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Submission to:

Productivity Commission Inquiry on:

Local government funding and financing

The below paper is presented as a submission to the inquiry as it has direct relevance to Local Government funding and financing discussion.

The *Discussion and Decision Paper* was developed during the period (from June 2018) the Queenstown Lakes District Council (Mayor Boult) was calling for the introduction of a Bed-Tax to assist fund infrastructure related to tourism development.

This paper has been circulated to Local Government New Zealand and a range of New Zealand commercial accommodation and industry stakeholders.

Discussion and Decision Paper: 08 October 2018

New Zealand Tourism Infrastructure Funding Challenges and Potential Solutions

Tourism is New Zealand's largest foreign exchange earner and benefits almost every New Zealand resident in some way. Tourism, domestic and international is one component of economic development which while bringing various benefits also has costs in terms of its impact on infrastructure; the impact varying across New Zealand with some LGA's needing to provide significant additional infrastructure to manage tourism demand. Funding the maintenance of existing, and the provision of new infrastructure places pressure on the traditional funders, usually residential, rural and commercial property ratepayers, and in some cases differential rates. While accepting increasing costs for tourism related infrastructure, and not wishing to increase costs to the traditional funders, LGA's are looking for other ways to secure new funds from other sources.

In recent years various organisations and individuals have suggested tourism funding methods/models that LGA's and/or central government could implement to help provide the necessary infrastructure; however, to date there has been no agreement on the best method. In July 2018, Dr Anthony Brien, Senior Lecturer in Business and Hotel Management at Lincoln University called for the tourism industry to come together to discuss options and agree on a preferred method/model for funding LGA tourism infrastructure; he was supported in that call by Jim Boult, the Mayor of Queenstown who, at the time, wished to introduce a bed-tax.

The purpose of this document is threefold: Firstly, it presents various funding methods/models suggestions considered in stakeholder forums since July 2018. Secondly, it encourages all stakeholders to urgently make a decision on a sustainable tourism infrastructure funding model that LGA's can implement as soon as possible, and finally, as part of a decision going forward, it promotes a Multi Sector Targeted Tourism Rate which is considered the most equitable tourism funding model that can be quickly implemented by LGA's.

It's time to act.
Failure to make a decision on an equitable tourism funding model will inevitably negatively impact visitor experiences and have a flow on economic impact to New Zealand.

This Discussion and Decision document presents a brief commentary as to each suggestions advantages and disadvantages, and author's view of the likelihood of each being accepted by the majority of stakeholders given stakeholders' public comments. It demonstrates that considerable thought by many stakeholders has been given to finding solutions, yet acknowledges that there may be alternative solutions not yet presented. However, what is certain is a method/model needs to be developed, discussed and agreed by all stakeholders very soon to enable LGA's to secure the necessary funds for tourism infrastructure. Failure to do so will negatively impact visitor experiences and have a flow on economic impact to New Zealand.

Note: Each of the following funding models is based on the premise that the LGA has established and made public a budget for the maintenance of existing and proposed new tourism related infrastructure.

Existing and potential tourism infrastructure funding solutions

1. International Visitor Conservation and Tourism Levy (IVCTL):
   The New Zealand Government has approved a IVCTL to generate new funds that can be distributed to address tourism and conversation needs. *This model is supported by many in the tourism industry,* however, the tourism industry views this methods will not raise enough funds to meet the requirements of LGA's.

   It is likely this funding stream will be part of central government's future funding contribution to tourism infrastructure and it will be in place by the end of 2019.

2. Wait for the outcome of the Productivity Commission work on Local Government Funding and Finance Review:
   The New Zealand tourism industry has made no public comment as to the possible outcomes of this Review.

   Among other aspects, the Review Terms of Reference looks at: *Options for new funding and financing tools to serve demand for investment and services. This will appraise current and new or improved approaches for considering efficiency, equity, affordability and effectiveness, and how the transition to any new funding and financing models could be managed*.

