

A woman with brown hair tied back, wearing a blue jacket and a green backpack, is shown in profile, looking out over a vast landscape. The landscape features rolling green hills in the foreground, a valley with a river or stream, and distant mountains under a sky with scattered clouds. The overall tone is bright and scenic.

Addressing New Zealand's most pressing local tourism infrastructure needs

TOURISM INFRASTRUCTURE STUDY

Executive Summary| November 30, 2016

CONFIDENTIAL AND PROPRIETARY

Table of Contents

Overview.....	3
Tourism is a significant contributor to the economy, with further upside potential from improved productivity	3
Ongoing investment in tourism infrastructure is crucial to the long-term sustainability of the tourism industry	6
Local communities are feeling the effects of increased tourism and this is beginning to flow through into public sentiment	6
A solution and focus on local, mixed use tourism infrastructure is required.....	8
The opportunity is to address short term local infrastructure constraints and also prepare for future growth.....	10
There is an identifiable immediate infrastructure need to “fix the gaps”	10
And also a pipeline of "future ready" projects that will prepares us for the future.....	11
As well as funding, the solution needs a robust governance and allocation mechanism.....	12
A portfolio of both government and industry funding sources are needed.....	13
While the balance sheets of local councils should be the first port of call, it is one that will require building awareness and capabilities, and is not suitable for all councils.....	14
In the alternative, increased allocation of existing government revenues could be used to fund tourism infrastructure investment.....	15
User pays should play a bigger part if funding infrastructure.....	16
The tourism industry should contribute to ensuring it can sustainably grow.....	18
And a strong governance mechanism must be put in place.....	19
Conclusion: Tourism growth provides the opportunity to invest in a sustainable future for the industry	20
Appendix A – New funding mechanisms	21

Overview

The tourism industry makes a significant contribution to New Zealand. In recent years the industry has been growing strongly and this growth is forecast to continue. As we grow, leaders in the tourism industry seek to step up to the challenge of ensuring that growth can continue and is seen positively by the broad range of New Zealanders.

The tourism industry is proactively involved in many aspects of our growth challenge, including in promoting regional and seasonal dispersal, ensuring that the value of the tourism industry grows faster than volume and addressing the current accommodation constraints. This report addresses a separate, discrete issue – *does the ownership of public, mixed-use tourism infrastructure restrict investment in such a way that could harm the growth of the tourism industry and public perceptions of it?*

The tourism industry is committed to participating in partnerships to solve shared problems with shared solutions that create shared benefits. We believe that there are advantages to having industry and government work together because of the opportunity to design more disciplined and better implemented solutions that draw on the knowledge and capability of many parties. We can work together to chart the industry's future success.

This report identifies the current value and future growth of the tourism industry and the tourism infrastructure challenge created by this growth. From overseas example, we identify ways of raising funds to solve this challenge and some institutional arrangements tailored to the New Zealand context that would facilitate a joint industry-government investment vehicle to develop local mixed use tourism infrastructure.

This report is intended as an input into government policy processes at a time when it is critical for tourism industry and government to work together and rise to the opportunity presented by a vibrant, growing tourism industry.

Tourism is a significant contributor to the economy, with further upside potential from improved productivity...

Since 2013, tourism in New Zealand has experienced rapid and sustained growth, with 640,000 more visitors this year than in 2013. Today, the sector is the largest industry contributor to GDP at 10 per cent, and largest contributor to the country's exports, making up 20.7 per cent of total exports of goods and services¹.

Tourism also contributes significantly to employment, with 330,000 people employed in tourism-related jobs. Unlike many other industries, tourism jobs are widespread and not concentrated within major economic centres alone. For example, tourism employment accounts for 10 to 15 per cent of total employment in outlying regions such as Mackenzie, Ruapehu and Kaikoura.

¹ Tourism Satellite Account 2015, Statistics New Zealand

Looking ahead, the outlook for tourism is positive. Growth is expected to continue at an even faster pace into the next decade. The Tourism industry currently earns \$34.7 billion. The tourism industry seeks for the industry to be worth \$41 billion by 2025. In an absolute sense, this means 4.5 million tourists by 2022 compared with 3.3 million tourists today.

New Zealand has an opportunity to deepen the benefits of tourism growth by ensuring that the benefits are widely and deeply felt. Benefits can be shared more widely by promoting tourism into new parts of New Zealand and by growing tourism sector employment.

Tourism benefits can be deeper if we improve industry productivity – an agenda that already features prominently in the Tourism 2025 framework. Tourism productivity – the amount of return to each unit of effort or resource – has historically been low in New Zealand and as a result tourism sector incomes and wages have not been as high as they should be.

As Exhibit 1 illustrates, there is further upside potential of NZ\$9 billion (4 per cent of GDP) to GDP² if New Zealand can raise its productivity levels in the tourism sector to be within that of the top 20 countries globally. There are a number of ways to raise productivity, including offering higher value products, broadening the tourist seasons to create more reliable commercial propositions for tourism firms throughout the year and ensuring that infrastructure is in place to support higher productivity.

Measures adopted by countries with high tourism labour productivity include the creation of development funds to enhance tourism workforce capabilities and encourage the formation of innovative, high-quality tourism products. The Singapore Tourism Board (STB) development fund, for example, invested approximately NZ\$3.6 billion in 2005-2016 to develop innovative tourism products, events and workforce capabilities (cf. Exhibit 2).

Tourism 2025, a growth framework from Tourism Industry Aotearoa, has made “making more with less” its central platform to grow the overall competitiveness of New Zealand’s tourism industry.

It has three main suggestions to improve tourism productivity:

- Reduce seasonality – Target new market segments with different seasonal profiles
- Boost regional spread – Grow domestic tourism to increase overall tourist expenditure
- Focus on people and skills – Attract talent and build capabilities within the tourism industry

Despite a positive start, the experience of other countries (cf. Exhibit 2) suggests that even greater concerted support may be required to fully unleash the sector’s potential

2 Gross Domestic Product: December 2015 quarter, Statistics New Zealand, 17 March, 2016.

EXHIBIT 1

There is upside potential of NZD ~9Bn in GDP contribution if the NZ tourism sector is able to match productivity levels of the global top 10%

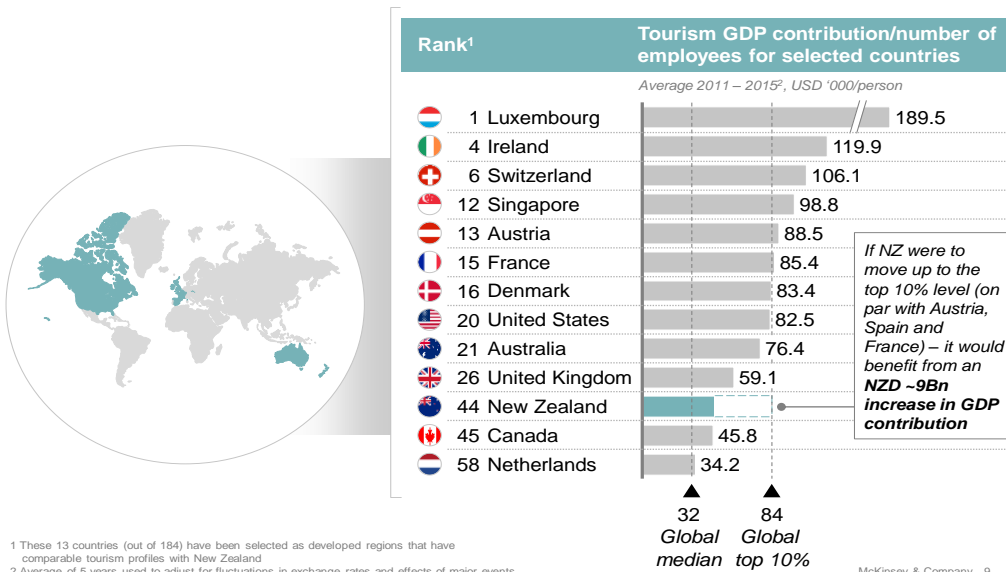
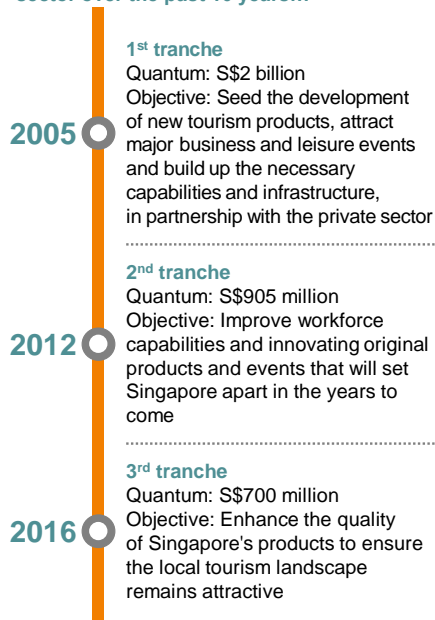


EXHIBIT 2

STB has consistently invested in the tourism sector over the past 10 years...



