central government appropriation.

56. The Inquiry's *background information for interested parties* (p.19, question 9. examines

9. Other revenue-raising mechanisms pose the following questions:

- *What principles should guide the use of revenue sources to fund local government expenditure (including rates)?*
- *What practical new revenue sources could, in full or part, be alternatives to rates? What are the comparative advantages and disadvantages of these alternatives?*
- *What criteria should be used in assessing the desirability of any alternative revenues to the property tax (rates) system?*
- *Are there funding sources that major tourist destinations should have in order to meet the cost of council services used by these tourists?*

57. TIA’s response to this question centers mainly on industry and commodity-specific taxation and in particular the suggestion of targeting the tourism industry through a bed or airport tax. Before beginning this section, our Association also draws the Inquiry’s attention to the findings of the Local Authority Funding Project Team. In their third report on *Alternative Tax Bases for Local Government*, they concluded that industry or specific taxes generated only moderate amounts of extra revenue. Specifically, the report said:

*“Depending on the item or industry taxed, these taxes can be regressive in their effect and have consequences for the achievement of wider government objectives”.*⁸

Bed and Airport Taxes

58. In 2002, a proposal by Parliament’s Local Government and Environment Select Committee to give local authorities a power to levy a bed tax was rejected by the Government. Explaining the Government’s position, then Tourism Minister Mark Burton (now Local Government Minister) said such taxes were “neither fair nor credible”. Our Association believes the Minister’s arguments are as strong now as they were then and we strongly oppose a bed tax.

59. A bed tax as a form of taxation is highly distortionary and economically inefficient in that it bears no relationship between the payer and the supposed benefits. International evidence shows it is also detrimental to growth and costly to administer. As this paper has noted, the benefits of tourism flow across many sectors, yet the costs of a bed tax are most likely to be concentrated on selected accommodation types, such as motels and hotels, which comprise only a small percentage of tourism services and infrastructure. In short, a bed tax poses the following risks:

- Risks to rates revenue through declining business activity in regions
- Risks to regional economic growth due to decline in tourist numbers
- Risks to investment, especially by the commercial accommodation sector who already pay high commercial rates
- Risks to the national economy due to a decline in tourist numbers and dilution of the 100% Pure brand positioning
- Risks to individual businesses’ viability through cost absorption and extra administrative compliance

International reputation

60. Bed and airport taxes will increase the relative cost of visiting New Zealand. The tourism industry through the current mid-term update of the New Zealand

⁸ *Alternative Bases for Local Government* – Third Report of the Local Authority Funding Project Team, 2006, p.24.

Tourism Strategy 2010 (NZTS2010) is planning for long-term growth to drive central government's economic transformation agenda and the industry is confident that well managed tourism activity will lead to future economic growth.

61. A bed or airport tax would contradict the objective of NZTS2010 at a critical time in the industry's development by increasing the relative cost of visiting New Zealand. While the country has fared relatively well since 2000 with annual growth of 4%, current numbers have flattened and a boost, not a knock-back is required, if New Zealand is to reach the long-term growth that will be set out in the NZTS2010 update.
62. The international competitive dimension has also changed in that the New Zealand tourism industry is now facing new challenges from emerging 'hot' destinations in regions such as South East Asia, South America and Eastern Europe, meaning a bed tax would only act as further disincentive to travel here. It could also undermine the country's 100% Pure international branding. For example, if central government was to grant powers to local authorities to levy bed taxes, the current seamless visitor experience could be tarnished with the rate and level of bed taxes differing between regions.
63. As well as the impact on international visitors, a bed tax could also be detrimental to domestic tourism which is currently experiencing steady growth. In fact, the Ministry of Tourism has only recently announced spending by domestic travellers increased by 9.3% to \$7.5 billion in the year ended December 2006. Domestic visitors may revise their travel plans if faced with a local bed tax on top of GST and the rates bill they pay in their own region.

Bed taxes are costly to administer and will damage tourism businesses

64. Bed taxes leave accommodation providers with the stark choice of increasing prices or absorbing costs to remain competitive. The tourism industry in New Zealand, as it does elsewhere, operates on fine margins, so absorbing the cost of bed taxes may put some operators out of business, particularly given the vast majority of tourism businesses in New Zealand are small and medium sized enterprises (SMEs).
65. The New Zealand Hotel Council has reported that major hotels in the larger cities would need to employ an extra staff member merely to process the administrative requirements of a bed tax on visitors. Absorbing costs to remain competitive would be a further disincentive to investment by the hotel sector which already pays commercial rates. For smaller operators, such as backpacker hostels and bed and breakfast establishments, the introduction of an increase in compliance costs of this scale might tip the balance and make their operations unsustainable.

