

Stewart Island/Rakiura Visitor Levy

Regulatory Impact Statement

Executive Summary

Stewart Island/Rakiura receives a high number of short term visitors that place pressure on local infrastructure which are paid for by a very small rate base¹. This rating base is unable to capture the benefits from visitors due to a significant portion of those economic benefits leaking to goods and service providers being outside of rating boundaries. The underlying problem is that local infrastructure and amenities are a non-excludable good with few or no incentives on users (visitors) or non Stewart Island/Rakiura based beneficiaries to provide or fund them.

Whilst the economy of Stewart Island/Rakiura has been shifting from a traditional base of fishing to tourism, at present the tourism industry on Stewart Island/Rakiura is small and lacks the scale needed to fund infrastructure and amenity costs without imposing significant burdens on new and existing businesses.

In the long term a sufficient mass of tourism providers may be based on Stewart Island/Rakiura and thereby allow a targeted rate to be used as the instrument for capturing the economic cost of infrastructure and amenities used by visitors. At present and in the medium term this is unlikely. The status quo is not a viable option as the ongoing subsidy from ratepayers to visitors and non-Stewart Island/Rakiura based businesses is not sustainable. Continuation of this status is likely to result in asset deterioration and loss of economic and social potential on Stewart Island/Rakiura.

Based on visitor numbers of 32,000² a \$5 levy would generate revenue of \$160,000 per annum. This would equate to an increase in rates on all ratepayers of approximately \$353.59. This increased cost is neither affordable nor sustainable for Stewart Island/Rakiura ratepayers. The long term effect could be a reduction in the rating base placing a greater burden on remaining ratepayers and residents.

Looking forward

Whilst the existing number of tourists already strains the local infrastructure, amenities and services on Stewart Island/Rakiura the forward tourism market indicates more pressure. Currently there is nine planned cruise ships visits to Stewart Island/Rakiura for the 2009 summer season with a further nine visits scheduled for the 2010 summer season. Cruise vessels are generally in three classes:

- Explorer - approx 100 passengers and 75 crew.
- Mid sized - approx 400 passengers and 200 crew.
- Large - approx 1400 passengers and 650 -700 crew.

Cruise ship visits already place larger communities under stress, for Stewart Island/Rakiura, the burden will be higher.

In the long term, cruise ship visits and increased tourism activity will provide a stronger and more prosperous local economy; however, this will only occur if the required facilities,

¹ Based on 450 ratepayers.

² Southland District Council visitor estimate for 2007/08.

infrastructure and amenities are in place. If there is not a stable revenue stream to fund this, then there is a high risk that visitors and residents will be deterred from Stewart Island/Rakiura. This has already happened when earlier proposed cruise ship visits did not eventuate due to the inability by Stewart Island/Rakiura to provide adequate services.

Therefore a levy on visitors is recommended to address infrastructure and amenity costs.

International Comparisons

Tourism taxes, levies and charges are relatively common throughout Europe and the United States. A variation in the United Kingdom and Ireland is an air travel tax payable in addition to airport charges.

The United States allows local authorities to implement various travel taxes on lodging, car rentals, and meals over and above general sales taxes. These vary in total cost from US \$21.50 a day to US \$41.00.

In France visitors are usually asked to pay a tourism tax or a flat-rate tourism tax, the rate of which is fixed by the local authority and varies from €0.15 to €1.07 per person per day, according to the quality and standard of the accommodation. Where the tourism tax is not flat-rate, children aged less than 4 years are exempt from this tax, and those aged less than 10 years pay half-rate. This tax is collected by the owner of the accommodation and will be included in the hotel bill or property rent.

Germany and Switzerland allow visitor tax fees to be charged per person with rates varying between €0.80 per person per day to €2.00 per person per day. Discounts and concessions may also apply depending on seasonality and length of stay.

Australia currently has a tourist tax, levy or charge in place in three locations being:

- Rottnest Island off the coast of Western Australia near the city of Perth;
- Lord Howe Island in the Tasman sea being approximately half way between Sydney and Norfolk Island; and
- The Great Barrier Reef marine park.