Source: Singapore Tourism Board corporate website, press search

... In order to spur growth of innovative and quality products and events and support capability enhancement

	Description	Example
Product Development 	Supports creation or rejuvenation of tourism products	Experience Step-Up Fund: Supports experience development projects that enhance attractiveness of Singapore and/or its products
Event Development 	Supports events that enhance Singapore's positioning as an international lifestyle and business events hub	Kickstart Fund: Supports the creation and test-bedding of innovative lifestyle concepts and events with strong tourism potential and scalability
Capability Development 	Supports productivity and talent development in the tourism sector	Hotel Retrofitting Grant: Catalyse hotels with legacy building constraints to unlock productivity gains through retrofitting works

... ongoing investment in tourism infrastructure is crucial to the long-term sustainability and acceptability of the tourism industry.

While clear economic benefits from tourism are being delivered to the nation's economy, challenges associated with swift growth are being felt on infrastructure, local communities and the environment. These issues are the natural result of growth pushing against existing capacity constraints. The defining factor of our future success will be how we respond to these issues.

Many parts of the tourism industry will respond positively to growth with new investment. For example, with coordination from government through Project Palace, we expect the accommodation sector will respond positively to higher yields and occupancy with the provision of more hotels. Other infrastructure providers, such as airports, will do the same.

Local communities are feeling the effects of increased tourism ...

Growing tourism is putting pressure on infrastructure in smaller centres. Hahei, for example, a town of 300 residents in the Thames-Coromandel district, can host up to 10 times its residents during the peak summer season, but has only 1 car parking lot with 45 car parks. The owners of the infrastructure – in this case the Thames-Coromandel District Council – lack the financial capability to respond to a challenge of this scale without outside support. In other places, pressure on wastewater infrastructure at peak times exceeds the capacity of the local council balance sheet.

This has resulted in mounting requests for support by local government. Central government has responded with the NZ\$12 million Regional Mid-Size Tourist Facilities Fund, which is a good start, but sub-scale to meet the issue. Furthermore, there are growing calls for central government to allocate more public funds to developing tourism infrastructure, especially when GST receipts from tourist expenditure have grown significantly over the past 5 years and now exceed \$2.8 billion³.

Local communities within New Zealand have also been increasingly vocal in their concerns around tourism's social license to operate. Concerns have been expressed about the negative environmental, social and economic impacts of tourism;

- Environmental impacts include the impact of freedom camping, pressure on sanitation and waste water services in some communities and litter at iconic tourism sites such as the Tongariro Crossing;
- Social impacts include the impact of tourism on the availability of both short and long term accommodation, driver safety, road congestion, and the ability for New Zealanders to access tourist attractions;
- Economic impacts include the ability for firms to access labour in tourist markets.

³ Tourism contribution to overall goods and services tax revenues have increased at an average annual rate of 10% from NZ\$1.7 billion in 2011 to NZ\$2.8 billion in 2016

EXHIBIT 3

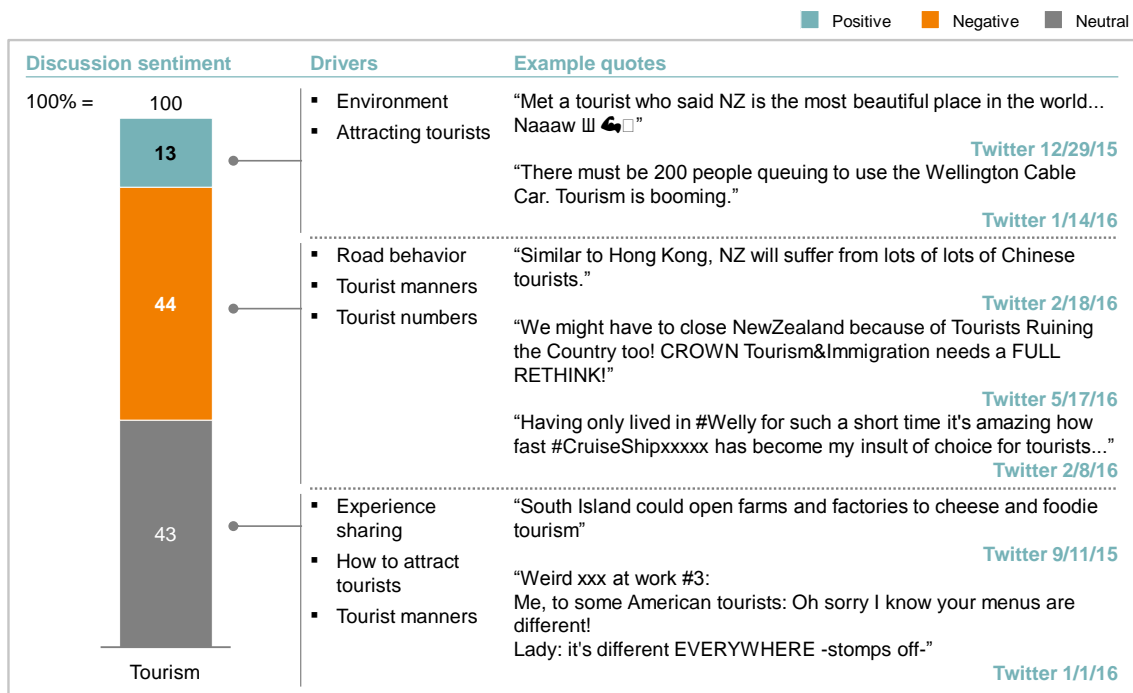
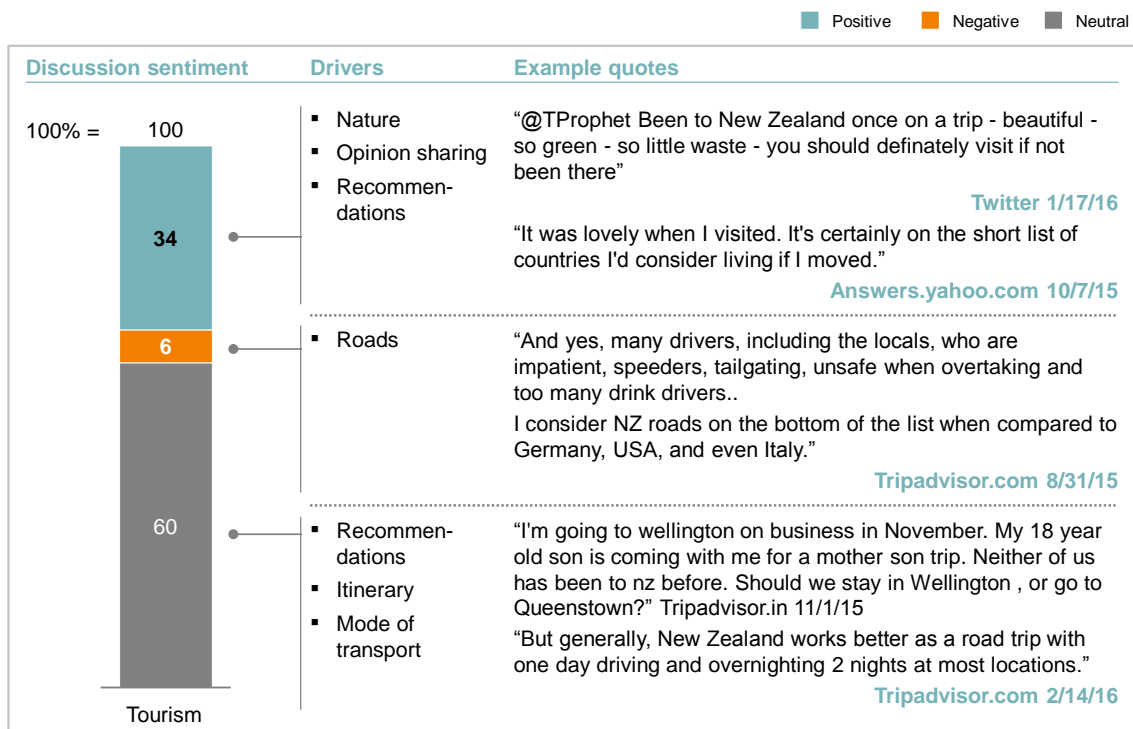


EXHIBIT 4



... and this is beginning to flow through into public sentiment.

