

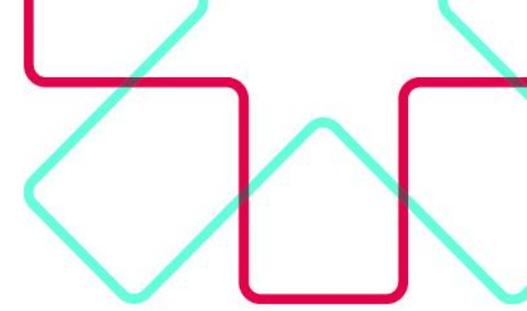
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SUSTAINING TOURISM GROWTH IN QUEENSTOWN

Final Report

March 2018





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PREFACE

This report has been prepared for Queenstown Lakes District Council by Nick Carlaw, Mette Mikkelsen, Jason Leung-Wai, Nick Hunn and Nick Davis from MartinJenkins (Martin, Jenkins & Associates Limited).

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The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise. We reserve the right, but will be under no obligation, to review or amend this Report if any additional information, which was in existence on the date of this Report, was not brought to our attention, or subsequently comes to light.

Document history

- Draft version 1: feedback from Queenstown Lakes District Council and Ministry of Business, Innovation and Employment on the Strategic Case.
- Draft version 2: feedback from Queenstown Lakes District Council and Treasury and Ministry of Business, Innovation and Employment on the Strategic, Economic and Financial Cases.



EXECUTIVE SUMMARY

While strong tourism growth has benefited Queenstown, it has also led to serious capacity constraints and infrastructure pressures, which risk compromising the international visitor experience, constraining future growth, and negatively impacting New Zealand's tourism industry.

Queenstown faces a disproportionately high international tourist load relative to its population compared to other tourist centres in New Zealand, and this is projected to worsen.

Infrastructure investment is needed to maintain Queenstown's international visitor experience and sustain tourism growth. However, significant disparity exists between the residents and local businesses who currently fund Queenstown's infrastructure and the international visitors who benefit from it.

Queenstown Lakes District Council (QLDC) has taken important steps to address these challenges, but it cannot fund the level of investment required without compromising other levels of service. Infrastructure pressures exist across the whole QLDC district (including Wanaka, Arrowtown, Glenorchy, Makarora, Hawea, Luggate and Cardrona) but this business case focuses on the needs of Queenstown itself. The neighbouring areas are reliant on the success of Queenstown and this is where the pressures on infrastructure from international visitors are most acute.

An investment in maintaining Queenstown's international visitor experience and sustaining tourism growth would buy significant regional and national economic benefits. International visitors who come to New Zealand

because of Queenstown¹ spend \$157–\$254 million per annum in the rest of the South Island (excluding Queenstown). This spending generates \$988 million–\$1.10 billion to the South Island's GDP, and 9,600–11,600 jobs in the South Island.

If an international tourist visits Queenstown, their spending in the rest of the South Island is more than three times higher than if that tourist had not visited Queenstown.

New Zealand as a whole also benefits from the Queenstown visitor experience. Visitors who come to New Zealand because of Queenstown spend a total of \$1.44–\$1.74 billion per annum nationally. This spending contributes \$1.3–\$1.6 billion to New Zealand's overall GDP and 13,700–17,000 jobs nationally.

If Queenstown isn't able to maintain its international visitor experience and sustain tourism growth, these regional and national economic benefits could be lost. Queenstown's position as New Zealand's most popular tourist destination (after Auckland), and the strong association between the Queenstown and New Zealand brands also means that New Zealand's tourism brand could be damaged from a diminished Queenstown experience.

To address Queenstown's challenges and retain the regional and national benefits generated by international tourists who come to New Zealand because of Queenstown, QLDC is seeking Crown investment spread over 5 years for activities that will enhance or maintain Queenstown's

¹ We have identified and focused on international tourists who come to New Zealand primarily because of Queenstown, as expenditure by this group can be attributed to the Queenstown tourism proposition.

Determining spending by this cohort allows us to analyse the economic impact on the South Island and New Zealand economies if the Queenstown visitor experience was significantly diminished.



international visitor experience. This business case does not request assistance for infrastructure related to resident or domestic visitor demand.

To determine the effects of a potential Crown investment, we assessed three investment scenarios for Queenstown – the ‘eroded’ scenario (which required no Crown investment), the ‘sustained’ scenario (requiring \$278 million in Crown investment over 5 years) and the ‘enhanced’ scenario (requiring \$330 million in Crown investment over 5 years).

Each scenario had a different impact on the quality of international tourism experience, resulting in different volumes and mixes of international visitors, and, ultimately, levels of international tourism expenditure. In turn, these different levels of tourism expenditure result in various impacts on local, regional and national GDP, employment and GST.

The ‘sustained’ scenario, requiring \$278 million in Crown investment over 5 years, is determined to be the preferred way forward, because it best meets the Business Case’s investment objectives and critical success factors.

The ‘sustained’ scenario would maintain Queenstown’s visitor experience and underpin further growth in international visitors, and would provide a more proportionate balance between the residents and local businesses who fund the majority of tourism-related infrastructure, and the international tourists who benefit from it.



INTRODUCTION

Background

Sitting at the edge of glacial Lake Wakatipu, framed by the jagged mountain peaks of the Remarkables, Queenstown's dramatic scenery is unrivalled. Queenstown is considered by many to be the 'Crown Jewel' of New Zealand's tourism industry, and central to national tourism success.

Queenstown's strong tourism growth has led to serious infrastructure pressures, which risk compromising the international visitor experience, constraining future growth, and negatively impacting New Zealand's tourism industry.

There is significant disparity between those who fund Queenstown's infrastructure and those who benefit from it. At capacity, Queenstown Lakes has one local resident per 34 international visitors. This means that a very small cohort of Queenstown residents and local businesses are currently funding the infrastructure needs of 34 times its population.

Queenstown's ratio of residents-to-international visitors is unparalleled amongst New Zealand's main tourist centres. Looking ahead, the number of international visitors is expected to nearly triple in the next 10 years.²

While infrastructure investment is needed to maintain the international visitor experience and sustain tourism growth, Queenstown Lakes District Council

(QLDC) lacks the financial capacity to fund and underwrite the investment required.

The Minister of Tourism has emphasised the importance of ensuring that New Zealand's iconic visitor regions are not neglected, that the quality of experiences are maintained, and that New Zealand's reputation as an international destination is protected.³

This Business Case seeks Crown funding spread over 5 years to support international tourist-related infrastructure in order to maintain the international visitor experience and sustain tourism growth.

Buying this infrastructure will bring significant benefit to the regional and national economies. Maintaining Queenstown's visitor experience is a major driver of regional growth – a vibrant Queenstown will develop and sustain a healthy South Island. Increasing tourism in New Zealand's regions is very much in line with the Government's priorities for the tourism sector.⁴

If an international tourist visits Queenstown, spending in the rest of the South Island is more than three times higher than if that tourist had not visited Queenstown.

Visitors who come to New Zealand because of Queenstown spend \$157–\$254 million per annum in the rest of the South Island.⁵ This spending generates \$988 million–\$1.10 billion to the South Island's GDP, and 9,600–11,600 jobs in the South Island.⁶

² Queenstown Lakes District Council Town Centre Master Plan, p 4–5.

³ Hon Kelvin Davis' speech to the Tourism Summit Aotearoa, 14 November 2017
<https://www.beehive.govt.nz/speech/speech-tourism-summit-aotearoa> (accessed 21/11/2017).

⁴ *Ibid.*

⁵ Per year, not including Queenstown.

⁶ Per year, not including Queenstown.



From a national perspective, these same visitors spend a total of \$1.44–\$1.74 billion per annum in New Zealand. This spending generates \$1.3–\$1.6 billion to New Zealand’s overall GDP and generates 13,700–17,000 jobs in New Zealand as a whole.

These regional and national economic benefits will be compromised if Queenstown isn’t able to maintain the international visitor experience and sustain tourism growth.

To address these challenges, QLDC has pursued a number of initiatives, such as setting up a mayoral taskforce to tackle housing unaffordability, selling off its land assets, and investing in improving and lowering the costs of its public transport system. However, with the current rates of 1 Queenstown resident funding the infrastructure needs of 34 international visitors, QLDC can no longer face these challenges alone.



What this Business Case seeks to do

Our overall goal

This Business Case:

- seeks **additional short-term funding for tourism-related infrastructure investment** to maintain Queenstown's international visitor experience and sustain tourism growth, and
- considers **funding mechanisms** to achieve this additional investment.

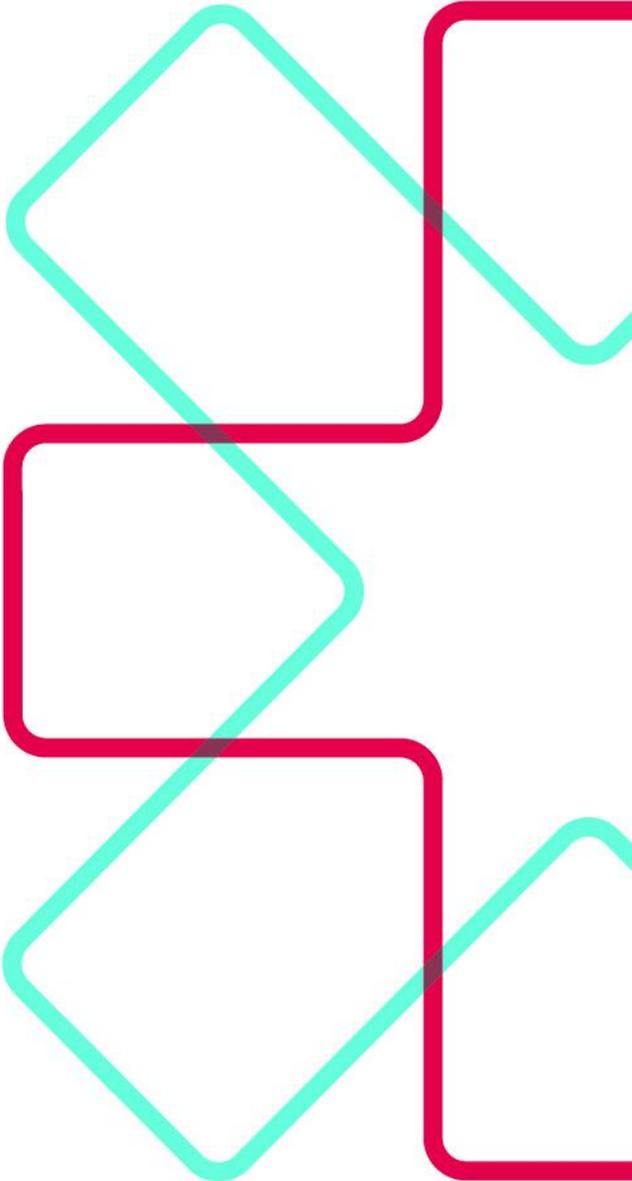
How we will go about it

This Business Case sets out the Strategic, Economic and Financial Case for investment by:

- demonstrating that Queenstown provides **significant economic benefits to New Zealand**, distributed across the local, South Island and national economies
- describing how to **more equitably distribute the economic benefits, costs and risks** across the local, South Island and national economies
- determining **the short-term infrastructure investments** required to sustain tourism growth across three scenarios, taking into account the scale, pace and quality of investments
- analysing the **costs and risks of each investment scenario**, including council debt levels, borrowing costs, rates and other revenues, private industry investment, and implications for the Crown.



PART ONE: STRATEGIC CASE



BACKGROUND

Structure

The structure of the Strategic Case is outlined in Figure 1.

Figure 1: Strategic Case structure

	WHAT	FOCUS
1	Queenstown today	What is the situation in Queenstown today? How does the Queenstown visitor experience benefit the South Island and New Zealand?
2	A negative experience	What would happen if Queenstown isn't able to maintain the international visitor experience?
3	Challenges	What are the main infrastructure- and tourist related challenges facing Queenstown?
4	Impacts and benefits	What are the impacts and benefits to the South Island and New Zealand from investing in Queenstown?
5	Changes required	What might a future Queenstown look like under three different investment scenarios?

⁷ Including Arrowtown, Frankton, Glenorchy, Hāwea, Lake Hayes, Matukituki, Queenstown Bay, Queenstown Hill, Sunshine Bay, Kelvin Heights, and Coronet Peak and the Remarkables Ski Area.

Scope

The scope of this business case was set by a terms of reference agreed between QLDC and the Ministry of Business, Innovation and Employment (MBIE). Its focus is on the international visitor – as distinct from domestic visitors and residents. The terms of reference is replicated in Appendix 2.

Geographic scope

For the purposes of this Business Case:

- 'Queenstown' is defined as Queenstown town centre and the Wakatipu Basin,⁷ but does not include the Upper Clutha area (see Figure 2).
- 'The region' is defined as the entire South Island.
- 'National' refers to the whole of New Zealand.

Time period

A distinction is made between these time periods:

- **short-term**, covering Years 1–5 (2018/19–2022/23)
- **long-term**, which will cover Years 1–10 (2018/19–2027/28) and is aligned to local government's long term planning cycle.

The business case references other planning documents that have a longer term planning horizon, up to 2045. This includes Queenstown Airport's Masterplan and the investment horizon of the Queenstown Integrated Transport Strategy, which is a joint venture QLDC, the New Zealand Transport Authority (NZTA) and Otago Regional Council (ORC).⁸

⁸ NZTA: Queenstown Integrated Transport Programme Business Case, 16 June 2017. For more information see Appendix 3, 'Strategies, plans and players Shaping Queenstown's Future'.



Figure 2: Queenstown geographic scope



Investment scope

This Business Case identifies the immediate investment in infrastructure required to maintain Queenstown’s international visitor experience and sustain tourism growth.⁹ This investment spans key sectors, including transport, town centre, three waters, housing, and environment.

There is significant in-flight and planned investment underway that will impact on the international visitor experience. This includes:

- **Queenstown Lakes District Council’s 2018–2028 Long Term Plan (LTP)**, incorporating the Infrastructure Strategy 2015–2045 and the Town Centre Masterplan Programme Business Case
- the **Queenstown Integrated Transport Strategy** Programme Business Case
- **private industry**, including hotels, housing and ski field development, the Skyline Queenstown gondola, and Queenstown Airport.

This Business Case supplements the LTP to sustain tourism growth and related economic opportunities in the Queenstown Lakes and surrounding areas. This LTP is currently being developed by QLDC.

The roles and responsibilities of key stakeholders in funding the various investments is also considered – eg QLDC, ORC, central government, private industry, and visitors.

As to the benefits of the investment, this Business Case focuses on the economic benefits of maintaining the international visitor experience and underpinning further tourism growth to Queenstown, and the derived local, South Island and national economic and employment benefits.

⁹ Throughout this business case, we use the term ‘sustain tourism growth’ as short-hand for achieving continued growth in international visitors to Queenstown, in a way that is achievable and affordable for

the community, provides a great visitor experience and realises benefits for the district, the South Island and New Zealand.



Comparator towns and cities

A set of comparator towns is used throughout this Business Case to put Queenstown's situation into perspective (see Table 1).

Table 1: Relevant factors for selecting comparator towns

Comparator town	Relevant factors
Auckland	New Zealand's largest city, with certain characteristics similar to Queenstown (eg, median wage-to-house price ratio)
Christchurch	Same number of international visitors as Queenstown
New Plymouth	Resident population size similar to Queenstown-Lakes' daily population (visitors and residents)
Dunedin	Current resident population equal to Queenstown's projected population in 2031
Rotorua	Another top New Zealand tourist destination town, with double the number of residents
Nelson	Tourist town with slightly more residents than Queenstown
Taupō	Tourist town with a resident population similar to Queenstown and a similar profile (scenery, adventure tourism)

In a number of cases, data limitations mean comparisons are made at a territorial authority-boundary level, as opposed to a town or city level. Where the business case refers to Queenstown, it is meaning the Wakatipu Basin area shown in Figure 2. Where references are made to Queenstown Lakes District, the business case is referring to the larger area within the territorial boundary.



Data

The analysis in this Business Case is based on the following data sources:

- **MBIE:** Monthly Regional Tourism Estimates, International Visitor Survey, Commercial Accommodation Monitor
- **Statistics New Zealand:** Accommodation Survey, Sub-national population estimates, Tourism Satellite Account, International Travel and Migration statistics
- **Rationale Consulting Ltd:** Queenstown Lakes District/sub-district resident and visitor population estimates and projections.¹⁰ The projections are produced for QLDC and inform the council's District Plan and LTP.
- **Marketview:** customised dataset produced for this Business Case to identify spending patterns by international credit cards in regions throughout New Zealand.¹¹ MBIE uses data provided by Marketview in part to calculate Regional Tourism Estimates expenditure.
- **Queenstown Airport:** passenger and aircraft movement data and projections
- **Butcher Partners:** regional and national GDP and employment multipliers derived from National Accounts Input-Output tables, used to undertake economic impact analysis in this Business Case.

Other data is sourced from publically available information and the source is referenced in the Business Case.

Methodology used will be interspersed throughout the Strategic, Economic and Financial Cases.

¹⁰ Rationale Consulting Ltd: QLDC Growth Projections to 2058, 25 May 2017; and Excel spreadsheet 2017 Final QLDC Growth Projections.

¹¹ Marketview data includes transactions from 75% of all NZ EFTPOS terminals in New Zealand and excludes online credit card transactions. We have discussed with Marketview their data collection methodology and

data limitations. We have confirmed the soundness of the dataset, including comparing it to MBIE's Regional Tourism Estimates and commercial accommodation monitor.



HOW DID WE GET HERE?

Queenstown has been a base for different generations of pioneers throughout its economic history – explorers, farmers, gold prospectors, and adventurous domestic travellers. There were boom cycles but it was essentially a small town with fewer than a thousand people for the first half of the twentieth century,¹² Queenstown has now grown into a premier international tourism destination with 1.17 million international visitors in 2016¹³ and 14,000 flights landing in Queenstown every year. The number of flights is projected to rise to 55,000 by 2045.¹⁴

Figure 3: Queenstown in 1878



Following the discovery of gold in 1862, Queenstown made its name as a gold mining town. As gold fever waned, so too did Queenstown.

In the early 1980s, Queenstown had 3,500 residents, with a trickle of holidaymakers passing through in the summer. Then tourism, and in particular international tourism, took hold.

¹² Te Āra, The Encyclopaedia of New Zealand, <https://www.teara.govt.nz/en/otago-places/page-18> (accessed September 25 2017).

¹³ Destination Queenstown brochure.