   This wait-and-see approach is not a funding method/source per se, but the outcomes may include LGA refocus their spending which may assist in funding tourism related infrastructure. Further, the Commission's report is not due for some time.

3. Provincial Growth Fund (PGF):
   Many LGA's have made applications to the PGF, some have been successful, others not. The PGF is capped and there is no guarantee of the cap being lifted, or the fund being available on an ongoing basis.

4. Bed Tax (fixed $ per person/night, or occupied room, or percentage of room rate):
   This funding method/model *is not supported by the commercial accommodation sector.*

   This funding method has been proposed by some LGA's arguing it is a simple 'pass-through' costs to those who use commercial accommodation. It is further argued that this is internationally used to generate funds that can be used for tourism matters.

TIA *do not support a bed tax* noting it is a very blunt method that inequitably requires one sector bearing the costs of capturing funds for LGA's while other recipients of tourism spend do not contribute.

It is further argued that the suggested 'pass-through' is not always possible in a highly competitive accommodation environment, therefore, commercial accommodation end up paying the bed-tax (in full) which reduces their profitability and has negative flow-on impacts to the economy.

Implementing this funding method has not been explored in depth and no working/discussion paper has been made available by those suggesting its introduction. Introducing a bed-tax will require a law change before it can be introduced.

5. A Specific Area Tourism Levy for certain areas:
   Such a model is *unlikely to be accepted due to logistics of monitoring it.*

   However, such a model exists for Stewart Island via the Southland District Council (Stewart Island/ Rakiura Visitor Levy) Empowering Act 2012 (the Act) passed into law on 26 March 2012. Under the Act, funds must be used to better provide services, facilities, and amenities for Island visitors. A Subcommittee meets annually to review applications and allocate funding.

6. A targeted tourism rate on all commercial businesses in the area:
   This funding model would most likely have *mixed responses from commercial businesses.*

   Such a model would 'ring-fence' only commercial businesses (not residential ratepayers) who would pay a targeted tourism rate. In practice, the required tourism funds needed for maintenance of existing and developing new infrastructure would be spread across all commercial business.

   For Example, Queenstown has various differential rating categories: Accommodation, CBD Accommodation, Commercial, CBD Commercial, see - Differential Matters Used to Define Categories of Rateable Land (paste into https://www.qldc.govt.nz/assets/Uploads/Council-Documents/2014-Full-Council-Agendas/25-September-2014/Previous-Minutes/10c-Mins-App-B-Rates.pdf.

7. A portion of 'tourism related' or 'regional' GST:
   This proposal *is favoured by the tourism industry* who believe it is a direct

charge on tourists, not local ratepayers/residents who may not use tourism-related goods and services, and the funds can be spent of tourism related infrastructure. New Zealand is one of the few countries that do not give GST refunds to tourists on departure. *It is understood this funding method has been ruled out by government*.

8. Air Transport passenger charge for LGA' who have airports in their Districts:
   Airlines can bring thousands of visitors to a region who impact infrastructure. This funding model *may be acceptable to the airline industry*.
   Such a model would see a passenger fee charged as part of the air-ticket and passed onto the LGA. For example, Queenstown Airport had 2,169,317 passenger movements between August 2-17 and August 2018: A $2.00 fee applied to each passenger movement would generate $4,338,634.00.

   Note: Where an LGA has an airport within its boundaries often it is owned by a Council Controlled Organisation (CCO), or directly by the LGA. Queenstown Lakes District Council received a dividend from Queenstown Airport (75% owned by QLLDC and 25% by Auckland Airport), which in 2018 totalled $4,640,408.00. Queenstown Airport Company reported a 30 June 2018 profit of $14,941,000.

   The rationale for this model is that under LGA rules, airports are not 'rateable' and therefore could not be captured under any commercial property rating system. The parallel is that ground transport (buses, etc.) operators who pay commercial road-user charges which are in part returned to LGA's via roading agreements.

9. Multi-Sector Tourism Targeted Rate (MSTTR):
   While *many in the tourism industry do not favour any targeted tourism rate*, a MSTTR is the most equitable funding method/model as it shares the costs of tourism infrastructure across all or most recipients of tourism spend.

