Introducing the Tourism Development Contribution

April 2025

HOTEL COUNCIL AOTEAROA

Contents

A new national Tourism Development Contribution for New Zealand

New Zealand can do tourism much better. This paper outlines a case for positive change, with the accommodation sector acting as catalyst for new revenue streams, institutional reform, improved public-private collaboration and policy settings explicitly designed to deliver sustainable growth. The ideas in this paper are what "re-imagining tourism" looks like. It is time to be bold and move beyond tired tourism platitudes.

The hotel sector is willing to support a new **Tourism Development Contribution** (TDC) that generates a recurring and predictable **tourism dividend to communities** if "done once / done right". The TDC would be imposed as a levy on all forms of transient overnight accommodation, with the potential to be expanded to other tourism product in subsequent phases.

Prior to COVID, tourism had grown to become New Zealand's largest export sector and a critical component of the overall economy, particularly in the regions. In 2019, tourism directly employed 229,566 people or 8% of New Zealand's workforce (182,729 in 2024).

Tourism was showing signs of strain before COVID hit, leading to an emerging anti-tourism sentiment from some quarters. If New Zealand aspires to double export earnings from tourism – or even if our only goal is to expand in line with domestic population growth – it is necessary to unpick and address a range of interconnected problems. Almost all of these tourism industry problems can be traced back to *misalignment of funding and incentives*.

Local authority funding pressure is a symptom of a much wider problem

Local authorities argue that they have an unfunded tourism mandate. Since New Zealand has a flat, non-hypothecated GST and no local sales taxes, local authorities do not directly share in the upside benefits of next week's tourist spending. On the other hand, tourism businesses argue that they already pay rates (including city/town-centre targeted rates), development contributions, utility costs, ACC levies, numerous other central government taxes and charges as well as collectively providing more employment opportunities than any other sector.

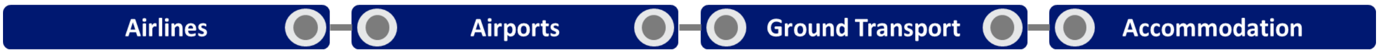
There is no evidence that tourists themselves are under-taxed in New Zealand. In the year ending March 2024, $4.1 billion in GST was collected from tourists, of which 38% is attributable to international tourists – a fall from 43% international share in 2019. No other export sector collects GST. In addition to GST, international tourists pay various user-pays charges that are built into the cost of their airfare or visa. Increasingly, international tourists pay entry charges to many museums and other public-owned attractions that are otherwise free to New Zealand residents, including domestic tourists from out-of-town who might also be contributing to congestion. Tourists indirectly fund Department of Conservation concession charges for tours and activities that touch the conservation estate, and DOC is now consulting on direct charging as well. Most international tourists pay the International Visitor & Conservation Levy (IVL). Tourists pay excise taxes on fuel, alcohol and gambling.

Especially after the October 2024 increase of the IVL from $35 to $100 per person, many stakeholders submit that New Zealand has a tourism tax *allocation problem*, rather than a collection shortfall. For example, the IVL is paid by certain international visitors only, but it is routinely used to support infrastructure and programs benefiting domestic travellers and/or exempt Australian visitors. Creation of the IVL and even the recent tripling of quantum has done nothing to dampen local authority complaints around tourism funding.

Growth done well requires new private sector investment

Any international-standard visitor economy *anywhere* requires capital-intensive, high-cost "tourism-enabling infrastructure": airlines, airports, ground transport infrastructure (roads, rail and ferries) and accommodation. As an isolated island destination, delivering this guest journey well is particularly important for delivering the best possible New Zealand experience.

Tourism spending takes place in local communities and small businesses only after the *infrastructure-enabled* guest journey is complete. The most spectacular destinations in the world only become tourist attractions when they are opened up through investment in infrastructure and built form amenity. Carrying capacity is also determined by these built form assets.



New Zealand is in the fortunate position of no longer needing to publicly fund the development of tourist accommodation. This is a sign of our maturity as a tourist destination, since emerging economies are often required to fund tourism-enabling infrastructure such as airports, airlines, accommodation and hero attractions. New Zealand's state-owned Tourist Hotel Corporation was divested in 1991. Note, however, that central government still owns 51% of the national airline, Air New Zealand.

COVID did significant damage to the hotel sector in New Zealand. Lost profits are unlikely to ever be recovered and in many cases property renovations have been deferred or reduced in scope.

International visitation to New Zealand in 2024 remained stuck at 85-87% of pre-COVID levels, but hotels – alongside other businesses – are dealing with significant cost increases including labour, insurance, rates, utilities and finance costs. In addition, new hotel rooms from projects commenced before COVID have entered the market, particularly in Auckland, which puts downward pressure on room rates and profitability. "Par" for New Zealand's tourism industry is not simply reaching 100% of 2020 arrivals – we need to be at 130% of pre-COVID visitor numbers in order to fill the additional hotels, convention centres and venues that have opened in the past five or so years.

If New Zealand is to sustainably grow its tourism offering while maintaining social license, then we must crowd in private sector tourism investment when and where needed, rather than accepting boom-and-bust cycles as normal. Many towns and cities want new and refurbished hotels and amenities. Tourism growth strategies that rightly target *seasonality* and *dispersal* require more than just clever marketing campaigns. Similarly, if New Zealand aims to be an even higher-yielding destination (the so-called high value/low volume approach), then we need to deliver international-standard hardscapes and built-form alongside our spectacular scenery.

