MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

TOURISM BRANCH

Submission to the Local Government Funding and Financing Inquiry

New Zealand Government

Preface

This submission presents a view on local government funding and financing from the perspective of the Ministry of Business, Innovation and Employment (MBIE)'s Tourism Branch. MBIE's Tourism Branch is responsible for developing and implementing the Government's tourism policy and tourism-related programmes, including the Tourism Infrastructure Fund (TIF), the International Visitor Conservation and Tourism Levy (IVL) and the *Aotearoa New Zealand Government Tourism Strategy*.

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Executive summary

The Government is looking to take a more deliberate and active role in the tourism system

Tourism makes a significant contribution to New Zealand's economic success and to New Zealanders' wellbeing. A successful tourism system requires well-functioning regional visitor destinations based on five specific ways (or the 5A's): visitor **awareness** of a destination; regional **amenities** and **attractions**; adequate **access** to regions; and **attitudes** of local people.

A variety of actors have a role to play in contributing towards these 5A's but it requires them to work in a coordinated, joined up way. At present, actors in the tourism system operate in fragmented and uncoordinated context.

The Government is looking to take a more deliberate and active role in the tourism system to shape future growth and better coordinate tourism-related investment. The draft *Aotearoa New Zealand Government Tourism Strategy*, which we are aiming to finalise by March 2019, sets out the role Government proposes to play both as an actor and steward of the tourism system.

A package of tools is required to support a sustainable, self-funding tourism system

The draft Strategy also outlines the need for secure, sustainable funding streams for central government, local government and regions that can readily adjust to changes in visitor numbers, safeguarding the quality of experiences offered to visitors.

The Government has a variety of tools to invest in our tourism system, including the Tourism Infrastructure Fund (TIF), the upcoming International Visitor Conservation and Tourism Levy (IVL) and the Provincial Growth Fund (PGF).

It is equally important that local government has the revenue necessary to ensure that local mixed-use/visitor-related infrastructure investment is placed on a financially sustainable footing. This means ensuring those who benefit from mixed-use infrastructure (direct users and businesses) make an appropriate contribution to the costs of provision.

Challenges in funding publicly provided infrastructure and services

Developing a sustainable funding package is particularly important for local government. Visitor growth has placed pressure on the ability of local government to provide appropriate visitor-related infrastructure in some locations.

Stakeholders (local government and industry) have raised concerns with us (MBIE Tourism Branch) about the impacts this is having on community wellbeing, the quality of the visitor experience, financial burden on ratepayers, and impacts on the local environment/recreational spaces. At its core, we believe the problem is that those who benefit from visitor-related infrastructure are not necessarily the ones who pay for it, and this is then inhibiting local government's ability to invest.

There is scope to make greater use of existing tools, targeted to visitors

Under current regulatory settings, local councils already have a range of funding options available that could generate revenue from those benefiting from visitor-related infrastructure (both visitors and the businesses involved in the visitor economy). These include targeted rates, user charges, and supporting revenue solutions, and it seems likely there is scope for greater use of these tools (summary table below). We are cognisant that there is no one-size-fits-all solution. Some of these options will work better than others in different locations depending on the size of the local visitor economy, the type of visitors, and community aspirations.

Summary of revenue options available under current settings

Options	Key Points	Examples
Targeted Rates	• Businesses that benefit from tourism actively contribute to costs of visitor-related infrastructure • A common method for councils to collect revenue • May not be appropriate where there is low business activity relative to high visitor numbers	• Hamilton Gardens Targeted Rate • Auckland Accommodation Targeted Rate • Kaikōura Targeted Commercial Rate and Accommodation Sector Charge
User Charges	• End-users of the facilities to contribute to costs • May not be cost effective to collect if visitor volumes are low and there are free alternatives • IVL and TIF could help offset the upfront costs required to develop user pays charging mechanisms	• Pay toilets (Mackenzie District pay toilets at Lake Tekapo and Church of the Good Shepherd) • Pay carparks (Dunedin, Hastings and Napier council's off-street parking) • Museums and council-run tourist sites (Dunedin Chinese Gardens)
Revenue Supporting Options	• Potential to better utilise capital by partnering with private sector • Using private sector needs to align with community's long-term aspirations	• Leasing arrangements in council-owned facilities • Alliance contracts • Privately managed facilities (e.g. carparks)

