



Tourism Infrastructure Fund

Recommendations for improvements to the Minister of Tourism
from Local Government New Zealand

July 2018

Contents

Weare.LGNZ.	3
Summary	3
Introduction	4
Background	4
Local government’s contribution to the tourism industry	5
McKinsey and Deloitte research	6
Investment required to meet forecast requirements	6
TIF has provided some relief but it has limitations	6
Issues to be addressed	8
Consequences of the changes not being made	9
Conclusion	10
Tourism Infrastructure Fund Review Panel Terms of Reference	11

We are. LGNZ.

Local Government New Zealand (LGNZ) is the national organisation of local authorities in New Zealand and all 78 councils are members. We represent the national interests of councils and lead best practice in the local government sector. LGNZ provides advocacy and policy services, business support, advice and training to our members to assist them to build successful communities throughout New Zealand. Our purpose is to deliver our sector's Vision: "Local democracy powering community and national success."

Summary

LGNZ has welcomed the collaborative approach to the review of the TIF by the Government and has worked in partnership with MBIE officials to create a robust process for the review.

The process involved LGNZ conducting a survey of TIF applicants and establishing a panel of councils to identify issues affecting the uptake and performance of the TIF and, in conjunction with the panel and MBIE officials, preparing a practical set of recommendations for improvements.

A summary of these is as follows:

- Put in place a robust understanding of local mixed-use infrastructure needs and a pipeline of projects for the next two-three years, based on a survey of councils conducted by MBIE and LGNZ, and use this analysis to inform TIF planning and the Priorities Statement;
- Increase the TIF applications selection panel to include new local government representatives. Three new members to come from local government representing LGNZ's Metro Sector, Rural Sector and Provincial Sector;
- Enable planning certainty by having two set rounds of funding per year opened on 1 March and 1 August;
- Include funding for operational costs in the project funding for a period of up to three years;
- Reduce the \$100,000 funding limit to enable smaller councils to access the fund;
- Put in place a form of in-principal funding approval, provided by MBIE, to assist the process of funding approval by councils to enable them to secure a community's share of project costs;
- Expand the feasibility study criteria to support destination management planning and mixed-use infrastructure needs analysis research;
- Improved communications processes and materials around eligibility criteria, assessment criteria, level of co-funding, resource consent costs etc; and
- Expand the funding application criteria to ensure funding for access-ways to local tourism offerings (where these access-ways sit outside NZTA funding criteria).

Introduction

LGNZ has welcomed the collaborative approach to the review of the TIF by the Government. LGNZ has worked in partnership with MBIE officials to create a robust process for the review.

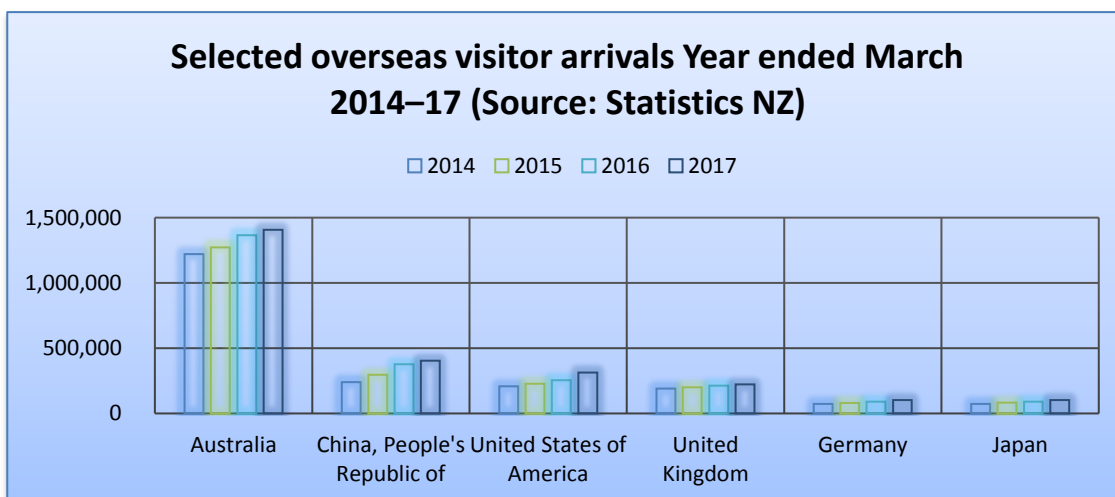
The process required LGNZ to establish a TIF review panel in May 2018. The panel’s brief was to identify issues affecting the performance of the TIF and prioritise them. LGNZ and MBIE officials have worked together to discuss the feedback and prepare a practical set of recommendations for improvements. Membership of that panel included representatives from LGNZ’s member councils who were directly involved with seeking funding from the TIF in round one (Refer **Appendix 1**).