Despite "high value" rhetoric, New Zealand is *not* an expensive destination to travel around once airfares are taken out of the equation. Average daily rate (ADR) at hotels nationally in 2024 was just $240 (US$135). In Auckland and Queenstown, ADR was $212 (US$120) and $310 (US$173), respectively. These rates are by no means expensive internationally, yet construction and labour costs here *are* high in comparison with other jurisdictions. A moderate-tier hotel might expect to have 0.5 full time-equivalent employees (FTEs) per guest room. For true luxury properties, that ratio might go as high as 1:1. At a blended cost-of-labour of $30 per hour, labour cost alone at a typical hotel might be $120-$240 per guest room. It is an understandable and predictable response to New Zealand's high-cost environment when many operators chose to reduce service levels and manage costs. Luxury is hard to do profitably in New Zealand, despite our completely justified pride in the beauty of our physical landscapes.

New tourism infrastructure projects rarely stack up in New Zealand, especially in the regions. Business cases are propped up by assumptions of future rate growth and hoped-for capital gains. It is hard for investors to justify new developments even in our highest-rated market (Queenstown). It is also hard to justify the risk of being first mover in a secondary or tertiary destination. A new 120-140 room, mid-tier (3*) hotel might reasonably be expected to cost $60-80 million to develop, of which 50% would be equity. These are uncomfortably large amounts in what has been a less-than-welcoming regulatory environment for tourism industry investors.

Urgent reform

A circuit-breaker is needed. Despite the challenging operating environment, hoteliers are prepared to support a new revenue collection mechanism *if implemented alongside other industry reforms that would improve long-term prospects for the sector*. Hotel sector support for new solutions is genuine, *but it is conditional*.

Accommodation levies are not a new idea. There are good and bad regimes around the world and any new accommodation levy in New Zealand needs to be tailored to our unique circumstances, including being an isolated and expensive destination to get to that relies heavily on international leisure travel. Hoteliers have no appetite to support creation of new tourism funding mechanisms that are old-fashioned, inefficient, rushed, difficult to implement or lacking appropriate checks and balances. On the contrary, such mechanisms would be actively opposed.

This paper proposes a nationwide Tourism Development Contribution in New Zealand to help re-align incentives and drive genuine collaboration between accommodation businesses, the wider tourism industry, central government, local government and communities. This proposal by the hotel sector follows significant reports from other tourism industry stakeholders including *We Are Aotearoa – First report of the Tourism Futures Taskforce* (2020), *Project Tonui* by RTNZ (2023), the *Hospitality New Zealand Strategy 2024-2029*, *Tourism 2050* and the work of the Industry Funding Group established by TIA (2024-25) on agreed principles for a new tourism industry funding model.

In HCA's view, transformative change is urgently needed for New Zealand to achieve long-term sustainable growth in our visitor economy.

Part A – Tourism Development Contribution principles

	What?	Why?
1.	**2.5% Tourism Development Contribution (TDC) collected as a levy on accommodation** • **All forms of accommodation** including hotels, motels, lodges, backpackers, holiday parks, short term rental accommodation (STRA) such as Air BnB. • Potential for **campervans** to be considered overnight accommodation, subject to views of that sector, noting that there would already be a partial contribution to TDC by those staying in a holiday park or similar, but not by freedom campers. • Potential for **cruise nights in NZ waters** to be deemed overnight accommodation, subject to views of that sector, but note cruise industry's concerns re existing port charges and taxes. • Payable by **all guests**, not just foreign tourists. • Genuine **pass through** to guests – meaning separately identified/itemised on guest invoices rather than absorbed by accommodation providers as a cost of doing business. • Assumes **tech-enabled collection** and appropriate consideration of issues such as: (a) collection by OTAs, (b) treatment of blended rates – e.g., rates inclusive of F&B, (c) integration with hotel property management systems (PMS) (d) whether levy itself attracts GST (and if so, how that incremental GST is reinvested into tourism). *[FY2020 Accommodation Spend was $3.5 billion. FY 2024 Accommodation Spend $4 billion notwithstanding excess capacity and only 87% international visitation recovery since pre-COVID. 2.5% of $4 billion is $100 million. Assume (i) meaningful room rate growth once visitation returns; (ii) continued accommodation unit growth; and (iii) adding STRA revenues to total accommodation spend (not currently captured in Tourism Satellite Account). Reasonable estimated revenue @2.5% = $125-150 million in today dollars, before government match (see below) and leverage.]*	At no more than 2.5%, the hotel sector would support the collection and distribution of new funds, rather than simply calling for hypothecation of GST and/or higher-quality spending by central government, local authorities and RTOs. NZ's total tax on accommodation (already 15%) cannot get too much higher than Australia (10% GST only). The aggregate level of tax paid on accommodation remains very important – tourists do not have unlimited capacity to pay more and NZ must present itself as fair, reasonable and internationally competitive. Price-elasticity and overall competitiveness with other similar destinations cannot be arbitrarily dismissed. *Acceptance of a percentage-based levy would be a major concession by industry in New Zealand compared with similar negotiations between industry and government overseas*. Note, however, that percentage-based levies are only supported by hoteliers if the collection mechanism is tech-enabled and adequately integrated with hotel property management systems (PMS). A fixed percentage is "set and forget" – it will automatically increase alongside increasing visitation and spend. Fixed percentage amount is already progressive – wealthier tourists will pay more. The hotel sector does not support variability by and between regions. No other sales tax is variable according to local political whim – it would be very damaging for long-term certainty if local authorities could attempt to use the levy as a demand lever. Region-by-region implementation is technically challenging (see below), because key industry stakeholders (hotel owners, hotel brand companies, foreign OTAs, ITOs, STRA providers, etc.) all operate in multiple regions. Hotel room nights are often sold months, or even *years*, in advance. If follows that the hotel sector does not support a bottom-up approach whereby local authorities must first demonstrate need by calculating "tourism negative externalities", "unfunded tourism shortfalls", etc. Such an approach ignores the *overcontribution* by tourists through existing GST and other taxes. Even more damaging, such an approach essentially perpetuates negative attitudes towards tourism. Any reasonable analysis of existing tourism-connected tax revenues shows tourism is a net positive for New Zealand's economy. Any new tourism funding mechanism should provide incremental revenues for genuinely transformational purposes, rather than simply replacing existing public spending on tourism.