There are calls for new tools that the Productivity Commission could consider

There are other possibilities for raising additional revenue that do not fit under current settings that the Productivity Commission could consider. In terms of revenue from the visitor economy, options broadly fit into local levies – either place specific (such as the Stewart Island/Rakiura Visitor Levy), or accommodation levies. These require either a high level of co-operation or enabling legislation.

Other options that have been raised by the tourism industry and local government are not specifically tied to the visitor economy. Examples include GST and regional fuel taxes. These options would require legislation, and create externalities that would also need to be considered. Our submission does not cover these, as they are more appropriately considered in the wider context of local government funding and financing.

The strategic context

Tourism growth has been substantial–bringing economic and social benefits, as well as capacity challenges

Tourism makes a significant contribution to New Zealand's economic success and to New Zealanders' wellbeing. It's our largest industry and biggest export earner. It adds a total value of 10.4 per cent to New Zealand's GDP and employs a total of 13.5 per cent of New Zealand's workforce.

More broadly, tourism:

- creates inclusive growth by distributing economic opportunities and bringing social benefits across regions and communities outside of the main urban centres helps create more vibrant communities ; and
- fosters the international connectedness critical for a small, distant, trading nation.

Tourism has experienced a boom over recent years in line with the broader global growth in tourism. The number of visitor arrivals to New Zealand has grown by over 50 per cent over the last decade and is expected to increase by a further 30 per cent to 5.1 million by 2024.

Growth in tourism has brought wide-ranging benefits across New Zealand, creating new jobs, business opportunities and economic resilience in our regions. It has also brought a unique set of challenges to our regions as they cope with growth pressures and a significant shortfall in visitor-related infrastructure, particularly during peak season.

The Government wants productive, sustainable and inclusive tourism growth

The Government is focused on ensuring that the tourism system provides productive, sustainable and inclusive growth for all New Zealanders. A successful tourism system requires well-functioning regional visitor destinations based on five specific ways (or the 5A's). These include:

- visitor **awareness** of a region (i.e. tourism marketing);
- regions have the **amenities** and **attractions** visitors want (i.e. infrastructure investment and destination management);
- visitors can **access** regions (i.e. transport investment); and
- the **attitudes** of the people that live in the regions make for a positive visitor experience.

It is important that these investments and interactions are coordinated at a regional level across central and local government and local business – for instance, there is no point funding/supporting a regional attraction if there is limited access to that region, or without understanding potential impacts on conservation lands.

A variety of actors have a role to play in contributing towards these 5A's, including central and local government, industry, communities and iwi and hapu. It also requires actors to work in a coordinated, joined up way. At present, these actors operate in fragmented and uncoordinated context. In many cases, the tourism system presents a fragmented regional picture, with some regions competing rather than cooperating, and some more focused on attracting visitors rather than managing destinations in line with the expectations of both local communities and visitors.

The Government is looking at ways of better coordinating the tourism system

The Government is looking to take a more deliberate and active role in the tourism system to shape future growth and better coordinate tourism-related investment. The draft *Aotearoa New Zealand Government Tourism Strategy* sets out the role Government proposes to play both as an actor and steward of the tourism system. MBIE is currently reviewing public feedback and is looking to finalise the strategy in late March 2019.

