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QUEENSTOWN LAKES DISTRICT COUNCIL

www.qldc.govt.nz

21st August 2019
Via www.productivity.govt.nz

Dear Sir / Madam,

RE: SUBMISSION - LOCAL GOVERNMENT FUNDING AND FINANCING DRAFT REPORT

Thank you for enabling the Queenstown Lakes District Council (QLDC) to present a submission in response to the Productivity Commission's Draft Report 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.

Earlier this year, QLDC held a referendum on the introduction of a Local Visitor Levy. We received an exceptional turnout of 42%, with 81.17% of voters supporting a Local Visitor Levy.

Our community is keenly aware that 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) and the Society of Local Government Managers (SOLGM) across all questions within its separate submissions 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.

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 12th September 2019.

Yours faithfully,

Mike Theelen
Chief Executive, QLDC

1.0 EXECUTIVE SUMMARY

1.1 Queenstown Lakes District Council (QLDC) welcomes the opportunity to consider the Productivity Commission's draft report.

1.2 QLDC represents the country's fastest growing district[1]. The focus of this submission is on ensuring that the Commission understands the factors and issues that this status entails.

1.3 QLDC broadly agrees with the positions taken by LGNZ and SOLGM within their submission across all questions raised, but would like to emphasise the need for a Local Visitor Levy more emphatically.

1.4 <u>QLDC unequivocally supports the recommendation for the introduction of a Local Visitor Levy (recommendation 6.7)</u>.

1.5 In June 2019, QLDC conducted a referendum within the district to ascertain levels of support for a Local Visitor Levy. With an exceptional turnout of 42%, over 81% of voters were in favour. In addition to significant previous research of the matter, QLDC is confident that the introduction of a Local Visitor Levy is essential to the district if degradation is to be avoided. It should be noted however, that if an alternative, broadly-based return of community-generated income were to be proposed (such as GST-sharing), QLDC would be supportive.

1.6 The result of the referendum, accompanied by significant research leads QLDC to believe that a Local Visitor Levy is the optimum solution for the challenges and pressures presented to the district. QLDC's submission to the Commission's Issues Paper in February 2019 explored this matter extensively and is attached at Appendix 1.

1.7 QLDC continues to work with central government to progress potential solutions and has fully demonstrated the impact of tourism on both its fiscal position and the wellbeing of its communities. As such, QLDC remains convinced that a Local Visitor Levy is the most equitable and fair approach to raise income.

1.8 The focus of this submission is to provide additional context to the Commission, from the perspective of a high-growth council with a mature visitor economy. It is structured to explore these issues as follows:

1.8.1 Strongly supported matters
- Local Visitor Levy (recommendation 6.7)
- Rating of vacant land (still under review by the Commission)
- New building work payments (recommendation 6.4)

1.8.2 Tentatively supported matters
- Value capture mechanisms (finding 6.7)
- Climate change adaptation approach (recommendations 8.1 – 8.6)

[1] Statistics NZ accessed February 2019

1.8.3 Unsupported matters

- Removal of the rates differential and the Uniform Annual General Charge (UAGC) (recommendation 7.1)
- Introduction of a backstop arrangement for Three Waters (finding 9.4)
- Introduction of a standardised template for Development Contributions (DC) Policies (recommendation 6.1)

1.9 QLDC would like to acknowledge the pace and professionalism with which the Commission are addressing two inaccuracies within the Draft Report, relating to perceived deficiencies in QLDC's DC Policy and approach to debt levels. QLDC has provided contextual information to reassure the Commission that these perceptions are unfounded. At the point of placing this submission, it is understood that both references are being removed from the Final Report.

2.0 INTRODUCTION

2.1 QLDC welcomes the opportunity to consider the Productivity Commission's draft report. QLDC agrees with the primary finding that rating land and property should continue as the main tax revenue source for local government[2], but without limiting opportunity for innovation, development and iterative change.

2.2 QLDC represents the country's fastest growing district[3]. The focus of this submission is on ensuring that the Commission understands the factors and issues that this status entails.

