



21st July 2018

Via email: tourism@mbie.govt.nz

MBIE Tourism Policy
PO Box 1473
Wellington 6140
New Zealand

Dear Sir / Madam,

RE: INTERNATIONAL VISITOR CONSERVATION AND TOURISM LEVY (IVCTL)

Thank you for the opportunity to present our submission in relation to the abovementioned proposal.

This matter is of significance to the Queenstown Lakes District Council (QLDC). With 34 visitors annually for every resident (Auckland ratio being 1:1), our community faces the daunting challenge of heavily subsidising tourism infrastructure to the extent that this will eventually be untenable, as we exhaust future funding options. As one of the most impacted districts in the country, we have been actively adopting a partnership approach with successive governments to try to find a workable solution.

Fundamentally, QLDC supports the government's attempts to define a package of funding tools to meet this complex challenge. We do not believe this proposal alone will meet the quantum of the challenge we face. In simple terms, it will not generate sufficient funds to address the financial challenges faced by our district alone.

If the government chooses to implement this proposal, we urge that rapid, concurrent consideration is given to the development of a Local Visitor Levy (Bed Tax) for implementation within the same timeframe. QLDC would be a willing partner in the co-creation of any such levy and would be keen to act as a pilot test environment in advance of national implementation.

Identification of a fair, equitable and sufficient levy for our district has become a burning issue and is the subject of significant discourse within our community.

The risk to our taonga is very real and the degradation of our visitor experience imminent. After due consideration and based on a detailed business case analysis, we have concluded that some form of localised funding (commensurate with the volume of visitors and their associated infrastructure needs) is now the only avenue for our community.

Yours faithfully,



Mike Theelen
Chief Executive
Queenstown Lakes District Council



Jim Boulton
Mayor
Queenstown Lakes District Council

1.0 EXECUTIVE SUMMARY

- 1.1 Queenstown Lakes District Council (QLDC) has welcomed the opportunity to consider the proposal for an IVCTL as outlined within MBIE's discussion document.
- 1.2 Whilst we fully support efforts to ensure conservation land is suitably protected, the focus of this submission is on the provision of funding for key tourism infrastructure facilities.
- 1.3 QLDC has been keen to see progress in relation to the gap in funding tourism infrastructure for a number of years and it is very encouraging that the government is now making genuine efforts to shift the current paradigm.
- 1.4 Unfortunately, QLDC holds the position that the IVCTL will not have an impact on the significant deficit our district faces in relation to the funding of tourism infrastructure. Whilst the proposal acknowledges the difficulties of managing public goods and the associated externalities, the proposal will not avoid a crisis of the commons nor provide the quantum of investment required to deliver the required visitor infrastructure in our district. Without a targeted tool, there will be an experiential degradation for our resident population and visitors. Given the centrality of Queenstown to NZ Inc and the Pure NZ brand, such a crisis would have significant ramifications for our international reputation, tourist industry and wider economy.
- 1.5 If the government decides to proceed with the IVCTL irrespective of this challenge, QLDC urges rapid acceleration of provisions to enable collection of a Local Visitor Levy (LVL).
- 1.6 QLDC is keen to understand the remit of the Productivity Commission's inquiry¹ into local government funding, but holds some concern that the process will take too long to address the challenges facing our district. This solution needs to be developed in tandem with the IVCTL, according to the same timeframes.
- 1.7 QLDC would like to be considered as a location in which a Local Visitor Levy could be trialled, in order to fully understand the implications and impacts of such a policy.
- 1.8 The following submission provides further context and detail in relation to QLDC's concerns and a set of recommendations for consideration.

¹ <https://productivity.govt.nz/news/new-inquiry-%E2%80%93-local-government-funding-and-financing> accessed 20/7/18

2.0 QLDC'S UNIQUE CHALLENGE

- 2.1 Queenstown Lakes District Council has recently adopted a Ten Year Plan that has been designed to address unprecedented visitor and resident population growth in the district. It has been the result of a considerable organisation-wide effort to identify an affordable way forward, but it is a way that is contingent upon a range of assumptions and the sale of some key community legacy assets.
- 2.2 Throughout the process, the Council listened to recommendations from central government and has leveraged all available funding and debt avenues in order to deliver a fiscally prudent plan under LGFA legislation. The Council has also maximised debt provisions by securing a Fitch credit rating of AA-.
- 2.3 The capital expenditure in our current Ten Year Plan represents 161% of the programme forecast in 2015 and highlights that 33% (\$317m) of the proposed budget is due to growth. The affordability of the plan is predicated upon significant investment from NZTA to improve arterial roads and the ruthless re-prioritisation of a number of other projects.²
- 2.4 We have increased rates by 6.89% on average this year, but will increase by 3.4% over the next ten years³. QLDC has a high end reputation, but our average income is still \$51k per annum compared to the national average of \$59k⁴. Aggressive rate rises to fund tourism infrastructure will simply pressurise struggling families further and exacerbate social issues that are already starting to emerge⁵.

