

**QLDC Council
7 March 2019**

Report for Agenda Item: 9

Department: Corporate Services

Submission to the Productivity Commission – Local Government Funding and Financing

Purpose

The purpose of this report is to consider QLDC's submission to the Productivity Commission inquiry into local government funding and financing.

Recommendation

That Council:

1. **Note** the contents of this report;
2. **Endorse** the submission to the Productivity Commission, in relation to its inquiry into local government funding and financing;
3. **Approve** representation by the Chief Executive when meeting with the Productivity Commission in support of the submission.

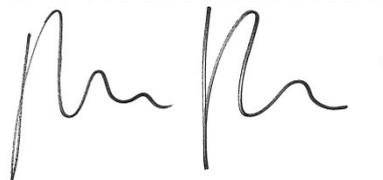
Prepared by:



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22/02/2019

Reviewed and Authorised by:



Meaghan Miller
General Manager, Corporate
Services

22/02/2019

Background

1. In July 2018, the government asked the Productivity Commission to undertake an inquiry into local government funding and financing. It was given the remit to explore options and approaches for improving the system, should shortcomings be identified.
2. An Issues Paper was released in November 2018 in order to encourage participation in the inquiry. The Issues Paper presented a range of questions that traversed all aspects of local government funding and financing.

3. Submissions closed on the Issues Paper on Friday 15th February. QLDC's submission was duly submitted to meet this deadline. Although the submission was pre-circulated to Council this paper seeks to secure the formal endorsement, retrospectively.
4. A draft report on the inquiry is anticipated in June 2019, with a final report being made to government in November of the same year.

Comment

5. The full submission is attached for consideration, but the main points are summarised as follows:
 - a. QLDC fully supports the government and the Commission in reviewing and seeking feedback on existing financing and funding models for local government.
 - b. QLDC has provided updated statistics to the Commission, in order to demonstrate that growth projections are far more pronounced in this district than the Issues Paper suggests.
 - c. In broad terms, QLDC supports the submission made by LGNZ on behalf of the sector, but continues to highlight the urgent need for the provision of a Local Visitor Levy in the district.
6. QLDC's position within the submission is consistent with the Council's oft-stated position in support of a Local Visitor Levy, as reflected in recent submissions to MBIE on the International Visitor and Conservation Tourism Levy (July 2018) and the Tourism Strategy (January 2019).

Options

7. The Council can choose not to endorse the submission at all or in its current form. It can be withdrawn from the inquiry process in its entirety or statements can be withdrawn, but it cannot be amended to make any additional points.

Local Government Act 2002 Purpose Provisions

8. The recommended option:
 - Will help meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses by encouraging new industries and businesses within our community.
 - Can be implemented through current funding under the 10-Year Plan and Annual Plan;
 - Is consistent with the Council's plans and policies; and
 - Would not alter significantly the intended level of service provision for any significant activity undertaken by or on behalf of the Council, or transfer the ownership or control of a strategic asset to or from the Council.

Attachments

- A. QLDC Submission to the Productivity Commission's Inquiry into Local Government Funding and Financing

Attachment A:**QLDC Submission to the Productivity Commission's Inquiry into Local Government Funding and Financing**
15 February 2019

New Zealand Productivity Commission
PO Box 8036
The Terrace
WELLINGTON 6143
Via email: info@productivity.govt.nz

Dear Sir / Madam

LOCAL GOVERNMENT FUNDING AND FINANCING: SUBMISSION

Thank you for enabling the Queenstown Lakes District Council (QLDC) to present a submission to the Productivity Commission on the Government's Inquiry into local government funding and financing.

QLDC is submitting from the perspective of a high growth council experiencing unprecedented population and tourism growth. 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 engaged in a dialogue with successive governments to try to find a workable solution.

The risk to our taonga is very real and the degradation of our visitor experience imminent if we do not find an alternate revenue stream. After due consideration and based on a detailed business case analysis, we have concluded that a Local Visitor Levy is now the only avenue for our community.

QLDC broadly supports the position taken by Local Government New Zealand (LGNZ) across all questions within its separate submission and would like to take the opportunity to emphasise the need for a Local Visitor Levy within our district. 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. This is a position further endorsed by the Society of Local Government Managers (SOLGM) in its submission at recommendation 21.

