



**Submission to the  
Rotorua District Council Rating Review  
25 July 2008**

## Introduction

1. This submission is from the Tourism Industry Association New Zealand (TIA), located in Wellington. If you wish to contact us regarding this submission, in the first instance, please telephone Simon Wallace, 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. TIA is grateful for the opportunity to comment on the Rotorua District Council's (RDC) Rating Review. While TIA is a national association, it works collaboratively on a number of fronts with the local Regional Tourism Organisation, Destination Rotorua Tourism Marketing (DRTM) and many of TIA's members are Rotorua based tourism businesses. It has also brought New Zealand's largest tourism trade show, Tourism Rendezvous New Zealand, commonly known as TRENZ, to Rotorua, for the past two years.
3. This paper briefly outlines the role and functions of TIA, backgrounds the important link between local government, communities and the tourism industry, and then comments on the RDC's Rating Review. The Association is making this submission principally in support of Rotorua hotels belonging to TIA and the New Zealand Hotel Council (NZHC) but it is also aware that some tourism operators, such as visitor attractions in the town, are also impacted by the Council's proposals.
4. TIA is aware that other tourism organizations including NZHC, the Destination Rotorua Tourism Board and the Motel Association of New Zealand (MANZ) have also made submissions on the Rotorua Rating Review and asks that this submission be read in coordination with these other tourism submission.
5. The Association would value the option of being able to appear in person before the Council once dates for oral hearings have been confirmed.

## Background

### **About the Tourism Industry Association New Zealand (TIA)**

6. TIA is the umbrella organisation and peak body that represents and advocates for the interests of the tourism industry in New Zealand. The businesses we represent generate more than 85% of New Zealand's tourism-related revenue. Tourism is a \$20.1 billion industry (\$8.8b from international and \$11.3b from domestic tourism) with international tourist expenditure accounting for 18.3% of New Zealand's total export earning and a further \$6.2 billion value-added spend in industries that support tourism.

7. The tourism sector employs approximately one in five people in Rotorua. Whereas nationally tourism directly and indirectly, employs one in ten New Zealanders. Tourism includes a diverse range of businesses – the majority of which are small and medium sized enterprises with less than five people. Not only is tourism important because of its size, representing 8.9% of New Zealand's GDP, it is:
  - Highly employment intensive;
  - Regionally disparate; and
  - Very diverse - ranging from large stock exchange listed companies to small cottage industries.
8. The above businesses cover a range of tourism-related activities – hospitality, transport, adventure and activities, attractions and retail, as well as related tourism services. In many cases, regional tourism businesses have developed around regional assets divested by other industries and have revitalised those assets and the communities that depend on them.

### **The New Zealand Tourism Strategy 2015**

9. The New Zealand Tourism Strategy 2015 (NZTS2015) launched in November 2007 has a strong emphasis on the need for the tourism industry to work much more collaboratively with local communities. One of the four key outcomes of the Strategy is for *“the tourism sector and communities to work together for mutual benefit”*. The key objectives are that:
  - the tourism industry must work with communities while planning for and managing tourism;
  - local authorities are encouraged to take an active role in destination management;
  - tourism in local communities must be informed by good research and an understanding of the type of tourism each community wants to host;
  - regions and communities preserve and promote their local culture and incorporate this into all aspects of the visitor experience: and
  - core infrastructure facilities are appropriately funded.
10. In addition to a focus on local communities, NZTS 2015 has three other key outcomes which are:
  - for New Zealand to deliver a world class visitor experience;

- for New Zealand's tourism sector to be prosperous and attract ongoing investment; and
- for the tourism sector to take a leading role in protecting and enhancing the environment.

Implementation of NZTS 2015 that will be occurring from 2008 onwards will progressively deal with all these key outcomes and objectives.

11. The RDC's ongoing support for tourism in the region is consistent with many of the aspects set out in NZTS2015. The Council's investment in destination promotion and infrastructure has seen Rotorua maintain its position as one of the country's premier tourism destinations.

## **Rotorua Rating Review**

12. TIA appreciates the underlying reasons for the RDC to assess its current rates regime in moving to a new rating system. However, the specific proposals contained in the review will be largely detrimental and unfair for many of Rotorua's hotels and a number of visitor attractions and activity businesses in the city. TIA understands some hotels will be facing increases in excess of \$100,000 per annum, a charge that even for a large hotel threatens its economic viability.

13. The Association's concerns for the tourism industry, and specifically hotels, centre around the following key points:

- potential to impinge on current contribution over and above the economic value
- disincentive to keep up with the day-to day maintenance let alone to invest further
- unfair and costly impact on prices/tariffs set in advance
- encourages mediocrity rather than boosting standards
- lack of consideration of alternative approaches – a targeted business rate, other funding mechanisms or a staged implementation.