2.3 QLDC broadly agrees with the positions taken by LGNZ and SOLGM within their submission across all questions raised, but would like to emphasise the need for a Local Visitor Levy more emphatically.

2.4 In June 2019, QLDC conducted a referendum within the district to ascertain levels of support for a Local Visitor Levy. With an exceptional turnout of 42%, over 81% of voters were in favour. In addition to significant previous research of the matter, QLDC is confident that the introduction of a Local Visitor Levy is essential to the district if degradation is to be avoided.

2.5 QLDC has pursued a local visitor levy in the absence of support for a more broadly-based return of community-generated income, such as GST sharing. If such a scheme were to be proposed and delivered providing a secure income stream, QLDC would be highly supportive.

2.6 It should be noted, that if a GST-sharing solution or other broadly-based return of community-generated income were to be proposed, QLDC would also consider this to be a favourable solution.

2.7 This is a position that is consistent with QLDC's previous submissions to the Commission's Issues Paper (February 2019), MBIE's International Visitor and Conservation Tourism Levy (July 2018) and a recent submission to MBIE's Tourism Strategy.

[2] Productivity Commission, Local Government Funding and Financing – Draft Report, July 2019 p152
[3] Statistics NZ accessed February 2019

2.8 This submission will outline QLDC's position in relation to the following:

- 2.8.1 Strongly Supported Matters
- 2.8.2 Tentatively Supported Matters
- 2.8.3 Unsupported Matters

3.0 STRONGLY SUPPORTED MATTERS

3.1 QLDC is strongly supportive of matters that relate to the specific challenges of funding tourism growth in an environment that is critical to the national tourism economy. This tourism growth has been complemented by extensive residential growth, which (moving at pace) is having a significant effect on the district's social, environmental, cultural and economic wellbeing.

3.2 QLDC acknowledges the efforts made by the Commission to engage with its officers in understanding the scale of the current challenge and its impact on community wellbeing. QLDC appreciates the robustness of the Commission's process in this regard and the steps undertaken to make the recommendation for legislation that enables the introduction of a Local Visitor Levy.

3.3 The submission made to the Commission's Issues Paper is attached at Appendix 1 and explores the following in more detail:

- 3.3.1 QLDC's unique challenge – existing funding mechanisms are inadequate to meet the conflagration of both visitor and residential growth in the district. The quantum of the challenge far outweighs the ability of the existing rating model to respond.
- 3.3.2 QLDC's latest population projections – visitor and resident numbers are expected to nearly double in the next 30 years.
- 3.3.3 The importance of QLDC's tourism industry on the national stage - almost 13% of all international visitor spend is made in Queenstown[4] and as a district we contribute over 8% of the total tourism GDP[5].
- 3.3.4 The urgent need for a local visitor levy in the district - both the visitor and the resident experience of the district are at risk of degradation, with the potential for tourism's social licence to operate being withdrawn and New Zealand's national reputation being damaged.

3.4 QLDC is strongly supportive of recommendation 6.7, enabling councils to implement a Local Visitor Levy when appropriate.

3.5 QLDC continues to work with central government to progress potential solutions and has fully demonstrated the impact of tourism on both its fiscal position and the wellbeing of its communities. As such, QLDC remains convinced that a Local Visitor Levy is the most equitable and fair approach to raise income. Current models of contestable funding (i.e. Tourism Infrastructure Fund) offer time-

[4] https://www.qldc.govt.nz/assets/Uploads/1803-Sustaining-Tourism-Growth-in-Queenstown-Final-Report.pdf accessed 20/07/18
[5] https://ecoprofile.infometrics.co.nz/Queenstown-Lakes%20District/Tourism/TourismGdp accessed on 12/2/19

consuming and insecure income streams, which curtail the ability to plan and invest strategically, effectively and efficiently.

3.6 Whilst QLDC strongly supports the introduction of a Local Visitor Levy, it acknowledges and recommends that clear guidelines will be required to define when and where such a levy would be effective. A Local Visitor Levy will only be sustainable in mature destinations, with established tourism systems and economies.

