New Zealand Productivity Commission
Local Government Funding and Financing Draft Report
Submission from the Nelson Regional Development Agency

1.0 Introduction

The Nelson Regional Development Agency (NRDA) is a Council Controlled Organisation owned by the Nelson City Council (NCC) with funding provided by the Tasman District Council (TDC). All NRDA services are delivered with a combined Nelson Tasman regional focus.

Our primary purpose is to make a difference to the future prosperity of the Nelson Tasman region through positioning, connecting and promoting the region. We do this by partnering with the public and private sectors in the attraction and retention of talent, visitors and investors who want to add value to the identity of the extraordinary Nelson Tasman region and who will make a positive contribution to our region's future.

NRDA is the Regional Tourism Organisation (RTO) in Nelson Tasman and takes a sustainable destination management approach to the delivery of those services. This means our service delivery is focused on ensuring the visitor sector enhances the local community, economy and environment in the long term through inspiring the sharing and delivery of an Extraordinary Nelson Tasman visitor experience and stories.

2.0 Scope of Submission

The scope of our submission is purposefully limited to 'coping with the growth of tourism' and reflects the viewpoint of our tourism partners and private sector funders. It is not an official submission on behalf of either Nelson City or Tasman District Council.

A stakeholder survey was conducted as the primary means of gathering information for our submission along with data from the Tourism Industry Aotearoa, Local Government New Zealand, Tasman District Council, Nelson City Council, StatsNZ, and the Productivity Commission Draft Report as well as advice and specialist reports that were made available to us.

3.0 Summary of key submission points:

1. In summary, NRDA and its industry partners are generally supportive of the efforts to find new and / or alternative funding mechanisms to enhance the positive impact and limit the negative impacts of visitors to the region(s). However we feel any solution needs to be fair, equitable and easy to administer. For that reason we feel the most appropriate option for implementation is some sort of national funding collection system with fair and equitable distribution to regions based on impacts.

2. We are generally supportive of the effort to find new and / or alternative funding mechanism designed to:
    a. enhance the sustainable visitor experience in NZ and the region;
    b. support tourism hotspots, to enhance the positive contribution and reduce the negative impacts of tourism;
    c. support the ability of regions to deliver for both residents and visitors;
    d. enhance the positive and reduce the negative impacts of lack of infrastructure on both residents and visitors;
    e. provide equitable funding of mixed-use infrastructure and services; and
    f. help regions address peak demands and seasonality.

3. We would like to see any proposed solution enable a fairer method of capture across all benefactors of visitor spend, rather than just the accommodation sector. There is quite a broad distribution of visitor spend in the region, when compared with the NZ norm. (44%) of spend is in the retail sector, (18%) in hospitality, (16%) transport and only (12%) in accommodation and (10%) in attractions / activities. It is worth noting that the major contributors to the regions destination management activities delivered by NRDA come from the (22%) of the benefactors, being accommodation and attractions / activities.

4. A user pays system where all users pay and the higher users pay a higher amount. It is noted that Central government manages to capture the primary benefits from tourism spend currently with a degree of simplicity through GST and will additionally capture international tourist's through the International Tourism Levy. A similar level of simplicity that captures all without casting the net wider than it needs to be, would be

welcomed for Local Authorities as well. Any potential solution needs to be simple for the industry and Local Authority to implement and administer.

5. It is acknowledged that the general rating base is too broad and undermines the principle of user pays, however, targeted rates, particularly those focussed on accommodation providers, do not capture a significant proportion of mobile tourists, day trippers, visiting friends and relatives and the wide range of tourism beneficiaries. Any future solution must include provision of a mechanism that will capture the significant activity of the non-commercial / sharing accommodation sector such as AirBnB and the like. There will also need to be thought given to how we can address the cost recovery of the impact of freedom campers in the regions.

6. The use of targeted rates on commercial accommodation providers is a very blunt tool in that it only targets a minority subset of tourism business as outlined above. Further, it's noted that the most direct beneficiary of tourism activity is central government through GST receipts, as well as through income and profit taxes. International visitors pay $1.7 billion a year in GST, along with other taxes. With the majority of income received by central government and limited direct costs, this provides central government with a strong incentive to encourage and grow tourism, whereas local government does not enjoy the same incentives and indeed faces significant, and growing, negative consequences. This does not align with the "benefit principle" favoured by the Productivity Commission, nor ability to pay. With Councils facing an increasingly ageing population, this further impacts on both ability, and willingness to pay.