The Treasury against Bed and Airport Tax

66. The proposal to use a bed and/or airport tax to fund completion of Auckland's Rugby World Cup stadium was not supported by The Treasury, the

government's main fiscal advisors. In a 3 November 2006 report to the Minister of Finance, Dr Michael Cullen, officials said:

*“A departure tax or bed tax would be costly, poorly targeted on beneficiaries of the stadium and poorly targeted on the region. A Crown sponsored nationwide international airport tax to fund a stadium in Auckland would likely be unpopular, and so the risk of that funding reverting in the near term to general taxation appears very high”.*⁹

67. In a further report of 15 November 2006 to the Minister of Transport, Annette King, her officials advised that a tax unrelated to services and functions associated with international civil aviation services may be contrary to International Civil Aviation Organisation (ICAO) rules. In its advice, it said

*“Under current legislation, the government cannot require airport companies to include a government tax in airport departure charges, nor can it force airlines to include a tax in tickets.”*¹⁰

68. For the moment, the Government has advised our Association that it no longer proposes the use of a bed or airport tax to fund the Auckland stadium project and due to the deficiencies found by the Treasury, we would be concerned if such a tax was recommended by this Inquiry as a valid alternative funding means for local government.

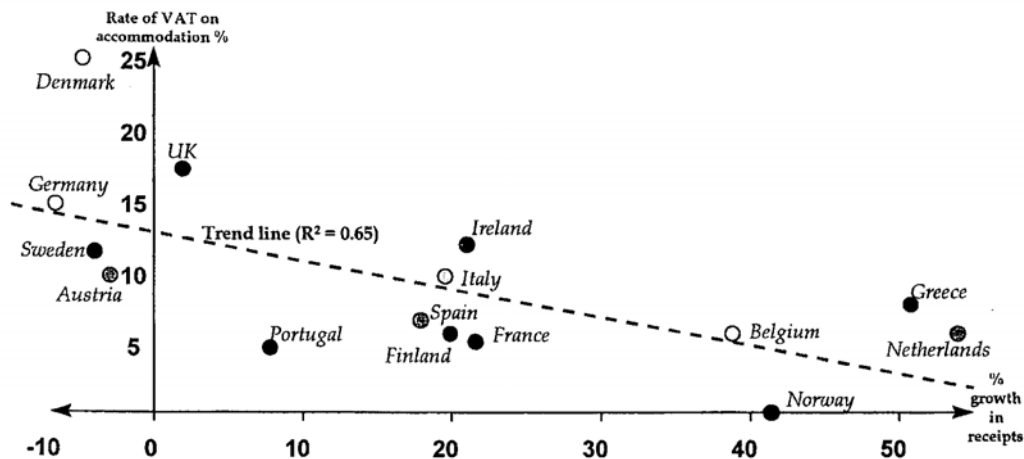
Bed taxes haven't worked overseas

69. Recent overseas evidence has provided a number of examples of how bed tax has been detrimental to tourism growth. For example, a 1998 study exploring the relationship between the rate of VAT on visitor accommodation and tourism receipts in the European Union found *the higher the level of tax levied on the visitor, the lower the rate of growth of tourism revenues*. The graph below shows the relationship between the rate of VAT on accommodation and growth in international tourism receipts.

⁹ Treasury Report T2006/2075 of 3 November 2006 on the Auckland Stadium to Dr Michael Cullen, p.3.

¹⁰ Ministry of Transport Report WGTA 8208 of 15 November 2006 on the Auckland Stadium Funding – Possible Use of Airport Taxes, p.2.

Relationship between rate of VAT on accommodation and growth in international tourism receipts 1990–1994



The graph indicates that each 1% addition to the VAT rate applicable to accommodation was correlated with a 5% reduction in the rate of growth of international tourism receipts in the 15 EU member states and Norway during 1990-94.

Source: Adapted from Hotrec data (for the rate of VAT on visitor accommodation) and WTO data (for international tourism receipts of the 15 countries in the sample over the period 1990–1994).

Source: taken from the article *Are high taxes damaging British tourism?* Accessible at <http://jvm.sagepub.com/cgi/reprint/5/1/94.pdf>

70. The table below provides recent examples of where bed taxes were used or proposed before being removed.

Place	Date	What happened?
New York	1994	A 5% bed tax was abolished as the city had become uncompetitive with other US cities, particularly with regard to the lucrative business and conference market. The abolition of the bed tax has since led to more visitors, especially the conference market.
Ireland	1996	The Republic of Ireland halved the rate of VAT on commercial visitor accommodation in the late 1980s. Following this reduction, the number of visitors increased from 1.9 million in 1986 to 4.7 million in 1996 and this is still increasing.
Sydney	2000	A 10% bed tax was introduced in 1998 to fund the NSW tourism marketing body. Between 1998 and 2000 Sydney lost 20% of its domestic patronage to other Australian cities. The tax was withdrawn in 2000. Incidentally, the money collected never went to Tourism NSW.
Balearic Islands (Spain)	2005	A 1 Euro per day visitor tax was introduced in 2002, but shelved in 2005 due to a drop off in visitors and the administrative burden of collecting the tax.
Netherlands	2005	Dutch cities Rotterdam and Amersfoot scrapped bed taxes as they were making both cities uncompetitive with other Dutch cities, especially in attracting the business market.