   The MSTTR (as presented below) uses robust Tourism Satellite Account data as part of its construction, fully covers the costs of LGA's tourism infrastructure, etc., has minimal implementation costs, is effectively and efficiently gathered, is a sustainable funding method and can be introduced by LGA's at any time (after initial necessary amendments to their LTP).

The MSTTR is the only funding model, of any that have been suggested to date (with the exception of the IVCTL), that has been fully developed in terms of its rationale and implementation method.

Summary and Call to Action:

1. While various stakeholders have made suggestions as to possible funding models (but, apart from the MSTTR Model have not provided detail of how they could be operationalised), or are taking a 'wait and see' approach to ongoing Reviews, the lack of collective and constrictive discussion and then agreement on any model is not solving an urgent problem for LGA's who need to fund tourism relation infrastructure. A funding model to assist LGAs fund tourism infrastructure must be agreed on soon to avoid negative impacts on the visitor experience and economic returns.

2. There is no perfect funding method/model, however, that should not deter making a decision on the best model from all suggested models.

3. The IVCTL may be 'part' of LGA tourism funding going forward.
4. While the New Zealand Tourism industry clearly favours funding tourism infrastructure via some form of GST reimbursement to LGA's, central government has made it clear that this is not going to happen.

5. The proposed MSTTR Model is the most equitable (user-pay), sustainable and immediately actionable LGA funding model that does not impact residential ratepayers.

6. The purpose of this Discussion and Decision Paper is to encourage all stakeholders – the New Zealand Tourism Industry players and Local and Central Government to urgently come together to discuss suggestions and agree the best way forward.

Discussion Paper Contact:

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Multi-Sector Tourism Targeted Rate (MSTTR)

The MSTTR model development has been facilitated by Dr Anthony Brien. Dr Brien is a Senior Lecturer in Business and Hotel Management at Lincoln University and can be contacted at Anthony.Brien@lincoln.ac.nz or phone, 027 623 7158.

Disclaimer: While every effort has been made to ensure that the information herein is accurate. Lincoln University New Zealand does not accept any liability for error of fact or opinion which may be present, nor for the consequences of any decision based on this information.

Rationale:

To assist in funding tourism impacted infrastructure additional funding streams for LGA's need to be considered and it is proposed that the Multi-Sector Targeted Tourism Rate (MSTTR) is the most efficient, effective and equitable model of sustainable funding. The MSTTR is applied equitably to those ratepayers (commercial, not residential) who are significant recipients of Tourism Spend in their local area; Tourism Spend (from domestic and international tourism) is the defined in the New Zealand Tourism Satellite Account.

The proposed MSTTR is not a perfect funding model, as there is no such model, yet and has benefits and negatives in its construction and implementation.

The benefits of the MSTTR include:

- Residential and rural ratepayers not bearing any burden of tourism related infrastructure costs.
- Transparent funding model that uses robust independent data for its construction.
- Enables LGA customisation of the MSTTR by use of the Tourism Spend data.
- Equitable contribution to infrastructure being impacted by tourist from those who are recipients of tourism spend.
- A sustainable funding stream for the LGA.
- No additional administrative costs to those paying the MSTTR.
- Efficient and effective payment and funding mechanism for the LGA (with minimal initial additional administration costs).
- No law changes needed to implement a MSTTR.
- Stakeholder engagement in determining the tourism impacts on infrastructure.
- Positive tourist experience that avoids and 'plus' charges that may be part of any other funding stream mechanism.
- Supports the New Zealand Government taxation system approach of having a *broad-based* tax system.

The negative aspects of / challenges that a proposed MSTTR include:

- Time spend initially in establishing the properties that the MSTTR should be applied to as there is presently no available identifier of a property matching the TSA Classifications.
- Time spent by the TSA and Industry Working group (see details in the model) in establishing the ratio of infrastructure impacted by tourism and then establishing the ratio (subjectively, but collectively) of TSA classification/property to be rated.
- If after the MSTTR is operating, a commercial property changes its use/ purpose, for example, from retail to childcare, or vis versa, then unless they notify the LGA of the change then the wrong rating will be applied to the property.