In addition Kangaroo Island off the South Australia coast near the city of Adelaide is currently considering a visitor levy.

Assessing the Impact of a Levy

The impacts of a Visitors Levy on Stewart Island/Rakiura and the tourism industry economy will be determined, among other things, by its effects on tourism visitation and expenditure, which in turn are a function of the responsiveness of visitation to changes in price. Research by the Ministry of Tourism³ on exchange rates and tourism relationships provides information on the price sensitivity for tourism. The price sensitivity information provided from this report informs that demand for Stewart Island/Rakiura by international visitors is unlikely to be sensitive to price (and hence a levy) due to:

- The relatively unique nature of the Stewart Island/Rakiura tourism experience;
- Income growth in our markets being the main determinant for arrival numbers, with a 1% growth in world incomes increasing tourism numbers by 1.7%.
- Arrivals being only slightly influenced by exchange rate movements, with a 1% increase in the value of the New Zealand dollar estimated to reduce visitor numbers by 0.02% - a very small relationship.

³ NZIER., Exchange Rates and Tourism Relationships in New Zealand. Report to Ministry of Tourism - July 2007.

Price sensitivity is more significant on expenditure per visitor where for every 1% increase in the value of the New Zealand dollar, expenditure per visitor goes down by 0.8%. As a result the visitor levy may have an impact on revenue earned by Stewart Island/Rakiura businesses if visitors trade off the cost of visiting for other expenditure such as entertainment.

Table 1: Impact of Exchange Rate on International Visitors by Market

Market	Impact of 1% appreciation in the NZ dollar on:		
	Visitor Arrivals	Spend per Visitor*	Total Expenditure
Total Inbound	-0.02%	-0.81%	-0.83%
Australia	-0.02%	(not significant)	-0.02%
UK	-0.02%	-0.65%	-0.67%
US	-0.17%	-0.96%	-1.13%
Japan	-0.27%	-0.74%	-1.01%
South Korea	-0.10%	(not significant)	-0.10%
Germany	-0.88%	(not significant)	-0.88%

* No significant sensitivity in spend per visitor for the Australian, Korean and German markets.

Source: NZIER., Exchange Rates and Tourism Relationships in New Zealand. Report to Ministry of Tourism - July 2007.

The impact on the domestic market is slightly more pronounced for domestic visitors to Stewart Island/Rakiura. However given the initial levy proposal of \$5 per visitor any reduction in visitor numbers and expenditure is likely to be minimal.

Expected Costs

A levy will impose a financial cost upon visitors to Stewart Island/Rakiura. In the first three years of operation this cost is intended to be no more than \$5 per person. There will be compliance costs for transport/tourism providers acting as Council agents collecting and passing on to the Council the levy revenue. These costs may be mitigated through agreement with the Council. There will be administrative costs to the Council for the administration, monitoring and reporting on the levy.

It is anticipated that the reasonable administration costs should not exceed \$5,000 per annum. The largest significant contributor to costs is likely to be fees payable to Audit New Zealand. However in some years costs could be higher depending on the level of activity required, for example a major review of how the levy is working. These costs will need to be reimbursed from the levy in a similar manner as costs for transport providers in collecting and passing on the levy.

The Council subcommittee for the levy will have the responsibility to check and approve administration costs.

Expected Benefits

A levy would provide equity and equality of funding for publicly provided infrastructure, amenities and services due to its relative certainty as a revenue stream and by assisting in the timely planning and scheduling of infrastructure and amenities. Gains to the community can be expected through having the necessary infrastructure to service the tourism industry. Some environmental gains may be achieved through a reduced likelihood of asset deterioration or poor quality substitutes, however this not the primary objective of any levy, but a positive externality.

Adequacy Statement

The Southland District Council has prepared this regulatory impact statement in the interest of providing public disclosure and transparency. Whilst a regulatory impact statement is not formally required for local legislation, the value of this statement is to help parliament and the public focus on the problem, options and impacts in considering the proposed local legislation.

