Financial Costs and Benefits of International Tourism

Ministry of Business, Innovation & Employment

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Background

The tourism industry in New Zealand contributes significantly to New Zealand's economic growth and prosperity. Tourism is New Zealand's largest export earner, contributing $14.5 billion (20.7%) to total exports for the year ending March 2017.[1] Total tourism expenditure in New Zealand continues to increase (up 1.9% in the year ending March 2017 from the previous year), along with an increase in international tourist arrivals to 3.5 million visitors.[2] This increase in visitor spend provides strong economic opportunities across the tourism sector and related industries.

The Ministry of Business, Innovation and Employment (MBIE) engaged Deloitte Access Economics to conduct a financial analysis of the amount and sources of revenue generated by international tourism, and the expenditure associated with hosting international visitors in New Zealand, for central and local government. This analysis does not take into consideration the wider costs and benefits associated with international tourism or other objectives that central and local government have that inform revenue and expenditure decisions.

Our findings

To determine the expenditure and revenue associated with international tourism for central and local government, Deloitte Access Economics developed a framework that considers both direct expenditure and revenue, as well as expenditure and revenue determined through an apportionment approach. This approach aims to not only capture the direct revenue and expenses associated with tourism arrivals, but also capture the incremental expenditure associated with international tourists' use of New Zealand's infrastructure, resources and services in general. It also captures the indirect expenditure and revenue, as expenditure flows from businesses to suppliers, households, central government and local government. In addition, each revenue and expenditure item relevant to the analysis is analysed independently to ensure the original intent of spending, and accuracy of applied data, is maintained.

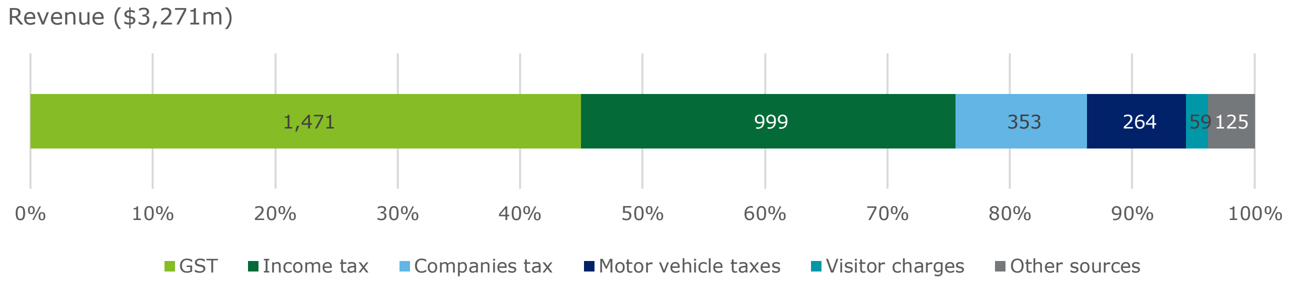
Central government

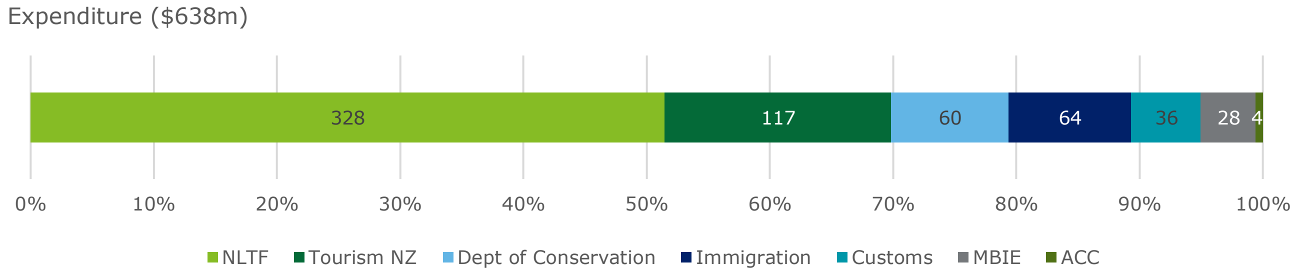
Central Government collects tax in order to deliver a range of activities, including redistribution. For example, the Crown spends around 60% of its budget on health, education, and welfare.[3] Many sectors of the economy, therefore, make substantial net contributions to the Crown. Tourism is one such sector. In addition, many make additional payments in the form of levies for sector-specific services such as research and marketing.

Deloitte Access Economics estimates that central government agencies collected $3.27 billion in revenue and incurred $638 million in expenditure, attributable to international tourists. GST represents the largest source of revenue at $1.47 billion over the year ending June 2017. A summary of central government revenue and expenditure attributable to international tourism is set out in Figure 1 below.

[1] Statistics New Zealand (International Visitor Survey), *Tourism Satellite Accounts*, December 2017.
[2] For the year ending March 2017. *Tourism Satellite Accounts*, December 2017.
[3] The Treasury (New Zealand). Analysis of Expenses by Functional Classification, Year ended 30 June 2017, available at http://www.treasury.govt.nz/government/financialstatements/yearend/jun17/17.htm

Figure 1: Central government international tourist revenue and expenditure by source, year ending June 2017





Source: Deloitte Access Economics

The majority of the $640 million in spending by central government attributable to international tourists is incurred through supporting land transport, specifically through the National Land Transport Fund (NLTF). $3.4 billion was spent on land transport in year ending June 2017, up from $3.2 billion in year ending June 2016.[4] Based on the relative level of fuel and public transport use attributed to international tourism, it is estimated that $328 million of this amount can be attributed to international tourists.[5]

Local government agencies

Like central government, local government revenue and expenditure decisions are also driven by wider considerations than financial returns or cost recovery. Many councils noted key drivers include the cost of basic infrastructure, for example, which is often used by both residents and visitors.

To better understand the revenue and expenditure flows from international tourism at local government level, Deloitte Access Economics consulted with a selection of central and local government agencies and industry bodies. Based on these consultations, three in-depth case studies were developed: Southland, Nelson and Auckland.

There was some difficulty in apportioning revenue and expenditure specifically to international tourists at the local level. Consultees noted that typically, the ability to distinguish between an international tourist and a domestic tourist, given the lack of granularity of data collected, varies across region, and within those, by service or product offered. Furthermore, revenue and expenditure data is often aggregated to a level that does not identify tourism specifically, as it is not the sole driver for expenditure.

While we have sought to capture some of the international tourism expenditure and revenue flows at the local government level, given the nature of the flows involved this analysis should be seen as an indicative rather than a definitive measure.

[4] The New Zealand Transport Agency (NZTA) and NLTF annual

[5] Costs for national government agencies are discussed in more detail in Appendix A.

Revenue and expenditure attributable to international tourism

Revenue collected by local government agencies is collected from a range of sources, including local residents, through residential and commercial rates; government bodies, such as roading subsidies; and tourism-specific revenue streams, such as levies and user charges for tourism-related infrastructure. Expenditure, on the other hand, was less easily categorised. Major tourism-related expenditure incurred by local government agencies was identified as infrastructure and hosting major events and conferences, which are difficult to apportion to tourism as both locals and visitors utilise them. These major expenditure items are often co-funded by central government agencies (where support is provided by central government this off-setting revenue is taken into account in the analysis).

Modelling results

With data provided from consultees, Deloitte Access Economics undertook some high-level economic modelling to better understand the quantum of revenue sourced from international tourists, and also the level of expenditure by local government agencies which can be attributable to international tourism in the three case studies. As noted above, this analysis does not take into consideration the wider costs and benefits that each region sees from international tourism and that factor into expenditure decisions.

Table 1: Revenue and expenditure attributable to international tourists

Local government agency	Revenue to local council	Annual revenue attributable to international tourists	Annual expenditure attributable to international tourists
Southland District Council	$189 million	$14.2 - 15.5 million	$15.4 - 17.0 million
Nelson City Council	$120 million	$5.7 - 6.5 million	$6.3 - 7.2 million
Auckland Council	$4.3 billion	$93 - 103 million	$133 - 137 million

Introduction

1. Introduction

Background

The tourism industry in New Zealand continues to grow, both in terms of local and international visitors, and the value it brings to the economy. In the year ending March 2017, tourism expenditure increased 1.9% from the previous year to $36 billion, and represented 5.9% of Gross Domestic Product (GDP).[6] The 2017 New Zealand Tourism Satellite Accounts[7] show that international tourist arrivals have increased by 8.9% to 3.5 million visitors, and, while estimated expenditure has decreased 0.9% to $14.5 billion, the New Zealand market still captures 0.8% of global international visitor spend (against 0.3% of total international travellers).[8]

The international visitor market is expected to continue to grow, with emerging markets in Asia-Pacific the primary source of increased visitor numbers.[9]

Financial Costs and Benefits of International Tourism

MBIE engaged Deloitte Access Economics to conduct a financial analysis of the amount and sources of revenue generated by international tourism, and the expenditure associated with hosting international visitors in New Zealand, for central and local government. The analysis does not include the wider costs and benefits associated with international tourism. This project included the following work streams:

- detailed consultations with central government agencies, local government representatives and pan-industry groups;
- analysis of central and local government financial accounts and data for tourism-related activity; and
- development of a detailed financial expenditure and revenue model.

The study has not attempted to address:

- the revenues and expenditure arising from domestic tourism;
- the costs, benefits and impacts of tourism on other parts of the economy - for example, on the labour and housing markets, or the private sector;
- the financial impact of tourism on all local government or territorial authorities (outside of the three case studies);
- the GDP impacts of tourism across the economy
- the non-financial costs, benefits and impacts that accrue from tourism;
- how taxes, rates or other revenue collected by government agencies is or should be distributed or spent.
- the levers or mechanisms that territorial local authorities and central government could potentially use to collect revenue from visitors and/or distribute funding to meet tourism-related expenditure; or
- provision of advice on options or policy recommendations.

The study has been limited by the data available. Expenditure and revenue related to tourism are not typically captured at a destination or activity level. Furthermore, service and infrastructure users are often a mix of visitors and residents. Therefore, assumptions have been made as to the split in activity (for example, to apportion a share of local council economic development activity to tourism specifically) and to the origin of tourist (whether domestic or international). These assumptions are discussed in more detail in the main body of this report, and are set out in Appendix A of this report.

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[6] Tourism Satellite Accounts, December 2017
[7] For the year ending March 2017. Tourism Satellite Accounts, December 2017.
[8] Tourism New Zealand, Briefing for the Income Minister, 1 November 2017
[9] MBIE predicts that visitors to New Zealand will reach 4.9 million by 2023.
MBIE Briefing for the Incoming Minister of Tourism, 26 October 2017

The remainder of this report is structured as follows:

- Section 2 details the expenditure and revenue framework used in this analysis;
- Section 3 sets out the key findings of this study;
- Appendix A provides an outline of the modelling approach, data sources and any assumptions used; and
- Appendix B sets out the relevant issues raised in consultation sessions.

The expenditure and revenue framework

2. The expenditure and revenue framework

International visitors provide income (or revenue) for the New Zealand economy through a number of channels. However, at the same time, attracting and hosting international visitors also drives expenditure at both central and local government level. As the country's largest export revenue earner, tourism has a growing importance in the ongoing success and wellbeing of New Zealand businesses, households and governments.[10] This report identifies (as far as possible) the revenue and expenditure flows related to international tourism at local and national government levels.

There are a number of difficulties in accurately separating out tourism use from domestic use, and the component of tourism directly attributable to international tourism. On the expenditure side, services such as immigration and border security at a national level, or visitor levies at a territorial authority level, may be allocated on a per-use basis. However, a similar approach is not as clear-cut for use of infrastructure such as public spaces, roads and buildings, as there is no simple way to accurately measure the proportion of use attributable to international tourists. In addition, general infrastructure and services are rarely provided purely for domestic visitors / local residents, or for international tourists, meaning that allocating certain infrastructure types solely to each party would misrepresent the split of users.

A framework that takes into account these issues was developed by Deloitte Access Economics to systematically and consistently approach the issue of apportioning the revenue and expenditure attributable to international tourism at central and local government level. The approach aims to not only capture the direct revenues associated with tourist arrivals, use of facilities and spending, but also capture the incremental expenditure associated with international tourists' use of New Zealand's infrastructure, resources and services in general. The framework is developed in such a way to estimate the marginal expenditure and revenue attributable to international tourism. This approach avoids attributing fixed costs of provision that would occur regardless of the presence of international tourists.

To understand the revenues and expenditures associated with international tourists at local and central government level, Deloitte Access Economics relied on a number of difference data sources, including New Zealand tourism data; local council and central government agency annual reports; New Zealand Treasury data; and consultations with relevant stakeholders. Consultations with central government agencies and local councils were particularly useful to gain an insight into the types of revenue, expenditure and transfers that are relevant to international tourists. This was used, alongside a review of the New Zealand tourism data and research, to determine:

1. the revenue collected / expenditure incurred in the areas relevant to international tourism; and,
2. the proportion of this revenue collected / expenditure incurred attributable to international tourists.

These two pieces of analysis formed the basis of the framework. However, where revenue was collected / expenditure was incurred that would not have otherwise arisen in the absence of international tourists, the entire amount was attributed to international tourism. One example of this occurring in the analysis was the expenditure associated with Tourism New Zealand, an organisation responsible for promoting New Zealand to the world and encouraging international visitors to visit.[11] Although the organisation may incur some small expenditure items that are attributable to domestic tourism and local residents, the primary purpose for the organisation is to manage and increase the presence of international tourists to New Zealand.

[10] Statistics New Zealand, *Tourism Satellite Accounts*, December 2017.
[11] Tourism New Zealand, *2016/17 Annual Report*

Our approach to apportioning each revenue and expenditure item, and the relevant data sources, are included in Appendix A.

Although this framework provides a systematic approach to apportioning the revenue and expenditure associated with international tourism, there are a number of important caveats to understand in relation to our methodology. In many cases, attribution is based on the proportion of international tourist expenditure to total expenditure in the New Zealand economy, or the proportion of international tourist nights to total resident nights. This approach may not be appropriate in cases where the costs of scaling up or scaling down a particular type of infrastructure or service are non-linear. One example of this occurring could be where existing infrastructure reaches a critical mass resulting in the development of new infrastructure that would otherwise not have been required without the presence and growth of international tourists. Applying a linear proportion may under or overestimate the expenditure associated with international tourism for specific line items.

Another challenge exists in regard to the attribution of revenue generated by tourists to local councils. There are limited direct links between revenue generation and the presence of international tourists for local councils, other than, in some cases, the application of specific visitor levies (i.e. Southland District Council's Stewart Island visitor levy), fees and charges for specific visitor infrastructure e.g. museums, or initiatives such as Auckland Council's targeted accommodation rate. It is difficult, for example, to estimate the car-parking revenue from international tourists.

However, while there may be few direct links between international tourists and local government revenue, international tourist inflows will impact the number of businesses that exist and the revenue they generate (particularly for accommodation providers), which in turn will flow through to create additional ratepayers and/or more affluent commercial operators. . It is also important to recognise that council investments in infrastructure are met by a range of ratepayer groups, in varying proportions, depending on the rating policies of the council.

Key findings

3. Key findings

This section provides an overview of the revenue and expenditure attributable to international tourists for central government agencies and for three regions which were selected as case studies (Southland District Council (SDC), Nelson Regional Development Agency (NRDA) and Auckland Tourism, Events and Economic Development (ATEED)).

