

**BEFORE THE HEARINGS PANEL
FOR THE QUEENSTOWN LAKES PROPOSED DISTRICT PLAN**

IN THE MATTER of the Resource
Management Act 1991

AND

IN THE MATTER of the Rural Hearing
Stream 2 (Rural Zone
and Indigenous
Vegetation and
Biodiversity chapter)

**STATEMENT OF EVIDENCE OF PHILIP OSBORNE ON BEHALF OF
QUEENSTOWN LAKES DISTRICT COUNCIL**

ECONOMICS

6 APRIL 2016

 **Simpson Grierson**
Barristers & Solicitors

J G A Winchester / S J Scott
Telephone: +64-3-968 4018
Facsimile: +64-3-379 5023
Email: sarah.scott@simpsongrierson.com
PO Box 874
SOLICITORS
CHRISTCHURCH 8140

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1. INTRODUCTION

- 1.1 My name is Philip Mark Osborne. I am an Economic Consultant for the company Property Economics Ltd, based in Auckland. My qualifications include – Bachelor of Arts (History/Economics), Masters in Commerce, a Masters in Planning Practice, and have provisionally completed my doctoral thesis in developmental economics.
- 1.2 For the past ten years I have been an economic property consultant for Property Economics. Previous to this I have been a business analyst to several large firms both here and in Europe. I also taught economics at both the secondary and tertiary level.
- 1.3 I have advised, and currently advise, local authorities including Christchurch City, Napier City, North Shore City, Auckland Regional Council, Wellington City and Wellington Regional Councils, Waikato Regional Council, Manukau City, Waitakere City, and Far North Councils in relation to forward planning and resource valuation issues. I also provide consultancy services to a number of large private sector clients in regard to a wide range of property issues, including economic impact assessments, forecasting market growth, determining future land demand for the residential and business sectors, and economic cost-benefit analysis.
- 1.4 I have been involved and presented evidence in a variety of cases in Queenstown Lakes District including both the commercial and residential markets over the past 4 years.
- 1.5 I was engaged by the Queenstown Lakes District Council (**QLDC**) in March 2016 to provide evidence in relation to economic matters for the Rural Proposal of the Proposed District Plan (**PDP**), in particular the Rural Zone chapter 21 and the Indigenous Vegetation and Biodiversity Chapter 33. I have not had any prior involvement in preparation of the PDP, and this evidence is not a full quantitative or qualitative cost and benefit analysis in terms of section 32 of the RMA. That was not possible in the time available.
- 1.6 Although this is a Council hearing I confirm that I have read the Code of Conduct for Expert Witnesses contained in the Environment Court Practice Note 2014 and that I agree to comply with it. I confirm that I have considered

all the material facts that I am aware of that might alter or detract from the opinions that I express, and that this evidence is within my area of expertise, except where I state that I am relying on the evidence of another person.

1.7 The key documents I have used, or referred to, in forming my view while preparing this brief of evidence are:

- (a) Notified chapters 21, 22, 23, 33 and 34 of the Proposed District Plan (**PDP**) and related section 32 reports;
- (b) Council's s42A report for Chapter 3 Strategic Direction chapter, and the section 32 report;
- (c) Council's s42A report for Chapter 6 Landscape, and the section 32 report;
- (d) Dr Marion Read's landscape evidence for Chapter 6, Landscapes;
- (e) MBIE Regional Economic Activity Report;
- (f) Stats NZ Business Frame Data; and
- (g) MBIE Regional Tourism Operation (**RTO**) Tourism Statistics.

2. EXECUTIVE SUMMARY

2.1 The key conclusions in my evidence include:

- (a) tourism is a significant contributor to the Queenstown Lakes District's (**District**) economy;
- (b) tourism and its economic contribution relies heavily on outstanding natural landscapes;
- (c) the potential level of qualitative risk to the rural landscape based on continued, and inappropriate, tourism activities in these zones (permitted/ controlled status); and
- (d) the potential level of qualitative risk to tourism activity based on a discretionary status.

3. BACKGROUND

3.1 Queenstown Lakes District (**District**) possesses a highly valuable asset of national significance, its natural environment. While acknowledging the intrinsic national importance of this asset as both a local and national

captivator of international profile, it is the recognisable economic value that is associated with this that the following evidence is most concerned with.