We have taken the opportunity within this submission to furnish the commission with our latest data and insights in this regard. This growth is impacting our infrastructure, services and wellbeing of our community.

Please note that QLDC would like to attend any hearings that result from this consultation process. This submission reflects the frequently stated position of officers and the council, to be ratified at a council meeting on the 8th March 2019.

Yours faithfully



Mike Theelen
Chief Executive

1.0 INTRODUCTION

- 1.1 QLDC represents the country's fastest growing district¹. The focus of this submission is on ensuring that the Commission understands the factors and issues that our district faces.
- 1.2 Due to the rapid nature of growth in the district, the growth statistics quoted within the Commission's Issues Paper are now out of date and are considered too low. This submission will provide updated information and further context as to the nature of the district, in order to help inform the Commission's deliberations.
- 1.3 QLDC broadly agrees with the position taken by LGNZ within its submission across all questions raised, but would like to emphasise the need for a Local Visitor Levy more emphatically. This is a position that is consistent with our July 2018 submission to MBIE in relation to the International Visitor and Conservation Tourism Levy, our recent submission on MBIE's Tourism Strategy and recommendation 21 within the SOLGM submission on this matter.
- 1.4 This submission will address the following:
 - 1.4.1 QLDC's Unique Challenge
 - 1.4.2 QLDC's Latest Population Projections
 - 1.4.3 The Role of QLDC's Tourism Industry on the National Stage
 - 1.4.4 The Urgent Need for a Local Visitor Levy in the Queenstown Lakes District

2.0 QLDC'S UNIQUE CHALLENGE

- 2.1 In 2018 QLDC adopted a Ten Year Plan 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 land holdings.
- 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 projects². This investment is indicative of the district's rapidly changing nature and its infrastructure requirements, shifting from a collection of weekend bach resorts to the demands of a connected, metropolitan environment.
- 2.4 Additionally, visitors to the district have high expectations of cleanliness and amenities in New Zealand's premier tourism destination. As such, our operational expenses and levels of service are high, in keeping with our responsibilities around manaakitanga and kaitiakitanga.
- 2.5 QLDC already strikes a targeted rate on accommodation providers and has signalled future further targeted rates to meet growth demands in the district. Rates have increased by 6.89% on average in 2018/19, and are forecast to increase by 3.4% per

¹ Statistics NZ accessed February 2019

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

annum over the next ten years³. The Queenstown Lakes District has a high-end reputation, but the average income is only \$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. It is time to transition from rates paid by an indirect proxy, to a model that targets the user generating demand – our visitors.

- 2.6 It is the conflagration of growth in both population and visitor numbers that makes the existing rating model untenable. The growth in the former is insufficient to finance the requirements of the latter. Despite the utilisation of targeted rates for visitor accommodation, QLDC is experiencing a significant funding shortfall.
- 2.7 Existing funding mechanisms are not adequate to meet the demands of the growth in the Queenstown Lakes District. In broad terms, the totality per annum of the International Visitor Conservation and Tourism Levy available for visitor infrastructure is equivalent to the amount of additional annual spend that QLDC is seeking.
- 2.8 Similarly, contestable funds, such as the Tourism Infrastructure Fund (TIF) or the Provincial Growth Fund (PGF) produce considerable uncertainty. The spread of this funding model has resulted in welcome, but unfortunately light investment into visitor infrastructure. Such a model is incapable of addressing key infrastructure requirements for communities such as those in the Queenstown Lakes District, particularly where the visitor demand is integral to the total resource demand and investment needed. Long-term, sustainable funding mechanisms are urgently required, based upon the principle of ‘exacerbator pays’.

3.0 QLDC’S LATEST POPULATION PROJECTIONS

- 3.1 The district’s population increased by approximately 5.7% in 2018⁶ and it is predicted that our resident and visitor population will nearly double in the next 30 years. Housing affordability is a major issue and is particularly pronounced in Queenstown, where average house prices are in excess of \$1million⁷.
- 3.2 QLDC’s resident and visitor population projections through to 2048 are based on past trends, building consent and immigration data, and the Housing Development Capacity Assessment. These projections give a more accurate picture of the district’s future resident and visitor populations. It is recommended that these replace the data presented on p9 of the Issues Paper.
- 3.3 It is forecast that the resident population will increase by 67 percent from 2018 to 2038, while our visitor population will increase by 43 percent (based on an average day forecast). Our average day population in 2019 is predicted to be 64,631.

