

Hanmer Springs Tourism Package

Project overview

Name of the project	Hanmer Springs Tourism Package
Region	Canterbury
Tier and type	Tier 2: Sectors
Applicant	Hurunui District Council (HDC)
Total project value	\$ ^{Commercial Information}
Amount of funding sought from the PGF	Requested: \$ ^{Commercial Information} PDU recommended: \$1.1 million
Financial instrument	Grant
PDU recommendation	Approve

26. HDC has requested PGF funding towards the cost of upgrading the Hanmer Springs Thermal Springs and Spa and constructing a high-end day-spa (Chisholm Spa) and Fly-Line in Hanmer Springs.
27. The proposal brings together three projects for two new and one enhanced visitor attraction specifically requesting funding for:
- The expansion of the existing Hanmer Springs Thermal Pools and Spa (\$^{Commercial Information} of a total project cost of \$^{Commercial Information}). The expansion will consist of a new area of pools (\$^{Commercial Information}) and a new hydro slide (\$^{Commercial Information}).
 - The construction of a Fly-Line to take riders 850 metres down Conical Hill at Hanmer Springs (\$^{Commercial Information} of a total project cost of \$^{Commercial Information})
 - The construction of a “world-class” day spa (the Chisholm Spa) at the former Queen Mary Hospital site in Hanmer Springs. HDC is seeking PGF funding of \$^{Commercial Information} for total project cost of \$^{Commercial Information}. Construction costs are estimated to be \$^{Commercial Info}, with the remaining \$^{Commercial Information}.
28. The projects involve three key phases including the project plan, a detailed design phase, and construction phase. The Chisholm Spa project involves the Queen Mary Hospital, which is a Category 1 historic place listed with Heritage New Zealand, and part of the Queen Mary Hospital Heritage Zone managed by Hurunui District Council. Any redevelopment of the property will need to comply with heritage planning provisions within the Hurunui District Plan, involving input from Heritage New Zealand. Resource consents are still required for the Fly-Line and Chisholm Spa and will be stage-gated appropriately.
29. Hanmer Springs already presents a unique visitor experience in the top half of the South Island, with visitors offered a choice of attractions including the existing Thermal Pools Complex, Hanmer Springs ski area, jet-boating, rafting and canoeing and bungee-jumping. The Thermal Pools are now often at capacity and the Chisholm Spa and Fly-Line should attract more visitors and increase their expenditure.

The construction on the pool expansion began in April 2019, however, the Fly-Line and Chisholm Spa has been delayed until ^{Commercial Information} at the earliest.

30. HDC will be the immediate beneficiary of the completion of these projects from the expected increase in revenues and, eventually, an increase in profitability. There will also be indirect benefits to the wider visitor economy in the district from increased visitor numbers.
31. HDC notes that the aftermath of the Kaikōura earthquake has put its balance sheet under stress, making PGF support important to HDC.

PDU recommendation

32. The PDU recommends that you approve HDC's application as a \$1.1 million grant from the Provincial Growth Fund on the condition that:
- The operational day-to-day management of the Chisholm Spa and the Fly-Line is conducted by a team with suitable experience
 - Evidence of the Local Government Funding Authority funding for the original loan amount requested to the PGF sought from HDC
 - Evidence of obtaining the appropriate resource consents.
33. After several discussions with the PDU, HDC has agreed to the PDU's suggestion of borrowing the funding sought through the Local Government Funding Authority. The PDU recommends providing a grant on critical components of the projects (design, project plan, project manager, expert consultants) to assist HDC in accelerating the projects to realise the benefits that align with PGF objectives.
34. The PDU recommend the application be approved based on the following:
- The combination of projects is expected to create ^{Comme} FTE (mixture of c. ^{Comme} new full-time and part-time jobs) with the total economic benefit over the next ^{Commercial Informatio} estimated to be \$ ^{Commercial Information}.
 - This presents the opportunity for economic development on currently under-utilised reserve land and a building vested with historical status (the former Queen Mary Hospital where the Chisholm Spa is to be constructed).
 - These projects are well-aligned with the Canterbury Regional Economic Development Strategy's (CREDS) regional visitor strategy and its focus on sustainable growth in tourism coupled with "value-added (i.e. productivity enhancing) production".