Today, Queenstown Lakes is the fastest growing district in New Zealand. The population has tripled since the early eighties. At capacity, Queenstown Lakes has one local resident per 34 international visitors. Forecasts predict that domestic visitors will double and international visitors will nearly triple in the next 10 years.¹⁵

In the 1970s and 1980s, Queenstown for the first time faced infrastructure pressures. To address this, the Crown granted land from the conservation estate for the Council to sell to raise funds for investment. Since then, QLDC has progressively sold off parcels of this, and other land to private investors, with the final tracts going to market in 2018.

Figure 4: Queenstown in 1960



¹⁴ Queenstown Airport Master Plan, p 13.

¹⁵ Queenstown Lakes District Council Town Centre Master Plan, p 4–5.



In recent years, international investors have been purchasing land in Queenstown and the surrounding region in what has been coined ‘a new gold rush’.¹⁶ A number of locally based tourism and ‘tourism-tech’ companies have expanded and now export their products and services internationally.

Historically, Queenstown’s growth has been developer-led. However, in the past few years the QLDC has claimed a bigger role for itself in directing Queenstown’s development. As a result, Queenstown today is increasingly planning-led, with a Council that is responding to growth pressures in a more deliberate and future-focused way.¹⁷

Tourism in Queenstown has a strong social licence from the QLDC, private industry and the local community, which all depend on it. However, as Queenstown continues its transition from a town to a growing city, it must ensure that tourism growth is sustainable and has buy-in from the local community. Queenstown needs to continue to attract high-quality visitors, to protect its pristine natural environment, and to address its creaking infrastructure.

Figure 5: Queenstown today



¹⁶ NZ Herald, ‘Who owns Queenstown? A new gold rush is on’, 5 March 2017, http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11812152 (accessed 17 October 2017).

¹⁷ Local Government New Zealand, Queenstown Lakes District Council Independent Assessment Report July 2017, p. 2 <http://www.lgnz.co.nz/assets/CouncilReports/CouncilMARK-Assessment-Report-Queenstown-Lakes-District-Council-2017-FINAL.pdf>



QUEENSTOWN TODAY

This section outlines Queenstown's situation today, making the case for Queenstown in four key areas:



Queenstown is synonymous with New Zealand's international tourism brand



Queenstown is New Zealand's most popular international tourist destination



A vibrant Queenstown will develop and sustain a healthy South Island



New Zealand benefits from the Queenstown visitor experience





Synonymous with New Zealand's international tourism brand

Queenstown is synonymous with New Zealand's international tourism brand. With its mountains, lake and pristine natural environment, Queenstown offers what international visitors consider the quintessential New Zealand experience.

Lonely Planet lists Queenstown as the top tourist destination in New Zealand, with Milford Sound, which Queenstown provides a gateway to, at number three (see Figure 6).

In listing the top destinations in New Zealand, the international travel website TripAdvisor places Queenstown at the coveted top spot.¹⁸ As a user-generated website, TripAdvisor's ranking confirms the attractiveness of Queenstown for international tourists (see Figure 7).

On a global scale, Queenstown punches above its weight. In 2013 and 2015, TripAdvisor named Queenstown one of the world's top tourist destinations.¹⁹ Queenstown is also a part of the Mountain Collective, an exclusive grouping of 12 of the best ski resorts in the world.²⁰

Queenstown offers one of the most unique and beautiful natural environments in New Zealand, coupled with its reputation as a safe, friendly place. These factors top the list when international tourists are asked what parts of their visit they were most satisfied with, with 45% of international visitors stating that New Zealand's 'spectacular landscapes and natural scenery' was a factor in stimulating their interest in visiting.²¹

Figure 6: Lonely Planet's 'Top experiences in New Zealand'



Queenstown's drawcards are reflected in Tourism New Zealand's research of the top reasons why an international visitor chooses New Zealand over other holiday destinations, namely: spectacular landscapes and scenery, the broad range of outdoor and adventure activities, and unique experiences.

¹⁸ TripAdvisor website <https://www.tripadvisor.co.nz/TravelersChoice-Destinations-cTop-q255104> (accessed 1 October 2017).

¹⁹ CNN TripAdvisor's picks: World's top 25 destinations 25 March 2015, <http://edition.cnn.com/travel/gallery/tripadvisor-top-world-destinations-2015/index.html> Accessed 12/10/2017 (accessed 1 October 2017).

²⁰ <https://mountaincollective.com/> (accessed 1 October 2017).

²¹ <http://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/tourism-insight-series/visitor-experience-report.pdf> (accessed 1 October 2017).



Figure 7: TripAdvisor – Queenstown is the top New Zealand destination



According to NZTE, ‘Queenstown is widely regarded as New Zealand’s premier tourist destination offering a unique “dual season” proposition that offers a wide range of high quality summer and winter experiences.’²²

Central government frequently uses Queenstown to showcase New Zealand – for example, at the November 2017 Asia-Pacific Economic Cooperation Leaders’ Meeting and the 2017 Commonwealth Heads of Government Meeting.

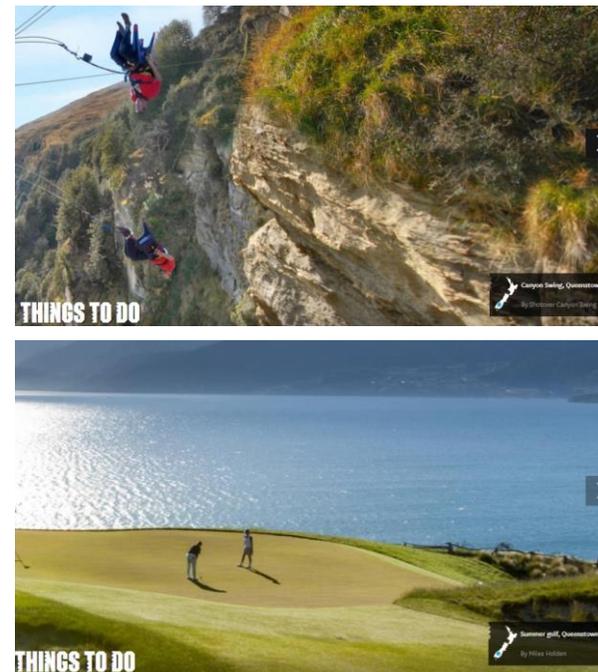
New Zealand brands itself under the ‘100% Pure’ campaign, which tells the story of how the country’s unique combination of landscapes, people and

²² New Zealand Trade and Enterprise, Project Palace report, My 2016, p 101, [Link](#)

²³ Tourism New Zealand <http://www.tourismnewzealand.com/about/what-we-do/campaign-and-activity/> (accessed 13 October 2017)

activities cannot be found anywhere else in the world.²³ Queenstown features heavily on the 100% Pure website, making up one-third of the recommended ‘Things to Do’ (see Figure 8)²⁴ and featuring in 80% of the ‘Recommended trips’.²⁵

Figure 8: Queenstown makes up one-third of ‘Things to do’ on the 100% Pure website



²⁴ New Zealand website <https://www.newzealand.com/int/things-to-do/> (accessed 13 October 2017)

²⁵ <https://www.newzealand.com/int/trips-and-driving-itineraries/top-nz-trips/> (accessed 13 October 2017)



New Zealand's most popular tourist destination

Queenstown is especially attractive to international visitors

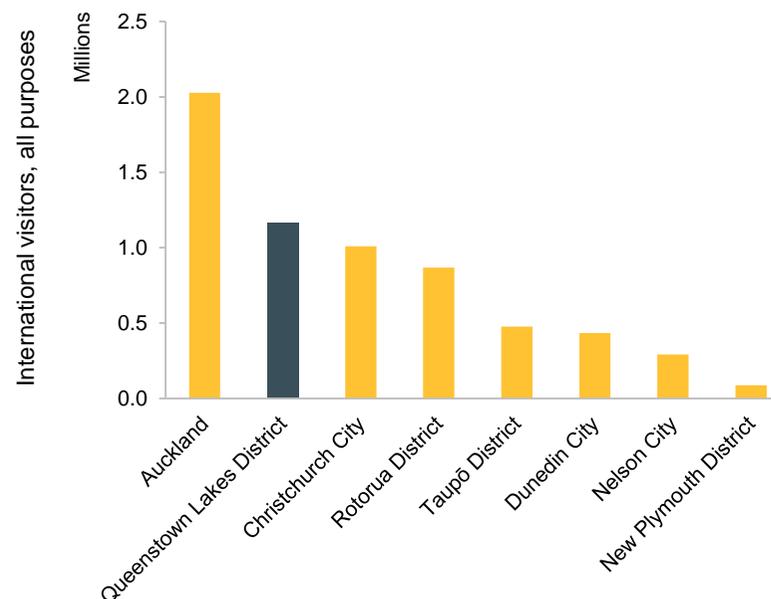
Queenstown Lakes is New Zealand's most popular international tourist destination, not counting Auckland. While Auckland has approximately double the number of international visitors as Queenstown Lakes, a significant number of those visitors visit Auckland for business or to see friends and family.²⁶

Among New Zealand's main tourist centres, Queenstown has an unparalleled ratio of international tourists-to-residents. In 2016 alone, Queenstown Lakes hosted 1.17 million international visitors (see Figure 9). This is slightly more than the number of international tourists who visited Christchurch, which has 10 times Queenstown Lakes' population.

With only 34,700 residents, Queenstown Lakes has 34 international visitors annually for every resident, far higher than larger cities such as Auckland (1:1) and Christchurch (3:1) (see Figure 10).

Queenstown Lakes has 34 international visitors for every resident

Figure 9: International visitors, YE June 2017



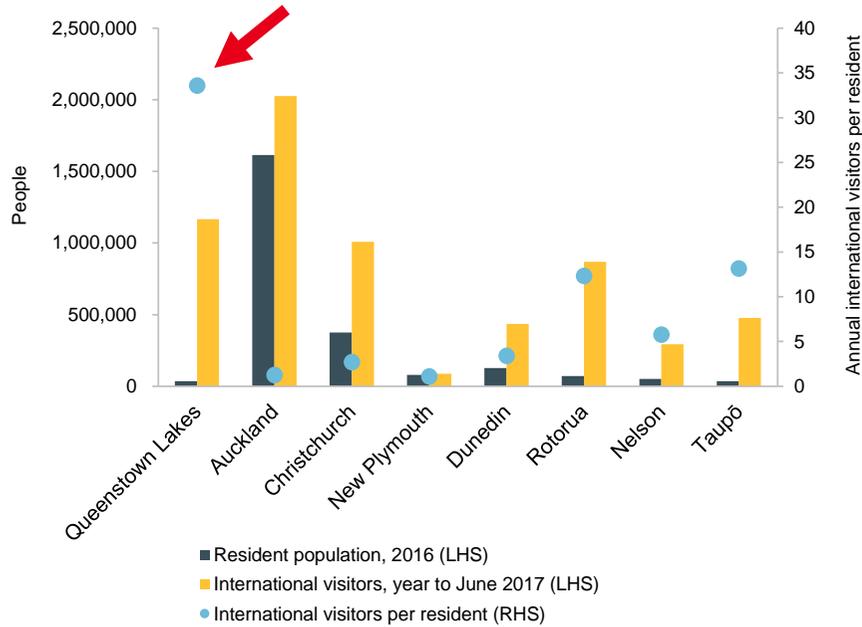
Taupō, with its beautiful scenery and adventure tourism, has a similar profile to Queenstown Lakes and also a similar population, but it attracted fewer than half the international visitors that Queenstown Lakes did. Taupō also had a much lower ratio of residents to international visitors, at 1:13 (see Figure 10).

Rotorua frequently appears alongside Queenstown on lists of top New Zealand tourism destinations, but it has twice the number of residents and yet receives 25% fewer international visitors.

²⁶ Sapere, New ways of supporting growth in tourism in an iconic destination, July 2016

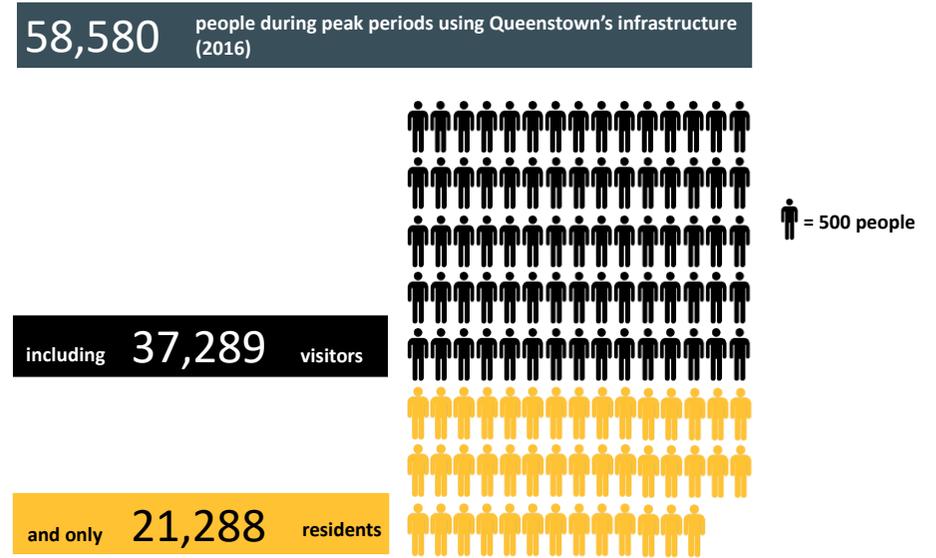


Figure 10: Ratio of residents to international visitors



Within the Queenstown Lakes district, Queenstown is the primary driver of the high ratio of international visitors to residents. At peak times, 58,580 people are using Queenstown’s infrastructure, of which only 21,288 are residents (see Figure 11). In the year ending August 2017, Queenstown accounted for one in every ten guest nights (11%) spent by international tourists in New Zealand.²⁷

Figure 11: Queenstown’s peak visitor-to-resident ratio (2016)²⁸



One in every ten international guest nights spent in New Zealand is spent in Queenstown

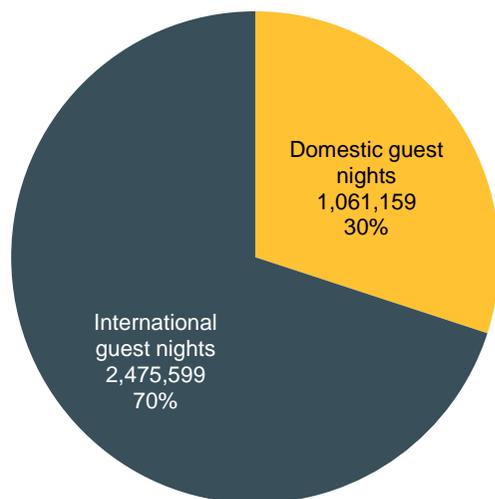
²⁷ Commercial Accommodation Monitor data.

²⁸ Based on Rationale LTD’s population estimate.



International visitors make up 70% of Queenstown's guest nights (2,475,599 million) (see Figure 12). This is relevant, because spending by international visitors represents a net injection of income into the economy.

Figure 12: Domestic-to-international guest night ratio, Queenstown Regional Tourism Organisation, YE August 2017²⁹



Record hotel occupancy rates in recent years show that Queenstown is becoming an all-season destination with strong demand year round, and that demand in the low season is also growing.³⁰

Demand for hotel rooms in Queenstown is growing at a much faster rate than supply.³¹ NZTE estimates that 1,700 additional hotel rooms will be required in Queenstown by 2025. While a growth of 1,364 is expected, this still leaves a shortfall of 336 rooms based on the current pipeline of investment.³²

According to QLDC, 240 hotel rooms are currently under construction, 588 are consented with construction not yet started, and 2,000 are going through the consents process.

Demand for hotel rooms in Queenstown is growing at a much faster rate than supply

In the longer term a higher proportion of visitors are projected to stay in commercial accommodation, which is likely to be driven by an increase in international visitor numbers.

MBIE has estimated that a total of 5.4 million guest nights were spent in Queenstown in 2011. This figure encompasses both commercial and non-commercial accommodation (newer statistics only include commercial accommodations figures). In the 2011 numbers (ie the older numbers encompassing both commercial and non-commercial accommodation figures) 3 million guest nights were spent in commercial accommodation and 2.4 million were spent in non-commercial.³³

²⁹ Commercial Accommodation Monitor, Statistics New Zealand.

³⁰ NZTE Project Palace report, p 101, <https://www.nzte.govt.nz/about/news/news-and-features/-/media/01339B01B28943788C2D92F51BEEA48D.ashx> (accessed 11 October 2017).

³¹ Ibid. p. 3.

³² Ibid. p. 9.

³³ 2011 is the most recent year available for MBIE figures encompassing both commercial and non-commercial accommodation guest nights. Newer data from MBIE only shows commercial accommodation guest nights. Airbnb publishes its own figures.



While newer MBIE statistics only show commercial accommodation data, the discrepancy between the 2011 figure and the growth in Airbnb accommodation since then means that the total number of visitors may be at least 40% higher than current (commercial accommodation) figures suggests.³⁴

According to Airbnb and Infometrics data, the popularity of Airbnb is increasing in Queenstown. In the year ending March 2017, estimates show that just under 1,000,000 Airbnb guest nights were spent in New Zealand, of which Airbnb claims that 200,000 were in Queenstown-Lakes.³⁵

Twenty percent of the top New Zealand Airbnb rentals are located in Queenstown.³⁶

According to Airbnb, 10% of the entire Queenstown-Lakes dwelling stock is listed on the site

Airbnb now accounts for 19% of Queenstown-Lakes' visitor accommodation (measured by rental units).³⁷

Airbnb claims 2,000 listings are located in Queenstown-Lakes. This number is extraordinary given that there are only around 20,000 dwellings in the district, which means that around 10% of the entire Queenstown-Lakes

dwelling stock is listed on the site (this includes private or shared rooms or an entire house).³⁸

³⁴ 2,475,599 million commercial accommodation nights in the YE August 2017.

³⁵ <http://www.infometrics.co.nz/390000-airbnb-guest-nights-auckland-180000-queenstown/> (accessed 25 October 2017).

³⁶ Stuff.co.nz, The 10 most wanted Airbnbs in New Zealand <https://www.stuff.co.nz/travel/kiwi-traveller/96527124/the-10-most-wanted-airbnbs-in-new-zealand> (accessed 25 October 2017).

³⁷ <https://www.newsroom.co.nz/2017/10/29/56720/queenstowns-1b-wishlist-council-seeks-govt-help>

³⁸ <http://www.infometrics.co.nz/390000-airbnb-guest-nights-auckland-180000-queenstown/> (accessed 25 October 2017).