7. While local government needs flexibility and funding tools to enable them to level the playing field between commercial operators and the sharing economy, an accommodation levy is not the panacea for meeting the funding gaps Councils are experiencing, particularly in relation to infrastructure. Similarly, it cannot be seen to meet the Tourism Strategy's goal of supporting thriving and sustainable regions. With central government reaping the primary benefit from tourism, fairness and equity for ratepayers needs to be of paramount concern. While an accommodation levy or other tourism-sector related local government tax shifts the incidence of rating pressure within the region, it does little to engender or grow the tourism sector and simply shifts the funding inequity from one group to another within the regional level.

8. NRDA has just over 100 visitor sector partners, and we had a 60% response rate to our survey, which gives us a fair representation of our private sector views. The survey results indicates:
   a. There is a divided opinion, from those in the industry with a view, on the specific question of enabling an accommodation levy, with 51% in support and 49% against.
   b. There was a similar level of divided opinion when we asked should Local Government have tools to implement a levy across a wider portion of the visitor sector?
   c. There was quite a spread of priorities around what the funding raised should be used for:
      i. Highest priority areas included – Public Toilets, rubbish disposal; water infrastructure and sustainability initiatives.
      ii. Med priority areas included – Destination management, local roads, parking, information centres and regional promotion
      iii. Lowest priority included – Regional cultural facilities and parks.

9. We also like to note that one of our Local Authority partners have clearly stated they do not support this proposal and have tried in the past tried to introduce such a levy. This was a complete failure for a number of reasons. Firstly it is very difficult to identify who to levy as Council has no mechanism by which to easily identify that part of the accommodation sector – Air B&Bs etc. The administrative costs of trying to identify them through websites, advertising etc. is too large for councils to bear, and they definitely do not want to see such a requirement imposed on the local government sector.

4.0 Tourism is important to the region

Tourism is one of five major economic drivers of the Nelson Tasman region, it is currently the 2nd largest contributor to GDP (9.3%) and the 3rd biggest contributor to employment. An increasing focus on high-value markets, product development and improved airline services have contributed to the region's continued growing tourism sector. Total visitor spend in the region has grown by 30% in the last 3.5 years, with international visitor spending contributing approx. 40% and domestic 60% of the total visitor spend in the region.

There are two key characteristics in the Nelson Tasman visitor economy that contrast with the national picture.

1. The core international visitor market profile is driven by: USA, UK, Germany and Europe and Australia. This differs from NZ as a whole being quite strongly driven by Australia and China.
2. There is a broad distribution of visitor spend in the region, as evidenced by the able below. This is very relevant to the questions raised around the most appropriate methods of recovering costs associated with the provision of local mixed-use services that visitors utilize.

The distribution of visitor spend in the region (Infometrics, March 2019) is:		
Sub-sector	***%***	***% of Total***
Retail Total:		44%
Alcohol, Food & Beverage	*11%*	
Fuel & Automotive	*13%*	
Retail other	*20%*	
Hospitality		18%
Passenger Transport		16%
Accommodation		12%
Visitor Attractions / Activities		10%
	TOTAL	100%

5.0 Local Authorities and tourism funding impacts

The New Zealand-Aotearoa Government Tourism Strategy seeks for tourism growth to be productive, sustainable and inclusive, with a coordinated all-of-government approach to many of the goals and objectives required to deliver on the outcomes. The Strategy acknowledges that while local government and their communities are merely small actors in a large play that is the tourism system, they are pivotal to delivering good outcomes but are also intensely impacted by tourism and tourists. In contrast to the Strategy's all-of-government focus, Councils' planning and delivery of tourism facilities and services is very eclectic and reflects the tension Councils face to balance community needs and priorities against rating impacts, and the differing levels of social license tourism enjoys.

The importance of mixed-use infrastructure is well understood, as are the negative impacts that infrastructure capacity gaps have on both residents and tourists. During the summer peak, the Nelson Tasman population swells considerably, with between 75,000 and 100,000 visitors (domestic and international) in each of the summer months. It is not evenly distributed within the region however, with tourism hotspots such as Marahau, Kaiteriteri and Golden Bay reaching up to four or five times their resident population over the summer peak. Traffic counts on High Street Motueka (SH60) demonstrate a variation of between 8,000 (May to August) and 18,000 (December to January) vehicles per day along with amplification of congestion and on-street parking demand. Nelson Tasman is one of the key regions impacted by seasonality with tourism up to four to five times higher over the summer period. During the summer peak season it is estimated that infrastructure use surges by 4.1 times that of winter months. In addition to capital costs, there is an increasing impact of operational costs such as freedom camping compliance, rubbish collections and chlorination of water in Kaiteriteri.