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%20District>, accessed 14/2/19

⁷ <https://ecoprofile.infometrics.co.nz/Queenstown-Lakes%20District/QuarterlyEconomicMonitor/HousingAffordability?baseDate=%7B%27BaseYear%27%3A%272018%27%2C+%27BaseMonth%27%3A%277D&geographicalAreaType=TerritorialAuthority> accessed 12/2/19

| | | | 2018 | 2019 | 2028 | 2038 | 2048 |
|---------------------------|------------------------|--------------|----------------|----------------|----------------|----------------|----------------|
| Queenstown Lakes District | Average day population | Residents | 39,500 | 41,400 | 56,400 | 65,900 | 74,400 |
| | | Visitors | 24,861 | 25,729 | 31,488 | 35,549 | 39,037 |
| | | Total | 64,631 | 67,129 | 87,888 | 101,449 | 113,437 |
| | Peak day population | Residents | 39,500 | 41,400 | 56,400 | 65,900 | 74,400 |
| | | Visitors | 79,301 | 81,849 | 99,747 | 113,805 | 126,374 |
| | | Total | 118,801 | 123,249 | 156,147 | 179,705 | 200,774 |

3.4 It is also important to note that the District's major role as a tourism destination, together with its rapid growth, mean that the population structure differs significantly from the national pattern. The District's population is characterised by relatively high shares in the 25 year to 44 year age cohorts, and lower than average shares in the children, young adult, mature and older age groups. Whilst the economic impact of this on our funding models has not yet been explored, it is clear that universal funding solutions cannot be assumed to perform the same way in the district as they may do elsewhere.

4.0 THE ROLE OF QLDC'S TOURISM INDUSTRY ON THE NATIONAL STAGE

- 4.1 As it has been for many years, tourism is at the heart of the district's economy. It made up 32.1% of the district's GDP in 2017⁸ 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. Almost 13% of all international visitor spend is made in Queenstown⁹ and as a district we contribute over 8% of the total tourism GDP¹⁰.
- 4.2 Over the course of a year, there are now 34 international tourists for every resident¹¹ of our district (34:1). This statistic enables us to compare easily with Auckland (1:1) and Christchurch (3:1), but becomes even more staggering when you factor in domestic tourists and consider this on a per ratepayer basis (rather than resident). QLDC has 26,000 rateable units subsidising approximately 25 – 80,000 visitors per day (depending on the time of year) and this number is growing. It is predicted that on an average day 38 percent of the people in the district are visitors; on a peak day this rises to 67 percent. This means that on an average day one in three people in the district are visitors, while on a peak day two in three people are visitors. QLDC is unique in this regard.
- 4.3 The quantum of the challenge far outweighs the ability of the existing rating model to respond. For example, from 2017-18, the number of cars travelling on our district's state highways increased by 25%¹². 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.
- 4.4 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 supply¹³. In this district, we would also add waste minimisation, lakefront reserve management, responsible camping, campgrounds, key tourism-focussed town centre master plans (Queenstown and

⁸<https://ecoprofile.infometrics.co.nz/Queenstown-Lakes%20District/Tourism/TourismGdp> accessed 12/02/19

⁹ <https://www.qldc.govt.nz/assets/Uploads/1803-Sustaining-Tourism-Growth-in-Queenstown-Final-Report.pdf> accessed 20/07/18

¹⁰ <https://ecoprofile.infometrics.co.nz/Queenstown-Lakes%20District/Tourism/TourismGdp> accessed on 12/2/19

¹¹ <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

¹² <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

¹³ <https://tia.org.nz/assets/Uploads/Tourism-Infrastructure-Project-Report.pdf> accessed 20/07/18

Wanaka) and air services capabilities as key concerns. Whilst Queenstown Airport is a well-functioning international and domestic airport, both Wanaka and Glenorchy (whilst substantially smaller) require significant future investment to support tourism-related demand.