<table>
<tr><th></th><th>What?</th><th>Why?</th></tr>
<tr><td></td><td></td><td>Different accommodation levy percentages throughout NZ would be a sub-optimal visitor experience. NZ is a touring destination where international visitors typically travel through multiple regions. This visitor profile is different from the typical visitor to Europe or continental USA.

Some New Zealand stakeholders are calling for a simplistic returns-based visitor levy whereby hotels would be required to submit monthly returns and make levy payments to councils directly. Such a regime would be incredibly old-fashioned and inconsistent with how hotel rooms are sold in a modern, digital economy. Businesses will not readily provide an accounting of their top-line business revenues to local councils, which might be motivated to further increase property rates depending on those numbers.

If central and local government stakeholders insist on a returns-based system and levy accounting at the hotel level, then "per person / per room" charging would be a better approach than percentage charging.</td></tr>
<tr><td>2.</td><td>2.5% "government match"
• Government match represents other tourism-connected businesses that benefit from tourist spending. "Accommodation services" accounted for just 9.8% of total tourist spending in the year ending March 2024 – F&B, air transport, retail and "other tourism products" all had higher shares of total tourist spending than accommodation providers.
• Can be explicitly tied to industry and local government achieving set growth goals – for example, "Once international tourism spending reaches $25 billion".

[FY2020 total tourism GST (international and domestic) was $3.86 billion. FY2020 total tourism GST was $4.12 billion with international visitor spending of $16.9 billion.]

New Zealand has missed previous opportunities to dial up reinvestment into the visitor economy. In 2010, when annual international tourist arrivals stood at just 2.5 million, GST increased by 2.5 pts from 12.5% to 15%.

In the 14 years since the rate of GST was increased, the incremental GST collected on tourism spending alone exceeds $7 billion. In other words, ringfencing or consciously reinvesting the 2.5% GST increment back into Tourism would have generated $7 billion+ over 14 years. In FY2024 alone, this 2.5% GST increment on tourism was worth $657 million.]</td><td>The hotel sector does not accept the premise that tourists currently underpay in New Zealand, particularly after: (a) October 2024 increase in the International Visitor & Conservation Levy (IVL) to $100; and (b) inflation and volume-adjusting increases in GST when GST is not earned by any other export sector.

In any fiscal year, the principal categories of central government expenditure are health, education, social welfare and retirement savings. With limited exception, international tourists do not access these central government services.

As tourism volumes and expenditure increase, central government must also increase reinvestment back into tourism from GST, or else any new tourism funding mechanism will be insufficient in the long run and social license issues will re-emerge.

A government match essentially represents other beneficiaries of tourism that are not being asked to collect the TDC.

Commitment to a government match is NOT hypothecation of GST. Instead, it is a reasonable rule of thumb to ensure that central government also dials up reinvestment into tourism as visitation grows. Without greater reinvestment of GST back into tourism and tourism-affected communities, central government will continue to be the main beneficiary of volume strategies.

Acknowledging current funding pressures and fiscal restraint, government match could be delayed until after reaching a growth-oriented goal for tourism GST – for example, government match to apply only once tourism GST exceeds $5/$6/$7 billion per annum. Such an incentive</td></tr>
</table>

	What?	Why?
		would encourage optimal behaviours from both local authorities and private investors to spur tourism recovery and long-term sustainable growth.
3.	**Distribution of the "tourism dividend"**: • Approximately [$5 million] annually to **fund ongoing destination management planning by communities** • After industry funding (see item 6 below), remainder **distributed to regions through appropriate formula** (not via Wellington). Formula could be based on: (a) room nights; (b) tourist spending; (c) other factors, but should be fairly predictable/stable and not subject to political interference or priority-switching. The exact formula and mechanisms around any temporary or permanent differentials should be negotiated and agreed by industry stakeholders through the legislative process. Once agreed, there should be long-term certainty rather than constant adjustments to either TDC rate or distribution formula. • Distributed money to be ringfenced and used predominantly for **"tourism hardscapes"**. Note that Auckland Council wants monies to be applied towards event attraction and destination marketing there, which is not opposed by the hotel sector if implemented with appropriate checks and balances. *[Note: HCA accepts that regional marketing spending is important, but best practice overseas is "tourism improvement districts", where any marketing funds collected by industry are also invested by industry. This ensures spending is geared towards generating incremental overnight stays.]*	Communities participate in tourism decision-making through destination management plans (DMPs). DMPs should be robustly prepared and regularly updated. The hotel sector's preference is that an accommodation levy supports "tourism hardscapes" in the first instance as higher priority than marketing or base infrastructure (i.e. pipes & roads). "Tourism hardscape" is human-scale infrastructure that we touch/feel/experience, such as bus parks, viewing platforms, town squares, toilets and shared public spaces. No tourist visits a first-world destination to experience core infrastructure such as the pipes and roads, but every tourist uses – and places some degree of pressure on – the tourism hardscapes of the locations they visit. Core infrastructure is important for the delivery of outstanding tourism experiences, but other central and local government initiatives appear better suited and fairer given the scale of core infrastructure shortfalls and the role of residential housing in creating demand. ***The hotel sector acknowledges significant infrastructure shortfalls in Queenstown and fully supports resolving these issues given the QLDC region's strategic importance to the entire New Zealand tourism industry.*** Event attraction and destination marketing done well are critically important to the long-term success of any destination's visitor economy. However, substantial reform appears needed in New Zealand. Due to ongoing budget pressures, Auckland Council has had to limit event attraction and destination marketing spending to just $7 million annually, when prior to COVID it stood at approximately $30 million. All taxpayers/ratepayers benefit from tourism marketing done properly. The hotel sector firmly believes that co-ordinated and thoughtful event attraction and destination marketing, at both central government and regional levels, are important for long-term economic growth. If councils and communities receive an ongoing and predictable tourism dividend from the TDC, then sensible event attraction and destination marketing become politically and economically attractive. In other words, if a regional authority *automatically* receives a share of next week's accommodation sector revenues, then it is *financially incentivised to help grow tourist visitation and expenditure*. That support should include marketing spend. Council-level investment decisions are expected to become much more targeted and effective if each campaign/intervention can be assessed against a measurable financial return back to ratepayers. *"Did marketing spend of X generate a measurable return to the*