To ensure the future of tourism meets the objectives of the Governments Tourism Strategy, growth will need to be sustainably managed to reduce the negative impacts already being felt by the regions, particularly infrastructure capacity constraints, environmental impacts of freedom camping, the social impacts such as road congestion and the social licence of the industry. It is noted that 44% of tourism-related social media posts by New Zealanders in 2015/16 expressed frustration with the increase of tourists and their behaviours. While strategies aimed at smoothing the tourist demand curve, spreading visitation and increasing industry capacity are ongoing, additional funding is required to address infrastructure constraints which are estimated nationally at $150 million per year.

In general, Councils currently cover their mixed-use infrastructure costs out of general rates or use targeted rates. Neither rating tool is particularly fair and equitable or without opposition, particularly in areas that have a high visitor to resident ratio, especially over the summer peak period such as Kaiteriteri, Marahau and Golden Bay.

To try and address some of the inequity challenges, Tasman District Council implemented a tourism sector targeted rate in 2009 to part-fund tourism marketing and destination management services to offset general rates. The Tourism Rate, a flat rate of $137.21 per property, was applied to properties with a Health License, an on or off License, accommodation properties, petroleum outlets, tourism activities, passenger transport services and retail services and businesses targeted at the visitor market. The Tourism Rate was discontinued in 2012 due to high compliance and administration burdens and, in particular, the inability to identify who to levy as Council doesn't have a mechanism by which to easily identify the non-commercial portion of the accommodation sector (the administrative costs to continually try and identify them through websites, social media and advertising was very cumbersome). The Tourism Rate was removed, along with removal of any general rates component in 2012, and replaced by a district wide targeted tourism rate, at a set rate of $23.51 per property. This example highlights the importance of any potential solution needing to be simple for the Local Authority to administer and revenue positive.

Funding from central government, such as the Tourism Infrastructure Fund (TIF) have been a welcome addition, however, it has not reduced the rating burden on residents, it has merely reduced some of the negative mixed-use infrastructure impacts, particularly around public toilets and car parking facilities, and enabled timing to be brought forward. While Nelson City Council has received a total of $635,000 and Tasman District Council $345,000, the discretionary nature of the TIF makes planning and delivery of mixed-use infrastructure problematic and, as noted above, does not reduce the financial burden on residents. Of note, Ministry of Business, Innovation and Employment estimates that total annual tourism expenditure at $39.1 billion, or $107 million per day, whereas the Tourism Infrastructure Fund provides up to $25 million annually to develop tourism-related infrastructure.

The new International Tourism Levy will further assist, however, it is noted that it is forecast to raise only $80 million a year and the revenue will be shared 50:50 with the Department of Conservation. It is further noted that while the exact nature of the expenditure is yet to be determined, money provided to Councils is usually provided to fund capital rather than operational items. Further, the resources required by smaller Councils to apply for contestable funding for one-off projects is in itself a drain on regional resources. A multi-year approach to funding provision would enable better quality forward planning.

6.0 The Sharing economy Impact

In Nelson there is a total of 600 AirBnB listings, 411 of which are entire homes, and in Tasman there is a total of 968 listings with 714 entire homes. Nationally, in 2017 around 578,000 stays were booked with AirBnB accommodating 1.4 million guests. The rapid growth of AirBnB is impacting on small commercial operators who pay commercial rates, commercial water, employ staff, and adhere to health and safety regulations, as well as fire and building warrants of fitness. AirBnB, BookaBach, home stay and other sharing economy accommodation providers are not included within tourism and accommodation statistics so similarly undermine that data. This highlights that any future solution, must include provision of a mechanism that will capture the significant activity of the non-commercial / sharing accommodation sector.

7.0 Proposed Accommodation Levy

Enabling legislation to provide for an accommodation levy does not get the community onside. Despite the International Tourism Levy, it can be seen to shift the problem and undermine the all-of-government approach down to a local government/community problem. Levies generated at multiple levels further undermines the goal of a coordinated tourism system, with funds able to be applied in an eclectic and ad hoc approach, and limited coordination or forward planning provided through the use of discretionary funding.