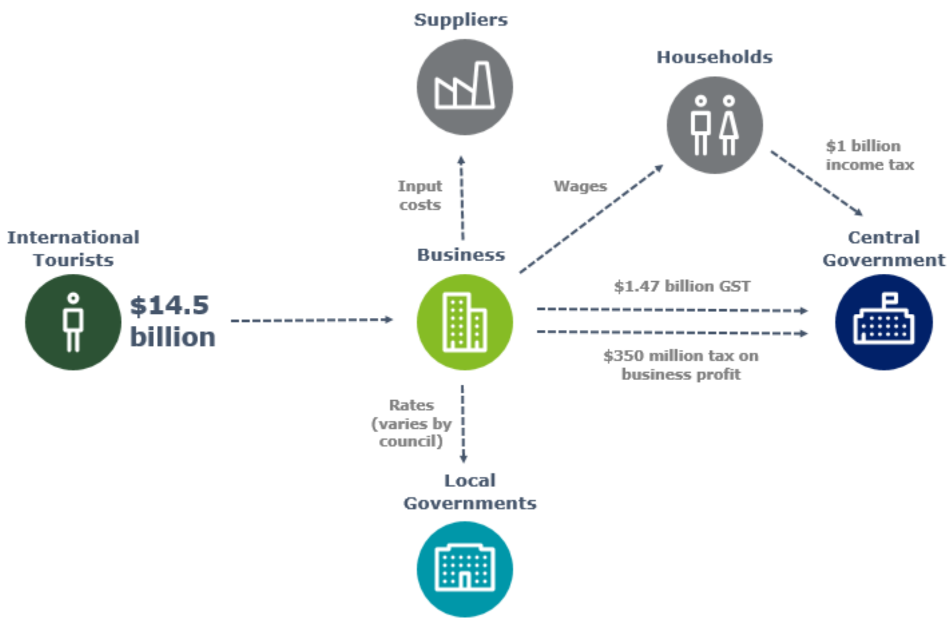
Overview

International tourists spent over $14.5 billion (including GST) in the year ending June 2016.[12] This expenditure flows through the economy to local businesses in the form of business revenue; local councils in the form of rates and user charges for services; and to the central government in the form of taxes and user charges e.g. visitor visas.

Figure 2 provides a high-level overview of this process, displaying a stylised example of how expenditure by international tourists to businesses can flow through and benefit the economy. International tourist spend can increase the revenue of existing businesses, creating further demand for intermediate goods throughout their supply chain, increasing the number of employees and hence income tax, and increasing the amount of GST passed on to the central government.

In addition, as the tourism industry grows, new businesses are likely to appear to support the additional demand. New businesses will have the same flow on effects as above, with new rates able to be collected by local governments, new staff and new intermediate products demanded.

Figure 2: International tourist expenditure



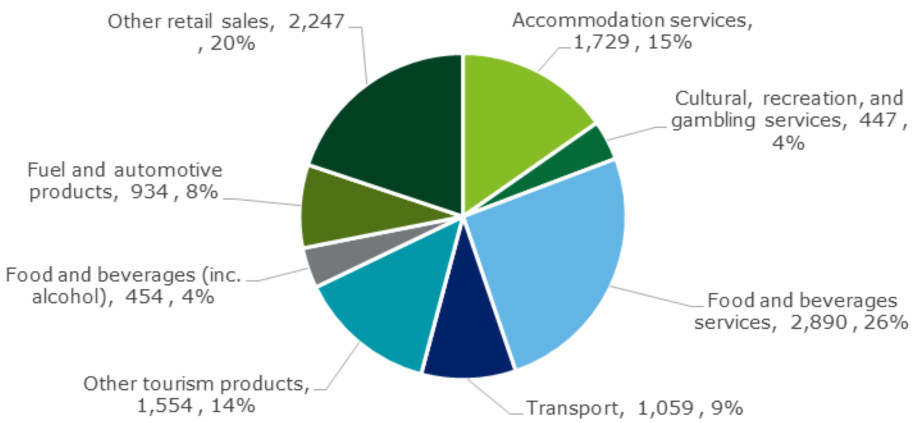
Note: Figures provided in the diagram are based on modelling estimates that are discussed in the subsequent sections. All numbers are provided for year ending June 2017, with the exception of the international tourism spend, which is the year ending March 2016.

Source: Deloitte Access Economics.

[12] Statistics New Zealand, Tourism Satellite Account (2017), Table 12.

Business revenue attributable to tourism can be best represented based on the Monthly Regional Tourism Estimates (MRTE). Unlike the TSA data, the MRTE excludes GST paid by purchases on tourists, alongside other categories which are not adequately measured. Based on the exclusion of these measures, the MRTE provides a more appropriate estimate of business revenue collected from international tourists for the purposes of this exercise.[13] The total business revenue associated with international tourism according to the MRTE is $11.3 billion in the year ended January 2018, a figure lower than the TSA's estimate of $14.5 billion, which also includes GST, air passenger transport and education services. A breakdown of the business revenue collected by businesses is provided in Figure 3.

Figure 3: Business revenue from international tourists, year ending January 2018, $m



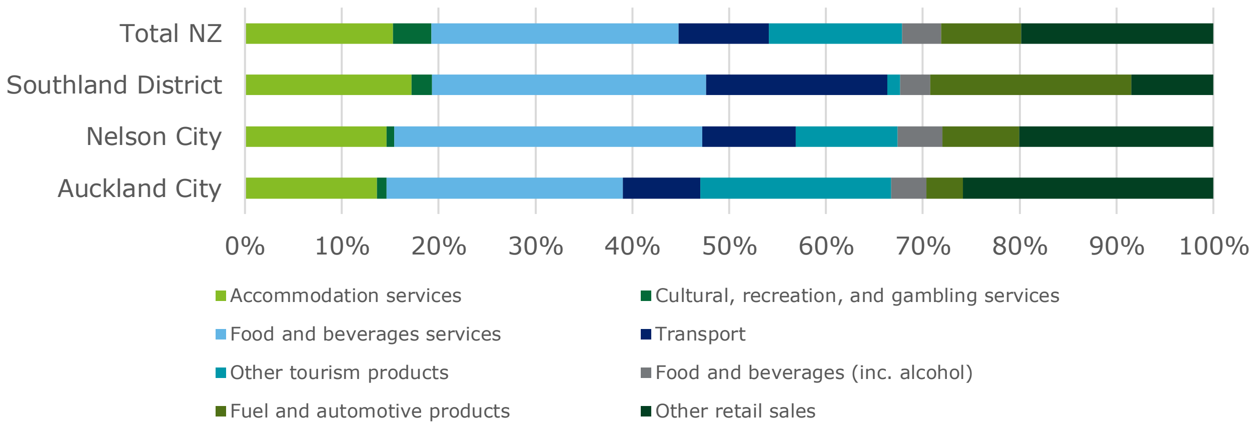
Source: Monthly Regional Tourism Estimates

New Zealand businesses received over $3.6 billion in additional revenue through retail sales to international visitors in the year to January 2018, which includes the sale of food and beverages (including alcohol), fuel and automotive products, and other retail sales. Food and beverage services followed retail sales as the next largest area of business revenue from international tourists, collecting $2.9 billion in the year ending January 2018.

The breakdown of business revenue from international tourists is relatively similar across the three chosen case study councils and New Zealand as a whole, as described in Figure 4: Business revenue from international tourists across councils, year ending January 2018. Specific characteristics of the business revenue attributable to international tourists for each case study is discussed in their respective section.

13 The excluded categories (in addition to GST collected) are air passenger transport, imputed rental on holiday homes, and education services. Air passenger transport is excluded as there is not a robust way to capture this spending in cash and card sales as most flights are purchased overseas. Imputed rental on holiday homes cannot be adequately measured. Education services is excluded due to the difficulty of distinguishing spending by international students from the domestic population.

Figure 4: Business revenue from international tourists across councils, year ending January 2018, $m



Source: Monthly Regional Tourism Estimates (2018)

Central government

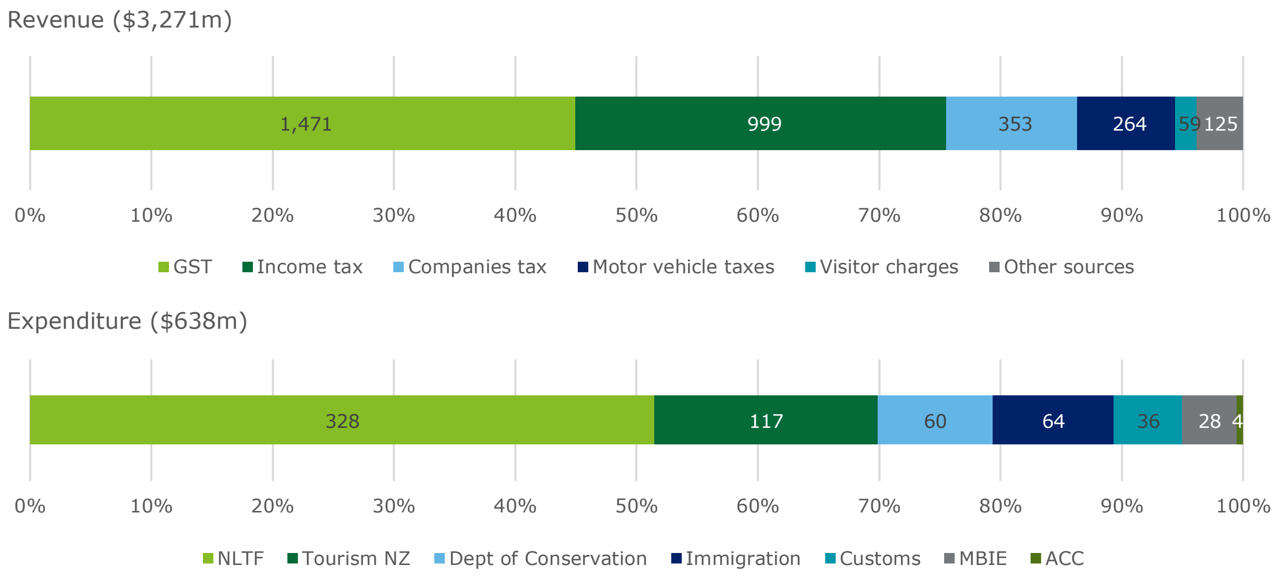
Central Government collects tax in order to deliver a range of activities, including redistribution. For example, the Crown spends around 60% of its budget on health, education, and welfare. Most sectors of the economy, therefore, make substantial net contributions to the Crown. Tourism is one such sector. In addition, many make additional payments in the form of levies for sector-specific services such as research and marketing.

As illustrated in Figure 2, a proportion of international tourism expenditure will accrue to central government through tax receipts and some user charges. Drawing on a range of published sources including the Tourism Satellite Accounts, NZ Treasury data, central government agency consultations and annual reports, Deloitte Access Economics estimates that central government agencies collect approximately $3.27 billion in revenue and has expenditure of around $638 million, attributable to international tourists. An overview of the sources of revenue and expenditure is presented in Figure 5.

The largest source of revenue for the New Zealand central government attributable to international tourists is GST, estimated to be worth $1.47 billion in the year ending June 2017 (up by $0.25 billion compared against three years earlier, when it was $1.22 billion in the year ending June 2014). This figure represents close to 50% of all international tourist revenue and is calculated based on the expenditure of international tourists in New Zealand. A further $1 billion is collected indirectly through income taxes due to employment in the tourism industry, and company taxes. *Other sources* shown in Figure 5 include a number of smaller taxes, of which a portion can be attributed to international tourists, and revenue generated through specific tourist levies/activities, including:

- Customs duty on alcohol, gambling taxes, tobacco excise and other customs duties ($41m);
- Boarder clearance levy ($37m);
- Withholding tax ($34m); and
- Department of Conservation revenue ($14m).

Figure 5: Central government international tourist revenue and expenditure by source, year ending June 2017, $m



Source: Deloitte Access Economics

Of the $638 million in expenditure incurred by the New Zealand central government to support international tourists, the majority is incurred through supporting land transport, specifically through the National Land Transport Fund (NLTF). The New Zealand Transport Agency and NLTF annual reports indicate that $3.4 billion was spent on land transport in the year ending June 2017. Of this amount, $328 million was attributed to international tourism based on their relative level of fuel and public transport use.

The expenditure associated with funding Tourism New Zealand is $117 million and represents 18% of all expenditure incurred to support international tourists, as seen in Figure 5.[14] Other Central Government departments also incur some expenditure in regard to supporting international tourists including the Department of Conservation (DoC), through the services and infrastructure it provides to tourists, and both Immigration New Zealand and New Zealand Customs.

The $60 million attributable to the DoC is based on data provided through consultations and attributed to international tourists based on the revenue split of international to domestic tourists. DoC undertakes expenditure that can be attributed to international tourists primarily through the services they provide, but also in setting up relevant infrastructure and the scaling on booking services to accommodate overseas visitors. The net expenditure burden for DoC is consistent for both domestic and international tourists (i.e. one type of tourist is not necessarily more costly than another).

MBIE has expenditure of approximately $28 million that can be attributed to international tourism through the Major Event Development Fund, Tourism Infrastructure Fund and specific data analysis, research and policy development work.[15] The Accident Compensation Corporation (ACC) spends approximately $4 million which is attributable to international tourists (total expenditure on claims in New Zealand in 2017 was $4.9 billion).

The overall split for expenditure between services and infrastructure slightly favours infrastructure, at 53% to 47%. Over time, infrastructure expenditure is likely to be somewhat lumpy in nature and will vary

14 Tourism New Zealand, 2016/17 Annual Report

15 The Major Events Development Fund totalled $13.44 million in 2016-17 and its primary purpose is to support large NZ events, which attract international visitors. The Tourism Infrastructure Fund provides up to $25 million per year for the development of tourism-related infrastructure such as carparks, freedom camping facilities, sewerage and water works and transport projects. The cost in 2016-17 was $8.22 million and was all attributed to international tourists based on the mix of projects supported and advice from MBIE.

from year to year. To account for this potential variable, our model included data and estimations across three years. The results found that central government expenditure was relatively stable, growing from $588 million in the year ending June 2015 to $607 million in the year ending June 2016 and to $638 million in the year ending June 2017.

Local government case studies

Like central government, local government revenue and expenditure decisions are also driven by wider considerations than financial returns or cost recovery. Many councils noted key drivers include the cost of basic infrastructure, for example, which is often used by both residents and visitors.

As part of our data discovery and analysis, Deloitte Access Economics consulted with four local government agencies and three industry bodies as well as a range of central government agencies, to better understand how international tourism impacts central and local government revenue and expenditure. To illustrate the share of international tourism-related expenditure and revenue flows at local government level, we have developed case studies for three key tourist regions in New Zealand. While these regions do not reflect the experience of all regions, they serve to highlight how international tourism impacts regions differently across the country. However, due to the limited data available it is difficult to measure the financial expenditure and revenue related to international tourists specifically and these figures should therefore be considered as indicative only.

This section sets out case studies for the Southland, Nelson and Auckland regions, based on consultations with SDC, NRDA and ATEED, and supplemented by publically available information.[16] All three regions have experienced significant growth in tourism, with the total number of international visitors increasing 95%, 74%, and 125% since September 2013 for the Southland, Nelson (including Tasman), and Auckland regions, respectively.[17]

The issues raised across all consultations include; difficulty collecting and classifying tourism-specific data; and identification of tourist use of goods and services, and within this apportionment of use to international tourists specifically.

Specific data issues raised in the consultations are set out in Appendix B.

Revenue gathering

Local government authorities collect revenue from a range of sources, including: residential and commercial rates; government grants; commercial services; dividends from investments; levies; and traffic infringements and fines. The means by which local authorities generate tourism-specific revenue, and the methods by which this is undertaken, varies broadly across the three case studies. The most straightforward of these revenue generation methods is the application of a rate or levy. Southland and Auckland have both implemented a rate or levy specifically targeted at visitors to cover expenditure related to attracting tourists and maintaining infrastructure. These rates and levies are generated from all visitors, domestic and international.

Other tourism-specific revenue streams include: user charges for car parks and toilets; i-Site services; and council-owned commercially run services, such as museums, galleries and zoos. However, not all councils charge for these services. Additional revenue generated by international tourism is captured indirectly, and includes: commercial rates received from accommodation, retail, hospitality and tourist-targeted businesses; and dividends from investments in companies such as airports or ports, who derive their profits at least in part from international tourists.

Expenditure incurred

Consultees noted that the mixed-use nature of infrastructure, marketing and services provided by local agencies makes the apportionment of expenditure to international tourism particularly difficult. Infrastructure, including maintenance and renewals is a significant portion of local government

16 Note that the case studies cover the regions as a whole, while the modelling is specifically focused on costs and revenue to the Southland District Council, Nelson City Council and Auckland Council due to data availability.
17 Statistics New Zealand, *International Visitor Survey: Place visited (RTO).*

expenditure, and consultees indicated this is also true in relation to tourism-related expenditure. Some segments of the infrastructure market, and some locations (e.g. Milford Sound), will clearly have much higher usage by tourists (domestic and international), such as carparks at major attractions.

Infrastructure investment is often co-funded between councils, central government and (sometimes) private sector investment. The New Zealand Transport Agency (NZ Transport Agency) funds 100% of state highway investment but also subsidises local roading investment, and the MBIE-administered Tourism Infrastructure Fund provides funding specifically for tourism.