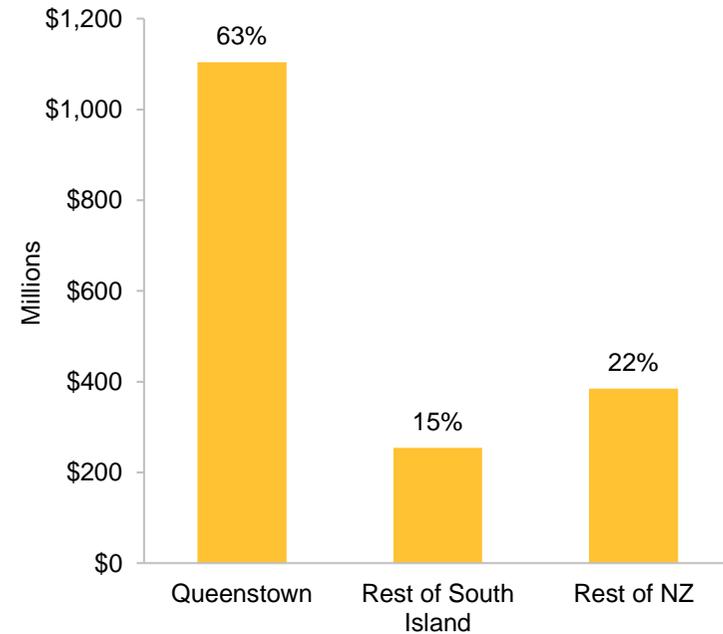


Credit card data shows that international tourists are coming to New Zealand because of Queenstown

Higher spending tourists are attracted to Queenstown, but also visit other areas. An analysis of international visitor credit card spending patterns shows that international tourists are coming to New Zealand because of Queenstown.³⁹

- 24% of international visitors who used a credit card in New Zealand had a transaction in Queenstown, indicating that they most likely visited the area.
- Of these international visitors, about half spent more than 40–50% of their total NZ credit card spend in Queenstown.
- International visitors who spent more than 40–50% of their total NZ credit card spend in Queenstown spent a total of \$1.44–1.74 billion per annum in New Zealand (see Figure 13).
 - Of that overall NZ spend, about \$988 million to \$1.10 billion (63–69%) was spent in Queenstown.
 - About \$157–\$254 million (11–15%) was spent in the rest of the South Island.
 - \$292–\$384 million (20–22%) was spent in the North Island.

Figure 13: Location of spending by overseas visitors who spent at least 40% of their total NZ credit card spend in Queenstown, YE August 2017⁴⁰



³⁹ This Business Case assumes that those visitors who spent at least 40–50% of their total NZ credit card spend in Queenstown came to New Zealand specifically because of Queenstown.

⁴⁰ MartinJenkins calculations based on Marketview credit card data and MBIE Monthly Regional Tourism Estimates.



The number of passengers flying through Queenstown Airport is growing

Queenstown Airport is the third busiest international airport in New Zealand.⁴¹ This is despite Queenstown making up less than 1% of New Zealand's population.⁴²

In the year to December 2017, the total number of passenger movements⁴³ increased to 2 million. 28% of these were international passengers (ie landing from overseas) and 72% were domestic passengers (which also includes international passengers landing from other New Zealand towns and cities such as Auckland).

The make-up of international passengers passing through the airport also differs from other ports in New Zealand. For example, Queenstown Airport has a higher proportion of international passengers who are Australian (67% vs the nationwide figure of 21%), under 35 years old (49% vs 39%), and on holiday versus visiting friends and family (90% vs 80%).⁴⁴

Queenstown Airport is the 3rd busiest international airport in New Zealand, despite Queenstown having less than 1% of NZ's population

International visitor spend is high compared to the rest of New Zealand

Spending by international tourists made up 67% of total tourist spending in the Queenstown Lakes District, compared to the national average of 43%, for the year to August 2017 (see Figure 14).

The share of international tourist spending compared to domestic tourist spending is considerably higher in Queenstown-Lakes than in Auckland (54%) and in other notable tourist destinations such as Rotorua (48%), Nelson (36%) and Taupō (35%) (see Figure 15).

International tourists spend considerably more in Queenstown than domestic tourists. In the year ending August 2017, international visitors contributed \$11.75 billion to the New Zealand economy.

The vast majority of international visitors come from Australia, followed by visitors from the United States, China and the United Kingdom. Certain tourist markets are especially attracted to Queenstown. For example, growth in Chinese visitor numbers is predicted to be 12.6% per year over the next decade.⁴⁵

Based on an analysis of international credit card spend in New Zealand, it is possible to track how much was spent in the South Island and in New Zealand as a whole by international tourists who visited Queenstown. International visitors spent \$1.49 billion per annum in the Queenstown economy in the year ending August 2017, which constitutes about 12.7% of total international visitor spend.

⁴¹ Queenstown Airport Master Plan and QLDC.

⁴² Stats New Zealand 2013 census http://www.stats.govt.nz/Census/2013-census/profile-and-summary-reports/quickstats-about-a-place.aspx?request_value=15000&tabname (accessed 11 October 2017).

⁴³ Passenger movements count both arrivals and departures – ie, 1 passenger is counted as 2 movements – their arrival and then their departure.

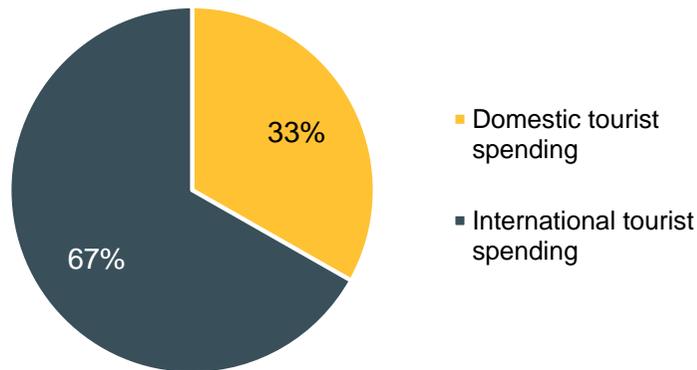
⁴⁴ Queenstown Airport Master Plan <http://www.queenstownairport.co.nz/assets/documents/International-Pax-Profile-to-July-2017.pdf> and QLDC.

⁴⁵ NZTE Project Palace report p 101 <https://www.nzte.govt.nz/about/news/news-and-features/-/media/01339B01B28943788C2D92F51BEEA48D.ashx> (accessed 11 October, 2017)



These visitors spent a further \$3.31 billion per annum in other parts of New Zealand. Of this about \$1.59 billion was in the rest of the South Island and \$1.72 billion was in the North Island.

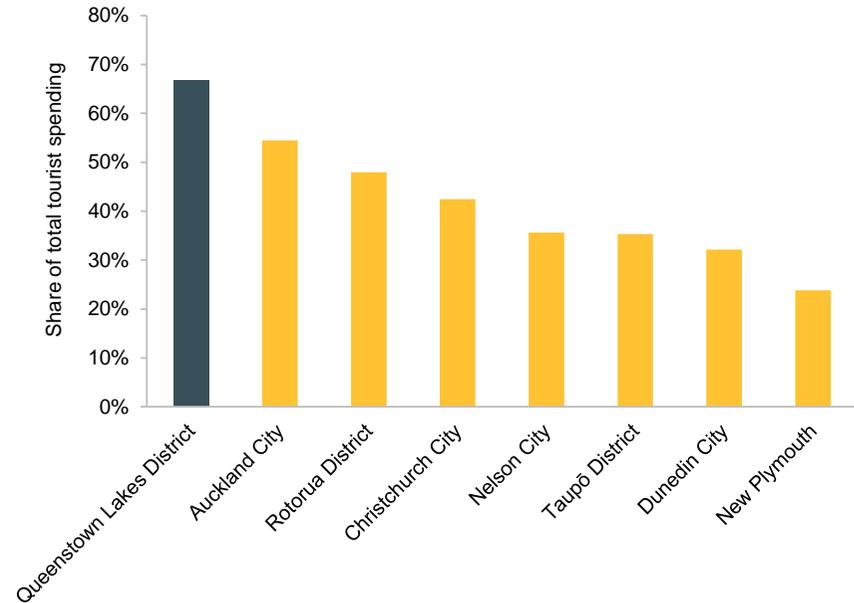
Figure 14: Queenstown-Lakes’ international versus domestic tourist spending, 2017⁴⁶



Queenstown’s international tourism spend as a share of total tourism spend is one of the highest in New Zealand

⁴⁶ Regional Tourism Estimates, MBIE.

Figure 15: International tourism spend as share of total tourism spending, year ending August 2017⁴⁷

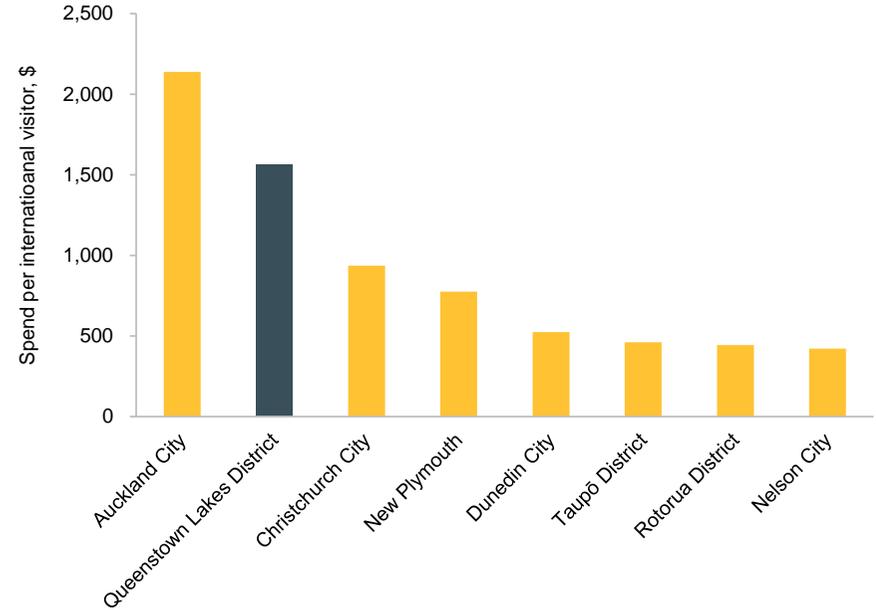


Spending per international visitor is markedly higher for international visitors to Queenstown than other key tourist towns such as Taupō, Nelson and Rotorua (see Figure 16). While the figure for Christchurch is also high, it includes a higher proportion of rental car expenditure compared to Queenstown and the other towns.

⁴⁷ Monthly Regional Tourism Estimates (MRTE), MBIE.



Figure 16: Spend per international visitor, YE August 2017⁴⁸



This gap in per-transaction spending increases further when you compare those who spend more than 90% of their total NZ credit card spend in Queenstown (an average of \$130 per credit card transaction) with those who don't visit Queenstown at all (an average of \$95 per transaction).

International visitors who spend a high proportion of their total New Zealand credit card spend in Queenstown also spend more per transaction than those who spend less money in Queenstown.

International visitors who spend more than 50% of their total credit card spend in Queenstown spend an average of approximately \$105 per credit card transaction, whereas international visitors who spend 50% or less in Queenstown spend an average of approximately \$90 per transaction.

⁴⁸ Monthly Regional Tourism Estimates (MRTE), MBIE.



Queenstown is lifting New Zealand's luxury tourism and average tourism spend

Queenstown is playing an important part in attracting visitors to New Zealand with highly valued attributes such as spend, seasonal pattern and regional dispersal, and delivering greater overall economic benefit.

A number of high net worth individuals are choosing to base themselves in Queenstown – which is the most popular destination for investor migrants in the South Island.⁴⁹ According to QLDC, there are currently 24 investor migrants living in QLDC, up from 9 in 2015.⁵⁰

These individuals have backgrounds and international networks in key industries including ICT/digital, healthcare and tourism. MBIE report that those investor migrants typically continue to operate their businesses from Queenstown and often contribute to the region's economy in a variety of ways.

While there is no definitive research on investor migrants' decisions to purchase a home in New Zealand, it is understood these migrants would typically gain familiarity with the country by first visiting as a tourist, often to Queenstown and the surrounding area.

The attractiveness of Queenstown for international high net worth individuals is supported by the fact that in the year to September 2017 approximately 240 private jets flew through Queenstown – only 90 less than the 350 private jets that flew through Auckland.⁵¹

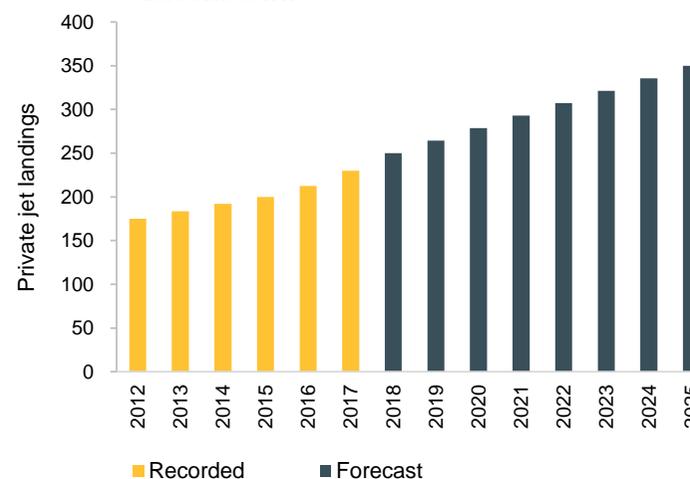
In the year to September 2017, Queenstown saw a 14% increase in private jets flying through the airport from the previous year. The number of private

jet landings at Queenstown Airport is projected to rise to 350 by 2025 (see Figure 17).

Queenstown has supported the internationalisation of successful local tourism enterprises, with local businesses such as Skyline, Magic Memories and AJ Hackett operating successfully in a number of other countries.

In the year to September 2017, Queenstown saw a 14% increase in private jets flying through the airport from the previous year.

Figure 17: Recorded and projected private jet landings in Queenstown⁵²



⁴⁹ MBIE.

⁵⁰ MBIE research undertaken in 2015 and 2017.

⁵¹ NZHerald Refinery pipeline crisis: Private jets avoiding NZ

<http://www.nzherald.co.nz/index.cfm?objectid=11923884&ref=twitter> (accessed 10 November 2017).

⁵² Queenstown snapshot document.



A vibrant Queenstown will develop and sustain a healthy South Island

Queenstown attracts international tourists to the South Island

Queenstown is far from an end point on an international tourist's trip. MBIE refers to Queenstown-Lakes as a 'gateway region'.⁵³

Queenstown acts as a hub to a number of spokes including tourist destinations such as Milford Sound, Wanaka, Bluff, the Caitlins, Fiordland National Park, Mount Aspiring National Park and Fox Glacier. With its international air links, Queenstown is an ideal launching pad to explore the lower South Island.

Queenstown now also has direct international air links to Brisbane, the Gold Coast, Sydney and Melbourne (see Figure 18).

Promoting regional dispersal of tourists is one of the overarching goals of Tourism Industry Aotearoa's Tourism 2025 Strategy – Whakatipu Uara Ngātahi. Improving the spread of tourism will mean more regions benefit from tourism activity, while also relieving pressure on places with high visitor loads.⁵⁴

While Queenstown is already delivering benefits to the South Island, there is opportunity to build on Queenstown's success and attractiveness for international tourists, to further strengthen this hub-and-spoke model to encourage regional growth in areas with relatively lower visitor numbers.

It is in Queenstown's interest that the regional tourist sites provide a strong value proposition for tourists, as this will attract more visitors to the South Island. Conversely, it is in the interest of the regional destinations that international tourists continue to be attracted to Queenstown so that they can launch trips into the wider South Island. A vibrant Queenstown will develop and sustain a healthy South Island.

Figure 18: Queenstown acts as a gateway to the lower South Island



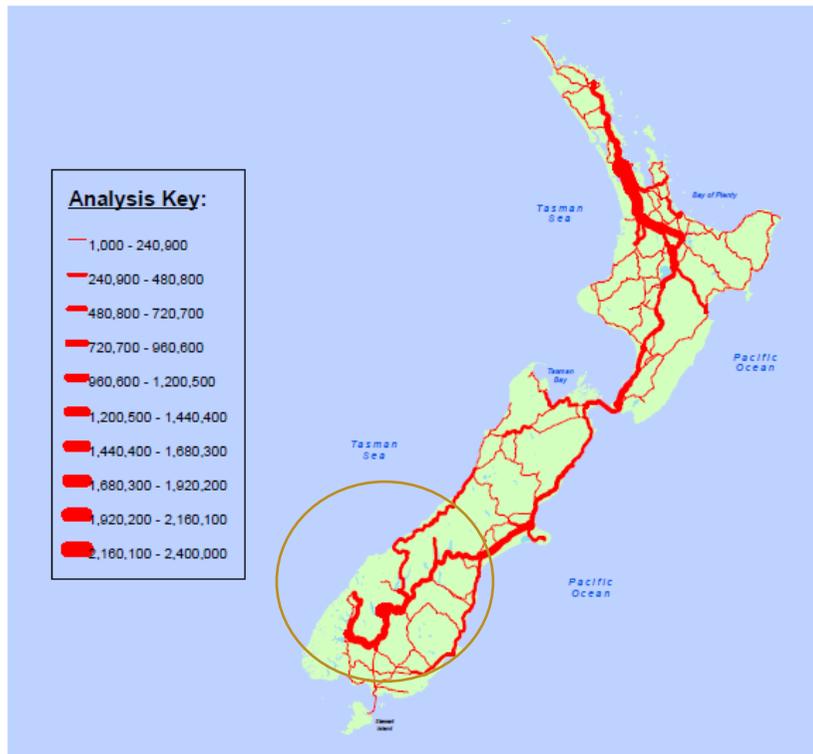
⁵³ Along with Auckland, Wellington and Christchurch.

⁵⁴ Tourism 2025 <http://www.tourism2025.org.nz/assets/Documents/TIA-T2025-Doc-NewLogo.pdf> p. 14.



Queenstown has the heaviest international tourist road flows in the South Island. Flows are especially heavy between Queenstown and: Southland; Mackenzie; and Westland (continuing up the west coast) (see Figure 19).⁵⁵

Figure 19: Road flows by international visitors⁵⁶



⁵⁵ The Tourism Flows Model Summary Document August 2007 | www.tourismresearch.govt.nz p 6.

⁵⁶ 2005 is the latest year for which data is available.