3.7 QLDC also supports the opportunity for councils to rate vacant land and to receive payments from central government, based levels of new building work put in place (recommendation 6.4). Combined, these mechanisms would theoretically incentivise faster progress of land to the market, whilst providing a fund to ameliorate the associated growing pains.

3.8 The rating of vacant land has been considered within the district previously, but was abandoned due to the significant legal challengers that were threatened from landowners and developers. However, the rating of vacant land has the potential to incentivise faster progress of land to the market, providing greater supply and potentially cooling the market. Housing affordability is a major issue and is particularly pronounced in Queenstown, where average house prices are in excess of $1million[6].

3.9 QLDC supports the commission's insights in relation to unfunded mandates and the cumulative pressures placed on local government by central government policy and initiatives. A more effective partnership relationship between central and local government will help improve understanding and delivery, but ultimately, the financial impact upon local government needs to be given far greater consideration when creating policy ex ante. Better monitoring and evaluation of such initiatives would tighten the feedback loops for all concerned.

4.0 TENTATIVELY SUPPORTED MATTERS

4.1 QLDC tentatively supports the concept of a value capture mechanism (finding 6.7), but recommends that considerable further research is required to understand the practicality and popularity of such a model. QLDC urges that extreme caution is taken, to ensure that local government isn't misaligned with national policy and becomes vulnerable to accusations of introducing 'capital gains tax by the back door'.

4.2 In relation to the climate change adaptation recommendations (8.1 – 8.6), QLDC supports the intent and appetite to make rapid progress in this space. QLDC notes the following points:

4.2.1 The recommendation for centrally-provided science and data (recommendation 8.1) is strongly supported, as it is a costly and complex exercise for councils to undertake. However, our own recently-commissioned report demonstrates the level of variance that

[6] https://ecoprofile.infometrics.co.nz/Queenstown-Lakes%20District/QuarterlyEconomicMonitor/HousingAffordability?baseDate=%7B%27BaseYear%27%3A%272018%27%2C+%27BaseMonth%27%3A6%7D&geographicalAreaType=TerritorialAuthority accessed 12/2/19

can exist within a single district. Any centrally-provided information would need to be suitably granular to enable effective decision-making at a very detailed, local level.

4.2.2 It's unclear as to why the data source for advice on science and data should be separated from the centre of knowledge for policy, planning, risk, legal issues and engagement in recommendation 8.1. In totality, these elements represent an effective approach to evidence-based policy implementation.

4.2.3 To separate the entities risks developing unnecessary silos and bureaucracies, in the context of a subject area that already has to navigate the split between regional and district council responsibilities.

4.2.4 For the reasons outlined above, the Climate Change Resilience Agency (recommendation 8.6) should also not sit separately, but as part of a single entity with the functions outlined in 8.1. QLDC does not support the suggestion that the agency could be devolved within regional councils, as not all councils are able to deliver effective services with satisfactory even-handedness across their geographies.

4.2.5 QLDC supports the funding role of the Climate Change Resilience Agency, but encourages further consideration of the model suggested. The proposed model is broadly based on climate change risk levels and ratings base numbers. For QLDC, it's essential that economic risk and tourism pressures should also be included.

4.2.6 QLDC supports legislative reform to ensure the integration of climate change adaptation (recommendation 8.2), especially with regard to the concept of 'moral hazard'[7]. In a high growth, high development area with significant natural hazards, the lens of moral hazard could become a useful decision-making tool.

4.2.7 The report recommends the extension of the New Zealand Transport Agency in co-funding local roads that are vulnerable to climate change considerations. Whilst this approach has theoretical merit, QLDC recommends that further significant research is undertaken before this can be progressed further. Establishing consensus around priorities between NZTA, the council, national economic interests (in our case tourism) the regional authority and the local community could be extremely challenging.

