Tourism Funding Toolkit

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MorrisonLow

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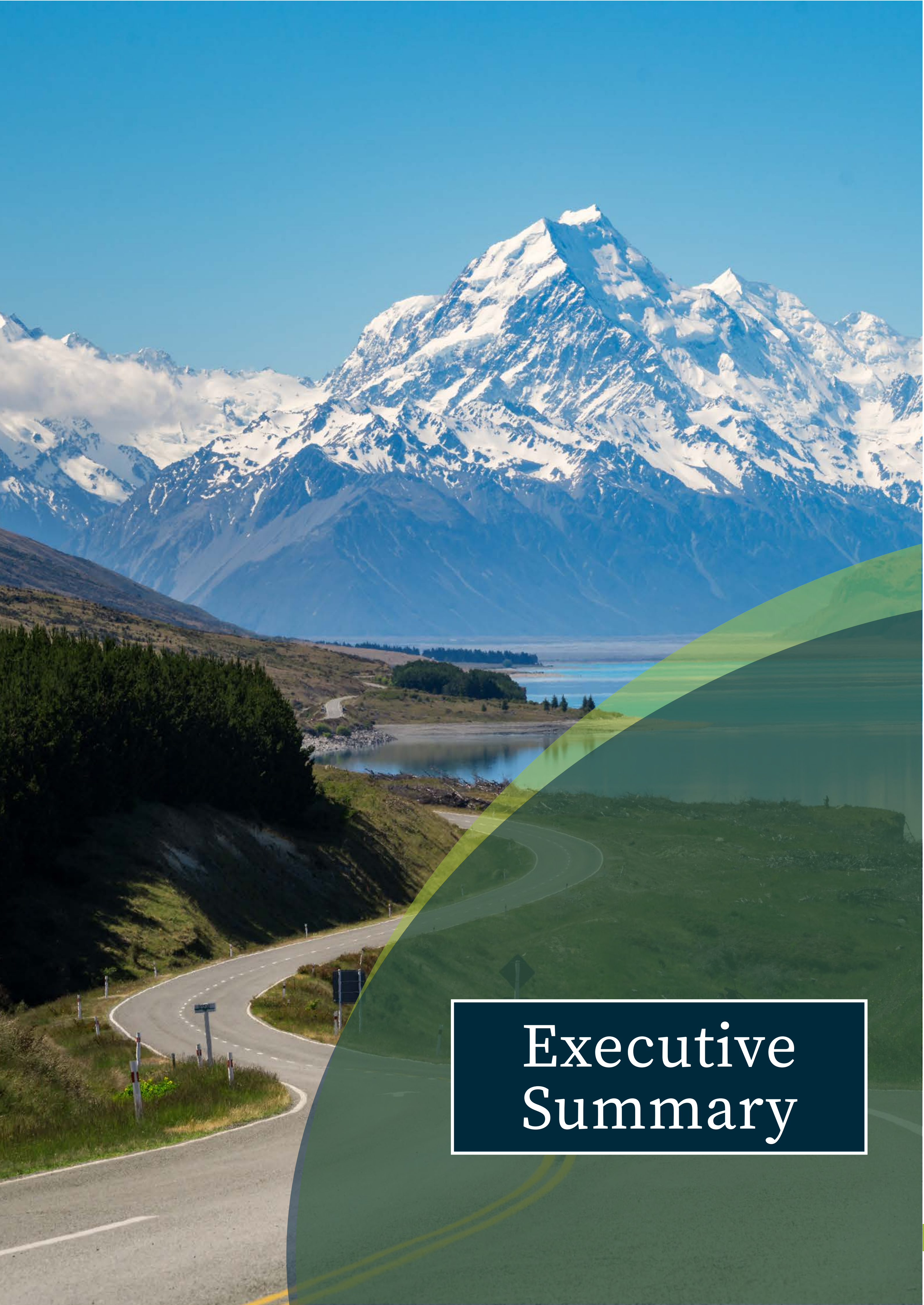
Contents



Executive Summary

The rapid growth in size of the tourism industry in the ten years from 2010 to 2020 established the sector as New Zealand's biggest export earner. High tourist volume and rapid growth put pressure on locally provided infrastructure and the social licence for tourism in communities.

Infrastructure used by visitors at the local government level mainly falls into the category of "mixed use" as it is also used by locals and required to support both visitor and local population needs. Within the current local government funding framework and tools, councils have struggled to monetise tourism activity, or use infrastructure to contribute to the cost of developing or maintaining that infrastructure to address:

- demand pressure (physical capacity)
- service level standards (availability, quality and cleanliness); and
- the social and environmental burden of tourism (externality pressures on local capacity).

The impact of tourism is felt most where visitor numbers greatly exceed the resident population, creating additional challenges for the funding of that infrastructure that is the responsibility of local governments.

While the impacts are well understood, how to extract revenue from tourists as the beneficiaries of tourism, to fund, maintain or regenerate tourism is complex at the local government level. Further complications face councils when, through local funding tools, they are asked to consider the wider economic issue of providing tourist-facing infrastructure with costs not limited strictly to funding and operating (broader social and economic impacts of tourism).

Most councils currently providing tourist facing infrastructure recognise that there are limited alternatives to sharing and subsidising (socialising in the language of public economics) some of the costs of the tourism sector, even where it is relatively clear that a significant portion of the benefits are captured by the tourism sector (i.e., where the benefits are privatised). For example, through the provision of toilets, rubbish bins, carparks, and roads for those passing through to visit popular tourist sites.

Theory, and the local government funding framework, suggests that under these circumstances, councils should look to user-funding mechanisms to ensure that beneficiaries (or exacerbators) contribute to the costs they impose. However, in real-world examples, and the current local government funding framework, devising mechanisms that can capture tourist value, at reasonable cost, and without creating unacceptable perverse incentives is often quite challenging.

Councils must also adhere to externally imposed lending restrictions, and manage rates to affordable levels, while balancing a range of issues including climate adaptation, water quality, and population growth to name a few.

Councils are generally already doing well at operating, maintaining, and replacing existing tourism related infrastructure. However, the burden of covering these costs is often borne entirely by ratepayers, and significant changes in demand are difficult to accommodate. This is because all councils face debt and rates affordability constraints, which apply broadly across all the functions that are carried out by local government. Typically funding for new initiatives or infrastructure can often be challenging within the council's works programme.

In considering the issues, councils also recognise that tourists often spend considerable sums while visiting a district, and therefore contribute to the viability of local businesses.

> *Tourists already pay for most of the costs they create. But they do not cover the costs incurred by councils for the local public amenities and services that tourists consume directly.*[1]

Many councils feel strongly that they need to respond to tourism needs, and that in the absence of tools to directly monetise tourism activities, a shortfall or "funding gap" is created that falls on general ratepayers, and impacts on resources available for other services.

This toolkit seeks to address these concerns and highlights a range of examples of funding tools that have been used by councils across New Zealand to fund tourism related infrastructure with varying success.

The purpose of this toolkit is to:

- share the experience of local government in recovering some of the costs of tourism-facing infrastructure from tourists or the beneficiaries of tourism within the parameters of available local government funding tools.
- provide a high-level framework to assist councils in narrowing down the opportunities that are available to them based on their tourism identity in approaching cost recovery of tourism related infrastructure.

This report demonstrates that the decision-making process for setting rates or fees and charges is not a simple or arithmetic process. Councils are legislatively required to consider a broad range of factors (such as beneficiaries and exacerbators and cost of collection) when determining the best approach to recovering the cost of operating tourism related infrastructure (or indeed any assets or services provided by a council).

Because of the range of complexities involved in each situation, and the factors that councils must weigh up in making such decisions, it is difficult to define any singular examples of "best practice". However, we have identified that many councils face broadly similar issues and challenges based on the type of infrastructure that they provide and their "tourism identity".

Recognising these differences and similarities has enabled us to develop a high level framework that may be used to assist councils in narrowing down the opportunities that are available to them to recover some infrastructure costs from tourists.

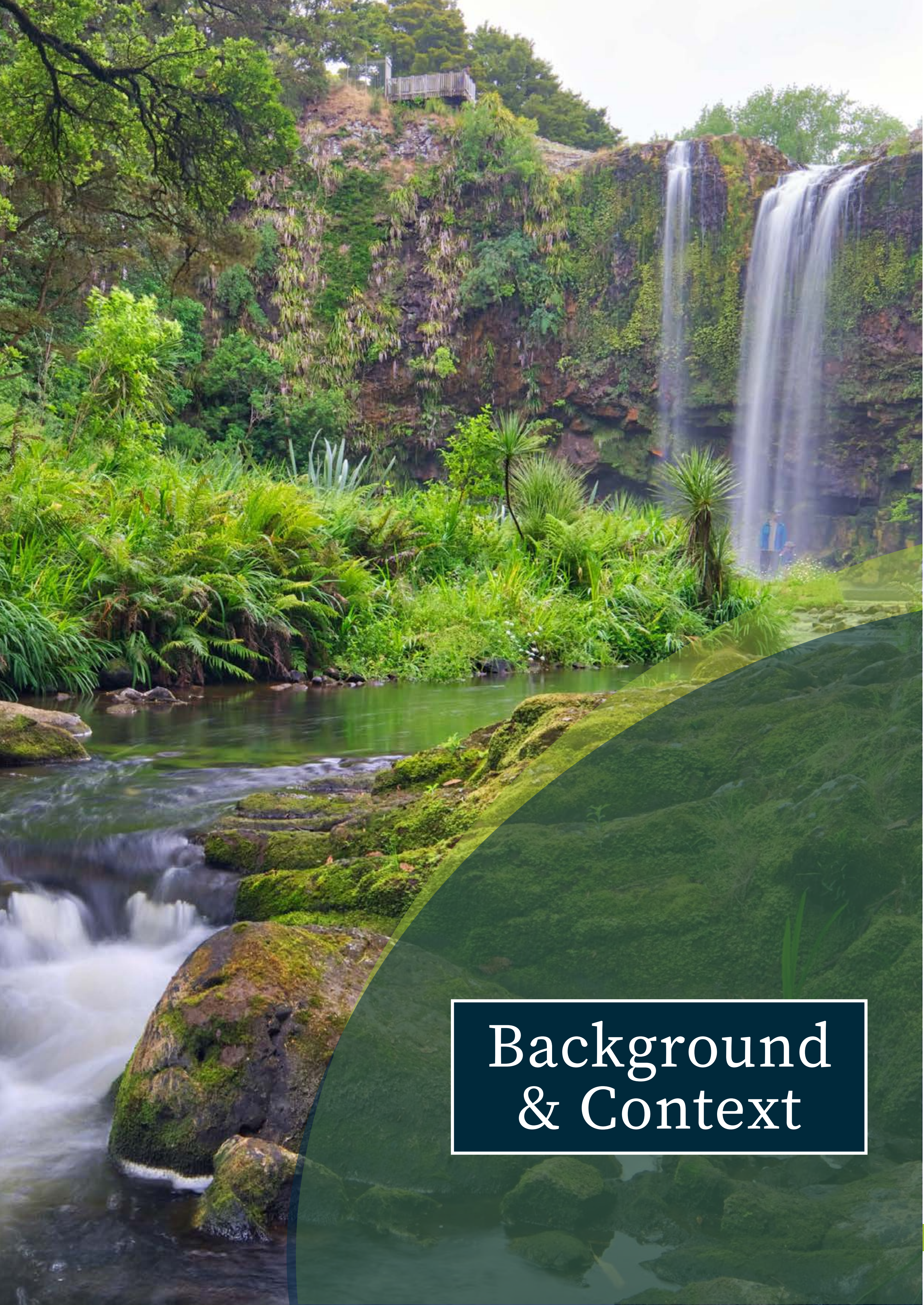
The framework has three key steps:

- Determine "tourism identity" – each council should consider what their role is within tourism
- Consider the key factors that influence a decision to implement different funding tools
- Identify funding tools that may be applicable or successful.

The framework is not intended to provide a single best answer. It provides additional information that must be considered alongside a range of other factors (including those that do not relate directly to tourism at all) to make an informed decision.

[1] New Zealand Productivity Commission, *Local Government Funding and Financing,* 2019, p263

The framework should feel familiar to local government users. This is because it is grounded within the principles of the Local Government Act. We have taken existing guidance, added the experience of practitioners and professional staff who contributed to this process, and shaped this into an approach that we hope will be sensible, practical and useful to professional staff, and to elected representatives.



Background & Context

Introduction

Domestic and international tourism played a significant role in the New Zealand economy prior to the global Covid-19 pandemic which saw New Zealand close its borders to international travellers. With borders reopening, tourism may change, including by design, and is likely to have a significant role in the economic recovery of New Zealand.

The rapid growth and size of the tourism industry in the ten years from 2010 to 2020 established the sector as New Zealand's biggest export earner. High tourist volume and rapid growth put pressure on locally provided infrastructure and the social licence for tourism in communities. Attention has focused on developing or maintaining infrastructure to address issues that impact on the quality tourist experiences and the host environment.

Infrastructure used by visitors at the local government level mainly falls into the category of "mixed use" as it is also used by locals and required to support both visitor and local population needs. The impact of tourism is felt most where visitors greatly exceed the resident population, creating additional challenges for the funding of that infrastructure that is the responsibility of local governments. Within the current local government funding framework and tools, councils have struggled to monetise the benefits of tourism to reinvest in infrastructure to address:

- demand pressure (physical capacity)
- service level standards (availability, quality and cleanliness); and
- the social and environmental burden of tourism (externality pressures on local capacity).

Central government recognised and responded to some of these issues. For example, in 2017 in establishing the Tourism Infrastructure Fund (TIF), which was itself a successor to the Regional Mid-Sized Tourism Facilities Fund. The fund is currently entering its sixth round, bringing the allocated fund total to $77 million for the construction of publicly owned tourism related infrastructure. To date, a total of 211 projects have received, or have been awarded, funding through the TIF.

The establishment of TIF was preceded in 2016 by the Tourism Sector Leaders Report "*Addressing New Zealand's most pressing local tourism infrastructure needs*" (the Sector Leaders Report), which noted that up to $150 million per year would be required to ensure New Zealand's tourism infrastructure was "future ready". The report also identified a need for co-investment with a need to "think differently" about how mixed-use tourism infrastructure is funded.

In 2017, a Tourism Industry Association (TIA) survey of the local government sector identified a local and mixed-use council tourism related infrastructural priority list of 673 projects. Project costing completed by Deloitte made a conservative estimate that 78% of the projects (excluding most projects of scale and complexity) totalled $1.46 billion.[2] Significant gaps were present across regions and infrastructure types.

The number of projects that have received TIF funding, and the total amount paid out to date, is clearly indicative of the challenges faced by local government in funding tourism related infrastructure. Given the limitations on the fund ($25 million per year) it is also clear that the TIF fund is not practicably able to fund all tourism related infrastructure, with a large number of projects needing to be funded by other means.

Tension caused by tourism impact remains. The TIA's Mood of the Nation survey in March 2020 revealed 54% of participants felt predicted growth in tourism was too great. Alongside this is the observable increase in social media posts by New Zealanders expressing frustration over tourist volume and tourist behaviour.

While investment in high quality infrastructure may alleviate some of these concerns, the balance sheets of councils cannot always easily accommodate the required investment.

We were asked to look at how councils have sought to address these issues, and to look where examples may exist in achieving durable funding arrangements for tourism-facing infrastructure. Our brief was to be practical, hence we have been looking through the lens of a "toolkit".

[2] Deloitte, *Estimate of Scale of Need for 'Local and Mixed Use' Tourism Infrastructure*, April 2017

Focus of toolkit

This toolkit aims to highlight a range of examples of funding tools that have been used by councils across New Zealand to fund tourism related infrastructure with varying success.

The purpose of this toolkit is to:

- share the experience of local government in recovering some of the costs of tourism-facing infrastructure from tourists or the beneficiaries of tourism within the parameters of available local government funding tools.
- provide a high-level framework to assist councils in narrowing down the opportunities that are available to them based on their tourism identity in approaching cost recovery of tourism related infrastructure.

This toolkit is deliberately agnostic. We make no recommendations on the desirability of tourism or the priority that should be afforded to tourist-infrastructure for any locality.

When outlining the tourism identities of councils later in this report, we do not wish to create an expectation of a desired state, or that every council should be focused on growing tourism to be the dominant contributor to the local economy. In the reflection period afforded by COVID-19, the role tourism plays in the economic recovery of New Zealand has been signalled as needing to contribute more than it consumes.[3] Those considerations and the way in which tourism is viewed is specific to local mana whenua and communities.

Definitions

Tourists are visitors *both* from within New Zealand and from overseas. New Zealanders who travel to a place outside of their usual environment for less than 12 months for pleasure and not for the purpose of work are tourists. International tourists come for similar reasons, mainly from Australia, China, the United States of America, and the United Kingdom.

Those who benefit from the presence of tourism in the local government funding context are businesses.

This document focuses specifically on infrastructure that is (or could be) provided by local authorities which is used to support the presence of tourism, or to facilitate a greater presence of / offset the tourism load, within their territorial boundaries.