These tensions have spilled over online, where 44 per cent of tourism related social media posts by local New Zealanders in 2015-16⁴ expressed frustration with the sudden increase in tourists and their behaviours (cf. Exhibit 3). Rising local discontent could undermine public perception of the benefits of tourism, or, in a worst case scenario, the tourism sector's social license to operate.

In contrast, the infrastructure challenges have yet to damage tourists' perceptions of New Zealand—only 6 per cent of their social media posts are critical (cf. Exhibit 4). It should be noted however that some commentators have flagged concerns that infrastructure bottlenecks are now starting to meaningfully compromise the tourism experience at the premium end of the market.

As a result, there is a real risk that underinvestment in tourism and its underlying infrastructure could potentially reverse the benefits New Zealand has enjoyed from its robust tourism growth to date. We see cases of this globally where countries have experienced tourism declines due to negligence in the maintenance and development of tourism infrastructure:

- **Greece:** One of Europe's leading tourist destinations, Greece witnessed a decline in visitors due to lax infrastructure upgrades (e.g., hotels built in 1970s/80s) and shifts in preferences (e.g., tourists felt educated but not entertained).
- **China:** The country's capital Beijing experienced a sharp 14.3 per cent decline in visitors between 2012-2013 due to tourist dissatisfaction with overcrowding in scenic spots and poor tourism services, especially when compared with Western standards.

Given the anticipated sharp increase in visitor numbers, a more strategic approach to the development and maintenance of tourism infrastructure is required to ensure the preservation and improvement in the quality of New Zealand's local and tourist experience.

The tourism industry, central and local government all benefit from the tourism industry and should all be motivated to ensure its sustainability. The infrastructure challenge has many dimensions and the best solutions will be ones where the industry and government both contribute to funding and implementing the solution.

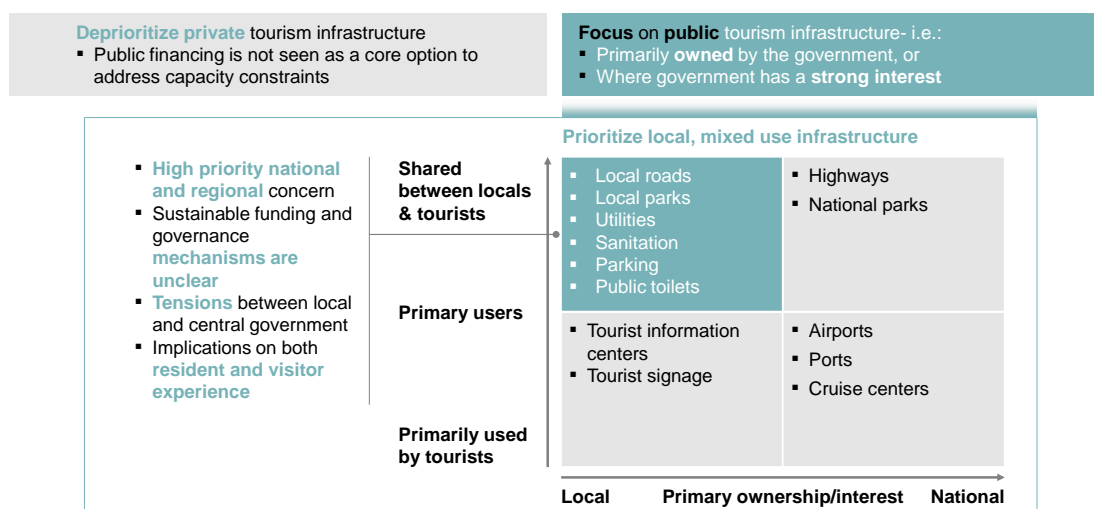
One area where a solution is required is local, mixed use infrastructure.

Broadly, tourism infrastructure can be classified as private and public, with four categories of public tourism infrastructure (cf. Exhibit 5).

4 Social media posts were taken from message boards, blogs, Facebook and review sites from 1st July 2015 to 30th June 2016

EXHIBIT 5

We have prioritized local tourism infrastructure that is used by both residents and tourists



Tourism growth creates issues throughout the tourism supply chain – at airports, on roads, in cities and at major attractions. For this study, we have focused specifically on “local, mixed use” tourism infrastructure. In this category, we include a range of infrastructure types that are used by both tourists and local communities – including car parks, sanitation, toilets, footpaths, public information and access ways.

The focus on this type of infrastructure is because;

1. This category of tourism infrastructure is a reported major pain point for citizens,
2. The funding and governance mechanisms to support capacity expansion are unclear, and
3. If left unchecked, the existence of infrastructure gaps could negatively impact both the local and tourist experience.

Examples of such “local, mixed use” tourism infrastructure which have been prominent recently in the media include access roads, rubbish collection and car parking at Lake Pukaki and Cathedral Cove, car parking and public toilets at Lake Tekapo, wastewater treatment facilities at Franz Josef, walkways, public spaces and car parking at Punakaiki and Huka Falls (New Zealand’s two most visited natural attractions) and capacity constraints on transport, car parking and footpaths in downtown Queenstown.

This study did not focus on infrastructure that is privately owned, operated and funded (e.g., commercial accommodation, convention centres, food and beverage establishments, private transport and commercial attractions) as there are clear commercial incentives and mechanisms to address supply shortfalls. For example, the Ministry of Business, Innovation and Employment with New Zealand Trade and Enterprise has put in place a programme, “Project Palace” to identify accommodation gaps and attract investment. We also excluded local tourist use infrastructure (e.g., tourist signage) as stakeholder interviews and social media research indicates there aren’t significant issues here.

National infrastructure (e.g., airports, ports, highways, roads of national significance) was similarly omitted as they have clear funding and governance mechanisms in place to invest in response to growth.

Finally, we note that infrastructure funding is a necessary but ultimately insufficient response to tourism growth. Other measures aimed at smoothing the tourist demand curve, spreading visitation and increasing industry capacity will remain important and ongoing work programmes.

The opportunity is to address short-term local infrastructure constraints and also prepare for future growth.

Looking ahead, there are two levels of ambition to realise New Zealand's tourism potential:

1. A short-term “fix the gaps” scenario that aims to address the most urgent pain points across the country today, and
2. A medium-to-long term “future ready” scenario that aims to not only keep pace with the tourism sector's projected growth, but also to define a new global standard of what “good” tourism infrastructure looks like and what an iconic New Zealand tourism experience entails.

There is an identifiable immediate infrastructure need...

We estimate an initial and immediate **funding requirement of NZ\$100 million across 20 priority councils** where growth in visitor nights, having exceeded expectations, has outpaced local spend on tourism-related infrastructure (e.g., transportation, toilets, carparks, sanitation and environmental protection), which needs to catch up (cf. Exhibit 6). Exhibit 6 shows 16 local Councils who despite an increase in visitor nights have in fact decreased infrastructure spend.

This top-down estimation is intended to provide an order-of-magnitude of the scale of the investment needed to address immediate infrastructure shortages directly attributable to the growth in visitor numbers and excludes infrastructure needs caused by the growth in local resident population. The quantum is verified by other estimations, including the concurrent work by Deloitte and TIA to estimate the size of the tourism infrastructure gap but does not account for any systemic underfunding across all local councils, centrally funded public infrastructure, or future local tourism infrastructure needs (cf. Exhibit 7).