  One-off negative aspects

- As with the introduction of any new system (and cost) there will be immediate impacts on some parties until a full cycle is completed, this is exampled as follows. While the MSTTR can be applied (in the next rating round) after LGA has approval for its introduction, some commercial (property) ratepayers will not be able to pass on the MSTTR component of their total rates till any contracts for lease of their property comes due.

Issues that the MSTTR does not address:

- The MSTTR does not address the impact that Peer-to-Peer tourist accommodation users has on LGA infrastructure due to it being difficult for LGA's to identify these operators. To counter this challenge, LGA's could support a national call for Peer-to-Peer Platform Providers to charge a 'levy' per booking that is then provided to the LGA for use within tourism infrastructure.

The MSTTR in practice

The remainder of this document explains how the MSTTR can be initially introduced and applied by a LGA.

Considering the Introducing of a MSTTR

A MSTTR is one option of how a LGA can raise funds and needs buy-in and support from all those who are recipients of tourism spend. Ascertaining the will to move to a MSTTR will require tourism industry leaders speaking with the various tourism recipients spend stakeholders, for example, the food and beverage sector, passenger transport, tourism products, retails sales, accommodation, cultural recreation and gambling, retail sales (alcohol, food and beverages), retails sales (fuel, and other automotive products). These leaders can include TIA and various subsector leaders.

If there is industry agreement for a MSTTR they can ask their LGA to consider implementing such. The Local Government Act 2002 implies that such consideration should be given and if they proceed to do so the following steps are then actioned.

Establishing, Applying the MSTTR

1. The New Zealand tourism industry approaches the LGA to ask for a MSTTR to be bought into place. As part of this approach the industry offer representation of Tourism Spend recipient stakeholders to join the LGA in a Working Party for initial consultation.

2. From a LGA position, introducing a MSTTR will, in the first instance require an amendment to a LGA's Long Term Plan (LTP).

3. The Local Government Act 2002, Section 93 (4) allows for amendments to LTP at any time. Actioning a change to a LTP is described in Section 93D which states that any change must enable a LGA to carry out its (the Amendments) purpose.

4. The LGA/Working Party identify tourisms impact on the infrastructure and builds the budget for tourism specific needs: Collaboration can be before an Amendment is sought, and has to be part of consultation under the Local Government Act 2002 Section 82 which ensures persons affected by any decision have the right to have relevant information provided and are encouraged to present their views to the LGA.

5. The LGA/Working Party establishes what percentage of infrastructure costs is tourism related, for example: sewer, road, lighting, etc. and new funds needed specific to tourism, for example, tourist car parking, etc. The 'amount' required to fund existing and future tourism infrastructure over the next and future years – usually as per the LTP, and for the purpose of this proposal is termed the 'Total Needed Tourism Funds' (TNTF). The annual

TNTF figure should be established for three years when the LGA stakeholder percentage of infrastructure exercise is completed, that is, not every year. (Note: see the example that follows).

Establishing the percentage of infrastructure costs is subjective which is why it is necessary to have stakeholder engagement, however, this also benefits buy-in from all parties to the MSTTR.

The percentages will differ among LGA's depending on the impact of tourism. This is a significant benefit to using the MSTTR Model.

6. Having established the TNTF's, this figure is split across the Tourism Spend within the Tourism Product Classifications – via their respective spend percentage weightings (see the New Zealand Tourism Satellite Account (TSA), which ensures those recipients of the Tourism Spend are paying an equitable share of the tourism impact.
   The TSA Tourism Spend categories are:
   - Food and Beverage
   - Other Passenger Transport
   - Other Tourism Products
   - Retail Sales – other
   - Accommodation Services
   - Cultural, recreation and gambling services
   - Retail Sales – alcohol, food and beverages
   - Retail Sales – fuel and other automotive products

   The TSA definitions of what falls into each above category can be found on page 83 of the New Zealand Tourism Satellite Account (TSA)

   It is acknowledged that at present Property Valuations do not identify these classifications and will necessitate LGA's allocating them. It is suggested that the Office of the Valuer General be involved at this stage with the intention of having these and future valuations identify these classifications and placed on the database.