### **Economic value**

14. Domestic and international visitors are the mainstay of the Rotorua economy. An economic impact survey of tourism in Rotorua, conducted in 2004, confirmed the importance of tourism as a major industry in the city.<sup>1</sup> The survey involved more than 300 businesses that provide goods and services directly to visitors in Rotorua. The main findings of the report found that visitors' annual expenditure was

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<sup>1</sup> Economic Impact Survey of Tourism in Rotorua, APR Consultants, June 2004.

nearly \$400 million with the industry employing 4,500 people. The report also found that on an average day in Rotorua over \$1.1 million is spent by visitors and nearly 3,500 visitors arrive in Rotorua and stay an average of 2.3 nights.

15. More than 40% of overseas visitors that come to Rotorua stay in hotels as do many domestic visitors. A statistical snapshot of the contribution made by the eight hotels belonging to the New Zealand Hotel Council (NZHC) in Rotorua in the past year showed they contributed:

- \$23.3 million in payroll
- \$10.5 million in locally purchased products
- \$2.2 million in direct spend on promotion of NZHC hotels (This is in addition to the \$1.8 that Destination Rotorua spends separately on Rotorua tourism marketing)
- \$2.9 million on local contractors
- \$7.9 million on other costs including utilities; and
- \$1.2 million on rates.

16. In sum, these eight hotels have alone contributed more than \$48 million into the local economy on an annual basis with nearly 50% of hotel expenditure going into local employment and 22% of annual hotel expenditure being used to purchase products from locally sourced companies.

17. The hotel industry in Rotorua also makes a contribution in other ways that cannot be measured in purely economic terms. A number of properties are working closely with the community to promote the value of a career in the tourism industry. For example, some hotels volunteer their managers to work with schools, polytechnics and industry training organisations on programmes that better prepare young people in Rotorua for a career in the tourism industry. Hotels are also involved in sponsoring local community events.

### **Disincentive to invest**

18. As noted in paragraph 9 above, a key strand of the NZTS 2015 is for New Zealand's tourism sector to be prosperous and attract ongoing investment. These proposals run completely counter to that objective and also compromise the tourism industry's aim to provide world class visitor experiences.

19. For hotels in particular, there is constant pressure to upgrade and modernise properties to keep up with international standards. In Rotorua commercial accommodation providers are challenged by the ongoing deterioration of their properties due to the unique atmospheric

conditions. Hotels are consistently seeking additional budget to keep up with this maintenance well before embarking on a refurbishment programme. The rates increases proposed by the RDC also penalise larger and medium sized businesses like hotels that have invested heavily in capital developments in the past and this will deter them from doing so in the immediate future.

20. A further factor to consider is that a rating regime that imposes high and immediate increases of this nature will dissuade potential new entrants, especially international brand hotel chains, from locating in Rotorua. In the current slowing economic environment, such companies will simply look at opportunities elsewhere in New Zealand or overseas and will want to work with Councils that do provide the right conditions to invest.

### **Room tariffs set in advance**

21. Overseas international and inbound tour operators purchasing New Zealand tourism product devise and publish their brochures and holiday packages well in advance of the next season. This means that in many cases hotels are required to guarantee wholesale rates sometimes 18 to 24 months in advance. While hotels and other tourism operators do make contingencies in their pricing for exchange rate fluctuations and other annual pricing adjustments, sudden increases in Council rates of the magnitude proposed by the RDC, cannot be predicted. With hotels bound by the agreements they have already signed with overseas tour operators well in advance they have little option but to absorb price increases for at least the next two years.
22. The nature of the tourism industry is also extremely competitive and hotels cannot simply increase their room tariffs at short notice to take account of the Council rate rises. According to the NZHC in Rotorua, the city's major hotels would need to increase average room rates by nearly \$5.00 per room sold across the entire year to ensure that the rates increase is covered. This is a challenging task, given the current competitive pressures in the industry which is seeing average room rates dropping so hotels can maintain market share and bed nights.
23. To compensate for rates increases, hotels find themselves in a dilemma on areas where they can make savings. The main four areas where they can trim costs are in maintenance, marketing, training and staff reductions. Reducing maintenance compromises qualities and standards, less marketing and promotion means a hotel is less visible to potential customers, while cutting back on training and staff leads to a reduction in morale and service standards.

### **Consideration of alternative approaches**

24. TIA believes there a number of other approaches that could be adopted by the Council instead of imposing large rating increases. They are as follows:

## Targeted business rates

25. In its submission to the Local Government Rates Inquiry in 2007 (known as the Shand Report), TIA supported the use of targeted rates on defined groups of ratepayers but only when it was clear such groups benefited from existing services. Targeted rates also tend to work better when they are introduced with the agreement of the business community for a specific activity. For example, there are some Councils that have a targeted rate on the business sector for destination marketing activities, as is the case in Tauranga, Taupo, Wellington, Hurunui and Queenstown (see table below). TIA's assessment was that these models work well and with the support of the business could be successfully replicated in Rotorua,