The draft Strategy also outlines the need for secure, sustainable funding streams for central government, local government and regions that can readily adjust to changes in visitor numbers, safeguarding the quality of experiences offered to visitors

The Government has a variety of tools to invest in our tourism system. These include

i. **The Tourism Infrastructure Fund (TIF)**

   TIF aims to support communities provide tourism-related infrastructure where current facilities are not keeping pace with growth or are limiting the ability for the community to build its tourism offerings. It is currently set at $100 million over four years. Two funding rounds have now been concluded where a total of $34 million in co-funding was approved to support projects totalling $75 million.

ii. **The International Visitor Conservation and Tourism Levy (IVL)**

   The IVL is estimated to raise around $400 million over five years for conservation and tourism infrastructure funding and will be implemented in the second half of 2019. The IVL will be a strategic investment fund, aimed at substantively changing the tourism system to create a more sustainable and inclusive sector

iii. **The Provincial Growth Fund (PGF)**

   Set at $3 billion over three years, the fund aims to lift productivity potential in the regions and welcomes tourism-related funding proposals. A major focus of the fund is on economic development and most of the $165 million that has gone towards tourism investments has been focused on attractions.

NZTA is also working to incorporate tourism into its evaluation process. Tourism businesses and visitors will also need to contribute to the development of a sustainable tourism system.

These tools will play an important role in substantively changing the face of tourism, both in meeting challenges, and realising the opportunities. Alongside these central government tools, it is important that local government has the revenue necessary to ensure that local mixed-use/visitor-related infrastructure investment is placed on a financially sustainable footing, in a complementary fashion. This means ensuring those who benefit from mixed-use infrastructure (direct users and businesses) make an appropriate contribution to the costs of provision, through smart systems.

Local government and tourism funding

Local governments have an important role in our tourism system. They provide the majority of the funding for New Zealand's 30 Regional Tourism Organisations/Economic Development Agencies, which provide destination marketing for the domestic market and support Tourism New Zealand's international marketing efforts.

Local governments provide most of the publicly provided infrastructure necessary to ensure a quality visitor experience. The type of visitor-related infrastructure provided by local government includes: public toilets and amenities; carparks; signage; water (drinking-, waste-); pedestrian and road infrastructure; landscaping, parks, tracks and viewing platforms; and other recreational facilities.

Most of this infrastructure is not specific to visitors and, in most cases, is also enjoyed by local residents. As such, many councils have to build infrastructure to meet the needs for their 'effective' population–not just for their resident population but also to meet the needs of visitors. This means building to peak summer demand, which in some cases is considerably in excess of usually resident population (Nelson District has stated that summer peak population is four times that of the winter population)

There are limited revenue sources associated with current local infrastructure provision models, resulting in under-provision and/or poor cost-allocation

Providing the visitor-related infrastructure required to meet visitor demand has placed financial pressure on local councils. Recent visitor growth has, in of itself, created pressure; in many cases it has exacerbated problems associated with inadequate/deferred investment in services for residents. The symptoms of visitor growth pressures include:

- overcrowding at visitor hotspots, resulting in adverse impacts in the immediate environment and deterioration in the visitor experience;
- locals and domestic visitors cannot access places in the way they traditionally could when numbers were lower;
- a perception that local taxpayers are bearing the financial burden of visitor-related infrastructure for the benefit of international visitors (domestic visitors also contribute to pressures, but may be less visible); and
- loss of local community support for the tourism industry to operate in some areas.

