



**Submission to the  
Accident Compensation Corporation  
on the  
2010-11 Levy Rate Consultation**

**10 November 2009**

## **Introduction**

1. This submission is from the Tourism Industry Association New Zealand (TIA), located in Wellington. The Association has submitted to the levy consultation in the past three years and we welcome the opportunity to again be able to comment for 2010/11. If you wish to contact us regarding this submission, please telephone Simon Wallace, TIA Policy Manager on 04 494 1842 or 0272 489 375 or e-mail him at [simon.wallace@tianza.org.nz](mailto:simon.wallace@tianza.org.nz)
2. This paper begins by providing some background for the Accident Compensation Corporation (ACC or the Corporation) about the tourism industry and TIA. The Association then makes comments on the Levy Consultation document as it relates to the tourism sector. TIA asks ACC officials to take note of submissions it will have also received from other tourism related organisations, namely the New Zealand Hotel Council (NZHC), the Bus and Coach Association (BCA), the Hospitality Association of New Zealand (HANZ), and the Ski Areas Association of New Zealand (SAANZ).

## **Background on the Tourism Industry**

### **A bedrock of New Zealand's economy**

3. 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.
4. 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.
5. If New Zealand Inc. is to continue to prosper, to attract investment and to raise its position in OECD rankings, then it is vital that the tourism industry, and the positive image it projects, remain strong.

## **Delivering Value**

6. Below is a snapshot of the economic value provided by tourism to the New Zealand economy.
  - Tourism contributes just over 9% of gross domestic product (GDP) as well as directly and indirectly employing nearly one in ten New Zealanders.

- Tourism in New Zealand is a \$50 million per day industry. The New Zealand tourism industry delivers \$24 million in foreign exchange to the New Zealand economy each day of the year. Domestic tourism contributes another \$26 million in economic activity every day.
- Tourism expenditure reached \$21.7 billion for the year ended March 2009. This represents 16.4% of New Zealand's foreign exchange earnings, with tourism second only to dairy as the country's largest export industry.
- Importantly, and despite more challenging times in the past 12 months, tourism remains one of New Zealand's largest foreign exchange earners and its contribution is felt at national, regional and local levels.

## **About Us**

7. TIA has been the lead association that represents the interests of about 1700 tourism businesses in NZ since the Association was first established in 1955. 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.
8. 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.