3.0 THE ROLE OF TOURISM IN THE DISTRICT

- 3.1 As it has been for many years, tourism is at the heart of the district's economy. It made up 32.8% of the district's GDP in 2017⁶ but is also disproportionately important to the national tourism economy. Spending by international tourists made up 67% of total tourist spending in the Queenstown Lakes District, compared to the national average of 43%, for the year to August 2017 and almost 13% of all international visitor spend is made in Queenstown⁷. As a district, we contribute over 8% of the total tourism GDP⁸.
- 3.2 Over the course of a year, there are now 34 tourists for every resident⁹ of our district. In contrast, Auckland has a ratio of 1:1 and Christchurch 3:1 QLDC has 26,000 ratepayers subsidising 70 – 120,000 visitors per day (depending on the time of year) and this number is growing.

²<https://www.qldc.govt.nz/assets/Uploads/Council-Documents/Full-Council-Meetings/2018/28-June-2018/1aa.QLDC-10-Year-Plan-2018-2028-Volume-1-22Jun18.pdf> accessed 20/07/18

³<https://www.qldc.govt.nz/assets/Uploads/Council-Documents/Full-Council-Meetings/2018/28-June-2018/1aa.QLDC-10-Year-Plan-2018-2028-Volume-1-22Jun18.pdf> accessed 20/07/18

⁴<https://ecoprofile.infometrics.co.nz/queenstown-lakes%2bdistrict/StandardOfLiving/Earnings> accessed 20/07/18

⁵<https://www.stuff.co.nz/national/crime/105184975/queenstown-wanakas-hidden-underbelly-of-domestic-violence> accessed 20/07/18

⁶<https://ecoprofile.infometrics.co.nz/queenstown-lakes%2bdistrict/Tourism/TourismGdp> accessed 20/07/18

⁷<https://www.qldc.govt.nz/assets/Uploads/1803-Sustaining-Tourism-Growth-in-Queenstown-Final-Report.pdf> accessed 20/07/18

⁸ MBIE Monthly Regional Tourism Estimate

⁹<https://www.qldc.govt.nz/assets/Uploads/Council-Documents/Full-Council-Meetings/2018/28-June-2018/1aa.QLDC-10-Year-Plan-2018-2028-Volume-1-22Jun18.pdf> accessed 20/07/18

- 3.3 QLDC is unique in this regard. The quantum of the challenge far outweighs the ability of the existing rating model to respond. For example, over the past 12 months, the number of cars travelling on our district's state highways increased by 25%¹⁰. This increase was driven largely by the shift from coach travel to free, independent travel, which will ultimately require significant capital investment in our roads and parking that the ratepayers of the district can no longer afford.
- 3.4 In 2017 Deloitte conducted a national assessment of tourism infrastructure, in which they identified seven types of infrastructure that have the greatest impact on tourist activity overall. QLDC is responsible for providing five of these services - road transport, toilet facilities, parking, wastewater and water supply¹¹. In our district, we would also add waste minimisation and management and the downtown public realm as key concerns. The use of these facilities by tourists is significant as is the expectation of visitors in our town centres and key public gardens and spaces.
- 3.5 The tourist industry provided initial estimates in 2016 on the scale of the infrastructure needed to ensure that New Zealand remains internationally competitive. McKinsey concluded that \$100 million - \$150 million would be needed over the next ten years to ensure New Zealand was future ready for the forecast increase in visitor numbers¹². They identified QLDC as a priority council where growth in visitor nights, having exceeded reasonable expectations, has outpaced local spend on tourism-related infrastructure.
- 3.6 It is the sheer magnitude of visitor numbers and their forecasted growth that makes it impossible for QLDC to fund safe, future-proofed visitor infrastructure through the existing ratings model. Modest aspirations to deliver the basic provisions of water that meets drinking water standards, wastewater schemes that protect our pristine environments, critical infrastructure for our rapidly growing town centres and a roading network that is fit for purpose, have become enormous and costly undertakings that have forced the Council to push significant projects beyond recommended timeframes. .