   It is further acknowledged that the classifications of 'retail sales (alcohol, food and beverages) and other tourism products' may be difficult to separately identify, therefore these classification made need to considered as one

7. Once the percentage weightings for each of the Tourism Product Classifications is established they may need refining to ensure that recipients within each Classification are paying their appropriate percentage amount, for example, in the Accommodation Services classification, consideration needs to be given to various hotel sizes, motels, etc. Arriving at such refinement and the subjectivity involved with

this will require stakeholder engagement – this also ensures buy-in of all stakeholders and transparency in terms of rating. As it is recommended that the MSTTR be struck once every three years, in line with the LTP, this exercise needs only be completed once every three years.

8. The amendment process involves the LGA publically notifying a ‘description of and reasons for the proposed amendment, its implications (including financial) and any other alternatives they wish to discuss with their community’. Notification may also include the amendments to policies noted in 10 below. Note the ‘description’ can be built jointly with the LGA and the Working Party.

9. The time frame from proposing an amendment through to being accepted depends of the LGA’s consulting period – as per their Consulting Policy.

10. If the MSTTR is approved via the Amendment, the LGA would the make necessary adjustments to the following: its Revenue and Financing Policy (which is subject to Audit) and its Funding Impact Statement.

11. It the MSTTR is approved the amounts of Tourism Product Classification funds are attributed across those properties (ratepayers) in the classification – taking into account points raised above.

12. Once fully approved, the new MSTTR can be implemented in the next rating round – 12 July of the following year.

It is appreciated that funds raised via this mode (and the MSTTR) may exceed the TNTF.

The following pages provide a demonstration of a MSTTR constriction and application.

The MSTTR Example

The following figures used in this example are for Queenstown (as at 2018) where it has been said that there is a need for $30 million per year to support existing and future tourism infrastructure. It is important to note that Queenstown has unique characteristics that many other LGA would not have; these are identified as part of the below model.

(Not being privy to how the $30 million figure was arrived at (constructed) it is not possible to accurately present the breakdown as per the MSTTR model, however, all workings from here are based on the final figure of $30 million (TNTF)).*

*The assumption is that the required TNTF's were 'built' from knowing the Tourism Infrastructure (TNTF Makeup Area) and their Costs (LGA Identified Total Costs) – in future models it is anticipated that this figure would be build via the LGA and industry working party

Construction* of TNTF's (LGA's tourism impact accountability)			
Tourism Infrastructure (TNTF Makeup Area)	*LGA Identified Total Costs*	*% of Tourism Impact **	*Amount*
Promotion	$BB.BB	100%	$BB.BB
Sewerage	$BB.BB	85%	$BB.BB
Roading	$BB.BB	80%	$BB.BB
Cultural/Library/etc.	$BB.BB	1%	$BB.BB
Lighting	$BB.BB	70%	$BB.BB
Specific tourism development	$BB.BB	100%	$BB.BB
Etc.	$BB.BB	?	?
Total TNTF			**$30.0 million**

Notes:

1. Tourism Infrastructure (TNTF Makeup Area): Area in which tourism has an impact.
2. LGA Identified Total Costs: The total costs for supplying the infrastructure
3. % of Tourism Impact and *: The percentage that is said to be accountable to tourism impact. As example, tourism promotion is an absolute tourism expenditure, therefore receives a 100% weighting. Sewerage may be 85% attributed to tourism with the remaining 15% attributed to residents ratepayers who pay their share under the usual rating system.
   *: These percentages are for demonstration purpose only.
4. Amount: The share of the LGA Identified Total Costs which is attributed to tourism impact.