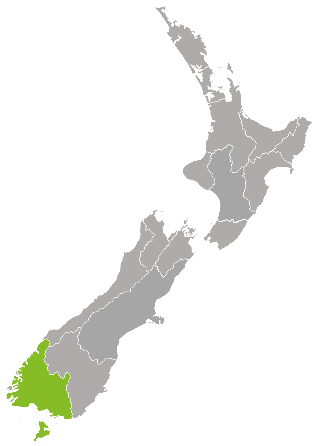
The seasonality of tourism is also a significant consideration, with infrastructure requiring the capacity to deal with the peak visitor numbers that are only in effect for a few months of the year. For example, the NRDA estimated the infrastructure use in the region is 4.1[18] times higher during the peak summer months, compared to the winter.

Other examples of expenditure incurred driven by international tourism include: hosting major events and conferences, destination management and marketing; funding Regional Tourist Organisations (RTOs); and freedom camping. Tourists also place a burden on other basic public services that are required independent of tourist volume, such as public transport.

3.1 Southland case study

Region covered in this case study:	Modelling covers expenditure and revenue for:	Consultee:
Southland Region	Southland District Council	Southland District Council (SDC)

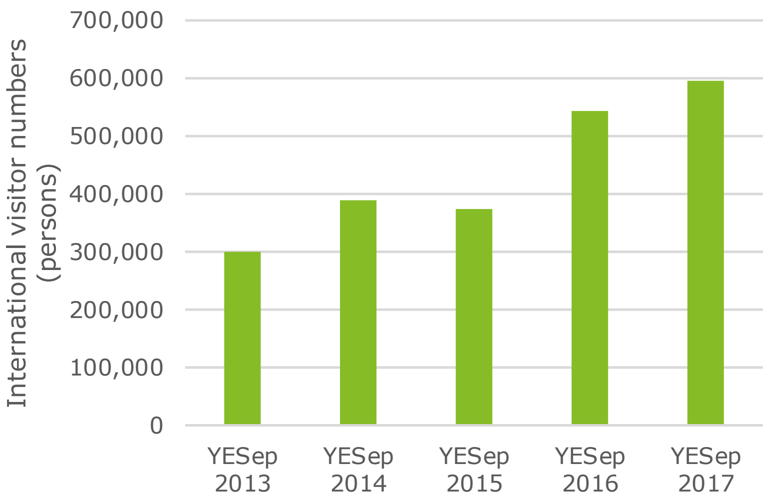
Southland's[19] tourism industry is expanding rapidly with 16% growth in tourist spending.[20]



Southland's guest nights reached 1.1 million over the year ending September 2017, with international guest nights increasing 12.7%.[21] International visitors made up approximately 60% of guest nights in the region,[22]

[18] The NRDA noted this during the consultation.
[19] The Southland region comprises the Southland District, Invercargill City and the Gore District.
[20] Stuff, *Fiordland leads Southland's tourism growth,* May 2017.
[21] Venture Southland, *Southland Tourism Key Indicators,* September/October 2017.
[22] Venture Southland, *Southland Tourism Key Indicators,* September/October 2017.

Figure 6: Historical international visitor numbers to the Southland region, 2013 - 2017



Source: International Visitor Survey: Place visited (TLA), Statistics New Zealand

There has also been a significant increase in tourist spending. For the year ending November 2017, spending in Southland was $654 million, up from $466 million in the year ending November 2013. The amount of spend apportioned to domestic and international tourists differs between districts within Southland, with the Southland District having the largest proportion of international spend (61%), and Gore District having the lowest (13%).

Expenditure and revenue associated with international tourism

There is insufficient data to give an accurate representation of the tourism-related expenditure and revenue from and to the four councils in the Southland region. However, through consultation with the SDC[23] and desktop research of publically available information, Deloitte Access Economics have developed an indicative estimate of tourism-related expenditure and revenue attributable to SDC, with the key modelling results outlined below.

The SDC identified visitor levies and central government funding as its two main revenue streams coming from international tourism. Examples of tourist levies charged in Southland include:

- visitor levies to Stewart Island, which are $5;
- an $8.50 levy is charged to those who cruise in Milford Sound; and
- user paid toilets operating in Te Anau for $1 a head.

Central government funding is often received for infrastructure expenditure, with the NZ Transport Agency making contributions for local roading projects, and some funding being provided for tourism infrastructure projects, such as Milford Sound developments.

SDC's largest tourism specific expenditure is $1.7 million pa to fund its RTOs (Fiordland RTO and Southland RTO) (co-funded with other local councils).

Some specific infrastructure needs that Southland's local councils reported to us are outlined below. However, it's difficult to attribute these directly to tourism as historic underinvestment, increased domestic use, population growth and other factors will also play a role.

- Maintaining the roading network $25 million annually.[24]

[23] Consultations were conducted with members of the Southland District Council, which only covers the Southland District. The same conclusions should not be drawn for tourism-related costs and revenue to the other local councils operating in the Southland region.
[24] Ministry of Transport, *Road funding in New Zealand,* September 2017.

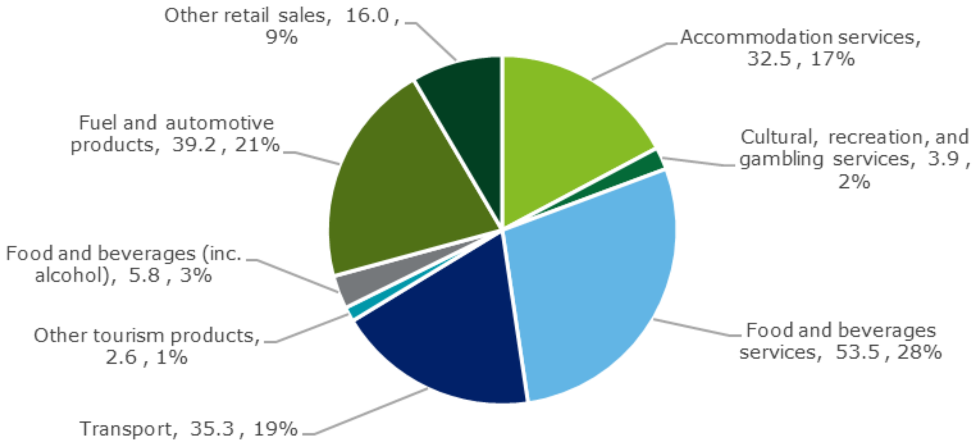
- The growing interest and awareness of "The Catlins" and the Southern Scenic Route has increased visitor numbers to Curio Bay, putting pressure on existing infrastructure.

- A growing number of visitors to Milford Sound has created pressures on Te Anau. In particular, SDC estimate 72% of the current wastewater can be attributed to visitors (domestic and international).[25]

Modelling results

Total business revenue attributable to tourism in the Southland District is $330 million, $189 million of which can be attributed to international tourism.[26] A breakdown of the business revenue associated with international tourism collected by businesses is provided in Figure 7.

Figure 7: Business revenue from international tourists, year ending January 2018, $m



Source: Monthly Regional Tourism Estimates

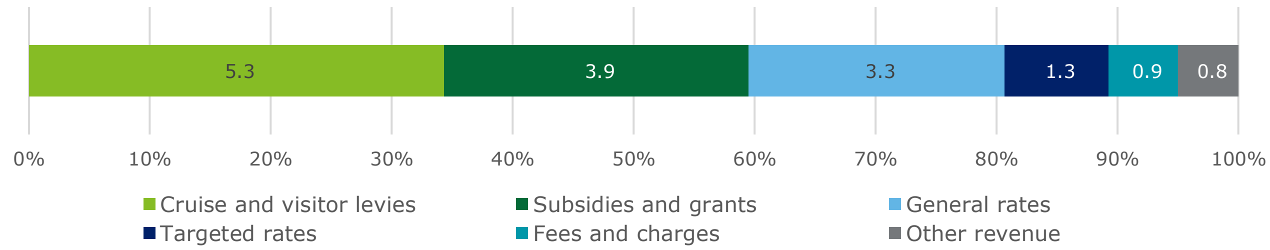
Modelling indicates that international tourists add between $14.2 - $15.5 million to the annual revenue of the council (including transfers from the NZ Transport Agency), and expenditure of $15.4 - $17 million. The council gains the majority of revenue attributable to international tourists through the levies applied to cruises to Milford Sound and visitors to Stewart Island.

Like other councils that experience international visitors to their region, SDC receives a number of grants and subsidies to support infrastructure development to accommodate increased use. Of the $13.4 million in grants provided by the NZ Transport Agency in 2016-17, $3.9 million can be attributed to international tourism. This is estimated through a metric based on use based on a combination of the relative spend of international tourists on fuel and other automotive products and the number of international visitor nights relative to the council's resident population. The council also receives revenue indirectly from international tourists' use of utilities and infrastructure, captured through both general and targeted rates. The estimated collection of general rates attributable to international tourists is between $1.9 - $3.3 million. The high-end estimate is presented in the chart in Figure 8 below. A portion of the revenue generated through the sale of goods and services has also been attributed to international tourists based on relative nights in the area.

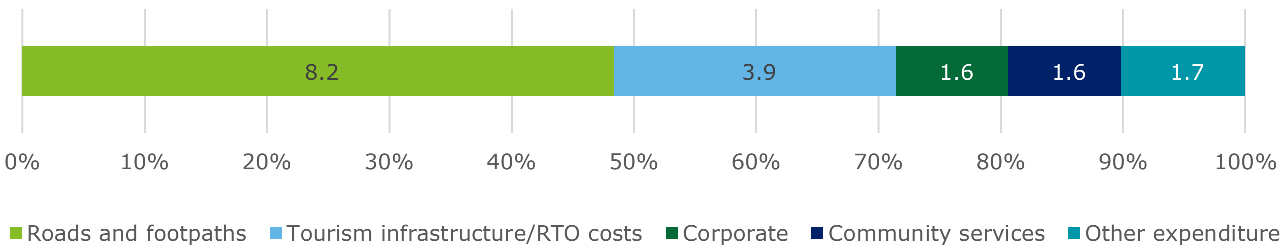
[25] Southland District Council and Stantec, *Te Anau Wastewater Scheme,* November 2017.
[26] Ministry of Business, Innovation and Employment, *Monthly Regional Tourism Estimates*.

Figure 8: Southland District Council international tourist revenue and expenditure by source, year ending June 2017, $m

Revenue ($14.2 - 15.5 million)



Expenditure ($15.4 - 17 million)



The expenditure relating to international tourism for SDC in the year ending June 2017 was estimated to be $15.4 - 17 million. Figure 8 includes both capital and operational expenditure by category. The majority of expenditure incurred with supporting international tourists is a proportion of roads and footpaths, specific tourism infrastructure, and RTO expenditure. As with revenue, this expenditure was apportioned based on a relative use metric. Expenditure in the category "community services" includes a number of subcategories relevant to international tourists including: parks and reserves, community facilities, public toilets, airports and electricity supply.[27] A small proportion of the variable corporate support expenditure is attributed to international tourists based on their presence in a region impacting the number, type and scale of support activities needed to deliver services used by international tourists, such as infrastructure planning and broader support services. Corporate expenditure is excluded from the low end range of expenditure attributable to international tourists, at $15.4 million. This is due to the uncertainty in how much of this expenditure is attributable to international tourists. Other expenditure areas include the expenditure incurred in supporting the incremental impact of tourists on solid waste, water supply and wastewater services based on a proportion attributable to international tourists.[28]

Finally, capital expenditure can be somewhat variable over time which is not reflected in the expenditure figures provided here. For example, consultations with SDC indicated that the development of an alternative coastal road is primarily being driven by tourist demand (and the economic benefits thereof). However, only $900,000 of the $9.5 million in expenditure on the alternative coastal route occurred in 2016-17 and is captured in the above figures with the remainder falling in 2017-18 or 2018-19. Thus the potential lumpy nature of capital expenditure needs to be considered when looking at results from a single financial year.

3.2 Nelson case study

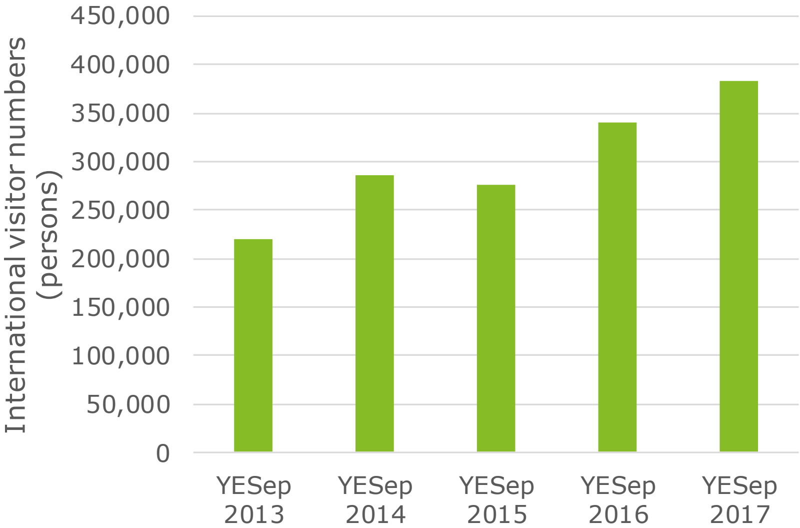
Region covered in this case study:	**Modelling covers expenditure and revenue for:**	**Consultee:**

[27] This category also includes: community assistance, cemeteries, community housing, and library services.
[28] It should be noted that these expenditure items and revenue are high level estimates of the revenue and expenditure which may be attributable to international tourists, and given the lack of granular data on how much of each of these activities are attributed to international tourist use should be seen as containing a significant margin of error. This caveats applies similar to the case studies of Nelson and Auckland below.

Nelson Tasman Region	Nelson City Council	Nelson Regional Development Agency (NRDA)

Visitor numbers to the Nelson Tasman region have been increasing steadily over the past five years, International visitor numbers have increased significantly, from 220,000 to 380,000. During the peak period, the population in Nelson Tasman swells considerably, with between 75,000 and 100,000 visitors (domestic and international) in each of the summer months.

Figure 9: Historical international visitor numbers to the Nelson Tasman region



Source: International Visitor Survey: Place visited (TLA), Statistics New Zealand

The increased number of visitors has corresponded with an increase in visitor spend, with tourists spending over $650 million in the Nelson Tasman region in the year ending September 2017, compared to $466 million in the year ending September 2013 (a 40% increase). The proportion of total spend by international tourists has also increased from 29% in 2013 to 37% in 2017.

Expenditure and revenue associated with international tourism

As with other local government authorities, the Nelson City Council (NCC) and Tasman District Council (TDC) collect revenue from a range of sources to invest in maintaining existing and developing new infrastructure and services for both local residents and visitors alike. Limitations on the data mean that assumptions have been made in the model as to where international tourism will have contributed to the council's revenue and expenditure base. The discussion of expenditure and revenue below relates to the Nelson Tasman region as a whole. Deloitte have undertaken high-level modelling of the expenditure and revenue for the NCC only due to data availability, with the results of this modelling set out in further detail at the end of this case study.

Consultation with the NRDA and publically available information indicates that the following local authority revenue streams are driven (to at least some extent) by international tourism, with the total 2017 amounts for each council included, where available:

- Commercial rates – Business generation in the region (particularly accommodation, retail, hospitality and tourist-targeted businesses) is driven in part by international tourism. This, therefore, influences the level of commercial activity in the region and the commercial rates received by the councils. The NRDA has estimated that close to 50% of the $654 million visitor spend in the region is on retail sales (including fuel, alcohol, food and beverages and other retail spend). The total rates received by NCC and TDC were $59.5 million and $69.2 million, respectively. Rates revenue were attributed to international tourists based on the estimated share attributable to accommodation providers (as a low scenario) and based on their estimated relative share of expenditure in the region (as a high scenario).[29]

- Nelson Airport dividends (NCC $0.4 million, TDC $0.4 million). Total passengers reached 1 million for the first time in 2017, with booming international tourist activity being a key contributor to passenger growth in Nelson.
- Port Nelson dividends (NCC $3.3 million, TDC $3.3 million). The vast majority of the Port's activities are cargo and shipping operations, however cruise arrivals are forecast to grow from approximately seven vessels in 2017 to over 20 in 2025 and are largely driven by international tourists;
- Commercial activities – The councils operate or fund some services that, while not commercial in the sense that they are operated for a profit, provide a revenue stream of which international visitors are likely to be a component. Examples include museums, the Natureland Zoo and public transport. There are a number of museums in the Nelson Tasman region, with some free to visit, and others requiring a small donation. The Nelson Provincial Museum is free to visit for ratepayers and residents, and $7 to enter for visitors. The NRDA has estimated that museums, arts and culture collects around 60% of revenue ($1 million approximately), directly from international visitation; and
- NZ Transport Agency roading subsidies (NCC $3.9 million, TDC $6.5 million) – NZ Transport Agency subsidises part of the councils' expenditure in maintaining the local roading infrastructure.