In analysis of the advantages and disadvantages of the various possible funding solutions, it is noted that a number of disadvantages that are directly attributable to the tourism accommodation levy are not recorded. Such additional disadvantages include:

- Commercial accommodation providers already face high compliance and administration costs.
- Charging NZ residents and tourists differently would be impractical so both local and national accommodation users, which represent 60% of commercial accommodation users, would be charged the levy in addition to international visitors.
- Significant challenges associated with capturing all accommodation channels, particular freedom campers and sharing economy.

- Significant compliance and administration burden for Councils trying to identify and capture all accommodation providers.
- Accommodation only accounts for a small proportion of total visitor spend so an accommodation levy does not represent equity or user pays.
- Reinforces that tourism is an industry-based problem that enjoys Council subsidies (unlike other industries) which undermines the sector's social licence.
- Councils could be seen to be double-dipping by implementing an Accommodation Levy in addition to existing funding mechanisms that support destination management and tourism marketing, which puts funding for these activities at risk.

According to TIA for every 100 domestic and international visitors, 30 will spend the night in commercial accommodation, 7 in an AirBnB or holiday home, and the remainder enjoy free accommodation, mainly with friends and relatives (the latter not exclusively for domestic visitors). Accordingly, a bed tax will reach only one-third of tourists. Further, domestic visitors account for 60% of all commercial bed nights.

A critical element of developing the tourism sector and managing tourism growth hinges on the quality of the visitor experience. Indeed a key goal of the government's and our regions Tourism Strategy is to deliver exceptional visitor experiences. Concerns about the impacts of tourism and tourists on the environment and on the ability of residents to enjoy their townships and lifestyle, and the inability to meet infrastructure needs and demands has the potential to severely undermine our nation's friendly, welcoming reputation. Negative experiences of international drivers and freedom campers who have been met with hostility (and resulted in negative international coverage) demonstrate the risk to the tourism sectors social license currently. Similarly, the sharing economy is currently relatively uncontrolled and does not necessarily conceive of themselves as part of the visitor sector, and concerns have been raised about the quality of the experiences offered versus those advertised, further damaging our reputation.

While local government needs flexibility and funding tools to enable them to level the playing field between commercial operators and the sharing economy, an accommodation levy is not the panacea for meeting the funding gaps Councils are experiencing, particularly in relation to infrastructure. Similarly, it cannot be seen to meet the Tourism Strategy's goal of supporting thriving and sustainable regions. With central government reaping the primary benefit from tourism, fairness and equity for ratepayers needs to be of paramount concern. While an accommodation levy or other tourism-sector related local government tax shifts the incidence of rating pressure within the region, it does little to engender or grow the tourism sector and simply shifts the funding inequity from one group to another within the regional level.

A user pays system needs to be that – one where all users pay and the higher users pay a higher amount. Central government manages to capture this for themselves with a degree of simplicity through GST and will additionally capture international tourist's through the International Tourism Levy. A similar level of simplicity that similarly captures all without casting the net wider than it needs to be, would be welcomed.

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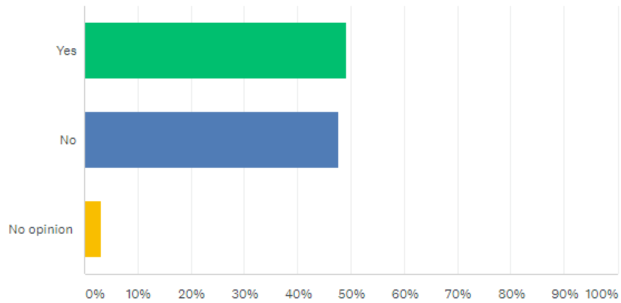
APPENDIX 1: Stakeholder Survey

We completed a survey to our database of partners and private sector funders summarising the key points raised regarding the pressures and opportunities presented by tourism and sought their opinion on three key questions. We received a total of 65 responses (60% return rate).