- 3.2** The Council's Economic Development Strategy, 2015¹ recognises that '*The environment is revered nationally and internationally and is considered by residents as the area's single biggest asset*'.
- 3.3** As with most strategic assets the economic value associated with them is susceptible to conflicting uses. It is important that these activities are managed in a way that is consistent with the direction and objectives of the PDP and the higher order provisions of the RMA, but particularly from an economic perspective in a manner which best provides for the community's economic well-being.
- 3.4** In identifying the potential conflict between commercial tourist and recreational activities and the outstanding natural landscapes (**ONL**) and natural features (**ONF**) of the District, the PDP seeks to manage these activities in a manner that safeguards the long term value of these natural features from potentially inappropriate activities.
- 3.5** It is my understanding that while some submitters recognise, and in fact rely on the value of the ONL and ONF, they seek increased flexibility with regard to the activities that can locate on rural land as either permitted or controlled activities.
- 3.6** It is my understanding that the PDP includes a discretionary activity status for commercial tourist and recreational activities in the Rural Zone, the purpose being to both directly safeguard the ONF and ONL as well as safeguard the recognised rural activities that locate within this zone.
- 3.7** It is important to note that as the District's primary asset is its landscapes and natural environment, management and appropriate development of this resource are fundamental to the economic well-being of the Queenstown economy. This value is directly attributable through its contribution to tourism and the associated economic activity generated and sustained by it.

¹ <http://www.qldc.govt.nz/assets/Uploads/Council-Documents/Strategies-and-Publications/Queenstown-Lakes-Economic-Development-Strategy-Consultation-Document.pdf>.

3.8 It is also important to note that, from an economic viewpoint, I consider that it is appropriate to take a precautionary approach to the management of this resource as both its intrinsic value and profile are extremely difficult to retroactively repair if damage does occur.

3.9 The type of damage of concern might occur through a single inappropriate activity in a particular location, with environmental consequences which significantly or permanently affect a natural resource in way that degrades its attractiveness or special qualities. In my opinion however, bearing in mind the type of activities which might occur in the rural areas of the District², the damage of concern is more likely to occur cumulatively through establishment over time of multiple activities which impact on or change the environment and which reach a level where the collective impact is significant and reaches a tipping point.

4. ECONOMIC CONTRIBUTION OF TOURISM TO THE QUEENSTOWN ECONOMY

4.1 In 2015 over \$2b was spent, through a variety of sectors, in Queenstown by visitors to the District (this includes both the Queenstown and Wanaka RTOs. Queenstown RTO was \$1.688b in 2015 alone). This level of spend was generated by over 2.2m international and 1.1m national visitor nights to the area.³

4.2 Nationally, Queenstown visitor spend accounts for nearly 10% of total visitor spend, while international visitor nights make up 16% of the national figure. This not only indicates the high proportional value of Queenstown to the national visitor profile, but also the significant contribution to the inflow of international visitor income.

4.3 Based on these figures the tourism industry contributes over \$650m per annum to the District's economy and supports nearly 40% of the employment accommodated within its boundaries. **Table 1** below indicates the large shift within the local economy towards visitor related activities. It shows the high ratio for Accommodation and Food Services as well as Recreational Services. The proportional representation of these services in the District's economy are 3 to 4 times greater than the national composition, and suggest an additional

² Tourism and associated commercial activities are mentioned in submissions, as are other activities such as mining and forms of industrial activity.

³ <http://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/regional-tourism-indicators>.

5,500 employment counts (**ECs**), associated with these sectors alone, in the District's economy, due to visitors.

4.4 Additionally, the District's high visitor profile operates as a gateway to the wider Otago region supporting greater levels of visitor spend and economic contribution to the Region. Tourism contributes 25% of regional GDP operating as a developer of higher levels of amenity for the local population and driving growth in most other commercial sectors.

4.5 Indirectly, visitors to Queenstown will support additional employment due to the residence and spending of employees directly related to the tourism industry. This makes tourism the single biggest contributor to the Queenstown Lakes economy. As such the competitive advantage generated by the natural landscape is critical to safeguard, maintaining the District's economic well-being.