## **Tourism Forecasts 2009-2015**

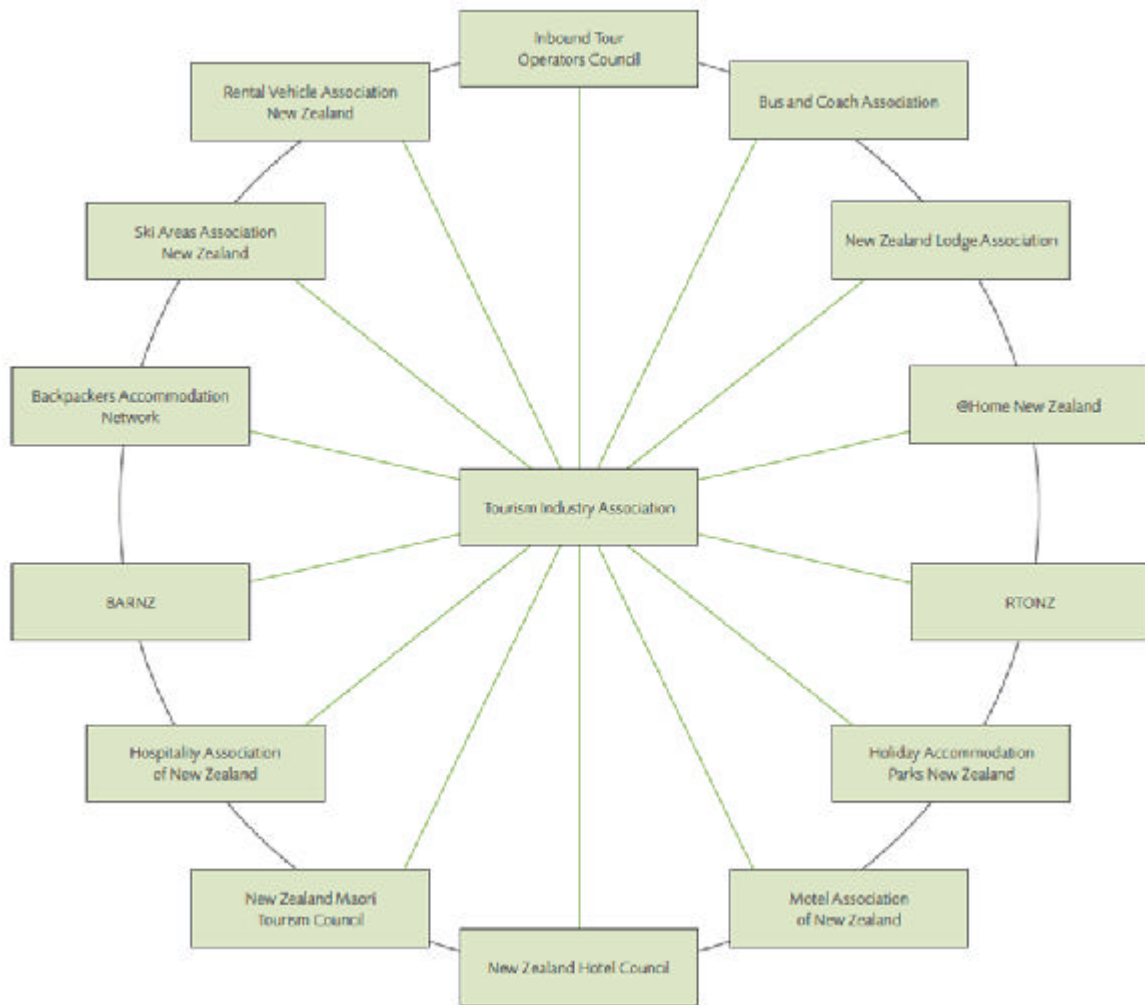
### *International visitors*

9. The tourism forecasts (international visitors) for the period from now until 2015 have been largely influenced by the global economic recession while the outbreak of influenza A (H1N1 or swine flu) has created extra uncertainty for the short-term outlook. The forecast for the next 6-12 months shows falls in most major markets, although this is partially offset by short-haul growth out of the Australia market. The outlook for New Zealand to 2015 includes:
  - A fall in visitor arrivals of 4.2% in 2009 and a slight recovery in 2010 with growth of 2.5%.
  - A strong rebound in 2011 with visitor arrivals up 6.5% driven by global economic recovery and the Rugby World Cup in the latter part of 2011.
  - A gradual return to growth out to 2015 with annual growth of about 3.5%.

### *Domestic visitors*

10. The recession continues to influence the travel patterns of domestic visitors as well. With less New Zealanders travelling overseas, there has been a temporary increase in domestic travel activity in 2009-10 and this has been positive for the tourism industry in the short-term.

### Main Industry Associations in the Tourism Industry



## Comment

### ACC accounts

11. To begin with, TIA, the NZHC and the Ministry of Tourism (TMT), were grateful for the opportunity to meet with senior ACC officials last week to discuss the 2010/11 Levy Consultation process. The meeting helped the Association's understanding of the process involved in setting levies and also gave the tourism industry a chance to tell ACC officials about the sector and the implications the proposed levy increases could have for selected tourism businesses.
12. As noted above, the tourism industry in New Zealand is diverse in nature and characterised by a predominance of small to medium sized enterprises (SMEs). This means that tourism businesses fall into a wide range of levy risk groups. In Appendix 1 we have noted the risk levy groups that cover most businesses in the industry and while this is not an exclusive list, it shows ACC just how diverse the sector is.
13. TIA, like many other industry groups, understands the difficult financial situation currently faced by the Corporation. Having posted a loss for the 2008/09 year of \$4.79 billion and having outstanding claim liabilities of \$23.79 billion as at 30 June, the state of the ACC accounts warrants immediate attention. With outstanding claim liabilities set to increase to more than \$30 billion by 2013, it is clear that major reform is required to return to a sustainable model. The Association supports the cost containment initiatives that ACC now has under way to drive cost recovery.

