

Submission on the Hurunui District Council draft Annual Plan 2005-2006

1. Purpose

This document is a submission being made on behalf of the New Zealand tourism industry on the Hurunui District Council 2005-2006 draft Annual Plan. This submission particularly focuses on proposed amendments to the funding of tourism and district promotion.

TIA (Tourism Industry Association New Zealand) is interested in the outcome of this consultation process as we support the continuation of the effective partnership that has existed between the tourism industry and local government in the Hurunui area.

Hurunui Tourism is also a member of TIA.

2. About our industry

TIA is a membership-based organisation that serves as the 'voice' of the tourism industry. We have over 2,000 members, making up 85% of New Zealand's tourism revenue. Our members range from large airlines to small owner-operator businesses that employ less than five people.

Tourism is now New Zealand's largest single foreign exchange earner and overseas visitors spend over \$6.5 billion per annum while in New Zealand. One in ten New Zealanders is employed within our industry. Both international and domestic tourism contribute \$16.5 billion to New Zealand's Gross Domestic Product (9.6% of GDP).

3. The role of local government in tourism

TIA has consistently recognised the valuable role that councils have in the economic development of local areas, and the country as a whole.

Overall, there is a symbiotic relationship between tourism and local authorities and the communities they represent. Supportive communities enable tourism to flourish in local areas. Tourism provides employment, business activity and enhances the local rating base of local communities by generating new businesses that contribute rates to their local council. Tourism potential can also be a catalyst for the development (and funding) of amenities, services and enhanced public spaces in local areas.

Overall, there are wide public benefits that accrue to local areas that support tourism.

TIA believes that local authorities can add value to the tourism industry where they:

- engage in fair and equitable rating practices and ensure that funding decisions lead to productive outcomes for all sectors of the community, including the business community.
- undertake activities that lead to strong public good outcomes.
- have well-developed business-friendly regulatory practices, that facilitate sustainable business development in the tourism industry.
- ensure that core infrastructure in their areas such as water/wastewater, local roads, public toilets, parks and community amenities are of a high standard and can support both a happy community and a vibrant tourism industry. Tourism is a powerful catalyst that generates the increased revenue communities can use to fund services and facilities that benefit both the community and tourists.
- recognise the importance of early and frequent consultation with the business community.
- work with the tourism sector to “manage” regions as destinations and to promote and market local areas effectively.

In summary, local authorities have a role in providing and funding infrastructure that serves as the foundation for its community and a vibrant tourism industry. We assess documents such as the Hurunui District Council draft Annual Plan from this perspective.

4. Proposed changes to district promotion and marketing

Briefly stated, the Council proposes to change the method by which district promotion and marketing is funded. This involves a progressive reduction in ratepayer funding by June 2007.

The draft Annual Plan states that the purpose of this approach is to:

“...to restructure this activity (tourism promotion), possibly in association with other council visitor operations, to the point that it can become self-supporting with no ratepayer funding required.” (P16)

The rationale generally given for this approach is:

“This proposed direction recognises ongoing concerns within Hurunui communities regarding the present ratepayer model, and reflects the Council’s overall objectives of cost efficiency and expense management.” (P16)

At the same time, the Council affirms the importance of its involvement in tourism by stating that:

“...it sees tourism promotion as being one of many integrated elements that create such growth and opportunity.” (p16)

Our assessment is that the Council is ostensibly committed to playing a role in growing tourism but proposes to change the way district promotion and marketing are funded in response to what it perceives as resident concerns about the way these activities are funded.

5. The Council’s recent role in tourism

TIA acknowledges and commends the council for affirming its commitment to growing and managing tourism. It is clear, from a national perspective that the Hurunui District Council has played an effective role in fostering tourism developments, through its destination marketing, and through supporting the development of such attractions as the Hanmer Springs Thermal Reserve.

The calibre of attractions in the District is reflected in the Springs winning the award for the Best Visitor Attraction in the 2004 New Zealand Tourism Awards, and being voted by the general public for the People’s Award category in 2002 and 2003.

The pro-activity of the Hurunui District Council has also been recognised through the Chief Executive of the Council being invited to present at a seminar at the 2004 New Zealand Tourism Conference. This presentation demonstrated the role that councils can play in helping to construct destinations that are appealing to visitors. In making this invitation, we were mindful that guest nights in the District have increased by approximately 61% over the past five years (Commercial Accommodation Monitor)¹. It is clear that this growth would have been the result of a combination of effective district promotion, quality attractions within the District, and the growth in international visitor numbers coming to New Zealand and the Canterbury region.

TIA encourages the Council to continue to pursue policies that enables future growth.

6. TIA concerns

Despite the progress tourism has made in the Hurunui District, TIA has a number of concerns about the draft amendments to Tourism and District Promotion as contained in the draft Annual Plan. These concerns are as follows:

¹ Commercial Accommodation Monitor (CAM) is available on the Tourism Research Council New Zealand (TRCNZ) website www.trenz.govt.nz

6.1 Proposed new funding approach unproven and poses risks to continued progress

Removing the general and targeted rating component would effectively make district promotion and marketing dependent on voluntary contributions from businesses.

We suggest this approach is risky as we are not aware of any self-funding model for Regional Tourism Organisations working successfully in New Zealand. Further to this, in tourism there is no legislative framework (as there is in the agricultural sector) to incentivise the payment of charges or levies for promotional services.

In a nutshell, TIA is concerned that the Council would be taking a major risk by implementing a model that is unproven in tourism in New Zealand.