Table 1: 2016 Queenstown Employment (National) Ratios

Industry Classification	Employment	Ratio
A Agriculture, Forestry and Fishing	500	0.44
B Mining	15	0.27
C Manufacturing	570	0.27
D Electricity, Gas, Water and Waste Services	60	0.41
E Construction	1880	1.37
F Wholesale Trade	340	0.32
G Retail Trade	2440	1.25
H Accommodation and Food Services	5920	4.20
I Transport, Postal and Warehousing	830	0.98
J Information Media and Telecommunications	230	0.64
K Financial and Insurance Services	290	0.52
L Rental, Hiring and Real Estate Services	660	2.26
M Professional, Scientific and Technical Services	1060	0.67
N Administrative and Support Services	1380	1.39
O Public Administration and Safety	400	0.35
P Education and Training	860	0.51
Q Health Care and Social Assistance	530	0.25
R Arts and Recreation Services	1370	3.68
S Other Services	570	0.87

4.6 It is important to note that the value that tourism contributes to the District and the national economy illustrates significant levels of vulnerability. As with any service driven industry, profile and reputation is extremely important in its success and takes many years to cultivate and grow. With the increasing

accessibility to international markets, competition continues to grow and with it the fickle nature of the market. It is therefore crucial to this aspect of the Queenstown economy that the profile generated by the ONL and ONF is seen to be protected both in perception and reality.

5. ECONOMIC CONTRIBUTION AND OTHER BENEFITS (E.G. MANAGEMENT OF LANDSCAPE) OF THE RURAL SECTOR IN THE DISTRICT

5.1 While both Queenstown's tourist profile and the associated income generated through these activities are based on the District's natural environment and landscapes, the primary activities that have historically established here have a fundamental role and function that is important not only to the development of primary production in the District, but also to the management of the natural environment and landscapes.

5.2 While rural activities between areas in the District differ markedly, from primary farming to viticulture in the acclaimed Gibbston Valley, they typically meet several functions in terms of the District's economy. I accept that a number of rural activities may not of themselves make a significant contribution in real terms of the District's economy, but in my opinion they have significant value beyond that in the way that they protect or maintain the natural environment and landscapes that in turn sustain the District's economy.

5.3 The role of rural activity includes:

- (a) Contribution: the economic production of the rural sector as well as the diversity it provides from other contributions;
- (b) Safeguarding: its role in providing primary activities that give direct productive value to the land and therefore the natural environment, potentially redirecting less appropriate activities; and
- (c) Management: its role in maintaining and protecting the natural environment's form and quality.

- 5.4** In 2015, agriculture contributed 500 ECs to the District's economy and generated approximately \$50m in terms of GDP.⁴ While this sector continues to struggle in terms of growth and viability it remains not only a productive part of the economy but a critical component of the District's natural environment and landscapes.
- 5.5** As a productive activity within the rural zone, agriculture establishes direct economic value for the rural land market. As such this value acts to limit the likely proliferation of inappropriate activities and their impacts upon the natural environment.
- 5.6** Without productive value (or public ownership), property owners and the market in general often struggle with continual pressures from inappropriate (those that would degrade the rural landscape) activities that offer some levels of productive value. This is inherently the issue where private value for land use and the overall impact of private value are so markedly different. Essentially the aggregated value of the Rural Zone for the District far exceeds the private productivity value achieved at an individual level. The discrepancy between these two values leads to the very strong likelihood of inappropriate market decisions that essentially seek to raise the individual value at the expense of the total community values.
- 5.7** In the case of the District's environment, this differential is already significant and puts pressure on the market to increase the individual productive value without regard for the impact on the economy as a whole. The differential between these two values is ultimately reduced by productive activities such as farming and other appropriate rurally-located activities. Any potential impact on the viability of these activities within this market is likely to result in an increased disparity between these values, and consequently result in a direct impact on this market safeguard.
- 5.8** The appropriate nature of the historic activities in the Rural Zone is innately based on the ability for these activities to manage the natural landscape. Sections 5.4.1 to 5.4.4 of the RPS outlines the requirement to protect these features with the Council s42A report finding "*These objectives and policies highlight the importance of the rural resource both in terms of the productive*

⁴ Statistic New Zealand Business Frame Data 2015.

resources of the rural area and the protection of the District's outstanding natural features and landscapes" (Chapter 6 page 4).