Background

New Zealand ratepayers have been subsidising the tourism sector in the form of mixed-use infrastructure (infrastructure used by tourists such as local roads, other transport, drinking water supply, wastewater services and solid waste refuse, car parking, freedom camping sites and public toilets) funded mostly through property taxes (rates) during a period of strong growth. This growth has produced significant GST revenues for the Government, which is set to continue. In contrast this growth has produced no direct taxation gain whatsoever for councils or their ratepayers.

In the year ended March 2017, tourists generated \$3.3 billion in goods and services tax (GST) revenue and international tourism expenditure contributed 20.7 per cent to New Zealand’s total exports of goods and services. These statisticsⁱ show that tourism generated a direct contribution to Gross Domestic Product of \$14.7 billion, 5.9 per cent of GDP. Two hundred and thirty thousand people were directly employed in tourism (8.4 per cent of the total number of people employed in New Zealand), an increase of 9.3 per cent from the previous year. Overseas visitor arrivals to New Zealand increased by 8.9 per cent, with visitor arrivals from Australia, China, United States, United Kingdom, Germany and Japan steadily increasing since 2014.

Figure 1: Selected overseas visitor arrivals Year ended March 2014-17



Source: Statistics New Zealand Tourism Satellite Account

Looking to the future, the outlook for the tourism sector is continued growth. The forecastsⁱⁱ for the 2018 - 2024 period show visitor arrivals to New Zealand to grow 4.6 per cent a year, reaching 5.1 million visitors in 2024. Total spend by international visitors to reach \$14.8 billion in 2024, up 40 per cent from 2017. This forecasted growth is to come from holidaymakers and those visiting friends and relatives.

Australia is New Zealand’s largest visitor market, providing more than 1.5 million visitors in 2017. The forecasts show that this market will grow by 23 per cent by 2024. Another key market for New Zealand is China, and forecasts predict that China will become New Zealand’s largest market in terms of expenditure at the end of the forecast period. Implicit in these forecasts is the assumption that local government will continue to supply the necessary mixed-use infrastructure to support visitors at their destinations. This is a questionable assumption looking forward. Essentially the willingness of ratepayers to subsidise the tourism industry is now quite fragile.

Local government’s contribution to the tourism industry

The combined investment of the 78 councils across New Zealand into mixed-use infrastructure makes the local government sector the largest contributor to the Tourism Sector in New Zealand. Total operating activity for the year ended 30 June 2016 was \$9.2 billion and 44 per cent or \$4.1 billion was invested in critical mixed-use infrastructure supporting the Tourism Sector (including local roads and other transport, drinking water supply, wastewater services, solid waste refuse, car parking, freedom camping sites and public toilets).

A report on infrastructure insights by MBIE¹ affirms that local government mixed-use infrastructure is integral to creating an outstanding visitor experience² noting that “To achieve our long-term growth targets and maintain our international competitiveness we need to develop and maintain New Zealand’s mixed-use infrastructure”. The World Economic Forum’s Travel and Tourism Competitiveness Report 2015³ ranked New Zealand as the 16th most competitive destination in the world overall but 21st on infrastructure.

Franz Josef



Wastewater treatment supported by TIF

Greymouth



Public toilets supported by TIF

¹ MBIE, Tourism Infrastructure incite series, August 2016. P.9

² MBIE, Tourism infrastructure incite series, 2016, p.10

³ World Economic Forum. (2015). The travel and tourism competitiveness report 2015: Growth through shocks. Retrieved from http://www3.weforum.org/docs/TT15/WEF_Global_Travel&Tourism_Report_2015.pdf

This strategic issue was picked up as part of Tourism Industry Aotearoa Tourism 2025 strategy, where it was acknowledged, “quality infrastructure is needed to support the range of activities visitors enjoy.”⁴

The local government sector is under significant financial pressure to meet community infrastructure requirements over the next ten years as a result of population changes, ageing infrastructure and risks from natural hazards such as climate change. Tourism growth further exacerbates these pressures. In addition, there are significant variations across our membership in the ability to fund the required mix-use infrastructure to meet forecasted future tourist demand. In some areas, the particular number of tourists far outweigh the number of residents.

