



tourism
INDUSTRY

ASSOCIATION NEW ZEALAND

**Submission to the
Accident Compensation Corporation
on the
2011-2012 Levy Rate and Experience Rating Consultation
29 October 2010**

Introduction

1. This submission is from the Tourism Industry Association New Zealand (TIA or the Association), located in Wellington. The Association has submitted to levy consultation rounds for the past four years and again welcomes the opportunity to be able to comment on the 2011/2012 levies, as well as the proposals on experience rating. Should you wish to contact TIA regarding this submission, please telephone Simon Wallace, Policy and Research Manager on 04 494 1842 or 0272 489 375 or e-mail him at simon.wallace@tianza.org.nz
2. In considering this submission, the Association asks Accident Compensation Corporation (ACC or the Corporation) officials to take note of submissions it may have also received from many individual tourism businesses, as well as other tourism related organisations. These include the New Zealand Hotel Council (NHZC) the Hospitality Association of New Zealand (HANZ), the Motel Association of New Zealand (MANZ) and the Ski Areas Association of New Zealand (SAANZ). The Association also strongly endorses the submission made by a group comprising Leisure Activity Guiding Services, many of whom are TIA members.

Levy Rates

Comment

3. Over the past twelve months, TIA has developed a much closer working relationship with the Corporation involving quarterly meetings with officials, ACC participation in TIA managed member workshops around the country and individual assistance for tourism businesses. The improved level of engagement over the past year has helped TIA and its members to better understand the ACC system and how the levy setting process works. In this year's submission round, the Association has found ACC staff extremely helpful.
4. As TIA said in its submission last year, it is aware of the difficult financial situation currently faced by the Corporation and the need for ACC to rebalance its books in order to address debt levels and ongoing funding commitments. The Association supports the cost containment initiatives that ACC now has under way as well as the emphasis being placed on injury prevention, injury management and back to work programmes.
5. The levy increases that were implemented for the 2010/2011 year have been significant and are starting to be felt right now as tourism businesses around the country receive their ACC invoices for the forthcoming year. Coming at a time when operators are struggling through a difficult trading period and the worst recession in many decades, these rises could not have come at a worse time. TIA highlighted the substantial increases faced by some sectors of the tourism industry in media statements that it released following the close of submissions last year.
6. While acknowledging the proposed 2011/2012 levies are not increasing to the same extent or level as last year, and some are actually decreasing, parts of the tourism sector are still facing increases that are impacting on the viability of their operations. Some of these increases are due to standard rises within existing levy risk groups and classification units, but other increases appear to be occurring due to changes from one levy risk group or classification unit to another.

Member Feedback

7. In response to requests to TIA members for feedback on this year's consultation process, TIA has received substantive comments from a variety of different businesses across the tourism sector. For the benefit of ACC, the Association has this year included verbatim comments from some of its members so the Corporation can better understand how levy changes affect particular parts of the industry. The main comments relate to levy increases, changes in levy risk group or classification unit and at a more general level, the process involved for setting levies. Here are a selection of comments.
8. The comments received from this motel are in response to levy increases in the accommodation category.

Case Study: Motel

"Over the last few years, the ACC Workplace Cover levy has been progressively reducing from a rate of \$0.78 per \$100 of liable payroll in the 2007/07 financial year to \$0.59 per \$100 of liable payroll in the 2009/10 year, presumably due to the accommodation successfully lowering injury risk in their workplaces. As noted in paragraph 6, an increase of \$0.40 per \$100 of payroll took effect for the current 2010/11 financial year. .

We have been concerned for some years at the magnitude of the rates which have been applied to the accommodation sector as we see this employment sector as much lower injury risk when compared to other employment sectors. The majority of hours operating this business are spent on clerical, marketing and reception functions, not on cleaning which from discussions we had had with ACC is what the accommodation rate is based on. There is no option to be able to elect or apply split rates reflecting the various different functions within the business. One rate applies to the whole operations of a business.

We also note that other sectors with similar risk (clerical/office duties) are charging levies significantly lower than that which applies to the accommodation sector, around half the rate we are required to pay. In the nearly six years that we have been operating this business we have not had one work related injury requiring a claim to be made against ACC, reflecting the low industry risk of this sector.

With visitor numbers to this region declining, we have no option but to absorb these increases due to the difficulty in passing them on in the competitive (pricing discounting) business environment we currently operate in, with the direct result (and other businesses) profitability is further reduced. In the commercial world, the customer is able to choose where it purchases its services from. If a business overcharges or does not provide an effective service then the customer goes to another provider. This is the cold hard reality of the commercial world".