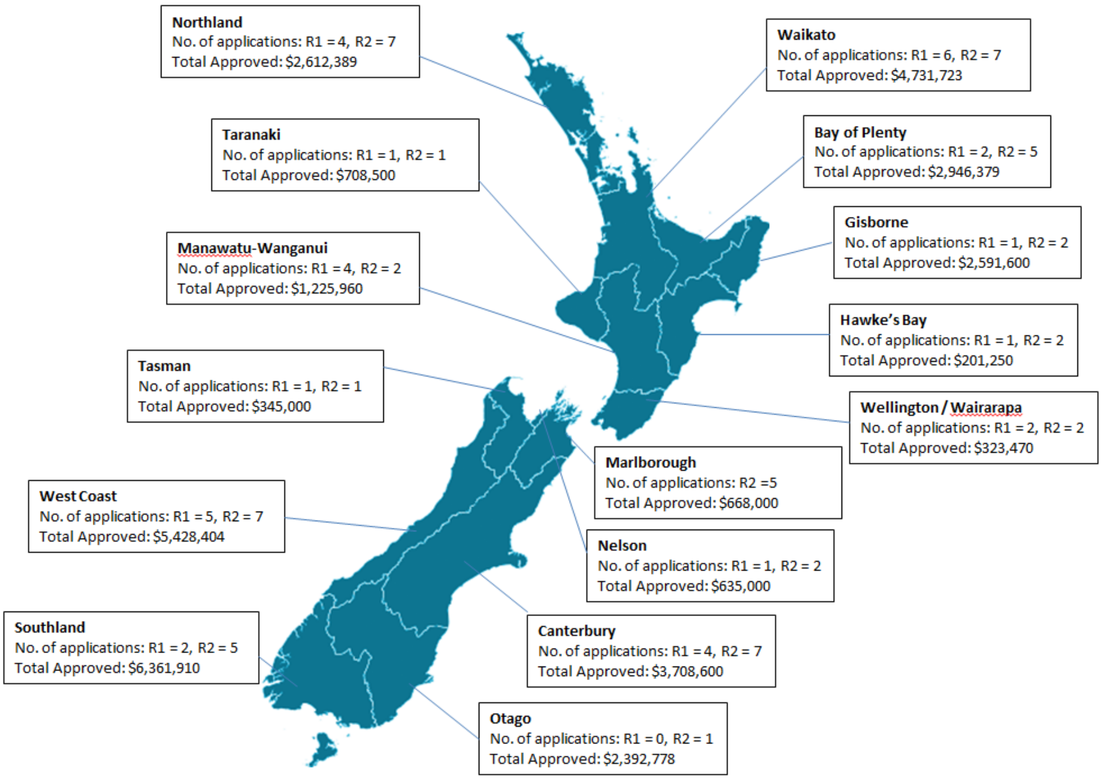
Without intervention, these issues are likely to continue to grow, especially as visitor numbers increase. This could impact on community wellbeing and the quality of the visitor experience.

Estimates of the scale of investment required

We believe there is evidence of a large scale shortfall in visitor-related infrastructure investment. Stakeholder feedback, including MBIE Peak Season reviews and engagement with local government on the Tourism Infrastructure Fund, has identified pressures in locations.

The following table identifies the regions which have received TIF funding for visitor-related infrastructure projects. While by no means representative of the true extent of infrastructure pressures, it does illustrate that problems exist nationwide.

TIF projects – Round 1 and 2



Industry reports also suggest that the total visitor-related infrastructure investment required could be in the order of $100-$150 million per annum.[1] Due to some limitations in the analysis, figures should only be considered as an indicator of scale.

Case-studies suggest there is scope within existing tools to address funding challenges

MBIE commissioned work from Deloitte on the financial flow from tourism for Councils. They provided three case studies (see table below), which offer some interesting insights.[2]

[1] McKinsey, Tourism Infrastructure Study: Addressing New Zealand's most pressing local tourism infrastructure needs, 2016.
[2] There are some acknowledged gaps in the revenue and expenditure figures, for example, no car-parking revenues are included, and expenditure includes infrastructure items on a cash flow basis (rather than allocating on a whole-of life basis, for example).

Council	*Total Revenue*	*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 City Council	$4.3 billion	$93-$103 million	$133-$137 million

The table shows that based on the summary of financial flows from international visitors, Councils may be breaking even or are net investors in international visitors. We can infer from this that council expenditure is driven by wider considerations than finance, including economic benefits for the community, and well-being of visitors.

The case studies show three quite different approaches to collecting revenue from international visitors:

- Nelson charges non-residents for access to council facilities, such as the museum.
- Auckland has targeted rates on accommodation providers.
- Southland has some user pays facilities, and two levies (paid by operators in Milford and travellers to Stewart Island).

Case studies all acknowledged the significant economic benefits of tourism to the region, including employment opportunities. Significant issues raised in the case studies included the challenges in providing infrastructure where visitor numbers have grown rapidly and in meeting seasonal demand. For example, Nelson estimated peak summer season demand is 4.1 times higher than winter demand.

These results suggest there may be scope for councils to explore a suite of tourism revenue tools to meet costs, or even benefit from visitors.