EXHIBIT 6

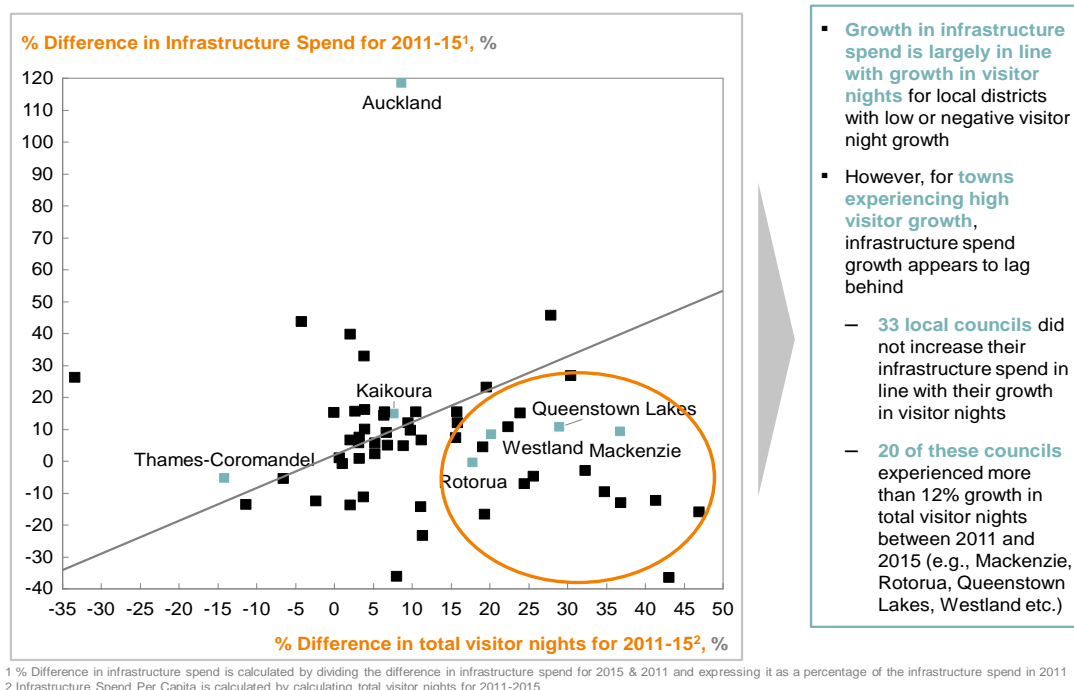
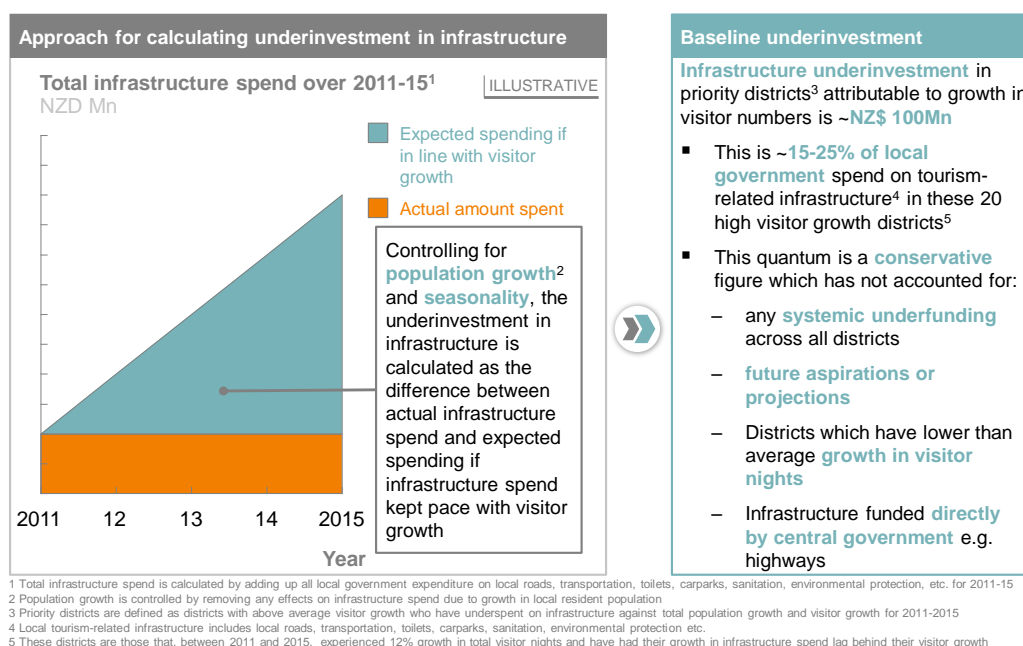


EXHIBIT 7



... and also a pipeline of projects that will prepare us for the future.

We estimate up to \$100 million - \$150 million per year over the next decade could be required to ensure the new generation of New Zealand's tourism infrastructure is "future ready".

The \$150m figure consists of three parts:

1. \$55 million each year projected additional infrastructure spending to make up for the difference between local council infrastructure expenditure at visitor growth rates and local council expenditure at historical government spending rates for the 20 priority councils
2. \$35 million each year of historical systemic underspend, calculated by taking the difference between NZ's local infrastructure spend as a percentage of GDP and the mean from 22 benchmark countries
3. ~\$60 million each year of investment to enhance the NZ experience, which includes the estimated spend for specific improvements and upgrades on state and regional highways frequently used by tourists – such as scenic stops, turn-ins and slow traffic bays - and investments in providing Wi-Fi on common tourist routes.

At a minimum, this means that the capacity of infrastructure needs to keep pace with the expected ongoing growth in tourist numbers. Ideally, however, the government and industry should be investing in new facilities and services that will meet the changing expectations of today's travelers. For example, the rise of millennials as the largest tourist demographic implies that nation-wide, free (or reasonably priced), Wi-Fi access is becoming more of a “must-have” than a “nice to have”.

Collectively, these investments are intended to upgrade the overall New Zealand visitor experience and set a new gold standard for what baseline tourist infrastructure should look like.^{5,6}

As well as funding, the solution needs a robust governance and allocation mechanism.

We have identified the need to grow the capacity of the tourism industry and a specific category of tourism infrastructure – local mixed use infrastructure – where ownership and funding constraints may prevent investment. The size of the task is estimated in the region of \$150m per year. Given the tourism industry's appetite to be part of the solution, this section considers mechanisms to co-fund a tourism infrastructure fund that would seek to resolve local mixed use infrastructure constraints now and into the future.

In identifying the potential funding mechanisms for the development of local, mixed-use tourism infrastructure, three principles were applied:

- Wherever possible, the first step would be to strengthen and leverage existing funding mechanisms (e.g., local council debt financing, government funding)

5 As we have provided this estimate based on an outside-in, top-down approach using broadly defined assumptions, we strongly recommend this figure is validated through detailing a more defined “future ready” strategy and a corresponding extrapolation of bottom up demand projections

- New funding mechanisms were considered only in instances when existing funding mechanisms were deemed insufficient (e.g., in terms of quantum generated, applicability across all local councils), based on the following criteria:
 - *Adequacy* - the ability to meet funding requirements for tourism infrastructure needs.
 - *Feasibility* - the speed and ease of implementation, depending on stakeholder buy-in and capabilities.
 - *Equity* - the link between the payer and the user of tourism infrastructure.
 - *Efficiency* - the costs associated with collection, management and disbursement are reasonable and non-distortionary.
- We propose **that the principle of cost sharing between government and industry to be adopted**. This principle requires that funds raised by the tourism industry are matched by government, and the solution is co-produced. The principle of cost-sharing ensures that the parties that receive the most benefit from the tourism industry, including central government, have skin in the game of solving its challenges.
- The cost-sharing model leads to joint interest and accountability in the design of solutions. We see this as a positive thing in itself – combining expertise and problem solving from all parties and sharing accountability will lead to better outcomes than if the problem is left to government or industry to solve alone.
- We propose that the funding sources identified below and this 50-50 split be revisited every five years to take into consideration changes in the sector's performance and the New Zealand economy.

A portfolio of both government and industry funding sources are needed.

