**Submission to**

**Southland District Council on**

**Draft Stewart Island/Rakiura Visitor Levy Policy and Bylaw**

Date: 9 November 2018

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Tourism Industry Aotearoa (TIA) welcomes the opportunity to comment on Southland District Council's Statement of Proposal in regards to the Draft Stewart Island/Rakiura Visitor Levy Policy and Bylaw. This submission represents the views of Tourism Industry Aotearoa as a collective whole and may not necessarily represent the views of individual members.

This submission is filed without prejudice to TIA's future position. Our ability to prepare a comprehensive submission responding to the consultation document relied on the provision by Southland District Council of information relevant to the connection between the consultation document and the benefits that would accrue. If any information is provided at a later date, TIA reserve the right to comment further.

## EXECUTIVE SUMMARY

1. TIA opposes the proposal to increase the levy until destination and infrastructure plans supporting investment have been completed. Venture Southland have commenced work on the Southland Murihiku Destination Strategy for 2018-28. Until such time that there is evidence from a properly formed infrastructure plan and destination strategy, a 300% increase in the levy from $5.00 to $15.00 cannot be justified.

2. Local visitor levies must be appropriately designed, have community support and be used for initiatives that benefit the visitor economy. The Stewart Island community did not ask for the proposed increase from $5 to $15 and is widely reported to be opposed to the increase. The Southland District Council is seeking to impose something on a community that does not want it.

3. Serious consideration needs to be given to the negative impacts of any levy increase on visitor demand.

4. The issue of visitors directly funding local government infrastructure requirements via regional levies and taxes is a cause of significant debate within industry and government. The Stewart Island/Rakiura Visitor Levy is unique within local government funding mechanisms in New Zealand. It therefore acts as an indicator of how any other regional levies might be used by Councils. A poorly managed approach, with sudden and significant change not supported by solid insight or strategy, suggests to communities and business that allowing Councils to impose levies carries with it considerable risk.

5. Our understanding is that a proportion of the increased funds could be used to upgrade and improve wharves in the region. These wharves are not used solely by the visitor sector. Other users include salmon farm operators, commercial boating, and private boaties and in our view should contribute to investment costs.

6. Cruise ships visiting Stewart Island/Rakiura pay the $5.00 levy per passenger irrespective of whether those passengers disembark or not. It is highly unlikely the cruise sector would support continuation of this practice at a higher rate.

7. There are increasingly more and higher levies and rates being applied to visitors at both a central government level (e.g. border clearance levy, electronic travel authority, international visitor levy) and local government – commercial and targeted rate increases, impacting on the funds they have available for commercial activities.

8. Domestic travellers comprise the majority of visitor mix for one of the Approved Operators. New Zealanders are very price conscious when travelling domestically and there is a risk that the increased pricing may turn New Zealanders off from visiting the island.

## INTRODUCTION

9. Tourism Industry Aotearoa (TIA) is the peak body for the tourism industry in New Zealand. With around 1,600 members, TIA represents a range of tourism-related activities including hospitality, accommodation, adventure and other activities, attractions and retail, airports and airlines, transport, as well as related tourism services.

10. The primary role of TIA is to be the voice of the tourism industry. This includes working for members on advocacy, policy, communication, events, membership and business capability. The team is based in Wellington and is led by Chief Executive, Chris Roberts.

11. Any enquiries relating to this paper should in the first instance be referred to Steve Hanrahan, TIA Advocacy Manager, at steve.hanrahan@tia.org.nz or by phone on 027 9122 624.

## COMMENT

### Tourism 2025

12. Tourism 2025, an industry-led, government supported economic growth framework was launched in New Zealand in 2014 and has set an aspirational goal of reaching $41 billion in annual tourism revenues by 2025. The industry's focus is on growing value faster than volume.

13. The Tourism 2025 Growth Framework is based around five key themes of Insight, Connectivity, Productivity, Visitor Experience and Target for Value. This growth framework has been reviewed (Tourism 2025 - Two Years On) in 2016. While the five themes of the framework remain unchanged, the emphasis in some focus areas has shifted. This year, TIA is working on a Tourism 2025 reset that includes: integrating

sustainable tourism, in particular the Tourism Sustainability Commitment; articulating a longer-term view of tourism in alignment with central government; and identifying new priority actions to be addressed over the next 1-3 years.