- The document is only concerned with *infrastructure* rather than services. For example, this document is not concerned with the costs associated with destination marketing, events or event promotion, or operating costs of the type covered by the Tourism Facilities Development Fund (TFDF).
- This document is not concerned with infrastructure or facilities provided by the Department of Conservation, private tourism operators or other third parties.
- For the most part, infrastructure such as libraries, roads, three waters assets, and sport and recreation facilities have not been considered in this document. However, this document does consider the impact of peak loading on infrastructure such as wastewater treatment plants, as well as recreation facilities that also provide a meaningful role in tourism (e.g. certain destination pools).

[3] Bennett, S (ed) *100% Pure Future: New Zealand Tourism Renewed,* Auckland: BWB Texts, 2020. The Tourism Futures Taskforce was established by the Government to advise on options that will enable the tourism sector to contribute more than it consumes against the four capitals/well beings identified as economic, human, social and environmental

- Other infrastructural concerns – while interconnected and significant priority areas for investment – are outside the scope of this document i.e. commercial accommodation, worker accommodation, roading, telecommunications, travel facilities.
- Similarly, there are broader contextual challenges which impact on local government tourism infrastructure, but which are outside of the narrow scope of this report. These include the broader infrastructural challenge in New Zealand, construction sector constraints, local government reform, climate change and environmental sustainability, private investment and partnering incentives.

Scope

In local government, decisions about the implementation of fees and charges, rating differentials or targeted rates are not made in isolation. They are political decisions that have regard to the broader impacts on communities and ratepayers.

The toolkit instead follows a case study approach and highlights:

- The key features of the funding tool used
- The approach (or range of approaches) adopted in applying the tool
- The extent to which the tool has been successful or not
- The challenges associated with implementing the tool
- Any unique or key considerations that may impact on the successful implementation of the tool elsewhere.

The toolkit specifically excludes consideration of any new policy initiatives to raise additional revenue from tourists. While it does consider some funding tools (such as a visitor levy) that require enabling legislation to ensure their effectiveness, these are only considered where there is precedent for this legislation to be enacted.

Tools outside of the scope of this document include tolls, as the occasions where these can be applied are limited and reliant on the New Zealand Transport Agency. We have also excluded explicit consideration of funding arrangements such as the distribution of Goods and Services Tax (GST) or rating of Crown land (such as that owned by Land Information New Zealand or The Department of Conservation).

Similarly using debt has been excluded as financing tourism infrastructure may not be feasible for councils with tightly circumscribed debt limits or those without a sufficient rating base to meet debt servicing obligations. Debt financing can deliver projects at speed and spread the burden of capital expenditure across future beneficiaries instead of present-day ratepayers. However, as noted the purpose of this toolkit is funding (including grants and donations), not financing.

The toolkit instead focuses on the ways that councils can, and are, using the tools that are already available. These tools are further defined in the Tourism Identity section:

- User charges
- Subsidies and grants
- Rating differential and target rates
- Commercial concession arrangements
- Differential pricing
- Attractions and facilities
- Offsetting infrastructure
- Visitor levies

The toolkit has been developed following extensive consultation with the local government sector, including:

- data from twenty-six baseline surveys of the sector
- desktop analysis and research including reviews of long-term plans, revenue and financing policies, and destination management plans
- review of Tourism Infrastructure Fund (TIF) applications and analysis of the funding focus of the five rounds to date (a sixth round is currently being processed at the time of writing)
- targeted conversations with 15 councils to further understand potential case studies, and the issues and opportunities available for funding tourism infrastructure.

Covid -19

The global Covid-19 pandemic had an immediate, and substantial impact on international tourism revenue[4] and on the variability of tourism businesses and employment. The New Zealand border is reopening, visitor numbers and impact will take some time to return to a "new normal" – whatever that may be. Tourism will play a significant role in the economic recovery of New Zealand as a sector that cannot be moved offshore.

Discussions informing this report therefore focused on the pre-Covid situation to best inform experience of the application of funding tools.

Relationship with Destination Management Plans

The Ministry of Business, Innovation and Employment actively encourages, and has provided funding for, the development of Destination Management Plans by councils and regional tourism organisations across New Zealand. The plans are intended to help councils and regions to identify strategies to maximise benefits and minimise negative impacts of tourism and provide certainty to private tourism operators.

Destination management planning encourages the use of an integrated approach, focusing on a broad range of interrelated activities from visitor attractions, marketing and promotion, policy and regulation, and infrastructure investment. The development of such plans may, in itself, help councils to develop sustainable funding arrangements for tourism related infrastructure.

This funding toolkit relates primarily to the funding of infrastructure, which is just one aspect of a destination management plan. The toolkit may assist councils in identifying potential mechanisms to recover some of the costs of providing such infrastructure, and supports destination management planning in that way. However, this toolkit does not provide the tools or mechanisms to fund the full range of resources and work that may be required to fully implement a destination management plan.

[4] Stats NZ international visitor data reveals the number of overseas visitor arrivals in the year ending August 2021 was down 2.2million on the previous year

Context

Tourism is important to New Zealand's national and local economies

As a destination, New Zealand's popularity has increased massively over the last 30 years. From 1 million international visitors per annum in 1990 to 3.9 million by the end of 2019. Projections for further growth had forecasted international visitor numbers to increase to 5.1 million by 2024.

The global tourism boom, coupled with a growing middle class in Asia and increased direct flights to Australia helped New Zealand capture a small but substantial piece of the international visitor market.[5] Total tourism expenditure in New Zealand (domestic and international) grew by 65% between 2010 and 2020 to over $41 billion, employing 13.6% of the workforce and accounting for over 20% of New Zealand's total export revenue.[6]

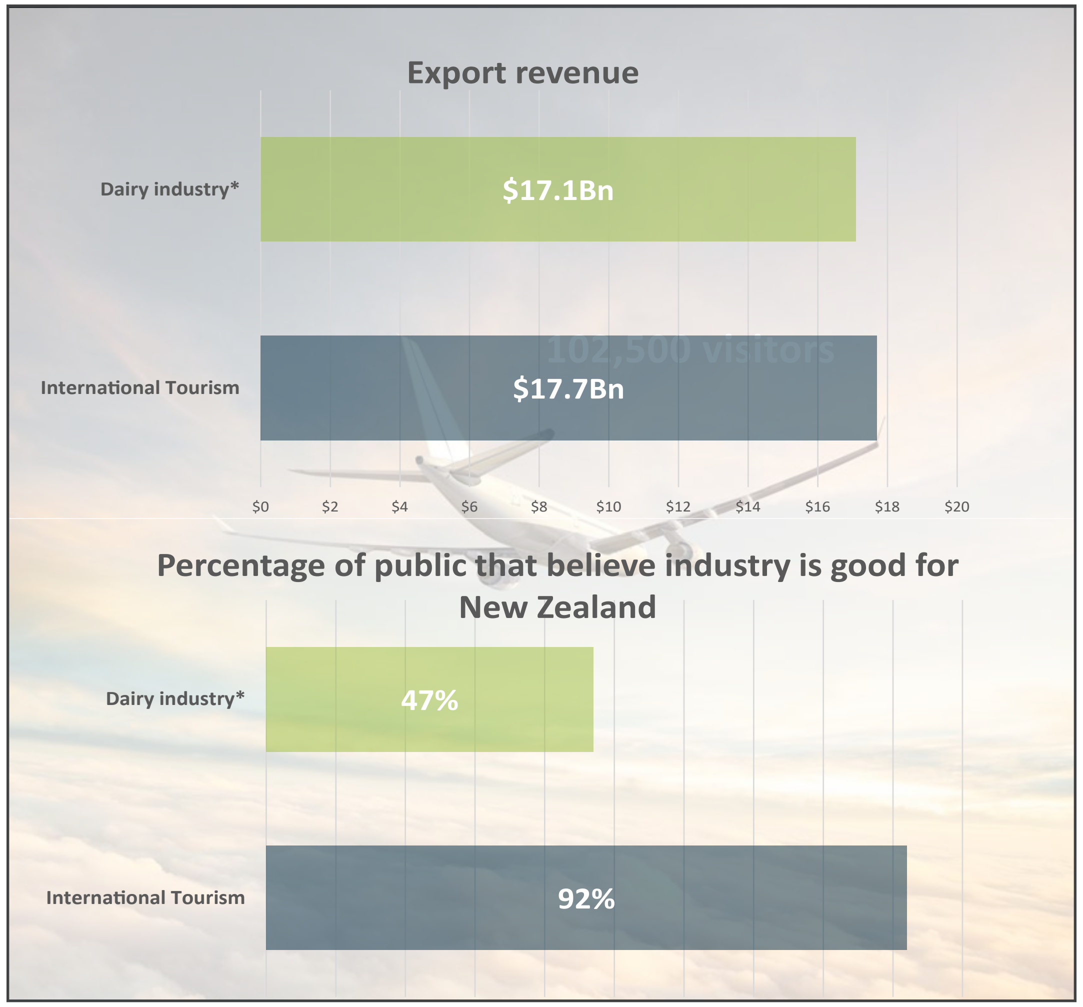


Figure 1: Comparison of export revenue contributions for Tourism and dairy farming[7] in 2020 financial year and public perception of industry.[8] Dairy industry measure of public perception is the percentage of urban respondents that had a positive view of dairy farming (rural was 50%)

[5] 0.3% of the 1.8 billion in 2018 based on United Nations World Tourism Office figures

[6] 2020 figure for tourism expenditure are impacted by New Zealand response to the COVID-19 pandemic, which saw New Zealand close its borders to visitors from China on 2 February 2020. Employment figure includes businesses providing goods and services to tourism businesses, Source: Tourism satellite account: Year ended March 2020

[7] Statistics New Zealand, Table 3: Tourism satellite account, Year ended March 2021 (data for year ended March 2020 used)

[8] Ministry for Primary Industries, *New Zealanders' views of the primary sector*, October 2017. Tourism Industry Aotearoa, *Mood of the Nation*, March 2020

By 2020, the value to the economy was greater than the dairy sector (previously our largest export industry). Tourism also has a regional dimension, and tourism activity (and associated spend) is dispersed across the country rather than being tightly concentrated in a few major economic centres.

Tourism is therefore an important income source for many regions, supporting a range of local business including accommodation, hospitality, retail and transport. Tourism is earmarked as one of a handful of key industries New Zealand should prioritise to maximise economic growth, being at the apex of global opportunity and national economic advantage.[9]

While tourism is a significant contributor to the New Zealand economy at a national level, the benefits, and the costs do not fall evenly across all councils. In considering the ways in which councils approach the setting or collection of fees and charges from tourists, it is important to recognise that tourism plays a different role for different groups of councils in New Zealand.

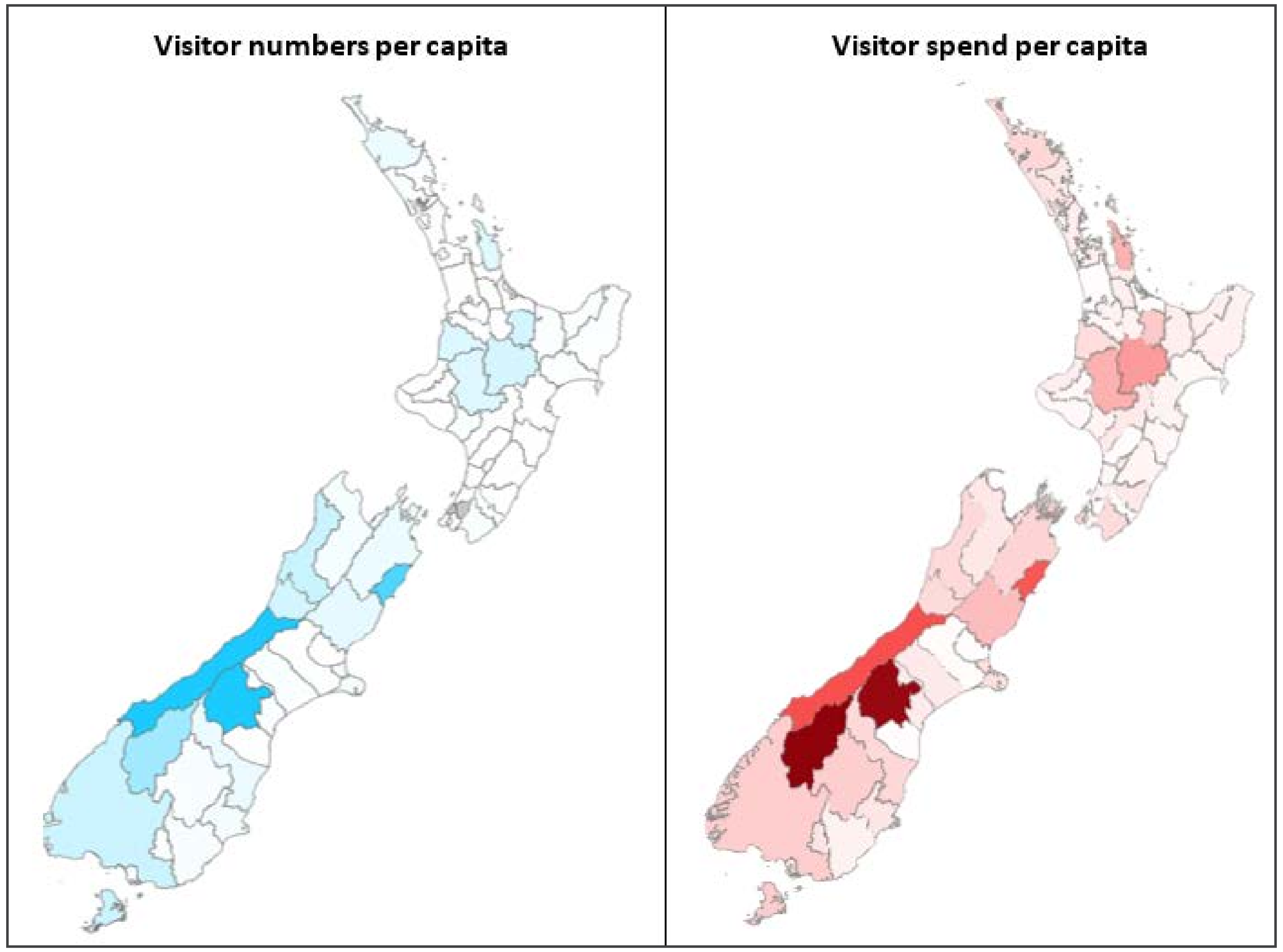


Figure 2: Comparison of visitor numbers (left) and visitor spend (right) per head of resident population in 2020. Darker colours show higher numbers of visitors or spend per capita. Grey areas are data deficient

[9] Deloitte, *Shaping our slice of heaven: industries of opportunity.* November 2017. Tourism Sector Leaders Report: *Addressing New Zealand's most pressing local tourism infrastructure needs*, November 2016

As illustrated on both maps of New Zealand in Figure 2 (previous page), tourism activity impact varies from significant in a concentrated or dispersed geographic area (Queenstown, Westland and McKenzie), through to very limited (Upper Hutt, Kawerau). Noting that even within council districts, the impact of tourism is not uniformly felt (Southland).

The scale of the costs that tourists impose on councils varies, because tourists are not evenly distributed. Some communities are tourism hotspots, while others receive relatively few visitors.[10]

As highlighted in the left map, tourism is not spread evenly across New Zealand. Tourist hotspots such as Westland, and McKenzie exceed 43 and 62 tourists per head of resident population respectively, the least visited local authority area had as few as 0.04 visitors per head of resident population.

Equally, as illustrated on the right map, some areas in New Zealand extract more spend from visitors than visitor numbers would suggest (Queenstown, Hurunui).

Where high visitor to resident ratio exist, the cost each tourist places on local infrastructure may be harder to fund from rates compared to areas that have low visitor to population ratios where the costs may be more easily managed by ratepayers.

This simplistic distinction hides many complicating factors. The ratio of visitors to residents may be more significant, for example, in areas of high deprivation. On the other hand, in areas where there are many businesses who benefit from tourism, rates levied on those businesses may help balance local government costs. In areas with dispersed high tourism numbers (national park walks) the options to rate businesses may be limited by lack of businesses such as commercial accommodation. Even in areas where the ratio of tourists to residents is low, peak visitors may push infrastructure and services well beyond the capacity needed for residents, this is particularly the case in areas where tourism spend per capita is comparatively high.

Impact of tourists on local governments and communities

In recent years, a strong tourism sector has produced many tangible benefits for destinations hosting visitors. Jobs are provided by businesses catering for tourists and local residents benefit from expanded job opportunities.