4.0 WHY WON'T THE IVCTL WORK FOR QLDC?

- 4.1 The MBIE Cabinet paper and discussion document presented on 7th May 2018 specifies at 79.3 that local government and ratepayers in 'hot spots' are "likely to be in favour" of the IVCTL. As we have outlined, this solution will not address the QLDC challenge.
- 4.2 When viewed from QLDC's perspective, the IVCTL fails to meet the funding tool criteria as specified within the proposal.
- 4.2.1 The specified criteria are as follows:

¹⁰ <https://www.qldc.govt.nz/assets/Uploads/Council-Documents/Ten-Year-Plans/2018-28/QLDC-10-Year-Plan-2018-2028-Volume-2-28Jun18-ADOPTED.pdf> accessed 21/07/18

¹¹ <https://tia.org.nz/assets/Uploads/Tourism-Infrastructure-Project-Report.pdf> accessed 20/07/18

¹² <https://tia.org.nz/assets/Uploads/Tourism-Infrastructure-Executive-Summary4.pdf> accessed 20/07/18

- “**Scale of revenue** to enable strategic investment in New Zealand’s key attractions, networks and/or seed funding for other revenue initiatives”
- “**Certainty of revenue for asset owners / affected communities** to enable long term planning for visitor-related infrastructure and mitigation.”
- “**Fair distribution of costs**, aligning those who benefit from publicly-provided infrastructure with those who are paying as closely as possible.”
- “**Support regions to realise their tourism potential**, and enjoy the subsequent social and economic benefits.”
- “Collection of revenue is **cost effective**.”

4.3 QLDC considers that the scale of revenue generated by the IVCTL is insufficient to support national tourist infrastructure. Given that QLDC alone estimates the need for approximately an additional \$40m per annum¹³, it is unlikely that the maximum forecast revenue of \$80m will be sufficient. In broad terms, the totality per annum of the IVCTL available for visitor infrastructure is equivalent to the amount of additional annual spend that QLDC is seeking.

4.4 The proposal does not address the mechanisms for the distribution of the fund and this is where there is considerable risk and uncertainty for assets and communities within QLDC’s remit. The creation of a centrally apportioned, contestable fund at this stage offers no certainty of funding, or assurance of longevity. It is unclear as to whether the intention is to apportion based upon existing metrics or to require application to the fund. We are not in a position to plan essential infrastructure investment around a competitive process.

4.5 A contestable fund model (such as the TIF) produces considerable uncertainty. Similarly, the spread of this funding has resulted in largely nickel and dime investment into visitor infrastructure. Such a model is incapable of addressing key infrastructural requirements for communities such as QLDC, particularly where the visitor demand is integral to the total resource demand and investment needed.

4.6 Until the distribution method is identified, it’s impossible to establish if the IVCTL in its current proposed form represents a fair distribution of costs. It is unlikely that a centrally managed funding solution will provide a fair distribution of costs to QLDC.

4.7 Furthermore, the IVCTL does not represent an equitable solution as it currently excludes Australians and Singaporeans. Australians are currently our largest tourism group (almost half of all international visitors)¹⁴ and to exclude them from any such levy exacerbates the issues outlined in 3.1.2, whilst failing to fundamentally align “those who benefit” with “those who are paying”.

4.8 QLDC must counter the position that the IVCTL will support our region to realise its tourism potential. We have a unique challenge in that the industry is thriving, but our small ratepayer base cannot afford to support an ever growing number of visitors. The IVCTL will not deliver an effective and efficient solution to our unique challenge.

4.9 Collection of the IVCTL via the mechanism of an ETA is a cost-effective approach that meets a range of other border management concerns from a central government perspective. However, application to the IVCTL fund (as with most central government funds) will likely present prohibitively high compliance costs to access. Applications to centralised funds require considerable resources and time.

¹³ <https://www.qldc.govt.nz/assets/Uploads/1803-Sustaining-Tourism-Growth-in-Queenstown-Final-Report.pdf> accessed 20/07/18

¹⁴ <https://www.tourismnewzealand.com/markets-stats/markets/australia/> accessed 21/07/18

The IVCTL may present a cost-effective solution for central government, but this will not be translated through to the local government experience.

- 4.10 Also, as the IVCTL is under consideration with a number of other border charges, QLDC believes that the scale of revenue is being compromised in order to maintain an acceptable overall charge to international visitors. If the ETA charging model is adopted, revenue should be maximised through the inclusion of Australians and Singaporeans and making the ETA a single use authority only (not valid for two years).

5.0 QLDC'S RECOMMENDATIONS FOR THE DEVELOPMENT OF A LOCAL VISITOR LEVY

- 5.1 In light of the above comments, QLDC submits that the IVCTL is quite simply an inadequate tool to address the unique challenges faced by our residents and ratepayers. A Local Visitor Levy (LVL) would be more appropriate and would meet the funding tool criteria outlined.

If MBIE does continue to develop the proposal for the IVCTL, it is recommended that the development of a Local Visitor Levy is pursued concurrently and according to the same timelines. This would ensure the provision of a package of funding tools that are scaleable and can be truly utilised across a range of local government circumstances.

- 5.2 QLDC welcomes the Productivity Commission's inquiry into local government funding, yet holds concerns that the timing may not align with the urgent need to develop a Local Visitor Levy. Therefore, we urge MBIE to consider its separation from broader local government review and to focus on the Local Visitor Levy as a specific mechanism.