Government: The starting point for government funding should be to look to the balance sheets of the infrastructure owners. In the majority of cases this is local councils. There are many examples where capital could be unlocked from existing balance sheets to fund new infrastructure. However, we accept that this move will require building awareness and capabilities among councils and it is not practical to rely on that

As such, we propose that the **government contribution be met through central government funding**. A budget decision by Government to support this initiative can be supported by;

1. Current and future growth in revenues from existing government taxes on the tourism industry, such as GST receipts that have risen to \$2.8 billion annually;
2. Growth in specific returns to the Government from tourism-related businesses, such as the 2016 \$145m special dividend payments from Air New Zealand; and
3. Growth in corporate and PAYE tax associated with the industry.

We also propose that the Government consider widening the ability of infrastructure owners to implement user pays systems on their assets to raise money for investment and reinvestment to provide a better tourist experience, as discussed further below.

Industry: We propose that industry contribution be met through the tourism industry accepting a new, **National Tourism Levy** that is applied across accommodation (including the camper van industry and sharing economy platforms) and air and cruise travel.

This emphasis on a *national* levy for a shared, national problem is deliberate, in order to avoid the “messiness” and confusion that may arise from the introduction of many, small and dissimilar solutions by different local councils. It also should be noted that the proposal for industry contribution is to address the specific issues identified in this paper regarding local, mixed use tourism infrastructure. It should not be considered for funding other infrastructure needs that have a weak link to tourism.

It is unusual for an industry to advocate a new tax to be levied on itself. We do not do this lightly or expect all members of the industry to agree. We expect our willingness to promote a National Tourism Levy to be taken as an indication of our determination to participate in joint solutions for joint tourism industry problems.

While the balance sheets of local councils should be the first port of call, it is one that will require building awareness and capabilities, and is not suitable for all councils.

Capital recycling through selling, leasing and sale-lease back of public assets can be an effective way to free up funds from asset-heavy balance sheets. However, due to the issues relating to politics and size, smaller local councils may face challenges utilising this as a means to raise funds for infrastructure. For example, Mackenzie District Council has a non-current asset value of NZ\$221 million mostly comprising of roads and footpaths. Queenstown Lakes District Council has a non-current asset value of approximately NZ\$1.3 billion, comprising a good mix of commercial and non-commercial assets including tourism assets such as ownership stakes in two airports. Furthermore, it isn’t clear that local resident ratepayers should bear the sole obligation to finance non-income earning, local infrastructure to support tourism.

Debt financing through New Zealand’s Local Government Funding Agency (LGFA). LGFA lending practices appear to be in line with best practices and do not appear to be the limiting factor. For example, in high visitor dense towns such as Queenstown and Mackenzie Country, debt servicing benchmarks⁷ are well within LGFA lending limits⁸.

The low level of debt (cf. Exhibit 11) in relation to the value of their assets may be due to:

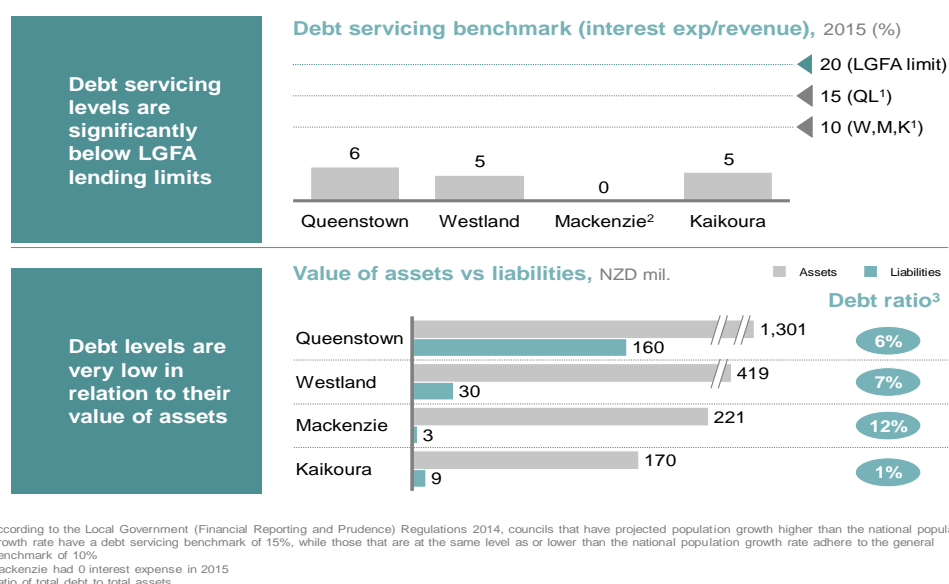
- Capability and awareness: As local council leaders are usually busy with their day-to-day operations, the cost of time and effort to apply for loans may outweigh the overall benefit;

⁷ Interest expenditure / revenue (% , 2015)

⁸ Benchmarks: LGFA maximum lending limit (20%), LGFA general lending limit (10%, adjusted to 15% for high population growth councils), Queenstown (6%), Westland (5%), Mackenzie (0%), Kaikoura (5%)

- Lack of equity: There may be a lack of will to take up loans to invest in infrastructure that will not directly serve the core council population; and
- Reputation risk: While the loan terms are attractive, there is a strong disincentive as defaulting on loans can have severe consequences.

EXHIBIT 8



McKinsey & Company 23

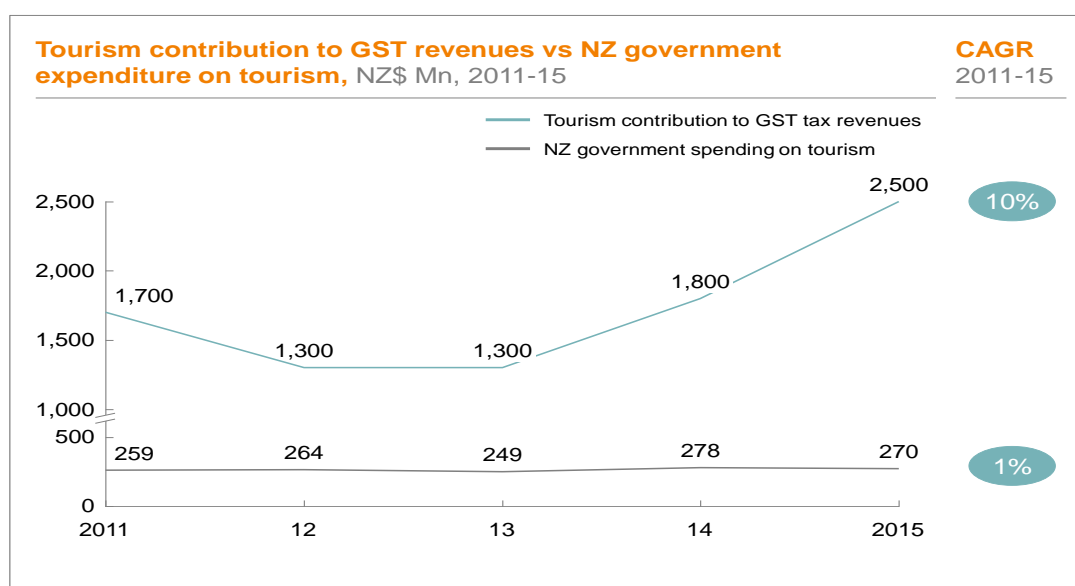
In the alternative, increased allocation of existing government revenues could be used to fund tourism infrastructure investment.

The tourism industry's growth has generated significant revenue gains for the government. First, the industry's contributions to GST tax revenues have grown at an annual rate of 10 per cent from \$1.7 billion in 2011 to \$2.8 billion in 2015. During this same period, public spending on tourism remained largely unchanged, mainly due to the government's overall fiscal consolidation efforts. (cf. Exhibit 9).

Second, the industry's growth has boosted direct contributions of to the central government. In 2016, for example, Air New Zealand paid out a special dividend of \$145 million to the central government. As the profitability of the tourism industry has grown, corporate tax on tourism industry profits, and PAYE on increased tourism industry employment have also contributed to the tax take.

In light of these gains, we propose that the government re-prioritise its budget and allocate additional funding, not only to address the immediate infrastructure needs under the "fix the gaps" scenario but also to support ongoing investment in the "future ready scenario". For example, an investment of \$100 million to address the "fix the gaps" scenario is equivalent to just 3.5 per cent of \$2.8 billion, the tourism industry's contribution to GST tax revenue in 2015.