The Southland District Council has developed this statement using the principles of the Code of Good Regulatory Practice and the regulatory impact analysis requirements, including the consultation requirements. The proposal is not likely to have a significant impact on New Zealand's economic growth, but will have a significant impact at the local level on Stewart Island/Rakiura.

Status Quo and Problem

Retaining the status quo is not a feasible option as existing visitor numbers and a forecast increase in cruise ship visits will continue to strain the Stewart Island/Rakiura infrastructure and amenities. Whilst tourism does provide benefits to some ratepayers through business activity, a large portion of that activity accrues to businesses outside of the Council's rating boundaries. In the long term a significantly sizeable base of economic activity on Stewart Island/Rakiura may be developed thereby enabling a targeted rate on those beneficiaries, however that scenario is yet to develop and is at risk through the strain on infrastructure and amenities.

Stress on Stewart Island/Rakiura infrastructure and amenities arise from the mismatch between the infrastructural requirements for existing rateable properties and the needs for large numbers of visitors at peak times. This problem is akin to sharing a house with three people and then every weekend having to cater for 300 visitors whom you may neither have invited or be able to recover costs from. Further stress on infrastructure and amenities occur due to the relative isolation and need for shipping, creating higher costs to residents and ratepayers for infrastructure and amenities used by visitors.

The underlying problem is that infrastructure and amenities on Stewart Island/Rakiura are non-excludable goods that legislation requires to be provided by the ratepayers of Stewart Island/Rakiura. Additional legislative barriers exist that prevent the Council from addressing this inequity of provision by the charging of users, or beneficiaries, of infrastructure and amenities. In effect there is a subsidy from ratepayers to visitors and businesses that benefit from the tourism industry.

Objectives

The objective of the Stewart Island/Rakiura visitor levy is to obtain equity and equality of funding from all users (beneficiaries) of infrastructure and amenities on Stewart Island/Rakiura.

The net impacts of a visitor levy on Stewart Island/Rakiura will depend on how the levy revenue is expended. The main benefit of the levy is not the revenue itself, but the value in the services this generates. With levy funding dedicated to improving infrastructure, amenities and services for visitors, a visitor levy is likely to generate net benefits for the Stewart Island/Rakiura community and wider New Zealand economy.

Framework for Analysis

In assessing the alternative mechanisms for collecting revenue (rates, fees, charges, levy), the following criteria based on the principles of good tax (charging) design provides guidance to evaluate different options:

- (a) Efficiency - does the charge significantly distort behaviour in a way that results in additional burden being borne by a payer for goods and services over and above what they would have been willing to pay? Alternatively, is a payer receiving more goods and services for less than they are willing to pay? The difference between what they would have paid and consumed, and the price paid is typically called by an economist “the dead weight loss”.
- (b) Equity - does the burden of the charge fall disproportionately on particular individuals or groups within a community, which may give rise to concerns?
- (c) Fiscal Integrity - does the charge generate sustainable, reliable revenues for the community to meet its expenditure requirements over the longer term?
- (d) Transparency - part of good charging design is to ensure that the system is transparent. This means the underlying purpose and principles behind the design of the charging regime are clearly identified. It should be clear what is being charged, who is liable and how their liability is calculated.
- (e) Cost effective - the policy intent of the charge is transparent and the regime is administered in a straightforward and consistent manner; compliance and enforcement systems should include a clear and unambiguous definition of the base to be charged and provide a simple means of collection. Administration and compliance costs should be as low as is compatible for the other objectives of the charge.

On these criteria, a preferred option would raise the target amount of revenue with minimal impact on behaviour, treat payers equally, be administratively simple to collect, impose low compliance costs and provide no opportunities for avoidance, and ensure revenue stability.

Alternative Options

Options to resolve the problem of stress on Stewart Island/Rakiura infrastructure include:

1. Rates - all ratepayers to contribute to development of visitor facilities.
2. Targeted rate, voluntary contribution, bed tax – charging mechanism on those who directly benefit from tourist activity.
3. Fees and charges.
4. Direct Government funding - approaching central government for an annual subsidy to fund visitor facilities.
5. Restricting visitors to the Island.