Further to this, the NRDA's funding comes from the NCC and the TDC, contributing $600,000 and $300,000 respectively. The NRDA has an annual budget of $2.7 million, with around $1.7 million spent on visitor related expenses each year, including: consumer marketing; business events marketing; international marketing; i-SITE; and the events programme. The remainder is raised from other grants and funding, or from the private sector through partnering on a number of different projects.

The primary expenditure related to international tourism are aimed at ensuring infrastructure meets current and future demand. Similar to other regions, the significant increase in population during seasonal periods puts stress on infrastructure (domestic and international visitors). The NRDA has estimated that during the peak season, infrastructure use surges to 4.1 [30]times larger than during the winter months. Some expenditure in the Nelson Tasman region at least partly attributable to international tourism include:

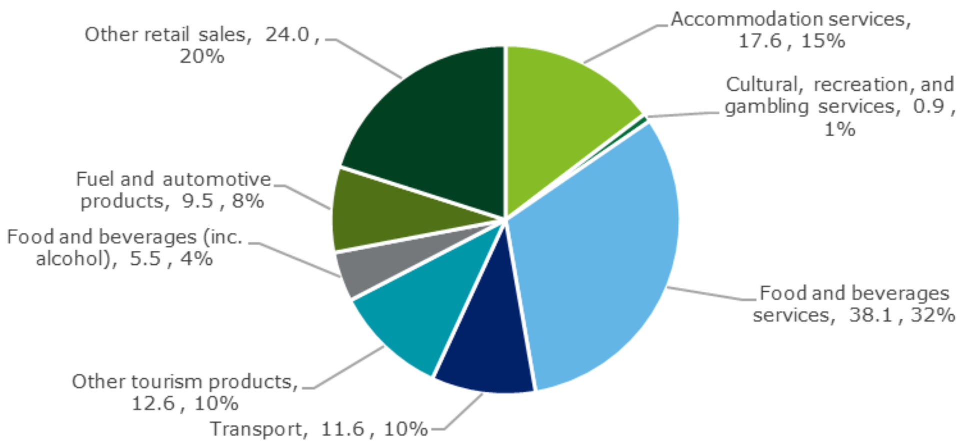
- The NCC allocated $80,000 to set up three sites for freedom campers in the summer of 2016-17 due to a projected huge influx of travellers;[31]
- In 2016, Nelson Airport announced a new $32 million airport terminal as a result of the aging current terminal and the significant increase in the number of passengers passing through; and
- A Marina Strategy has also been developed by the NCC, to improve it as a visitor attraction. The strategy includes a potential $5 million development, benefiting visitors and Nelson residents alike.

To estimate the potential expenditure and revenue associated with international tourism, Deloitte Access Economics conducted economic modelling to determine the effects of international tourism on the revenue and expenditure by Nelson City Council.[32]

Total business revenue attributable to tourism in Nelson City is $352 million, $120 million of which can be attributed to international tourism in year ending January 2018.[33] A breakdown of the business revenue associated with international tourism collected by businesses is provided in Figure 10.

[29] The latter is a high scenario as some of the increase in expenditure associated with international tourists can be met by existing residents and businesses within the region so the increase in ratepayers could potentially be smaller than the share of expenditure.
[30] The NRDA noted this during the consultation
[31] The NCC implemented the Freedom Camping Bylaw in December 2017, where camping in non-self-contained vehicles (no toilet or washing facilities on board) or tents is not permitted on any Council administered land within the Nelson region apart from within an official campground or with a private accommodation provider. A breach of these rules could result in a $200 fine.
[32] The rest of the case study has focused on the Nelson Tasman region as a whole, however due to data availability the modelling for the Nelson City Council (i.e. doesn't include the Tasman District Council).
[33] Ministry of Business, Innovation and Employment, *Monthly Regional Tourism Estimates*.

Figure 10: Business revenue from international tourists, year ending January 2018, $m

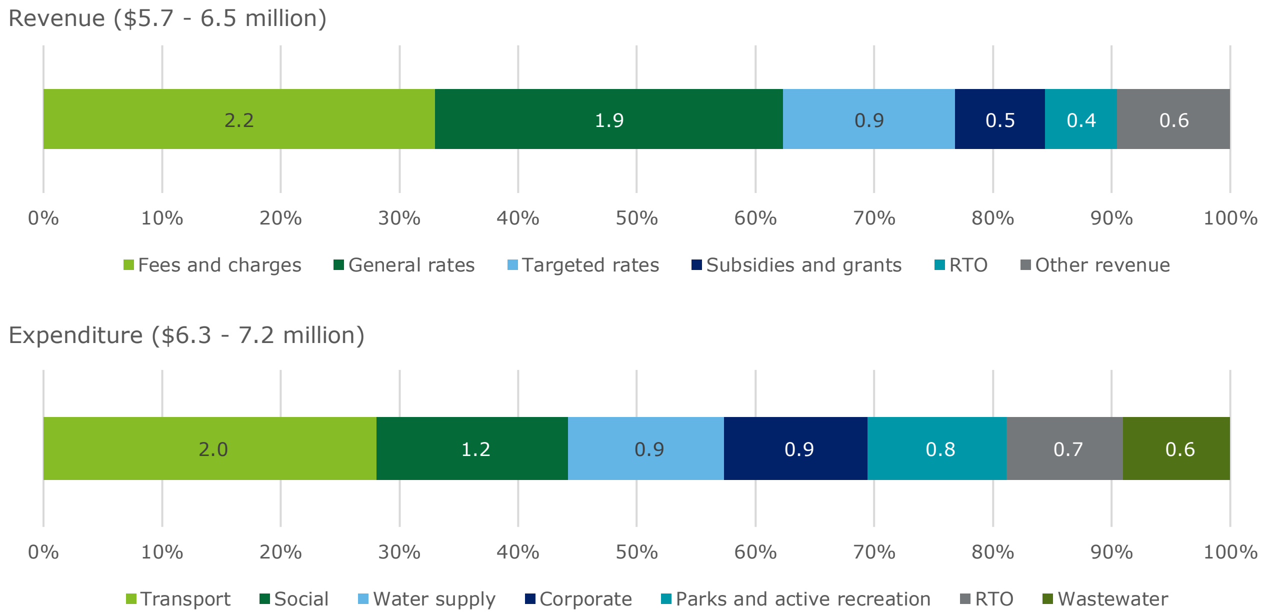


Source: Monthly Regional Tourism Estimates

International tourists are estimated to add between $5.7 - $6.5 million to the annual revenue of the council, with expenditure associated with hosting international tourists estimated to be approximately $6.3 - $7.2 million.

The council gains the majority of revenue attributable to international tourists through fees and charges, which captures the operation of museums including the Nelson Provincial Museum alongside the sales of goods and services by the council. The category for general rates indirectly captures the effects of international tourists on businesses, such as accommodation. A range is estimated here given the difficulty in accurately measuring the general rates collected by the council as a result of international tourist expenditure, with the high-end estimate presented in Figure 11. Similar to other councils, a proportion of the NZ Transport Agency grants can be attributed to international tourists. Of the $3.9 million in grants provided by the NZ Transport Agency to NCC in the year ending June 2017, $0.5 million was estimated to be attributable to international tourism.

Figure 11: Nelson City Council international tourist revenue and expenditure by source, year ending June 2017, $m



The expenditure incurred in supporting international tourists to Nelson City Council in the year ending June 2017 was between $6.3 - $7.2 million. Figure 11 includes both capital and operational expenditure by category. Corporate expenditure is excluded from the low end range of expenditure attributable to international tourists, at $6.3 million. This is due to the uncertainty in how much of this expenditure is attributable to international tourists. The category with the highest expenditure attributable to international tourists was transport, followed by social, which totalled $2 million and $1.2 million, respectively. Indirect operating and capital expenditure are incurred by the council due to international tourists across remaining categories, including water supply, corporate, parks and recreation, and wastewater. The RTO also undertakes a number of initiatives for international visitors including their international visitor marketing program and i-SITE function, of which $0.7 million has been funded by the Nelson City Council.

3.3 Auckland case study

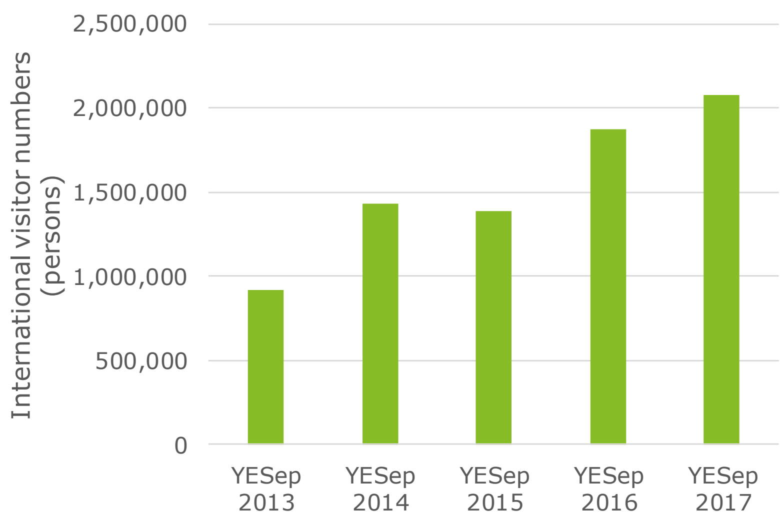
Region covered in this case study:	Modelling covers expenditure and revenue for:	Consultee:
Auckland Region	Auckland Council	Auckland Tourism, Events and Economic Development (ATEED)

The Auckland region attracted 2.1 million[34] international visitors over the last 12 months, with Auckland Airport, the largest international airport in New Zealand, being the entry point of 78% of international arrivals to New Zealand.[35]

The Auckland region's guest nights reached 7.4 million over the year ending November 2017, with international visitors making up approximately 47%[36] of guest nights for the year

International visitor numbers to Auckland have increased significantly over recent years. For the year ending September 2017, 2.1 million international visitors visited Auckland, more than double the 900,000 visitors in the year ending September 2013.[37]

Figure 12: Historical international visitor numbers to the Auckland region



[34] Statistics New Zealand, *Dataset: International Visitor Survey: Place visited (TLA).*
[35] Auckland Tourism, Events and Economic Development, *Auckland Growth Monitor.*
[36] Stats New Zealand, *Commercial Accommodation Monitor: November 2017, Auckland*, January 2018
[37] Statistics New Zealand, *Dataset: International Visitor Survey: Place visited (TLA).*

Source: International Visitor Survey: Place visited (TLA), Statistics New Zealand

The increase in tourist spend in Auckland has also been significant, increasing from $5.5 billion in the year ending November 2013 to $8.1 billion in the year ending November 2017, an increase of almost 50%. Just over half of total spend can be attributed to international tourists, with the largest markets being China and Australia.

Expenditure and revenue associated with international tourism
Similar to other local councils, it is difficult to directly attribute expenditure and revenue to international tourism in Auckland. While it is hard to measure, relative expenditure and revenue associated with international tourism can be inferred.

While the majority of visitor arrivals to Auckland are domestic visitors, ATEED identified that they have a stronger focus on international tourists compared to other similar organisations. In terms of their revenue base, ATEED identified that their approximate operating budget is $65 million, with most of their budget (83% in FY17)[38] being provided by the Auckland Council. ATEED forecasts that this proportion will decrease to 77% in FY18.[39] Other sources of funding include:

- government contracts;
- regional business practise programmes; and
- commercial sponsorship for major events.

ATEED's primary focus is to promote Auckland as a visitor city. The organisation generates revenue to do this from destination management; working with operators on the ground to attract, develop and facilitate major events and economic development. Their main focus for this revenue generation is facilitation, such as the 2011 Rugby World Cup.

While ATEED does not measure revenue attributable to international tourism. Facilities provided by the Regional Facilities Auckland – another council-owned organisation – such as galleries and native venues, arguably generate large revenue attributable to international tourists.

ATEED's expenditure focuses on tourism spaces, events, marketing, programme expenses, capability building, and businesses. ATEED estimated that 60% – 66% of expenditure is attributed to international tourists.

Approximately $28 million of ATEED's annual budget goes toward destination management. While major events are a large focus for their organisation, just $2 million of their annual budget is used for events.

Although expenditure apportioned to international tourism is not measured, examples of proposed or completed projects with an attribution to international tourism are:

- facility upgrades in preparation for the 2011 Rugby World Cup, which brought an estimated 116,000 international visitors to the Auckland region, and $387 million in international visitor spending across New Zealand;[40]
- the installation of a dolphin mooring structure for cruise ship docking, which will be ready for the 2019/20 cruise season – this is expected to boost Auckland's cruise economy, which already adds $220 million to the economy annually and creates 4,000 local jobs;[41] and
- infrastructure investment related to the America's cup, which will be held in Auckland in 2021.

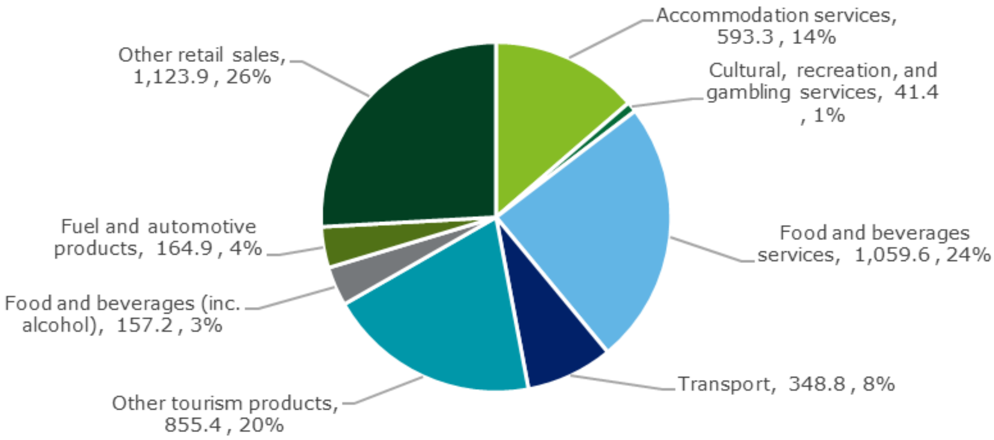
ATEED also indicated that tourism-related pressures on wastewater treatment facilities and roading will be future expenses for Auckland Council that can be partly attributed to international tourists.

[38] Auckland Tourism, Events and Economic Development, *Statement of Intent for Auckland Tourism, Events and Economic Development 2017 - 2020.*
[39] Auckland Tourism, Events and Economic Development, *Statement of Intent for Auckland Tourism, Events and Economic Development 2017 - 2020.*
[40] Ministry of Business, Innovation and Employment, *New Zealand's 2011 Rugby World Cup: A Tourism Perspective.*
[41] Auckland Council, *Plan approved for berthing large cruise ships*, November 2017.

In addition to the above estimates, Deloitte Access Economics conducted economic modelling to determine the effects of international tourism to the revenue and expenditure by Auckland Council.

Total business revenue attributable to tourism in the Auckland region is $8.3 billion, $4.3 billion of which can be attributed to international tourism in the year ending January 2018.[42] A breakdown of the business revenue associated with international tourism collected by businesses is provided in Figure 13.