Factors constraining local government

There are a range of circumstances across local government that influence their ability to adequately invest in infrastructure (including size, demographic changes, industry structure, financial situation, level of planning). All of these are relevant to understanding the constraints local government has in responding to visitor growth pressures. There are also a number of issues particular to visitor-related infrastructure that impact on local government's ability to respond to the problem. These include:

- local councils are primarily focussed on the needs of their ratepayers and, as such, are sometimes unwilling to invest in infrastructure where locals are not the major beneficiaries;
- other funding pressures also force some local councils to make trade-offs with meeting the immediate needs of ratepayers;

- Long Term Plans do not fully provision for the infrastructure needs of non-residents. In many cases, they do not or, due to data limitations, are unable to build visitor growth into their demographic assumptions;
- developing regions are required to invest significant sums in developing destinations well in advance of enjoying the economic benefits; and
- local councils are often constrained around charging for the use of public infrastructure, including inability to exclude those who do not pay, undesirable outcomes if people do not use the facilities, and expectations about free facilities.

Long term funding solutions are required

Central government has responded to the immediate problem of a lack of infrastructure funding through the TIF and PGF. Both funds are time limited and do not offer long-term solutions to the problem of meeting costs for publicly-provided visitor-related infrastructure and services. Ensuring the success of tourism and the continued support of local communities for the industry requires a long-term approach to planning and funding visitor-related infrastructure, including sustainable and responsive funding tools.

Local revenue options which are linked to local costs, visitor numbers, and community preferences will enable communities to plan for whole-of-life asset management, and adapt to growth without relying on central government funds that may change over time, or may not consider a specific local project a priority in a national context.

There is a mix of views from stakeholders on local revenue options. For example, some councils are advocating strongly for an accommodation levy, some industry representatives are against further charges on the sector (over and above the IVL), and other stakeholders are against introduction of user pays.

We believe that local government funding for visitor-related infrastructure should be based on:

- long-term planning that considers broader demographics (including current and forecasted visitor numbers) and destination management;
- a fair distribution of costs so that those who benefit from visitor-related infrastructure (i.e. the visitor) make an appropriate contribution;
- that revenue has the certainty and scale required to enable long-term planning and strategic investment; and
- that revenue is cost-effective to collect and is ring-fenced appropriately to respond to the needs of the local visitor economy.

Revenue options available under current settings

For visitor-related costs, councils could make greater use of a range of funding and financing tools already available under the current regulatory system that could go some way to ensuring visitors contribute to visitor-related infrastructure costs. These include: targeted rates, user charges, and supporting revenue solutions.

Local councils already use these tools to some extent, but their use could be expanded. These tools can be applied in a way that better ensures that those who benefit are also contributing, while also benefiting councils by freeing up general revenue sources for other functions. Some of these tools will work better than others in different locations depending on the size of the local visitor economy, the type of visitors, and community aspirations.

Targeted rates–ensuring businesses contribute a fair share

Targeted rates can be used to fund visitor-related infrastructure by charging the businesses that are benefiting from that infrastructure. A range of factors can be used for calculating targeted rates beyond just land value, including capital value, extent of provision of services, and number of toilets and urinals. These all can provide ways for calculating the extent that a property benefits from a particular service (i.e. a toilet charge as a way to fund water infrastructure investment).

Numerous councils already collect targeted rates from commercial properties to support tourism promotion and economic development activities, including destination marketing and travel information centres.

The levying of further rates could create adverse political reactions from commercial ratepayers, which local authorities would have to carefully manage. Many commercial properties already pay targeted rates. To ensure any new/increased rates were sustainable, Councils would need to:

- demonstrate that the total targeted rates charged have some link to the benefits received; and
- consider whether businesses could sustainably fund a targeted rate and whether a transition period would be required.

A targeted rate may not be a practical solution for all regions. For example, where the business activity generated from tourism is not proportional to the costs. This may be the case in regions with high visitor numbers but low visitor nights (such as the West Coast or Mackenzie Country).

