New Zealand's long-term Tourism funding problem
Hotel Council Aotearoa additional comments after meeting with MBIE on 27 September 2023

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<td>Problem definition:</td>
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Problems include (but are not limited to) the following:

There is no systemic flow of a "tourism dividend" to local communities. Communities are not seeing the benefits of tourism and have insufficient funds to deal with local issues (which vary from region to region). That shortfall in systemic, repeatable, localised funding is contributing to many of the other issues affecting the tourism industry.
Infrastructure shortfall, leading to overcrowding, degradation of visitor experience, inability to scale for growing population and loss of social license.
Central government is underinvesting back into the tourism sector from existing GST tax take and other tourism-connected revenue streams (e.g. petrol and liquor excise taxes paid by tourists)
Central government is distributing too high a percentage of tourism money through contested grants, or ministerial priority-setting. This is leading to short-termism. Recent decisions around Tourism New Zealand baseline funding and IVL/cycle trails maintenance are proof that short-term political considerations are trumping what's best for a sustainable, resilient and prosperous tourism sector.
Investment attraction is hindered by lack of coherent funding for tourism. The local funding measures that are being introduced or promoted (e.g. APTR in Auckland and local bed tax in Queenstown) are also not helping provide investors with any certainty.
There is a free-rider problem in connection with "industry good" actions, since the tourism industry includes businesses large and small with a high degree of interdependency. Many tourism businesses do not contribute, or do not contribute at an adequate level, to industry associations that can pursue industry good activities.
Policymakers appear not to appreciate how capital-intensive "tourism infrastructure" is what facilitates "high value" travel. Essentially, no visitor economy is possible without the essential tourism backbone infrastructure that delivers high value international travellers to the destination. This infrastructure contributes to perceptions of quality/luxuriousness:

The issue is not:

"We need more money to solve today's challenges": The tourism funding problem is its own distinct issue. Different communities have different challenges. The challenges will change over the next 5/10/25/50 years and New Zealand needs a robust system of tourism funding to allow industry, stakeholders and communities to respond to those challenges.
"We are leaving money on the table by extracting insufficient tax revenue from tourists to deal with the problems they create": There is no evidence of this and MBIE/Government should offer evidence if that's their belief. Contrast and compare with other destinations: amount of GST extracted; existence of GST/VAT rebate schemes; existence/amount of border charges; amount of excise taxes on consumed goods; per capita visitor spend; value-for-money perceptions, etc.

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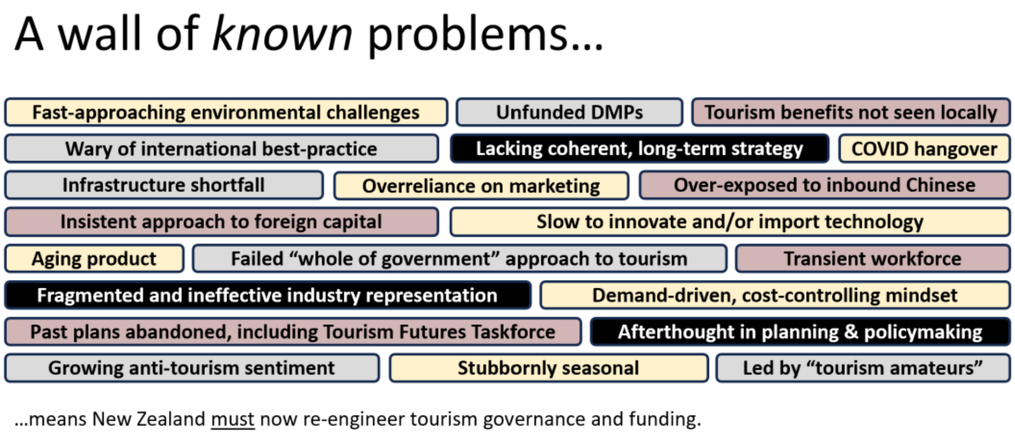
Wall of problems:	MBIE-led feedback sessions will inevitably result in an endless list of issues to solve. Many of these issues will be relatively near-term problems, better left to competitive businesses to handle independently. Many of tourism-connected problems would be mitigated/addressed through a better tourism funding mechanism that is not subject to political interference. 
Hotel sector's position:	Industry understands that tourism can be a political issue at central and local government levels. MBIE/Government should accept that the **issue is political on industry's side as well**. Not all stakeholders have the same opinion. Note that *many* are firmly against the idea of government needing any form of additional tax on tourists or tourism businesses. Having said that, many hoteliers are now prepared to consider a new, national levy on accommodation *if done well*. Some tourism-connected businesses will support any new tax/imposition/levy that does not in any way touch upon their own business operations. Many known free-riders fall into this camp. <u>**Clear understanding of relevant timelines is critical. If Auckland Council decides to reintroduce APTR into its next 10-year Budget (consultation starting March 2024), then all bets are off. Industry will have little choice but to once again vigorously oppose the APTR and a lot of goodwill around collaboration on better national solutions will be lost.**</u> If government wants a new tax/levy to be *substantially* supported by key industry stakeholders (in particular, by the businesses expected to collect the new revenue) then it should try to understand the concessions that industry is seeking from government. **There is little likelihood of an "industry-supported" new tax unless government is prepared to make concessions**. Box-checking consultation will not work on this issue. **The key tourism infrastructure businesses – airlines, airports and accommodation – must be at the centre of designing a new funding system.** NZ has an infrastructure shortfall and relies heavily on private investment in tourism infrastructure.

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<tr><td></td><td>Hotel Council Aotearoa has done considerable work on modelling a new national levy. We are prepared to share that work with MBIE at the appropriate stage and in the appropriate forum.

Solutions should be genuinely bipartisan, with new legislation that receives whole-of-House affirmation being the goal.</td></tr>
<tr><td>Latest IVL investment priorities:</td><td>It is hard to get excited about this workstream when political decisions appear to run contrary to the design and intent of the IVL, including the new assessment criteria. Both Labour and National are essentially tapping into the IVL to fund campaign promises and spending that is outside of the IVL remit – cycle trail maintenance and new great walks, for example.

The IVL's history is evidence of what's going wrong in NZ tourism funding. Too much influence out of Wellington and/or the current elected powerbrokers. Too much time spent centrally on assessing problems and picking winners. A growing lack of confidence in the entire mechanism as a result.

MBIE/Government should be open to the possibility that the IVL might best be discarded as part of any overhaul of tourism funding. Alternatively, it might be applied fully towards Conservation or other "non-Tourism" uses. Either way, industry participants need long-term certainty as to the IVL's quantum and purpose.</td></tr>
<tr><td>One thing IVL <u>should</u> fund:</td><td>If the timelines for reforming tourism funding stretch into 2025, then IVL funding should be provided to gather meaningful information about best practice overseas in systemic tourism funding. New Zealand does not need to re-invent the wheel. Before introducing any new funding mechanism, we should know:
What countries have "good" tourism funding regimes and what countries have "bad" regimes
How Australia "works" with 10% GST, no bed taxes and a state system (i.e. how tourism plays into the distribution of GST to Australian states)
How the Irish regime has been so successful (Failte Ireland model)
Levels of TOTAL tax on accommodation in European and North American markets (include country/state/county sales taxes alongside and accommodation-specific lodging taxes).
Typical daily spend by international tourist at destinations around the world typical tax take from those tourists – attracting international tourists is a competitive business and NZ must be mindful of where our peers sit.
In Hotel Council Aotearoa's opinion, investment in obtaining a clearer understanding of overseas best practice would be an important step towards truly transformational reform of tourism funding in NZ.</td></tr>
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