The tourism sector relies on the social licence of communities to operate. TIA's twice yearly surveys and associated research reveal New Zealanders to be supportive of the tourism sector but concerned with the number of international visitors, impact on places of significance, and the environment.[11] Other industry surveys such as Angus & Associates Views on Tourism research programme echo similar sentiments.[12]

[10] New Zealand Productivity Commission, 2019, p258

[11] Tourism Industry Association, *Mood of the Nation surveys*, December 2015 to March 2020

[12] https://www.angusassociates.co.nz/media-161019-views-on-tourism-research-develops/ last accessed 19 May 2022

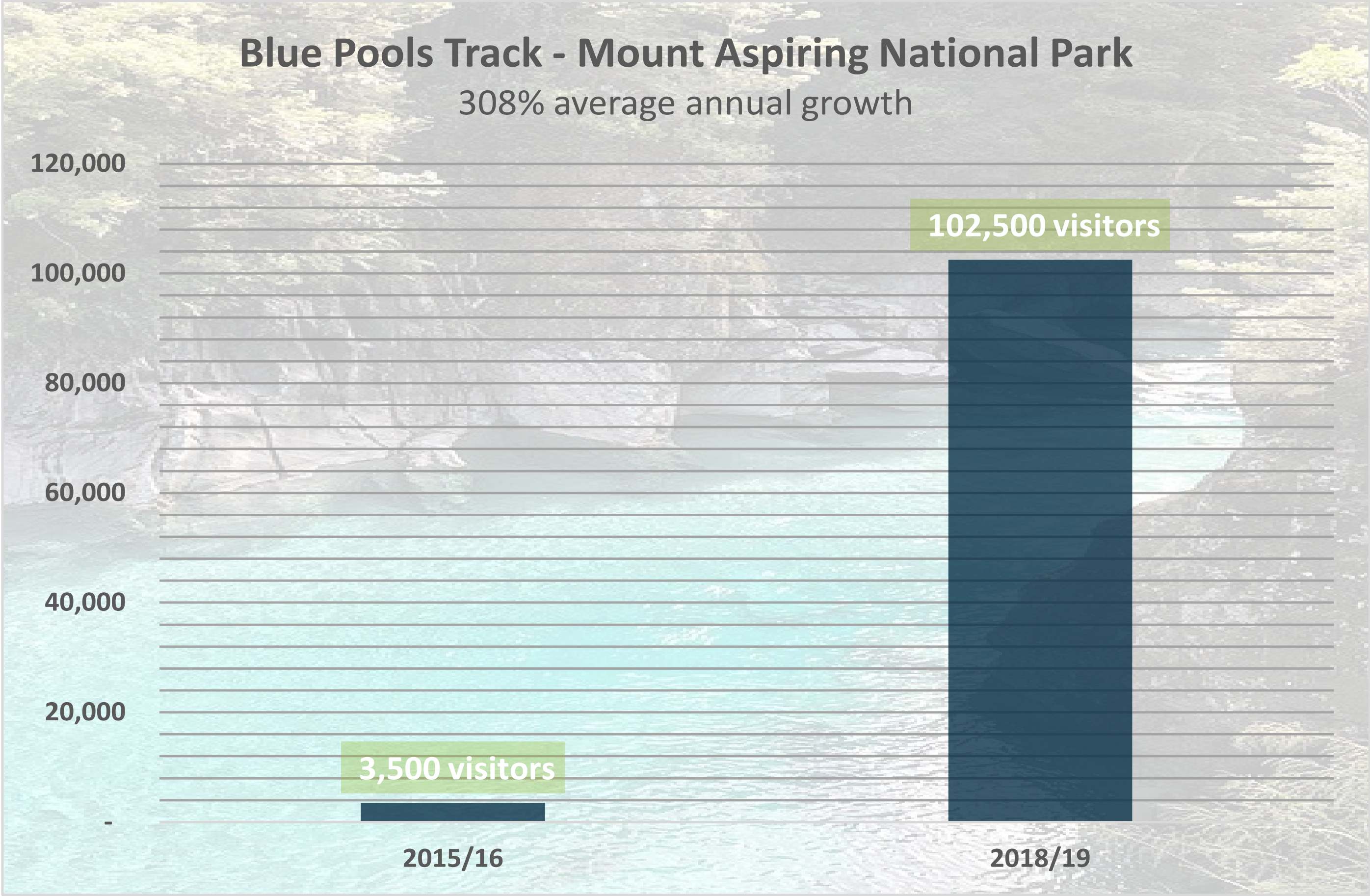


Figure 3: Growth in visitor numbers at Blue Pools Track (Mount Aspiring National Park) between 2015/16 and 2018/19

Already the perceived effects on residents' lives – such as crowded national parks, environmental degradation, pressure on public facilities, rising rents and noise pollution – have eroded this license in some communities. This sentiment is revealed in the percentage of survey respondents perceiving tourists as putting too much pressure on New Zealand having more than doubled since 2015.

In 2015, road rage caused by traffic issues surrounding the popularity of Hobbiton in Matamata-Piako District generated news headlines overseas.[13] Overcrowding concerns peaked for many of New Zealand's national walks including the Tongariro Alpine Crossing where congestion reached breaking point in 2017.[14] The result of attempts to spread the visitor load on the environment are illustrated in Figure 3 above where the significant growth in visitors to Blue Pools Track, produced an average 308% annual increase in visitors over a three year period. The pause afforded by Covid-19 has led the small town of Akaroa to debate the desirability of the return of cruise ships and passengers. New rules are now in place to protect the environment and residents' way of life after a decade of community concern.[15]

[13] Tim Hume, "Road rage in Middle Earth: New Zealand vigilantes snatch car keys from tourists" CNN, March 11 2015 Last accessed 26 April 2022

[14] "The Great Tourism Squeeze: New Zealand signature walk overrun by tourists" New Zealand Herald, 2 May 2017 Last accessed 26 April 2022

[15] Amber Allott, "Christchurch councils to consult on how to manage cruise ships' impact on Akaroa" Stuff, March 16 2021 Last accessed 26 April 2022

Tourism benefits and its social license rely on good quality infrastructure

There appears to be a direct correlation between the quality of tourist-facing infrastructure and the economic performance of the tourism sector. Overseas, under-investment in tourism infrastructure has been identified as reversing the benefits of tourism through tourism decline and the impact on local communities.

Looking through a pre-COVID lens, it appears that in parts of New Zealand, the pressure from tourism – exacerbated by the highly seasonal nature of the sector and underlying pressures like ageing infrastructure, and strain on capacity – has led to a reduction in the quality of visitor and host community's experiences, as well as further environmental and infrastructural degradation.

> *Queenstown Lakes District Council: "The flow-on effects of an eroded experience in Queenstown could, if unmanaged, significantly damage New Zealand's tourism brand and economy."*[16]

While New Zealand's natural environment is often pointed to as the foundation of the visitor experience, the capacity and quality of infrastructure to capture the benefit and ensure positive experience and recommendations is highlighted in a number of key reports:

> *To capture the maximum benefit from sustainable tourism growth while maintaining community support, all aspects of the industry and the infrastructure that supports it, need to scale up accordingly*[17]
>
> *To achieve our long-term growth targets and maintain our international competitiveness we need to develop and maintain New Zealand's mixed-use infrastructure*[18]
>
> *Tourism activities utilise a wide set of infrastructure, including roads, airports, waters systems, amenities and parking. Ensuring the quality and quantity of this infrastructure is central to achieving high value sustainable growth*[19]

The importance of infrastructure in terms of the competitiveness or desirability of a tourist location is dependent on complex interconnected factors illustrated in the globe Figure 4. These include the core resources and attractors and supporting factors and resources. Also, destination management, policy, planning and development and other qualifying or amplifying determinants such as location and value.

In the World Economic Forum's Travel and Tourism Competitiveness Report 2019, infrastructure components accounted for 17 of the 90 competitiveness measures as tourist destinations. New Zealand slipped two places from the previous report to 18th most competitive destination in the world.[20]

[16] Martin Jenkins, *Sustaining Tourism Growth in Queenstown,* March 2018, p35
[17] Deloitte, *National Tourism Infrastructure Assessment*, April 2017
[18] MBIE, *Tourism Infrastructure: Tourism Insight Series*, August 2019, p9
[19] Goal 8 of the Tourism Taskforce 2025. See Tourism Industry Association, *Tourism 2025 and Beyond: A Sustainable Growth Framework*, p5
[20] World Economic Forum, *The Travel and Tourism Competitiveness Report 2019: Travel and Tourism at a Tipping Point,* 2019

Figure 4: Factors influencing the competitiveness of a tourist destination

Deloitte's 2017 national assessment of tourism infrastructure identified seven types of infrastructure as having the greatest impact on tourism activity overall. Councils provide five of these including drinking water and wastewater systems, public toilets, road transport and car parking, all of which have significant ongoing operating costs. The other three include the top ranked visitor accommodation, airports and related facilities and telecommunications.

The prioritisation of infrastructure is based on several factors including the base need of the infrastructure. Public toilets for example typically have no discernible ability to attract tourists to an area[21]. However absence of toilets, or issues with the quality of facilities for such a fundamental need is often noted in tourist surveys and creates significant barriers to tourism enjoyment. The shortage or quality of public toilets, especially in areas with high numbers of international tourists in comparison to the resident population, was noted as an important issue for many regions in New Zealand.

The level of investment needed for tourism infrastructure was explored in the Sector Leaders Report, and in Deloitte and McKinsey research. The McKinsey report suggested that $100 million was needed upfront for 20 priority councils where visitor growth had outpaced the provision of mixed-use infrastructure.[22] In addition, the Sector Leader's report estimated each year a further $150 million was required to be spent on tourism infrastructure.

[21] Exceptions to this incude 'destination' toilets such as the Hundertwasser Toilets in the town of Kawakawa
[22] McKinsey and Company, *Addressing New Zealand's most pressing local tourism infrastructure needs*, Tourism Infrastructure Study, November 2016, p10-11

The tourism infrastructure "gap"

Broad agreement exists that tourists, as beneficiaries of mixed-use infrastructure, need to contribute financially to tourism infrastructure and asset upkeep. The tourism infrastructure gap therefore partly concerns the immediate funding to address supply and demand. Ideally at the same time, tourists would contribute to the broader social and economic impacts of tourism on local infrastructure.

The magnitude of this task is difficult for councils.

Councils must adhere to externally imposed lending restrictions, and manage rates to affordable levels, while balancing a range of issues including environmental regeneration, climate adaptation, water quality, and population growth to name a few. Councils are generally already doing well, and can fund the costs of operating, maintaining, and replacing existing tourism related infrastructure. However, the burden of covering these costs is often borne entirely by ratepayers due to there being no easy collection point for charging.

In addition, debt and funding constraints, which apply broadly across all of the functions that are carried out by local government, mean that funding new initiatives or infrastructure can often be challenging.

Tourists do contribute financially to New Zealand. Currently the main source of revenue extraction from tourists is through tax – both from general taxpayers and from international tourists through GST and the International Visitors Levy. GST is used to fund many important programmes and services. The argument to redistribute this revenue directly to local authorities would impact on our standard of living which in turn underpins the tourism experience.

Significant revenue is collected by central government and redistributed to councils for local services and infrastructure which support tourism through competitive funds (TIF, PGF, TFDF). A review of the TIF in 2019 concluded the fund "has provided a useful pressure valve for councils and communities impacted by the significant growth in tourist numbers."[23] Important as these funds are, they do not easily reconcile with parameters of local government tourism preparation and planning, and the risks associated with ongoing operational costs. For example, some funds require projects to not be included in long term plans, or to be brought forward from later years creating the need to re-prioritise investment.

Additionally, funding is typically contestable, requiring committed resources or external support to prepare applications, and operating costs are either not covered at all or only guaranteed for a short period of time. As the Kaikōura District Council emphasised in their submission to the Productivity Commission report, "without dedicated resources of larger councils it is difficult to effectively compete with larger councils for contestable funds."

The Parliamentary Commissioner for the Environment highlighted in its 2021 report, these current tourism infrastructure funds are currently not responsive to the wider sustainability considerations, and this would require system change.[24]

[23] Sagebush, 2019. *Review of the Tourist Infrastructure Fund*. Report for the Ministry of Business, Innovation and Employment. Wellington: Sagebush

[24] Parliamentary Commissioner for the Environment, *Not 100% but four steps closer to sustainable tourism*, 2021

Tourists already pay for most of the costs they create. But they do not cover the costs incurred by councils for the local public amenities and services that tourists consume directly.[25]

Many councils feel strongly that they need to respond to tourism needs, and that in the absence of tools to directly monetise tourism activities, a shortfall or "funding gap" is created that falls on general ratepayers, and impacts on resources available for other services. The reality for many of the councils is that ratepayers are socialising the costs of the tourism sector where the benefits are privatised. While tourists contribute to the viability of local businesses there may be a funding shortfall for the provision of toilets, rubbish bins, carparks, and roads for those passing through to visit popular tourist sites.

Jim Boult, Mayor: "Our significant growth pressures and increased visitor numbers put a huge strain on local infrastructure and our ability to support growth in Queenstown Lakes through rates alone is simply not possible. Such a cost threatens to undermine the wellbeing of our communities"[26]

Local Government New Zealand also pointed out concerns with local government's reliance on rating in submission to the Productivity Commission, noting that:

[local government is] handicapped by the comparative narrowness of the taxation base and, more particularly, its dependence on rating as the major source of revenue.[27]

Theory, and the local government funding framework, suggests that under these circumstances, councils should look to user-funding mechanisms to ensure that beneficiaries (or exacerbators) contribute to the costs they impose. However, in real-world examples, and the current local government funding framework, devising mechanisms that can capture tourist value, at reasonable cost, and without creating unacceptable perverse incentives is often quite challenging.

Ongoing operating and maintenance costs of infrastructure are also an issue for councils where funding is secured, or investment occurs in the future. For example, in monetising the benefits and reinvesting revenue into maintenance of toilets, freedom camping sites, cycleways, traveller reserves and in the expectations of services, such as those provided by the Tourism Facilities Development Fund (TFDF). The funding of operating costs is an issue that several councils indicated was insufficiently considered during investment decision-making and would benefit from additional attention in the contestable funds.

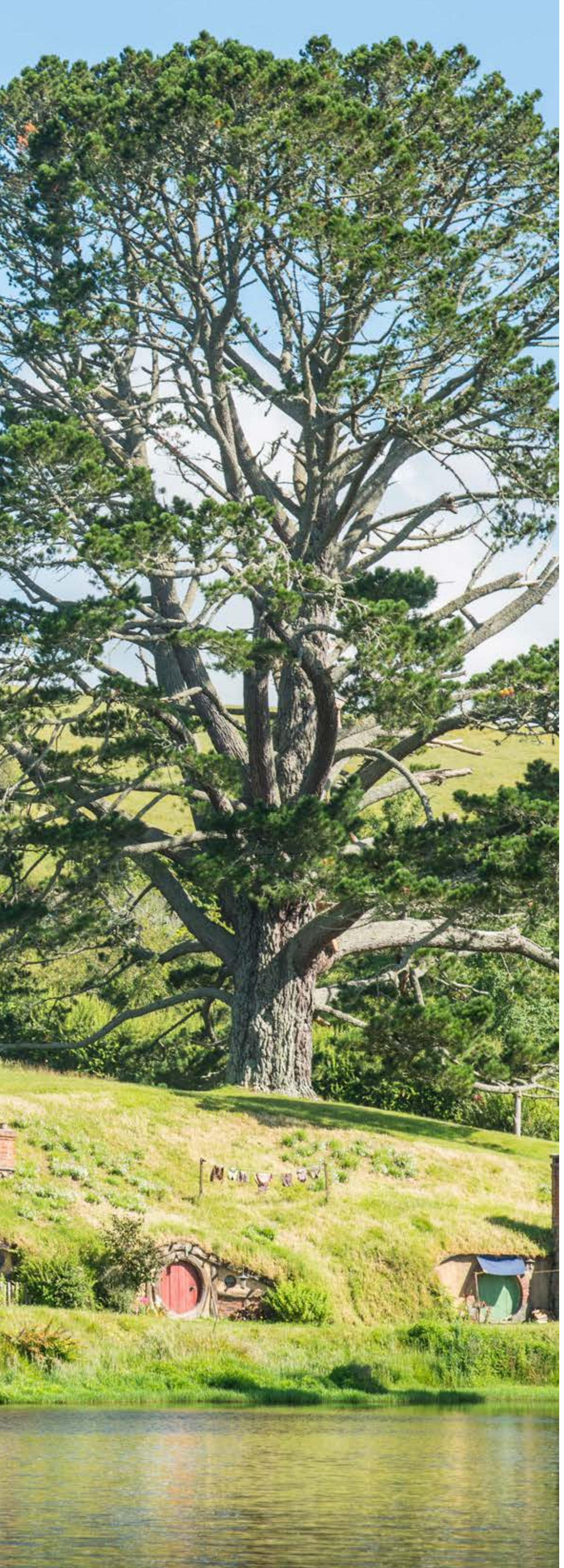
Local government's desire to consider the wider economic issue of tourism infrastructure with costs not limited strictly to funding and operating has prompted novel proposals. Queenstown Lakes District Council (supported by the Government) proposed a pre-Covid solution suitable for their locality; a visitor levy in the form of a bed tax to assist in funding tourism infrastructure. For other councils, without significant visitor bed nights for example or where a public toilet is in the middle of nowhere, the user-funding mechanism may be much harder to design.

[25] New Zealand Productivity Commission (2019), p263

[26] RNZ, Government supports 5 percent bed tax in Queenstown, 5:30 pm on 11 September 2019

[27] LGNZ, Submission – Review of local government funding and financing, 2019, p2

MorrisonLow



Wider costs compensating for the environmental impacts tourism might impose are difficult to extract with funding tools. Council staff we interviewed confirmed that these costs are best approached from the perspective of permits or licensing to operate and through load management. The proposed Milford Opportunities Project (MOP) is a good example of the aforementioned approaches. MOP involves a complex set of infrastructure, strategic, legislative, management, commercial and operational opportunities, in an area of significant natural amenity, with significant tourism pressure, and the need to maintain high levels of environmental protection.