5.9 Agricultural land use is an important tool in the management of the natural landscape as its productive form is generally both in keeping with the landscape, and in fact forms an integral component of it. As Dr Read states in her Evidence for the Strategic hearing, "*Agricultural land uses create the character of the landscape*" (at paragraph 6.7).

5.10 This management value is inherently linked to the safeguarding of the natural landscape as an economic resource. As outlined above, the community economic value of this asset in many cases would warrant public ownership to safeguard and manage the resource to maximise the community value. Such ownership often occurs in terms of waterways, transportation and specific natural features. This is due to the fact that the public benefit from these assets would exceed the market's "realised value" and as such the asset would be inappropriately utilised. In the case of the District's natural landscape, this form of public ownership and management is fiscally untenable. Appropriate agricultural activities not only meet the need for safeguarding but also manage the natural asset in a way that allows for a productive use, while still enhancing the value of the resource.

5.11 While identifying the role that farming has to play in the management and protection of the natural landscape it is important to note that these are not the only activities that the PDP considers potentially appropriate. The recommended revised Objective 21.2.9 of the PDP states 'A range of activities are undertaken on the basis they do not degrade landscape values, rural amenity, or impinge on farming and established activities'.

6. HISTORICAL AND EXPECTED LEVEL OF GROWTH IN BOTH TOURISM AND RURAL TOURISM IN THE DISTRICT

6.1 The tourism sector in both Queenstown and Wanaka has experienced significant growth over the past 12 years. With growth rates in Queenstown RTO of 6.3% per annum (the highest in the country) and Wanaka RTO of 2.8% per annum⁵ the District has seen the highest level of growth nationally, outstripping the national growth rate of 2% significantly.

⁵ <http://www.centralotagonz.com/PicsHotel/CentralOtagoRTO/Brochure/BERL%20Otago%20Economic>

- 6.2** More recently visitor spend in Queenstown Lakes increased over 40% from \$1.4b in 2009, achieving over \$2b per annum currently. Over the same period nationally visitor spending increased less than 15% to 22.4b.⁶ This has meant Queenstown Lakes contribution to national visitor spend has increased proportionally by over 25%.
- 6.3** Both the international and national profile of Queenstown Lakes District has increased markedly over the past 12 years and has even shown significant growth in the last year. International visitor spend was up 20% at the end of 2015 and national visitor spend is 11% greater in Queenstown alone. As a proportion of total visitor spend, international tourist numbers and spend continue to grow with this source of spending capturing 70% of the market in 2015.
- 6.4** This growth is expected to continue to grow and outpace national growth rates, with District growth rates predicted to exceed 6% per annum to 2031. This growth rate would result in the tourism industry increasing its proportional contribution to the District's economy. As outlined above however, this growth, and indeed the level of contribution currently experienced, is fundamentally bound to the District's competitive advantage, being the quality of its natural environment.
- 6.5** The level of activity generated by tourism in rural areas is difficult to accurately assess. Typically measures would include employment or production for this sector in the rural zones, however the geospatial distribution of this activity is not accurately reflected in these numbers due to the recording of employment at business 'office locations' rather than at the location of the activity itself.
- 6.6** However, there are clear indications that this activity is occurring within the rural zones due to the issuing of nearly 600 commercial/tourism resource consents in rural areas over the last 10 years. Over this time there have been a number of consents that have been declined due to their impact on the natural landscape including issues such as noise and visual impairment.

⁶ %20Overview%202013.pdf.

<http://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data>.