Financial Assessment

35. ^{Commercial Information} HDC believe that when the wider economic benefits for these two projects are taken into account, along with the expected financial returns, they present a sensible case for Government assistance. It is HDC's view that the private sector will be more likely to invest in the two projects once they have been operating for two or three years.
36. HDC has supplied the 2018 accounts of the Hanmer Springs Thermal Pools and Spa. ^{Commercial In}
37. These three projects should all combine to produce an increase in visitor revenue in the Hanmer Springs area and the Hurunui district more generally. HDC (in the face of unmet demand) is planning to increase its entry charges at the pools complex for both pool and

slide use. This should increase the return on their investment. The Chisholm Spa itself will be a high-end facility with treatment charges reflecting this.

Financial modelling

38. Independent estimates put the net increase in revenue from the Thermal Pools and Spa expansion at \$ ^{Commercial Information} p.a., with a Return on Investment (ROI) of ^{Commercial} %.
39. In 2015 Hanmer Springs Thermal Pools and Spa commissioned an Information Memorandum seeking investment in the Chisholm Spa. This showed profitability from year one, excluding rental and overhead allocation. The Fly-Line and the Pools expansion are also projected to be profitable from year one.
40. The Council has completed a feasibility study for the Fly-Line, which indicates that the break-even point is ^{Commercial Inform} users per annum, ^{Commercial Informa} (^{Commie} % of visitors to Hanmer) are expected in the first year of operation, with an Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) figure of \$ ^{Commercial Information} and a ROI of ^{Commie} %.

PGF funding

41. As the three projects are a commercial enterprise, loans are the appropriate funding mechanism. The PDU's view is, however, that the Local Government Funding Authority (LGFA) should be the funding mechanism for these three projects. LGFA was set up to finance the New Zealand local government sector, on terms that are more favourable than if local government entities raised the debt directly.
42. The PDU recommends that HDC uses LGFA to obtain the funding it requires, with the PGF providing a pro-rata grant of \$1.1 million which will assist HDC in accelerating the projects to realise the benefits that align with PGF objectives.
43. The PDU's proposed funding amount would lift HDC's co-contribution to ^{Commie} %, reducing the risk to the PDU.

PDU assessment of the project

44. The following cost-benefit breakdown provides an overview of the proposed PGF investment and associated jobs benefit:

Cost Benefit Breakdown

Project	FTE	Stated New Jobs (Full-time & part-time)	Stated economic benefit (next 5 years)	PGF Proposed Cost	PGF Proposed Cost/FTE
Chisholm Spa	^{Comm}	^{Comm}	\$ ^{Commercial Information}	\$ ^{Commercial Inform}	\$ ^{Commercial Info}
Fly-Line	^{Com}	^{Commercial Infor}	\$ ^{Commercial Informatio}	\$ ^{Commercial Inform}	\$ ^{Commercial Info}
Pool Expansion	^{Comm}	^{Comm}	\$ ^{Commercial Informatio}	\$ ^{Commercial Inform}	\$ ^{Commercial Info}

45. This section provides an overview of PDU's assessment against the PGF eligibility and assessment criteria.

Assessment against PGF criteria

Criteria	Rating (1✓ to 5✓)	Comment
<i>Link with fund and government outcomes</i>		
Creates permanent jobs	✓✓✓	The three projects combined are predicted to create ^{Comme} FTE (a total of ^{Comme} to ^{Comme} new jobs, inclusive of part-time jobs), with others likely to be created in other visitor amenities with the anticipated increase in visitor numbers.
Delivers benefit to the community	✓✓✓	<p>The new jobs will increase household incomes in Hurunui. The increase in net revenue for HDC will relieve the financial burden on the ratepayer base and should help strengthen HDC's balance sheet.</p> <p>HDC has noted one of the public benefits from the three projects as the projected net increase in revenues accruing to HDC allowing for lower rates in New Zealand's second least populated district (on a ratepayers per square kilometre basis).</p>
Increased utilisation and returns of Māori asset base	N/A	
Enhanced sustainability of natural assets	N/A	
Mitigation of climate change	N/A	
<i>Additionality</i>		
Adding value by building on what is already there	✓✓✓✓	These projects enhance an existing visitor attraction (the Thermal Pools), while adding two new complementary attractions that seem unlikely to eventuate without PGF funding.
Acts as a catalyst for productivity potential in the region	✓✓✓	The three projects should increase the productivity of the main visitor attractions through an increase in increase per-visitor yield in Hanmer Springs and in the Hurunui