9. These comments are from a small to medium sized adventure tourism operator.

Case Study: Adventure tourism operator

"The level for the 2010/2011 year is unsustainable for our company, the proposed levy for 2011/2012 is even more financially challenging – this is not something our company can afford. The irony is that if this levy remains at such a high level we will be unable to sustain many aspects of a profitable business which is capable of maintaining its re-investment in quality materials, training systems and staff. For example, the wages for experienced staff will become unsustainable and we will need to bring on lower

paid staff (untrained and therefore creating heightened risk).

10. These are snapshots of the level of increases affecting some hotels.

Case Study: Hotels

1. Our levies from 1 April 2009 to 31 March 2010 were \$37,929.95 and the estimate for 2010/11 is \$54,480, before discount.
2. Our ACC levies have gone from \$45K – 55K or from 59c-99c per \$100.
3. 2010-2011 year is estimated to \$16k (as per Acc calculator) plus GST and last year 2010-2009 actual was \$15k plus GST.

11. The comments from this hotel relate mainly to the process by which ACC sets its levies for the year ahead.

Case Study: Hotel

“The tough part about this is that the request for submissions deals with the process that ACC intend to adopt about the way they will calculate individual levies. I have to say that in most cases I agree with the general principles that they are adopting – that is that we will be benchmarked against our LRG, then against our peer group and then rewarded/punished as to our claims history in comparison. Essentially, if you are better than your industry and better than your peer group you should be rewarded substantially. In the end, this is a case of rewarding good performance and punishing bad.

The big part that really matters to us is the relative quantum of the levies. It doesn't seem that we have been given the chance to comment on the essential part of the question – ACC will have a number in mind and then engineer backwards to ensure that the overall number is achieved. The consultation only deals with the process of dividing up that number, not what that number should be”.

12. In further comments about process, the Australian and New Zealand Standard Industry Classification 2006 (ANZSIC06) appears to be regarded by some TIA members to be an unhelpful reference point for establishing levy risk groups and classifications in this country. The nature and type of businesses and the way in which they operate can be quite different between Australia and New Zealand. In short, the ANZSIC06 system does not seem to reflect or acknowledge what New Zealand tourism businesses do or the environment they operate in.

13. While increases on their own can largely be understood, given the need to make the ACC system viable in the long term, it is how particular sectors in the tourism sector have been classified that has prompted the most feedback from TIA members this year.

14. Here are some selected comments from activity operators.

Case study: Leisure activity guiding company

“It seems to me that our sector has been lumped into “Other Recreation” (93400) because there just hasn't been any effort made to understand what we do and what the risk is. When you look at so many

other classifications, there are quite in-depth breakdowns of the different activities within that sector. I think that, going forward, someone needs to take a serious look at the sector and work with ACC on it.

I feel very strongly that we are currently being classified unfairly and will pursue this until a fair resolution is reached. We are very supportive of the ACC system and we do not mind paying a fair and reasonable rate. We do not believe this is currently occurring.

15. As an example, the leisure activity guiding company cited above has drawn a parallel between its operation which is classified as a medium to high risk sporting activity and sporting and recreation activities which are deemed low risk. It is arguable whether the professional guides' level of operational risk is any greater than employees involved in waterskiing or boating activities for example. The professional guides pay a levy of \$4.99 per \$100 of liable earnings compared to \$1.17 of liable earnings for waterskiing or boating activities.

Case study: Adrenaline activity operator

'The adventure tourism sector under which our company operates is facing an increased onus of responsible operations following the much publicised "Adventure Tourism Safety Review" recently completed by the Department of Labour. This has established a heightened focus on the need for safety and risk mitigation and being able to demonstrate its thorough compliance with safety based regulations. This sector is becoming increasingly safer, the risks are becoming increasingly more professionally assessed, acknowledged and reduced".'

16. TIA has commented on the Corporation's apparent lack of industry engagement in past submissions with members saying that ACC needs to work more closely with businesses to better understand the frustrations facing operators. Some operators believe the Corporation needs to put in place plans to move particular businesses into categories that better suit the nature of that business. While there has been great help from ACC staff this year, there is a real sense in the tourism industry that it would help if Corporation personnel got out in the field more regularly to see first-hand how individual operators are managing injury prevention and management with their employees.

'Cost Creep'

17. Compounding the ACC levy increases over the past twelve months in particular, have been additional compliance costs in many other areas as well. In the past few months, businesses (and households) have had to deal with the increase in GST, rising electricity, gas and fuel prices as a result of the introduction of the Emissions Trading Scheme (ETS), and local body rates increases.