Stakeholder Engagement

14. During the development of this submission we have engaged with various TIA members and stakeholders including Real Journeys, the New Zealand Cruise Association and Stewart Island Flights. We acknowledge their input and support.

Our understanding of the issue

15. The Southland District Council (Stewart Island/Rakiura Visitor Levy) Empowering Act came into effect in 2012, enabling Southland District Council (SDC) to charge visitors a levy for travelling to and from Stewart Island/Rakiura.

16. At the time of introduction the levy was set at $5.00 (including GST). It has not been reviewed since.

17. $710,659[1] of funding has been allocated to projects from levy funding over the last six years. Our understanding is that the levy currently generates approximately $200,000 p.a. Funding was allocated to projects to the value of $183,000 for the year to June 2017.

18. SDC are proposing to increase the levy from $5.00 to $15.00 (including GST), effective from 1 October 2020.

19. The primary driver for the levy review appears to be to address local infrastructure needs. The review also aims to alter the way funds can be allocated, widening the eligibility scope. The draft policy states that applications will be divided into three categories – infrastructure, operational costs, and community projects.

20. The draft policy also provides that commitments can be given to multi-year funding to allow applicants to plan and/or use allocations to service loans such as those drawn to cover capital work projects.

**TIA opposes the proposal to increase the levy without a plan for how it will be implemented, or what specific infrastructure goals the levy will fund.**

21. The SDC Statement of Proposal notes the strains being placed on the environment and local infrastructure by increased visitor numbers. Industry stakeholders we have spoken to have reinforced this, noting that the island has aging infrastructure though a historical lack of under-investment, plus does not have sufficient infrastructure to support growth.

22. Venture Southland have commenced the development of a tourism/visitor strategy for the entire district, referred to as the Southland Murihiku Destination Strategy for 2018-

[1] SDC Statement of Proposal September 2018 - Draft Stewart Island/Rakiura Visitor Levy Policy and Bylaw

28. Work on the strategy development was due to start by the end of October 2018. The strategy was identified as a priority in the 2015 Southland Regional Development Strategy Action Plan and is being funded by MBIE and Venture Southland. Our understanding is this destination strategy will include the Stewart Island/Rakiura area, and it would be reasonable to expect that the strategy will identify priority areas for investment.

23. We are concerned about the current lack of insight and future strategy to justify the proposed increase. A 300% increase in levy from $5.00 to $15.00 appears unjustified until more evidence of the actual investment costs and destination strategy is completed. Therefore until this research and insight is finished, including a more in-depth analysis of infrastructure needs we propose the levy is maintained at the current rate of $5.00.

**The Community does not support the change**

24. TIA supported the Stewart Island Levy when it was first introduced. TIA's long-held policy position has been that it does not oppose local visitor levies if they are appropriately designed, have community support and are used for initiatives that benefit the visitor economy.

25. Community support is the crucial element of this position. The $5 Stewart Island Levy has had the strong support of Stewart Islanders and been accepted by tourism operators and visitors.

26. The media has consistently reported that Stewart Islanders do not support the increase from $5 to $15. The SDC is seeking to impose something that the community on the island has not asked for and does not want.

**Serious consideration needs to be given to the negative impacts of any levy increase.**

27. The issue of visitors directly funding local government infrastructure requirements via regional levies and taxes is a cause of significant debate within industry and government. TIA undertook a funding survey of its members earlier this year to gather their views on preferred funding models for local mixed-use (visitor and locals) infrastructure such as toilets, parks, reserves and such. The preferred funding model (80% member support) is via a share of the approximately $3.3bn GST that international visitors currently pay p.a. There is little support in the membership for regional visitor taxes including regional visitor levies and bed taxes.

28. TIA has also supported the introduction of the government's $80m International Visitor Levy, to be introduced in the second half of 2019. Government have indicated up to 50% ($40m) of this fund will be allocated to tourism infrastructure.