1. General Rates

Whilst administratively simple and possible under existing legislation, an increase in general rate would not be appropriate due to the significant increase in costs on all ratepayers which would not be commensurate to the benefits received.

To raise the equivalent estimated revenue of \$160,000 generated from a \$5.00 levy on visitors, there would need to be an increase in rates on all ratepayers of \$353.59. This

increased cost on all ratepayers would be neither affordable nor sustainable long term. The potential long term effect would be to reduce further the rating base on Stewart Island/Rakiura, placing additional cost stress on the remaining ratepayers to fund costs.

However, to afford negative incentives, such as ratepayers shifting costs on to visitors, it is recommended that any levy should be set only to fund a portion of costs attributable to infrastructure and amenities used by visitors.

2. Targeted Rate, Bed Tax or Voluntary Contribution

A charging mechanism that targets those who directly benefit from visitors to Stewart Island/Rakiura could be established by targeted rates, voluntary contributions or sub-variation such as a bed tax or user charge. This would predominately focus on transport operators, accommodation providers and other commercial activity that generates income from visitors.

This option has significant advantages, in particular differential rate are possible under existing local government legislation. In addition, the businesses and ratepayers subject to any charging mechanism would be able to recover costs through prices for goods and services.

The main disadvantage of this option is the administrative costs and barriers to identifying all beneficiaries on and off Stewart Island/Rakiura accurately, and the subsequent ability to obtain revenue from beneficiaries whose base of operations is outside of the Southland District. This is the “free rider” problem with people being able to extract a benefit without any payment from the activities provided at cost by another person.

A further disadvantage is that residents and ratepayers that are not involved in the tourism industry are unlikely to receive discounted prices for goods and services provided by the targeted commercial operators. In effect, they would be paying twice, having paid originally for infrastructure, services and amenities through their rates and then paying for the higher cost of goods and services by local businesses.

3. Fees and Charges

It may be legally possible for the Southland District Council to establish a user pays system for community facilities, infrastructure and amenities through the Local Government Act 2002 (LGA). The mechanism by which this could be achieved would be through either section 12 or section 103(2)(c) of the LGA relating to fees and charges.

Under Section 12 (2), a local authority has full capacity to:

“... carry on or undertake any activity or business, do any act, or enter into any transaction.”

The Council could use this provision as the legislative basis for applying a charge for goods, services or amenities provided under the authority of section 12 of the LGA⁴.

Alternatively, Council could use the provisions in section 103(2)(c) whereby the Council could amend its revenue and financing policy to provide for the use of fees and charge for community facilities, infrastructure and amenities. The fees and charges would be established through the community individual activity plans that form part of the Long Term Council Community Plan (LTCCP). Each activity relating to Stewart Island/Rakiura, including grants, would need to include that a permit, approval or authorisation is required to use the facility, infrastructure or amenity and that there is a fee or charge for the permit,

⁴ Section 150 (6) Local Government Act 2002

approval or authority⁵. The fee or charge would then be enabled through a Council bylaw or bylaws.

With either approach, the Stewart Island/Rakiura community may not be able to provide a fee or charge for the local roading network that is currently funded by rates due to restrictions established by the Land Transport Management Act 2003 (LTMA). There is a proviso to the LTMA requirements that may allow a service fee to be charged to access the local road network.

Regardless the use of either section 12 or section 120 (3) of the LGA is drawing a long legal bow on the existing Local Government Act and would be highly novel and likely to be subject the Council to either Court action or amendment to the legislation to disallow this option.

4. Government Funding

There are two Government funding options:

- (i) direct assistance from the Government; and
- (ii) applying for existing grants or subsidies provided by the Government to support tourism or local communities.