	What?	Why?
		region exceeding X (where "X" includes the incremental increase in TDC for that period)?" A systemic tourism dividend also generates healthy competition between regions for events. If an event is demonstrably profitable/accretive, then regions can be expected to compete to attract and retain that event. Again, this encourages more efficient spending by councils and RTOs. To be clear, the hotel sector does not support using new Tourism Development Contribution receipts to simply backfill decreased local authority investment in event attraction and destination marketing and/or to help repair council budgets. The hotel sector considers reform of RTOs – both structure and funding – is long overdue. ***The hotel sector also acknowledges particular challenges around funding for the Auckland RTO and supports all efforts to normalise funding levels for event attraction and destination marketing in New Zealand's largest city and arrival point for 70% of international visitors.***
4.	Application of the tourism dividend: • In accordance with defined guardrails/swim-lanes • Councils and communities given responsibility to plan 3/10-year pipeline of tourism hardscapes and proposed TDC expenditure • Alignment with DMPs – "this is what the community wants"	Legislative definitions of approved expenditure and appropriate oversight/consultation mechanisms guard against wasteful spending. Councils and industry incentivised to improve capability.
5.	Industry ongoing involvement: • **Funded projects to be "branded"** (branding owned by industry) to assist with storytelling and stakeholder engagement – "This is what the Tourism Development Contribution is paying for…" • **Identification/assessment/oversight** etc., as partners with central government, local government and communities. • **Industry involvement ensures continuity** – hotel investors are typically *long-term stakeholders in a well-functioning visitor economy*, whereas local government leaders often come and go on much shorter timeframes, with different levels of engagement/interest in tourism issues.	Clear storytelling to ensure buy-in by tourists and other stakeholders. Bring industry, communities, central government and local government together in genuine collaboration to drive the best long-term results for NZ Inc. Facilitate genuine step-up in New Zealand's tourism development capability and expertise.
6.	Industry funding and self-determination: • A share of the TDC (5-10% of monies collected) should **fund a more effective tourism industry** (via industry associations – mechanism to be determined) • In return for confirmed sector funding (through share of funds raised), **tourism industry will need to step-up its own activities**. • In order to **carry out its TDC-related roles effectively**, industry needs to be put in funds and dial up its own institutional capabilities around	Industry knows it must solve its own free-rider problem and association overlap. A national Tourism Development Contribution gives it the opportunity to do exactly that. An adequately-funded tourism industry would not need to keep asking central government for handouts. Industry should have sufficient financial resources to drive

<table>
<tr><th></th><th>What?</th><th>Why?</th></tr>
<tr><td></td><td>infrastructure. Industry supervision is a critical check and balance to ensure the tourism dividend delivers meaningful outcomes/results.</td><td>innovation, improve data collection and provide education and upskilling opportunities.

New Zealand's other successful export sectors – typically agricultural/viticultural producers, dairy and meatpacking – are funded through commodity levies. If NZ decides to levy accommodation, then it is appropriate to simultaneously apply a portion of that levy back into industry activities. Elements of the Commodity Levies Act 1990 could be readily replicated as part of the TDC regime.

If a 2.5% Tourism Development Contribution is implemented successfully leading to meaningful improvements in place and outcomes, it follows that tourism/accommodation-connected industry associations should see consequent benefits. In this way, other non-accommodation sectors of the visitor economy might be incentivised to join the TDC mechanism in subsequent phases.</td></tr>
<tr><td>7.</td><td>New regime should provide future certainty around other taxes/charges/levies being imposed on tourists and tourism businesses:
Tourism dividend to communities created by the Tourism Development Contribution is ringfenced and use of monies defined in legislation
Agreed that marketing (at both national and regional levels) is funded by a combination of <u>broad-based</u> taxes/rates and voluntary schemes – everyone benefits from marketing. Note, however, the unique challenges in Auckland given current underfunding of event attraction and destination marketing.
Councils' entitlement to their share of the tourism dividend would be conditional on not breaching fundamental terms or introducing other "competing taxes" at a local level.
Major tourism businesses, including many hotel owners, brand companies and managers, operate across multiple regions. The current mis-mash of different council rates and levies is inefficient and makes it difficult to assess whether value-for-money is being provided by regional government.</td><td>Any new Tourism Development Contribution needs to be part of a comprehensive solution for tourism funding. Local authorities should concede that any new funding stream comes with conditions, including a commitment to no longer pursue damaging mechanisms such as the APTR. It's beyond time for the APTR threat to be permanently withdrawn.

NZ should prioritise long-term certainty in tourism funding to help drive capital attraction into the industry. On the back of a central-government sponsored hotel investment-attraction programme ("Project Palace"), Auckland Council immediately imposed a targeted rate on the capital values of all new hotels once it had confidence that sufficient new developments were underway.

IVL was intended to be a solution to the tourism infrastructure/tourism hardscapes problem, but was never comprehensive or robust enough. It has already been tripled in quantum and spending priorities remain ill-defined. Lessons must be learned from how the IVL was introduced.</td></tr>
<tr><td>8.</td><td>Well-chosen name to allow for potential future expansion to other tourism-connected sectors.
This paper uses "Tourism Development Contribution" and the concept of on ongoing tourism dividend to communities.
Final name/terminology should be chosen during system design to maximise acceptance/support.</td><td>New Zealand should always present itself as wanting international travellers to come here. No new tourism funding mechanism should be labelled as a "tax" or "levy", or named in a way that permanently ties it to accommodation. A well-designed scheme might potentially be expanded in future to cover other tourism-connected businesses such as rental vehicles, cruise and tours.