The challenges of MOP also illustrate another factor for councils – often the attraction is in the public estate, councils may not have authority over in-district land that tourists wish to visit (i.e. national parks and reserves), let alone the limited infrastructure that may exist on said land, such as public toilets. However, in some cases the impacts of tourism are felt in the towns and communities that surround these sites. Finding a way to recover the costs of mitigating the impacts of this tourism is challenging for councils as there may be no clear point or mechanism for collecting revenue from tourists directly.

Funding the infrastructure "gap" is hard

While the impacts of tourism are generally well understood, the question of how to extract revenue from tourists as the beneficiaries of tourism, to fund regenerative tourism is complex at the local government level.

Managing the cost pressures associated with the infrastructural requirements of tourism is just one of several stress points for councils. Other significant pressures are coming to bear on councils including population growth, associated infrastructure demands, climate change and increased responsibilities passed down from central government. These pressures may overlap; mixed-used infrastructure requirements being wrapped up in the demands of population change, ageing infrastructure, and risks from natural hazards such as climate change.

Through consultations with local government, we observe that in New Zealand most councils do not own or operate infrastructure that is primarily in place for the benefit of tourists (there are some exceptions, but they are very limited). This suggests that isolating the share of funding, legitimately attributable to tourist activity is difficult within the context of the local government funding framework.

Looking at the asset classes where councils are involved in tourist-facing infrastructure, in general the following infrastructure is provided:

- Freedom camping sites and amenities (typically basic in nature)
- Public toilets
- Carparks
- Dump stations for camper vans
- Rubbish bins
- Boat ramps and wharves
- Campgrounds

A similar spread of infrastructure is visible in the projects that have been successful in attracting funding in the five rounds of TIF to date.

In a small number of cases, councils own attractions such as natural geothermal pools or zoos, but the majority of assets are mixed-use and serve community amenity, as well as visitor needs. It would be hard to define many assets as "tourism" assets, even when visitors form a significant portion of usage, or where capacity or quality has been specified with visitor needs in mind.

Instead at the local level it is critical infrastructure which falls under the umbrella of "mixed-use" or "public good" type amenities that are used by visitors in host communities including drinking water, wastewater systems, public toilets, road transport and car parking. Walkways, cycleways, gardens, and sports and recreation facilities could also be included.

These mixed-used tourism assets typically owned and managed by councils have been highlighted in other reports on the tourism sector. Deloitte noted[28] that investment prioritisation for tourism faced four key challenges:

- **There is a wide range of potential investment areas ranging from accommodation and attractions through to civil infrastructure which all compete for investment prioritisation**. We note that in a local authority environment investment in tourism infrastructure is predominantly focused on civil infrastructure however investment in tourism facing infrastructure must compete with public good assets for investment prioritisation.
- **Users of infrastructure are often a mix of visitors and residents**. This creates challenges in the setting of fees and charges as the needs of the ratepaying public must be weighed against the tourism needs.
- **The beneficiaries are not confined to the would-be investor.** The commercial incentives to invest in tourism infrastructure are therefore lower than they may be in other sectors. For local government this manifests itself in public resistance to using ratepayer funds to invest in infrastructure that may have a high level of private benefit; this is particularly relevant in areas where tourism is not perceived to be beneficial to the local community (i.e. where there is less social license).
- **The nature of tourism and its infrastructure needs varies widely from region to region.** This is highlighted in Figure 2, which shows the differing impact of tourists on each council in New Zealand. This means that there is unlikely to be a "one size fits all" solution.

Difficulties therefore arise over the purpose of mixed-use infrastructure. What is determined as "public good" or for "community benefit" at the local level may clash with the quality and service expectations of tourists. The tension is summarised in relation to services here in an earlier Morrison Low report for the Department of Internal Affairs, but equally applicable when considering public toilets:

> *In addition to the simple need to increase the size and scale of facilities, tourists often have higher level of service expectations than local ratepayers. While councils will not always meet these service level expectations, this can create additional issues. For example, when tourists expect waste transfer stations to have longer opening hours than provided, there may be increases in illegal dumping.*[29]

Funding issues have been assisted through the creation of central government funds – which have sought to address pressure points, and to assist where local resources have been insufficient to either fund assets when needed, or where local community priorities would have been adversely impacted by prioritising tourist-facing assets.

Decisions to invest taxpayer funding into grant programmes has a long history in New Zealand, the NZ Tourist and Publicity Department ran tourism facilities grant funding programmes in the 1980s. A perennial challenge for central government has been:

- to provide confidence to Ministers that local resources have been genuinely exhausted, before central funding can be allocated with confidence
- ensure that funding is well spent, and assets are appropriate to the need
- maintain the social license for tourism to operate.

The results of central funding have been clear. Investment in infrastructure supporting the tourism sector has accelerated. The purpose of TIF is to support robust infrastructure and is directly tied to protecting and enhancing New Zealand's reputation and the quality experiences for domestic and international visitor.

[28] Deloitte, *National Tourism Infrastructure Assessment for the Tourism Industry Aotearoa*, April 2017, p11
[29] DIA, *Costs and Funding of Local Government*, Morrison Low, 2018

Maintaining the social license for tourism to operate is an increasingly important dual aim, particularly in regions facing significant pressure from tourism growth. That is, where the pressure of visitor numbers can adversely impact on the ability of communities to enjoy amenities, or to fund other community assets and services.

TIF's success has been in helping some communities where the ratepayer base is small. Combined with the Tourism Facilities Development Fund and the PGF, $393 million of tourist related funding was distributed between 2017 and 31 July 2020.

The ability to run a clear-cut funding formula over tourism-facing infrastructure, with simple clear answers about where and what to fund is not possible. This toolkit seeks instead to highlight a range of examples of funding tools that have been used by councils across New Zealand to fund tourism related infrastructure with varying success.

"Best practice" turns out to be situation specific

While the background issues are well understood, councils approach fees and charges for tourism facing infrastructure in different ways because funding decisions must be made within a political environment. Most infrastructure used to support tourism are also used by locals ("mixed use") which adds a layer of complexity in determining whether user fees should be charged.

This toolkit cannot offer any singular examples of "best practice" due to a range of complexities involved in generalising across local government communities. As was noted in *Wellington City Council v Woolworths New Zealand Ltd* (No 2) [1996] 2 NZLR 537 (CA):

> *Rating requires the exercise of political judgment by the elected representatives of the community. The economic, social and political assessments involved are complex.*

Unique local drivers informing the basis of all council decisions include location, infrastructure owned, tourism offerings, reliance on tourism, rating base, challenges and opportunities, community desires, and the negative externalities of tourism.

Our analysis, and extensive interviews with key practitioners from councils across New Zealand suggests that these complexities cannot be reduced into a universally applicable revenue mechanism.

However, it is useful to pull local factors, experience, and the local government funding framework into a set of principles that can be used to develop a sensible, practical, and legal approach to addressing how and when cost recovery from tourists can be used effectively.

We believe that the approaches developed through this review have confirmed and built upon the Productivity Commission's 2019 finding that:

> *Councils have access to a range of different tools and have a great deal of autonomy in how they use them. They also have the flexibility to respond to local needs and preferences, as they choose what services to deliver and how to deliver them. No two councils are quite alike in how they raise revenue and deliver services. We conclude that this autonomy is valuable, and worth preserving.*[30]

[30] New Zealand Productivity Commission, *Local Government Funding and Financing*, 2019, foreword

The local government funding framework

Local government in New Zealand operates within a legislative framework which sets some parameters in which councils determine how much revenue they intend to raise and the ways in which they raise it.

Councils have a wide range of tools available to fund their activities, however not all of these tools are able to be used to fund the capital and operating costs of tourism infrastructure. In particular:

- Development and financial contributions are only able to be levied on resource consent applications (or in the case of development contributions also building consents and service connections) and typically only apply to subdivision consents (but can also apply to change in use consents). Development contributions are charged to landowners.
- Councils have little to no control over the quantum, or frequency of crown subsidies.
- Many councils have few strategic assets that are able to be sold.
- The use of debt provides a means of financing the capital outlay for infrastructure but should not be used to fund operational costs and its repayment must eventually be funded.
- Dividends and investment returns are not available to all councils.

Consequently, rates and user fees or charges are the most commonly used and accessible tools for funding tourism infrastructure. In determining the balance of user fees or charges and rates to use for funding various tourism infrastructure, councils are required to develop, and consult with the public on, a revenue and financing policy,[31] which must[32] consider the following matters for each council activity:

- the community outcomes that the activity contributes to (public versus private good)
- whether benefits accrue to the whole community, or individuals/identifiable groups (beneficiary pays)
- the longevity of the benefits
- the extent to which the need to undertake the activity has been driven by individual or identifiable groups (exacerbator pays)
- the costs, benefits, and consequences of funding the activity distinctly.

Subsequently, councils must consider the broader outcomes of any funding mechanisms on the social, economic, environmental and cultural well-being of its community (the four well-beings). Councils have broad discretion about what they take into account when completing this wellbeing assessment.

In practice, this requires a number of subjective judgement calls from councils in deciding how certain infrastructure should be funded. The need to consult on, and publicly disclose, these funding decisions means that such judgement calls are made in a public environment, where proposals and priorities are often contested and requires councils to consider the impact of their decisions on many different, and often competing, sectors of their local economy.

Beyond consideration of which tools (or mix of tools) should be used to recover the costs of infrastructure provision, councils must also have regard to how much they intend to recover. The Local Government Act 2002 requires councils to maintain a "balanced budget".[33] While this is generally interpreted to mean that councils must recover enough revenue to cover all of their costs, this section also restricts a council's ability to generate significant surpluses.

[31] Section 102(2)(a) of the Local Government Act 2002
[32] Section 101(3) of the Local Government Act 2002
[33] Section 100 of the Local Government Act 2002. This restriction applies only to councils; CCOs are able to generate surpluses

Broadly, this means that revenue generated from fees and charges is typically used to offset income from targeted or general rates. That is, councils cannot increase the total amount of revenue collected through introducing new fees or charges. By doing so, they instead focus on shifting where the funding burden falls from ratepayers to users of goods and services. In deciding to shift this balance, councils must consider the marginal benefits of doing so, and compare these to the negative impacts of the change (whether behavioural or economic).

The local government funding framework means that, when considering tourism infrastructure (which is often mixed use):

- the incentives to adopt alternative funding mechanisms are low
- decisions are transparent, public and highly political
- decisions face the risk of legal challenge
- collection costs are often high, or there may be no clear point of collection.

These factors contribute to a relatively low level of uptake for user fees and charges for tourism infrastructure within the local government sector.

Tourism funding framework

This report demonstrates that the decision-making process for setting rates or fees and charges is not a simple or arithmetic process. Councils are legislatively required to consider a broad range of factors (such as beneficiaries and exacerbators and cost of collection) when determining the best approach to recovering the cost of operating tourism related infrastructure (or indeed any assets or services provided by a council). As previously discussed, because of the range of complexities involved in making such decisions, it is difficult to define any singular examples of “best practice”.

However, this exercise did identify that many councils face broadly similar issues and challenges based on the type of infrastructure that they provide and what we have identified as their “tourism identity”.

Recognising these differences and similarities has allowed us to develop a high level framework that brings together the legal frameworks available to support charging, with practical real world experience.

The framework proposed in this report is configured as a set of tools that may be used to assist councils in narrowing down the opportunities that are available to them to recover some infrastructure costs from tourists.

The framework has three key steps:

- Determine “tourism identity” – each council should consider what their role is within tourism as described in the next section
- Consider the key factors that influence a decision to implement different funding tools
- Identify funding tools that may be applicable or successful

The framework is not intended to provide a single best answer. It provides additional information that must be considered alongside a range of other factors (including those that do not relate directly to tourism at all) to make an informed decision.

The framework should feel familiar to local government users. This is because it is based on the principles of the Local Government Act and is consistent with extant best practice that currently exists across local government.

Tourism identity

The first step in identifying the range of funding tools that may be appropriate for a particular piece of tourism infrastructure, is to determine a council’s “tourism identity”. Broadly speaking, the “tourism identity” reflects the role that tourism currently plays for a district, and the aspirations for the future role of tourism.

We have derived six different “tourism identities” that may apply to councils in New Zealand, each with unique challenges and opportunities.

These identities provide a way to anchor an assessment of where tools make sense to explore, and where there is experience with addressing the need to fund tourism-facing assets, to draw potential findings about how councils might progress, with the confidence that they will be in “good company” in exploring a particular approach.

The tourism identities explored are:

- **Destination hubs** – areas such as Queenstown which have tourism offerings that are densely distributed within a small geographic area.
- **Destination diffuse** – areas such as Westland which have a number of smaller tourism offerings, located throughout the district, but no clear centre of tourism.
- **Gateway** – areas such as Invercargill, which are typically pass-through destinations or overnight stops on the way to a specific tourism destination.
- **Emergent** – areas such as Central Hawke’s Bay which are defining their tourism identity and may have low levels of tourism currently.
- **Metropolitan** – The large cities in Aotearoa New Zealand.
- **Nascent** – areas which have limited or no tourism activity and have made a deliberate choice not to pursue growth of the tourism industry. This toolkit generally does not apply to this group.

These “tourism identities” are described in more detail in the following pages, including a consideration of the challenges and opportunities associated with each, and the funding tools that are most likely to be applicable.

In describing different tourism identities, it is important to note that this is not a qualitative measure - there is no identity that is objectively better or worse than any other. Nor should it be expected that every council should, or could, grow tourism to be the dominant contributor to the local economy. The identities create a mechanism to explore which tools might be most appropriate or most likely to be effective to a particular identity.

Councils may be assisted in recognising their tourism identity by the destination management planning process. That process requires councils to specifically consider their district or region’s core visitor experiences, to define their destination, to define their long-term vision and to identify their brand positioning. Alignment between the tourism identities outlined in this toolkit, and those elements of the destination plan is likely to provide better outcomes when applying this toolkit.

In some cases, different tourism identities may apply to different parts of a district, or indeed within the same district. Where this is the case, it may be necessary to consider the infrastructure proposal, and its purpose, when determining what tourism identity is appropriate. The point of determining a “tourism identity” is simply to assist in narrowing down the set of funding tools that may be appropriate within a district and the ways in which those tools may be used; it is therefore not necessary to be definitive.

Destination hubs

Destination hubs are councils or areas which have a high level of tourism concentrated within a relatively well defined area, or where the entire district experiences high levels of tourism. Destination hubs are typically very successful at capturing tourism value, and tourism is likely to be the largest, or one of the largest, contributors to the local economy. The key characteristics of destination hubs include:

- Tourism is one of the largest contributors to the local economy – there are multiple attractions
- Visitors base themselves in the location, and stay one or more night
- The absence of tourism would have a significant negative impact on the local economy
- Tourism activity is densely located within the area
- There may be significant seasonal peaks in demand or visitor volume.

An example of a destination hub is the Queenstown Lakes District.

Destination hubs may still face unique challenges in relation to tourism pressure. High levels of tourism relative to the local population means that the costs created by servicing the tourism population can be high when translated to individual rates bills. Additionally, high levels of tourism will often mean that infrastructure, such as drinking water, wastewater, roads, and public facilities need to be designed and constructed to a much higher standard or capacity than would otherwise be required.

The funding toolkit available to destination hubs is broad but must be managed against competing interests from local businesses. For the most part, destination hubs are likely to have sufficient visitor numbers to justify collection costs if user fees and charges are implemented and are similarly more likely to be able to demonstrate a clear nexus between a rating differential or targeted rate and benefits arising to the businesses or sectors which are charged.

On the other hand, considerations about the impact of charging mechanisms on the behaviour of tourists are a much greater focus for destination hubs. For this reason, commercial concession arrangements such as sharing toilet space with a commercial operator are unlikely to be able to be effectively managed.

We consider that the following funding tools are most likely to be able to be used by destination hubs:

Concession arrangements

While commercial concession arrangements may present some opportunities for destination hub councils to fund some of the costs of tourism infrastructure, in most cases concessions appear to be more successful where councils own infrastructure or other assets and lease the use of that infrastructure to a commercial operator.

Arrangements where, for example, public toilet facilities are provided by a private business are less likely to be manageable in destination hubs as the throughput (volume) of these facilities is likely to be disruptive for the private business.

Differential pricing

Differential pricing arrangements are likely to be able to be successfully used in destination hub areas, particularly for infrastructure in which there is already a charging mechanism in place (and typically a collection mechanism with a physical attendant) as the costs of collection/implementation will be lower per transaction.

There are some risks that higher visitation numbers by non-residents may make administration of such pricing arrangements difficult, however these risks are low and easily managed.

Targeted rates or rating differentials

Destination hubs are likely to be able to demonstrate increased demand or usage of the assets that is caused by the presence of tourists and are able to clearly identify the groups of ratepayers that benefit. Therefore, destination hubs are more likely to be able to apply rating differentials and targeted rates to recover some of the costs of providing tourism infrastructure from those that benefit from tourism.

Destination hubs, like all types of council, will still need to be mindful of placing an unjustifiably high burden on a particular ratepayer group however.

Visitor levy

Destination hubs are likely to have a number of the characteristics that mean that a visitor levy could be helpful in offsetting the costs of providing tourism infrastructure, such as a densely located, easily identifiable area that is impacted. However, the ability to collect and enforce payment of the levy is likely to be constrained for most councils as there are often multiple points of entry (or entry by road which cannot legally be tolled) and active (patrolled) enforcement is costly and often ineffective.