- 5.3 QLDC recommends that the Local Visitor Levy is developed to include a cogent set of policy principles that provide guidance as to the suitability of the levy for a specific jurisdiction. It is important to note that if used unwisely, the Local Visitor Levy could damage a fledgling or fragile tourist economy. It would be most appropriately applied to mature visitor economies with reliable forecasting methodologies.

- 5.4 The Local Visitor Levy should be a low cost, high incidence levy that generates sufficient levels of income due to its broad-based nature. QLDC would welcome exploration of a Local Visitor Levy in the form of a "bed tax", which captures a percentage of room rates across formal, mobile and peer to peer accommodation service providers.

- 5.5 The Local Visitor Levy should be time bound and subject to periodic review every fifteen years (five Ten Year Plan/Long Term Plan review cycles), to ensure its application during periods of tourism stability or growth. It should also be hypothecated, to ensure expenditure on clearly-defined visitor-related infrastructure. This will help define a clear sense of purpose and prevent the LVL from being subsumed within general revenue streams.

- 5.6 Visitor levies are well understood and used extensively overseas in premium destinations. As the Local Visitor Levy would essentially be a 'pass through' levy paid in full by the visitor, the potential

impact on the accommodation sector is minor, particularly if set at an incidental value that is unlikely to create any significant operator resistance.

- 5.7 QLDC would also recommend that a mechanism is included to enable the revenue income stream to be capitalised through the use of revenue Bonds. This would not only enable infrastructure improvements to be fast-tracked, but early capitalisation should allow the levy to remain low by allowing investment to be front-ended. This is a model that has been used to great effect in the US and would warrant further exploration.
- 5.8 Monitoring and evaluation of the success of the Local Visitor Levy should be incorporated within the design of the policy, to ensure ease of reporting and transparency around how the levy is being spent.
- 5.9 The Local Visitor Levy should be mandated by the local community, through the usual democratic channels.
- 5.10 QLDC would like to offer to be a proving ground for the development of the Local Visitor Levy, working with MBIE to co-design an operational solution and to deliver a full pilot programme of a “bed tax”. This pilot programme could be maintained for 5 – 10 years, providing detailed insights into the externalities and implications that might emerge from the levy. It should be noted that a visitor levy currently operates for Stewart island without any apparent difficulty.

6.0 THE RISKS OF GETTING IT WRONG...

- 6.1 If the visitor experience in Queenstown is compromised by an inability to respond to growth in tourism infrastructure, there would be three key national impacts.
 - 6.1.1 Social license to operate withdrawn – if international visitor numbers continue to grow, our ability to maintain visitor infrastructure and the environment may not keep pace. Local frustrations continue to develop and support for tourism is being challenged, especially in the Otago region where the perception is that there is too much pressure from international visitors¹⁵. The disintegration of social license would not be limited to our district; discontent is infectious.
 - 6.1.2 Economic downturn – if international visitors are deterred from visiting our district due to the degradation of the environment and the visitor infrastructure, it would have a devastating impact on both the local and national economy. The potential for degradation is far from synonymous with the Pure NZ brand¹⁶.

¹⁵ <https://tia.org.nz/assets/Uploads/Mood-of-the-Nation-Mar-18.pdf> accessed 20/07/18

¹⁶ <https://www.tourismnewzealand.com/about/what-we-do/campaign-and-activity/> accessed 20/07/18

6.1.3 National Reputation damaged – Over 96% of visitors felt that their expectations were met by New Zealand in 2017¹⁷. However, the impact of an incident similar to Havelock North occurring in the height of summer in our district is unthinkable, and would cast a long reputational shadow for years to come.

6.2 QLDC has its eyes wide open in relation to the risk of a degraded visitor experience in the district. Without the provision of a Local Visitor Levy, we will continue to make our assets work harder and harder, as the visitor experience gradually erodes around them.

7.0 CONCLUSION

7.1 To conclude, QLDC fully supports the government in its endeavours to establish a package of funding tools to support visitor infrastructure, but submits that the IVCTL is insufficient to resolve the issues faced by our district.

7.2 If the proposal for the IVCTL progresses, QLDC recommends the concurrent development of a Local Visitor Levy to be trialled in our district as a form of “bed tax”.

7.3 Due to the sheer magnitude of the visitor numbers and the low ratings base within the district, QLDC will be unable to maintain or improve existing visitor infrastructure effectively in future without the provision of a Local Visitor Levy. This would herald an inevitable era of national and local uncertainty, with our key industry’s social license at risk, the threat of economic decline ever present and our hard-fought-for international reputation hanging in the balance.

¹⁷<http://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/tourism-insight-series/visitor-expectations.pdf>
accessed 20/07/18