Although initially imposed on accommodation only, the mechanism could be called:
Tourism Development Contribution (TDC)
Tourism Communities Contribution (TCC)
Tourism Communities Dividend (TCD)</td></tr>
</table>

	What?	Why?
		• Visitor Development Contribution (VDC) Note that business travellers and conference attendees are "tourists", too. Perhaps "visitor" more accurately conveys the full range of travellers to be captured. A new mechanism "done once done right" would solve this naming challenge through consultation with tourism industry stakeholders and a typical focus group exercise to identify the best options. The scheme would also be branded to facilitate storytelling to guests, showcasing the beneficial activities and infrastructure funded by the mechanism. The TDC is conceived as a positive and proactive response to social license and overcrowding concerns.
9.	**Implemented properly, on reasonable timelines and with political consensus**. • Tourism funding has been a long-standing problem. Past attempts to address tourism funding (e.g. IVL) have been hurriedly implemented with predictable consequences. • HCA is the subject matter expert on accommodation levies, but there are many other tourism industry stakeholders – both within industry and at local government level – who should be fully consulted. • Rushed implementation would negatively affect New Zealand's reputation internationally. Conversely, a well-designed regime could enhance New Zealand's standing internationally as a tourism destination that is making a genuine attempt to implement a regenerative tourism model. • The proposed Tourism Development Contribution builds on tourism-connected policymaking from different past governments. The principles are apolitical and cross-party support should be readily achievable. **While council and central government budget pressures are acknowledged, speed-to-market must not override designing and implementing the best long-term tourism funding solution possible.**	There are a number of complex issues to solve for with the TDC in relation to its potential impact on transient accommodation businesses: • IT compatibility including integration with PMS (property management systems) • Collection agency – IRD or industry? • Rules around collection/remission by OTAs and other travel intermediaries • Rules around advertising of rates inclusive/exclusive of levy • Rules around handling of blended and package rates and packages (e.g. rates including F&B, treatment of STRA cleaning fees, etc.) • Rules around refunds/cancellations • Rules around collection of advance deposits • Potential consolidation of industry associations and council-controlled development organisations/RTOs • Identification and regulation of STRA, which essentially requires a consistent national framework and register • Adequate data confidentiality, alongside enabling mechanism for sharing of aggregated data by region and accommodation types – accurate/real-time dissemination of regional accommodation data (rate and occupancy) for all forms of accommodation is a *feature* of a national accommodation levy done right and will significantly contribute towards better real-time understanding of tourism industry performance. • Branding creation and ownership. Other tourism industry stakeholders will have issues, concerns and implementation challenges that need to be identified and addressed if New Zealand aspires to create a world-class new tourism funding regime. This should happen during detailed design and the legislative process.

Part B – Implementation path

Comprehensive legislation to help solve wall of tourism issues

There is a metaphorical wall of known issues in tourism throughout New Zealand, not just in the regions that are actively pushing for localised tourism taxes. A new national Tourism Development Contribution should be designed and implemented in a manner that helps resolve these tourism issues, rather than perpetuating them. Local councils' and central government's current funding pressures are acknowledged but should not drive the agenda around solving long-term tourism issues.

This is not merely a local government funding challenge. It is first and foremost a *tourism funding problem* that must be solved by people who are passionate about the sector. Tourism itself cannot be an afterthought if the accommodation sector is to support and implement a new levy on its guests.

Fast-approaching environmental challenges | **Unfunded DMPs** | **Tourism benefits not seen locally**
Wary of international best-practice | **Lacking coherent, long-term strategy** | **COVID hangover**
Infrastructure shortfall | **Overreliance on marketing** | **Over-exposed to inbound Chinese**
Inconsistent approach to foreign capital | **Slow to innovate and/or import technology**
Aging product | **Failed "whole of government" approach to tourism** | **Transient workforce**
Fragmented industry representation | **Demand-driven, cost-controlling mindset**
Past plans abandoned, including Tourism Futures Taskforce | **Afterthought in planning & policymaking**
Growing anti-tourism sentiment | **Stubbornly seasonal** | **Role of "tourism amateurs"**

HCA strongly prefers new legislation for a national TDC, rather than enabling legislation the amends the Local Government Act or new levies introduced as part of city and regional deals. Implementation of a first-in-class new tourism funding mechanism will be complex. Tourism is important enough to the overall New Zealand economy to justify the full legislative process and full central government participation in policy design and implementation.

If a goal of tourism funding reform is to create an ongoing tourism dividend for communities, then bespoke and comprehensive legislation that allows for full stakeholder consultation is appropriate.

Localism in tourism tax design is not the answer

HCA acknowledges and accepts that communities should receive a greater share of the financial benefits of tourism. However, HCA considers **local councils do not have sufficient policymaking expertise to design world-leading tourism taxes** at a local level, irrespective of whether they claim to consult fully with industry and communities. The Accommodation Provider Targeted Rate (APTR) in Auckland is evidence that local councils may well prioritise speed and council-side convenience over creating a future-proofed and tech-enabled new funding mechanism that can help solve the "tourism wall issues" above. Auckland Council has consulted with Aucklanders in March 2025 around imposing a new accommodation levy in the region, even though it has no inherent power to introduce a levy. Local government consultation exercises on this issue seem somewhat politically-driven and pre-determined, rather than a genuine attempt to educate and inform the public about complex problems.

Similarly, the International Visitor and Conservation Levy (IVL) was introduced through a legislative back door with many details left for later and/or pushed down to subordinate legislation. This has proven to be a misstep, as was warned by various tourism industry associations at the time.