Queenstown acts as a regional hub for the local community

Queenstown also acts as a regional hub for locals, allowing better access to key infrastructure and services. Having an airport with frequent connections between Auckland and Wellington, as well as trans-Tasman flights to key Australian cities, benefits local businesses and residents. For example, Queenstown Airport now accounts for 10% of Southlanders' business air travel and 24% of Southlanders' personal air travel.⁵⁷

Queenstown Airport now accounts for 10% of Southlanders' business air travel and 24% of their personal air travel

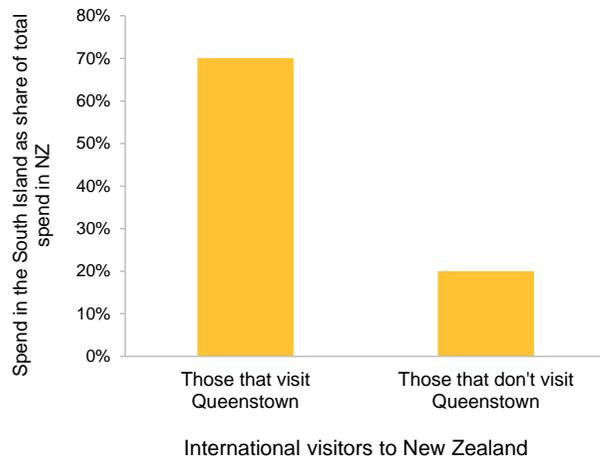
⁵⁷ Venture Southland, Air Travel Patterns Surveyed, 22 August 2017 <http://venturesouthland.co.nz/news/air-travel-patterns-surveyed> (accessed 26 October 2017).



International visitors to Queenstown spend more in the South Island than those who don't visit Queenstown

Credit card data shows that the share of international visitors' spend captured by the South Island jumps significantly if they visit Queenstown. This means that if an international tourist visits Queenstown, spending in the rest of the South Island is higher than if that tourist had not visited Queenstown (see Figure 20). In fact, if an international tourist visits Queenstown, nearly 70% of their spending is captured by the South Island. Conversely, if they don't visit Queenstown, only 20% of their total New Zealand spending is captured by the South Island.

Figure 20: Share of international visitor spend captured by the South Island, YE September 2017⁵⁸

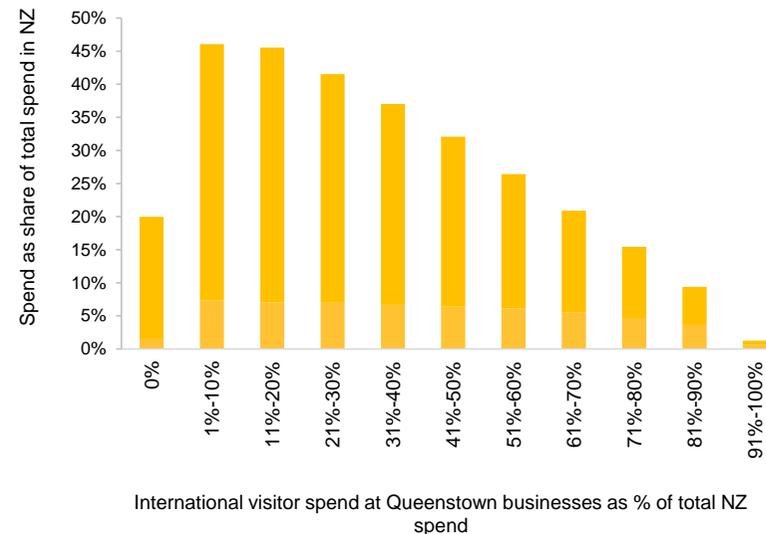


⁵⁸ Market View credit card data, YE September 2017.

If an international tourist visits Queenstown, spending in the rest of the South Island is more than three times higher than if they hadn't visited Queenstown

The share of international visitor spend captured by the rest of Queenstown Lakes District (excluding Queenstown) and the rest of the South Island is largest if an international visitor spends up to a fifth of their total trip expenditure in Queenstown (Figure 21).

Figure 21: Share of international visitor spend captured by rest of South Island⁵⁹



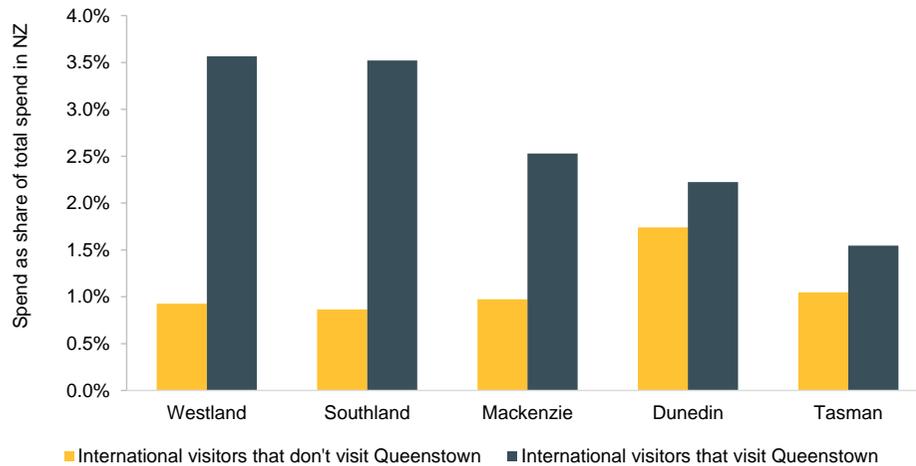
⁵⁹ Market View credit card data, year ending September 2017. Note: For clarity, districts capturing less than 1% of total NZ spend are not presented in the graph.



In more than half (14) of the South Island's 23 districts, international visitors who had visited Queenstown accounted for more than 50% of the district's total international visitor expenditure.

This was especially marked in Westland, Southland and MacKenzie, where the amount spent by international tourists was considerably higher if the tourist had visited Queenstown (see Figure 22).

Figure 22: Share of international visitor spend captured by South Island districts⁶⁰



⁶⁰ Market View credit card data, YE September 2017.

⁶¹ Visitor expenditure based on international credit card data and extrapolated to MBIE RTE annual expenditure to August 2017. Note: MBIE uses international credit card data to calculate RTE expenditure.

As noted previously, international visitors who spent more than 40-50% of their total New Zealand credit card spend in Queenstown spent a further \$157–254 million per annum in the rest of the South Island (ie outside Queenstown).

In more than half of South Island districts, international visitors who visited Queenstown accounted for more than 50% of total international visitor expenditure

The economic benefits to the South Island from international visitors coming to Queenstown are considerable. International visitors who spent at least 40–50% of their total New Zealand credit card spend in Queenstown accounted for:

- 13% of international visitor expenditure in Central Otago (\$7.4m) ⁶¹
- 12% of international visitor expenditure in Wanaka (\$38.8m)
- 8% of international visitor expenditure in Southland (\$21.4m)

Repeat visitors to Queenstown spend more time in the regions

Repeat visitors to Queenstown may be more likely to explore the wider South Island further on their second and third visits, and to get further off the



beaten track. Visitors from Australia make up the biggest portion of repeat visitors to New Zealand, and they typically return three to four times in their lifetime. This tendency to explore the regions provides an opportunity to increase regional dispersal and touring activity and so to increase flows to less popular parts of the South Island.⁶²

⁶² Tourism New Zealand, <http://www.tourismnewzealand.com/markets-stats/markets/australia/>.





New Zealand benefits from the Queenstown visitor experience

The economic benefits of a healthy and thriving Queenstown extend far beyond the core tourism industry. In the following economic impact analysis, we describe the flow-on effects of Queenstown's international tourism to the local, South Island and national economy.

Cohorts

We examine this by analysing benefits generated by two different cohorts of international visitors.

- 1 We first analyse spending by all international tourists visiting Queenstown (for any length of time).
- 2 We then analyse spending by international tourists who visit New Zealand primarily because of Queenstown.

Impact and benefits

The underlying logic of the economic impact analysis used in this Business Case is that spending by international visitors creates flows of expenditure (direct impacts) that are magnified or 'multiplied' as they flow on to the wider economy. This happens in two ways:

- 1 **Indirect impacts** – the enterprise purchases materials and services from supplier firms, who in turn make further purchases from their suppliers, and so on.

- 2 **Induced impacts** – employees in the enterprises and in firms supplying services are paid a wage and the enterprises generate profits, which is then spent on consumption in the region.

All numbers in the following section have been tested and cross-checked with QLDC, relevant experts and various data sources.

Benefits

The analysis describes benefits in terms of:

- **GDP:** Gross domestic product that is generated
- **Jobs:** Full-time equivalent jobs (FTEs) that are generated.

In the Economic Case, we use the same approach to estimate and compare the expected benefits of alternative scenarios, where each scenario involves a different investment in Queenstown's infrastructure. In the economic case we also consider the impact of additional GST revenue to the government.



Economic benefits generated by all international tourists visiting Queenstown

Figure 23: Benefits generated by all international tourists visiting Queenstown

Total spend in Queenstown Lakes District by all international visitors for the year ending August 2017		\$1,490 million
Queenstown Lakes District	GDP generated in the district	\$632 million
	Jobs sustained in the district	8,600 FTES
Rest of South Island <i>Excludes Queenstown Lakes District</i>	GDP generated in the rest of the South Island	An additional \$171 million
	Jobs sustained in the rest of the South Island	An additional 2,700 FTES
All of New Zealand <i>Includes Queenstown and South Island</i>	GDP contribution to New Zealand	\$845 million (GDP increases to \$2 billion if induced impacts are taken into consideration)
	Total jobs sustained in New Zealand	12,800 FTES (Jobs sustained increase to 21,000 FTEs if induced impacts are taken into consideration)

GDP calculated on an indirect basis unless otherwise stated.



Economic benefits generated by international visitors who come to New Zealand primarily because of Queenstown

While the previous section described flow-on effects from **all** international tourism spending in Queenstown, the following section focuses on the economic impacts of spending by international tourists who came to New Zealand **primarily because of Queenstown** – ie, visitors for whom Queenstown was the primary reason or major drawcard for visiting New Zealand.

This group is relevant, as determining the economic impact of spending by international tourists who come to New Zealand because of Queenstown allows us to analyse **what would happen to the South Island and New Zealand economies if the Queenstown visitor experience was significantly diminished.**

Analysing international visitors' credit card spending patterns shows that international visitors who spent more than 40–50% of their total spend in Queenstown (ie they came to New Zealand because of Queenstown) spent:

- \$988 million–\$1.1 billion in Queenstown
- \$157–\$254 million in the rest of the South Island⁶³
- a total of \$1.44–\$1.74 billion in New Zealand

⁶³ Not including Queenstown.

A total of \$452–\$640 million is generated outside Queenstown by tourists who come to NZ primarily because of Queenstown – funds the regions would miss out on if Queenstown's tourism proposition was diminished

Queenstown's total benefit to New Zealand is not fully captured by looking only at expenditure. For a more holistic view of Queenstown's economic benefits, we estimate the direct, indirect and induced impacts of the expenditure of international visitors who come to New Zealand primarily because of Queenstown.

The following economic impact analysis is based on the assumption that if an international tourist spends more than 40–50% of their total New Zealand spend in Queenstown, then *Queenstown is the main destination on their NZ itinerary and they are visiting NZ primarily because of Queenstown.*

This means that any additional expenditure by this group outside Queenstown can be attributed to the Queenstown tourism proposition.



Figure 24: Benefits of international visitors who come to New Zealand because of Queenstown

Total spend in New Zealand by international visitors who come to New Zealand because of Queenstown		\$1,440–\$1,740 million
Queenstown Lakes District	GDP generated in the district	\$419–\$468 million
	Jobs sustained in the district	5,700–6,400 FTEs
Rest of South Island <i>Excludes Queenstown Lakes District</i>	GDP generated in the rest of the South Island	An additional \$79–\$127 million
	Jobs sustained in the rest of the South Island	An additional 1,100–1,800 FTEs
All of New Zealand <i>Includes Queenstown and South Island</i>	GDP contribution to New Zealand	\$661–\$810 million (GDP increases to \$1.3–\$1.6 billion if induced impacts are taken into consideration)
	Total jobs sustained in New Zealand	9,400–11,500 FTEs (Jobs sustained increase to 13,700–17,000 FTEs if induced impacts are taken into consideration)



Industry comparison

When comparing the GDP and jobs generated by international visitors who come to New Zealand because of Queenstown, it becomes clear that Queenstown is comparable to several decent-sized New Zealand industries.⁶⁴

Queenstown sustains around the same number of jobs (9,400–11,500) as New Zealand's high technology manufacturing sector (11,000).⁶⁵ The high technology manufacturing sector produces a wide range of highly specialised products, and includes companies such as Fisher & Paykel Healthcare, Rakon, Gallagher and Douglas Pharmaceuticals.

Queenstown's contribution to New Zealand's GDP (up to \$810 million) is comparable to the New Zealand wine sector, which generates GDP of around \$1,092 million per year.⁶⁶

⁶⁴ Comparison with other industries is made using GDP and jobs generated by direct spend only. If the comparison was made on an indirect or induced GDP or job-basis, the Queenstown tourist proposition would compare much more favourably.

⁶⁵ <http://www.mbie.govt.nz/info-services/business/business-growth-agenda/sectors-reports-series/pdf-image-library/high-technology-manufacturing-report/high-technology-manufacturing-report.pdf>.

⁶⁶ <http://www.wine-marlborough.co.nz/wp-content/uploads/2014/06/Economic-contribution-of-the-wine-sector-2015.pdf>.



A NEGATIVE QUEENSTOWN EXPERIENCE COULD DAMAGE NEW ZEALAND'S TOURISM BRAND AND ECONOMY

Without proactive investment, an international visitor arriving in Queenstown in the future could potentially encounter:

- overcrowded and 'tired' facilities
- extreme traffic congestion
- a compromised natural environment
- a lack of authenticity due to a lack of local residents in the town centre
- overcrowded and uninspiring public spaces.

Given the sheer number of international visitors who come to New Zealand because of Queenstown – including the quality of those visitors, the amounts they spend, and the economic spill-over effects they generate – the flow-on effects of an eroded experience in Queenstown could, if unmanaged, significantly damage New Zealand's tourism brand and economy.

The flow-on effects of an eroded experience in Queenstown could, if unmanaged, significantly damage New Zealand's tourism brand and economy



Negative effects on the New Zealand brand

If the quality of the visitor experience in Queenstown was reduced, these benefits to New Zealand would gradually decline over time.

The 100% Pure campaign, which emphasises New Zealand's natural environment as a major factor in why international tourists choose to visit, supports this argument. According to Tony Wheeler, co-founder of Lonely Planet Guidebooks, "*When people want to point at a country which has managed to make the natural environment a very large part of their tourism picture ... New Zealand is usually top of the list.*"⁶⁷

Damage to New Zealand's international tourist image could potentially have an even more serious and long-lasting impact on the national economy than the lost jobs and GDP outlined above. An eroded Queenstown experience could bring with it serious long-term damage to New Zealand's international tourism brand.

Overcrowding, extreme hotel prices, congestion, environmental degradation – all are very real risks to Queenstown, and consequently, to New Zealand's tourism brand as a 100% pure country with a beautiful natural environment.

Economic loss from an eroded Queenstown experience

As described earlier, international visitors who come to New Zealand primarily because of Queenstown generate significant economic benefits, both regionally and nationally.

- On average, they spend \$988 million–\$1.10 billion per annum in Queenstown, \$157–\$254 million in the rest of the South Island⁶⁸ and a total of \$1.44–\$1.74 billion in New Zealand.
- In terms of indirect and induced GDP, they generate \$988 million–\$1.10 billion to the whole of the South Island economy, and \$1.3–\$1.6 billion to New Zealand's overall GDP.
- They generate 9,600–11,600 jobs in the South Island and 13,700–17,000 jobs in New Zealand as a whole.

⁶⁷ Pure As – Celebrating 10 Years of 100% Pure New Zealand
<http://www.tourismnewzealand.com/media/1544/pure-as-celebrating-10-years-of-The-100100-pure-new-zealand.pdf> (accessed 13 October 2017).

⁶⁸ Not including Queenstown.



Case studies

Tourism management and planning from other international tourism destinations provide valuable lessons for Queenstown.

Case study 1 – Aspen

Aspen, a tiny mountain town of 6,800 residents in Colorado's Rocky Mountains, has become known as a playground for the rich and famous. However, Aspen faces a number of challenges, which it is starting to address.

These include a lack of affordable housing and worker accommodation (resulting in a crowding-out of locals), a lack of workforce supply, congestion and transportation issues, environmental concerns, town planning issues, and changing demographics.

Skyrocketing property values and a proliferation of second and third home owners has meant that low, middle, and even high income workers are being shut out of the town. At least 50 billionaires on Forbes' most recent wealth lists own property or have strong ties to property in the Aspen area.

A developer-led approach to town planning has meant that high-value buyers have purchased whole city blocks in order to use the penthouse apartment while keeping the street level and intervening level spaces empty. Due to this phenomenon, known as 'gutting', the town centre features many empty storefronts.

The rise of absentee owners who may only spend a few weeks in Aspen a year has created whole neighbourhoods that are usually empty. A by-product of this is that town's seasonality has become entrenched, as so few locals use local services in the low season.

The majority of locals live down-valley, outside of the Aspen voting area. As a result, elected officials represent those who can afford to live within the

town boundaries rather than the many who are affected by the decisions made.

Aspen has been working to address its challenges in recent years. For example, it has been using funding streams generated by various taxes, such as sales taxes and taxes on real estate transactions, to fund affordable housing.



Case study 2 – Zermatt

Several international mountain resort towns are taking creative approaches to maintaining their visitor experience and sustaining tourism growth.

Switzerland's famous resort of Zermatt, home of the iconic Matterhorn, has in less than a century gone from being a poor and isolated Alpine village to one of the world's wealthiest resorts.

Today, Zermatt attracts almost two million visitors a year, houses 40 four-star hotels, and is considered by many to be a best-case example of sustainable ski resort development. Every December, Zermatt's population of 6,000 grows to around 40,000 in the course of a few days.

To accommodate this number of people, Zermatt has in the last decade upgraded its wastewater treatment facility to allow for a capacity of 65,000 people, more than 10 times the town's resident population.

Zermatt has banned cars and only allows electric carts and horses in the middle of the town. Tourists leave their cars in a car park outside the city, and hotels send free electric-powered shuttles to pick them up.

Investment in greener buildings is becoming more common, and hotels are increasingly relying on geothermal sources. For example, Zermatt's new youth hostel has strict minimum energy standards and uses solar panels to provide hot water.

There is also a limit on foreign home ownership. A referendum in 2012 limited the number of holiday homes in Swiss Alpine resorts to a maximum of 20%.⁶⁹ Municipalities in which more than 20% of all residences are second homes may not build any new houses.

⁶⁹ Sun, snow and sustainability in Zermatt, 9 April 2017, <http://www.bbc.com/news/world-europe-17553989> (accessed 17 October 2017).