Industry objections to targeted rates are that it falls on the property owner, allocation to the business is not transparent and is difficult to pass on to the visitor. In addition, some operators point to overseas jurisdictions where bed taxes are a common mechanism and are able to be shown “above the line” to the customer. This aligns with the view held by some in the industry that the visitor should pay. However, MBIE consider that it is also reasonable to suggest that the business or property owner should be making a contribution to costs of infrastructure that their revenue relies on.

Targeted rates work best where there is a reasonably clear link between the targeted group and the visitor economy. There are a couple of ways to approach this.

Is the target group capturing a large share of the economic benefit from the visitor economy? If yes, then setting targeted rates to fund the majority of costs may be appropriate. Depending on the target group, and links to usage/benefit, it may be appropriate to link the rate with a particular subset of costs. For example, charging wastewater costs related to accommodation providers.

In locations where there is a strong link between the visitor economy and the local commercial economy, a broader approach may be appropriate. All/most commercial properties in Queenstown, for example, are direct or indirect beneficiaries of the visitor economy.

Targeted rates already used for tourism-related activities	
Hamilton Gardens Targeted Rate	Targeted rate to contribute to the redevelopment of the Hamilton Gardens, the city's biggest tourism attraction. The rate will raise $10 million over 10 years, and be added to by the Hamilton Gardens development trust, which will fundraise $15 million. The funding will deliver new themed gardens and additional infrastructure.
Auckland Accommodation Provider Targeted Rate	Auckland Council charges an accommodation sector targeted rate for all accommodation providers, including holiday home rentals, to partly fund the activities of Auckland Tourism, Events and Economic Development.
Kaikōura Commercial Targeted Rate and Accommodation Sector Charge	Commercial targeted rate to fund the net costs of tourism and economic development, the annual grant paid to the visitor centre, and a portion of traffic control, harbour facilities and public toilets. Council also charges an Accommodation Sector Charge for non-commercial properties (i.e. small B&B's and Air B&B style accommodation).
Thames-Coromandel Targeted Rate and Pan Charge	Targeted Rate for Economic Development for commercial properties as well as a Rate for Wastewater Disposal or a 'Pan Charge' based on the number of water closets and urinals.
Queenstown Accommodation Targeted Rate	Queenstown Lakes District Council charges a tiered rate for all accommodation providers, including holiday home rentals. The Council also charges a Tourism Promotion Rate according to location.

User charges–visitors make a contribution

User charges provide local councils with a means of generating revenue on existing or new facilities. User-charges include things like pay toilets, public transport, and car-parking and can be based on differential charging through pricing mechanisms and digital technology options. Technology has the potential to enable charging for more services, more effective differential charging, as well as enhancing the visitor experience and community wellbeing and managing operational costs.

User charges may not always be an appropriate solution, particularly if it is not cost effective to collect due to low visitor volumes or free alternatives. Also, New Zealand does not historically have a strong user-pays culture. Any changes would need to be done carefully, with clear communication and rationale.

User charges that local government could employ or are using	
Pay toilet facilities	While not particularly common, pay toilets are present across New Zealand. A recent example includes Mackenzie District Council, which operates automated toilet facilities at Lake Tekapo and the Church of the Good Shepherd. Opened in 2017, facilities were paid through 50/50 funding from the Council and Government.
Car parking	Car parking is a fairly common tool for councils to gain revenue. A number of local councils manage off-street pay carparks in addition to on-street parks, including Dunedin City Council, Hastings District Council, and Napier City Council. Car parking revenue could be expanded in many tourist areas, such as the Queenstown and Lake Taupo town centres.
Museums and council-run tourist sites	Museums and council-run tourist sites have the potential to provide regular revenue streams and opportunities for commercialisation. Dunedin Chinese Garden charges for admission and has additional revenue streams with a tea house, gift shop and venue hire. Public transport is another option through visitor passes, or commuter discounts. Southland District Council's Open Space Priority Settings Report mooted the idea of a 'Southland Camping Pass' which could give access to designated camping areas managed by the Council.