LGNZ members largely welcomed the introduction of the TIF in 2017 as a short-term solution to fund some capital projects, but do not see it resolving the infrastructure funding issue in the long term. The non-funding of operating expenditure is a prime reason for this position. LGNZ continues to advocate for a wider range of funding tools to address the infrastructure challenges, including the ability for councils to introduce a Local Tourist Levy should they wish to ensure tourists pay for the services they use. LGNZ has provided its recommendations on alternative funding tools in its response to the MBIE consultation document on the International Visitor Conservation and Tourism Levy.

McKinsey and Deloitte research

The Tourism Industry provided some initial estimates in 2016 on the size of the infrastructure needed if New Zealand is to remain internationally competitive. McKinsey reported a funding requirement of NZ\$100 million across 20 priority councils where visitor growth has outpaced local mixed-use infrastructure provision⁵. They went on to conclude that \$100 million - \$150 million is needed over the next ten years to ensure New Zealand is ready for the forecasted increase in visitor numbers.

Alongside the McKinsey research, Deloitte conducted a national assessment of tourism infrastructure to better understand the scale of the problem. The report⁶ prioritised seven types of infrastructure that have the greatest impact on tourist activity overall, including council-provided drinking water and wastewater systems, public toilets, local roads and car parking.

While car parking, as an example, ranked the seventh highest tourism-impacted infrastructure, the report confirmed that if this type of mixed-use infrastructure is not available travellers may bypass towns, sites or attractions. The result is loss of revenue for the district and poor visitor experience.

Investment required to meet forecast requirements

As part of the study in 2017, Deloitte compiled a list of “actionable” local government mixed-use infrastructure projects. The research provided a better understanding of the scale and depth of the need. A survey of 78 councils identified an initial long list of 673 local and mixed-use infrastructure projects⁷.

Although the project pipeline was developed for illustrative purposes only, it did reveal what appears to be a very large problem. Overall a rough order cost for 525 (78 per cent) of the 673 local and mixed-use projects was established. The total value of costed local and mixed-use projects calculated using this approach was \$1.46 billion.

TIF has provided some relief but it has limitations

The Government launched the Tourism Infrastructure Fund (TIF) in 2017 in response to the issues raised by the McKinsey and Deloitte research. An amount of \$25 million per annum was provided through a grants scheme administered through MBIE.

⁴ Tourism 2025

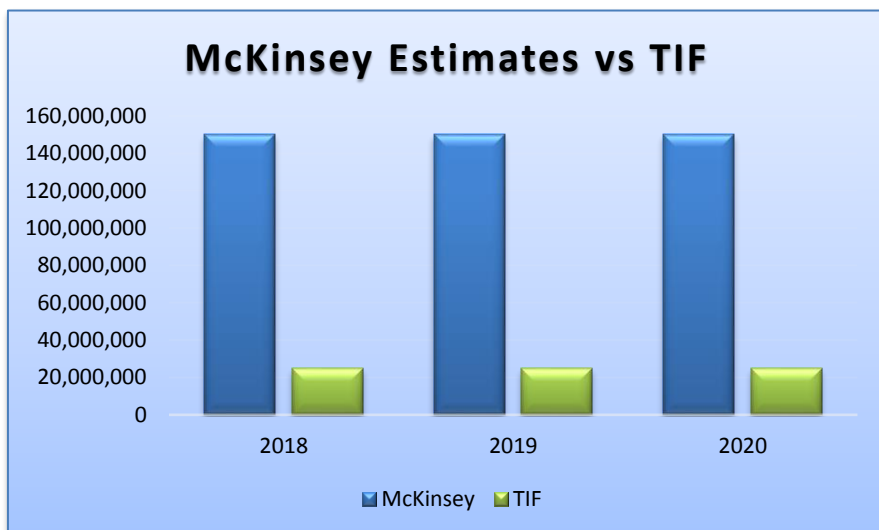
⁵ McKinsey Report, Addressing New Zealand’s most pressing local tourism infrastructure needs, Tourism Infrastructure Study, November 2016, p.10

⁶ National Tourism Infrastructure assessment, TIA, Deloitte, April 2017

⁷ Deloitte, Estimate of Scale of Need for Local and Mixed Use’ Tourism Infrastructure, April 2017, p.6

The local government sector have welcomed the contribution but repeatedly raised concerns about the Fund’s ability to deal with the scale and complex nature of the infrastructure supply issue facing the tourism industry in New Zealand.

Figure 2: McKinsey Estimate vs TIF



The grants model is not favoured by local government as it is seen as inflexible for local needs. It relies on a shared investment from councils, fixed funding rounds which currently do not align with council planning and funding timeframes, and critically does not adequately deal with the sustainability issue facing councils who have to fund operations, maintenance and renewals of the infrastructure funded. Such new infrastructure immediately becomes an ongoing drain on council finances. This is particularly acute where visitor numbers are high compared to permanent residents such as Queenstown Lakes District, communities on the West Coast of the South Island, Lake Wanaka, McKenzie basin, Fiordland and Rotorua.