EXHIBIT 9



User pays should play a bigger part in funding infrastructure.

Regional and local councils and the Department of Conservation provide a significant amount of public mixed-use infrastructure in New Zealand, including but not limited to visitor centers and infrastructure around iconic scenic sites. There are few current mechanisms to ration demand for these sites or earn revenue to support their upkeep. Revenue mechanisms around such sites are common overseas (cf. Exhibit 10).

New Zealand could consider the following options:

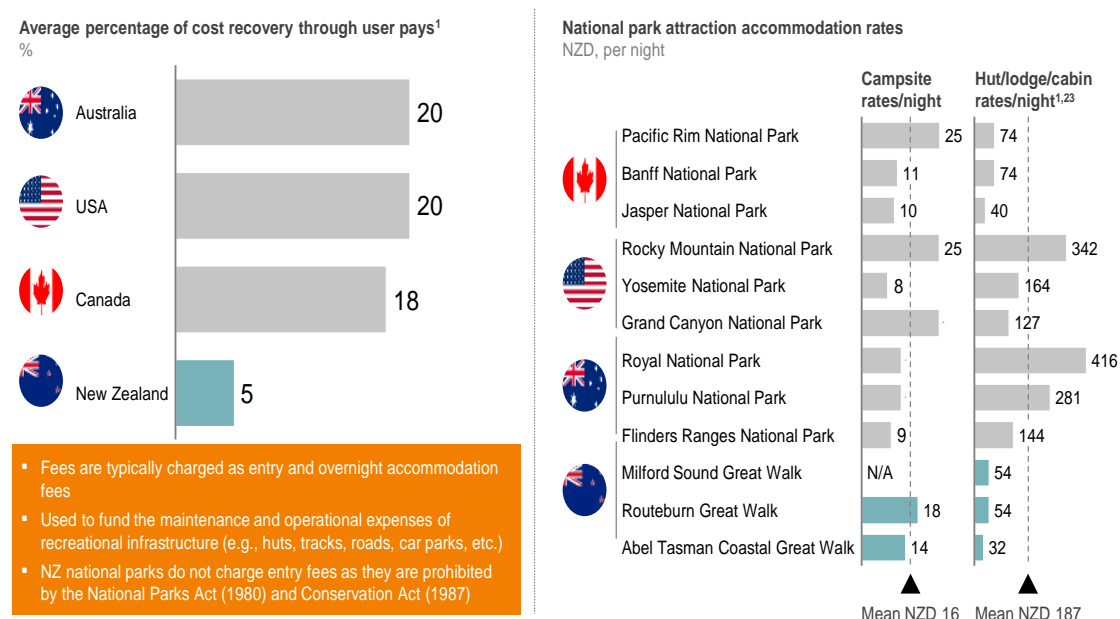
- **Improve high-end offering:** The Department of Conservation currently provides differentiated accommodation offerings and prices on popular “Great Walks” such as the Milford Track, Routeburn Track and Abel Tasman Track operated by private operators. This model of working with private concessionaires is a strong one and has more potential. The model could be logically extended to differentiated pricing for access to iconic scenic sites for international tourists, and working with private providers to develop commercial models for a wider range of infrastructure, while maintaining the public right to access for the conservation estate.
- **Designing infrastructure to fund itself:** A great deal of local infrastructure has not been designed in a way that provides an income stream to the asset owner to fund its upkeep. Income can come by way of entrance fees, or equally from designing facilities so that they have commercial mixed use such as cafes, where rental can defray operating costs. Through better design there is an opportunity for tourism infrastructure to be less of a burden on the local communities that own and fund it.

As an example, charging for car parks has potential for cost recovery and cross subsidisation if multiple infrastructure types are bundled together and the commercial proposition is understood. Benchmarks across New Zealand tourist destinations indicate most car parking fees range from \$1 to \$12 a day. Given

sufficient demand, car parks charging standardised fees could recover up to about four times their annualised capital and operating costs.

This revenue potential presents an opportunity to invest in the next generation of local tourism infrastructure by combining car parks with toilets and footpaths at each tourist attraction into a new bundled asset class across the country. This could be maintained and operated through private operator concession and leasing revenues could be used to reinvest in local tourism infrastructure needs and provide a revenue stream to local infrastructure owners.

EXHIBIT 10



- *Think differently about mixed-use tourist infrastructure as an asset class.* The infrastructure that supports access to iconic tourist sites has traditionally been thought of only under a ‘public good’ provision model. There is an opportunity to rethink the infrastructure that supports the visitor experience to a site such as the Church of the Good Shepherd in Tekapo or Punakaiki Rocks on the West Coast. Tourists demand these experiences heavily and currently there is no mechanism for them to pay to operate, maintain and develop the infrastructure they use. The cost is borne by the asset owner.

Rethinking this infrastructure as an asset class would open up opportunities for consortiums to design, build, finance, operate and maintain these facilities. The primary goal in doing so would be to fundamentally upgrade the tourism experience and quality of facilities and keep these experiences as an iconic part of the New Zealand experience. Such an arrangement could also lead to better infrastructure service levels, innovative private sector led designs and greater cost efficiency⁹.

⁹ A similar arrangement in Saskatchewan, Canada, for the bundling of bridges, highways and roads, is estimated to save NZ\$400 million and deliver the project 6 years ahead of schedule compared to traditional government procurement

The Tourism industry should contribute to ensuring it can sustainably grow...

Three options were deliberated for the financial contribution that the tourism industry should make to help address the specific issues identified in this paper;

1. A standalone bed tax for accommodation;
2. An increased levy on international departures; and
3. A National Tourism Levy that encompasses both a bed tax on traditional and non-traditional accommodation, including camper van rentals, as well as an increased departure tax on air and cruise passengers.

The National Tourism Levy model is likely to be the most viable option due to:

1. Its adequacy to raise the quantum needed for present and future tourism related infrastructure needs;
2. Its equitable distribution across the major tourism sub-sectors of accommodation and travel (air and cruise), and
3. Its moderately strong link in having tourists pay for the infrastructure that they are using.

Given the size of the challenge identified, the following quantum for each subsector would raise the required income:

- A 2 per cent tax on both traditional and non-traditional accommodation (e.g., AirBnB). This generates approximately \$35 million based on a projected \$1.60 billion tourism expenditure on accommodation services and \$180 million tourism expenditure on camper van rentals in 2016; and^{10,11}
- A \$5 increment on the existing border clearance levy of \$18.76 (ex GST) for a return journey, generating about \$30 million based on a projected 6 million passenger departures by air and sea in 2016.

Collectively, this National Tourism Levy is estimated to raise approximately \$65 million in 2017, once non-traditional accommodation such as AirBnB lodgings can be included in the tax.

The individual amount paid out by each tourist, would be less than 1 per cent of the average international visitor expenditure.¹² This is well within the typical 2 per cent exchange rate fluctuation band, and should – based on the existing research literature – have a negligible impact on tourism arrivals and spending. Further, the 2 per cent bed tax and \$5 departure levy (on top of the 18.76 excl GST Border Clearance Levy) are below the international mean when benchmarked against other countries with similar taxes (cf. appendix for further details).

¹⁰ Non-traditional accommodation such as AirBnB are reportedly not a significant share of the market at present, although we have been unable to secure exact percentages. The expectation is that such platforms should also be included in the tax over time. Air BnB do have a mechanism for users to include tax in their payments and recovery.

¹¹ Camper vans account for ~20% of all motor vehicle hires and rentals; the 2016 projected tourism expenditure on motor vehicle hires and rental is NZ\$900 mn. There is also a growing sharing economy market for private camper vans, which could be taxed through fees at campsites.

¹² Based on projected 2016 expenditure figures

Any tax revenue collected **should be transparently ring-fenced for local, mixed-use tourism infrastructure development.** The proposal is for 100% of the funds to be disbursed by the new agency in charge of local, mixed use tourism infrastructure (cf. next section on governance).

... and a strong governance and allocation mechanism must be put in place.

For the proposal to work, it requires not only to be able to raise the required quantum of funds but also to have a mechanism to allocate those funds wisely into investments.