The self-funding model in tourism has the following shortcomings:

- funding raised on a voluntary basis may not raise sufficient funding to ensure that a critical mass remains in place to effectively market the district.
- all tourism businesses in the area will benefit from any marketing of the district undertaken by a self-funded RTO. The non exclusive nature of marketing as a service will inevitably lead to some tourism businesses ‘freeloading’ and not making the voluntary contribution. This would lead to an even smaller group of businesses funding marketing activities for the district, leading to further weaknesses in the funding base.
- under a voluntary self-funding system, businesses will have an interest in ensuring that promotion and marketing is targeted to their specific business. Businesses will have no particular interest in paying for any marketing efforts that have a wider benefit than their business. This may limit the extent of district marketing.
- self-funding may lead to a situation where an RTO is required to delay marketing activities until it has accumulated sufficient funding to pay for marketing promotions and campaigns. The agency would also need to devote time and energy to identifying new funding sources. This would take staff away from their core role of marketing and promotion. Overall, this creates the risk that self-funding would slow down and dilute marketing efforts in the Hurunui.

In New Zealand, destination marketing works at three levels: national, regional and local/District. Each of these marketing levels complements one and another and is interdependent.

Such destination marketing is important. Put plainly, it is difficult for people to know what attractions are available in the Hurunui District if people outside of the Region and from overseas do not know where the Hurunui District is. If the District suffers a loss of profile following the introduction of a self-funding model, tourism businesses could suffer from a loss of visitor numbers indirectly harming other businesses. Council assets such as the Thermal Reserve could see a reduction in customer numbers which would negatively impact on Council returns.

Given the recent success of tourism in the Hurunui and the level of investment made by previous councils, we would question the wisdom of the current Council experimenting with unproven models which could potentially jeopardise an important local industry, and also harm its own returns.

6.2 Residents' surveys results do not support proposed self-funding option

Residents' surveys indicate a high level of support for the Council being pro-actively involved in tourism.

The survey undertaken in October 2003 on Community Responses to Tourism contained the following responses:

- “79% strongly agree or agree that the Hurunui District Council needs continue (sic) its involvement with tourism and district promotion compared to 13% who disagree or strongly disagree.”

These survey results suggest a high level of support for Council involvement in tourism and district promotion.

We suggest the Council's proposition that there should be a shift away from using general and targeted rates to fund marketing and promotional activities is not justified by the results from the resident's survey. On the contrary, the survey results would appear to support the continuation of the use of rates to fund tourism promotion.

Therefore, the rationale for the Council's proposition to remove rates funding is somewhat unclear.

6.3 The benefits of tourism go much wider than tourism businesses

Overall, the self-funding approach ignores the considerable indirect benefits that tourism generates in local areas that go well beyond businesses directly involved in tourism.

The Tourism Satellite Account 2000-2003² demonstrates that tourism activity indirectly contributes to the employment of a further 65,000 full-time equivalent people, over and above the 99,000 full-time equivalent people directly employed in tourism. This shows that the beneficiaries of tourism can be people and businesses that are part of other industries.

These indirect impacts are well demonstrated in the report *Economic Impact of Tourism in Rotorua* undertaken by APR Consultants in June 2004³. This report showed that visitors to the area consumed up to 40 different food and beverage items “including milk, tea, coffee, beer, wine, cereals, meat, fruit, and vegetables.” Such consumption clearly benefits industries such as manufacturers, retailers and also primary producers such as farmers, vineyards and orchards.

Although we are not aware of any similar research for the Hurunui District, the report does give an indication of the nature of the indirect impacts that might be expected from tourism in the Hurunui District.

TIA suggests that the Council needs to have regard to the wide indirect benefits of tourism when it is deciding how district promotion is to be funded.

Instead, by proposing a self-funding model, the Council is suggesting a small group of residents (tourism businesses) should be responsible for paying for services (marketing and district promotion) that lead to benefits enjoyed by many other residents. This is unfair and inequitable.

6.4 Conclusions and recommendations

We conclude that the self-funding proposals in the Council’s draft Annual Plan are inappropriate for several key reasons:

- The non-exclusive nature of the benefits of marketing, and problems with ‘freeloading’ create a high level of risk that the agency responsible for marketing will have insufficient critical mass to be effective. This in turn could jeopardise the future of the local tourism industry, an industry which the Council claims to support.

² These provide comprehensive figures on the direct and indirect impacts of the tourism industry nationally. They are accessible on the Tourism Research Council New Zealand (TRCNZ) website www.trcnz.govt.nz

³ *Economic Impact of Tourism in Rotorua*, APR Consultants, June 2004

- The self-funding model is inappropriate given that community surveys show a high level of support for the Council being directly involved in tourism and district promotion.
- The self-funding model fails to recognise the wide indirect benefits of tourism activity and would make a small section of the community responsible for funding a service that benefits many other residents indirectly. This is illogical and inequitable.

Overall, the self-funding approach does not support the Council's stated intentions to view:

“tourism promotion as being one of many integrated elements that create such growth and opportunity.” (p16)

TIA recommends that the Council put aside its proposals to introduce self-funding for tourism and district promotion and to make a commitment to using a combination of general rates and targeted rates for this service.

Such a funding approach recognises the value of tourism to the local economy, supports the feedback provided in a recent community survey, and would demonstrate that the Council is serious about playing an active role in ensuring tourism is successful in the future.

*Tourism Industry Association New Zealand (TIANZ)
May 2005*