User fees and charges

User fees and charges are most successful (in financial terms) when there is a clear point of collection, the charges are supported by a high level of service, and there are sufficient paying users to cover the costs of additional level of service and collection costs.

Destination hubs are most likely to be able to sustain sufficient throughput to cover collection costs and the provision of higher levels of service, and user fees and charges present an opportunity for these councils. Even where the conditions to support user fees may exist, councils have found that it is important to assess the operating context and locality clearly. The introduction of user fees and charges can still create negative behaviour (for example the introduction of a charge to use a toilet may encourage visitors to use toilets in nearby businesses), or may create perverse outcomes and the risks of this should identified, mitigated or managed.

Depending on the location of infrastructure, user fees and charges are sometimes thought to have the additional effect of demand management, which may be used to reduce or delay the need for future infrastructure investment. We suggest that this issue be treated as second-order, as it is highly situation specific, and again, may displace desirable behaviour.

Destination diffuse

Destination diffuse councils or areas are areas which have high levels of tourism spread across the breadth of a district. This may occur where a council simply has a particularly large geographic area, or where it has a high level of appeal for tourists, but no clear centre of tourism. The key characteristics of destination diffuse areas include:

- Tourism is one of the largest contributors to the local economy
- Bed-nights are achieved, but not in a clearly defined location for tourist activity
- There may be a large volume of freedom camping
- Tourism "hot spots" are spread out across a large area, with reasonable distances between each spot
- Tourists may stay within district, but not necessarily at the same location as they spend most of their time.

An example of a destination diffuse areas is the Westland District.

Destination diffuse areas face unique challenges in relation to tourism pressure. Like destination hubs, high levels of tourism relative to the local population can generate meaningful levels of revenue, but also create significant funding pressures, which may fall across different groups of the community. This can be exaggerated in destination diffuse areas where small pockets of the community may service high levels of tourism, particularly where district-wide rates are not used.

Like destination hubs, destination diffuse areas have access to a broad range of funding tools. Unlike destination hubs however, destination diffuse areas may not have dense concentrations of tourists within a singular location, and visitor bed nights will often occur in a different location to day-time activities, creating a geographic mismatch between the incurrence of cost and the attribution of benefits.

We consider that the following funding tools are most likely to be able to be used by destination diffuse councils:

Concession arrangements

Commercial concession arrangements may present opportunities for councils in destination diffuse areas to provide high quality public amenity while minimising upfront capital costs. Destination diffuse councils may see high levels of tourism in areas with low resident population, meaning demand for facilities such as public toilets and parking may be driven by the visitor, rather than local, population.

In some areas, the levels of tourism impact may be too high for a concession arrangement to be beneficial for both parties, however in these areas arrangements where councils provide a concession for a private enterprise to operate may be effective.

Differential pricing

Differential pricing arrangements are likely to be able to be successfully used in destination diffuse areas, particularly for infrastructure in which there is already a charging mechanism in place (and typically a collection mechanism with a physical attendant) as the costs of collection/implementation will be lower.

Targeted rates or rating differentials

Destination diffuse areas may be able to utilise targeted rates or rating differential to recover some of the costs of providing tourism infrastructure from those that most benefit from the presence of tourism. However, given the nature of destination diffuse areas, identifying a clear group of tourism beneficiaries, or tourism exacerbators, may be difficult. Councils in destination diffuse areas must take care when identifying which costs are to be recovered, and which group of ratepayers should cover them.

User fees and charges

User fees and charges are most successful (financially) when there is a clear point of collection, the charges are supported by a high level of service, and there are sufficient paying users to cover the costs of additional level of service and collection costs.

User fees and charges may be a useful tool to assist in collecting some of the costs of providing tourism infrastructure for councils in destination diffuse areas. These tools will be particularly effective in parts of the district where the impacts of tourism are the highest.

Depending on the location of infrastructure, user fees and charges are sometimes thought to have the additional effect of demand management, which may be used to reduce or delay the need for future infrastructure investment. We suggest that this issue be treated as second-order, as it is highly situation specific, and again, may displace desirable behaviour.

Emergent councils

Emergent councils are those councils which do not currently have a strong tourism offering and do not currently capture significant value from tourism. Emergent councils may have new tourism offerings within their regions or have natural assets or attractions that mean that the district intends to deliberately increase tourism's contribution to the local economy. Key features of an emergent council include:

- Tourism is not a significant contributor to the local economy
- There is a trend of increasing visitor numbers and bed nights within the district
- There may be some specific tourism businesses or activities that have been established in recent years
- The council is making a deliberate effort to grow the role of tourism in the local economy.

An example of an emergent area is the Central Hawke's Bay District.

Emergent councils are likely to be limited in the types of infrastructure that they are able to recover costs from tourists for, and in the tools available to them (for example an emergent council by definition is highly unlikely to have an attraction or other tourist infrastructure that can be used to offset costs).

Emergent councils are also unlikely to seek to charge fees and charges from tourists directly, as this is not likely to be consistent with their aspirations to induce tourism within their regions. When considering potential funding tools emergent councils should be wary of any negative impacts that these tools may have. In most cases it is likely that emergent councils will favour inducement of tourism over increased revenue generation opportunity.

We consider that the following funding tools are most likely to be able to be used by emergent councils:

Concession arrangements

For emergent councils, concession arrangements (particularly for public toilets) may present a win-win opportunity for councils and local businesses. Businesses may benefit from increased thoroughfare, while councils are able to reduce or share the costs of providing a service.

However, such arrangements need to be established with consideration of the needs and benefits of such an arrangement for both parties and can be complicated to manage/maintain.

Differential pricing

Differential pricing arrangements may be considered for emergent councils in some circumstances. Differential pricing arrangements are likely to be most successful for infrastructure in which there is already a charging mechanism in place (and typically a collection mechanism with a physical attendant) as the costs of collection/implementation will be lower.

While often framed as a "local discount", in emergent councils visitation by tourists may not be high enough to fund a reduction in user fees for locals, and decisions about how to implement differential pricing in these settings will likely require a good understanding of visitation data.

Gateway councils

Gateway councils typically do not have strong tourism offerings in their own right and are often passed through on the way towards a specific tourism destination. Tourists may stay overnight within a gateway district. Key features of a gateway council include:

- The area does not have strong tourism offerings of its own currently
- The area is often used as a stop on the way to a specific tourism destination and may neighbour a destination hub or destination diffuse area
- There may be a high volume of bed nights in the area, and high volumes of freedom campers.

As example of a gateway area is Invercargill City.

Gateway districts may make deliberate attempts at capturing bed nights from tourists, or encouraging extended stays by increasing local tourism offerings, and will have some cross-over with emergent councils. The majority of tourism value captured within a gateway district will be through accommodation providers or hospitality services.

In some cases, gateway councils may have opportunities to charge user fees or charges for infrastructure (for example a final toilet stop on the way to a destination), however the benefits of doing so must be considered very carefully against the risk of adverse behaviour. Similarly, gateway councils may be able to consider the applicability of targeted rates or rating differentials.

Concession arrangements

For emergent councils, concession arrangements (particularly for public toilets) may present a win-win opportunity for councils and local businesses. Businesses may benefit from increased thoroughfare, while councils are able to reduce or share the costs of providing a service.

However, such arrangements need to be established with consideration of the needs and benefits of such an arrangement for both parties and can be complicated to manage/maintain.

Differential pricing

Differential pricing arrangements may be considered for gateway councils in some circumstances. Differential pricing arrangements are likely to be most successful for infrastructure in which there is already a charging mechanism in place (and typically a collection mechanism with a physical attendant) as the costs of collection/implementation will be lower.

Visitation by tourists is likely to be higher in gateway districts than emergent districts, however this may still be limited, and may not be sufficient to support a genuine discount for ratepayers, although this is likely to be highly dependent on the type and location of infrastructure.

Targeted rates or rating differentials

Targeted rates or rating differentials may be able to be applied by gateway councils, although given the comparatively low level of tourism value that is likely to be captured by those most likely to be charged a rating differential or targeted rate, these would need to be used with caution.

It may be difficult to demonstrate a clear beneficiary or exacerbator link between businesses charged a targeted rate or rating differential and the expenditure that is being funded by the rate.

Metropolitan councils

Metropolitan councils are those councils that service our largest cities. The category may also be expanded to councils that neighbour large city councils, to the extent that the characteristics of the ratepayers, and the role of tourism, are similar.

Key features of a metropolitan council include:

- They are the large cities, or predominantly serve/neighbour large cities
- Residents typically have high level of service expectations and there is strong local demand for a range of cultural, recreation, and sporting facilities
- Tourism may play a large role within the district; however the local economy is unlikely to be reliant on tourism.

An example of a metropolitan area is Auckland City.

The biggest challenge for metropolitan councils, in considering the costs of tourism infrastructure, is the ability to separate tourism benefits and costs from those relating to the local population. Metropolitan councils usually provide, and are expected to provide, high levels of service and a broad range of facilities and infrastructure.

Infrastructure such as stadiums, sports and recreation facilities, theatres, and museums are basic expectations for large metropolitan areas. This type of major infrastructure clearly has benefits that extend beyond the local population however and will often be used to meet visitor expectations or for destination promotion purposes.

The challenges of identifying a clear nexus between a cost and a group of beneficiaries were highlighted in the Court of Appeal Case *CP Group Ltd v Auckland Council* which successfully challenged the imposition of a targeted rate imposed on accommodation providers to fund the visitor attractions and major events activities of Auckland Tourism, Events and Economic Development (ATEED).

Despite these challenges, Metropolitan councils still have a wide range of funding tools available, including the following:

Concession arrangements

Commercial concession arrangements are common for metropolitan councils in public facing infrastructure such as libraries, art galleries, museums and swimming pools. Specifically, concession arrangements that provide for the lease of cafeteria space in these facilities are ubiquitous and help to offset the costs of providing such facilities.

These facilities are often primarily for the benefit of locals, but as with most infrastructure in metropolitan areas, are also often used by visitors.

Differential pricing

Differential pricing arrangements are likely to be able to be successfully used in metropolitan areas, particularly for infrastructure in which there is already a charging mechanism in place (and typically a collection mechanism with a physical attendant) as the costs of collection/implementation will be lower.

Targeted rates or rating differentials

While targeted rates and rating differentials cannot be ruled out as a tool for collecting some of the costs of providing tourism infrastructure, the findings of *CP Group Ltd v Auckland Council* demonstrate that doing so in a metropolitan area is fraught with difficulty.

User fees and charges

Metropolitan areas are likely to have sufficient user volumes for infrastructure that is used by tourists to be able to successfully implement user fees or charges. However, user fees and charges apply broadly to residents and visitors alike (arrangements where user fees or charges vary depending on whether a customer is a visitor have been described as differential pricing arrangements).

Consequently, in deciding whether costs should be recovered through the use of user fees or charges, councils in metropolitan areas must consider the impacts of such a decision on its ratepayers.

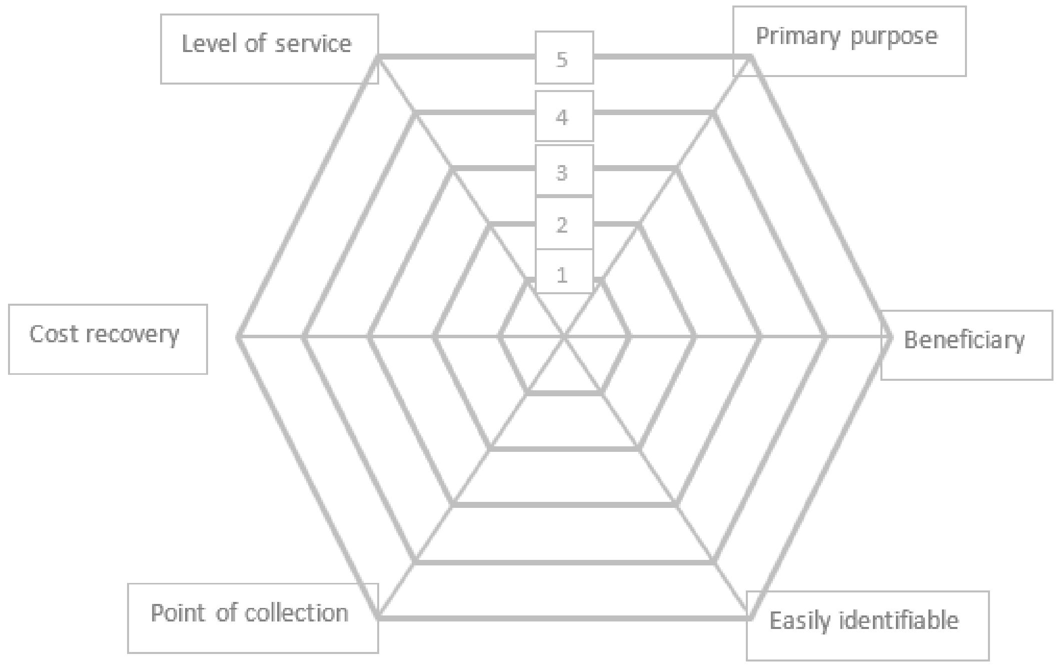
MorrisonLow

Funding Tools

Questionnaire

Answer the questions below by ranking the statement from 0 – 5 according to the scale indicated in the question. Plot responses in the blank radar chart template included. Once completed, “join the dots” in the radar chart and compare the shape to the charts described for each potential funding tool.

- What is the primary purpose of the infrastructure?
  (0= to meet public demand or growth, 5 = to mitigate the effects of tourism or induce tourism)
- Who is most likely to benefit from the infrastructure?
  (0 = general public/residents, 5 = solely tourists)
- Are users or beneficiaries of the infrastructure able to be identified and grouped?
  (0 = not at all, 5 = easily)
- Is there a clear possible point of collection for the infrastructure?
  (0 = not at all, 5 = single clear possible point of collection)
- Is additional revenue generated from charges likely to exceed collection costs and costs of delivering higher levels of service? (0 = not at all likely, 5 = highly likely to exceed costs)
- What level of service will the infrastructure provide compared to other similar infrastructure nearby
  (0 = lower or not applicable, 5 = much higher)
- Are users or beneficiaries of the infrastructure able to be identified and grouped?
  (0 = not at all, 5 = easily)



The radar chart above is intended to assist in the identification of possible funding tools that may be able to be used. However, it does not include all of the factors that need to be considered to make a decision. This is because some factors have simple yes/no responses, are difficult to score, or can add further complication to the process. Nonetheless, we would expect that these additional factors are also considered by decision makers. These additional factors could include:

- Are there free alternatives?
- Is there a risk that a charge may create negative behaviour?
- Will the introduction of a charge have a negative impact on ratepayers (commercial and residential)?
- Is there political will to introduce a new charge or alter the charging mechanism?
- Will the introduction of a charge have a negative impact on visitor experience?
- Are there non-financial outcomes that council is looking to achieve that may influence which tool to choose?

The tools considered in this section include:

- User charges
- Rating differentials and targetted rates
- Commercial concession arrangements
- Differential pricing
- Attractions and facilities
- Offsetting infrastructure
- Subsidies and grants
- Visitor levies

User Charges

User charges are likely to be the most familiar method of collecting fees and charges from tourists, or other users, of infrastructure or services. They are best described as fees charged to an individual to gain access to a product, service or facility.

User fees and charges are widely used by local government in New Zealand, although not specifically for tourism assets. In local government, fees and charges are often used in facilities such as swimming pools, as well as for council provided services such as building consents. User fees and charges may not always be intended to cover the full cost of providing a service, although the approach differs significantly across New Zealand.

User fees and charges can also be used as a demand management tool. This is often the case with infrastructure such as parking lots and boat ramps, where time based fees are used in an attempt to reduce loading on these assets. In these cases, the success of the tool is not measured by its financial performance.

In some cases, councils use "differential pricing" whereby they provide a locals' discount for access to council run facilities. While this may be a type of user fee or charge, it is discussed separately in this document.

Public toilets

One council established a pay-to-use public toilet facility at a highly frequented tourism destination following requests from the local community.

The toilet facility is manned by an attendant during its opening hours and also includes shower facilities (which cost more) and provides a higher level of service than other public toilets in the district, which provides justification for the user fees.

The facilities were often frequented by passengers on tour buses that stopped nearby. When the tour buses ceased to stop near the location of the toilets, the number of visitors to the toilets reduced.

Prior to the relocation of the bus, the toilets saw 88,000 visitors in the 2017/18 financial year, and cost approximately $96,000 per year to operate. Following the relocation of the bus, visitor numbers reduced to as few as 5,000 over a 5 month period.