- 4.5 The use of these facilities by tourists is significant, as are the high expectations of visitors to our town centres and key public gardens and spaces.
- 4.6 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 numbers¹⁴. They identified QLDC as a priority council where growth in visitor nights (having exceeded reasonable expectations) has outpaced local spend on tourism-related infrastructure.
- 4.7 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 road network that is fit for purpose, have become enormous and costly undertakings that have forced the Council to push significant projects beyond recommended timeframes. Ultimately, it is the community of the Queenstown Lakes District that suffers.

5.0 THE URGENT NEED FOR A LOCAL VISITOR LEVY IN THE QUEENSTOWN LAKES DISTRICT

- 5.1 The Queenstown Lakes District plays a critical role in the national economy and international tourism brand. The impact of visitors on council services and infrastructure is pronounced. The current rates model does not address the scale of the pressures placed on the district by high visitor numbers. The social, human, natural and physical capitals of the district are negatively and disproportionately affected, and unless these impacts are adequately addressed through new flexible funding models, both the visitor and the resident experience of the district are at risk of degradation.
- 5.2 The flow-on effects of a potentially eroded experience in Queenstown could (if unmanaged) significantly damage New Zealand's tourism brand and economy¹⁵. 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.
- 5.2.1 Social licence 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 visitors¹⁶. The disintegration of social licence would not be limited to our district; discontent is infectious.
- 5.2.2 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

¹⁴ <https://tia.org.nz/assets/Uploads/Tourism-Infrastructure-Executive-Summary4.pdf> accessed 20/07/18

¹⁵ <https://qldc.sharepoint.com/ReferenceDocuments/Sustaining%20Tourism%20Growth%20in%20Queenstown%20-%20Final%20Report.pdf#search=tourism%20growth> accessed 14/02/19

¹⁶ <https://tia.org.nz/assets/Uploads/Mood-of-the-Nation-Mar-18.pdf> accessed 20/07/18

the Pure NZ brand¹⁷. Furthermore, the economic loss from an eroded Queenstown experience could be significant, with international visitors who come to New Zealand primarily to visit Queenstown contributing up to \$1.1 billion to the national GDP¹⁸.

- 5.2.3 National Reputation damaged – Over 96% of visitors felt that their expectations were met by New Zealand in 2017¹⁹. However, the effect 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.
- 5.3 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, assets will be made to work harder and harder, which in turn starts to increase the risk to visitors, community and pristine landscapes.
- 5.4 In light of the above comments, QLDC submits that the Local Visitor Levy would be a way of funding the unprecedented demand on infrastructure generated by visitors.
- 5.5 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. A Local Visitor Levy is not a panacea for all districts and should be implemented only in the event of a clear and well-demonstrated case, where the local visitor industry is robust enough to absorb the additional impost. 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.
- 5.6 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 linked to overnight accommodation, which captures a percentage of room rates across formal, mobile and peer to peer accommodation service providers.
- 5.7 The Local Visitor Levy should be enduring and subject to periodic review, enabling adjustment to reflect the changing economic landscape and forecast capital needs. 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 levy from being subsumed within general revenue streams.
- 5.8 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.
- 5.9 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.
- 5.10 QLDC appreciates the ongoing opportunities to work with central government in relation to the development of a Local Visitor Levy.

¹⁷ <https://www.tourismnewzealand.com/about/what-we-do/campaign-and-activity/> accessed 20/07/18

¹⁸ <https://qldc.sharepoint.com/ReferenceDocuments/Sustaining%20Tourism%20Growth%20in%20Queenstown%20-%20Final%20Report.pdf#search=tourism%20growth> accessed 14/02/2019

¹⁹ <http://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/tourism-insight-series/visitor-expectations.pdf> accessed 20/07/18

6.0 CONCLUSION

- 6.1 To conclude, QLDC fully supports the government and the Commission in reviewing and seeking feedback on existing financing and funding models for local government. Within this submission, QLDC has provided updated statistics to the Commission, in order to demonstrate that growth projections are far more pronounced in this district than the Issues Paper suggests.
- 6.2 In broad terms, QLDC supports the submission made by LGNZ on behalf of the sector, but would like to highlight the urgent need for the provision of a Local Visitor Levy in the district.
- 6.3 Due to the high volume of visitors and the low ratings base within the district, QLDC will be unable to maintain or improve existing visitor and community 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 licence at risk, the threat of economic decline ever present and our hard-fought-for international reputation hanging in the balance.