Figure 13: Business revenue from international tourists, year ending January 2018, $m



Source: Monthly Regional Tourism Estimates

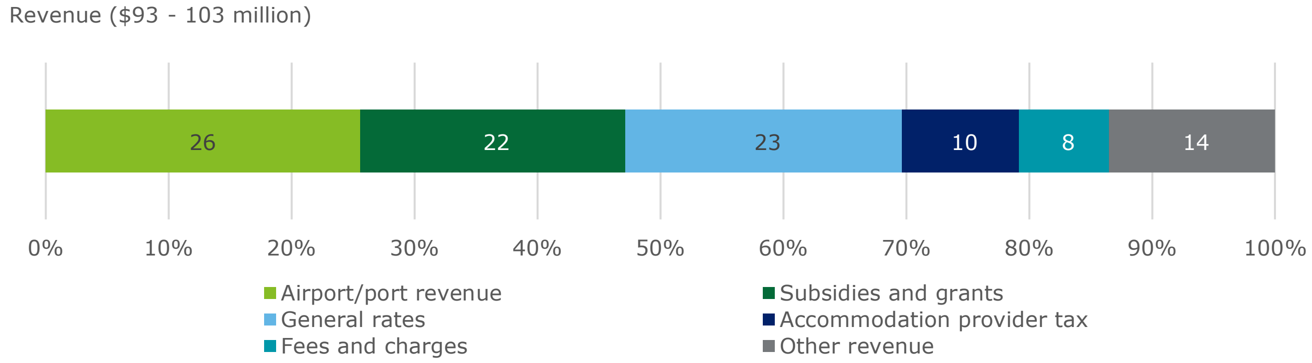
International tourists were estimated to contribute between $93 - $103 million to the annual revenue of the council and approximately $133 - $137 million in expenditure incurred was estimated to be attributable to international tourism.

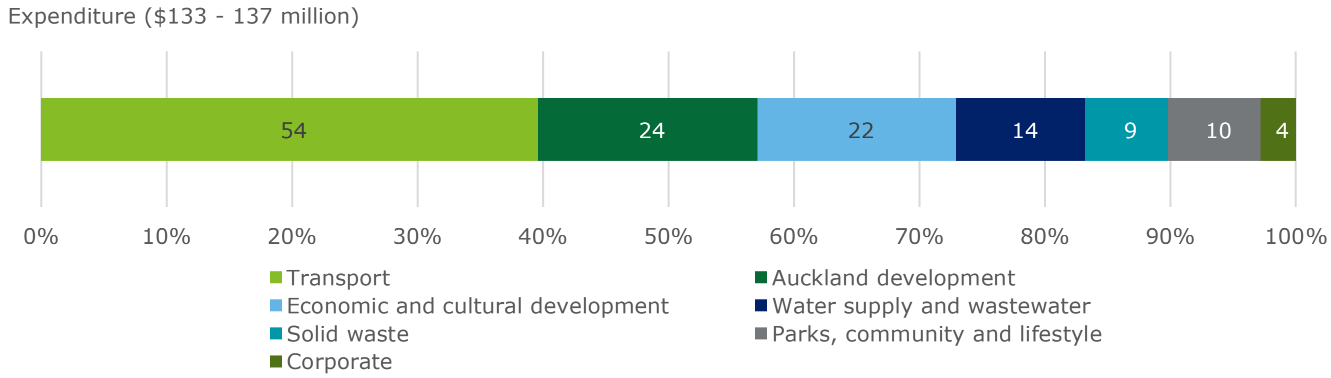
The council gains the majority of revenue attributable to international tourists through the council's investment in the port and airport (of which the council has a 22% ownership stake). The port and airport collectively delivered $104.3 million in distributions to Auckland Council Investments Limited (ACIL) a CCO which in turn provided a dividend of $85.9 million to Auckland Council. Deloitte Access Economics estimated that international tourists contributed $26 million to the revenue received by Auckland Council, based on the proportion of passengers at the airport who were international visitors, and the number of cruise ships versus cargo ships arriving at the port (taking into account the fact that some of the goods carried by cargo ships will be for international tourist consumption).

The Council received $22 million in subsidies and grants to cover both capital and operating activities required to support international tourists in the region. It is also estimated that Auckland Council received between $13 - $23 million from general rates. The high-end estimate of $23 million is presented in Figure 14 below. It is estimated that international tourists contribute $10 million to the revenue collected by the Auckland targeted accommodation rate. International tourists also contributed to fees and charges received by Auckland Council including the sale of goods and services, of which a portion is attributed to international tourism.

[42] Ministry of Business, Innovation and Employment, *Monthly Regional Tourism Estimates*.

Figure 14: Auckland Council international tourist revenue and expenditure by source, year ending June 2017, $m

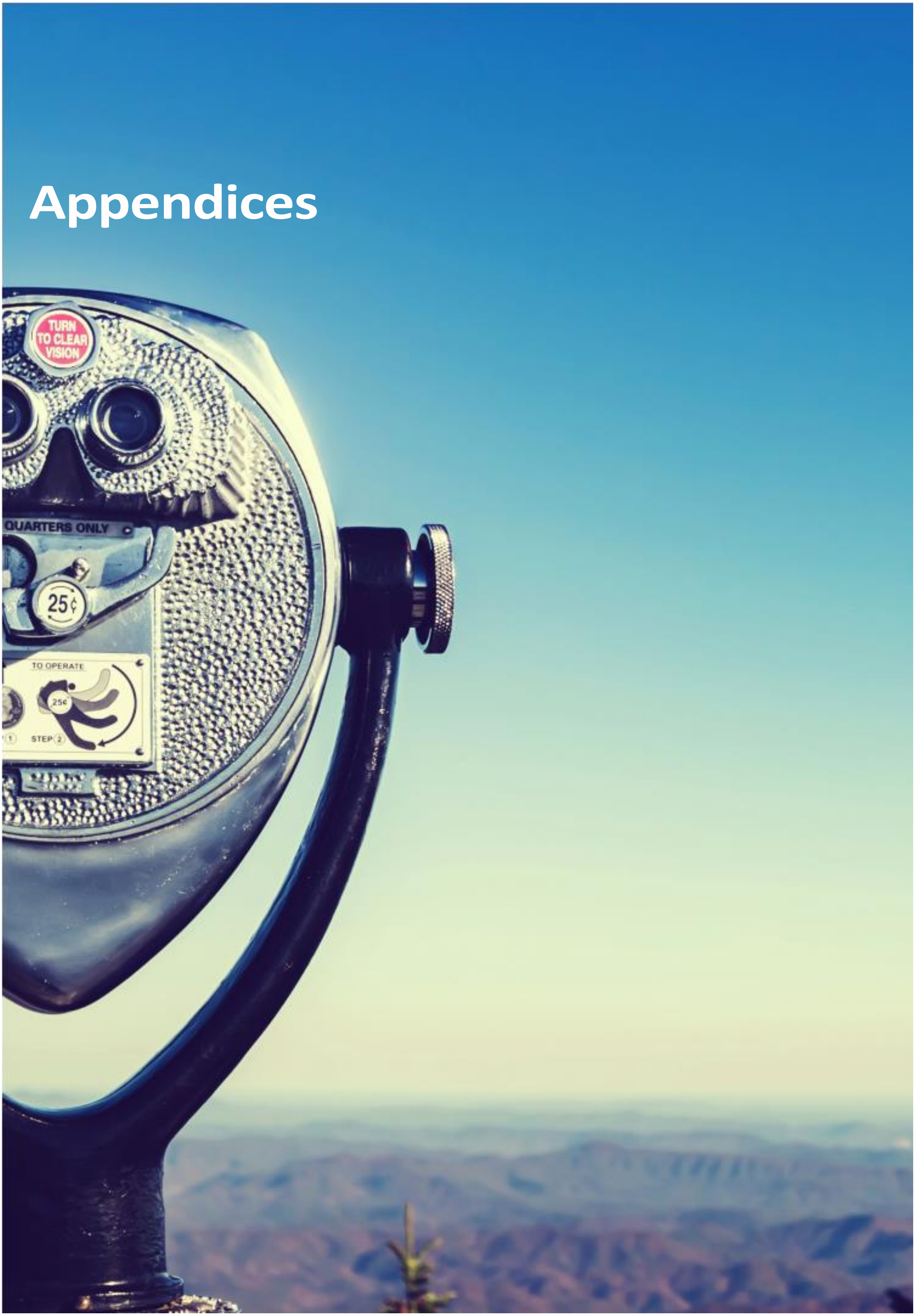




Of the $133 - $137 million in expenditure incurred that is estimated to be incurred by the council as a result of international tourism, transport constitutes a total of $54 million. This category includes the operating and capital expenditure for public transport and travel demand management, roads and footpaths, and parking and enforcement, with the majority of expenditure occurring in the public transport and travel demand management category (the total transport budget is $1.63 billion).

The Auckland council incurs a further $24 million attributable to international tourists in the development of Auckland, which includes the waterfront development. A further $22 million is incurred for economic and cultural development, which includes the year ending June 2017 international tourism spend by ATEED on initiatives addressing the visitor economy. A portion of the expenditure undertaken by the council in managing waste supply and waste water, solid waste, parks/community and lifestyle, and the variable corporate expenditure is attributed to international tourists based on estimates of incremental usage. Corporate expenditure is associated with the proportion of administration activity by the council and strategic planning (including for infrastructure developments) which is likely to be affected international tourists. Corporate expenditure is excluded from the low end range of expenditure attributable to international tourists, at $133 million. This is due to the uncertainty in how much of this expenditure is attributable to international tourists.

Appendices



Appendices

This section sets out the detailed appendices which underpinned our findings presented in the main report. A description about each appendix contained in this document is set out below:

- **Appendix A: Detailed modelling approach** – provides an outline of the modelling approach, the data sources and any assumptions used.
- **Appendix B: Consultations** – sets out the issues that were raised in consultation sessions.

Appendix A: Detailed modelling approach

This section summarises the approach used to quantify the revenues and expenditure attributable to international tourists on the New Zealand central government and three selected local councils (case studies). In general, the approach relies on applying an 'international tourism' attribution metric to appropriate revenue and expenditure based on the additional cost and revenue that can be attributed to international tourists. In select cases (i.e. for a specific international tourism initiative) the whole cost can be attributed to international tourists.

A.1. Central government agencies

Based on the data provided by MBIE, government agencies and desktop research, the goal of the modelling in this section was to determine the proportion of revenue collected / costs incurred that is attributable to international tourists.

Key parameters

The key parameters for estimating the revenue attributable to international tourism for national government agencies is summarised in Table A.1. The analysis of the central government revenue often relied on tourism data provided by the Tourism Satellite Accounts (TSA), International Visitor Survey (IVS), NZ Treasury Revenue and select data provided by government agencies (i.e. Department of Conservation). Results are presented by line item based on available and provided data. Relevant assumptions made for the purpose of the analysis are included throughout. Revenue and expenditure data is primarily estimated for the 2016-17 financial year whereas attribution metrics are estimated based on the best data available. Data from financial year 2016-17 was used where possible, although where data from the TSA was relied on this was available for either the year to March 2016 or the year to March 2017 in some cases. Where TSA data was determined to be more accurate it was used to develop attribution metrics and revenue figures. In cased where revenue figures were only available for March 2016 (e.g. for GST) they were estimated for March 2017 using growth measures from the TSA.

Table A.1: Key parameters for central government agencies international tourism revenue modelling, FY 2016-2017

Source	Parameter	Description	Result
Tourism Satellite Accounts	Goods and services tax (GST)	GST by international tourists provided by TSA for 2016 year ending march ($1.48 million). This number is projected to a 2017 figure based on the TSA estimation of GST paid by all tourists in 2017. Split of domestic versus international based on increase in international expenditure from 2016 to 2017 data.	$1,471 million
Tourism Satellite Accounts, NZ Treasury Revenue data	Income taxes (PAYE, refunds, Fringe benefit tax (FBT) and other personal tax)	International tourism employee compensation and total New Zealand employee compensation and estimated income of working proprietors associated with international tourism were calculated from TSA tables. These ratios were then applied to the relevant NZ Treasury annual line items: $813 million PAYE, refunds and FBT and $186 million for other personal tax based on the share of consumption of employees in the New Zealand economy estimated to be attributable to international tourism.	$999 million

NZ Treasury revenue data, Tourism Satellite Accounts, NZ National Accounts Income Statement	Corporate tax	Companies gross income and refunds provided by NZ Treasury revenue data. The international tourism share of GOS and gross mixed income determined by ratio of tourism GOS and gross mixed income to total New Zealand in the TSA.	$353 million
NZ Treasury revenue data, Tourism Satellite Accounts, International Visitor Survey: Transport, Transport NZ, NZTA Independent Review of the NZ Road User Charging System (2009)	Motor vehicle taxes	Consists of fuel excise, motor vehicle fees and road user charges. Fuel excise calculated based on estimated international tourism fuel use as a proportion of the NZ economy calculated from TSA ($155 million). Motor vehicle fees calculations based on rental vehicles only from the IVS with the assumption that vehicles are rented for 40 weeks of the year. Estimation of total rental vehicles for international tourist use as a ratio of total registered vehicles in NZ (provided by Transport NZ) from the basis of this attribution metric ($2 million). Road user charges based on split of vehicles who are required to pay road user charges by weight. Based on 2009 independent review which provides this data split, lowest weight vehicles assumed to be campervans / motorhomes / trailers / etc. For these vehicles, the same metric as motor vehicle fees is applied here. Buses are represented in the 11 to 19 tonne weight group and apportioned to international tourists using the national metric for road and rail transport. The remaining vehicles are assumed to be trucks and a real consumption ratio of international tourists to NZ economy is applied (where consumption ratio is treated as a proxy for truck transport of retail goods) ($107 million).	$264 million
NZ Immigration	Visitor visa charges and border clearance levy	Visitor visa application revenue for 2016-17 provided by NZ Immigration.	$59 million
NZ Customs annual report, International Visitor Survey	Border clearance levy	International visitors as share of international visitors and departing residents calculated from IVS and applied to the border clearance levy attributable to persons.	$37 million
NZ Treasury revenue data, Tourism Satellite Accounts, NZ National Accounts Income Statement	Withholding tax on dividends and non-resident withholding tax	International Tourism share of GOS and Gross Mixed Income applied to NZ Treasury items withholding tax on dividends ($18 million) and non-resident withholding tax ($15 million).	$34 million
Tourism Satellite Accounts, NZ Treasury Revenue	Customs and excise duty on alcohol and tobacco products	International tourism share of alcohol sales and food, beverages, tobacco and other groceries calculated from TSA and applied to NZ Treasury revenue items.	$24 million
Department of Conservation (DoC)	DoC revenue	Provided by DoC based on survey data supporting estimations of international split.	$14 million
Tourism Satellite Accounts, NZ Treasury Revenue, Department of Internal Affairs (DIA)	Gambling taxes	Average tax rate calculated based on NZ Treasury revenue collected and DIA total gambling expenditure. Average tax rate applied to international tourist gambling expenditure as a share of gambling expenditure in NZ based on the TSA.	$11 million

NZ Treasury, Tourism Satellite Accounts, NZ National Accounts	Customs duty on other imported goods	International tourism share of expenditure based on imports to NZ from the NZ National Accounts and TSA tables (including imports sold directly to international tourists and those used in production process). This ratio is then applied to the NZ Treasury figure of customs duty on other imported goods.	$6 million

The key parameters for estimating the cost attributable to international tourism for national government agencies is summarised in Table A.2. The data for the costs of international tourism was provided by largely by central government agencies, while some aspects were able to be analysed based on the agencies annual report.

Table A.2: Key parameters for central government agencies international tourism expenditure modelling, FY 2016-2017

Source	**Parameter**	**Description**	**Result**
New Zealand Transport Agency (NZTA), National Land Transport Fund (NLTF), Tourism Satellite Accounts	NZ Transport Agency (/NLTF)	International tourism spend as a proportion of all NZ spending was calculated from the TSA for relevant product groups including transport, retail sales of fuel and other automotive products, and sport and recreation services. These attribution ratios were applied across the main spending categories according to the NZTA and NLTF annual reports and data provided.	$328 million
Tourism NZ annual report	Tourism NZ	All expenditure was allocated to international tourism on the basis that the organisation's primary objective is to manage and increase the presence of international tourists in NZ.	$117 million
Department of Conservation (DoC)	DoC	Provided by DoC based on survey data supporting estimations of international split.	$60 million
Department of Immigration	Department of Immigration	Includes expenditure associated with visitor visas (which are set on a cost recovery basis) and additional border compliance activities based on split of international to total visitors according to the Department of Immigration data.	$64 million
New Zealand Customs Service (NZCS)	Customs	International visitors as share of international visitors and departing residents multiplied by border clearance costs for persons.	$36 million
Ministry of Business, Innovation and Employment (MBIE)	MBIE	The Tourism Infrastructure Fund (TIF) distributions, tourism data and analysis / policy advice expenditure and Major Events Development Fund distributions can all be attributed to international tourism based on advice from MBIE. All three of these areas would not exist in the absence of international tourists. $8.2 million is attributable to tourism facilities MCA, with the TIF replacing this going forward. $6.8 million was spent on tourism data and analysis / policy advice and the Major Events Development Fund allocated $13.4 million	$28 million

		for major events, drawing international guests to attend.	
Accident Compensation Corporation (ACC)	ACC	Share of international tourist expenditure incurred determined based on data provided by ACC on status (i.e. tourist, citizen, etc) of individual upon filling in report. Year ending 2016 figure grown to 2017 estimate.	$4 million

A.2. Local councils

The analysis for local councils aims to provide an illustrative example of how international tourism revenue collected and expenditure incurred can vary based on different initiatives by the councils and RTOs, alongside the number of visitors to the region and their associated expenditure. While the analysis has sought to capture some of the impact of international tourists on local government expenditure and revenue, given the nature of the flows involved the analysis should be seen as indicative rather than a definitive measure of the expenditure and revenue associated with international tourists at a local government level. There is limited information at a local government level on the types of revenue and expenditure that can be attributed to international tourists.