Case study: Church of the Good Shepherd, Mackenzie District

\$294,000 of funding for the construction of a new carpark and walkways to redirect vehicle and pedestrian access around the Church of the Good Shepherd.

The window of opportunity to undertake the Project was very small. Between a busy tourism season and frozen ground. It was difficult to pull together a spade ready project in the required timeframe with the required investment to carry it out. If council had knowledge of funding over three years it might have negated the need for pre-approval.

If MBIE provided an early approval signal for the council that would have been helpful. This could have been in the form of a simple email from officials that says, we like your project. This would give confidence to progress design and consultation processes needed before a final application is made. Under the current process the Project got delayed post approval through community consultation processes. There was insufficient time to undertake this work prior to lodging the application.

The key benefit of pre-approval: It allows time for an appropriate level of planning and consultation by council allowing the project to flow smoothly.

Recommendations for TIF improvements

The following issues and recommendations have been identified and prioritised for action by the Government:

1. There is an absence of a New Zealand-wide strategic view of the mixed-use infrastructure (overall and of particular infrastructure types) needed to support tourism, both now and in the future. LGNZ proposes that it and MBIE partner to establish a regular data collection process to provide specific evidence showing where the priorities are across New Zealand. This research would create a pipeline of potential projects for the duration of the TIF, and inform planning and the Priorities Statement. It could also be used to inform the IVCTL. MBIE officials would work with LGNZ on the methodology, the project criteria for consideration and to gather and analyse the sector data that identifies the mixed-use infrastructure needs across New Zealand and within regions.
2. The current TIF panel has one relatively unknown representative from the local government sector. It is recommended that the panel be increased from seven to nine and representatives appointed from LGNZ's Metro Sector, LGNZ Rural Sector and Provincial Sector.
3. Councils require certainty of funding rounds to enable planning and budget approval. LGNZ would like two set rounds per year - one opened on 1 March and one opened on 1 August.
4. The TIF does not currently fund operating expenditure. Funding for operating and maintenance costs should be included as part of project funding. LGNZ sought advice from the Review Panel on a methodology for calculating what this contribution should be. There was agreement that:
 - There needs to be a cap to avoid removing funding from its primary purpose, capital expenditure;
 - Funding for operating expenditure should be limited to three years; and
 - A preferred calculation methodology is set out below:
 - Five per cent of project costs with a \$50,000 cap for projects over \$500,000 and five per cent of project costs with a \$25,000 cap for projects under \$500,000 for three years. (These costs should be included in the total project costs).
5. The current limit of \$100,000 is an issue for smaller councils trying to access the fund. Reducing the \$100,000 limit. There was general agreement that a reduction to a minimum of \$25,000 per council contribution to a project would help smaller councils put forward projects for each round.
6. Put in place a form of in-principal funding approval, provided by MBIE, to assist the process of funding approval by councils to enable them to secure a community's share of project costs;
7. Expand the feasibility study criteria to support destination management planning and mixed-use infrastructure needs analysis research;
8. Expand the funding application criteria to ensure funding for access-ways to local tourism offerings (where these access-ways sit outside NZTA funding criteria).
9. The communication material from MBIE on the TIF is not meeting local government needs. Improve the communications processes and supporting material around eligibility criteria, assessment criteria, level of co-funding, resource consent costs etc.

Consequences of the changes not being made

The TIF fund will not achieve its objective, which is to ensure provision of the required infrastructure to enable the tourism industry in New Zealand to continue to grow. Poor performance has the potential to destabilise the current “social license” for the tourism industry to operate. This poses significant risk to the New Zealand economy in the future.

Conclusion

LGNZ has welcomed the collaborative approach by the Minister and his officials to the TIF review. Representatives from a range of councils (refer **Appendix 1**) participated in the review.

A number of issues are identified, with supporting recommendations for the Government to action. These changes will improve the future performance of the TIF through to its conclusion in 2020.

This process has also, once again, highlighted the need for a package of funding options to meet councils' varying needs and infrastructure requirements. LGNZ, as part of its submission on the proposed International Visitor Conservation and Tourism Levy, will outline this need and its proposed package of options, including the establishment of legislation to enable councils to create a Local Tourist Levy where the TIF or grants from the IVCTL are unlikely to fully meet the need for local mixed-use infrastructure.