Council	Rate Type	How it works	Strengths	Weaknesses	TIA Assessment
Wellington	Downtown levy on all CBD businesses.	Businesses pay a levy which goes to the RTO and event development. The levy is re-invested solely for the purpose of destination marketing.	Easy to administer. RTO does not have to fundraise. Not derived from general rates so less opposition. Stakeholders find it easier to ascertain benefits.	Businesses outside the CBD free-ride unless they pay a voluntary levy into the RTO's partnership programme. Some stakeholders pay twice like hotels that make voluntary contributions to specific campaigns.	✓ Businesses know how funding is deployed and participate in decision-making and investment process.
Tauranga	Targeted rate on all CBD businesses.	Money is re-invested into western BOP economic development fund that includes financing the RTO.	Targeted rate works well with buy-in of participating businesses for economic development of whole region.	Businesses in outlying areas of Waihi Beach, Paengaroa and Te Puke benefit from promotion without paying targeted rate.	✓ Model is successful as Council works with businesses that participate in decisions on economic development strategy.
Taupo	Targeted rate on commercial properties (called a marketing development rate).	Targeted rate meets 65% of RTO and i-SITE funding. The remaining 35% is from general rates.	Rate is well received as businesses know the value of tourism promotion in a visitor town.	Businesses, such as apartments, rented out to visitors, are "free-riders". Only land based businesses	✓ Funding ring-fenced for tourism promotion, so businesses know where money is going.

			Money promotes other economic development activities.	can be levied, so tourism operators on Lake Taupo don't pay.	
Hurunui	Tourism promotion targeted rate.	District promotion funded entirely by properties Council considers receive direct benefit from tourism and district promotion.	Council has a key role in the district promotion, working closely with businesses to drive economic growth. Targeted rate is 'ring-fenced' and re-invested in tourism promotion.	Some businesses excluded that benefit from tourism promotion.	✓ Targeted rate generally works well as those who pay it have the most benefit. Hanmer Spa makes a significant contribution to the district's financial reserves.
Queenstown	Tourism Marketing Levy.	Levy is collected from all commercial businesses to fund RTO. Some other businesses elect to pay a voluntary membership fee.	Model works due to prominence of tourism as the region's main economic driver.	Apartments, currently rated as residential, but rented out to visitors don't pay, nor do coaches that use residential parking areas impacting on local residents.	✓ Targeted rate works well as tourism is the mainstay of the local economy.

26. While the tourism sector generally endorses the use of targeted rates, it does so only on the strict proviso that the revenue collected is "ring-fenced" and reinvested into the destination marketing and management of the region. The industry does not support narrow and ill-defined taxes that target a specific industry when the benefits of that industry's efforts are spread across wider industry groups. An example of this is a bed tax, which the Shand report found to be unfair, inequitable as well as being cumbersome to administer.

27. TIA recommends the RDC give proper consideration to a targeted business rate and to this end, the Association supports the approach set out in the Rotorua Chamber of Commerce (RCC) submission. As suggested by the RCC, the Association believes a business sector targeted rate would need to be based on the identified expenditure of the following functions of the Council (see below). There would also need to be good engagement with local businesses to get their support and make it work.

- Destination Rotorua Economic Development
- Destination Rotorua Tourism Marketing
- Destination Rotorua Event and Venues
- Destination Rotorua Tourist Information; and
- CBD Retail Promotion

#### Development contributions

28. Development contributions are increasingly being considered as an appropriate revenue raising mechanism for local governments as a way of collecting revenue where growth imposes increased infrastructure burdens. While in particular cases, there may be justification for development contributions to be used, for example to meet costs of water and sewerage upgrades, as with any targeted rate, the danger is the money collected may be used on activities unrelated to the costs associated with such a development.

#### User Charges

29. TIA believes charging for the use of private goods achieves greater efficiencies. For example, commercial charging for services such as waste and wastewater fairly targets users and raises revenue as the use of such services increases. Another example includes the provision of rubbish disposal bins for ratepayers which ignores the actual amount of rubbish generated by households. It is also counterproductive in that the full costs of disposal are not met by each household. A commercial user pays system for water and waste would not only signal to ratepayers the real costs of the services, but act as an incentive for all users to be more energy efficient and environmentally conscious.

#### Staggered Implementation

30. If the RDC is intent on pushing through their proposed rates model then the Association strongly urges that the council considers a staged implementation from 2010 onwards. This is certainly **not** TIA's preferred outcome but if the plan must proceed then a staggered implementation would lessen the impact of such immediate and large cost increases for Rotorua's hotels. It would allow hotels to make contingencies for cost increases in their forward planning.

#### Conclusion

31. TIA does not support the Rotorua Rating Review in its present form. The current proposals will place large and abrupt increases on the hotel sector in the city. These hotels make a significant contribution to the economy of the city and region, employing many local people and

supporting a vast array of related industries. The proposals will not only threaten the viability of some hotel businesses, but they will act as a strong disincentive for these hotels to invest in the district.

32. There are other alternatives. TIA recommends the RDC consider targeted rating of the business and tourism sectors. Whatever is decided must be done in consultation with the hotel industry and other tourism operators. Tourism is a key driver of the economy in Rotorua and if further consultation does not occur, these proposals could seriously threaten Rotorua's future economic development.
33. TIA is aware of recent publicity challenging the process the Rotorua District Council is following to ensure all interested parties have the opportunity to present their submissions in writing and in person. We respect and endorse the legality and fairness of this process. We look forward to addressing these points directly with council in person.