Key findings

This case study highlights that:

- User fees and charges can be an effective mechanism for recovering some of the costs of providing a higher level of service when this is requested by the community
- User fees and charges can impact demand and usage
- Where free alternatives exist nearby, user fees and charges can have a reduced cost recovery effectiveness

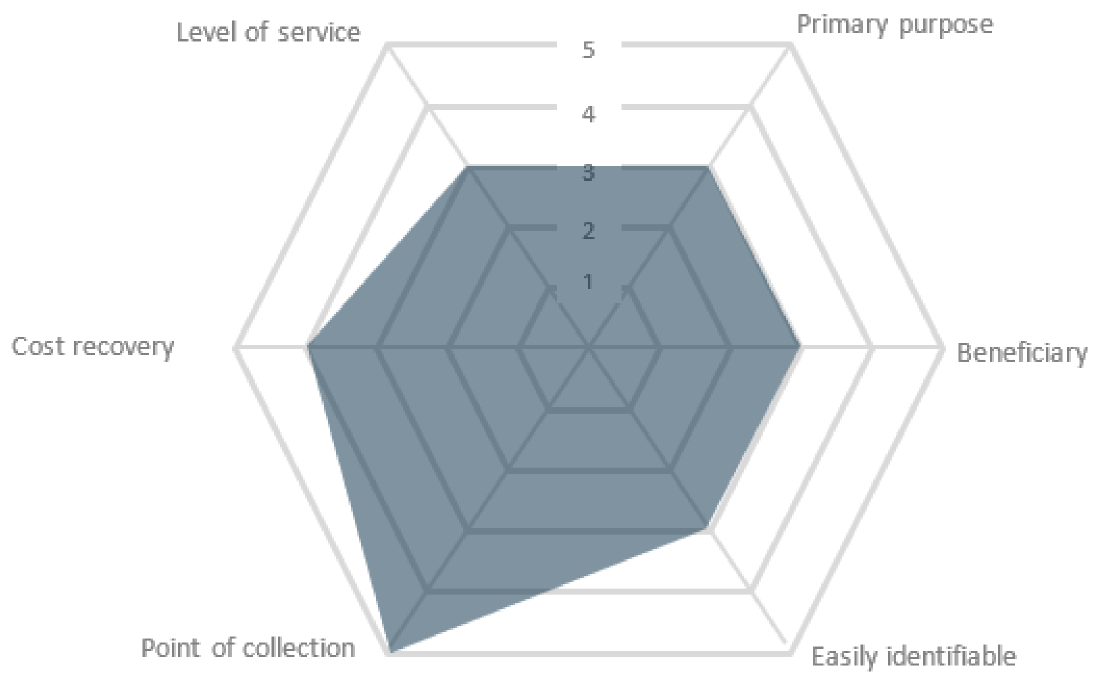
Where it can be applied

User fees and charges are able to be used for any infrastructure which has a clear point of collection.

We have seen examples of user fees and charges being applied towards the following types of tourism or mixed use assets with varying success:

- Public toilets
- Hot shower facilities
- Campgrounds
- Freedom camping facilities (not campsites) such as clothes driers and storage lockers
- Swimming pools, zoos, and other attractions
- Car parks
- Public transport

User fees and charges are most likely to be applicable for infrastructure which has a radar chart similar to the below.



Key features:

- Not for the purpose of mitigating the impacts of tourism (but possibly from tourism demand)
- Partial to entirely for the benefit of tourists
- A clear point of collection/consumption
- Likely to recover cost
- A higher level of service

Key risks

Where user fees are used for facilities such as public toilets or showers, this is typically accompanied with an increase in the level of service being provided. For user fees and charges to be an effective way of recovering some of the costs of providing tourism infrastructure:

- the amount collected needs to at least cover the additional cost of collection and providing a higher level of service
- there needs to be a lack of free alternatives; or
- the additional level of service provided is sufficient that the charge is considered to be value for money.

Even when the above criteria are met, there are risks that external factors may impact on the demand for the service. When there is a decrease in patronage, it is not always possible to reduce the level of service being provided, meaning higher costs may remain.

The implementation of user fees and charges also carries the risk of alienating ratepayers who are likely users of the same infrastructure, may require a lower level of service and may already be partly funding the infrastructure through their rates.

Non-financial impacts of this tool

Pricing can be one of the most effective ways to manage demand for a good or service. The introduction of user fees and charges, which are direct pricing mechanisms can be an effective way to control demand for tourism infrastructure. This is particularly the case for infrastructure which has a discretionary use, such as car parking.

While noting that the demand management effects of user fees and charges can be used to a council's advantage, these effects may also create negative behaviour, such as illegal parking, if not well considered.

Rating differentials and targeted rates

Rating differentials are multipliers that result in different amounts of a rate applying across ratepayer groups. These are typically expressed relative to the standard residential rate. Rating differentials are most often applied to business because there is a clear difference in the levels of service and cost of providing said service.

In contrast a targeted rate may only apply to a specific group of ratepayers (but can also apply to all ratepayers).

Auckland accommodation targeted rate

In the 2017/18 financial year, Auckland Council imposed a targeted rate on commercial accommodation providers to recover half of ATEED's total visitor attractions and major events budget. The scheme was broadened in 2018/19 to include informal accommodation providers such as those that advertise on platforms like Airbnb.

In total the scheme sought to recover $13.45 million from 2,921 rating units in 2017/18. This resulted in the total amount of rates being payable by affected ratepayers increasing substantially, and in some cases doubling.

The targeted rate was challenged in the High Court in February 2020 and was subsequently taken to the Court of Appeal in April 2021. Ultimately, the Court of Appeal ruled that the targeted rate was invalid. The primary points of contention related to:

- Council did not adequately consider the benefit of the funded activity to the targeted group, nor the distribution of the benefits across the community including other identifiable groups
- The assumption that the rate could be passed onto visitors was flawed
- The rate could be considered to be unreasonable given the imposition of such a disproportionate burden on the targeted group

While the court finding does not mean that targeted rates cannot be used to recover the costs of providing tourism infrastructure (or services), it speaks to the challenges and depth of consideration that would be necessary to use such charges. At the time of writing the case has been appealed to the Supreme Court.

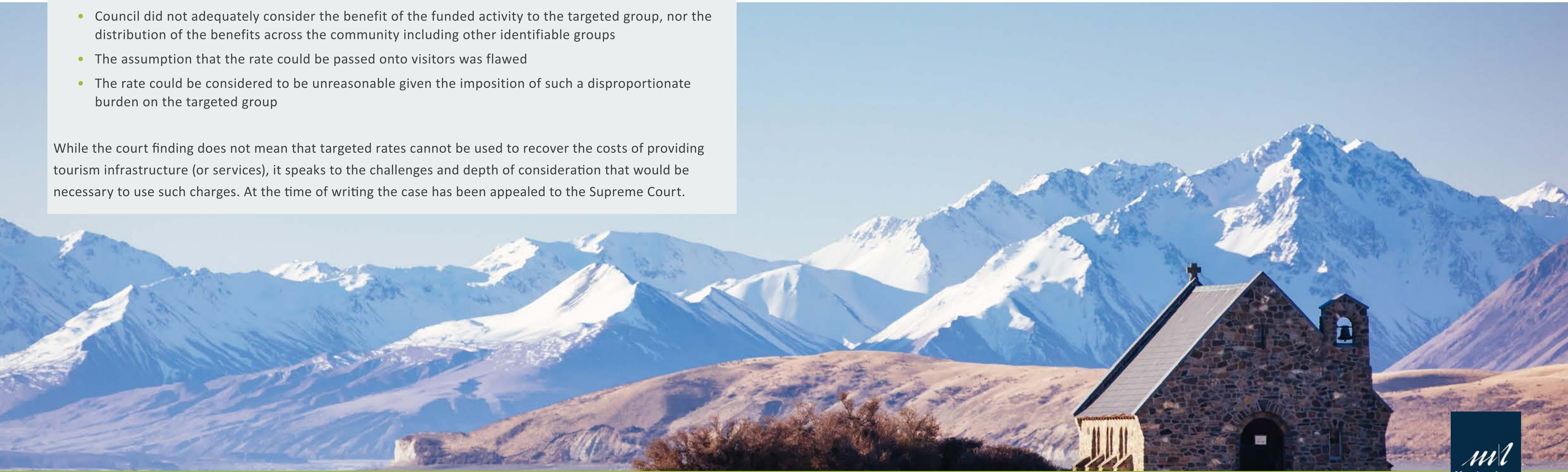
Queenstown rating differentials

Queenstown Lakes District Council provides water, wastewater, solid waste and roading infrastructure within its district that is scaled to meet the demands of both the resident and visitor populations. In addition the council regularly supports tourism promotion (through agencies such as Destination Queenstown and Lake Wanaka Tourism), preservation of areas of natural beauty (including parks and reserves) and the provision of various events and facilities marketed to visitors.

Most of these activities are funded through rating differentials or targeted rates levied on different businesses to reflect the differing levels of benefit received, including:

- Roading, recreation and events and water supply rates which are around 2 – 4 times higher for accommodation providers (including short term rentals) than residential ratepayers
- Sewerage rates which have a base charge and additional charges "per pan" which are equal to half the base rate, and apply to each additional toilet or urinal connected to the network in commercial properties
- Targeted rates for tourism promotion, which are only levied on commercial properties and accommodation providers within the district

The rates have been in place for many years and have not been legally challenged. They are effective in that they reduce the total rates burden that is allocated to residential ratepayers.



Key findings

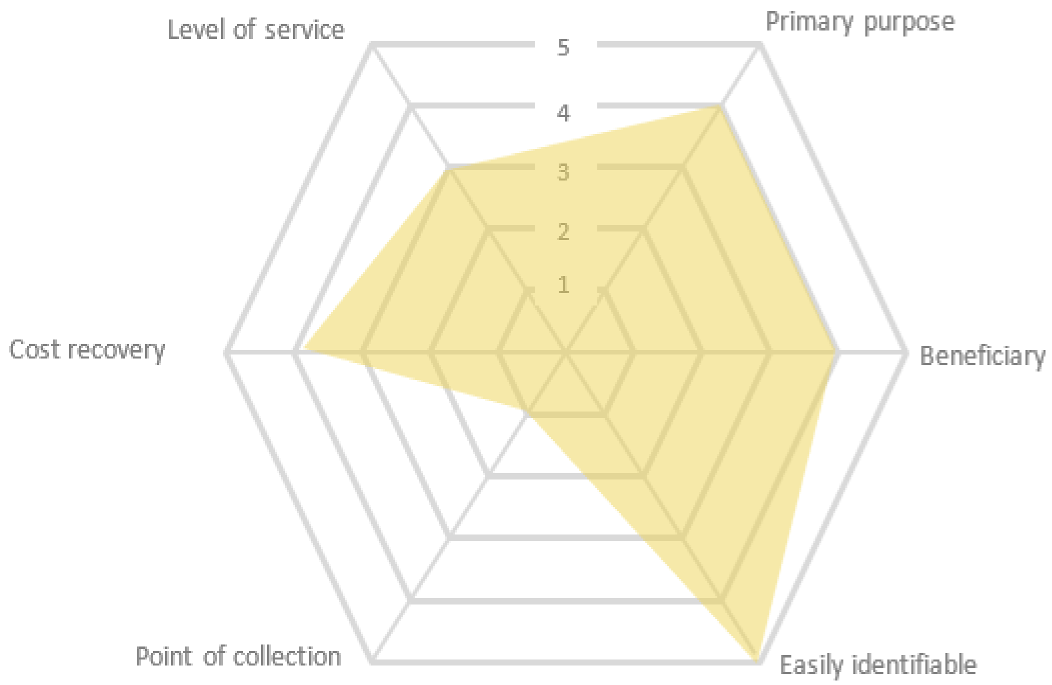
The case studies highlight that:

- Targeted rates and rating differentials are useful tools for recovering the costs of providing services or infrastructure from the groups of ratepayers that benefit the most from the use of that infrastructure or service
- There are implementation challenges in applying rating differentials and targeted rates, particularly in terms of identifying beneficiary groups, and ensuring the share of the burden is fair
- Due to the high degree of mixed use for infrastructure and services in metropolitan areas, application of a targeted rate or differential on tourism businesses could be challenging in these environments

Where it can be applied

Targeted rates and rating differentials are best used for infrastructure or services where there is no clear point of collection for user fees or charges to be applied. This means that rating differentials and targeted rates are a useful mechanism for recovering some of the costs of infrastructure or services that are provided across an entire district, such as event or destination promotion, or peak demand pressures for water and wastewater services.

Targeted rates and rating differentials are most likely to be applicable for infrastructure which has a radar chart similar to the below.



Key features:

- Predominantly to respond to tourism demand or to mitigate tourism impacts
- Mainly for the benefit of tourists (and by extension businesses servicing tourists)
- No clear point of collection/consumption
- Collection costs for targeted rates are low
- A clearly identifiable group of ratepayer beneficiaries

Key risks

The biggest risk of using targeted rates or rating differentials to recover the costs of tourism infrastructure or services is due to the contestability of such tools as highlighted by the Auckland Council case. The findings of the Auckland Council case do not mean that such mechanisms cannot be used, but rather that they must be implemented with care and consideration. Key issues that need to be resolved include:

- Demonstrating a clear link between the group that is expected to cover the costs and the benefits that are expected to arise from the expenditure or the need to incur the cost (as the case may be)
- Being able to clearly identify all of the potential beneficiaries/exacerbators (e.g. identifying all of the Airbnb properties within the district)
- Whether the mechanism is fair, that is whether the amount of costs being distributed over a smaller group of ratepayers could be considered to be reasonable
- Whether to use a rating differential or targeted rate mechanism.

Non-financial impacts of this tool

Targeted rates and rating differentials impose additional costs on specific groups of ratepayers who are beneficiaries or exacerbators of cost. Like user fees and charges, the use of targeted pricing tools may influence demand or behaviour by those that are required to pay.

Such tools may create additional barriers of entry for new businesses that may be subject to increased rates, however given the indirect nature of targeted rates and rating differentials, are unlikely to impact the behaviour of extant businesses. Unlike fees and charges, businesses that change their behaviour to consume fewer goods or services that are funded by a targeted rate or differential are unlikely to pay less.

Commercial concession arrangements

Commercial concession arrangements are arrangements between a council and a commercial operator whereby one party (the grantor) provides the other with the right or ability to use the grantor's assets to deliver a service or product. These arrangements can work both ways, and include arrangements such as:

- A council granting a commercial operator a lease to run a business on council land
- A commercial operator providing public parking or toilet facilities at their premises in return for a rates discount or operating contribution
- A council selling advertising through a free public WiFi network, or allow WiFi devices to be installed on council infrastructure
- Licenses issued to food truck operators or other mobile stall holders to operate on public land/at public events.

The most common commercial concession arrangements are where a council grants a lease to a café operator to co-locate in a public facility such as a swimming pool or library. These arrangements are typically successful in offsetting the operating costs of the facility. This report does not draw on these arrangements for case studies as libraries and swimming pools are typically only incidentally related to tourism.

Cathedral Cove

Cathedral Cove is a popular tourist destination located in the Coromandel. The cove is accessed via a walking track from a car park at the end of Grange Road, a narrow hillside road in Hahei. The car park has limited parking for public use in winter months.

In summer months, to control traffic and the negative impacts of visitors, parking at the end of Grange Road is restricted as a pick up and drop off zone for shuttles only. Instead, visitors are encouraged to park in a visitor car park on Pa Road.

Parking in the Pa Road carpark is free, and a shuttle bus operates between the Pa Road carpark and the Grange Road car park. The service is operated under contract with a local provider, and costs $5 return per person. The programme has been successful at recovering most of its costs, and at managing demand and negative impacts.

Prior to the introduction of the park and ride service, traffic on Grange Road attracted a lot of feedback from the public during consultation periods.

Public toilets

A number of councils have, in the past, entered into arrangements with local businesses to provide public toilet facilities. In most cases, these arrangements focused on the provision of toilet facilities in small townships on tourism thoroughfares.

The arrangements were typically described as being successful for the period in which they were in place, however in most cases these arrangements have eventually ended. Reasons cited for such arrangements ending include:

- The arrangement is usually negotiated between the property owner and council. When a tenancy changes, or the premises is vacant, the arrangement can fall over due to differences in expectations between parties.
- There is a difference in understanding about the benefits and purpose of such an arrangement, for example cafeterias which have required the public to enter the store to access public toilet facilities despite an alternative entrance having been constructed and despite requests of the council.
- After-hours access to toilet facilities may be restricted.

Key findings

The case studies highlights that:

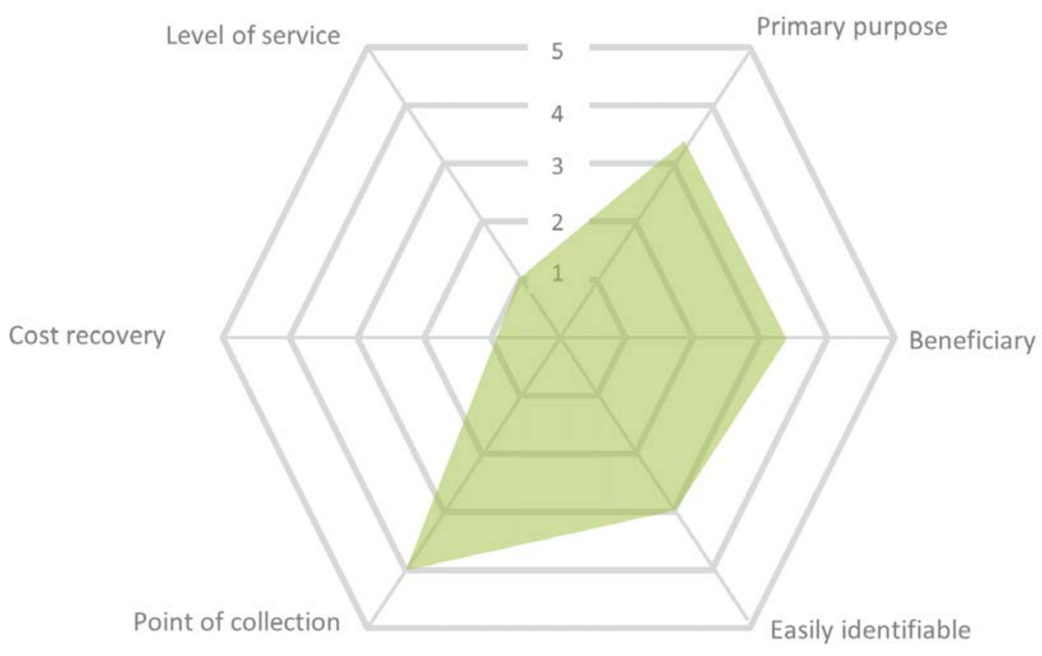
- There are opportunities for innovative solutions which are cost neutral and have additional tourism benefits such as the reduction of demand on certain infrastructure
- Concession arrangements can be mutually beneficial for councils and private businesses
- When establishing commercial concession arrangements, it is critical that all parties understand the mutual and individual benefits and motivations for entering into such an arrangement. Concession arrangements breakdown when both parties want different, competing, outcomes

Where it can be applied

Commercial concession arrangements can be used to fund, or reduce the costs of providing, the following types of infrastructure:

- Public toilets
- Public carparking facilities
- Cafeterias in libraries and swimming pools
- Trading and events licenses.