CHALLENGES TO SHAPING QUEENSTOWN'S FUTURE

QLDC has taken important steps to address its challenges

Shaping Queenstown's future growth is a challenge, but it also represents a great opportunity for the district, the South Island and New Zealand as a whole. For Queenstown and the local community, being New Zealand's top tourist destination is viewed as a privilege. However, with this privilege comes a responsibility to ensure that the visitor experience meets expectations.

Queenstown faces significant issues in shaping its future growth to maintain the visitor experience and sustain further tourism growth, both in the short and long term. Queenstown's rapid growth has given rise to capacity constraints and infrastructure pressures, which have the potential to compromise the visitor experience, constrain future growth, and damage New Zealand's tourism brand and market.

Many of these challenges are intertwined and cannot be tackled in isolation of each other – for example, more international visitors can create jobs and add to the vibrancy of the town, however more residents and seasonal workers puts pressure on housing availability and adds to the existing demand on roading and other critical infrastructure.

There is a good understanding between the QLDC, central government, the tourism industry and other key stakeholders about the issues, opportunities and challenges facing Queenstown.

While there are a variety of views on the scale of the issues and the best way to address them, enduring solutions will require a number of parties to work together to resolve them. None of the issues are amenable to quick fixes, and addressing them will require a sustained, strategic engagement based on an agreed long-term vision and action plan.

QLDC is very aware that it can't solve the challenges it faces on its own

There is a strong willingness to ensure that tourism growth benefits the community as a whole. QLDC is working with key stakeholders to develop a longer-term plan, which will develop innovative solutions, including public-private partnerships and alternative funding mechanisms. This plan will require close collaboration with private industry, regional partners and others to look to the future.

A number of innovative initiatives and actions have been undertaken over the past few years to address Queenstown's needs.

Examples of this work are outlined on the next page.⁷⁰

⁷⁰ All examples from QLDC's 2017/18 Annual Plan <http://www.qldc.govt.nz/assets/Uploads/Council-Documents/Annual-Plans/2a.-QLDC-Annual-Plan-17-18-final.pdf> Page 14 Accessed 17/10/2017.



Housing

- A mayoral taskforce has been set up to tackle housing unaffordability, to make 1,000 affordable homes available for lower-income households by 2028 under an affordable housing scheme known as Secure Homes, which separates the land and house so lower-income households can afford to buy a home while renting the land it sits on, in perpetuity, for a nominal amount.⁷¹
- The mayoral taskforce has also recommended amending the regulations regarding commercial rental stock to increase supply in the long term rental market and support community cohesion.
- QLDC has secured \$46.5 million in interest-free loans from the Housing Infrastructure Fund (HIF) for works in Frankton, Ladies Mile and Kingston, to pave the way for up to 3,200 homes.

Transport

- NZTA has adopted a Queenstown Integrated Transport Programme Business Case, which defines the land and water transport strategy for the whole of Queenstown Lakes District. NZTA and QLDC are jointly working on a detailed business case on public transport, active transport and arterial routes.
- A much improved, inexpensive, reliable and frequent public transport system was launched across the Wakatipu Basin area in November 2017, funded by QLDC, Otago Regional Council and NZTA. This provides a blanket \$2 fare for buses across the Queenstown basin, enabling workers and others to travel economically into town without cars.

⁷¹ New Zealand Herald. Queenstown taskforce wants 1000 affordable homes by 2028 http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11935483 Accessed 25/10/2017.

- A \$26 million two-lane bridge is in the last stages of development over the Kawarau River.

Town Centre

A Town Centre Master Plan has been developed, which will pull together a number of business cases underway on issues such as public transport, parking, town centre arterials, public spaces and community facilities. QLDC has earmarked \$2 million in the 2017/18 budget for projects within central Queenstown, under the umbrella of the Town Centre Master Plan. This is a placeholder as the community is being consulted, with more specific aspects of the project to be included in the 2018–2028 LTP.

Cultural Master Plan

QLDC is beginning the process of developing a cultural master plan to enhance the culture of arts and creativity across the district.

Land assets

QLDC has progressively sold off parcels of land to private investors, with the final land tracts going to market in 2018.



Other infrastructure

- **Parking:** QLDC has increased parking costs in the town centre, with prices on some streets doubling to \$4 an hour.⁷²
- **Public facilities:** Council is planning to improve the visual appeal of the public realm (eg lighting) to enhance visitor safety and experience. More frequent cleaning of public toilets and emptying of bins is also occurring to meet community and visitor expectations.
- **Water:** To increase sustainability of the water supply network, QLDC has approved funding to upgrade and increase the number of transmission water meters on its networks to help target areas of high leakage. QLDC has also approved a staged water demand management programme to improve efficiency.⁷³
- **Airport:** Queenstown Airport has developed a Master Plan setting out options for meeting current and future passenger demands, including by leasing Wanaka Airport and the surrounding land to help future-proof operations.
- **Schools:** A new high school, being built at Frankton, will open in 2018, and a new primary school has recently been approved.
- **Development:** QLDC councillors voted to open part of the Lakeview site, in central Queenstown, for development in collaboration with the private sector.⁷⁴ This will create a mixed use precinct that will support new activities, hotels, and housing.

QLDC's capacity

- **QLDC staffing:** QLDC's staffing budget has been increased by \$2.6 million, including an increase of 34 full-time equivalents to a total staff of 323.

⁷² Parking fees double on some Queenstown streets <http://www.radionz.co.nz/news/national/340541/parking-fees-double-on-some-queenstown-streets> Accessed 2/11/2017.

⁷³ QLDC 3 Waters Plan 2016 <http://www.qldc.govt.nz/assets/Uploads/Council-Documents/Asset-Management-Plans/Three-Waters-Asset-Management-Plan2016.pdf>.

⁷⁴ <https://www.newsroom.co.nz/2017/10/29/56720/queenstown-1b-wishlist-council-seeks-govt-help>.



Private industry and central government are also playing an important part

Private industry and central government are also playing an important part in alleviating Queenstown's infrastructure pressures.

Demand for hotel rooms in Queenstown continues to grow at a much faster rate than supply.⁷⁵ Significant private sector investment has been committed to meet Queenstown's growing need for tourist accommodation, with 240 hotel rooms currently under construction, 588 consented, and 2,000 going through the consents process.

Key private sector developments are waiting in the wings, pending Council investment in critical infrastructure, including investments in the gondola and ski fields.

Queenstown has been approved to access central government's Housing Infrastructure Fund (HIF) and Tourism Infrastructure Funding (TIF). In May 2017, Government pledged a \$178 million national funding package for tourism infrastructure, including \$102 million from the TIF.⁷⁶ In July 2017, it was announced that QLDC could draw on up to \$50 million to support investment in the community from the HIF.⁷⁷ While QLDC appreciates the support for housing, funding is still required to address infrastructure demand beyond the needs of the local community.

⁷⁵ NZTE Project Palace report accessed 11/10/2017 <https://www.nzte.govt.nz/about/news/news-and-features/-/media/01339B01B28943788C2D92F51BEEA48D.ashx>.

⁷⁶ QLDC, Mayor welcomes tourism infrastructure funding, <http://www.qldc.govt.nz/news/show/1812/mayor-welcomes-tourism-infrastructure-funding/>. Accessed 17/10/2017.

⁷⁷ QLDC Housing Infrastructure Fund Announcement July 11 2017, <http://www.qldc.govt.nz/news/show/1828/housing-infrastructure-fund-announcement/>. Accessed 17/10/2017.



Despite ongoing efforts, serious challenges still remain

Despite the work currently underway by QLDC, and the funding provided by central government, regional bodies and private industry, Queenstown continues to face serious challenges. These challenges can be summed up as four distinct but linked issues that need to be addressed in order to maintain the visitor experience and sustain tourism growth.



Infrastructure investment is needed to maintain the visitor experience while supporting tourism growth



Queenstown faces a disproportionately high tourism load relative to its population, and this is projected to worsen



QLDC lacks the financial capacity to fund and underwrite the required investment



There is significant disparity between those who fund the majority of Queenstown's infrastructure and those who benefit from it





Infrastructure investment is needed to maintain the visitor experience and sustain tourism growth

Unrivalled, rapid growth in Queenstown has resulted in congested roads, parking issues, pressure on the natural environment and expensive rental housing – to name just a few pressures. These pressures risk compromising both the visitor and the local resident experience.⁷⁸

Queenstown’s infrastructure challenges have recently hit international headlines. In its September 2017 edition, *The Economist* discussed the challenges faces by New Zealand in retaining its pristine reputation in the face of record visitor numbers, and highlighted Queenstown’s congestion problem as a case in point: “Traffic jams in resorts such as Queenstown, once unheard of, are another cause for grumbling.”⁷⁹

Queenstown’s popularity has driven house prices to levels that mean buying a home is out of reach for many residents, especially for workers servicing the tourism industry. A widely used indicator of the affordability of housing is the ratio between average current house values and average annual employment earnings from filled jobs. A higher ratio indicates lower housing affordability. It also means that the workers who are servicing Queenstown’s tourism industry are struggling to find accommodation. In

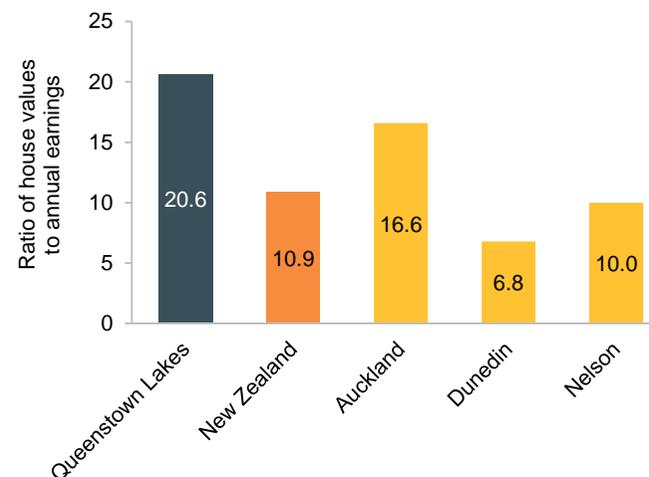
⁷⁸ It is also worth noting that Queenstown-Lakes District Council is managing the infrastructure need for a much wider area than just Queenstown.

⁷⁹ <https://www.economist.com/news/asia/21729435-voters-worry-their-countrys-pristine-reputation-will-new-zealand-remain-green-and-pleasant> Accessed 17/10/2017.

2016, the average house price in Queenstown hit \$1 million.⁸⁰ This situation restricts the ability of many residents to afford significant rate increases.

The current average house value to average annual earnings is 20.6:1 – compared to ratios of 10:1 in Nelson and 16.6:1 in Auckland (see Figure 25).

Figure 25: Ratio of house values to annual earnings, December 2016⁸¹



⁸⁰ NZ Herald Queenstown council moves to ease housing crisis <http://www.radionz.co.nz/news/national/342423/queenstown-council-moves-to-ease-housing-crisis>.

⁸¹ Mayoral Housing Affordability Taskforce <http://www.qldc.govt.nz/assets/Uploads/Council-Documents/Mayoral-Housing-Affordability-Taskforce/5.2-Housing-Affordability-Taskforce-Workshop-10th-April-2017-Info-Pack.pdf> Page 2.



Table 2 outlines the key infrastructure challenges faced by Queenstown across six key sectors – transport, airport, town centre, water, housing, and environment. The challenges cover infrastructure beyond the scope of this

Business Case (which only focuses on tourism-related infrastructure pressures), but the overview provides important context for understanding the magnitude of the problem.

Table 2: Queenstown’s key infrastructure challenges

Key: ● = high ◐ = medium ○ = low

INFRASTRUCTURE CHALLENGES	IMPACT ON VISITORS
<p>TRANSPORT</p>  <p>Average annual traffic growth for the five-year period 2011–2015 has been 29%, with an average annual growth of approximately 6%. The national average is 0–2%.</p> <p>The cost of congestion in Queenstown is significant and is forecast to grow considerably. Projections show that total costs of congestion are currently \$35 million – this is expected to more than double in the next 30 years.⁸²</p> <p>Visitor surveys indicate 40–50% of visitors arrive in Queenstown Lakes District by air and this proportion is growing. Vehicles are the primary mode for tourists to get into town.</p> <p>Community reliance on cars as the primary mode of transportation is resulting in traffic congestion and delays.</p> <p>Major tourist attractions, events and holidays create traffic peaks that in combination have the potential to gridlock the network.</p>	<p>◐</p> <p>●</p> <p>●</p> <p>◐</p> <p>●</p>

⁸² Rationale Queenstown Town Centre Masterplan Programme Business Case, Strategic Case, p. 34-35. The analysis has been completed using the Queenstown-Lakes District Transportation Model. Analysis of two key model outputs has been undertaken using vehicle operating costs and the value of time using the NZ Transport Agency Economic Evaluation Manual procedures. Costs have been calculated by estimating the travel time and vehicle operating costs when there is no congestion present and comparing this to the base model congestion taking into account the traffic demand by time of day and network operating conditions.



INFRASTRUCTURE CHALLENGES	IMPACT ON VISITORS
 <p>Carparking is reaching capacity, making it challenging for residents coming to town, which in turn reduces town centre authenticity and creates business uncertainty. Surveys of visitors show parking as the source of most dissatisfaction.</p> <p>There are limited transport options for accessing the town centre.</p> <p>Local topography limits the ability to extend or expand current road transport corridors, which constrains accessibility and spreads growth over a wide area.</p> <p>Although a new service has improved patronage, public transport is unable to compete with cars. As a result it has been under-utilised by residents, with timing, reliability, and convenience affecting numbers.</p> <p>Planned retail, tourism and residential developments will create further pressures.</p> <p>Travel patterns are complex and challenging to plan around due to changes in daily travel patterns (eg, hospitality workers work hours that do not fit well within daytime and weekday schedules).</p>	<p>●</p> <p>◐</p> <p>◑</p> <p>◐</p> <p>◑</p> <p>◑</p>
<p>AIRPORT</p>  <p>Queenstown Airport is the fourth busiest airport in New Zealand,⁸³ despite the Queenstown Lakes District making up less than 1% of New Zealand's population.⁸⁴</p> <p>Queenstown Airport is projecting considerable growth in passenger arrivals, and infrastructure will need to accommodate this. Between July 2016 and June 2017, passenger movements increased to 1.89 million.</p>	<p>●</p> <p>●</p>

⁸³ Queenstown Airport Master Plan.

⁸⁴ Stats New Zealand 2013 Census http://www.stats.govt.nz/Census/2013-census/profile-and-summary-reports/quickstats-about-a-place.aspx?request_value=15000&tabname Accessed 11/10/2017.



INFRASTRUCTURE CHALLENGES	IMPACT ON VISITORS
<p>TOWN CENTRE</p> 	<p>The town centre is approaching its limit in being able to handle traffic volumes. </p> <p>Limited cultural and historic attractions, ad hoc development, and poor maintenance undermines both the aesthetic appeal and people's experience of the town centre. </p> <p>The streetscape is heavily used and is not up to a standard expected of international resorts. </p> <p>Local events, cultural activities and town centre experiences are restricted by the lack of available facilities and useable green spaces. </p> <p>The town centre is seen as becoming less connected to the needs or experiences of the local resident, undermining the feeling of authenticity and locals' sense of belonging. This also impacts the authenticity of the experience for international visitors. </p>
<p>WATER</p> 	<p>The current level of water demand is not considered to be sustainable relative to the capacity within the existing water supply network, nor is it considered cost-effective. </p> <p>30% of the district's public water supply is lost to leakage. </p> <p>There is high water use compared to other districts in New Zealand, due to the high temporary population. </p> <p>Pressure fluctuations need to be managed. </p>



INFRASTRUCTURE CHALLENGES		IMPACT ON VISITORS
	New developments will put further pressures on the water network.	◐
ACCOMMODATION 	Queenstown is experiencing pressures as hotel demand continues to grow at a much faster rate than supply. Although the market is responding there is a potential shortfall of 336 hotel rooms by 2025.	●
	Tourists are competing with workers for private accommodation. This places pressure on supply and highlights the need for affordable housing for visitor industry workers.	●
ENVIRONMENT 	Noise, air and water quality are becoming strong focus areas as the pressure of growth brings a higher level of activity, emissions, urban runoff and recreational activities; these have the potential to impact the quality of life in the area.	◐
	Rapid population growth is placing pressure on air quality, water quality and stormwater networks.	◐
	Queenstown's natural landscape is one of the area's biggest drawcards. Should the quality of the natural environment deteriorate, there would be real risks to Queenstown's visitor experience.	●
	An increasing number of freedom campers is also placing a strain on Queenstown's natural environment.	◐





Queenstown faces a disproportionately high tourism load relative to its population, and this is projected to worsen

Queenstown's visitor-to-resident ratio is unparalleled in New Zealand

Every day, Queenstown experiences visitor numbers equivalent to those of Auckland during the 2011 Rugby World Cup.⁸⁵ In fact, at 2.6 million international guest nights per year, Queenstown provides almost as many international guest nights as Auckland (at 3 million), despite having less than 2% of Auckland's population.⁸⁶

As discussed earlier, Queenstown faces a disproportionately high international visitor load:

- 34 international visitors for every resident
- 37,289 daily visitors to 21,288 residents.

The magnitude, pattern and growth path of visitor arrivals to Queenstown is unique in New Zealand.⁸⁷

Queenstown's population will continue to grow

Queenstown Lakes District's population is projected to continue growing with a 54% increase in resident population projected between 2011 and 2031.⁸⁸

The District's population is projected to nearly double between 2018 and 2058, increasing from an average of 38,000 residents to just under 75,000 residents at peak times, with the highest rate of growth projected for the next 10 to 15 years. In addition to this growth in the resident population, growth in international visitors is expected to continue.

International visitor growth projections are very high

Overall international visitor arrivals to New Zealand are estimated to reach 4.9 million in 2023 (from 3.5 million in 2016, up 39%), constituting a growth rate of 4.8% per year.⁸⁹

Forecasts for Queenstown also expect growth, although at lower long-run levels than what Queenstown has experienced in the last two–three years. The forecast growth rate for Queenstown varies depending on different sources.

Resident and visitor projections prepared by Rationale Consulting Ltd and used by QLDC for planning purposes forecast growth at more conservative levels, as shown in Figure 26.

⁸⁵ Sapere: New ways of supporting growth in tourism in an iconic destination, July 2016.

⁸⁶ Based on Stats NZ 2013 census (28,224 QT residents vs 1.4 million Auckland residents).