Nights attribution metric

In order to attribute relevant revenue and expenditure to local councils we first developed a nights metric based on each of the territorial authorities. This metric modelled the total nights spent in the region taking into account the current resident population, outflows (i.e., local residents going overseas or travelling domestically) and international visitor nights.[43] Outflows were presented in terms of total nights absent from the region annually and was modelled using the average days of absence based on primary destination. International nights from stats.nz were scaled according to the visitor nights using data from Statistics NZ: International Travel and Migration to take into account those staying at places other than commercial accommodation (i.e. Airbnb, Bookabach, or with friends and relatives).

The nights attribution was appropriate for apportioning the revenue collected or expenditure incurred from some items although in some cases a more bespoke approach was used to determine how particular line items should be attributed to international tourists.

Key parameters

The key parameters for estimating the revenue attributable to international tourism for local governments is summarised in Table A.3. The analysis of the local councils relied on data from annual reports, relevant RTOs and was supplemented by consultations. Although some analysis varied by council according to the level of data provided in the consultation and by the RTO, in general the analysis remained consistent across councils. One example of a key difference is that Auckland was able to separate out the revenue collected through rates on accommodation.

[43] Data used to calculate the nights metric was sourced from stats.nz and adjusted using data from Statistics NZ: International Travel and Migration in the IVS.

Table A.3: Key parameters for local council's international tourism revenue modelling, FY 2016-2017

Source	Parameter	Description	Council
Annual Reports, Nights metrics, Monthly Regional Tourism Estimates, ATEED	General rates	Given the particular difficulty attributing revenue from general rates to international tourists, a range for each of the local councils was estimated. Low end estimates for Auckland were based on the general rates revenue paid by accommodation providers multiplied by the proportion of accommodation expenditure attributable to international tourists. For the other councils, rates were multiplied by the council's nights metric and then scaled down based on the proportion of general rates paid by accommodation providers in Auckland relative to what would have been implied based on using the nights metric for Auckland. This figure is essentially an estimate of the share of rates paid by accommodation providers and may represent an underestimate as it does not include rates paid by other businesses or any increase in residential ratepayers as a result of international tourism. High end estimates were based on the international tourism expenditure as a share of total expenditure in NZ, multiplied by a ratio of the estimated proportion of international visitor nights in the council to the proportion of international visitor nights in NZ.	All
Annual Reports, Nights metrics, Monthly Regional Tourism Estimates	Targeted rates	Only data on targeted rates for water, wastewater, and refuse were included on the basis that in supporting businesses, international tourists indirectly contribute to the ratepayer base for these areas. A nights metric was applied with the assumption that revenue is allocated proportionately by use.	All
Annual Reports, Nights metrics, Tourism Satellite Accounts	Subsidies and grants	Where NZ Transport Agency grants were separately recorded in the council's annual report, a weighted proportion of national retail sales on fuel and other automotive products was used. This weight depended on the proportion of international visitor nights to the region relative to the average across all territorial authorities. In the case of Auckland, where subsidies and grants were grouped into capital and operating grants, the nights metric was applied to represent the international tourist contribution.	All
Annual Reports, Nights metrics	Fees and charges	This included sales revenue, the provision of services and, where recorded, the targeted water usage rates. A nights metric was applied assuming that international tourists at a pattern of use proportional to the total nights in the region. For Nelson Council, the revenue attributable to international tourism and collected as part of its museum and heritage building operation, including the Nelson Provincial Museum, was included here.	All
Annual Reports, Nights metrics, Tourism Satellite Accounts	Other revenue	This category included relevant income from any Council Controlled Organisations (such as Southland Council's 42% share in Venture Southland), rental and hire income, relevant user charges and fines and infringements. The nights metric was applied with the same logic as the above category. In Southland,	All

		the revenue from the user paid toilets operating in Te Anau ($1 a head) was captured under this category. In Nelson, the Nelson Airport dividend and Port Nelson dividend were included here. The Auckland Airport and Port dividend were included as a separate line item discussed below.	
Consultation with SDC, Monthly Regional Tourism Estimates	Cruise & visitor levies	Data provided in the consultations on the cost and annual visitors to Milford Sound (via cruise) and Stewart Island informed the figure of $5.3 million provided in this report. The number of international visitors as a proportion of all visitors is estimated based on the expenditure patterns on recreational activities in the Queenstown region for the Milford Sound cruise ($5.2 million) and the Southland region for Stewart Island ($0.1 million).	Southland
Consultation, Nelson-Tasman RTO Statement of Comprehensive Income	RTO revenue	Specific data provided in consultation and supported by RTO Statement of Comprehensive Income that i-SITE function is cost-neutral and brings in $0.4 million a year driven by international tourists.	Nelson
Consultation, Monthly Regional Tourism Estimates	Accommodation rate	The accommodation provider rate revenue is apportioned to international tourists based on the ratio of international tourist expenditure on accommodation to all tourist accommodation expenditure.	Auckland
Monthly Regional Tourism Estimates, ACIL Annual Report, Auckland Airport Annual Report, Nights metric	Airport/port revenue	The port and Airport collectively delivered $104.3 million in distributions to Auckland Council Investments Limited (ACIL) a CCO which in turn provided a dividend of $85.6 million to Auckland Council (through their 22% ownership stake). The amount attributable to the airport was based on the proportion of the dividend that was attributable to the airport and the proportion of airport travellers who are international. The proportion of port revenue attributable to international tourists is calculated based on the relative number of cruise ships (6% of ship) that visited the port during the year. The revenue attributable to the cruise ships is split by domestic and international passengers to determine the amount attributable to international tourists only. A night's metric is applied to the remaining ships (94% of ships) to capture international tourists incremental demand. In total $22.7 million collected through the airport and a further $3.6 million is collected through the port, totalling $26.3 million.	Auckland

The key parameters for estimating the expenditure attributable to international tourism for local councils is categorised differently based on the local council and their associated reporting system for council data. Although the categories for reporting changed, in general the data for the expenditure incurred due to international tourism were estimated based on a review of annual reports for local councils and RTOs and supported and informed through consultations. Table A.4 provides a summary of the key parameters used in the estimation of revenue and expenditure attributable to international tourism in Southland District Council.

Table A.4: Key parameters for Southland's international tourism expenditure modelling, FY 2016-2017

Source	**Parameter**	**Description**
Annual report, Nights metric, Tourism Satellite Account	Roads and footpaths	Annual report provides overall operating and capital expenditure. The ratio of international expenditure on fuel and other automotive products to total NZ

		expenditure was weighted by the nights metric to attribute a portion of this expenditure by use to international tourists.
Consultation, Southland RTO Annual Report	Tourism infrastructure/RTO expenditure	The additional tourism infrastructure data was provided in the consultation with SDC and include the current developments of the Curio Bay Visitor Centre, core infrastructure improvements on the Queenstown/Milford Sound route, a road expansion to accommodate increased demand due to international travellers and the operating costs of the airport. These infrastructure improvements total $3.5 million. The RTO also incurred $0.4 million in tourism expenditure that is attributable to international tourism. This figure includes the expenditure used for the God's Own Sports Event, which secured funding with the premise and completion of attracting international tourists to the region.
Annual report, Nights metric	Community services	This includes community assistance, parks and reserves, community facilities/housing, public toilets, airports and electricity supply. This expenditure was allocated by proportional use using the nights metric for Southland District Council.
Annual report, Nights metric	Other expenditure	This includes solid waste ($0.6 million), wastewater ($0.5 million), and water supply ($0.6 million). This expenditure was allocated based on usage using the nights metric.
Annual report, Nights metric	Corporate	Council expenditure for corporate support is only included in the high end range estimate due to the uncertainty in how much of this expenditure is attributable to international tourists. Corporate support is likely to vary based on the number of people, visitors and businesses in the region. A proportion of this expenditure is attributed to international tourists based on a nights metric, with an assumption that only 50% of this expenditure is variable (i.e. 50% of this expenditure remains unaffected by the population or number of visitors to the area). As corporate services was originally included in the wider category 'district leadership', it was assumed that the councils held the same ratio of corporate expenditure to total expenditure as Nelson, which was used to estimate the proportion of corporate expenditure included in the 'district leadership category'.

Table A.5 provides a summary of the key parameters used in the estimation of revenue and expenditure attributable to international tourism in Nelson City Council.

Table A.5: Key parameters for Nelson City's international tourism expenditure modelling, FY 2016-2017

Source	**Parameter**	**Description**
Annual report, Nights metric, Tourism Satellite Account	Transport	Annual report provides overall operating and capital expenditure. The ratio of international expenditure on fuel and other automotive products to total NZ expenditure was weighted by the nights metric to attribute a portion of this expenditure by use to international tourists.
Annual report, Nights metric	Social	This expenditure includes a diverse range of services including those incurred with running an art gallery to providing public toilets, maintaining historic buildings and facilities, Founders Heritage Park as well as organising festivals, events and street decorations. The nights metric was used to attribute a portion of this expenditure to international tourists.
Annual report, Nights metric	Water supply	Expenditure incurred in operating and further developing the piped network to provide water to the area. The nights metric was used to attribute a portion of this expenditure to international tourists.

Annual report, Nights metric	Parks and active recreation	Expenditure incurred with provision of infrastructure for walkways, cycleways, sports, and recreation facilities, parks and open space, services and events. The nights metric was used to attribute a portion of this expenditure to international tourists.
Consultation, RTO Statement of Comprehensive Income, Monthly Regional Tourism Estimates	RTO	Expenditure associated with international tourism initiatives within the RTO. These include the international visitor marketing program ($0.1 million), the i-SITE function ($0.4 million), and the wages of international focussed staff ($0.2 million). This figure aligns with applying an international tourism metric to the Nelson City proportion of Destination Management expenditure based on the RTO Statement of Comprehensive Income ($0.7 million).
Annual report, Nights metric	Wastewater	Expenditure used for maintaining and developing the areas wastewater system. The nights metric was used to attribute a portion of this expenditure to international tourists.
Annual report, Nights metric	Corporate	Council expenditure for corporate support is only included in the high end range estimate due to the uncertainty in how much of this expenditure is attributable to international tourists. The corporate expenditure includes governance services, local government elections and behind the scenes support services to ensure the smooth running of the organisation. This expenditure is likely to vary based on the number of people, visitors and businesses in the region. A proportion of this expenditure is attributed to international tourists based on a nights metric, with an assumption that only 50% of this expenditure is variable (i.e. 50% of this expenditure remains unaffected by the population or number of visitors to the area).

Table A.6 provides a summary of the key parameters used in the estimation of revenue and expenditure attributable to international tourism in Auckland Council.

Table A.6: Key parameters for Auckland Council's international tourism expenditure modelling, FY 2016-2017

Source	**Parameter**	**Description**
Annual report, Nights metric, Tourism Satellite Account	Transport	This expenditure includes those incurred through public transport and travel demand management, roads and footpaths and parking and law enforcement. The ratio of international expenditure on fuel and other automotive products to total NZ expenditure was weighted by the nights metric to attribute a proportion of the expenditure by use to international tourists for roads and footpaths. The expenditure associated with public transport and travel demand management, and parking and enforcement was apportioned using the nights metric for the region.
Annual report, Nights metric, Monthly Regional Tourism Estimates	Auckland development	This includes the expenditure associated with the waterfront development and was apportioned based on international tourist expenditure on accommodation in the region.
Annual report, Nights metric	Economic and cultural development	This expenditure includes those incurred for the purpose of economic growth and the visitor economy, as well as regional facilities. The expenditure incurred in regards to economic growth and the visitor economy were provided by ATEED and apportioned based on international visitor expenditure in the area. The nights metric was applied to regional facilities to attribute a portion of this expenditure to international tourists.

Annual report, Nights metric	Water supply and wastewater	This expenditure includes those incurred in the supply of water and wastewater treatment and disposal. The nights metric was used to attribute a portion of this expenditure to international tourists.
Annual report, Nights metric	Solid waste	Solid waste was separated out of a wider category which also included environmental services. This was separated out using the assumption that the ratio of roads and footpaths to the cost of solid waste would be consistent across councils. We estimated that 55% of the expenditure in this wider category could be attributed to solid waste and the nights metric was used to attribute a portion of this expenditure to international tourists.
Annual report, Nights metric	Parks, community and lifestyle	This expenditure include regional and local parks, as well as sport and recreation. The nights metric was used to attribute a proportion of this expenditure to international tourists.
Annual report, Nights metric	Corporate	Council expenditure for corporate support is only included in the high end range estimate due to the uncertainty in how much of this expenditure is attributable to international tourists. The expenditure incurred with managing corporate services is represented in their annual report under "organisational support". It is assumed that 50% of this expenditure is variable (i.e. changes with the size and composition of the population, businesses, etc in the community) and the other 50% is fixed. A nights metric is used to apportion the variable expenditure to international tourists.

Appendix B: Consultations

This appendix sets out the relevant issues raised in the consultation sessions.

Consultations formed a key part of the discovery and data gathering stage of the project, and were important to understand the extent and limitations of data available, and to give an illustration of the types and extent of expenditure and revenue associated with international tourism. Issues raised in these consultations, relevant to this study, are set out below. These issues were used to inform the modelling approach, context and case studies used in this report.

In total, nine consultations were held with central government, local government and pan-industry representatives. Consultees reflected a range of regions across New Zealand. However, it is important to note that this sample does not represent an exhaustive list of relevant industry representatives or stakeholders, nor did the consultation process cover all central and local government organisations.

Consultations were categorised into central government, local government and industry groups, and the structure of the consultations and questions asked were tailored to each of these three subsets. The questions asked included:

- How does international tourisms impact your revenue or the revenue of your organisation/members? What are these forms of revenue?
- What sort of grants and transfers do you receive from central government or other agencies to cover the costs of tourism?
- What tourism facilitation expenditure items do you or your members incur?
- How do you determine tourism expenditure and revenue for mixed-use infrastructure or services?
- What approaches can be used to determine the split of tourism expenditure/costs between domestic and international tourists?
- How do you determine infrastructure expenditure for tourism, and within that, international tourists specifically?
- What are the types of expenditure that your agency incurs that are attributable to international tourists
    - (E.g. as a result of funding specific programs (both services and infrastructure) or in undertaking research/policy development)?

Each consultation focused on that specific organisation's experience with international tourism and, as such, the issues set out below may not reflect the experience or approaches of organisations not included in the consultation process. Issues raised in consultation sessions outside the scope of this study have not been included below. The relevant information gathered has been anonymised, where required.

Data collection

Where data was provided through the consultation process, this has been included in the modelling, and discussed for the specific case studies.

The ability of an organisation to collect and categorise accurate and relevant data, and to apportion this to tourism as required, was the most common issue raised through the consultation process. Given the data related issues identified through consultation, these case studies provide a primarily qualitative discussion of the experience of local government organisations across the Southland, Nelson Tasman and Auckland regions.