We propose creating a new Crown agency that is responsible for allocating funds to priority local mixed use infrastructure projects. This agency should have the following features:

- Established as a separate crown entity, reporting to the Minister of Tourism:
 - Clear mechanisms to promote collaboration, coordination and accountability across agencies to drive delivery against priorities;
 - Clear mechanisms to support local government capabilities in tourism infrastructure development (e.g. strategic analysis of gaps and future needs, deal negotiation);
 - A ring-fenced budget funded by the funding mechanisms described above; and
 - A board comprising both private industry stakeholders and public sector representatives to improve sustainability, transparency, accountability and leverage insights from across government and industry.
- Imbued with the following mandate:
 - End-to-end oversight of specific local, mixed-use tourism infrastructure development from planning and capacity management, through to funding and quality control. This not only involves short-term troubleshooting (e.g., closing the gaps in areas where infrastructure is underfunded), but also investing in the hard and soft infrastructure needed to support the next wave of tourism growth.
 - The agency should set investment priorities guided by the following principles;
 1. Addresses an unambiguous “local, mixed use” tourism infrastructure need
 2. Identified need doesn’t already qualify for funding via an existing government funding mechanism
 3. Provides a demonstrable return to New Zealand tourism
 4. Co-investment with a local government sponsor with starting presumption of 1:1 investment ratio
 5. No single investment exceeds x% of the agencies annual budget
 6. Investments are coupled with appropriate project management and delivery disciplines

7. Portfolio equity over time between where funds are raised and greatest infrastructure need

As the agency builds momentum, there should also exist the option to expand its scope where relevant (e.g. to support all tourism infrastructure development and planning, to systematically address the industry-wide productivity challenge).

Critical to the success of the agency is that it has a clear constitution and strong governance. Investments should be expected to have a strong business case rationale and be directed to the areas of biggest need.

The mandate of the agency and its guiding principles for funding should be reviewed and reconfirmed or revised every **five years**. This is to ensure the continued relevance of the objectives with which the agency was set up and the good governance of the agencies' funds, as well as to protect against unintended scope creep.

Given the tourism industry's concerns as to the risk of an ongoing expansion of tourist levies and taxes by successive governments (as has been observed in changes to the Australian Passenger Movement Charge), there should also be a starting presumption that any decision to increase industry contributions would not be supported.

While the agency and new funding mechanisms are being established we propose establishing a small, dedicated project team with a clear, time-constrained mandate to identify the most pressing tourism infrastructure issues, drawing on the identification work being completed by TIA and LGNZ and the existing processes that MBIE have established for the Regional Mid-sized Tourism Facilities Grant Fund. It should report to the highest executive authority for tourism, such as the Minister of Tourism, and have a ring-fenced budget.

Conclusion: Tourism growth provides the opportunity to invest in a sustainable future for the industry.

New Zealand stands much to gain from developing the capacity of the tourism industry to continue to absorb growth. The tourism industry stands to gain from this as much as anyone and should be a willing participant in co-developed solutions to industry challenges. Given this historic chance to fully realise the economic and social benefits of tourism growth, continuation with the existing status quo of tourism infrastructure without new significant, sustainable funding is likely to seriously compromise the future and economic contributions of the tourism sector.

New Zealand should take this opportunity to upgrade its visitor and local experience, and achieve the industry's vision for high-value and sustainable growth. This report identifies actionable funding and governance options to address the challenges of rapid growth and to balance this growth with long-term positive impact on the environment, society, economy and country as a whole.

APPENDIX A – NEW FUNDING MECHANISMS

Tourism Tax (Bed Tax + Departure Tax)

NZD
65Mn

0.4%

of the average
air travel spend
by international
visitors¹

2%

of the projected
average
international
visitor spend on
accommodation²

0.4%

of the average
international visitor
expenditure over
the course of their
stay³

Key Assumptions

- 2% of room rates for all accommodation providers including non-traditional providers (e.g., Airbnb, campsites, campervans, etc.)
- An incremental departure tax of NZD 5 for air and cruise passengers on top of the existing NZD ~20 border clearance levy

Other considerations

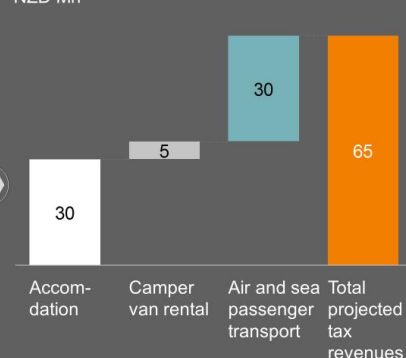
- Set identical tax rates for all types of accommodation, including camper van rentals, for equitable application of tax across tourism sub sectors
- Tourists renting campervans should not pay taxes at campsites to avoid double taxing

Methodology

Proposed tax schedule

Service type	Tax amount/ rate
Accommodation	2% ²
Camper van rental	2% ³
Air and sea passenger transport	NZD 5

Projected tourism tax revenues in 2016 NZD Mn

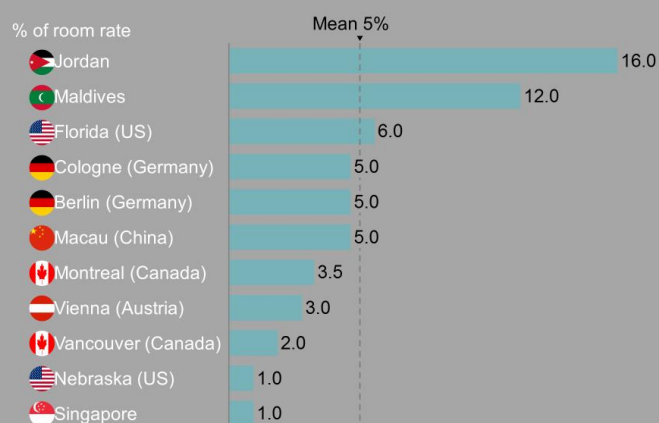


1. The NZD5 increment is equivalent to 0.4% of the projected average air travel spend by international visitors in 2016 of NZD1.4K. The total value (NZD5 departure tax + NZD20 border clearance levy) is equivalent to 2% of the projected average air travel spend by international visitors in 2016
2. The projected 2016 average visitor expenditure on accommodation is ~NZD 27. A 2% tax is equivalent to NZD 5
3. The projected 2016 average visitor expenditure on camper van rentals is ~NZD 155. A 2% tax is equivalent to NZD 3. As such, each visitor will pay an increment of NZD5 for departure tax, NZD 5 for accommodation, and NZD 3 for camper van rental. Altogether, this sum of NZD 13 per tourist is ~0.4% of NZD ~3.7K, the total average international visitor expenditure over the course of their stay in NZ for 2016. If the border clearance levy of NZD 20 is included, the average international visitor would pay ~1% in taxes

Bed Tax

A 2% tax rate is significantly lower than the benchmark mean

Benchmarks



Methodology



A. Benchmarking

Bed taxes of 23 cities and states globally were examined

11 locations were found to levy bed tax as a percentage of room rates

% based bed taxes were found to be less susceptible to inflation and more suitable for countries with mature tax systems



B. Determining fee amounts

Bed taxes were found to range between 1 and 16% of room rates

Proposed bed tax fee for NZ was set at 2%, significantly lower than the mean



C. Calculating potential quantum

NZD 30 Mn based on applying the proposed tax rate of 2% to the 2016 projected visitor expenditure on accommodation

Departure Taxes

An increment of NZD 5 – totaling up to NZD 25 when combined with the existing border clearance levy of NZD20 – still places NZ lower than the benchmark mean

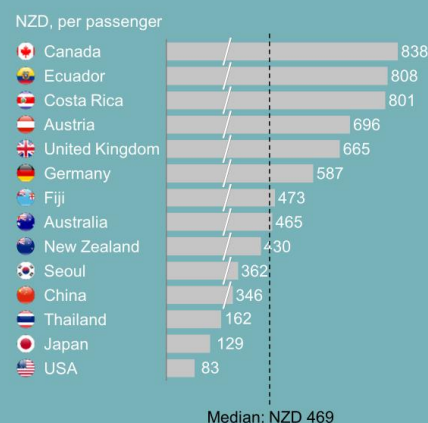
Key Assumptions

- Applied as an incremental flat fee of NZD 5 on top of NZ's existing border clearance levy of NZD ~20 per passenger
- NZD 30Mn is the incremental revenue raised from the additional NZD 5 tax
- Only the sum raised through the incremental NZD 5 tax will go to the new tourism infrastructure entity; the NZD 20 border clearance levy will continue to be allocated and distributed the way it is today.