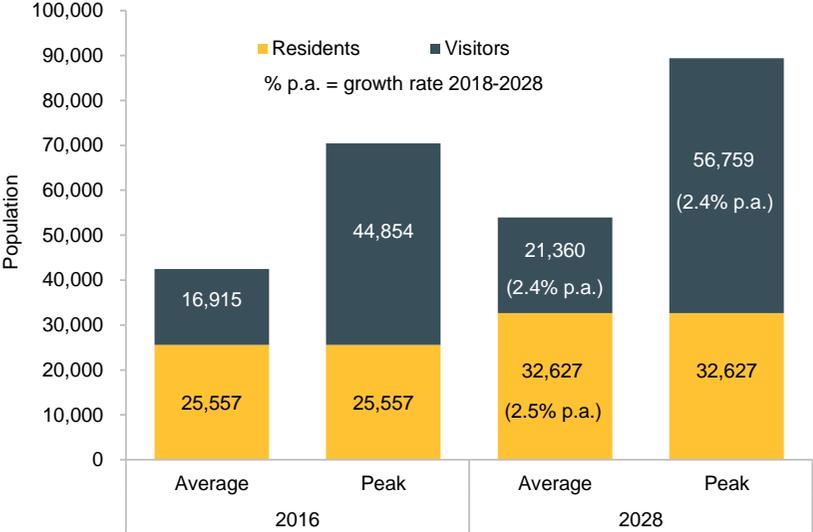
⁸⁷ Sapere New ways of supporting growth in tourism in an iconic destination, July 2016.

⁸⁸ Rationale Consulting Ltd.

⁸⁹ MBIE <http://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/international-tourism-forecasts/documents-image-library/forecasts-2017-report-final.pdf> p 6.



Figure 26: Queenstown (Wakatipu Basin) population growth projections, 2018–2031⁹⁰



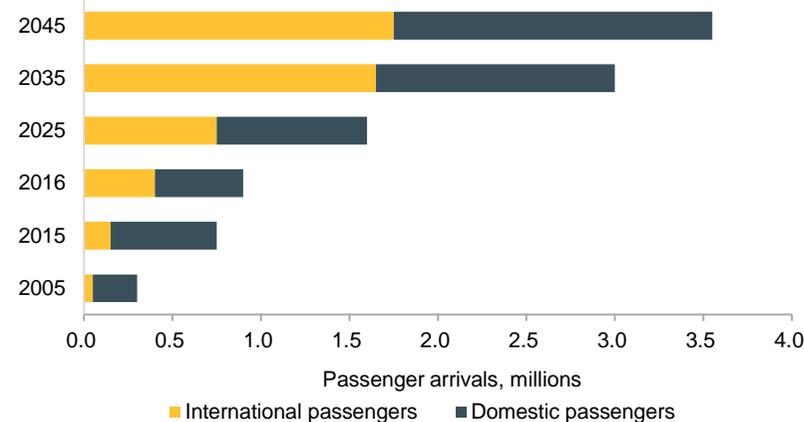
By comparison, Queenstown Airport forecasts a tripling of demand to 3.5 million annual passenger arrivals⁹¹ by 2045, but has noted that 2.5 million passenger arrivals per year would be more sustainable.⁹² The Airport has suggested placing a limit on passenger arrivals because of concerns about Queenstown's capacity to offer a quality experience in the long term.⁹³

⁹⁰ Rationale Consulting Ltd population projections.

⁹¹ Passenger movements count both arrivals and departures ie 1 passenger is counted as 2 movements – their arrival and then their departure. This means that the actual number of visitors/ residents arriving into

Queenstown Airport has suggested placing a limit on passenger arrivals because of concerns about Queenstown's capacity to offer a quality experience in the long term

Figure 27: Queenstown Airport projected passenger movements up to 2045



the region via the airport is approximately half the number of passengers. Domestic passenger numbers include international visitors travelling on domestic flights.

⁹² Queenstown Airport Master Plan.

⁹³ QLDC's presentation to Tourism Chief Executives, October 2017.





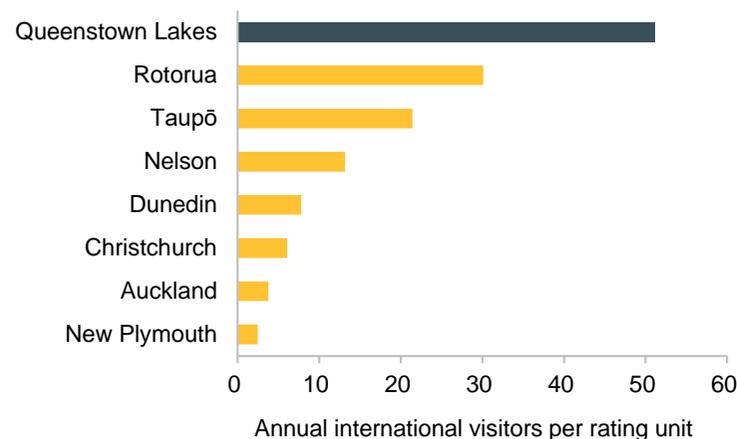
QLDC lacks the financial capacity to fund and underwrite the required investment

QLDC is currently doing all that is financially prudent to meet demand, but there remains a significant gap. Within current funding frameworks, QLDC lacks the capacity to underwrite and fund the level of investment required.

Like other New Zealand Councils, QLDC's main source of income is property rates, which are determined as a charge per \$1,000 of the capital value of the property.⁹⁴ QLDC also charges a range of targeted rates, including for roads, stormwater, water supply, sewerage and tourism promotion. The latter funds tourism promotion activities and is only levied on accommodation and commercial rating units.⁹⁵

Queenstown-Lakes' ratio of ratings units to international visitors is 51 to 1. This means that one rating unit supports 51 international visitors (this, of course, does not include domestic tourists). This figure is exceedingly high, even compared to other tourist centres such as Rotorua (30:1), Taupō (21:1) and Nelson (13:1) (see Figure 28).

Figure 28: Council rating units-to-international visitor ratio across comparator towns/cities, 2017⁹⁶



The mean annual earnings⁹⁷ in Queenstown (\$49,780) is lower than in larger cities such as Auckland (\$57,992), and lower than the New Zealand average (57,780)⁹⁸ (see Figure 29). This factor, along with high property prices, limit rates payers' ability to absorb future rates increases.

⁹⁴ Sapere report p 19.

⁹⁵ Sapere report p 20.

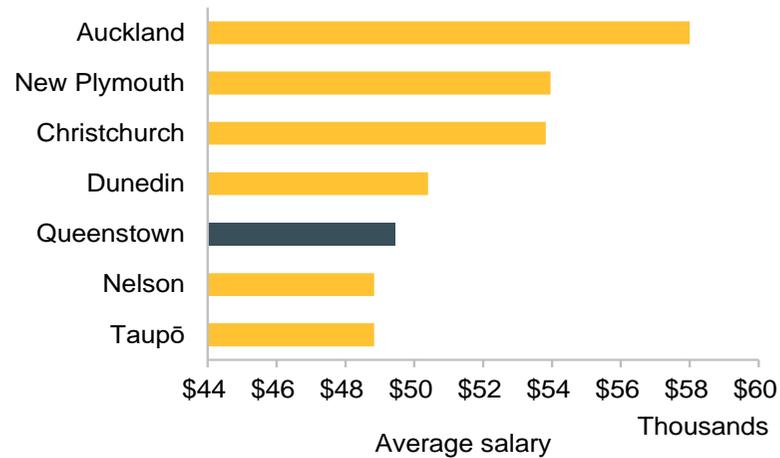
⁹⁶ International Visitor Survey, MBIE and Council 2015-2025 LTP Financial Data, DIA.

⁹⁷ Mean (average) or median earnings of all full-quarter jobs. For more see http://m.stats.govt.nz/browse_for_stats/income-and-work/employment_and_unemployment/LEED-quarterly-tech-notes.aspx.

⁹⁸ Infometrics <https://ecoprofile.infometrics.co.nz/queenstown-lakes%2bdistrict/StandardOfLiving/Earnings> Accessed 22/11/2017.



Figure 29: Average salary across comparator towns⁹⁹



In the Financial Case we show that potential increases in the Council's funding capacity – through increasing general and targeted rates, increasing its debt ceiling and level of debt, and shifting more new works off its books – will be insufficient to maintain current infrastructure standards, address growth, support tourism demand, and ultimately maintain the visitor experience and sustain tourism growth.¹⁰⁰

⁹⁹ PayScale data, Rotorua not included in dataset.

¹⁰⁰ Also refer to QLDC's presentation to Tourism Chief Executives, October 2017.





There is significant disparity between those who fund Queenstown’s infrastructure and those who benefit from it

Significant disparity exists between those who fund Queenstown’s infrastructure and those who benefit from it. Under Queenstown’s existing funding model, residents and local businesses fund a disproportionate amount of public goods due to the town’s disproportionate tourism load.

Using rates as the primary mechanism for funding additional investment in Queenstown is asymmetrical, as it does not apply to the 1.17 million tourists who visit annually. For example, QLDC estimates that visitors could account for over 35% of Queenstown-Lakes’ infrastructure costs (including water, roads and waste).¹⁰¹

Figure 30 shows the proportion of QLDC income from ratepayers and businesses in the Queenstown Lakes District in 2016/17.¹⁰² This contrasts to Figure 31 which shows the proportion of GDP generated in Queenstown Lakes District from international visitors who have come to New Zealand because of Queenstown.

The figure shows that 25% of the GDP generated by international visitors who have come to New Zealand because of Queenstown benefit the North Island and 12% benefit the South Island. However, the basis for their reason to come to New Zealand – a pristine, well-functioning Queenstown – is 96% funded by QLDC.

Figure 30: Source of QLDC income 2016/17

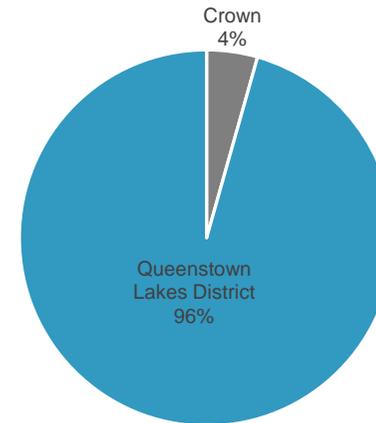
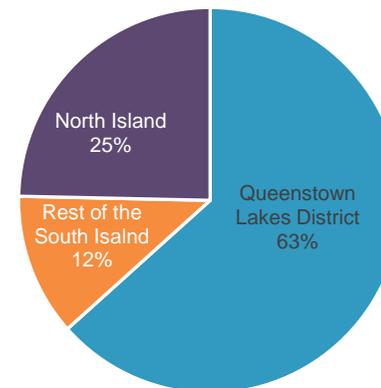


Figure 31: GDP generated from international visitors who have come to New Zealand because of Queenstown



¹⁰¹ Queenstown Lakes District Council Three Waters Asset Management Plan 2016–2031, February 2016.

¹⁰² QLDC annual report 2016/17, p 127.



CHANGES NEEDED TO SUSTAIN TOURISM GROWTH

Investment scenarios for Queenstown

So far, we have made the case that investment is needed to maintain Queenstown’s visitor experience and sustain tourism growth, and we have outlined the challenges Queenstown faces.

In this section, we describe the investment needed in tourism-related infrastructure.

When we consider the dollar value of this investment, there is considerable choice, including in the scope, quality and pace of the investment. Different investment options would ultimately result in different visitor impacts and experiences, as well as different levels of visitor numbers.

At one end of the spectrum, no investment would likely mean a poor visitor experience, a visitor drop-off, and a negative impact on New Zealand’s tourism economy and brand.

At the other end of the spectrum, high investment would enhance the visitor experience and improve the likelihood of international visitor growth, resulting in GDP and job growth.

As a next step, we will explore three scenarios of what a future Queenstown might look like, based on the types of tourism-related infrastructure investment made (see Table 3). This analysis will be set out in the Economic and Financial Cases (which will follow the Strategic Case).

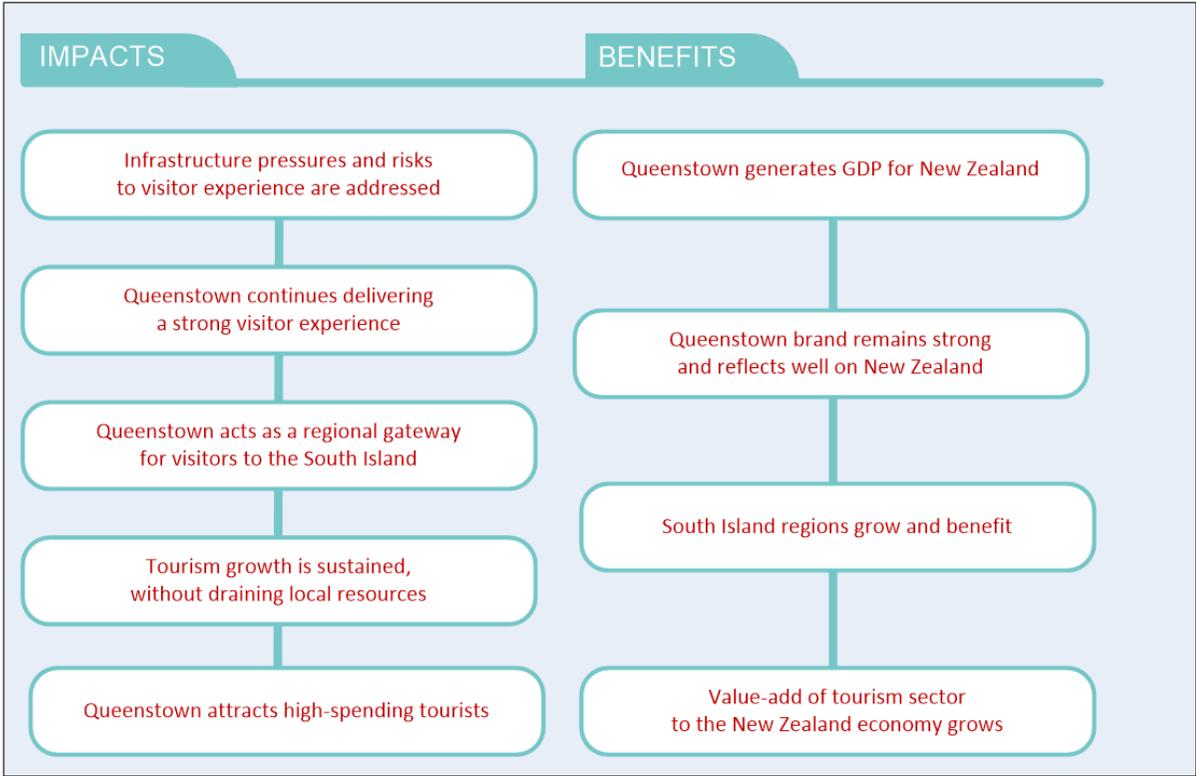
Table 3: Investment scenarios to be explored in the Economic and Financial Cases

Scenario	Key characteristics
Scenario 1: 'Eroded' experience	<ul style="list-style-type: none"> No additional Crown funding beyond current levels A lower-quality international visitor experience due to lack of infrastructure funding A shift toward more low value international visitors, resulting in lower overall spend per international visitor High negative impact on New Zealand tourism
Scenario 2: 'Sustained' experience	<ul style="list-style-type: none"> Seeks additional funding to address urgent international tourism-related infrastructure pressures Sustains international visitor growth and current proportion of high quality international visitors Positive impact on regional GDP and employment numbers Continued success of New Zealand tourism
Scenario 3: 'Enhanced' experience	<ul style="list-style-type: none"> Existing tourism pressures addressed and investment is made to position Queenstown ahead of future demand Increasing international visitor numbers and proportion of high-value international visitors Greater positive impact on regional GDP and employment numbers Continued success of New Zealand tourism



Impacts and benefits to New Zealand from investing in Queenstown

The figure below outlines the impacts and benefits expected from investment to address short-term infrastructure pressures in Queenstown.



Alignment with national priorities

Given Queenstown's pivotal role in generating jobs, income and regional development, investing in Queenstown's infrastructure aligns well with national priorities:

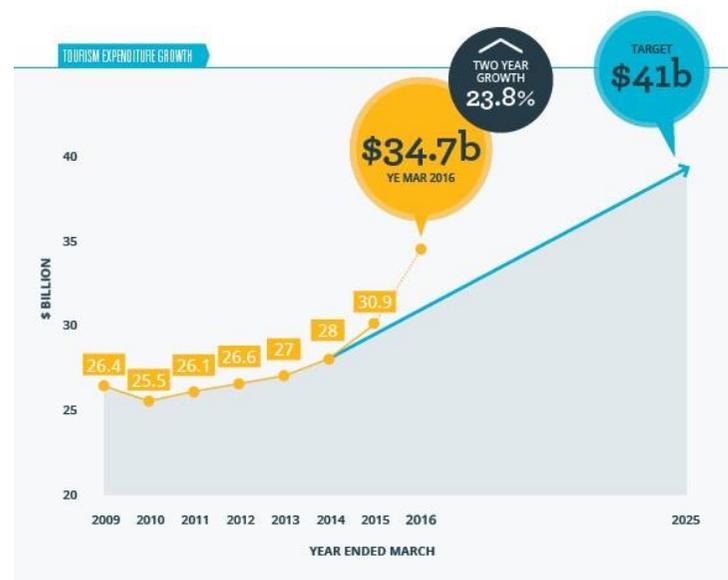
- **Tourism 2025**, developed by Tourism Industry Aotearoa, aims to grow the tourism industry to \$41 billion by 2025. Key objectives include searching for new solutions to regional dispersal and targeting visitors with highly valued attributes (see Figure 32).
- **Tourism New Zealand's strategy** focuses on three challenges: (1) attracting the right mix of visitors; (2) ensuring visitors have a high-quality experience, while recognising the criticality of infrastructure; (3) supporting regions to respond to and benefit from increasing visitor numbers.
- **The Regional Growth Programme** works to identify potential growth opportunities in selected regions and help increase jobs, income and investment in regional New Zealand.

In his speech at the Tourism Summit Aotearoa in November 2017, the Minister of Tourism outlined a number of key issues, including:

- that the substantial growth in the tourism sector over recent years has created shortfalls in services in some locations, and that the regions need improved tourism infrastructure
- the need to ensure that investment for tourism infrastructure is spent wisely and New Zealand's image overseas is maintained

- the importance of ensuring that New Zealand's more iconic visitor regions are not neglected so that we maintain and improve the quality of experiences on offer to visitors and protect New Zealand's reputation as an international destination
- that encouraging tourism flows across regions can help ensure that tourism growth is inclusive and sustainable.¹⁰³

Figure 32: Tourism Industry Aotearoa's growth target for tourism expenditure¹⁰⁴



¹⁰³ Beehive.govt.nz, Speech to the Tourism Summit Aotearoa, Hon Kelvin Davis, 14 November 2017, <https://www.beehive.govt.nz/speech/speech-tourism-summit-aotearoa> Accessed 21/11/2017

¹⁰⁴ Tourism Industry Aotearoa (TIA) Tourism 2025



Risks, constraints and dependencies of investing

The following tables set out the risks, constraints and dependencies of a possible investment in Queenstown. Impacts are described as either low, medium or high.