18. The combination of all these things has placed extra pressure on tourism businesses during a difficult trading period. For reasons of competitiveness, many businesses have simply had to absorb the increases (instead of pass them on to customers) and wear the impact they have on their balance sheets. Comments in this respect were received from ski operators:

Case Study: Ski operators

SAANZ (Ski Areas Association of New Zealand) would like to support TIA in its efforts to point out to Government that tourism operators including ski areas continue to be up against new and increasing

costs to do business. Like many other sectors in the tourism industry operators are dealing with the reality that within a very short time the cost of doing business has escalated dramatically. Increases in the ACC employers' levy, introduction of the ETS and increase in GST are placing additional pressures on operators.

SAANZ represents all commercial ski area operators in NZ (15).

All members last year faced a 100% increase in their ACC employers levy as recommended at the start of the consultation period. After consultation the increase ended up at 80%. For some employers in our sector the amount payable into the employer fund was substantial, in some cases an extra \$250,000 had to be found.

We note that the recommended employers' levy for 2011/2012 for our risk group is not increasing which is a welcome relief to our members although they still have to find 80% more compared to the amount payable in 2009/2010. We do not believe claims increased by anywhere near 80% for the employee claims in our sector.

To meet these costs operators pass them on to the consumer. In our industry's case costs of participation increases and it is unknown if in the future snow sports will remain affordable for participants. The only way operators can justify the increases is to improve the quality of experience for participants. Operators therefore have to invest in new infrastructure such as lifts, roads, snow making and customer services such as restaurants and other base area facilities. In reality it is very difficult to continue investing because of increasing costs such as those mentioned above. Investment plans are put on the back burner so that the increased costs of doing business are met. Participants pay more for less value and once this is realised they head off to Fiji with their families instead of to the snow.

Staged or phased introduction

19. In last year's submission, TIA commented on the desirability of managing the increases over time to help tourism businesses adjust to increased costs on their business as detailed from some of the operator comments above. The period of time for staging or phasing to occur would be likely to vary according to the increases faced by each levy risk group but TIA believes a period of two to three years would give businesses time to make the necessary adjustments to the business model.

So what are TIA's main points on levy rates?

20. The main points the Association is making on the ACC levy rates can be summarised into three main categories – levy increases, levy classifications and cost creep.

Levy increases

21. With some exceptions, the levy increases proposed for the 2011/2012 year are not as high as the 2010/11 year. In some cases, levy rates have decreased and this is welcomed. It is the accumulation of levy increases over the 2010/2011 and 2011/2012 years which is really hitting tourism businesses hard, especially when the sector has been struggling through a difficult trading period. In the past few years, a number of smaller businesses in the industry have ceased trading and while this not attributable on its own to ACC levies, for some it is certainly a contributing factor.

22. The accommodation sector, one of the main sectors within the tourism industry, is perhaps the best example of how ACC levies have really hurt. The compound increases over a two year period amount to a little over 100% and whether it is large hotel, a small motel or a niche bed and breakfast operator, increases of these nature hit the bottom line of these operations and can be the difference between re-investing in new capital and renovations, training staff and recruiting new employees.
23. Another point of note here is that the tourism industry is unique in that it sets its rates well in advance, sometimes up to two years ahead of time in the case of inbound tour operators and hotels. This makes sudden increases in compliance costs difficult to factor in to customer and product pricing and as some operators have said for competitive reasons, they simply have to absorb the increases and the impact they have on their balance sheets.

Levy classifications

24. It has become apparent this year that a number of tourism businesses, especially those in the leisure and adventure sectors, are possibly incorrectly classified and that the category or levy risk group they are in does not necessarily reflect the type of activity they undertake. TIA understands that some of these businesses have already engaged with ACC regarding their classifications. The Association offers its full support to TIA members who have made separate submissions to ACC on these matters.
25. It would appear that work needs to be done both by ACC and the industry in partnership to address inequities in the levy risk groups and classification units. While TIA understands it is not possible to have a classification unit for every type of tourism activity, the evidence provided by the separate submissions you will have received from the Association's members indicates there are strong grounds for changes to be made. TIA would be happy to facilitate discussions between operators and ACC if useful.

Cost Creep

26. It is the cumulative impact of compliance cost increases across a range of areas that is really hitting operators hard and this has been best expressed by the ski operators in their comments above. The increase in utility prices because of the ETS and the GST increases have probably had the biggest impact and their effect has not necessarily been mitigated by business and personal tax cuts.

Experience Rating

27. TIA supported the changes to experience rating that were signalled by the Corporation last year. The Association is therefore very supportive of ACC's proposal to introduce experience rating more broadly to include small to medium size businesses.
28. This is what the ski industry has said to TIA in regard to experience rating.