The advantage of Government funding is its universality as the revenue received by the Government is contributed by residents, ratepayers and visitors through income tax or GST. The main disadvantages of this option are:

- Competing priorities for Central Government funding means any appeal to the Government is like being a contestant in a beauty competition. There is the strong possibility that other Government priorities will receive attention before funding is considered for Stewart Island/Rakiura.
- Government funding may not provide a secure ongoing revenue stream to meet the future costs of Stewart Island/Rakiura infrastructure and amenities. Any Government financial contribution may only be for a limited time or limited amount.
- Potentially significant costs over time to the community through the need to repeatedly lobby the Government to secure agreement to renew funding.

E. Restricting Visitors to the Island

Restricting visitors to Stewart Island/Rakiura is the reverse of a visitor levy to fund infrastructure and amenities. The purpose of restriction would be to reduce visitor numbers to a level that avoids generating stress on Stewart Island/Rakiura infrastructure and amenities. Legislation would be required to define who is a visitor and provide the powers to bar visitors to Stewart Island/Rakiura.

This option is not considered realistic with significant negative social and economic impacts on Stewart Island/Rakiura. There would also be significant enforcement costs by the Government that may exceed the cost to Government or the Council of a direct subsidy to fund infrastructure and amenities.

Preferred Option - Visitor Levy

The framework for analysis of revenue collection mechanisms helps to identify a preferred option being a visitor levy supported by its own legislation. In considering the different revenue options it can be noted that:

⁵ Local Government Act, Section 150 - fees maybe prescribed by Bylaws

- (i) There is a legal impediment to the efficient recovery of costs through rates removing this as a viable option.
- (ii) The option of direct Government funding whilst having some appeal to the local community has a significant problem with the reliability and quantum being very uncertain; additionally given the current economic circumstances, a successful approach to Government would be a high risk approach. Therefore, this option is also not recommended.
- (iii) The alternative of potentially using the Local Government Act 2002 to establish fees and charges for all facilities, infrastructure and amenities on Stewart Island/Rakiura is likely to be administratively complex, uncertain due to probable legal challenge and probably restricted in its ability to recover costs of certain types of infrastructure, in particular roading.

The option that is more likely to raise the target amount of revenue with minimal impact on behaviour, treat payers equally, be administratively simple to collect, impose low compliance costs and provide no opportunities for avoidance, and ensure revenue stability is a visitor levy. The long term advantage of a visitor levy is through the provision of a secure ongoing revenue stream that directly targeting of those who generate stress on infrastructure and amenities.

To avoid negative incentives, such as ratepayers shifting costs on to visitors any levy should be set only to fund the portion of costs attributable to infrastructure and amenities used by visitors. On this basis, the preferred option is providing for a visitor levy through an Act of Parliament.

Implementation and Review

Provided the proposed legislation receives assent, the visitor levy could be brought into force 18 months after the legislation is passed. This would allow the tourism industry the lead time to ensure international pricing and ticketing is updated.

The Local Government Act 2002 requires a review of any new bylaws five years after their creation, with a rolling ten year review requirement from then on. As several parts of any visitor levy will require Council bylaws, the requirements of the Local Government Act would provide a suitable trigger to review the visitor levy. A review of the levy could be also be undertaken at any time by the proposed Council subcommittee responsible for the levy, or by the recommendation of the Minister for Local Government.

The scope of any review should be to consider the general operation of the levy; amendments needed to improve its working; and an assessment of whether the levy has meet its intended purpose, or if another funding source would better provide for the costs associated with visitors to Stewart Island/Rakiura.

Consultation

The views of the community on a visitor levy have been sought through a resident's survey and as part of the submissions process on the Southland District Council Long Term Council Community Plan (LTCCP) process. 129 responses to the survey was received, 119 were in favour of a levy and 8 against. Additionally of all respondents only 16 indicated the administration of the fund should be by an organisation other than the Council and/or the Community Board. This amounts to 14% of all responses. 5 submissions on a visitor levy were made to the LTCCP all in support; no submissions of opposition were received.

The proposal for a visitor levy has included consultation with: the Stewart Island/Rakiura Community Board, Environment Southland, Invercargill City Council, Te Ao Mārama Incorporated and Venture Southland, Department of Conservation Southland Conservancy.