29. While local government has a range of funding options available to it such as residential, commercial and targeted rates the Stewart Island/Rakiura Visitor Levy is unique within local government funding mechanisms in NZ. Because of its uniqueness the Levy also acts to a certain extent as a barometer on how regional levies might be managed by councils. Therefore a poorly managed approach such as significant increases in the regional levy without solid insight or strategy to support it could make this process an exemplar of the risk of regional visitor levies.

30. Our understanding is that a proportion of the increased funds will be used to upgrade and improve wharves in the region. These wharves are not used solely by the visitor sector, with other users including salmon farm operators, commercial boating, and private boaties. Therefore in our view the investment in infrastructure improvement in this instance should also include contributions from other sources other than just the visitor levy, recognising the mixed-use component.

31. We are advised that cruise ships visiting Stewart Island/Rakiura pay the $5.00 levy per passenger irrespective of whether those passengers disembark or not. While this may be palatable at the current rate it is highly unlikely the cruise sector would support this practice at a higher rate. In addition cruise ships also pay other fees including pontoon and wharf fees. Serious consideration needs to be given to the impact of these proposals on the cruise ship sector including a review of how the funding model is applied to them.

32. While there is a common view that tourism pricing is relatively inelastic (when the price goes up/down consumers' buying habits stay about the same) there are growing concerns that New Zealand is becoming an expensive destination. Visitor spending habits are changing as a result and one impact is reducing the number of things they do. There are also increasingly more and higher levies and rates being applied to visitors at both a central government level (e.g. border clearance levy, electronic travel authority, international visitor levy) and local government – commercial and targeted rate increases, impacting on the funds visitors have available for commercial activities.

33. While the Approved Operators[2] will be better placed to provide their views on the impact of the proposed levy on demand for their services we do know that when the Border Clearance Levy was announced in 2015 a cruise company withdrew one of their series from the New Zealand market, shifting to another destination. Cruise ship companies, like airlines, are constantly reviewing the economic viability of destinations and the nature of these operators is that they can easily divert their assets (ships, planes) to other destinations if the economics do not work in their favour.

34. One of the Approved Operators, Real Journeys, advises that domestic travellers comprise the majority of their passenger mix. Just under 75% of their winter traffic is domestic, and this changes to just over 50% during the summer. TIA leads the

[2] Real Journeys, Stewart Island Flights Limited, ISS McKay

Domestic Tourism Working Group which completed a project into the motivations and behaviours of the domestic market[3]. The three primary motivations for domestic travel in order of importance are to spend time with friends and relatives, try a new experience, and discounted pricing. New Zealanders are very price conscious, love a deal, and there is a risk that the increased pricing may turn New Zealanders off from visiting the island. The industry is heavily reliant on domestic visitors, particularly outside of the peak summer season. Domestic spending makes up 60% of total tourism revenue in NZ and only three regions (Auckland, West Coast, Central Otago) have a higher international than domestic spend.

35. A condition of any future support from TIA for a levy increase is that the decision-making for funds involves industry operators. We are pleased to see that Approved Operators will have voting rights at the relevant meeting of the Community and Policy Committee. The Mayor and all SDC Councillors are also on this Committee, along with iwi.

Follow up process

36. TIA wishes to participate further in any follow-up process, including any formal meetings, to ensure that the potential impacts on tourism are adequately represented.

Background

37. Tourism for New Zealand is big business as the country's largest export sector. It is a major contributor to the New Zealand economy that will always be here and won't easily go offshore. Tourism takes the lead in promoting New Zealand to the world. The brand positioning built by a vibrant tourism industry has become an important source of national confidence and identity and a front window for "Brand New Zealand". Indeed, the clean and pure offer that is synonymous with New Zealand tourism has been widely adopted and used to promote New Zealand exports in a range of other industries as well.

38. The tourism industry delivers the following value to New Zealand's economy:

- Tourism in New Zealand is a $99 million per day and $36 billion a year industry. Tourism delivers around $40 million in foreign exchange to the New Zealand economy each day of the year. Domestic tourism contributes another $59 million in economic activity every day.
- The tourism industry directly and indirectly supports 14.5% of the total number of people employed in New Zealand. That means 399,150 people are working in the visitor economy.
- Tourism is New Zealand's biggest export industry, earning $14.5 billion or 20.7% of New Zealand's foreign exchange earnings (year ended March 2017).

[3] www.dgit.nz