In this context, a 'risk' is the chance of something happening that will have an impact on the achievement of the investment objectives. The main risks are described in Table 4.

Table 4: Risks of investment

Risk	Impact	Likelihood
Tourism market drop due to global financial downturn or changing tastes	High	Low-medium
New government not supporting budget bid in 2018	High	Medium

'Constraints' are limiting parameters within which the investment must be delivered (see Table 5).

Table 5: Constraints of investment

Constraints
QLDC must meet various legislative requirements. These include: <ul style="list-style-type: none"> Local Government Act 2002 Local Government Rating Act 2002 Land Transport Management Act 2003 (LTMA)

'Dependencies' are any actions or developments required of others and outside the scope of the project or programme, and on which the success of the investment proposal depends (see Table 6).

Table 6: Dependencies of investment

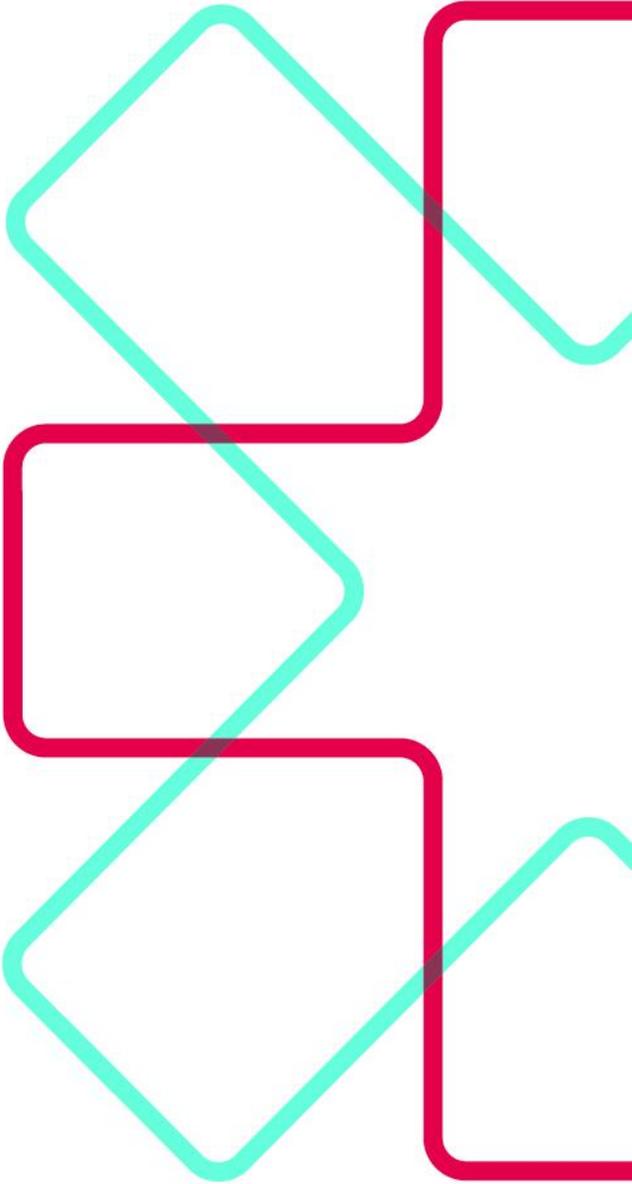
Dependencies
Central government's willingness to consider the case for investment
Scope and timeframes of related investment proposals underway ¹⁰⁵
Housing Infrastructure Fund applications
Proposed Special Housing Areas
Ability to make any legislative changes to achieve funding requirements

¹⁰⁵ Queenstown Lakes District Council Long-Term Plan 2018-2028; NZTA Queenstown Integrated Transport Programme Business Case and Queenstown Town Centre Master Plan



PART TWO: ECONOMIC CASE

WHAT	FOCUS
1 Strategic Case	
2 Economic Case	<p>What is the impact of three different investment options/ scenarios on:</p> <ul style="list-style-type: none">• International visitor experience and spending?• The local community?• GDP, GST and employment locally, regionally and nationally?
3 Financial Case	



INTRODUCTION

How will we make our argument

This Economic Case will consist of four parts (see Figure 1).

- 1 **Three investment scenarios:** These scenarios are associated with certain levels of tourism infrastructure services, and therefore quality of international tourism experience, translating into different volumes and a different mix of international visitors who visit New Zealand primarily because of Queenstown. These scenarios are called the 'eroded', 'sustained' and 'enhanced' experiences.
- 2 **Impact on international visitor spending:** We then identify the spend from international visitors that are visiting New Zealand primarily because of Queenstown. This is important because it means any additional expenditure by this group can be attributed to the Queenstown tourism proposition.

We then explore how the three different scenarios affect international visitor spending in Queenstown (local), the South Island (regional) and nationally. This is based on the assumption that a higher-quality international visitor experience will result in more, higher-spending visitors.

- 3 **Impact on GDP, GST and employment:** Having determined the three different levels of international tourism spending under each scenario will allow us to determine the flow-on effects on GDP, employment and GST generation, locally, regionally and nationally.

Figure 33: Economic case structure



The Economic Case will be followed by the Financial Case, where we explore the preferred investment scenario in detail, and examine the cost of the investment and the financial implications for QLDC and the Crown.



Alignment to the Better Business Case (BBC) framework

This Economic Case differs from the traditional approach set out in the Better Business Case (BBC) framework.

The BBC framework requires the Economic Case to identify a long-list of options. These are assessed against the investment objectives and critical success factors to identify a shortlist of options. A cost benefit analysis and Multiple Criteria Decision Analysis (MCDA) are traditionally used to assess the shortlist options and identify the preferred approach.

This Economic Case differs from the framework in a number of ways. We have not begun by identifying a long list of options. Rather, we have leveraged the substantial work underway by the QLDC to develop the 2018-28 LTP, which draws on a significant body of analysis including programme business cases and QLDC's 40 year Infrastructure Strategy.

Using QLDC's work as a basis, we have created three different versions of the LTP – a lower cost version for the 'eroded' scenario, comprising less budget line items and more deferrals, through to a higher cost version for the 'enhanced' scenario, with more budget line items and fewer deferrals. The 'sustained' scenario falls between the two in terms of price point and deferrals.

The large scale and complex nature of the LTP investment does not sensibly lend itself to a cost-benefit analysis (CBA). To address this, we have used an economic impact assessment to quantify the benefits of each scenario.

Our assessment of the scenarios is based on a comparison of the marginal cost of the scenario and the economic and fiscal benefits that it provides, as well as judgement about the likely affordability and achievability of the overall investment.



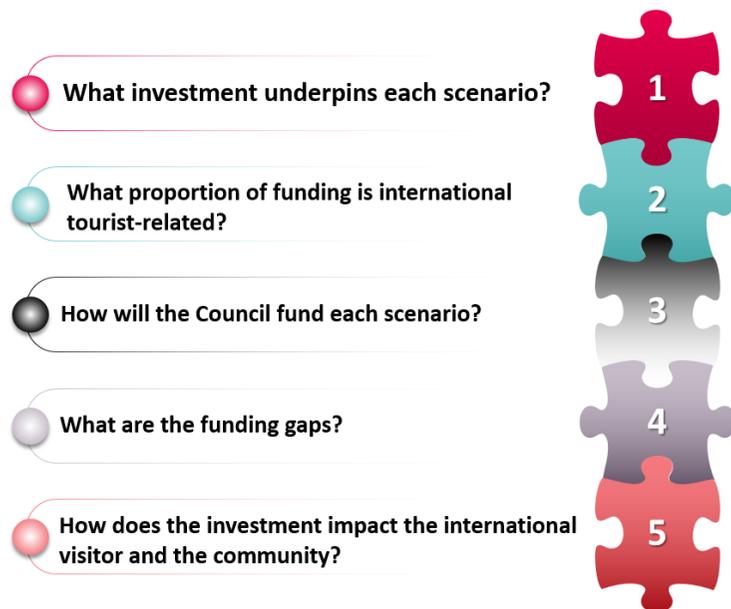
THREE SCENARIOS: QUEENSTOWN'S FUTURE



How were the scenarios developed?

Each scenario is underpinned by a different version of QLDC's 2018/19–2027/28 LTP. We have taken an iterative process to developing the three LTPs, described below and on the following pages.

Figure 34: How were the scenarios developed?



1 What investment underpins each scenario?

¹⁰⁶ LTPs summarise all capital investments a Council plans to make over a 10-year period.

First, we determine the investments underpinning the scenarios by developing a LTP¹⁰⁶ for each scenario (the 'eroded', 'sustained' and 'enhanced' scenarios). We developed these LTPs in close consultation with QLDC's senior leadership team and technical experts. The LTP represents a large and complex investment for the next 10 years, comprising approximately 600 individual initiatives and budget line items (depending on the scenario). The LTP seeks to balance the needs of the community and the needs of visitors (international visitors make up a significant proportion of all visitors).

The total level of investment needed for each LTP varies, with the 'eroded' experience having the lowest level of investment, and the 'enhanced' experience having the highest.¹⁰⁷

2 What proportion of funding is international tourism-related?

Once we have identified the total infrastructure investment for each scenario, we estimate the proportion of that required investment that is related to international visitors.

This estimate is based on a line by line review of the initiatives that make up the LTP. We use qualitative judgment and advice from QLDC to assess where the benefits of the investment would fall and who causes the need for the investment.

We estimate the proportion of the international visitor-related investment for each initiative using a scale of 0–100% in 25% increments.

In line with the scope of this business case, our assessment is limited to new or significantly upgraded infrastructure investment required over the next five years in the Wakatipu Basin area. Table 7 summarises how we have determined the percentage of total infrastructure investment that relates to international visitors.

¹⁰⁷ A number of relevant plans and business cases, including QLDC's analysis to develop its 2018–2028 LTP, have informed the LTPs (see Appendix 4).



Table 7: Investment percentage related to international visitors

Investment	Basis for estimating international visitor portion
Buildings, venues and facilities	<p>Depends on investment, eg:</p> <ul style="list-style-type: none"> • 75% of public toilet upgrade: estimate of international visitors as proportion of total users of facilities. • 75% of Queenstown Gardens development: key attraction for international visitors to Queenstown. • 25% of extension to main hall in Queenstown Events Centre: estimate of proportion of users of the improved facilities.
Solid waste	<p>Estimate of how much international visitors drive demand for new waste facilities and/ or use waste services. Actual allocation depends on the individual investment, eg:</p> <ul style="list-style-type: none"> • 25% of transfer station upgrade • 100% of freedom camping waste facilities • 50% of recycle plant upgrade (QLDC reports demand from high quality international visitors for world-class recycling facilities).
Water	<p>50% of new water supply infrastructure: estimate based on QLDC assessment of how much international visitors contribute to demand for water infrastructure on a daily basis, and international visitors as a proportion of total population during peak population periods (because the planned investments are needed to meet QLDC's peak demand, and these peaks are driven by international (and domestic) visitors in the peak tourist seasons).</p>
Transport	<p>Estimate of how much international visitors drive demand for new transport infrastructure. Actual allocation depends on the individual investment, eg:</p> <ul style="list-style-type: none"> • Average 40% of walkway and cycling tracks, and 75% of seal extensions to National Parks: estimate of international visitor use of infrastructure based on Destination Queenstown and QLDC surveys and MBIE data. • 100% of arterial road investment, pedestrianisation and public realm upgrade: allocation informed by a number of factors: <ul style="list-style-type: none"> – comparison of the required level and quality of Queenstown infrastructure with comparable sized towns without a significant tourism industry – standard of investment required in order to continue to attract high-quality international tourists and remain a world-class tourist destination

Investment	Basis for estimating international visitor portion
	<ul style="list-style-type: none"> – existing quality of infrastructure and extent of issues currently impacting international visitor experience – assessment of drivers of demand for infrastructure, including international visitors and residents working directly in the tourism industry and affiliated industries such as the retail, accommodation and food, and transport sectors.

3 How will the Council fund each scenario?

We have used a financial model to assess the extent that QLDC is able to fund each LTP. QLDC has a limited range of funding tools at its disposal, such as increasing rates (including targeted rates); raising debt levels; and selling off its assets.

The varying levels and timing of investment under each scenario have different financial impacts on the Council and its rate payers. The financial model ensures that QLDC funds each scenario to the maximum prudent financial level, through maximising annual increases in rates and substantially increasing debt – but staying within the financial covenants set by the New Zealand Local Government Funding Agency (NZLGF). This is the affordable level of funding for QLDC. We have worked closely with QLDC to ensure the results are realistic and achievable.



4 What are the funding gaps?

By comparing the total international visitor-related investment required in the LTP and the total level of funding available by QLDC, we are able to determine whether there is a funding gap under each scenario, and how big this funding gap is. The investment required under the 'eroded' scenario is limited to what QLDC could afford on its own¹⁰⁸ – that is, there is no funding gap for this scenario. For the 'sustained' and the 'enhanced' scenario, the investment required is greater than what QLDC can afford on its own.

5 How does the investment impact the international visitor and the community?

We have worked closely with QLDC and its infrastructure advisers and tourism stakeholders to determine the practical implications of infrastructure investment for international visitors and the community, and to analyse how the investment would benefit Queenstown, the South Island and New Zealand.

¹⁰⁸ Net of the typical New Zealand Transport Authority (NZTA) funding assistance rates (FAR) assistance. When a land transport activity undertaken by a council or other approved organisation qualifies for funding from NZTA's National Land Transport Fund (NLTF) the

funding assistance rate (FAR) determines the proportion of the approved costs of that activity that will be paid from the fund.



What are the scenarios?

This business case uses three scenarios – ‘eroded’, ‘sustained’ and ‘enhanced’ – to outline how Queenstown might develop based on different levels of investment in international visitor-related infrastructure (see Table 8). The scenarios differ in terms of the level and timing of infrastructure investment underpinning them.

No, or low, infrastructure investment in Queenstown is expected to result in a lower-quality international visitor experience, while a higher level of infrastructure investment will result in a higher-quality international visitor experience.

To offer a human perspective to the potential impact of the three scenarios we will describe the experience of a fictional German adventure tourist, Helga, visiting Queenstown in 2030. We will also describe what the scenario will look like from a community perspective.



The three scenarios should be seen as being on a continuum, with the ‘eroded’ scenario at one end and the ‘enhanced’ scenario at the other. The ‘sustained’ scenario falls between the two, but sits more toward the ‘enhanced’ scenario in terms of projects funded.¹⁰⁹

Table 8: The three scenarios

Scenario	Key characteristics
Scenario 1: ‘Eroded’ experience	<ul style="list-style-type: none"> • No additional Crown funding beyond current levels • A lower-quality international visitor experience due to lack of infrastructure funding • A shift toward more low-value international visitors, resulting in lower overall spend per international visitor • High negative impact on New Zealand tourism
Scenario 2: ‘Sustained’ experience	<ul style="list-style-type: none"> • Seeks additional funding to address urgent international tourism-related infrastructure pressures • Sustains international visitor growth and current proportion of high-quality international visitors • Positive impact on regional GDP and employment numbers • Continued success of New Zealand tourism
Scenario 3: ‘Enhanced’ experience	<ul style="list-style-type: none"> • Existing tourism pressures are addressed and investment is made to position Queenstown to meet future demand • Increasing international visitor numbers and proportion of high-value international visitors • Greater positive impact on regional GDP and employment numbers • Continued success of New Zealand tourism

¹⁰⁹ This is because investing in the ‘town centre arterials’ to free up traffic from the town centre (which happens under both the ‘sustained’ and ‘enhanced’ scenarios, but not under the eroded scenario) unlocks further infrastructure investment opportunities, including opening up areas of the lakefront for commercial development and further pedestrianisation of the town centre. The

arterials are expensive, which pushes up the total cost of the ‘sustained’ and ‘enhanced’ scenarios. The additional investment to realise the arterials benefits also makes the investment profiles underpinning the ‘sustained’ and the ‘enhanced’ scenarios more similar.