Concession arrangements are most likely to be applicable for infrastructure which has a radar chart similar to the below.



Key features:

- Partially or fully in response to tourism pressure or need to induce tourism
- Partial to entirely for the benefit of tourists
- A clear point of collection/consumption
- Unlikely to recover costs
- Level of service considerations not relevant

Key risks

The risks associated with commercial concession arrangements differ depending on whether a council is the concession grantor or grantee.

Where a council is the grantor (i.e. it owns the asset and is allowing a commercial business to use it), the major risks are limited to the arrangement ending, and the consequential loss of revenue for the council.

Where the council is the grantee (i.e. it is using a commercial business' assets to provide a service), risks relate to:

- The operator limiting access to facilities to members of the public
- The risk of the commercial operator ending its operations
- Challenges around allowing after-hours access (if needed)
- The lack of a suitable facility
- The operator failing to meet level of service expectations

Some of these risks are able to be mitigated through careful management. For example, through the clear articulation of the mutual benefits of a relationship, and how those may be achieved through an arrangement that works for all parties.

For example:

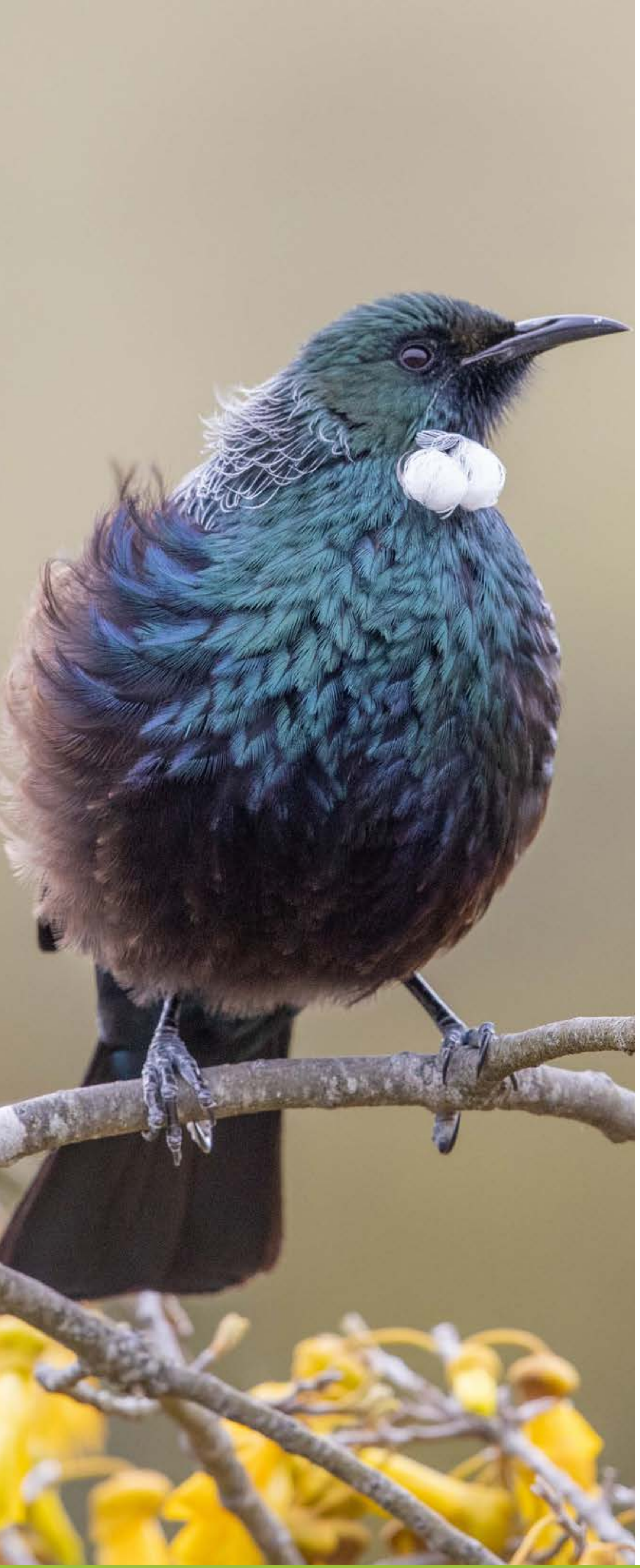
- Recognising that council benefits from not needing to maintain, operate or construct a public toilet facility.
- The business may benefit from a reduction in rates, operating grant, or from a capital contribution, and may also benefit from increased foot traffic.

If the primary benefit of such an arrangement for a commercial business is the increase in foot traffic, arrangements where a council requires alternative access to be available are unlikely to endure.

Non-financial impacts of this tool

Commercial concession arrangements can have benefits for both the concession holder and the grantor. Concession arrangements involving the use of private infrastructure to provide council services can help with generating additional foot traffic to private businesses, and may result in a higher level of service being provided to the public (for example a café may service its restrooms more regularly than the council would otherwise be economically able to).

Similarly, concession arrangements involving private businesses utilising council owned infrastructure affords private business with captive markets, while providing a higher level of service for the public (for example aquatic centres with private concessions to operate cafés provide visitors with the opportunity to eat and drink within the facility potentially extending the length of their visit and maximising their utility).



Differential pricing

Differential pricing describes arrangements where a council charges different fees for the use of tourism infrastructure to different groups of people. In the context of this report, differential pricing refers to the charging of a different fee for residents, ratepayers or locals than it does for people that reside outside of the district.

This typically takes the form of a local's discount of some form, and is typically implemented in one of two ways:

- By requiring residents to present a bill or other official document with a name or address on it, or to apply for a "local card" that can be presented to access a discounted fee
- By providing large discounts for multi-entry tickets (such as a ten-trip card or annual pass) which typically cost too much for tourists but which are affordable for regular users/visitors

Both mechanisms ultimately have the same result. That is, locals or regular users of tourism infrastructure pay less to access facilities than visitors.

Mount Hot Pools

Mount Hot Pools are located at the base of Mount Maunganui in Tauranga. The pools are owned and managed by Bay Venues Limited, a council-controlled organisation that is fully owned by Tauranga City Council. They are the only geothermally heated ocean water pools in New Zealand.

The hot pools have a Tauranga Residents Card scheme in place whereby residents and property owners within the City Council boundary are entitled to half price entry.

Unlike many public aquatic facilities the Mount Hot Pools does not receive any operating funding from Tauranga City Council and instead is expected to return a surplus to offset the costs of providing other community facilities (including pools)[34].

In the 2020/21 financial year Mount Hot Pools received over 245,000 visitors and achieved a 92% customer satisfaction rating.

[34] Bay Venues Limited Pricing Strategy for Funded Network February 2020

Founders Park

Founders Park is a heritage park located in Nelson. The park features a broad range of displays, interactive exhibitions and artisan spaces as well as function and event centres.

The park allows free entry for locals, who made up 70% of the visitors in 2017/18, and charges an entry fee for visitors that have come from outside the Nelson City area.

In 2020/21 Founders Park budgeted revenue from entry fees of around $45,000. This equates to approximately 15% of the total non-rates revenue received by the park in 2020.

Key findings

The case studies highlight that:

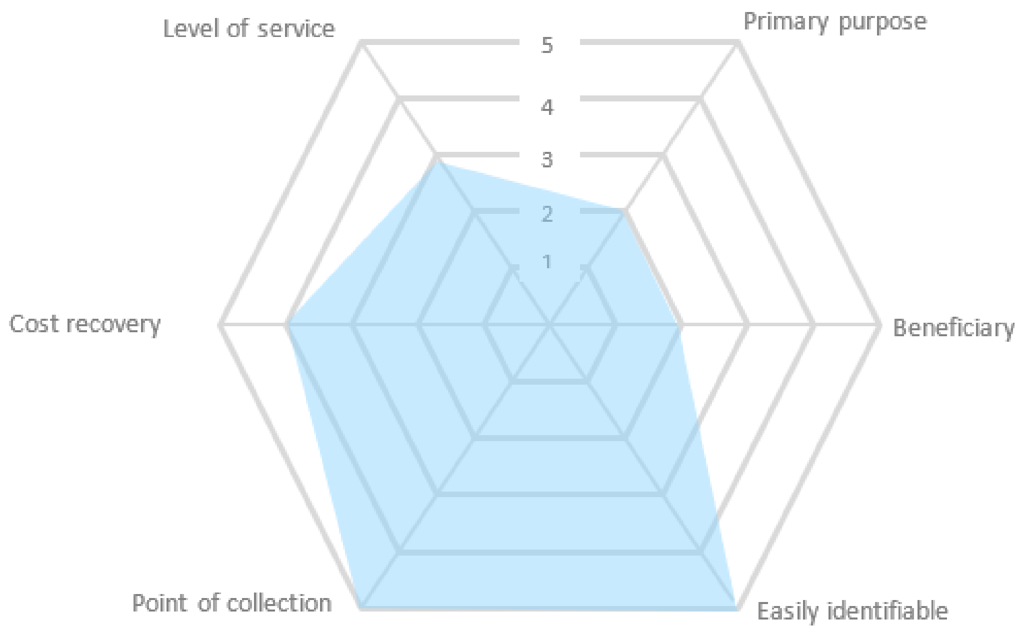
- ➔ Differential pricing can be an effective way to pass some of the value captured from tourism back to ratepayers
- ➔ Differential pricing is common, and often easy to administer
- ➔ Even where differential pricing does not capture significant additional revenue, as implementation costs are often low, this tool can still help to offset the costs of providing tourism infrastructure

Where it can be applied

We have seen differential pricing used in a range of settings, including:

- Proposed charges for non-residents at Hamilton Gardens
- Museums and heritage facilities
- Swimming pools
- Concession pricing such as that used for Wellington's Cable Car which provides discounts of up to 50% of the price of single journeys
- Annual memberships such as those used at zoos.

Differential pricing arrangements are most likely to be applicable for infrastructure which has a radar chart similar to the below.



Key features:

- ➔ Mainly to meet local demand
- ➔ Some tourism benefit
- ➔ A clear point of collection/consumption with physical attendant
- ➔ Likely to recover costs of implementing
- ➔ Easy method to identify locals

Key risks

In general a differential pricing strategy is unlikely to be high-risk, particularly if implemented in settings which already have user fees and charges, however some risks do exist, including:

- If framed as a discount for locals, there needs to be a high level of confidence that there will be sufficient visitation from out-of-district visitors to subsidise the discount.
- There is a risk that a differential pricing strategy will deter visitors from out of district.
- Implementation costs could be high if “residents cards” or other technology is adopted, but systems can be as simple as requiring a bill or official letter to be presented.
- There will likely always be attempts by non-residents to receive a locals discount, and a certain level of this should be allowed for. The risk of this can be reduced by offering heavily discounted concessions or annual memberships which will only appeal to locals.
- Advertising and framing of the “locals discount” needs to be well managed to ensure that ratepayers are aware of the benefits to them and do not perceive prices as having increased for them. For example, the introduction of a “locals discount” could be accompanied by an increase in the advertised admission price for a facility. If ratepayers are unaware that they qualify for a discount (and of the evidence that they need to present to obtain it) they may incorrectly assume that there has been a large increase in the amount that they have to pay, even though the opposite may be true.

Non-financial impacts of this tool

Differential pricing tools are a subset of user fees and charges. Differential pricing can also be used as a demand management tool.

Additionally, differential pricing tools offer the ability to be more targeted in collection, allowing for ratepayers (who may already fund some of the costs of providing infrastructure through rates charges) to access services or use infrastructure at a reduced rate. This can help to alleviate some of the natural pricing tensions that may exist for infrastructure that has a mixed use.

Providing a “locals discount” for access to mixed use infrastructure and services also helps to deliver on local social and economic wellbeing outcomes and may result in increased utilisation by local ratepayers.

Attractions and facilities

Attractions and facilities can play a dual role for councils that are seeking to manage the impacts of tourism in their districts. Most obviously, high quality attractions can be a drawcard for tourists, increasing the number of tourists that visit, stay, and spend money within a district.

Attractions also have the potential to generate a revenue stream for councils which can be used to offset the costs of providing tourism infrastructure.

The potential for attractions to serve a dual role for tourism councils makes them an appealing tool for the recovery of tourism related infrastructure costs. However, in many cases attractions do not cover their full cost of operation, although they may be successful in their objectives of attracting tourism.

While attractions run by councils seem to have mixed financial success, there are numerous examples of tourism attractions being run profitably in the commercial world. This indicates potential for council run attractions to be profitable, however commercial businesses are often run with different objectives in mind, and investors will often have different risk appetites than ratepayers or councils.

Hanmer Springs Thermal Pools and Spa

The Hanmer Springs Thermal Pools and Spa comprises of recreational and thermal pools, beauty spas, information centre (i-SITE) and the café on the thermal pools reserve site. In addition, this activity also includes an artisan spa on a separate site to the thermal pools and spa, but also in Hanmer Springs.

The thermal pools and spa are a well-regarded tourism destination in their own right, attracting over 500,000 visitors annually, with an estimated 25% of those being tourists. The complex and thermal pools have a long history and were originally part of a sanitorium in the early 20th century. The pools were purchased by the local community and transferred to council ownership in 1960.

In the 2021 financial year, Hanmer Springs Thermal Pools and Spa (including the attached i-SITE) made a $2.5 million profit after rates contributions have been accounted for. This is over 10% of Hurunui District Council’s rates income in the year.

The profits made from the operation of the Hanmer Springs Thermal Pools and Spa help to reduce the burden on ratepayers.

Key findings

This case study highlights that:

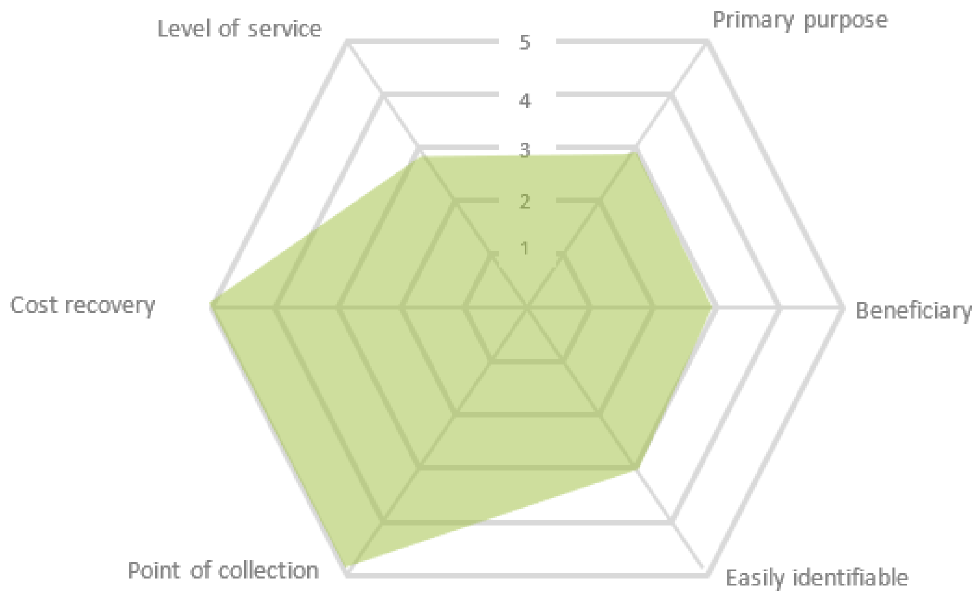
- Councils can run tourism attractions profitably to the benefit of their ratepayers, while also using the attraction to generate tourism within a district in some circumstances
- Where councils are most successfully able to generate profits from tourism attractions, the infrastructure is often unique, or has been in operation by the council for a long time

Where it can be applied

We have observed councils operating a wide range of tourism attractions across the country to mixed financial and non-financial success. These include:

- Zoos
- Wildlife parks/sanctuaries
- Large aquatic centres or pools
- Mini golf
- Aquariums
- Museums, art galleries and discovery centres
- Observatories

There may be opportunities for attractions to be used to offset the costs of providing other tourism infrastructure in a district if the attraction has a radar profile similar to the below.