5.0 UNSUPPORTED MATTERS

5.1 Whilst an extremely small proportion of QLDC's rates revenue is derived from the general rate (largely undifferentiated) and the Uniform Annual General Charge (UAGC), both are recognised as genuinely useful, enabling tools within the Rates Policy, which QLDC uses across a range of circumstances. QLDC seeks to make effective, efficient use of the rating powers currently available to the benefit of community wellbeing and would be reluctant to limit the prudent and appropriate use of these. As

[7] [7] Productivity Commission, Local Government Funding and Financing – Draft Report, July 2019 p224

such, QLDC would prefer to retain the provisions within the Ratings Act and does not support recommendation 7.1 of the report.

5.2 QLDC agrees that further review and analysis of the three waters system in New Zealand is important, but is not convinced that the backstop option would be effective (finding 9.4). Compelling under-performing councils to create a Council Controlled Organisation (CCO) instead will not in and of itself identify and address systemic issues and problems. QLDC recommends that further research, reflecting on international experiences could be valuable in developing this concept further.

5.3 QLDC does not support recommendation 6.1, suggesting the requirement for a standardised template for Development Contributions (DC) Policy. The rigidity of such an approach would fail to acknowledge local specificity and would not achieve the purpose with which the recommendation is intended. QLDC recommends that further sector guidance is provided in the development of effective DC Policies instead.

5.4 QLDC supports the submission of the Development Contributions Working Group (DCWG) in relation to this matter and agrees with its four principal concerns:

5.4.1 That standardisation of DC Policies by template is not an efficient or effective way to achieve the desired benefits such as ease of use and transparency for developers.

5.4.2 Due to the uniqueness and variation between territorial authorities the costs and likely new problems created through standardisation outweigh the benefits.

5.4.3 That use of the standardised templates would be mandated, and this inherent rigidity would not be able take account of the rich variation across territorial authorities in their district plans, typology, degree of urbanisation, the nature of development and business, and levels of experienced growth.

5.4.4 That the breadth and freedom of Elected Member decision making in relation to DCs and therefore infrastructure delivery, and their ability to deliver on community preferences, may be constrained.

6.0 CORRECTIONS

6.1 During the submission process, QLDC has highlighted a number of inaccuracies in the Draft Report to the Commission, relating to perceived deficiencies in QLDC's DC Policy and its approach to debt levels. The Commission has engaged with QLDC to address these matters and at the point of placing this submission, is understood to have subsequently reviewed its position when provided with additional contextual information and data. QLDC would like to acknowledge the pace and professionalism with which these corrections are being addressed.

7.0 CONCLUSION

7.1 QLDC is unswerving in its support for the provision of legislation to enable a Local Visitor Levy (recommendation 6.8). Due to the high volume of visitors and the low ratings base within the district, QLDC will be unable to maintain or improve the visitor experience and community wellbeing without one. Without a local visitor levy, an inevitable era of national and local uncertainty will be heralded. The tourism's social licence will be at risk, the threat of economic decline ever-present and New Zealand's hard-fought for international reputation will hang in the balance.

7.2 QLDC also strongly supports further consideration of mechanisms to mitigate growth-related challenges. The tax on vacant land could encourage a greater supply of land to the market, which in turn could improve housing affordability. This could be effectively partnered with a central government contribution based on new building work (recommendation 6.4), thereby enabling proactive funding of initiatives and infrastructure to support growth.

7.3 QLDC tentatively supports the provision of a value capture mechanism (finding 6.7) and initiatives for climate change adaptation (recommendations 8.1 – 8.6). However, significant further research is required to ensure these can be delivered effectively.

7.4 QLDC does not support recommendation 7.1 in its intention to remove the rates differential and the UAGC from the Ratings Act, as these remain useful tools in the Council's Rating Policy. Furthermore, finding 9.4's recommendation that a backstop CCO could remedy a Council's under-performance in the three waters space is not compelling. QLDC does not support the need for a standardised template DC Policy (recommendation 6.1) as such rigidity will fail to allow for specific local circumstance and sentiment.

7.5 QLDC congratulates the Commission on provision of a detailed, wide-ranging and thought-provoking draft report. It is expected that the corrections outlined have been addressed comprehensively.