



YOUTH HOSTELS ASSOCIATION OF NEW ZEALAND

YHA New Zealand National Office

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15 February 2019

Local Government Funding and Financing Inquiry
New Zealand Productivity Commission
PO Box 8036
The Terrace
WELLINGTON 6143

Re: Submission on Local Government Funding

This is a submission in relation to Local Government funding and in consideration of:

- The impacts of tourism (Q5)
- Principles associated with approaches to local government funding and financing (Q30)
- Issues such as targeted rates (Q32)
- Increased central government funding transfers to local government (Q37).

YHA New Zealand

YHA New Zealand (YHA) was established in 1932 and has a long history of participation in the New Zealand tourism sector. Our founding mission has been to motivate and inspire young people from all over the country, and the world, to get out and explore New Zealand.

YHA is a registered charity and an incorporated society. Our Mission is to deliver quality budget accommodation and travel experiences which enrich people's understanding of each other, the environment and New Zealand. While we are a membership-based organisation, our accommodation is available to anyone, not just members.

Over the years, we have built an internationally recognised network of quality backpacker accommodation that welcomes travellers from around the world and showcases the unique culture and environment of our country. YHA is fully committed to sustainability and sustainable practices, and actively educates guests and members about the environment. This has been recognised over the years through many awards and accolades, and in December 2016 we became the first accommodation network in the world to become CarboNZero certified.

Today, YHA has a network of 38 hostels, 13 of which are directly managed and operated while the rest are independently owned and trade under the YHA brand. We deliver over 700,000 guest nights annually, offering private ensuite accommodation as well as the traditional multi-share (dormitory) rooms, and employ approximately 180 people through our peak summer season.

YHA is also a founding member of Hostelling International, which is an international backpacker network operating in over 65 countries, with approximately 3,700 hostels and 3.7 million members.

Hostel Locations

YHA-operated hostels are in the following locations:

- Auckland x 2
- Rotorua
- Wellington
- Christchurch x 2
- Franz Josef
- Mt Cook/Aoraki
- Lake Tekapo (new development opening in April)
- Wanaka
- Te Anau
- Queenstown x 2.

Context – the Visitor Economy

The visitor economy is a very significant one as evidenced by the following annual metrics:

- Total tourism expenditure of \$36 billion
- International tourism expenditure of \$14.5 billion, which is 20.7% of NZ's total exports of goods and services
- The direct contribution of tourism to GDP is 5.9%
- The indirect valued added of industries supporting tourism contributed 4.6% of GDP
- Tourists generated \$3.3 billion in GST revenue.

Submission Points – Questions 5, 30, 32 and 37

Visitor numbers clearly impact on infrastructure. Current growth in tourism and the resulting pressure on infrastructure has only compounded the impacts of under-investment over time. Nevertheless, tourism clearly benefits the local economy generally, and not just the tourism sector ... and this benefit is substantial.

There is a wider economic and public benefit associated with the tourism sector visitor.

Fairness and equity must underpin local government funding and financing. It is grossly inequitable just to target the tourism sector to fund infrastructure on the basis that it is the whole local economy and the entire community that benefits from the visitor economy.

It is even more inequitable to target the accommodation sector either on a levy or targeted rate basis. It is estimated that less than 10% of total tourism spend is on accommodation – by way of contrast, and using Auckland as an example:

- retail sales spend is estimated as being up to as much as 30% of total annual tourism spend
- food and beverage services spend is estimated at 17% of total annual tourism spend
- passenger transport spend (excluding air) is estimated at 16% of total annual tourism spend; and

- other tourism product spend is estimated at 13% of total annual tourism spend.

A targeted rate unfairly targets a small sector of the tourism industry contributing less than 10% of the revenue earned from visitors i.e. it is unfair to target just the commercial accommodation sector with a targeted rate when multiple sectors benefit, many to a significantly greater extent than accommodation services.

Similarly, any levy or targeted rate targeting just the accommodation sector will put a strain on businesses and employment – it is likely to have a significant negative impact on the viability of many accommodation businesses, with a risk of job losses and a reduction in quality standards due to reduced investment in refurbishment. In addition, increased bottom-line costs will clearly impact on the economic feasibility of some accommodation developments; in fact, the development of mid-range hotels and backpackers is unlikely to be viable.

There is also a flawed assumption that accommodation prices can just increase to absorb this cost. This overlooks the fact that accommodation providers are already selling at market rates but, regardless, price competition will inevitably result in most accommodation providers absorbing the costs. On the other hand, any increase in accommodation spend will likely result in a reduction in discretionary spend.

Any additional cost targeting just the accommodation sector is likely to put a significant strain on businesses and employment. In the case of the backpacker sector, there will be a need to absorb these additional costs at the cost of profitability, necessitating expenditure savings through reducing staff and limiting plant maintenance.

One very obvious potential source of funding for infrastructure is GST, which is a substantial revenue stream for central Government and in recent years has exceeded expectations due to the increase in international visitor arrivals. This has enabled initiatives such as the Provincial Growth Fund, which is investing \$3 billion in regional economic development over a 3-year period.

A better and more equitable use of this GST ‘bonus’ would be to reallocate a portion back to the regions in which the GST was generated in support of funding infrastructure. While YHA is wholly opposed to the notion of local expenditure taxes, a reallocation of GST revenue back into the areas in which it is earned appeals, especially in those areas in which there is a high visitor to ratepayer ratio.

Sharing in central Government GST revenue, say 10%, would provide significant funding to local Government in support of maintaining and investing in essential infrastructure.

Summary

In summary:

- i) Tourism is a fantastic success story for New Zealand, with both direct and wider economic and social benefits

- ii) Any specific targeting of the accommodation sector (levies, targeted rate etc.) is grossly inequitable and unfair, as less than 10% of tourism spend is on accommodation. Any additional funding models need to be fairly imposed and evenly spread across all sectors
- iii) Sharing in GST revenue with central Government appeals as a fair and equitable way of funding essential infrastructure across New Zealand, with minimal impact resulting from any part-reallocation

YHA New Zealand appreciates the opportunity to contribute to this discussion. Please contact the writer for any further information you may seek in support of this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Wells', written in a cursive style.

Mark Wells
Chief Executive
YHA New Zealand