### Implications for industry

14. While acknowledging the pressures faced by ACC, the blow-out in costs will see tourism operators faced with substantial levy increases year on year of between 30% and more than 100% depending on business type. As an example, one or two of the larger ski companies in New Zealand who employ more than 100 staff will be faced with increases in excess of \$300,000 for their ACC work account. A snapshot of some of other levy risk groups in the industry and the increases they face are shown below:
  - Accommodation – 83%
  - Cafes and Restaurants – 83%
  - Inter urban and bus transport – 63%
  - Sport and Physical Recreation – Snow Skiing – 100%
  - Amusement and Other Recreation Activities – 100%
  - Outdoor guiding – 97%
15. As well as the steep rises, the lack of time operators have to adjust to the levy rises is the area of most concern for the tourism industry. Tourism operators set their prices well in advance, sometimes up to two years in advance in the case of

inbound tour operators, making sudden increases in compliance costs difficult to factor in to customer and product pricing. For reasons of competitiveness, the majority of businesses simply have to absorb the increases and the impact they have on their balance sheets.

16. Combined with the economic downturn and difficult trading environment, the increase to ACC levies will serve only to compound the challenges faced by tourism businesses. In the year to October 2009, members of the New Zealand Hotel Council, for example, have experienced a decline in occupancy of 3.3% and an average daily rate drop of \$6.91 per room per night. This decline in demand is forecast to continue to the middle of 2010. Increases in ACC levies as proposed make the management of these hotel budgets even tighter.

#### Staged or phased introduction

17. While the levy increases may be inevitable, TIA believes the ACC Board should consider a stage or phased introduction of levies over time to help tourism businesses adjust and manage the increase in compliance costs. The period of time for this staging or phasing to occur would be likely to vary according to the increase faced by each levy risk group, but the Association believes a period of two to three years would give businesses time to make the necessary adjustments to their business model.
18. As TIA has said in previous submissions to the Levy Consultation, to give employers greater confidence in the ACC system, we think it is incumbent on the Corporation to explain and advise businesses of changes well in advance of these changes taking effect. As described, depending on the size and nature of the business, some changes can have significant impacts on the viability of many SMEs in the tourism industry.

#### Partnership Programme and Experience Rating

19. While the ACC Partnership Programme is of benefit to larger companies with levies in excess of \$150,000 per annum, there is little or no ability for the many SMEs in the tourism industry to enter this scheme because they cannot meet the costs associated with workplace injury claims or compensation for lost earnings. Similarly, SMEs have little ability to participate in the workplace safety management practice (WSMP) scheme as the level of discount outweighs the increase in audit costs involved.
20. Where SMEs could benefit would be as Business New Zealand suggests, in the reintroduction of experience rating, either as a stand-alone system or in conjunction with a modified WSMP system. Experience rating provides the right incentives for all sizes of business to improve workplace safety practices and minimise risks. It is also beneficial to SMEs who cannot enter the Partnership Programme.

21. Experience rating acts as an incentive for individual businesses that have consistently lower than average accident rates to be rewarded with lower levies. It would work well for operators in the ski industry, for example, that report lower than average rates, but pay some of the highest levies of any risk levy group.

#### Overall economic impact

22. As suggested by Business New Zealand (BNZ) and other industries, TIA is concerned about the wider impact of the ACC levy increase on the tourism industry as a whole. At a time of wage and salary restraint, increases of nearly \$1.00 per \$100 of liable earnings for earners and an increase in the average annual motor vehicle levy from \$287.00 to \$417.28, will see real levels of disposable income fall. This could influence in a negative way the domestic travel choices of many New Zealanders at a time when domestic tourism has helped tourism operators combat a drop off in international customers. (Note: the increase in the motor vehicle levy will mean rental car companies having to pass on these costs directly to hirers).
23. At a macro level, the ACC levy rises could have the potential for non-tradable inflation to rise and could impact directly on the Consumers Price Index (CPI). Westpac Bank has said that the proposed movement in the motor vehicle account will directly lift the CPI by 0.2%. These inflationary pressures can then have implications for interest and exchange rates. All these factors need to be considered in the context of the government's taxation policy and fiscal strategies that either boost or reduce people's disposable incomes.