Pricing strategies as a way to manage demand

Differential charging can also be used to create behaviour changes through economic incentives. In a tourism context, this could manage back demand and therefore the need for further infrastructure (investment and/or additional operational costs). Some examples include

- using congestion-based pricing (time of day, season) to encourage off-peak use
- differential pricing for visitors and locals to help ensure locals are able to access amenities (which can also be achieved with variable charging for short-term and long-term use)
- pricing strategically alongside other services, for example car parking charges set so that public transport is a cost-effective option

Revenue supporting options

Building in revenue generation to public facilities can be a way of meeting some or all of the costs of visitor-related infrastructure. Partnering with the private sector creates opportunities to utilise private capital to reduce the upfront and/or ongoing costs for councils.

Using the private sector to deliver visitor-related infrastructure needs to be balanced with the long-term view of community aspirations. Private providers may not align with a longer term view.

Revenue generation options for local government	
Leasing arrangements	Leasing arrangements for cafes and other food and retail spaces in council-owned properties (recreation centres, swimming pools) is relatively commonplace. A successful tourism-related example is the Earnslaw Park toilets adjacent to the wharf at Queenstown, which has a small lettable space incorporated into the building which provides an on-going return to the Council.
Revenue generation through additional facilities	Revenue generation through additional facilities can be a way of meeting some or all of the costs of facilities. The Waipa District Council's Superloo at Cambridge, for example, has free public toilet facilities, with showers that are available for use via a token system managed by the Cambridge i-Site.
Alliance contracts	Alliance contracts are a long term contract for the delivery of a service, where the provision of the service requires the construction of a new asset, or the enhancement of an existing asset. Although not common, there are several examples of local government using alliance contracts. In 2013, Hamilton City Transportation Unit signed a 10-year alliance contract with Downer NZ to maintain roads. In 2011, The Canterbury Earthquake Recovery Authority (CERA) worked with the Christchurch City Council and NZ Transport Agency to establish an alliance to rebuild Christchurch's damaged ground level and below ground infrastructure.
Public-private partnerships	Public-private partnerships, similar to alliance contracts, leverage private sector capital, with full legal ownership of the asset retained by the local authority. PPPs are increasingly being used by the Crown, however, not commonly used by local government.
Privately managed carparks	Privately managed carparks are fairly common example of local government partnering with the private sector to develop infrastructure. Hamilton City Council has an underground carpark facility near Hamilton Gardens which is operated by a private provider (Secure Parking). Queenstown Lakes District Council (QLDC) is exploring a potential partnership to deliver parking solutions for the Queenstown Town Centre.

Diffusion

Working closely with local government to share successful practices may be one way forward on these issues. Three case studies of local councils (Deloitte 2018 report refers) show three quite different approaches to monetising tourism, suggesting there is scope for adopting a wider range of tools. To support this, central and local government could partner to develop a toolkit, or workshops, identifying the range of options, with examples and noting funding sources for upfront investments required.

New possible funding mechanisms?

We would appreciate the Productivity Commission's advice on whether additional measures are required to generate revenue from the visitor economy. There a number of options that are not currently available to local councils (or require a high degree of co-operation) that could potentially generate revenue from the visitor economy. These options (listed below) would require Government (central and local) to design and develop these charges, and create the relevant enabling legislation. As with any new charge, the full range of externalities and market impacts would need to be considered.

Local accommodation levy

A local accommodation levy or bed tax is a common form of raising revenue for local authorities from visitors (both domestic and international), particularly in Europe and North America. Some councils strongly support the introduction of this mechanism in New Zealand.

Costs to establish an IT-based collection system are likely in the low $millions, based on examples of recent IT system developments that we've identified (Ontario, Croatia). The Croatian system for example enables hotels and peer-to-peer platforms to directly connect which makes compliance easy and payment difficult to avoid. Anecdotally, compliance with local accommodation levies is sometimes mixed overseas.

Monitoring models and costs would need further exploration before committing to a bed tax, and should be considered in comparison to targeted rates across accommodation providers and/or other commercial properties (all of whom benefit from the services and infrastructure councils provide to visitors).