1. **Would you be supportive of local government having the ability to choose to implement an accommodation levy so councils can recover the costs of providing local mixed-use services that tourisms do not otherwise pay for?**

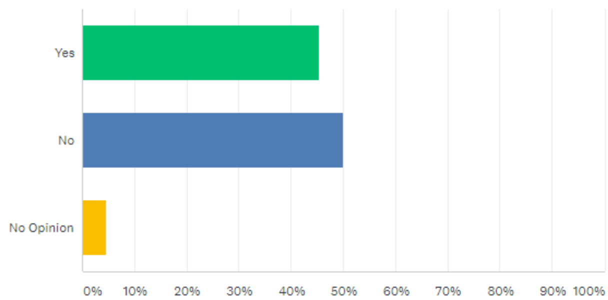
Answered: 65 Skipped: 0



ANSWER CHOICES	RESPONSES	
Yes	49.23%	32
No	47.69%	31
No opinion	3.08%	2
TOTAL		65

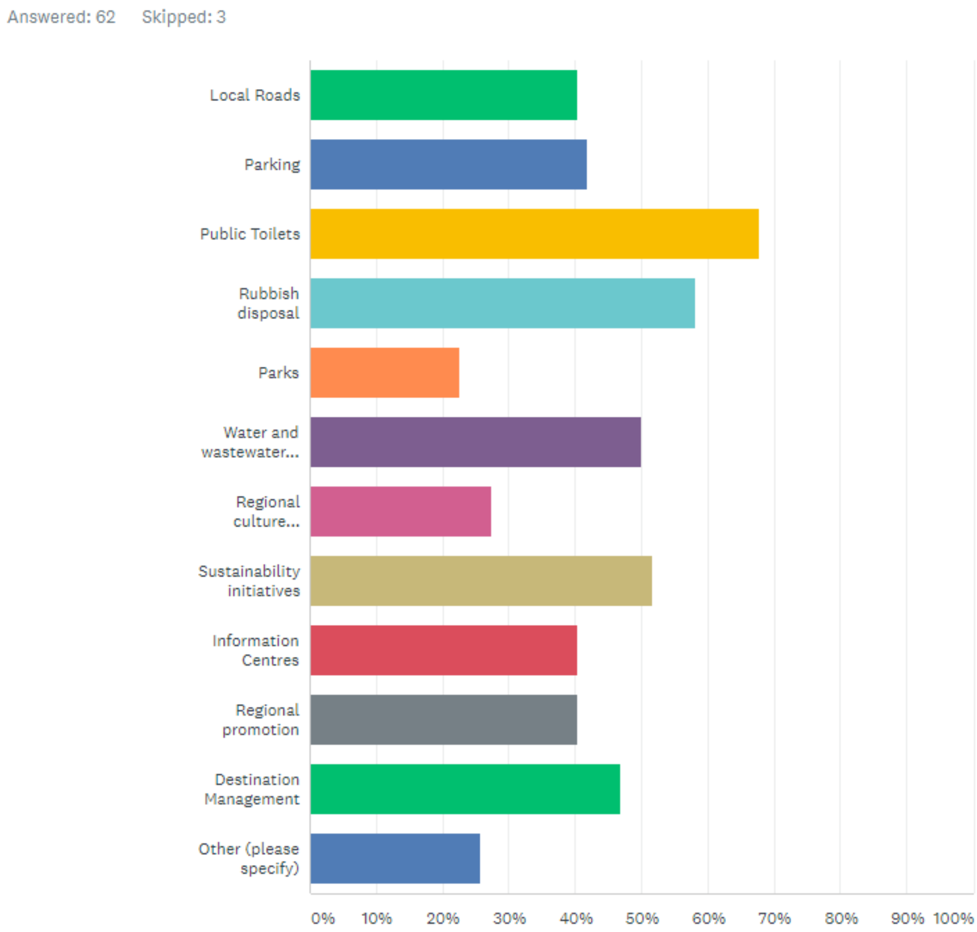
2. **Would you be supportive of local government having the ability to choose to implement a levy on the visitor sector that is applied wider than just accommodation so that councils can recover the costs of providing local mixed-use services that tourisms do not otherwise pay for?**

Answered: 64 Skipped: 1



ANSWER CHOICES	RESPONSES	
Yes	45.31%	29
No	50.00%	32
No Opinion	4.69%	3
TOTAL		64

3. If a levy was put in place, what should be the funding be used for?



a.	Local roads	40%
b.	Parking	42%
c.	Public toilets	68%
d.	Rubbish disposal	58%
e.	Parks	23%
f.	Water and wastewater infrastructure	50%
g.	Regional cultural facilities e.g. Museums	27%
h.	Sustainability initiatives	52%
i.	Information Centres	40%
j.	Regional promotion	40%
k.	Destination management	47%
l.	Other: please specify	26%