Local councils in New Zealand should not be given the ability to create taxes on business revenues – not for accommodation or for any other sector. This is a critical check-and-balance on council powers in New Zealand that should not be abandoned when voter turnout at local elections hovers around 40% only.

Legislation need not be contentious

Reform of tourism funding is a generational problem. It is **an ideal issue for cross-party consensus**. There is no reason why the principles in this paper should not be supported widely by MPs from different political parties. Such cross-party consensus would be a watershed moment for the tourism industry in New Zealand. Anecdotally, New Zealanders appear willing to accept a reasonable Tourism Development Contribution payable on all overnight stays if proceeds are used to address destination management planning priorities.

The next-best alternative – industry-administered tourism improvement district(s)

If comprehensive new legislation and a nationally-consistent regime is not possible, then HCA considers **the next best alternative structure to be one or more national/regional tourism improvement districts (TID)** with collection, administration and distribution of local levy funds to be carried out *by industry itself, not by local authorities*. There is widespread precedent internationally for this modern approach to tourism funding constraints. Tourism improvement districts would still require enabling legislation. In connection with collecting the TID levy, industry as collection agent could enter into long-term funding agreements with local authorities ensuring certainty of funding for the benefit of resident communities.

Investment attraction should be front of mind

New Zealand has suffered from "boom and bust" hotel development cycles. There are approximately 33,500 hotel rooms in New Zealand – i.e. excluding motels, bed & breakfasts, holiday parks, hostels and short term rental accommodation. Just 3% annual growth in tourism demand would require c. 1,000 new hotel rooms to be developed annually, on average. At a conservative total development cost of $500,000 per guest room, that equates to $500 million annually in new hotel development projects to be sourced entirely from private investors.

Hotels are vital tourism-enabling infrastructure that require significant up-front capital and long development timelines. The quality of our accommodation options is a critical aspect of positioning New Zealand to capture more "high value / low volume" tourism.

If New Zealand is to succeed in driving geographic dispersal of tourist visitation, then some of that accommodation investment needs to flow to second-tier destinations, rather than just Queenstown, Auckland or other major cities. However, in these second-tier destinations, hotel room rates are often much lower than the major centres, but without a compensatory drop-off in construction costs or ongoing operating costs. In short, new hotels can help destinations "level up" their visitor economies, but developers may need investment incentives to take on the first-mover risk.

A well-designed Tourism Development Contribution would be flexible enough to help drive optimal investment attraction outcomes in regions that need new visitor accommodation. The importance of having effective tools to attract hotel investment is fully recognised in sophisticated markets such as the USA. In many parts of the USA, future local sales taxes and bed taxes can be earmarked and rebated to developers by local councils in order to attract transformational new private investment in tourism-enabling infrastructure.

IVL is available to fund next steps

Hotel Council Aotearoa anticipated current local authority budget pressures even before councillors themselves did. Three years ago in September 2021, when international borders were still closed, HCA publicly called for:

> *Confirmation of central government funding for Tourism New Zealand and RTOs (including Destination Queenstown and Auckland Unlimited) for the next three fiscal years, so that (a) New Zealand remains front-of-mind for international travellers, and (b) the hotel sector and other tourism industry stakeholders have*

time to work with central government and regional authorities on a fairer tourism infrastructure funding model.

The IVL was raised from $35 to $100 in October 2024. It remains HCA's submission that the most meaningful and transformational use of IVL monies would be to fund resolution of the wider tourism funding problem. **There is no higher priority for use of IVL monies than fixing the overall tourism funding system in New Zealand.**

The risks of doing nothing

This is not a binary choice between creating a Tourism Development Contribution and "no new taxes".

Even before COVID hit, local councils were already creating new tourism taxes such as Auckland's APTR, which was upheld as being legal by the Supreme Court. Central government departments periodically review and raise tourism-connected charges and levies, such as Department of Conservation concession charges, cruise passenger processing levies, immigration fees/levies and border clearance levies.

When monopolistic government departments are given free reign with "user pays" charging, it arguably has a negative impact on incentives to control costs and drive efficiency/productivity gains in public service delivery. Instead, energy is diverted towards justifying proposed cost increases during consultation exercises with affected industry stakeholders.

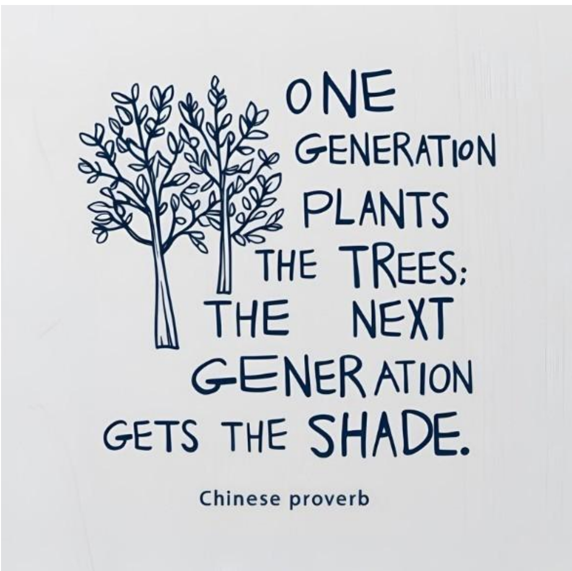
The IVL was introduced in 2019 and was changed in October 2024 from $35 to $100 – a rate of increase substantially higher than inflation.

Throughout New Zealand, local councils and RTOs have implemented various different funding mechanisms impacting tourism and tourism businesses including voluntary partnership programs, convention bureaus, geographical targeted rates, toilet (or "pan") taxes, business rates and business improvement districts. Businesses and their industry associations notice this "death by a thousand cuts", but ultimately have insufficient bandwidth to respond comprehensively to every newly-proposed charge, tax or impost.