Local accommodation levies tend to work best in locations where there are a high number of commercial or peer-to-peer accommodation providers. They are less likely to be useful for regions with high visitor volumes but low visitor nights (i.e. day trips), a high proportion of freedom campers, or embryonic regions looking to grow as a destination. In these situations:

- The levy may not be a cost-effective way of raising revenue
- Costs of services may be imposed disproportionately on a sub-set of visitors.

In these situations more appropriate options may include commercial targeted rates, (smart) user-charges, realising commercial opportunities alongside public amenities, and/or central government support.

Case Study: Ontario Municipal Accommodation Tax (MAT)

- The Canadian province of Ontario passed legislation in 2017 to enable local municipalities to levy a MAT on short-term rentals.
- Several municipalities have since introduced a MAT or are actively exploring options for introducing one.
- Toronto (which receives around 15 million overnight visitors per annum) introduced a four-per cent MAT this year to contribute towards tourism promotion and municipal programmes and services that visitors have the ability to take advantage of when they visit Toronto.
- The Toronto MAT is estimated to collect around CAD$34.67 million, at a cost of CAD$0.57 million (around 1.6 per cent of revenue).

Specific Area Tourism Levy

Levies for specific areas require either a high degree of co-operation, or enabling legislation. They are only feasible where entry to the area is limited or controlled in some manner, and the number of such sites in New Zealand is limited.

Specific Area Tourism Levy	
Stewart Island/Rakiura Visitor Levy (legislation)	The only local levy provided for in legislation, visitors to the Island are charged by the carrier, or made by independent travellers (private yachts) on arrival. This levy is largely possible because visitors mainly enter Stewart Island through two points of entry (air, and ferry).
Environment Southland Cruise Levy (co-operation)	The levy is mutual arrangement between Environment Southland and Cruise New Zealand introduced under a Deed of Agreement through the 2001 Regional Coastal Plan. The arrangement acts as a quasi-resource consent that places environmental obligations on ships entering and transiting the Fiords (including Paterson Inlet at Stewart Island).

Venice is also introducing a day-tripper levy (an accommodation levy is already in place). However, the mechanisms for collection have still to be developed, and are likely to rely on transport operators (cruise and coach). In New Zealand, with its high proportion of Free and Independent Travellers, this type of mechanism may be less useful.

Other local revenue options are not directly linked to the visitor economy

Other options that have been raised by the tourism industry and local government may be useful in the context of supporting councils to meet their wider infrastructure and operating needs, but are not visitor-specific. It is therefore appropriate for them to be considered in light of local government's overall financial options, rather than as a tourism specific solution. These types of charges also come with a range of externalities and market impacts that would need to be considered before introduction.

Local revenue options – not visitor linked	
Road tolls	Tolling roads (new and existing) and urban road charging are commonly used overseas. New Zealand has three toll roads administered by the New Zealand Transport Agency (one in Auckland, and two in Tauranga). There are legislative limitations on tolling and charging, which requires the availability of alternative routes. Generally this form of charging is used for arterial routes or managing congestion.
Regional taxes	Regional taxes (e.g. sales or fuel) would require legislative change to enable; or changes to current levels to enable central government to collect and disburse to councils (only feasible if a single charge is set across NZ). The challenge with these types of systems is that they can be administratively complex to operate; and there is a risk of price spreading (where costs for a local charge are absorbed nationally), or people purchasing goods outside of the zone to avoid the charge.

Conclusion

We believe that achieving a sustainable funding package for our tourism system requires local government revenue solutions to support local communities. Developing revenue solutions for local government requires careful consideration to ensure that those who are benefiting are making appropriate contributions. Local councils require tailored solutions to fit their particular circumstances.

A sustainable funding package that includes local revenue solutions that adjust with visitor demand, alongside central government tools (such as the IVL, TIF and PGF), creates an opportunity to substantively change the face of tourism: to create systemic solutions to challenges of mixed-use infrastructure provision; to protect and enhance biodiversity and our landscapes; and to realise the economic and social opportunities that tourism offers.