Data collection and categorisation

Issues with the collection of data are in part due to a change in how agencies conceptualise expenditure categorisation. Consultees noted that there is no clear industry alignment as to how data is, or should be, categorised, making capturing and defining data consistently across the industry difficult. Increasingly, councils are moving from a traditional cost, revenue and investment framework, which disaggregates information into tourism, marketing growth and development categories, into a more general economic development framework. This is increasingly common at a local council level, where investment is designed to grow the economic prosperity of the area and councils are somewhat agnostic as to whether this growth comes from tourism, employment, outside investment, development, or a combination of all factors, thereby making it more difficult to separate out the tourism-specific data (though the approach is entirely appropriate for achieving council objectives). Examples of this include council expenditure on the repair of the damages sustained by museums from the Kaikoura earthquake, with the benefits of this targeted towards both the local community, and domestic and international tourists.

Further to this, local councils and tourism groups are focusing on attractive opportunities for growth in the local economy by investing in specific industries such as software and film. This investment is expected to draw tourists to the region, but it will more widely create prospects for locals and employment migration. Therefore, it is difficult to determine the extent to which this impacts international tourism specifically. The majority of consultees noted that there are typically no clear methods for distinguishing an international tourist from a domestic tourist.

Data apportionment
Furthermore, even when using a cost-categorisation for tourism-specific data, data cannot always be captured in a way that identifies tourism specifically. The mixed-use nature of many facilities and services means that assumptions are required to determine the tourism-related use of each activity. This issue is particularly prevalent for central and local government entities, as many of the services provided by these agencies are as much, or more, for local domestic use as they are for tourism. Examples of this include roading, waste and water facilities, carparks and toilets.

Even when tourism-specific data can be collected, the majority of consultees noted that the identification of international tourism, as distinct from tourism generally, was the most difficult apportionment to make, unless this data was collected at the source.

One consultee noted that the impact of tourism was not considered at all in terms of expenditure and revenue, therefore determining the portion of those that were tourism-specific, let alone international tourism-specific, would require such high-level assumptions that it would render the analysis purely theoretical. In contrast, other organisations noted that given the tourism-focused nature of their organisation, apportionment of the agency's costs and revenue to tourism was completed as the data was collected.

Ability to collect data
For some organisations, data collection has been discontinued if it is not used immediately after it is collected. These organisations do not have the capability or funding required to capture or process a significant volume of data over an extended period. Therefore, when there is no specific project, or clear requirement to capture the data, it is just not gathered.

Similar to this, changes to industry or agency requirements for reporting confuse the collection process or make comparison across time periods, regions or industries difficult. This is because data is often collected in such a highly specified way that it cannot be compared with data collected in other time periods or regions. The definition of the data, the way the data is captured, or the data itself means that comparison can only be made using multiple assumptions. Furthermore, local government agencies typically record expenditure and revenue at a much more aggregated level than required for this analysis, for example investment in local infrastructure is not usually determined by who specifically uses that infrastructure; rather investment is determined by total usage. Similarly, local government agencies are moving from traditional and detailed investment classifications to considering investment within a wider economic development framework, thereby aggregating expenditure and revenue data further and removing specific tourism related classifications.

Revenue generation

The ability of agencies to generate tourism-specific revenue, and the methods by which this is undertaken, varies broadly across respondents. Where agencies can identify each tourist individually, apportionment of revenue by tourist type can be directly made. The most straightforward method of revenue generation (and therefore apportionment to international tourism) is the application of a rate, levy or visa fee.

Levies
The boarder clearance levy is one of these levies that can be directly apportioned to international tourists. It is a 'user charge' levy, applied to air or cruise tickets, with the operators responsible for passing this on to the Government. The levy covers border clearance costs for arriving and departing passengers. The levy is higher for cruise ship passengers because of the additional time and resources needed for biosecurity risk assessments at ports – e.g. smart gates are not used at cruise terminals, resulting in higher operating costs (no portable terminals). Some exceptions to this level exits, such as children under two years and commercial passenger airline and cruise ship crews. This is allocated between Customs and MPI to manage the resourcing of border clearance activities.

Visitor levies are also used as a revenue generation method for some territorial authorities. These levies, such as the visitor levy to Stewart Island, are used to maintain infrastructure and facilities within a defined area and are paid by all visitors, domestic and international, to that area. Additional levies are also captured indirectly by local councils via the tourism operator.

Visas
Revenue is also generated directly through visa payments, with prices typically set on a cost recovery basis. These include immigration visas (which are partly cost recovered, but include a subsidised component that recognises the national interest of immigration) and working holiday visas (which are fully cost recovered). The international component of these visas are directly apportionable, as nation of origin information is collected as part of the visa application process.

User charges
Other revenue generation methods, which are not as clearly apportionable to international tourists, but captured on a per user basis, including activity or service user charges. These charges include accommodation provider rates; airport maintenance rates; i-Site services; transport specific charges such as road user charges and petrol taxes; and activity based charges such as Great Walks, campground and back country huts, and national park concessions charged to users by DoC.

The level to which this data is apportioned differs depending on activity and the level of information captured when booking or securing use of a facility. For example, international and domestic use is captured for each of the Great Walks and bookable campground facilities, but less accurate information is available for back country huts and concessions. In addition, as discussed above, ATEED and Queenstown Lakes District Council have introduced a targeted rate for accommodation, and in Wellington, Wellington City Council charges a Downtown Levy on commercial properties in the CBD area which is used for marketing and tourism-related activities.[44]

Other user-based charges include toilets in some regions and car parking. However, data is not collected on whether this is tourist use, and, if so, what proportion of use is international. In some instances it is possible to assume that use is primarily tourism-related, given the location and proximity of the toilet or carpark to a tourist attraction, such as the paid toilets in Te Anau. However, not all councils charge for these services, and there is no consistent approach to capturing usage data where these facilities are charged for.

[44] Ministry of Business, Innovation and Employment, *Briefing for the Incoming Minister of Tourism*, October 2017.

Other forms of revenue

Cross-industry funding is also used by agencies to offset the costs of tourism to a regional or national level. This is a subsidised form of funding, but is still captured as revenue for the receiving agency. For example, RTO funding is largely obtained from the region's local government, with additional funding from trading activities, private sector co-funding and other grants making up the remainder of funding. Local councils also receive cross-industry funding, from central government, predominantly one-off grants for infrastructure-related projects, and through partnerships with tourism providers.

Shareholding and joint ventures are also revenue generation methods used by consultees. Some councils have shares in waste management operations, airports, cruises, privately managed public toilets and other services, and SDC operates a joint venture to build and operate a visitor centre in Southland.

Across consultees, it was widely contested as to whether councils were able to or did use rates to capture international tourist revenue. Attribution of rates based on land value is an approach to revenue apportionment that has been considered by a limited number of respondents, however other consultees considered this a difficult modelling approach given the lack of available data and uncertainty as to the appropriate rate apportionment level.

Tourism expenditure

International tourism-related expenditure is much more difficult for agencies and councils to accurately calculate. This is particularly due to the mixed-use nature of spending in central and local government, but also because the international tourist market is not typically categorised on a standalone basis. Where tourism expenditure is captured, this is typically done at a market level.

Infrastructure

Infrastructure, including maintenance and renewals, is considered the primary tourism-related expenditure category by all consultees. Capturing that data at a tourism-specific level is difficult given most infrastructure is mixed-use and user data is not captured at a differentiated level, if at all. For many local and central government bodies, investment drivers have historically been change and efficiency. It is only recently that many of these bodies have started considering tourism as a driver and attributing investment to the industry. However, some consultees noted that some segments of the infrastructure market will clearly have much higher usage by tourists, such as Milford where the region has a high resident use of roads but a significantly greater international tourist component.

One of the largest areas of tourism expenditure noted was infrastructure. MBIE is responsible for administering the Tourism Infrastructure Fund, a central government funding provided specifically for tourism. The TIF provides up to $25 million per year for the development of tourism-related infrastructure such as carparks, freedom camping facilities, sewerage and water works and transport projects (co-funded with local councils).

Other infrastructure requirements include toilets, water and sewage systems, roading and carparks. The investment required is often due to the increased pressure placed on infrastructure due to increasing tourist demand (although it is important to note historic underinvestment, asset lifecycles and regional growth are also significant factors in driving investment requirements). High tourist demand centres, such as Rotorua, have significantly higher infrastructure investment than would be expected of a region with a population base of approximately 70,000. This is due to the number of visitors to these regions annually (in Rotorua it is estimated there are 3.5 million visitors to the region annually, with approximately 50% of these international). The seasonality of tourism is also a significant consideration, with infrastructure requiring the capacity to deal with the peak visitor numbers that are only in effect for a few months of the year.

Airport-related or cruise facilities infrastructure expenditure is much more clearly attributable to international tourism than infrastructure spend within an area. Cruise facilities and docking infrastructure are wholly attributed by councils to international tourism.

As part of the Communications Infrastructure Package, the Mobile Black Spot Fund was established in 2015 with $50 million in funding, and an additional $30 million was allocated in August 2017. This expenditure may be apportioned to tourism based on the location of each black spot and the level of related tourism, such as investment in communications infrastructure Milford Sound, a high tourist traffic area. The level of investment related to international tourists could then be apportioned based on the level of international tourism in that area. While assumptions are made as to the level of investment for international tourism, there is a strong argument that many, if not all, of these black spot areas would not be so heavily invested in, so quickly, if not for the strong tourism requirement.

Major events

Major events are less frequent, but often more costly and are funded by central and local government, often in partnership. These include one-off sporting events, such as World Cups, Godzone (a multi-sport event held in Southland), concerts and conferences. It is generally considered that these have a more international focus. Events and conferences are considered a high priority by a number of Regional Development Agencies, as these visitors have a higher average spend per person than leisure visitors and have the potential to increase business in shoulder and off-peak months. This benefit to the region drives the agencies to prioritise a relatively large proportion of their investment for marketing and hosting events and conferences, despite having no clear direct revenue stream back to the council. Regional Development Agencies (e.g. ATEED and Wellington Regional Development Agency) also fund other events at a regional level that aren't purely focused on events of national significance, and therefore aren't focused on international tourists).

New Zealand Major Events administers the Major Events Development Fund, with an annual appropriation of $10 million. The fund focuses on events of national significance – there is no regional lens. The purpose of the fund is to 'Create Tourism', with one of the main investment criteria to receive funding being "to attract international visitors and expenditure to New Zealand".

Other

Other examples of international tourism-related expenditure include:

- Administration and general expenditure: for example, the costs of administering visas is the primary international tourism cost of Immigration New Zealand.
- Destination management and marketing: this cost is incurred for all consultees and includes both international and national marketing campaigns and operating the local i-Site services.
- Economic development activity: LGNZ identified $248 million is spent annually on economic development services, funding their respective agencies.
- Cross agency funding: including funding RTOs and cross agency projects.
- Health expenditure: District Health Boards record unpaid treatments from international tourists, with the value estimated at $50 million over the last four years. As the New Zealand medical system only requires payment after treatment, patients can leave the country without paying health-related bills. Additional health related expenditure includes search and rescue, and Accident Compensation Corporation expenses.
- Public transport: international tourists contribute to the use of public transport across all regions.
- Freedom camping: some councils are facing pressure from tourism advocates to increase expenditure on freedom camping infrastructure and facilities, for example public toilets and showers in freedom camping areas. This is a particularly contentious issue for councils at the moment and there is currently no cost recovery mechanism in place to fund the significant maintenance expenditure associated with freedom camping requirements. Some councils, such as the NCC, have adopted bylaws to prohibit non-self-contained vehicles from staying anywhere apart from an official campground, with a $200 fine for breaching the new rules.

Case studies

This section sets out more context for each of the case studies included in the body of the report.

Southland

The Southland region is covered by four councils, including SDC. These local councils are tasked with overseeing tourist activities in Southland, and ensuring that parks and open spaces provided by local councils meet visitors' basics needs; clear wayfinding, safe facilities, and a good environment.[45]

The increasing visitor numbers to Southland and shifting recreational trends are changing the way that Southland's open spaces and associated facilities are used, impacting the distribution and level of funding required by local councils. The Open Spaces Priority Setting project aims to form a strategic approach to the management of these spaces. One of the main reasons for the project is the perception that funding has not been sufficiently prioritised into Southland's open spaces,[46] despite the fast growth in the number of visitors to the region. A strategic approach will help to align the management of these spaces, and ensure that the necessary funding can be prioritised.

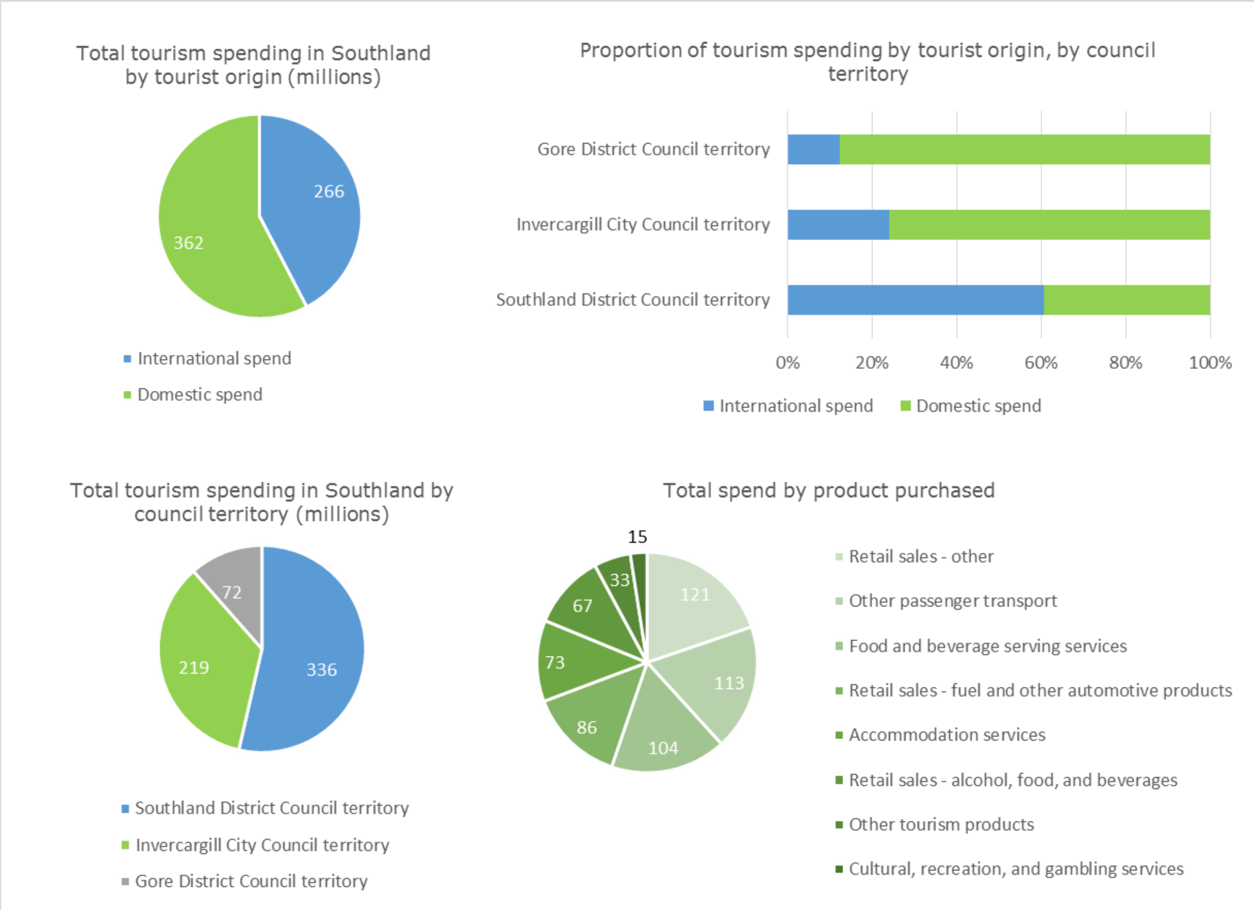
In addition to local councils, there are economic development organisations operating in Southland. To take advantage of opportunities for economic growth in Southland, the Southland Regional Development Strategy (SoRDS) was developed in 2014. Tourism and tertiary growth were identified as key initiatives. The SoRDS included an *Action Plan* outlining three challenges – growing the population; diversifying the regional economy; and strengthening local business – and set out nine projects and forty actions designed to address these goals. In July 2017, the Southland Mayoral Forum proposed the creation of a Southland Regional Development Agency, which combined the SoRDS and Action Plan, and the regional and economic development activities of Venture Southland (an Economic Development Agency for Southland) into one agency. Furthermore, the Milford Opportunities Governance Group, created as part of the Southland Regional Development Strategy action plan, met for the first time in November 2017 with the aim of providing strategic direction and leadership around opportunities for Milford.[47]

Visitor statistics

The following charts outline the total tourist spend in Southland, the amount of spend apportioned to domestic and international tourists, the distribution of spend in each local council territory, and the total spend by product purchased.