Council priorities are ever-changing and subject to special interest capture. For example, then-Mayor Phil Goff openly admitted that the APTR was intended to support increased Council borrowing and investment into infrastructure, such as light rail to Auckland Airport. Goff's successor as Mayor now refuses to fully fund Auckland event attraction and destination marketing from ordinary rates and claims that Auckland Council already has sufficient funding for its capital programs.

Hotel Council Aotearoa submits that accommodation levies are potentially the final lever that New Zealand can pull to help craft a more positive and sustainable future for our vitally-important tourism industry. We must have this conversation without being unduly influenced by near-term operating and/or political considerations.

The status quo is unstable and unsustainable. The hotel sector in New Zealand supports real change – done once and done right.



Glossary

Accommodation Provider Targeted Rate (APTR)	A targeted rate on the capital values of accommodation providers in Auckland, introduced by Mayor Phil Goff's Auckland Council in 2017 and set at levels intended to equate to approximately 3-4% of underlying accommodation business revenues. However, since (a) capital values do not have a linear relationship with room rates, and (b) land ownership and accommodation business operations are often separately held, the APTR had an uneven impact on accommodation providers. The APTR was suspended during COVID when hotel and motel revenues collapsed as a result of closed borders and Auckland lockdowns. The APTR was held to be legal by the Supreme Court, but it is widely ridiculed as a mechanism for taxing tourism spending. At a rate of 0.00567049 on capital value, a fairly typical Auckland CBD hotel with CV of $120 million faced an additional $680,000 in annual rates *irrespective of achieved revenues or profitability*, with no practical or legal method to pass through to guests.
ADR	See *Average Daily Rate*.
APTR	See *Accommodation Provider Targeted Rate*.
Average Daily Rate (ADR)	A measure of average revenue earned for each occupied room in a hotel over a defined period, calculated by dividing total rooms revenue by the number of rooms sold. Example: If on a specified day a hotel earns $20,000 from 100 rooms sold, then ADR for that day would be $200.
Destination management plan (DMP)	Destination management planning aims to identify requirements for a well-managed, sustainable visitor destination, with those being set out in a written destination management plan. The process requires destinations to plan for the future and consider social, economic, cultural and environmental risks and opportunities. Further information and copies of all existing New Zealand destination management plans are available from the RTNZ website.
Dispersal	The strategy of spreading tourist demand geographically to a variety of locations within the relevant destination in order to both address overcrowding in popular areas and share economic benefits of tourism with less-visited locations.
DMP	See *Destination Management Plan*.
F&B	Food and beverage at hotels includes restaurants, cafes, bars and conference dining.
Inbound tour operator (ITO)	A specialised travel business/agency that focuses on organising and managing travel arrangements for visitors coming into a specific destination. Inbound tour operators design and execute travel packages that typically include accommodation, transportation, sightseeing tours, activities, and other services required for a seamless travel experience. Tourism Export Council is the industry association for ITOs in New Zealand.
International Visitor Levy (IVL)	New Zealand's "border tax", currently $100 per person payable by international visitors from most overseas countries (excluding Australia and Pacific Islands). The IVL is imposed under the *Immigration Act 2009* and subordinate regulations called the *Immigration (Visa, Entry Permission, and Related Matters) Amendment Regulations 2019.* Currently, 50% is applied towards tourism and 50% towards conservation through the Department of Conservation (DOC). Originally, the IVL was conceived as

responding to pressures on tourism infrastructure/hardscapes used by international visitors, but that original remit appears to have shifted.

ITO	See *Inbound tour operator*.
IVL	See *International Visitor Levy.*
Occupancy	A percentage measure of utilisation of a hotel over a defined period, calculated as the number of occupied rooms divided by the number of available rooms that physically exist in the hotel. For example, if 100 out of 150 available rooms are occupied, then occupancy is 67% on that day.
Online travel agent (OTA)	A business that allows travellers to search online and book travel products including air tickets, accommodation, car rentals, tours, cruises, and more. OTAs are intermediaries between travel inventory suppliers (such as airlines, hotels and tour ticketed tourist attractions) and customers (usually travellers, but sometimes other OTAs). OTAs can act as tour operators, creating tour packages and also providing additional travel-related information such as reviews and recommendations. OTAs can also act as wholesalers or as pure agents. Typical commissions payable by independent and small-chain hotels to OTAs are 15-20%, but larger global chains tend to negotiate lower rates. Examples of well-known OTAs include Booking.com, Expedia and Trip.com.
OTA	See *online travel agent*.
Pass through	Pass through charges are separately itemised on a guest folio or invoice and consistently applied by all competitor businesses selling the same product or service. Pass through is different from mere cost recovery. Every business must generate revenue exceeding its underlying costs to be profitable, but not all costs are separately itemised and passed through transparently to the customer. Fuel charges on many international flights are pass through costs. GST is a pass through cost.
PMS	The core software through which operators manage all aspects of hotel business operations, including the delivery of guest experiences. Traditionally, a hotel PMS focused on front-office capabilities, such as booking reservations, guest check-in/checkout, room assignment, managing room rates, and billing. It replaces time consuming, paper-intensive processes. Modern PMS technology has evolved beyond the front desk. A hotel's PMS "talks to" the software used by OTAs and other booking channels.
Revenue per available room (RevPAR)	A key performance indicator in the hotel sector that combines occupancy and average daily rate over a defined period. Example: if on a specified day a hotel has average daily rate of $200 and sells 100 out of 150 available hotel rooms (i.e. occupancy of 67%), then RevPAR for that day is 67% x 200 = $134. RevPAR illustrates how hotels aim to optimise both ADR and occupancy, since underperformance in either metric affects overall revenues. There is no point for a 150-room to set the highest ADR in market if it sells only 5 rooms daily, on average. Conversely, there is little benefit in constantly being "full" (occupancy of 95-100%) if rooms are materially under-priced and margins are low.
RTNZ	Regional Tourism New Zealand, the industry association for New Zealand RTOs.