Case Study: Ski operators

In our submissions (last year) we advocated for experience rating and we welcome the introduction of this programme and support such a scheme. One of our objections to the large increase in levies was the fact that the amount of claims by some employers were insignificant compared to the premium (employer levy) being paid. Experience rating will help to even up this imbalance providing it is measured against the employer's claims history. This way the incentive for good injury management or disincentive for bad injury management can be assessed per employer not across a group of employers.

29. These are comments from a hotel chain relating to experience rating.

Case Study: Hotel Chain

We are not expense rated as we are not in the partnership programme but we are and have been WSMP (Workplace Safety Management Practices) certified at tertiary level for over seven years. This gives us a 20% discount on levies for workplace safety best practice these levies were:

2008 \$286,000 after discount \$238,000

2009 \$312,000 after discount \$260,000

2010 \$312,000 after discount \$260,000

2011 based on projected increases this would be a minimum of \$521,040 (+67%) before WSMP discount

If the government decides to reduce the 20% discount for tertiary level to 10% (as suggested) then the huge effort that goes into achieving this will not be cost effective.

Experience ratings will affect some of our hotels/employer groups if they have been unfortunate enough to have an ongoing claim issue (often because ACC haven't proactively tried to put a return to work or challenge the claim). The experience rating over the 3 year to 2010 period is in some of our hotels quite high (e.g. 1 hotel has had 11 claims; and a claim cost of \$76k this is based around 4 people with multiple ongoing claims, 1 person with over \$50k.

We can mitigate claims by getting early rehabilitation and return to work but there will have to be a considerable effort on behalf of HR people. Finally as we are bulked into an industry peer group it seems hardly fair to some employers who work actively and managing their workplace safety and claims.

30. Despite some concerns, like those from the hotel sector above, TIA generally believes experience rating offers the right incentives for tourism businesses of all sizes to improve workplace safety practices. If each company's levies are based partly or wholly on its claims history this will ensure that levies are fairer and it will also provide an incentive for businesses to improve their injury prevention and injury management practice. It is particularly beneficial to small to medium sized businesses that cannot enter the Corporation's Partnership Programme for large businesses.

31. The new experience rating system will provide strong and necessary incentives for employers to improve their accident rate. If the system works properly then tourism businesses with a lower than average accident rate will be rewarded and those with a poor record will face higher average premiums in future years.

32. To some degree, experience rating will mitigate the unfairness that exists within the current levy framework by rewarding businesses that perform better than the benchmark for their levy risk group or classification unit. This will encourage businesses across the same levy groups to do everything they can to promote injury prevention and management.

Keep talking to us

33. As noted at the start of this submission, TIA and its members have valued the engagement they have had with ACC in the past twelve months and the support provided by key ACC personnel. The Association encourages the Corporation to maintain this level of engagement as it grapples with levy increases and overall changes to the system. A partnership of this nature helps TIA keep its members and the wider industry aware of ACC issues and how they affect their businesses.