7. QUALITATIVE RISK

- 7.1** Economically there are two issues to be considered in terms of the positions represented by the Council and submitters. Firstly, it is important to understand that there are inherently economic costs and risks associated with intervention into a market. These costs and risks are represented by the direct costs of applying for a consent and indirectly by the potential impact on the economic contribution of the affected activity to the District's economy.
- 7.2** Secondly, it is very important to understand the potential economic risk to the community for the establishment of inappropriate activities within the rural zone that have the potential to impact upon its economic contribution, which needs to be seen against the ability of agricultural activities to safeguard and manage the natural landscape.
- 7.3** As outlined above, growth in tourism and tourism-related activities has continued to grow in the District not only at a substantial rate, but at a rate significantly greater than that experienced nationally. The recognition in the Operative District Plan of these activities as being fully discretionary does not appear to have impinged upon the industry's ability to achieve these levels of growth.
- 7.4** At a practical level, anecdotal Council information would suggest that few consents are ultimately declined as Council works with the applicant to provide a consent to a standard that avoids impacts to the natural environment where possible. While this process is often iterative, it provides the Council with the opportunity to facilitate commercial/tourism activities in rural zones that avoid these impacts.
- 7.5** While this process inevitably results in some degree of cost to applicants both in terms of Council fees and time, it ultimately safeguards the value associated with the remaining activities that locate in and rely on the natural landscape to create their patronage.
- 7.6** Given the unique environment enabled in the District, it is unlikely that continuing to identify these activities as discretionary will result in the loss of tourist activities to other communities. Additionally, the Council's facilitation of

appropriate activities within this zone is unlikely to result in the loss of any potential appropriate tourism activities.

- 7.7** The identification of these tourism activities within the PDP as discretionary is based on the potential risk that inappropriate activities pose to the natural landscape and by association the economic value of tourism to the District.
- 7.8** This potential for this risk to occur with a permitted or controlled status (as sought by various submitters) for these activities is evident in the current process employed by Council, where consent applications are often processed through an iterative structure, resulting in alteration of aspects of the consent that are likely to have negative impacts on the natural environment or landscapes. Without this process facilitated under a discretionary status, the risk is that individual economic decisions could significantly impact upon the community's value associated with this asset. Given the volatile and highly competitive nature of the national and especially international tourism market, any impact (or indeed perceived impact) on the natural landscape in Queenstown could have significant and far reaching impacts upon the community's economic well-being.
- 7.9** As stated previously this potential risk is dynamic with the economic costs of inappropriate activities potentially impacting on the future potential for this industry for some time.
- 7.10** In addition to the potential direct impacts of commercial/tourism activities in rural zone on the natural landscape there exists the potential for market related impacts on the viability of farming as an existing activity. As other, potentially more profitable, activities are allowed to compete in an unrestrained fashion with activities that require this land source to be productive the market response is likely to impact on the price of that land. As these other activities compete with farming the result is likely to be an increase in land prices further reducing the viable operation of farming activities through the District.

8. CONCLUSION

- 8.1** Recognition and management of Queenstown Lakes natural landscape in the PDP is pivotal to economic well-being of the District's community. This plays an almost overwhelm role in the functioning, income and production of the local economy.
- 8.2** With such a prominent role and profile for national tourism the need to safeguard the competitive advantage Queenstown exhibits is crucial to both Queenstown and New Zealand's ability to attract international visitors.
- 8.3** The role of Queenstown is expected to continue to grow over the next 15 years with annual growth in excess of 6% increasing the District's contribution to national tourism spend.
- 8.4** The competitive advantage exhibited by the Queenstown market is based on its outstanding natural landscape and to a less degree the agglomeration of visitor related activities. This natural asset contributes hundreds of millions of dollars to the District's GDP every year. The relative value of this nationally significant asset cannot be underestimated in terms of its value to the local community. It is fundamental, therefore, that the relative value associated with it is safeguarded from inappropriate and conflicting activities.
- 8.5** The continued identification of tourist and recreational activities as discretionary in the rural zone has the potential to increase the costs of these activities (in terms of application and processing fees) and also reduce the certainty for these activities seeking to locate in this zone. The potential economic costs associated with this status however are likely relatively minimal however, as Queenstown represents a unique opportunity for these activities. The risk associated with businesses either not expanding (assuming at this point that it is a successful and appropriate business) or not locating in Queenstown at all are considered relatively small.
- 8.6** Conversely the potential risk to both the current and future value of the natural landscape to tourism is substantial. The development of inappropriate activities within these valuable zones not only impacts on the viability of farming but also have the potential (by their nature of being inappropriate) to

irreparably damage the value of the natural landscape and the associated \$2b per annum it generates in tourism spend.

- 8.7** It is my economic opinion that the value of this natural landscape is of such vital economic importance to the District's community that it is prudent to adopt a precautionary approach and manage the development of other activities in the Rural and Gibbston Character zones.



Philip Osborne

6 April 2016