Criteria	Rating (1✓ to 5✓)	Comment
		District more generally. The projects will assist in achieving the goals of the Canterbury Regional Economic Development Strategy's (CREDS) visitor strategy, contributing to increasing the yield from the region's visitor economy.
<i>Connected to regional stakeholders and framework</i>		
Alignment with regional priorities	✓✓✓✓	These projects are well-aligned with the CREDS regional visitor strategy and its focus on sustainable growth in tourism coupled with "value-added (or productivity enhancing) production". They will help achieve the strategy's goals of a wider seasonal spread of visitors, dispersing visitors across the region and the South Island, keeping them longer in the area and region.
Support from local governance groups	✓✓✓	HDC has not submitted any letters of support or similar documents with its applications, however the applicant is HDC.
<i>Governance, risk management and project execution</i>		
Robust project management and governance systems	✓✓✓✓	<p>Hanmer Springs Thermal Pools and Spa (HSTPS), fully owned by HDC, will operate the proposed new day spa and Fly-Line, adding them to their responsibilities for operating the pools complex.</p> <p>HDC have noted their 12 years' experience in operating the Thermal Pools complex and managing its growth as evidence of its ability to deliver these projects. Its applications indicate that it has assembled an experienced project management team and a three person governance group to oversee the projects.</p> <p>The governance group includes: Graeme Abbot, the general manager of HSTPS; Grant Lilly, Chair of HSTPS, a director of</p>

Criteria	Rating (1✓ to 5✓)	Comment
		Queenstown Airport and a former senior airline executive; and Tony Sewell, a director of HSTPS and a former long-term CEO of Ngāi Tahu Property.
Risk management approach	✓✓✓✓	All three projects will comply with HDC's procurement policy and will have benefit of its experience with developing and managing the thermal pools assets and procuring large scale capital assets. HDC has identified the major risks for each project and the intended mitigation approaches.
Future ownership / operational management	✓✓✓	The application indicates that for the spa and Fly-Line, Commercial Information [REDACTED] [REDACTED]

Agency comments

The Ministry of Culture and Heritage

46. MCH has an interest in the Chisholm Spa projects as it involves the Queen Mary Hospital, a Category 1 historic place listed with Heritage New Zealand. MCH advises that Heritage New Zealand will wish to be involved in the redevelopment proposal, and can contribute best when consulted early in the planning process.

New Zealand Trade and Enterprise

47. NZTE has provided support for Chisholm Spa and Fly-Line as part of the Tourism Attraction Programme. The Fly-Line has received Strategic Investment Fund funding for a proposed Taupō sight and was introduced to the Hurunui District Council by NZTE, because of the additionality the attraction could offer to tourism regions. This funding was provided in March 2019.
48. NZTE is actively seeking investors for both the Chisholm Spa and Fly-Line however, has not directly or indirectly been involved in this PGF application but has been involved in the project itself.

Te Puni Kōkiri

49. TPK have advised that the proposal demonstrates no consideration for Māori development or Māori engagement. TPK therefore recommend declining the application.

Risk assessment

50. The HDC is a local authority, due diligence is undertaken in consultation with the Department of Internal Affairs, no concerns identified.

51. The following risk assessment and mitigations have been provided:

Type of risk	Risk description	Mitigations	Risk Rating L/M/H
Cost Risk	If the cost estimate is inaccurate, then the applicant may seek further funding, or be unable to complete the project in the agreed manner.	<ul style="list-style-type: none"> Ensure accurate and detailed cost estimates, particularly the grant proportion the PDU is recommending funding for, are provided to the PDU's satisfaction before releasing any form of funding from the PGF. 	M
Operational Risk	The projects (Chisholm Spa and the Fly Line in particular) may not be managed by suitable expertise which may lead to a potentially negative outcome to what was originally envisaged.	<ul style="list-style-type: none"> Make it a condition to ensure the operational day-to-day management of the Chisholm Spa and the Fly Line is conducted by a team with suitable experience that is agreed by the PDU. 	M
Funding Risk	HDC may be unable to provide funding in excess of PGF's funding to reach the total project cost.	<ul style="list-style-type: none"> Ensure evidence of LGFA funding sought from HDC before releasing any form of funding from the PGF. 	M
Regulatory Risk	HDC may be unable to obtain resource consent for the Fly-Line and Chisholm Spa or in an appropriate amount of time.	<ul style="list-style-type: none"> Ensure the funding is stage-gated and release of payment is dependent on obtaining the appropriate resource consent and MCH approval. 	M
PGF Strategic Risk	Tourism funding concentration in the Canterbury Region (Commis % of total Tier 2 Sector Investment to date) and the trade off with the Fund's priority sectors for its remaining allocation (see funding approved table below).	<ul style="list-style-type: none"> To be discussed and considered by decision makers. 	M - H