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29 October 2010

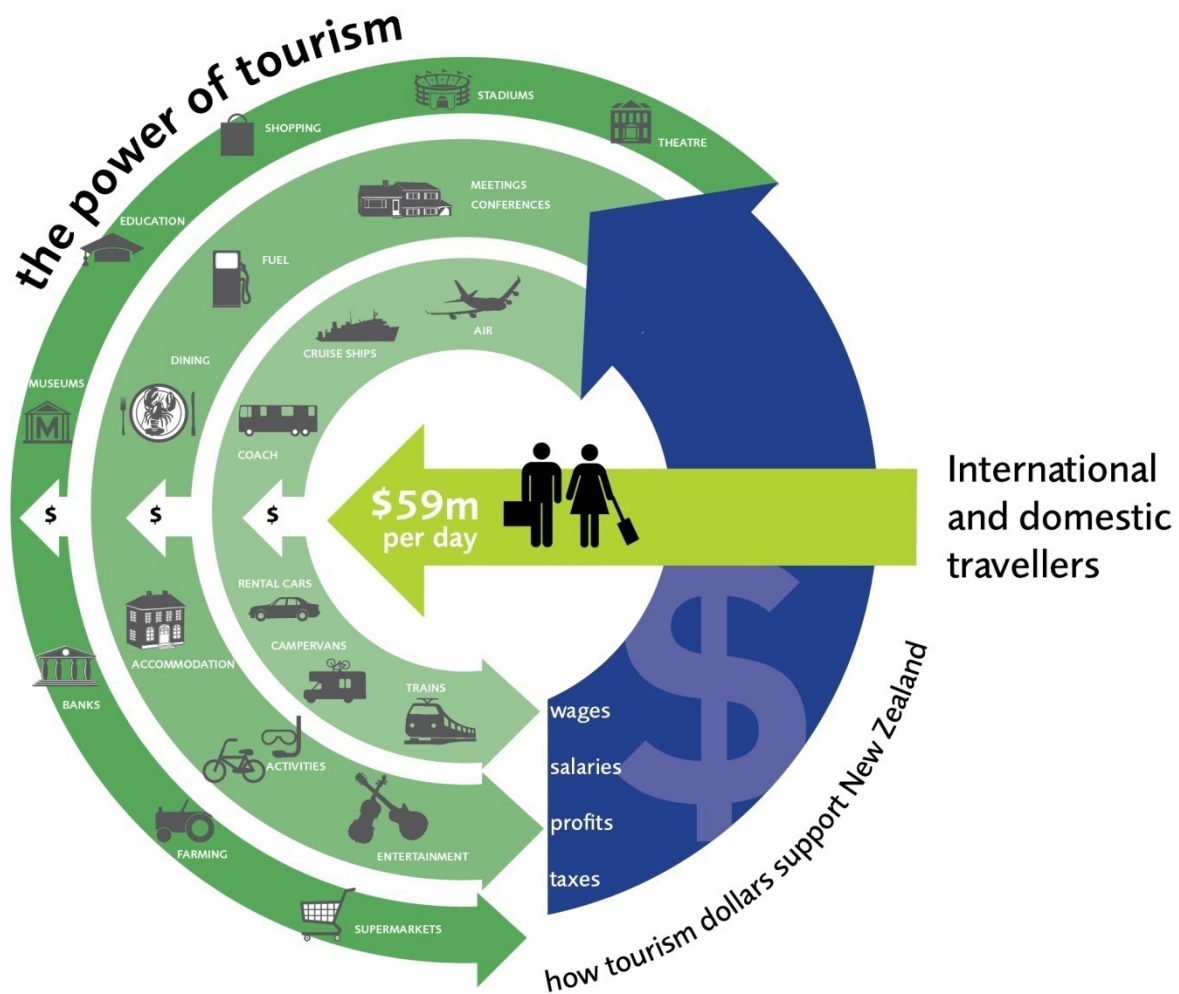
Background

A bed-rock of New Zealand's economy

34. Tourism is a major contributor to the New Zealand economy that will always be here – and won't easily go offshore. Tourism takes the lead in promoting New Zealand to the world. Thanks to our 100% pure positioning, New Zealand is recognised as one of the most beautiful, unspoiled and scenic places on earth. 100% Pure signifies pride in our country, pride in our people and culture, and pride in the unique environment and experiences that New Zealand offers.
35. The brand positioning built by a vibrant tourism industry has become an important source of national confidence and identity and a front window for "Brand New Zealand". Indeed, the clean, green, pure offer that is synonymous with New Zealand tourism has been widely adopted and used to promote New Zealand exports in a range of other industries as well.
36. If New Zealand Inc. is to continue to prosper, to attract investment and to raise its position in OECD rankings, then it is vital the tourism industry, and the positive image it projects, remain strong.

Delivering Value

37. Below is a snapshot of the economic value provided by tourism to the New Zealand economy.
- Tourism contributes nearly 9% of gross domestic product (GDP) for New Zealand as well as directly and indirectly employing one in ten New Zealanders.
 - Tourism in New Zealand is a \$61 million per day industry. The New Zealand tourism industry delivers \$26 million in foreign exchange to the New Zealand economy each day of the year. Domestic tourism contributes another \$35 million in economic activity every day.
 - Tourism expenditure reached \$22.4 billion for the year ended March 2010. International visitor expenditure accounted for \$9.5 billion or 18.2% of New Zealand's foreign exchange earnings and is the country's largest export industry.
 - Importantly, and despite more challenging times in the past two years, tourism is New Zealand's largest foreign exchange earner and its contribution is felt at national, regional and local levels.



About TIA

38. TIA has been the lead association that represents the interests of about 1,700 tourism businesses in New Zealand. The Association was first established in 1955 and the businesses TIA represent cover a range of tourism-related activities – hospitality, transport, accommodation, adventure and activities, attractions and retail as well as related tourism services.

39. The primary role of TIA is to be the voice of the tourism industry. This includes working for members on advocacy, policy, communication, events and membership and business services. The TIA team is based in Wellington and led by Chief Executive, Tim Cossar.

Main Industry Associations in the Tourism Sector