Regional tourism organisation (RTO)	Agencies responsible for fostering and promoting regional tourism development in a particular region. There are 31 regional tourism organisations in New Zealand, with several different corporate/governance structures and funding models behind them.
RTO	See *regional tourism organisation*.
Seasonality	The strategy of spreading tourist demand across time periods in order to both reduce overcrowding at popular times and increase utilisation during otherwise less popular times. In tourism terms, seasonality is not just variations in demand due to climatic seasons. Patterns of seasonality may emerge in response to various factors including school holidays, public holidays and festivals, sporting seasons, etc.
Short term rental accommodation (STRA)	Overnight accommodation initially designed for ordinary residential purposes, but instead rented out in a furnished state for shorter durations to transient visitors and overnight guests, typically from a single night to a few weeks. STRA offers travellers an alternative to hotels, motels and other "traditional" forms of transient overnight accommodation. The rise is popularity of STRA, facilitated by the internet and mobile bookings, has helped create major global platforms and intermediaries such as AirBnB. STRA can be "hosted", which means the accommodation is shared with a permanent resident, or "un-hosted", meaning the entire residence is made available to the guest and not occupied as a permanent residence.
STRA	See *short term rental accommodation*.
Subvention	Financial assistance or subsidies provided by governments, public organisation or private entities to support tourism-related projects or events that might otherwise choose an alternative venue. Funding might include costs for marketing, infrastructure development and/or event hosting costs to encourage tourist growth and destination activation.
Tourism improvement district (TID)	A form of by-industry-for-industry tourism funding applied towards local area marketing, promotional activities and sometimes infrastructure improvements to enhance that destination's appeal. Typically established through government authorisation to address free-rider problems and overcome competition law impediments, TIDs are financed by assessments on businesses – often accommodation providers – within a defined region. The assessments may be passed through to end users. Unlike traditional taxes or property rates, TID revenue is controlled by industry stakeholders to directly benefit the assessed businesses. In practice, this means the revenue collected is hypothecated back into tourism by design and expenditure choices are targeted towards activities and interventions that increase overnight visitor stays.
Tourism hardscapes	Human-scale infrastructure and built-form amenities that tourists and residents can touch/feel/experience, such as bus parks, viewing platforms, town squares, toilets and shared public spaces.
TDC	See *Tourism Development Contribution*.
Tourism Development Contribution (TDC)	A transformative new national tourism funding tool, initially imposed as a 2.5% levy on all form of overnight accommodation throughout all of New Zealand, and substantially remitted back to the region where it was generated for tourism-connected purposes.

HOTEL COUNCIL AOTEAROA SUPPORTS TOURISM INDUSTRY REFORM

THE TOURISM FUNDING PROBLEM IS UNSOLVED

Tourism delivers substantial benefits to New Zealand, including a net positive return to central government finances. However, local government receives no immediate financial upside from increased tourism volumes. Central government has tended to underinvest back into the tourism industry despite benefiting from volume growth and GST receipts. Tourism spending growth *should* be a major contributor to New Zealand's economic recovery and dispersal of wealth throughout the country, but stakeholder incentives are misaligned.

NOTE: International traveller volumes will eventually return no matter what mistakes NZ might make in tourism planning and strategy. Growth is coming, but will it be "growth done well"?

SOCIAL LICENSE CONCERNS REMAIN

New Zealanders do not fully understand or appreciate the economic benefits of tourism. Social license concerns have been given prominence by local government leaders, including during the destination management planning (DMP) process. There is no way to fund implementation of DMPs.

THERE IS AN INFRASTRUCTURE SHORTFALL

Growth requires *both* increased public investment in "pure infrastructure" and crowding in of private investment into "tourism-enabling infrastructure" such as hotels, convention centres and international-standard attractions. NZ is not doing enough to drive significant private investment into tourism-enabling infrastructure. NZ is overly focused on marketing and other demand-side drivers, rather than supply-side planning, investment attraction and delivery. Too much is influenced by lifestyle entrepreneurs and well-meaning amateurs.

RECENT TOURISM TAXES HAVE BEEN CHAOTIC

The International Visitor Levy (IVL) has failed to drive meaningful change – Dept of Conservation is *reducing* investment in visitor-related activities or using the IVL for spending previously covered by the consolidated fund. Auckland's Accommodation Provider Targeted Rate (APTR) was a back-door attempt to tax hotel revenues through the property rating system, completely ignoring the complexities of passing through a genuine bed tax to consumers. Councils are threatening reintroduction of APTR-style targeted rates to plug budget shortfalls.

PUBLIC BODIES ARE DE-FUNDING MARKETING

Central government and many local councils have reduced investment in event attraction & destination marketing – the exact opposite approach of our nearest competitor, Australia. Reduced local government investment in some cases appears politically motivated, particularly when significant new tourism amenities such as stadiums and convention centres are approaching completion. This works against a "sector recovery and growth" agenda.

HCA
HOTEL COUNCIL AOTEAROA

GOLD sponsors

SILVER sponsors

BRONZE sponsors

About Hotel Council Aotearoa

Hotel Council Aotearoa (**HCA**) is New Zealand's hotel industry association. HCA currently represents 255 New Zealand hotels, comprising 27,350 rooms and 9.98 million available room nights per annum. Each hotel member of HCA is also a full member of Tourism Industry Aotearoa.

To learn more about HCA or to become a member/sponsor, please visit www.hotelcouncilaotearoa.com or email admin@hotelcouncilaotearoa.com.

7 April 2025

James Doolan
Strategic Director
james@hotelcouncilaotearoa.com
021 0851 0685