Queenstown Lakes District Council Tourism Satellite Account/Total Tourism Spend		
Tourism Product Classification (as per the TSA) (1)	*% of Tourism Spend end of June 2016-2018 average % (2)*	*Contribution toward the TNTF (% / TNTF)*
Food and Beverage	23%	$6,888,047.00
Other Passenger Transport	19.4%	$5,822,540.00
Other Tourism Product	3.4%	$1,031,074.00
Retail Sales – Other	18.6%	$5,583,636.00
Accommodation Services (3)	14.5%	$4,362,185.00
Cultural, recreation, and Gambling Services	10.5%	$3,148,672.00
Retail Sales – alcohol, food and beverages	5.2%	$1,565,668.00
Retail sales – fuel and other automotive products	5.3%	$1,598,180.00
	100%	**$30.0 million**

Notes:

1. Tourism Product Classification (as per the TSA): While the TSA provides clarification of what business fall within the classification, and LGA's may already have systems to identify which properties fall within classification, this is where further work may be required to ensure decision making and judgement is as efficient and effective as possible. This is where collaboration between the LGA and stakeholders is imperative.
2. % of Tourism Spend 2016-2018 average % - calculated via the data held on: http://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/monthly-regional-tourism-estimates/annual-spend-grouped-by-region-country-of-origin-and-product-category Averages are used as the proposal sees this exercise only being completed every three years thus allows for smoothing.
3. See the following example of refinement of this classification.

Tourism Product Classification Refined Breakdown (demonstration only)			
Tourism Product Classification	*Sub field classification*	% with classification	*Contribution toward TNTF*
Accommodation Services	Hotels over 100 Rooms	55%	$2,399,201.75
	Hotels under 100 Rooms	25%	$1,090,546.25
	Motels	20%	$ 872,437.00
		100%	$4,362,185.00

TTR refinement			
Sub field	%	*Value of TNTF*	*Gathered via the standard LGA rating system*
Hotels over 100 Rooms	55%	$2,399,201.75	Spread across all hotels in this category via either Land Value or Capital Value

<u>Queenstown's unique characteristics:</u>

1. An international airport. Consideration needs to be given to how Queenstown airport can contribute to the LGA TNTF as air travel is not tracked in the TSA Tourism Spend data. Other towns/cities will also need to consider this aspect when developing the contribution for sectors. It must be noted that New Zealand Local Government Rating Act (2001) does not allow for rating of airport – see Claus 18 of the Act.

2. The majority of businesses are heavily reliant on tourism (supermarkets, chemists, etc.), therefore, all properties that have businesses operating from them are included – as part of the Tourism Product Classification. Potentially, the only other town in New Zealand that has a tourism impact relative to size to Queenstown is Lake Tekapo.

Questions and Answers/Comment

1. Isn't a bed-tax easier to implement?

   Answer/Comment:
   A bed-tax only applies to commercial accommodation who are only one sector responsible for tourism impact on infrastructure – therefore is an inequitable method. It is simple for an LGA to administer, but requires a law change. It has significant administration implications for the commercial accommodation sector.

2. What if the LGA and the Stakeholder Working Group can't agree on the percentage of tourism impact on infrastructure – who will decide in the end?

   Answer/Comment:
   If good-will on all sides is not evident then it would not be appropriate for a MSTTR to be suggested for implementation.

3. Airports bring in thousands of tourist, how can they contribute to the TNTF?

   Answer/Comment:
   Airports cannot be 'rated' therefore companies that operate airports could refuse to make any contribution to the TNTF. However, airports are responsible for bringing in, often significant numbers of tourists to a LGA region and therefore should consider making a contribution.

4. What if tourism drops off, will the rates go down?

   Answer/Comment:
   This is always a possibility. Under the MSTTR any correction in tourism spend will be taken into account and adjustments made every three years, or more of the LGA and Working Party agreed.

5. Why only establish the TNTF every 3 years?

   Answer/Comment:

As Tourism Spend changes every year and LGA require certainty in rate funding, also due to not having the LGA change the rating percentages every year, a three year period is suggested. Additionally, and LTP happens once every three years.