Italy	2006	The Italian government dropped proposals for a bed tax in the major visitor cities of Rome, Florence and Venice after concerns that it may deter visitors.
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The Lyons Inquiry

71. Sir Michael Lyons has recently concluded what is perhaps the most comprehensive review of local government funding ever undertaken in the UK. Included in his work was an analysis of tourism-related taxes. At the outset of the Inquiry in 2005, Lyons indicated he was interested in exploring a tourism specific tax or bed tax by giving powers to local authorities to levy such a tax.
72. The Inquiry received hundreds of submissions from the UK tourism industry generating heated debate as to the efficacy of tourism-related taxes. Of significance was the lack of enthusiasm for a tourism tax coming from local authorities all around the UK – only a very small number of local authorities actually supported a tourism tax. Confronted with a strong case from the tourism industry and with most local authorities not supporting the idea, in his final report Lyons said that he did not support a generally applicable bed tax and added:

“I do not support the introduction of any new taxation powers for the sake of it. In my view, a local accommodation tax is only likely to be acceptable if a local authority can demonstrate that:

- *There is a robust evidence base that the local economy could support the introduction of the tax, including the likely start-up, collection and enforcement costs;*
- *Existing alternatives, such as Business Improvement Districts, have been fully considered;*
- *There is local support for the tax; and*
- *The scheme has been developed in partnership with local businesses and residents who should continue to have a voice in the evolution and review of the scheme”.*¹¹

73. Lyons concluded his discussion on tourism-related taxes by recommending the Government conduct a cost benefit analysis on granting a permissive power to local authorities to levy a tourism tax and said much wider consultation was needed with local authorities and the tourism industry before any such proposal should proceed.

¹¹ Lyons Inquiry into Local Government – Final Report, p.316.

Alternatives to bed taxes

74. Paragraphs 44-51 of this paper have described current rating tools available and suggested they be better utilised. Below are some other options that could be considered.

What about the GST the tourism industry pays?

75. As the only export sector paying GST, the tourism industry continues to advocate for some diversion of its GST contribution from international visitor expenditure, currently in excess of \$500 million, to be re-invested in projects such as infrastructure development. Funding could be “ring-fenced” and redistributed to local authorities to fund services and infrastructure, for example to pay for the upkeep of popular visitor roads, public toilets, effluent dump stations, lay-bys, waste disposal and tourism signage.

Central Government Support

76. Central government’s fiscal position has strengthened significantly over the past decade and its revenue growth has far and away outstripped that of local government. This means there is a case for central government to support local government infrastructure spending. For example, the Tourism Demand Subsidy Scheme (TDSS) allocated funding of \$11 million over three years to assist small communities with low rating bases but high visitor numbers. The scheme has been used to invest in water and sewerage infrastructure so these small communities can sustain their local tourism industry. Examples of communities that have received funding under the TDSS include Paihia, Ohakune and Franz Josef.

Other funding options

77. Some of the other alternative funding options in the Inquiry’s discussion paper include:

- *Local income tax* – administered locally, collected centrally and redistributed to local authorities;
- *Local sales or consumption tax* – local government equivalent to GST on the consumption of goods and services which is redistributed to local authorities;
- *Citizens tax* – a tax on every adult citizen at a uniform rate, known in the UK as a poll tax; and
- *Payroll tax* – levied on employers as a percentage of payments on wages and salaries.

78. As the Local Authority Funding Project Team concluded, none of the alternatives provide a clear alternative to property taxation as a means of funding local government. A local income tax would be heavily discounted in that it would be necessary to identify the area in which individuals and businesses earned their income. As the UK experience has found, a citizen’s or

poll tax are grossly unfair and do not reflect the actual use of services. Payroll taxes, meanwhile, are economically inefficient by targeting the employment sector and again bear no relationship to the actual consumption of goods and services.

79. The Lyons Inquiry has looked at other alternatives including:

- *Seasonal pricing or peak pricing* – a seasonal surcharge might apply at a time of highest demand. This is a form of user-pays and can be an effective way of managing visitor flows away from peak periods;
- *A charge on roads or car parks in National Parks or high value visitor areas* – might be used in areas where visitors are sometimes the primary reason for congestion. Congestion funding has already been introduced in Durham and London and is planned to be introduced in other areas; and
- *Litter and waste taxes.*

80. TIA has not formed a view on the taxes described in paragraph 79, other than to say narrowly based taxes on specific sectors that do not identify the benefit are against good tax principles for reasons of economic efficiency, fairness, equity, and administrative simplicity.

Industry Reference Group

81. Our Association advises the Inquiry Panel that we would be happy to facilitate an industry reference group or phone conference to guide the Panel in the course of their consideration of submissions through May, June and July 2007. It is our view that a group comprising leaders in the tourism sector would be able to advise and inform the Panel of the industry's position with regard to local government investment in tourism development. Given the parallel work that is currently occurring with the development of NZTS2010, such an opportunity would be enormously valuable.