[45] Southland District Council, *Southland Open Space Priority Settings*, September 2017.
[46] Southland District Council, *Southland Open Space Priority Settings*, September 2017.
[47] Southland District Council, *Inaugural meeting of Milford Opportunities Group held,* November 2017.

Figure 15: Visitor statistics for the Southland region, year ending October 2017



<u>Nelson Tasman</u>

Tourism in the Nelson Tasman region is governed by two local authorities: Nelson City Council (NCC), Tasman District Council (TDC), who jointly fund the Nelson Regional Development Agency (NRDA), the region's tourism and economic development agency. With three national parks, DoC is also an important government player in the region. The NCC and TDC are responsible for providing and maintaining public spaces for both residents and tourists, including parks, local roads, facilities and utilities.

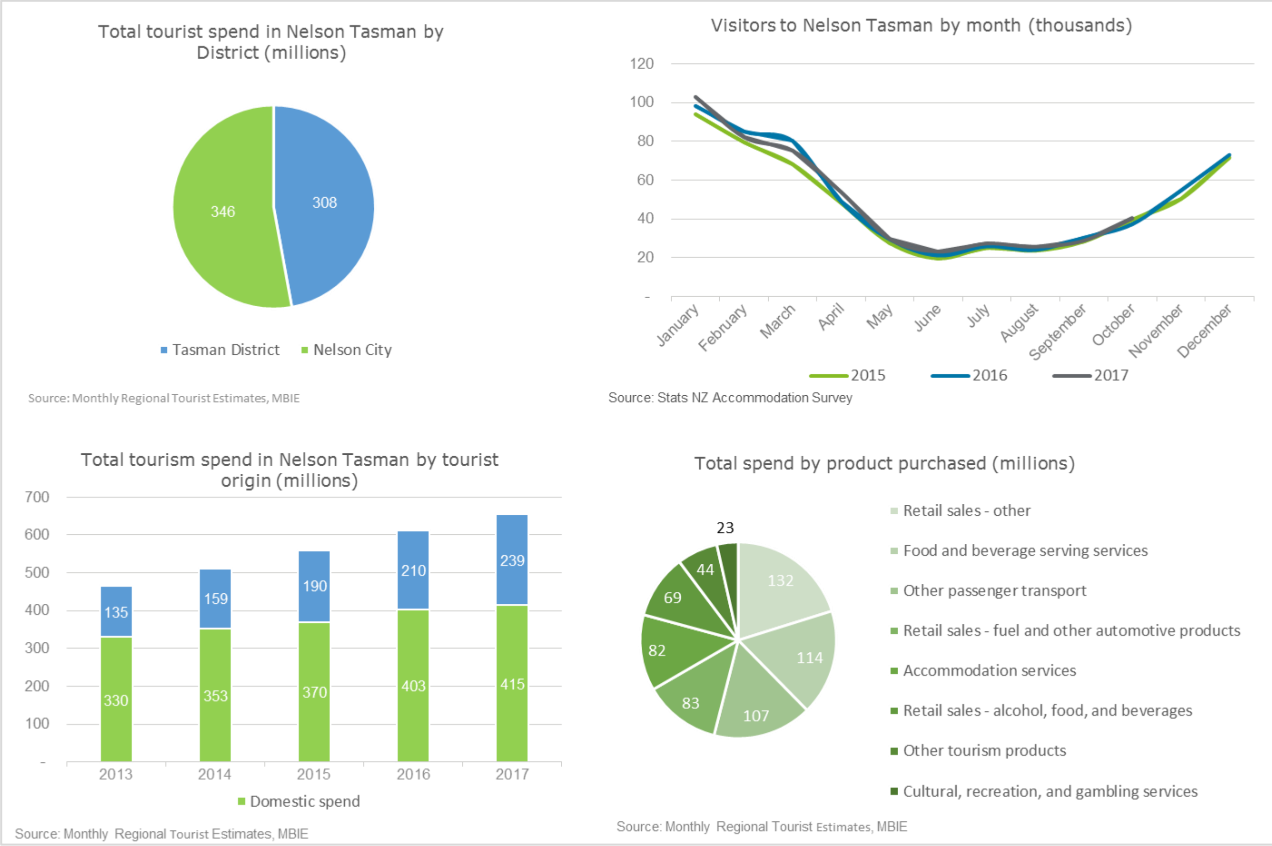
The NRDA was established to enhance the sustainable economic vitality of the Nelson Tasman region, following the merger of the Nelson Regional Economic Development Agency and Nelson Tasman Tourism in 2016. The NRDA has three main areas of activity[48]:

- Investment and Talent Attraction and Retention: Development and strengthening of the region's case for investment and talent attraction and retention;
- Business Development and Innovation: Inspiring and supporting existing and new businesses and businesspeople to think differently, embrace new behaviours, and grow; and
- Destination Management: Inspiring the sharing and delivery of the Nelson Tasman identity story and experience across the spectrum of investment, visitors and talent.

Visitor statistics
The following charts outline the total tourist spend in Nelson Tasman, the seasonality of visitors, the historical spend of domestic and international tourists, and the total spend by product purchased.

[48] Nelson Regional Development Agency, *Statement of Intent,* 2017/18.

Figure 16: Visitor statistics for the Nelson Tasman region, year ending November 2017



Expenditure and revenue associated with international tourism

In addition to existing tourism-related expenditure, the NRDA has identified four key areas of tourism growth for the region in the Nelson Region Visitor Strategy 2015 – 2025. These are summarised in the table below, along with the potential impact of each on expenditure:

Table 2: Nelson Tasman Key Tourism Growth Drivers[49]

Growth Driver	Opportunities	Potential impact on Local Authority Revenue and Expenditure
Products and supporting infrastructure Visitors need good reasons to divert to Nelson Tasman, as it is not on the main route through the South Island. Quality assets, infrastructure, activities and attractions will encourage and enable tourists to visit the region.	- Cycleways, mountain bike trails and support services - Creative arts, food, wine & craft beer - Heritage sites and buildings - New initiatives such as Brook Sanctuary, Fringed Hill gondola and Kohatu Motorsports Park - Waterfront and connections between CBD, beaches and key nature attractions - Seafood and fishing - Accessing external sources of funding, such as Tourism Infrastructure Fund	- Potential to increase commercial rates received from new local businesses - Lack of funding sources outside of councils and DoC - Lack of growth plans for tourism businesses over the next 5 years, highlighting the gap in funding - Legacy of private investment may need redevelopment, however local business investment plans are unclear

[49] Growth Drivers and Opportunities taken from the Nelson Tasman Visitor Strategy 2015-2025. The Potential impact on Local Authorities Revenue and Expenditure is based on NRDA's Visitor Strategy 2015-2015, publically available information, consultations and Deloitte analysis.

Growth Driver	Opportunities	Potential impact on Local Authority Revenue and Expenditure
Access Accessibility is fundamental to the region, however can be very difficult to influence.	- Air New Zealand is increasing available seats to regions over the next ten years - Two new carriers are looking at servicing Nelson Tasman - Nelson Airport is embarking on a major redevelopment of the original terminal, designed by Alex Bowman - The cruise industry continues to grow	- Potential for increased passengers through Nelson Airport, increasing dividends received - Transport infrastructure is extremely expensive, coupled with the lack of public funding sources – private investment or PPP type arrangement might be needed for any significant changes - Most visitors arrive by road, which is expensive to maintain and maintenance often relies on subsidies from the NZ Transport Agency - Increased cruise activity creates a potential revenue stream from tourists (tickets / levies)
Events and conferences Productivity and connectivity have been shown to improve through hosting major events and conferences.	- Conference delegates have a higher average spend per person than leisure visitors ($1,991 per international and $1,432 per domestic delegate) - Average length of stay is longer than leisure visitors at 2.9 nights for domestic, 3.8 for Australian and 5.6 nights for other international delegates - Events and conferences have potential for increasing business in shoulder and off-peak months between April and November - The region has decent facilities that could be better utilised by increased events and conferences	- Current inefficiencies in the formulation, attraction and management of major events and conferences may lead to lost opportunities for the region and lost income from visitors - There has been an increased focus across all regions on events in the shoulder of off-peak months, increasing competition for Nelson Tasman - Lack of funding sources outside of councils in the regional economy for investment in growing events, upgrading venues or contributing to new regional facilities - Improved spread of visitors across the seasons is likely to result in less stress on infrastructure during peak periods and a lower maximum capacity
Markets Targeting the right markets can have a material impact on growing the tourism industry.	- Domestic markets account for 65% to 70% of all guest nights and showed higher growth than international markets 2014-2015 - Proven international markets with ongoing growth potential such as east and west coast Australia, UK, USA, Germany and Other Europe - Getting ready for emerging markets such as China, India, SE Asia and Latin America - this means getting the basics right, including marketing relationships, food, language, service - Invest in cost-effective and potentially new marketing channels and campaigns to attract domestic and international visitors	- The number of operators working directly in marketing international trade channels is relatively small and static - Funding may have to be sourced from increased or reprioritized annual operating funds - Resource constraints hamper the ability of Nelson Tasman Tourism to increase the impact of regional marketing services

The Nelson Tasman case study section outlined some expenditure partly attributable to international tourism such as three freedom camper sites, a new Nelson Airport terminal and redevelopment of the

Marina. Some further expenditure in the Nelson Tasman region at least partly attributable to international tourism include:

- $5.6 million was spent on new footpaths improving connectivity and walkways around Nelson City over the last few years;
- Natureland Zoo receives $150,000 funding from the NCC per year, however is seeking to increase this to $250,000 and is looking for $500,000 in funding for capital expenditure;
- $1.2 million allocated for completing Tasman's Great Taste Trail through to Woodstock (providing matching funds can be obtained from external providers);
- $9.5 million is budgeted for the renewal of the Trafalgar Centre, a multi-purpose events venue for entertainment, conferences, expos, trade shows, community events and major sport events;
- Saxton Field sports complex: co-funded with the TDC (and other private organisations), Saxton Field is major regional sporting complex that has been developed in recent years. Recent developments include a $2 million Field Hockey and Softball Pavilion (2010), $3.8 million cricket, athletics and football facility (2011) and a new $2 million velodrome, set to open in February of this year. The Saxton Oval has ICC accreditation and has hosted a number of international cricket matches.

Auckland case study

Local authorities

The Auckland region in governed by the Auckland Council, a unitary authority that amalgamated the regional council and 7 territorial authorities in 2010.[50] The decision-making is shared by:[51]

- the **governing body**, which focuses on the decisions that affect the council area as a whole; and
- **21 local boards**, which focus on decisions regarding local issues, activities and facilities.

In addition to Auckland Council, Auckland Tourism, Events and Economic Development (ATEED) facilitates tourism, major events, business and industry development, and activities to attract investment, and is the guardian of the Auckland regional brand.[52] It is an Auckland Council-controlled organisation, with the purpose of helping to deliver on the *Auckland Plan* vision and outcomes.[53] ATEED is guided by the Auckland Council's *Economic Development Strategy,* with the goal to maximise Auckland's potential as an internationally competitive region for tourism and international investment.

ATEED's *Statement of Intent* for 2017-2020 outlines their strategic direction and action plans to deliver on this. ATEED's strategic objectives are outlined as:[54]

- grow and retain skilled talent;
- build a culture of innovation and entrepreneurship;
- attract business and investment;
- promote Auckland's global identity; and
- grow the visitor economy.

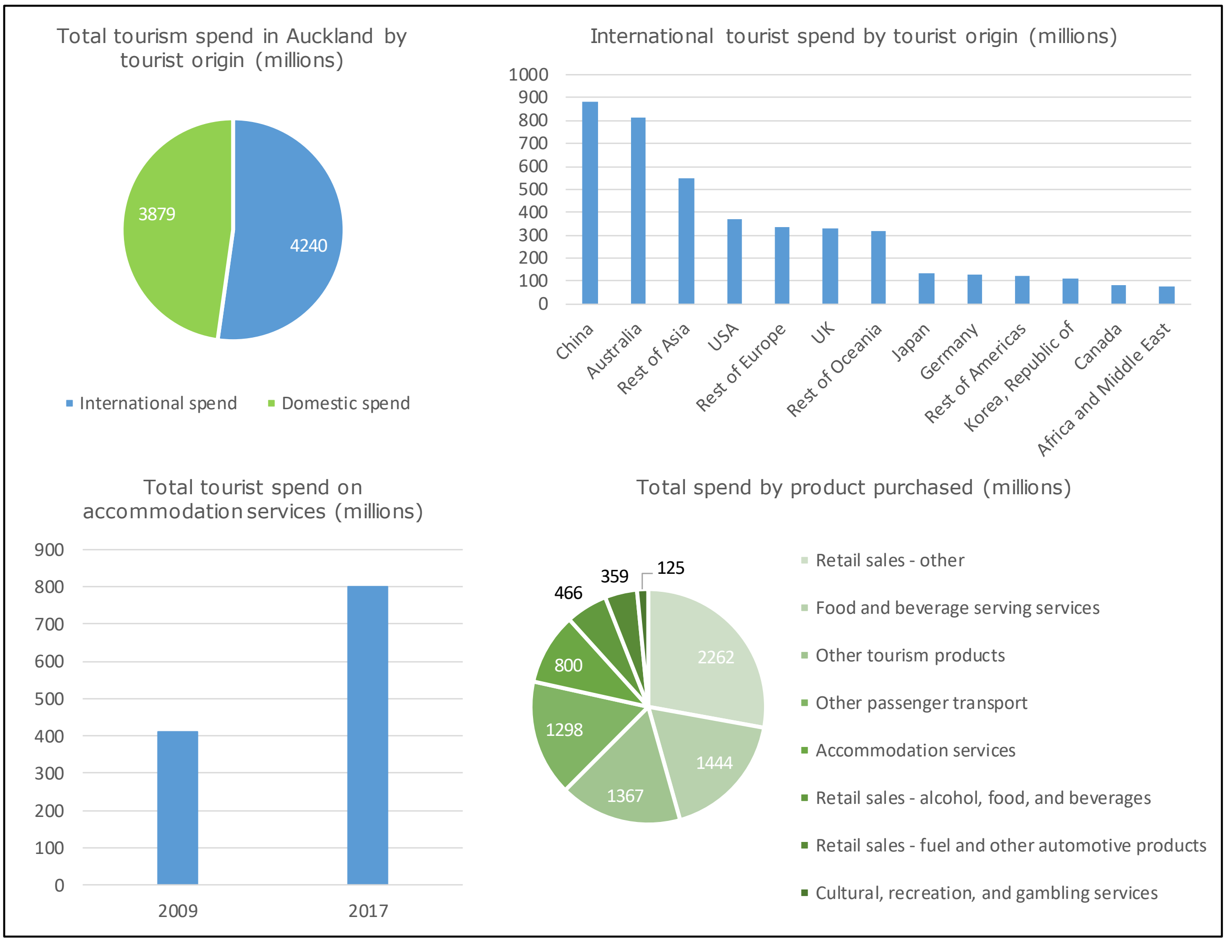
In terms of growing the visitor economy, the organisation has targets around visitor spending, international business events in the region, major events' contribution to GDP, and visitor nights generated by major events.[55]

Visitor statistics

The following charts outline the total tourist spend in Auckland, the international tourist spend by origin (country), the total tourist spend on accommodation services, and the total spend by product purchased.

[50] Local Government in New Zealand - Local Councils, New Zealand Government, *Auckland Council*
[51] Local Government in New Zealand - Local Councils, New Zealand Government, *Auckland Council*
[52] Regional Tourism Organisations New Zealand, *ATEED (Auckland Tourism, Events and Economic Development).*
[53] Auckland Tourism, Events and Economic Development, *Who are we.*
[54] Auckland Tourism, Events and Economic Development, *Statement of Intent for Auckland Tourism, Events and Economic Development 2017 - 2020.*
[55] Auckland Tourism, Events and Economic Development, *Statement of Intent for Auckland Tourism, Events and Economic Development 2017 - 2020.*

Figure 17: Visitor statistics for the Auckland region, year ending November 2017[56]



[56] Ministry of Business, Innovation and Employment, *Monthly Regional Tourism Estimates*.