Looking to the future, we see the planning and allocation improvements identified for the TIF (including up-front the analysis on infrastructure needs, planning and development of a pipeline of projects, allocation across capital and operating costs, and stronger local government representation on the decision-making panel) mean that the TIF model of allocation could be used for other revenue streams such as those generated by the International Visitor Conservation and Tourism Levy.

LGNZ will be pleased to discuss this further.

Appendix 1 - Tourism Infrastructure Fund Review

Panel Terms of Reference

Background

The Minister of Tourism has received feedback from a number of mayors and Local Government New Zealand (LGNZ) on concerns they have around the criteria for the Tourism Infrastructure Fund (TIF). They consider some of the criteria to be too restrictive and do not reflect actual council practices, including:

The eligibility criterion around meeting Local Government Financing Act limits is seen as unrealistic.

The TIF only provides funding for capital expenditure and not operating costs.

The Minister subsequently directed MBIE officials to undertake a review of the TIF criteria, to ensure it meet the needs of TIF applicants. As part of this process, MBIE has engaged LGNZ to reach the local government sector and to get a better understanding of its members' concerns around the TIF.

The Minister has recently announced the opening of round two, which will operate under existing criteria and process. However, the Minister has indicated he would like to see any changes to criteria to be implemented in rounds three or four.

LGNZ is collaborating with MBIE on the review and will be responsible for ensuring strong engagement with the sector. To achieve this LGNZ has been tasked with establishment of the TIF review panel (Note: this is not a central government appointed panel).

Scope

As noted above, the Minister initiated the review following concerns around the TIF criteria. However, MBIE proposes the review consider non-criteria issues. The review will also focus on operational and process matters of the TIF. Some examples of issues we would be considering are:

- If the TIF eligibility and assessment criteria can be improved to meet the needs of TIF applicants;
- If the timing of funding rounds can be aligned with councils' planning process; and
- If local government could be involved in the development of the Priorities Statement for funding rounds.

The review will not involve an evaluation of the TIF. Issues considered out of scope for this include:

- Whether the TIF is an appropriate funding mechanism for local government;
- Development of alternative funding mechanisms for local government;
- Amount of funding available under the TIF; and
- Effectiveness of the TIF in addressing pressures on visitor-related infrastructure.

Purpose of the TIF Review panel

The purpose of the panel is to provide feedback on the TIF. The panel will collectively identify and discuss the issues to be addressed to improve performance. The issues will be prioritised and submitted to MBIE.

Membership

Invitations sent to councils that:

- Have been successful with their applications;
- Applied but been unsuccessful; and
- Applied but the application was ineligible.

Role of the Project Manager

The Project Manager is responsible for coordinating the engagement of the local government sector representation, facilitating meetings, completing the write up from the discussions and submitting this to MBIE.

TIF Review panel relationship to MBIE and the review

The panel will provide the data that informs the review. A final set of issues and recommendations will be prepared in a briefing paper that will go to the Minister in June.

Time commitment of Working Group members

There will be two meetings held in Wellington. The first will be on 24 May and the second will be held on 6 June. The meetings will be 3 hours long and run from 9.00am to 12pm followed by lunch.

There will be some meeting preparation in the form of answers to a questionnaire that will be circulated prior to the meeting.

Meetings

Meeting date	Topic	Venue
24 May	Issues identification and prioritisation	LGNZ, Board Room, Wellington
6 June	Final reference group meeting to review final issues and recommended solutions	LGNZ, Board Room, Wellington

Costs

LGNZ will meet all costs associated with the meetings apart from member travel costs to and from the meeting.

Participating councils in LGNZ’s survey and TIF Review Panel

Councils with successful applications

Far North District Council
Gisborne District Council
Grey District Council
Hauraki District Council
Hurunui District Council
Mackenzie District Council
Masterton District Council
Matamata-Piako District Council
Nelson City Council
New Plymouth District Council
Ōpōtiki District Council
Ruapehu District Council
Selwyn District Council
Southland District Council
South Wairarapa District Council
Tasman District Council
Taupō District Council
Tauranga City Council
Thames Coromandel District Council
Waikato District Council
Wairoa District Council
Westland District Council
Whanganui District Council
Whangarei District Council

Councils with unsuccessful applications but eligible

Wellington City Council
Clutha District Council
Porirua City Council
Waitaki District Council
Rangitikei District Council

Councils with ineligible applications

Whakatāne District Council
Waipa District Council
Kaipara District Council
Buller District Council
Kaikoura District Council

ⁱ Tourism Satellite Account, Statistics New Zealand, 2017

ⁱⁱ MBIE Forecasts 2018 – 2024