Key features:

- ➔ A clear point of collection/consumption
- ➔ Revenue generated likely to exceed or far exceed collection costs
- ➔ At least half of use is by tourists (otherwise ratepayers are funding surpluses)
- ➔ Considerations around level of service or identifiable groups are less relevant

Key risks

While not prevented from doing so, councils do not often seek to establish new commercially focused tourism businesses. Typically, those councils that currently benefit from profit generating attractions have owned the facilities for a long period of time or have unique circumstances which have resulted in the facilities becoming profitable (for example access to thermal hot springs).

The key risk associated with using profit generating attractions to fund other infrastructure costs relates to the exposure to outside markets. A downturn in tourism (such as has occurred with the Covid-19 pandemic) can result in a reduction in revenue which may need to be funded by ratepayers.

Investment requirements for tourism attractions are also likely to be very high, requiring councils to have access to large amounts of debt or capital to finance the initial outlay.

To the extent that investment in tourism attractions also assist with destination promotion or management, the initial investment barriers may be less significant than the broader category of “offsetting infrastructure” which is less likely to have a large role in destination promotion.

Non-financial impacts of this tool

Councils choose to operate tourism attractions for a range of reasons, many of which are non-financial. Zoos, for example, are rarely profitable for councils in New Zealand, however they are often regarded as important community assets as they support education programmes, conservation awareness, and can actively attract visitors to a district.

The dual role of tourism attractions, and particularly those that have broader social and community outcomes, can create tension when seeking to commercialise businesses and maximise profit. For those attractions that are able to perform both roles successfully, the benefits are clearly greater than a pure funding equation.

Offsetting infrastructure

Offsetting infrastructure refers to the situation where a council has a tourism facility that is able to generate sufficient profits which can be used to offset some of the other costs related to tourism within the district.

In many cases, the revenue generated from these profitable tourism facilities is not explicitly used to offset tourism infrastructure costs but is otherwise applied toward the general rates pool.

Kennedy Park

Kennedy Park is a camping ground facility located in Napier. The facility was established by Napier City Council 80 years ago and remains in Council ownership today. It has a range of accommodation options from camp site through to motels units and villas. The facility also includes conference centres and a range of activities for families.

Kennedy Park is one of the busiest and most well revisited holiday parks in New Zealand. A high proportion of visitors to Kennedy Park are domestic tourists, and due to the increase in the market following the Covid-19 pandemic, Kennedy Park generated $4.5 million of revenue in 2020/21. In 2018/19 (the last full financial year before Covid-19 restrictions were introduced) Kennedy Park generated $4 million in revenue. In its 2017/18 annual report, Napier City Council noted that Kennedy Park contributed just under 1% of councils rates income back to Council.

Key findings

This case study highlights that:

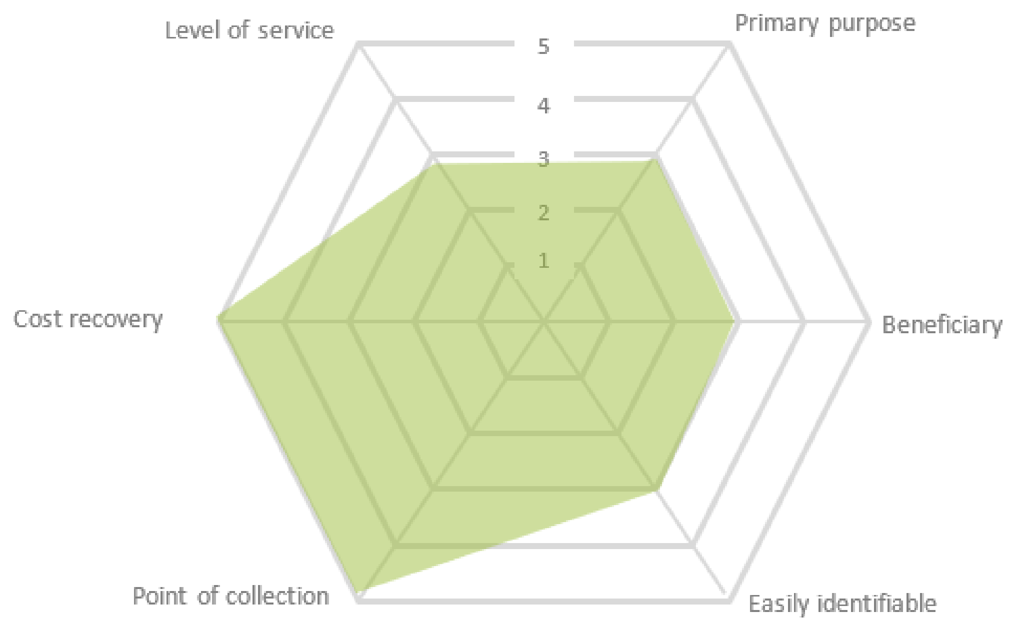
- Councils can run some tourism infrastructure profitably to the benefit of their ratepayers, while also using the attraction to generate tourism within a district in some circumstances
- Where councils are most successfully able to generate profits from tourism attractions, the infrastructure has often been owned for a long period of time. Airports are one of the more common examples of tourism related infrastructure that are able to offset other tourism related costs

Where it can be applied

Profit making tourism infrastructure can be used to offset the costs of any other type of tourism infrastructure that a council may have. However, not all councils own infrastructure or strategic assets that are likely to be able to generate a profit. Examples of tourism infrastructure or assets that do generate profits for councils in New Zealand include:

- Airports
- Campgrounds
- Swimming pools – typically thermal pools or "destination facilities"
- Small attractions such as mini golf

There may be opportunities for infrastructure to be used to offset the costs of providing other tourism infrastructure in a district if the "offsetting infrastructure" has a radar profile like the below.



Key features:

- A clear point of collection/consumption
- Revenue generated likely to exceed or far exceed collection costs
- At least half of use is by tourists (otherwise ratepayers are funding surpluses)
- Considerations around Level of service or identifiable groups are less relevant

Key risks

While not prevented from doing so, councils do not often seek to establish new commercially focused tourism businesses. Typically those councils that currently benefit from profit generating tourism infrastructure have owned the facilities for a long period of time or have unique circumstances which have resulted in the facilities becoming profitable.

The key risk associated with using profit generating tourism infrastructure to fund other infrastructure costs relates to the exposure to outside markets. A downturn in tourism (such as has occurred with the Covid-19 pandemic) can result in a reduction in revenue which may need to be funded by ratepayers.

Investment requirements for infrastructure that can be used to offset the other costs of tourism activities are also likely to be very high, requiring councils to have access to large amounts of debt or capital to finance the initial outlay.

Non-financial impacts of this tool

Tourism infrastructure that is likely to be able to offset the other costs of providing tourism infrastructure typically serves a broader, primary purpose for the council that owns it. Much of the "offsetting infrastructure" that is owned by councils relates to assets such as airports and campgrounds, which are also used to provide accommodation and transportation links.

Subsidies and grants

Subsidies and grants are commonly used to fund the capital costs, and sometimes operating costs, of tourism infrastructure. Subsidies and grants are commonly thought of as being provided by Central Government (for example, the Tourism Infrastructure Fund or the Provincial Growth Fund), however they may also be available from charitable individuals, private business, or charitable trusts.

For many councils, grants and subsidies are the first port of call when considering opportunities to fund the upfront capital of infrastructure projects. This is because grants and subsidies are typically not repayable (although some support provided through the provincial growth fund was by way of loans), and do not need to be funded by ratepayers directly.

However, grants and subsidies also have a number of drawbacks for councils, including:

- They typically require councils to proactively prepare applications, requiring dedicated resources
- They are usually part of a competitive process, meaning there is no guarantee of success
- They may require projects to be brought forward from later years of a long term plan, or to be "new" projects
- They typically only cover upfront capital, and councils are responsible for meeting ongoing operating, maintenance and renewal costs which could be significant.
- They often require co-funding of at least 50%, which must still be funded by applicants.

Because of this some councils may choose not to pursue subsidies or grants or may avoid certain funds.

Tourism Infrastructure Fund

The Tourism Infrastructure Fund (TIF) was established with $100 million over 4 years available for tourism related infrastructure resulting from increased or future visitor growth and where the local community is unable to respond in a timely way. A further $16.5 million has been provided to undertake a further round. The fund is currently entering its sixth round, with a total of $77 million allocated to 211 individual applications to date.

The fund is open to councils and not-for-profit community organisations with support from their local council. The fund targets projects worth more than $25,000, to support the development of public infrastructure used by visitors, with most successful applications being for projects that are valued at less than $1 million. Each round, priorities for the fund are announced, and include solutions which address capacity issues, future proof the proposed infrastructure, are innovative, sustainable, make use of technology and are constructed out of carbon-neutral building materials. Applications that align with these priorities are more likely to be approved.

Tourism Facilities Development Fund

The Tourism Facilities Development Fund (TFDF) has provided funding to assist councils to meet the costs of mitigating the impacts of freedom camping during the peak summer season. The fund typically covered costs that are operational in nature, including ambassador programmes, campsite maintenance, signage, portaloos, compliance officer and educational campaigns.

Funding was awarded and assessed on an annual basis and allocated $24.5million over its three rounds.

Key findings

The case studies highlight that:

- Grants and subsidies are often available to reduce financing pressures and to advance the construction of key tourism infrastructure
- However, funding is contestable and often has a narrow scope. Accordingly, grants and subsidies should not be relied upon as a source of funding for new infrastructure projects

Where it can be applied

In short, grants and subsidies can be used for any capital project that meets the eligibility criteria for the funds available. These criteria, and the available funds, vary regularly.

Key risks

Due to the nature of grants and subsidies, while they may be a first choice for capital funding, they are unable to be relied upon when planning infrastructure investment. The primary risks of grants and subsidies are:

- Some funds are only available for a fixed period of time
- They require commitment from staff to complete applications, and develop business cases, which may require dedicated resource that may not be affordable for small councils
- They do not typically address issues regarding ongoing operational funding, which can be the more significant cost over time. Failure to consider the operating cost impacts for grant funded infrastructure can result in assets being neglected or poorly serviced
- They are usually contestable, meaning there is no guarantee that an application for funding will be successful
- Where operating grants are able to be obtained, they are often short term, and may increase community expectations for level of service that needs to be funded by ratepayers in future years.

Non-financial impacts of this tool

Grants and subsidies do not typically alter the behaviour of users of infrastructure. However, they can be used effectively to address affordability issues in areas of deprivation or where the infrastructure being funded provides a higher level of service than that which is required or requested by the community.

Visitor levy

A visitor levy is a non-refundable direct tax on temporary visitors to a defined geographic area. These are usually collected by accommodation providers or transport operators in the form of a flat rate or a percentage of the bill. Visitor levies typically require enabling legislation from Central Government (which can be time consuming and uncertain), although they can also be established voluntarily with co-operation from local businesses.

Visitor levies are not typically tied to any specific piece of infrastructure, meaning they can offset tourism costs within a district more generally. However, levies will typically have a range of rules or guidelines which dictate where funding can be applied.

While levies usually have a clear point of collection (for the levies we were made aware of the point of collection was the tour/transport operator), they all rely on the goodwill of operators to collect. While collection arrangements may be formalised through a contract with the tourism operator, there is no legislative mechanism in place to mandate this collection.

Stewart Island/Rakiura Visitor Levy

The Stewart Island/Rakiura Visitor Levy is a legislatively enabled, compulsory visitor levy that was introduced in October 2013. The levy itself is set through a bylaw enacted by Southland District Council, and over-arching enabling legislation[35] and is currently set at $5 (including GST). Under the bylaw, and enabling legislation:

- Council can collect the levy from visitors at designated collection points.
- Council can enter into contracts with "approved operators" who effectively collect the levy on behalf of Council. Visitors that travel with approved operators do not have to pay the levy at collection points as well.
- Council can charge infringement fees to individuals that do not pay the levy.
- The levy is required to be spent on activities used by, for the benefit of, or mitigating the adverse effects of, visitors on the Island.

The levy has been successful in collecting funds for Stewart Island/Rakiura. As of October 2021 it collected more than $1.2m since its introduction, with 77% of that being used to fund council owned infrastructure.

Recently, Council sought public feedback about proposals to increase the levy to $15. In both instances public feedback was mixed with at least one tourism operator indicating opposition in the most recent round of consultation due to concerns that visitor numbers would reduce as a result[36].

[35] Southland District Council (Stewart Island/Rakiura Visitor Levy) Empowering Act 2012

[36] Blair Jackson "Support for raising Stewart Island visitor levy, tourism operator not convinced" Stuff, October 10 2021

Chatham Islands

The Chatham Islands Voluntary Tourism Levy is a voluntary visitor levy of $25 per passenger that is paid to Tourism Chatham Islands. The levy was introduced in 2019 and is used to be invested back into the development and management of tourism on the Chatham Islands.

The levy was an initiative of the tourism operators that service the Chatham Islands and has been generally well supported by the industry.

The island typically receives around 2000 tourists a year (although this has increased markedly since the beginning of the Covid-19 pandemic), meaning the levy has the potential to generate up to $50,000 per annum. While the amount collected may appear low, given the small number of ratepayers, the levy makes a significant contribution to the islands.

Key findings

The case studies highlight that:

- Successful implementation of visitor levies requires wilful cooperation from tourism operators
- Visitor levies, where they are able to be implemented, can be effective tools for generating funding to cover the costs of providing tourism infrastructure
- Visitor levies are most effective when there is a clear collection mechanism that is difficult to avoid (in the case studies this is via transport operators)

Photo by: Leon Berard

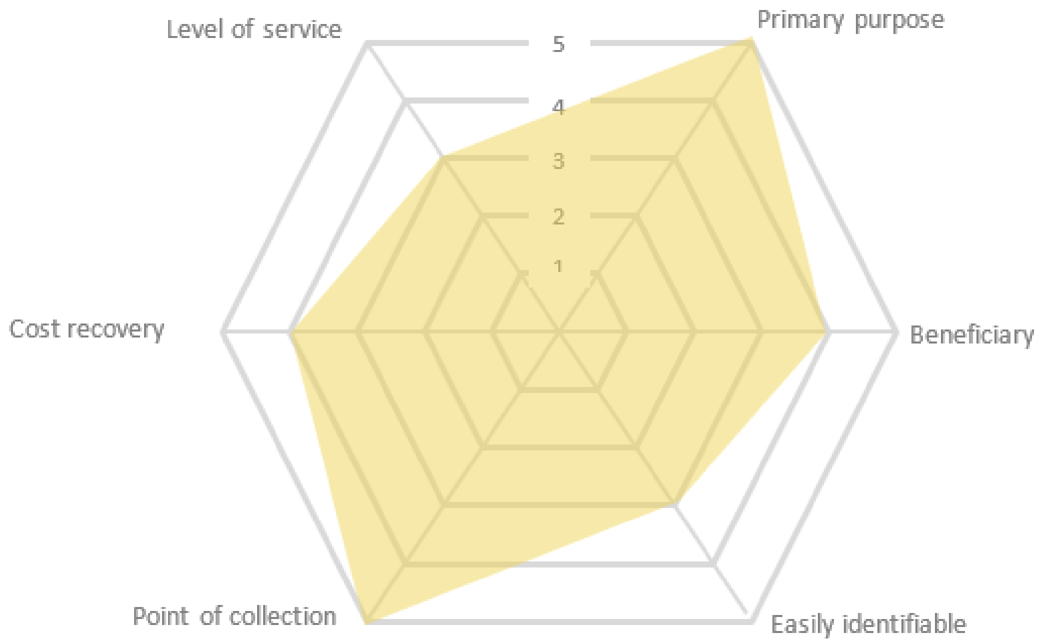
Where it can be applied

Where a visitor levy is charged, it typically applies to a broad range of infrastructure rather than a specific facility or service.

It is no coincidence that both of the case studies cited are islands with a small number of commercial operators providing transport services.

Visitor levies are most likely to be applicable for infrastructure which has a radar chart similar to the below.

Key features:



- District or locality heavily impacted by tourism
- Funds applied toward infrastructure that benefits tourists
- A clear point of collection/consumption
- Revenue generated likely to exceed collection costs

Key risks and constraints

Both of the case studies cited rely heavily on formal, or informal, arrangements with transport operators who are willing to collect the levy on their behalf. To date, we understand that operators have collected the levy willingly. However, transport operators are typically private commercial businesses. Changes in ownership of these businesses, or concerns about threats to those businesses' profitability could mean operators will not always agree to collect the levy.

The lack of an ability to mandate the collection of the levy from operators therefore creates a risk that future levy receipts will reduce.

The ability to charge a visitor levy relies heavily on there being a clear point of collection for the levy. The simplest mechanism for this is to collect the levy from people on their arrival or departure from a destination.

Visitor levies are unlikely to be effective where visitors have multiple ways of arriving at a destination (particularly where the methods include driving) unless:

- There is a significant amount of active enforcement; or
- There is a viable alternative point of collection (i.e. a "toll" on a road – which is unlikely to be legal, or through accommodation providers – at which point it would be more accurately described as a bed tax).

Non-financial impacts of this tool

Like fees and charges, a visitor levy puts an additional price on visiting a particular location and this may have the impact (intended or otherwise) of reducing demand or overall visitation.