Departure tax benchmarks



Overall tax benchmarks

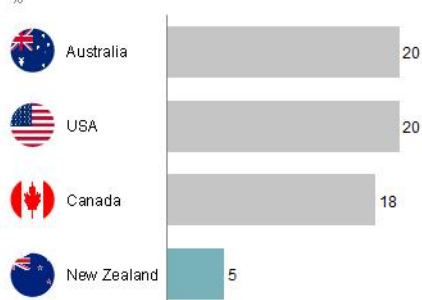


User Pay Schemes: National Parks

NZ national parks recover relatively less costs because they do not charge entry fees...

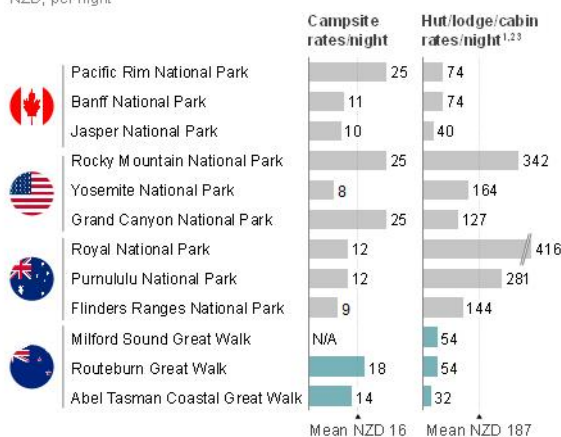
... and there appears to be potential for greater differentiation of accommodation options

Average percentage of cost recovery through user pays¹



- Fees are typically charged as entry and overnight accommodation fees
- Used to fund the maintenance and operational expenses of recreational infrastructure (e.g., huts, tracks, roads, car parks, etc.)
- NZ national parks do not charge entry fees as they are prohibited by the National Parks Act (1980) and Conservation Act (1987)

National park attraction accommodation rates



¹ Average percentage of cost recovery through user pays is calculated by dividing user fee revenues by the total expenses incurred in the provision of recreational opportunities (e.g., roads and car parks, visitor centres, amenities etc.)

User Pay Schemes: National Parks

Near term, "no regret" initiatives



Differentiated accommodation pricing and offering

- Increase current accommodation prices to match those by other national parks
- Negotiate better concessions from private accommodation providers
- Upgrade accommodation (e.g., WIFI, laundry etc.) to justify price increases
- Locals can pay subsidized fees by uploading official documentation (e.g., driver's licence, passports)



Parking fees

- Charge or increase car parking fees in lieu of entry fees
- Issue concessions to outsource car park operations to private entities
- Utilize central government expertise in public private partnerships (e.g., standardised agreements)

Long term initiatives



Capacity expansion

- Expand number of great walks to increase visitor fee revenues
- Develop capacity of existing great walks by building new accommodation
- DOC could issue concessions for private accommodation development (which US and Australian national parks do)



Entry fees

- Create a 2 tier national park system:
 - 1st tier: visitor dense parks (e.g., Milford Sound) charging entry fees to int'l visitors in the form of permits
 - 2nd tier: parks visited mostly by locals, which will remain free to access
- Likely to be long term due to required legislative changes (i.e., 1980 National Parks Act and 1987 Conservation Act)

User Pay Schemes: National Parks

New Zealand Great Walks



- 9 Great walks bundled into a single infrastructure asset class
- 2 Government funds to own (ACC, NZ Super)
- 1 Private consortium to design, build, finance, operate and maintain these walks

Benefits include:
Enhanced **services and visitor experience**
Greater cost **efficiency**
Better, **innovative** private sector led designs

Case Study: Regina Bypass Project, Saskatchewan, Canada

12 overpasses

40 Km of highways

32 bridges

55 Km of service roads

1 Bundled infrastructure asset to be built by a consortium of 4 private contractors

NZD ~400Mn in estimated cost savings

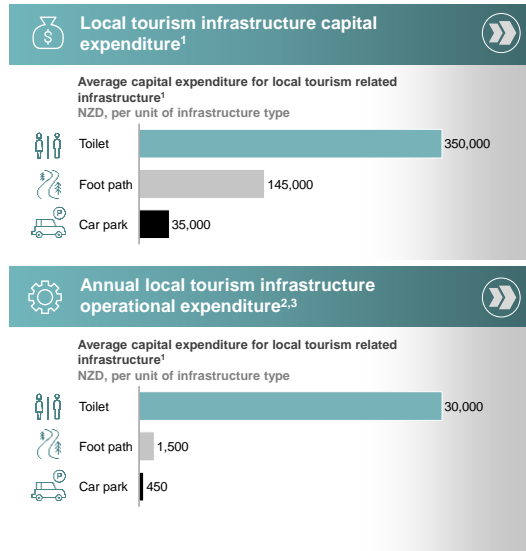
30 year term for private contractors to maintain and operate infrastructure in a DFBOM¹ model

Project is scheduled to complete in 2019,

6 years faster than conventional government procurement

¹ Design-Finance-Build-Operate-Maintain model where the local government of Saskatchewan, Canada retains ownership of the assets and the private contractors design, raise capital for, build, operate and maintain these assets for a set number of years

User Pay Schemes: Car Parks



Projected cost recovery framework^{4,5} % of cost recovery

		Average number of cars parking per day		
		10	50	100
Standardized Parking charges per day	NZD 2	9%	43%	86%
	NZD 5	21%	107%	215%
	NZD 10	43%	215%	429%

Benchmarking

Car park charges were found to range from NZD 1 to NZD 15 per day across tourist destinations in New Zealand

Key takeaways

- Car park user pays schemes have **revenue generation potential**, especially in visitor dense areas
- Excess revenues can **cross subsidise** the costs of **less used car parks** if the carparks are **bundled together**
- Revenues should be used to **enhance the visitor experience** (e.g., auto flushing toilets, local cultural artwork etc.)

1 Calculated as an average of capital projects' values from 4 to 5 visitor dense local districts
2 Estimated from New Zealand Transport Agency and local council figures
3 Assuming capital expenditure of tourism infrastructure should be recovered by 3 years
4 MBIE figures show 31% of visitors travel by car at an average of 2 visitors to a car and 12% of visitors travel by tour bus at an average of 55 visitors to a standard coach
5 Percentage of cost of recovery covered by user parking fees is calculated by taking the visitor numbers in terms of the projected number of parking they need annually and dividing it by the total capital and operational cost of a car park with attached toilet and footpath

User Pay Schemes: Car Parks

Car parks can be run as a public private partnership...

How does it work?
Existing and new car parks are bundled as a single asset class and either contracted out to a private entity to operate and maintain or placed under the ownership of the ACC and New Zealand Super government funds

What's the benefit?
Better service outcomes and ring-fenced funding for the development of next generation features (e.g., WIFI, localised designs such as Maori carvings in Rotorua and whales in Kaikoura, automated toilets etc.)

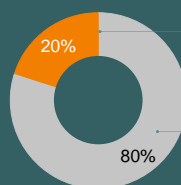
What's the risk?
Public agency administering these contracts might not have the necessary skills in negotiating favourable terms

How to differentiate between locals/internationals?
Local residents could be issued stickers and cards as resident permits in order to pay subsidised parking fees

...where part of the revenues can be used to upgrade the NZ experience

How are the funds distributed?

- Private car park operators will be contractually bound to meet minimum service and maintenance standards
- Leasing fees collected from car park private operators would be allocated as per the diagram below:
 - 20% centrally managed for civic competition
 - 80% disbursed to local councils for local tourism infrastructure development, in proportion to the fees generated by car parks in their district



Civic competition

Encourage local councils into generating inventive ideas for tourism infrastructure (e.g., Gigatown-like competition for best car park design)

Invest in the NZ experience

Build next generation features to enhance overall visitor experience (e.g., self-cleaning toilets, WIFI, customized décor in car parks and toilets reflecting local district culture etc.)