#### Reform of ACC legislation

24. TIA understands that a further area of work will focus efforts on the wider reform of the ACC legislation. In this regard, a Bill is scheduled to come before Parliament before Christmas to be followed by Select Committee consideration and a period of public consultation. The Association intends to convene a representative group from the industry to provide input into this process.

#### Conclusion

25. In sum TIA understands the liabilities facing the Corporation and takes no pleasure from the current state of the ACC accounts. However, the increase in levies between 2009-10 and 2010-11 will be a significant imposition on an industry trading through difficult times. The Association asks for the ACC Board's consideration of a staged introduction in levies to help tourism businesses better manage cash-flow and balance sheets for the coming year. TIA believes ACC should take cognisance of the wider ramifications the levy increases could have for the New Zealand economy. Finally we would welcome discussion with the Corporation on initiatives such as experience rating that might provide the right incentive for workplaces to manage safety, mitigate risk and reduce levies in the future.

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10 November 2009

## Appendix 1

### *Accommodation*

57100 Accommodation

### *Air Transport*

64010 Scheduled international air transport

64020 Scheduled domestic air transport

64030 Non-scheduled air transport

### *Surface Transport*

61100 Road freight transport

61210 Long distance bus transport. Employer's that provide bus coach tours are required to use the bus transport classifications.

61220 Short distance bus transport

61230 Taxi and other road passenger transport. Four wheel driving tours. Those engaged in this activity fall under ACC's taxi and other road passenger transport classification.

61231 Taxi organisations (excluding those that provide taxi services)

### *Hospitality (cafes and restaurants)*

57300 Cafes and restaurants

57200 Pubs, taverns, and bars

57400 Clubs - hospitality

*Adventure tourism and outdoor activities (marine, fresh water and land based – this is quite large and includes anything from horse trekking to snow skiing to bungee and sky-diving etc.)*

63020 International and coastal water transport (vessels 45 meters length and under or 500 tonnes displacement and under). Those that provide dive boat, game fishing and whale watching tours are covered under ACC's international and coastal water transport classification.

96196 Sporting and recreational equine activities (not elsewhere classified). Horse trekking. Those that provide horse trekking tours should select the sporting and recreational equine classification.

92391 Guiding service operation - outdoor pursuits. Other outdoor pursuits.

Employer's that are engaged in providing outdoor guided services that are not captured by the other classifications are required to select the guiding service operation – outdoor pursuit classification. This covers Adventure sea-diving, fishing guides, guided ATV, guided kayaking, hang-gliding, paragliding, parapenting, mountain guides, tandem skydiving, and white water rafting.

66410 Travel agency services. All other types of guided tour service operators who are not captured by the other classifications in ACC's levy publications, can use classification *66410 Travel agency services*. This classification includes tour organisers (who don't themselves provide staff on the tour) and tour guide services – other than those included in the other classifications.

93190 Sports and services to sports (not elsewhere classified) - community. Includes those that operate bungy jumps.

#### *Visitor Attractions*

92390 Recreational parks and gardens. This classification includes wildlife sanctuaries, animal parks, national parks, picnic grounds and non-sporting recreational grounds.

92310 Zoological and botanical gardens. This classification includes those that operate aquariums, arboretum, aviary, botanical gardens, herbarium, and zoological gardens.

#### *Shopping*

ACC has 31 classifications in the retail umbrella that may fall into this category. They include those in the 51100-52591 classification range.

#### *Distribution and Marketing*

78550 Business management services

78530 Market research services

#### *Research and Education*

84310 University education

84320 Polytechnic and other tertiary institutional education

#### *Arts and Culture (museums, art galleries etc.)*

92200 Museums also includes art museums, historic house operation, and war memorials.

92410 Music and theatre productions include ballet companies, band operation, choral group entertainers, operas, theatrical companies.

92520 Performing arts venues include cabarets, concert halls, entertainment, centres, music bowls, music halls, opera houses, playhouse and theatre operation (except motion picture theatres).