COMPARING THE SCENARIOS

		ERODED SCENARIO	SUSTAINED SCENARIO	ENHANCED SCENARIO
LTP 2018/19–2027/28 cost		\$635 million	\$870 million +\$235 compared to 'eroded' scenario	\$1,020 million +\$385 million compared to 'eroded' scenario +\$150 million compared to 'sustained' scenario
Key characteristics		<ul style="list-style-type: none"> • Trades off community investment to afford the 'basic' level of international visitor investment – Unable to deliver water and roading infrastructure for Ladies Mile and Kingston housing developments – Coronet Forest revegetation and Wanaka deferred beyond 10 years 	<ul style="list-style-type: none"> • 'Enabler' investments to shift key arterial traffic routes out of the town centre, unlocking significant investment opportunities for commercial development • Fewer community investments traded off 	<ul style="list-style-type: none"> • Greater infrastructure investment in the out-years compared to the 'sustained' scenario. QLDC debt levels held at maximum limit in the out-years to fund additional investment • Includes most of the international visitor-related investment needs and additional (non-tourism) community investment
Investment for international visitor-related infrastructure	10 years 2018/19–2027/28	\$185 million	\$374 million	\$442 million
	5 years 2018/19–2022/23	\$160 million	\$296 million	\$330 million
	Investment sought from Crown	No additional investment	\$278 million	\$330 million +\$52 million compared to 'sustained' scenario
Key tourism-related investments		<ul style="list-style-type: none"> • Minimum investment in water to meet peak demand and statutory quality levels in most areas • Minor changes to reduce some congestion on arterial roads in town centre • Public transport hub developed in town centre to increase ease of use for public transport and reduce congestion • Parking capacity increased to meet current demand and parking management and enforcement technology introduced 	<p>Same as 'eroded' scenario, plus:</p> <ul style="list-style-type: none"> • All key arterial roads shifted out of the town centre and traffic management technology introduced to manage peak-time congestion • Priority bus and cycle lanes introduced to encourage shift away from cars. Water taxi / ferry infrastructure investment for better access to town centre from airport • Community Heart investment improves visitor experience • Main tourist foot traffic routes widened and street-scape developed • Wakatipu Active Travel Network investment increases cycling and walking options for tourists 	<p>Same as 'sustained' scenario, plus:</p> <ul style="list-style-type: none"> • Investment in tourism attractions such as Queenstown Gardens, development of Lake Hayes reserve and further Wakatipu walking/cycling improvements • Less congestion due to investment into Shotover Bridge duplication • New wastewater treatment plants and renewal of existing wastewater assets • Two additional reservoirs and a drinking water treatment plant



ERODED SCENARIO

SUSTAINED SCENARIO

ENHANCED SCENARIO

What each scenario will deliver after 10 years

- Statutory water quality levels met in most areas
- Minor improvement in congestion around town centre
- Improved public transport access in town centre
- Additional parking capacity in town centre
- Lost opportunities around commercial development of lake-front land and ability to enhance visitor experience

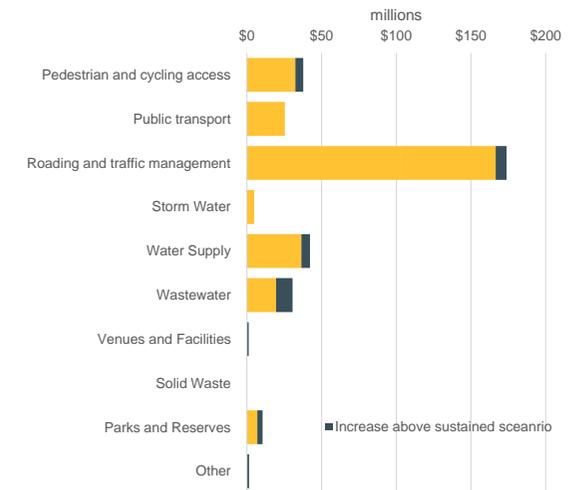
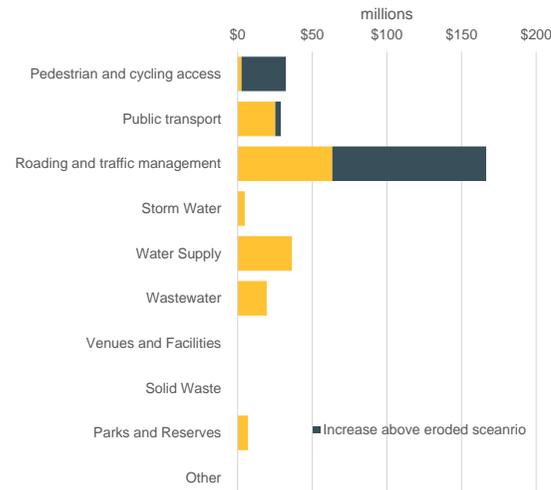
Same as 'eroded' scenario, plus:

- Statutory quality water levels met in all areas
- Improved biodiversity with revegetation of Coronet Forest
- Noticeable change in transport behaviour – preference to use public transport, walk or cycle instead of a car. Significant reduction in congestion in the town centre and around Queenstown
- Greater housing supply with completion of Ladies Mile and Kingston housing developments
- More vibrant and larger town centre which is a destination of choice for both visiting and working

Same as 'sustained' scenario, plus:

- Better quality tourist attractions including lakes, parks and gardens and cycle trails
- Reduced congestion outside of the town centre
- More resilient drinking water and wastewater infrastructure

Investment breakdown for international visitor-related infrastructure



SCENARIO 1: ERODED SCENARIO

What are the impacts of the investments that underpin the ‘eroded’ experience?

Snapshot of investments

- No Crown funding is sought under the ‘eroded’ scenario. QLDC is able to fund the full cost of the LTP (with the assistance of \$35 million from the National Land Transport Fund based on the standard NZTA funding assistance rate).
- Under this scenario, the cost of the 2018–28 LTP is \$635 million over 10 years. Of this, \$185 million relates to international visitors (30% of the total investment).
- Over years 1–5 (2018/19–2022/23), the cost of the LTP is \$483 million, and the international visitor-related portion of this cost is estimated at \$160 million (33% of the total).

Table 9: Key projects funded under the ‘eroded’ scenario

Three new water supply treatment plants, two new reservoirs and increased transmission capacity
Wastewater treatment plant, pump station and increased transmission supply
Realignment to some of the arterial roads running through the town centre
Development of a public transport hub
Statutory water standards are met by 2028, with investment deferred over the 10-year period
Additional on-street parking and two dedicated parking buildings to meet current demand in the town centre. New parking management and enforcement technology

Table 10: Key projects deferred under the ‘eroded’ scenario

Significant proportion of arterial roads within the town centre left as is – significant lost opportunities around commercial development of lake-front land and ability to enhance visitor experience
All wastewater, water treatment and roading projects to enable the Ladies Mile and Kingston housing developments
Drinking water reservoir and treatment plant and increased transmission capacity
Public realm upgrades in town centre and pedestrianisation in town centre
Coronet Forest re-vegetation/ biodiversity programme
Shotover bridge duplication
Extension to town centre hall
Walking and cycling track improvements
Development of Queenstown Gardens
Priority bus and cycle lanes introduced to encourage shift away from cars
Water taxi / ferry infrastructure investment for better access to town centre from airport

Table 11: Total infrastructure investment and international tourism-related portion of investment under ‘eroded’ scenario

	Total infrastructure investment in LTP 2018/19–2027/28	Portion of investment that relates to the international visitor for Years 1–5	
Investment	\$ millions	\$ millions	Percentage
Transport	\$210	\$91	44%
Water	\$266	\$61	23%
Other services	\$159	\$7	5%
Total	\$635	\$160	25%



Congestion worsens over time

Over time, congestion continues to worsen as significant volumes of arterial traffic would continue to go through the town centre, reducing the efficiency of the road, impacting Queenstown’s ability to grow and reducing the ability of pedestrians to move safely and comfortably. No roading investment is made to address future traffic growth.

A new public transport hub on Stanley Street will support growth in bus services and forecast passenger increases.

Much of the existing parking problems will be mitigated through improved parking supply and management through new parking buildings on the town centre fringes. While new parking management technology would help to optimise car occupancy levels, congestion would remain in and around the parking facilities.

Table 12: Transport investment under the ‘eroded’ experience.

Investment	Total transport investment in LTP 2018/19–2027/28		Portion of investment that relates to the international visitor for Years 1–5
	\$ millions	\$ millions	Percentage
Pedestrian and cycling access	\$37	\$3	7%
Public transport	\$32	\$25	78%
Roading and traffic management	\$140	\$63	45%
Total	\$210	\$91	44%

Table 13: Key tourism-related transport investments under the ‘eroded’ experience

Investment	
Pedestrian and cycling access	<ul style="list-style-type: none"> Some dedicated cycle lanes
Public transport	<ul style="list-style-type: none"> New public transport facility in Stanley Street
Roading and traffic management	<ul style="list-style-type: none"> Some arterial roads running through town centre are shifted, but significant proportion of arterial roads left unchanged



Statutory water quality standards met by 2028

Investment in water infrastructure reduces the risk of reputational damage to the local tourism industry due to contamination of the drinking water or pollution of the environment.

New statutory water standards are met by 2028, with investment deferred over the 10-year period. Investment to meet peak drinking water demand includes construction of two reservoirs, three new treatment plants, and increased transmission and network capacity.

Wastewater investment is made to protect against flooding, as well as investment in a new treatment plant to improve water treatment quality.

Sweating of water assets – that is, delaying renewal work on them – is drawn out longer than under the ‘enhanced’ scenario, resulting in higher operating costs.

All water projects for Kingston and Ladies Mile are deferred beyond 2028, which puts the housing developments at high risk of not proceeding.

The final stage of the water treatment upgrades under Project Pure, and stages 3-4 of the Project Shotover Upgrade, and options to meter and control water usage are deferred.

Table 14: Water investment under the ‘eroded’ experience

Investment	Total infrastructure investment in LTP 2018/19–2027/28	Portion of investment that relates to the international visitor for Years 1–5	
	\$ millions	\$ millions	Percentage
Stormwater	\$43	\$5	11%
Water supply	\$146	\$36	25%
Wastewater	\$77	\$20	25%
Total	\$266	\$61	23%

Table 15: Key tourism-related water investments under the ‘eroded’ experience

Investment	
Stormwater	<ul style="list-style-type: none"> Frankton Flats stormwater investment
Water supply	<ul style="list-style-type: none"> Two reservoirs at Beacon Point and New Quail Rise Three new treatment plants (Shotover Country, Beacon Point and Two Mile) Increased transmission and network capacity
Wastewater	<ul style="list-style-type: none"> Project Pure treatment plant upgrade Wastewater pump station Increased reticulation capacity



Minimal investment in downtown area and housing¹¹⁰

Higher-priority investment to address immediate pressures in the town centre would mean that no new investment would be made to lift the visitor experience and develop community services.

Heavy traffic and congestion on and around Shotover Street would remain due to a number of the arterial roads continuing to run through the town centre. As a result, this area would not be able to transition to a more pedestrian-friendly space. This would also reduce the town centre’s ability to support more diverse business activity (outside of tourism) and so increase resilience.

No major investments are made to improve downtown Queenstown, except for investment to reduce existing parking issues. Investments in community services such as arts and culture, and sports and recreation are deferred beyond 2028.

Increasingly the town centre would become an unattractive place for locals to visit and non-tourism related businesses would move out to other areas. The town centre would lose its authenticity, which would negatively impact the town centre as a destination for international visitors.

Development of areas of interest for tourists such as the Botanic Gardens are deferred beyond 2028. The town hall is not extended and no improvements are made to the Lake Hayes reserve.

As noted above, the deferral of infrastructure investment in Kingston and Ladies Mile could mean a reduction in new housing supply on the market. That would have implications for whether QLDC is able to meet its NPS obligations for urban growth.

¹¹⁰ Downtown Queenstown refers to the main shopping and business area in Queenstown.



Negative biodiversity impacts

The revegetation of Coronet Forest does not go ahead. This would mean that a major seed source for wilding pine infestation across the district would remain, with negative financial, community and biodiversity impacts.

Given their age, the trees are moving towards an exponential increase in seeding levels, meaning the hills around Arrowtown are likely to see more seedlings spread across the area. This would impact the flora and fauna of the area, notably bird species. Other implications of this are reduced water levels in local waterways due to more wilding pines collecting the high-country water.

Table 16: Other key investments under the ‘eroded’ experience

Investment	Total infrastructure investment in LTP 2018/19–2027/28	Portion of investment that relates to the international visitor for Years 1–5	
	\$ millions	\$ millions	Percentage
Solid waste	\$26	\$7	27%
Parks and reserves	\$35	\$0	0%
Other	\$98	\$0.2	0%
Total	\$159	\$7	27%

Table 17: Other key international tourism-related investments under the ‘eroded’ experience

Investment
Solid waste

- Transfer station upgrade to meet current demand



Helga's experience

The year is 2030. A German adventure tourist, Helga, lands in Queenstown after 35 hours of flying from Frankfurt. She has aspired to visit New Zealand for years. When Helga lands, she is met by an overcrowded terminal and a 45 minute wait for a taxi. She is annoyed to find out that there are no other ways to get into the city.

Traffic into Queenstown is congested, and it takes her over an hour to drive the seven kilometres to her hotel. As she inches her way down Frankton Road, she rolls down the window. The air isn't as clean as she expected.

Once she arrives at her hotel, she pays \$350 for a single room in a three-star hotel – three times the price of a similar room in Taupō, which was her second choice of destination.

On her first bike ride along the Lakes Hayes Circuit, she sees piles of litter. Helga talks to an Australian couple she meets while cycling. They have been vacationing in Queenstown for 15 years and tell her that the experience is not what it used to be. Overcrowding, ever-rising prices and environmental degradation are detracting from the Queenstown experience, and they aren't sure that they will be returning next year.

Downtown, there are hardly any locals around. The centre is dominated by international chain stores and restaurants, and Helga thinks to herself that she could have visited these shops back home in Frankfurt. Her main impression is that the town centre lacks personality.

As her taxi inches its way back towards the airport a week later, Helga thinks to herself that Queenstown has been a disappointment. She will have a hard time recommending New Zealand as a destination to any of her friends.



Community impacts

Being a local in Queenstown these days isn't as great as it used to be. Older residents who were able to get into the property market before prices skyrocketed are coping, but others weren't so lucky.

Young families and those servicing the tourism industry can no longer afford to rent in Queenstown. Many are moving to more affordable places such as Cromwell and Kingston, and commuting the 50 minutes each-way to Queenstown for work.

Civil servants such as teachers and public servants are looking for jobs elsewhere, as salaries are not keeping up with rental costs which are now on par with central Auckland prices.

Congestion remains an ever-growing problem. Getting into town these days is next to impossible, with local workers and tourist buses vying for the same narrow stretch of road to get to the town centre.

Following a push to make public transport more affordable in 2018, bus prices have crept back up. Locals find that there aren't enough regular bus routes to make public transport a viable alternative to driving. Schedules are irregular and the hillside suburbs aren't well serviced.

Queenstown's water infrastructure is under immense pressure, and many locals boil their drinking water to be on the safe side.

On weekends, residents tend to stay out of the town centre. There isn't much reason for going in – congestion and parking issues mean that it's just not worth the hassle.

Locals tend to avoid the world-class hiking and cycling trails around Queenstown, which have become overcrowded. Congested local camp sites and illegal camping in public areas detract from locals' enjoyment of their own public spaces.



SCENARIO 2: SUSTAINED SCENARIO

What are the impacts of the investments that underpin the ‘sustained’ experience?

Snapshot of investments

- The cost of the LTP is \$870 million over 10 years. Of this, \$374 million relates to international visitors (43% of the total investment).
- Over years 1–5 (2018/23), the cost of the LTP is \$653 million, and the international visitor-related portion of this cost is estimated to be \$296 million (45% of the total).
- In the financial case we demonstrate that QLDC is able to fund \$375 million of the 5-year cost of the LTP under the ‘sustained’ experience (including \$18 million of the international visitor-related infrastructure cost).
- \$278 million is sought from the Crown over 5 years for investment in international visitor-related infrastructure.

Table 18: Total infrastructure investment and international tourism-related portion of investment

Investment	Total infrastructure investment in LTP 2018/19–2027/28		Portion of investment that relates to the international visitor for Years 1–5	
	\$ millions	\$ millions	\$ millions	Percentage
Transport	\$401	\$227		57%
Water	\$300	\$61		20%
Other services	\$169	\$7		4%
Total	\$870	\$296		34%



A sustainable transport system

Significant investment is made into roading and traffic management to address existing and future transport issues, to reduce car dependency and to encourage a shift to public transport. There is a push to establish a desired transport hierarchy – walking, biking, public transport, and private car to reduce congestion.

A major enabling investment in transport will be projects to shift the major arterial roads away from the town centre. This investment is critical to unlocking further infrastructure investment opportunities in Queenstown, including:

- opening up additional land for commercial development around the waterfront and Shotover Street. The waterfront is enhanced as a place for locals and visitors to enjoy without the dominance of cars and traffic
- enabling QLDC to reduce car dependency in the town centre and address congestion issues
- improved arrangements for passenger transport through more spaces for coaches, tourist operations and taxis to operate across the town centre
- expansion of the town centre paid parking, enabling QLDC to adjust the cost of parking in town as a mechanism for influencing future transport modes.

Further investment is made to encourage the shift to public transport in and around the town centre, including a wider park and ride network to encourage satellite parking. Major projects include: improved wharf infrastructure for the water taxi and ferry services to support greater use of the lake for transport; priority cycle and bus lanes; and a public transport information system.

Investments in improved access to Lake Hayes reserve (Widgeon Place), Wakatipu walking/cycling improvements and the Shotover Bridge (Arthurs Point) duplication are deferred.

A vibrant and healthy town centre

Reduced traffic allows large portions of the town centre to be redesigned to make the town centre a destination and improve the visitor and local experience.

Streets and lanes are significantly enhanced with better pedestrian connections between attractions along the main visitor routes (such as the waterfront to the Skyline Gondola), improved street furniture and pavement treatments, more and better public spaces, and accessibility for those with disabilities or mobility challenges.

Locals are attracted to the area for recreation and work, increasing the authenticity of the town centre and cementing it as a destination of choice for international visitors.

Table 19: Transport investment under the ‘sustained’ experience.

Investment	Total infrastructure investment in LTP 2018/19–2027/28	Portion of investment that relates to the international visitor for Years 1–5	
	\$ millions	\$ millions	Percentage
Pedestrian and cycling access	\$89	\$32	36%
Public transport	\$33	\$29	90%
Roading and traffic management	\$280	\$166	60%
Total	\$401	\$227	57%



Table 20: Key tourism-related transport investments under the ‘sustained’ experience

Key tourism-related transport investments <i>(Bold type denotes investment above the ‘eroded’ scenario)</i>	
Pedestrian and cycling access	<ul style="list-style-type: none"> • Dedicated cycle lanes in and around town centre • Increased amount and quality of public spaces • Wider footpaths on all major foot traffic routes (eg, waterfront to Skyline Gondola) • Development of plans to enhance cultural and arts facilities in the town centre • Deferral of further investments into Wakatipu walking/cycling and improved access to Lake Hayes reserve
Public transport	<ul style="list-style-type: none"> • Wharf infrastructure for water taxis and ferry service • Priority bus lanes and public transport system • New public transport facility in Stanley Street
Roading and traffic management	<ul style="list-style-type: none"> • Major ‘enabler’ investment to shift main arterial routes outside of town centre • Two new parking buildings and on-street parking, and technology to manage parking demand and enforce parking rules • Shotover Bridge (Arthurs Point) duplication deferred

Water standards met before 2028

New statutory water standards are met before Year 10. Water investments are grouped to procure assets more effectively and attract public-private partnerships to deliver water infrastructure in the future.

The introduction of mechanisms for metering and controlling water usage reduces leakage across the system and lowers the risk of further pipe ruptures in the town centre.

All of the necessary investment in water projects for the Kingston and Ladies Mile housing developments proceed, ensuring there is increased housing supply in Queenstown and that QLDC meets its NPS obligations for urban growth.¹¹¹

Table 21: Water investment under the ‘sustained’ experience

Investment	Total infrastructure investment in LTP 2018/19–2027/28	Portion of investment that relates to the international visitor for Years 1–5	
	\$ millions	\$ millions	Percentage
Storm Water	\$50	\$5	10%
Water Supply	\$154	\$36	24%
Wastewater	\$98	\$20	20%
Total	\$302	\$61	19%

¹¹¹ The purpose of the National Policy Statement (NPS) on Urban Development Capacity is to ensure local authorities enable, through their land-use planning and infrastructure, sufficient development capacity for housing and business.



Table 22: Key tourism-related water investments under the ‘sustained’ experience

Other key tourism-related investments <i>(Bold type denotes investment above the ‘eroded’ scenario)</i>	
	<ul style="list-style-type: none"> Water standards met before 2028 Better water asset procurement, and investment structured to attract future public-private partnerships
Stormwater	<ul style="list-style-type: none"> Frankton Flats stormwater investment
Water Supply	<ul style="list-style-type: none"> Two reservoirs at Beacon Point and New Quail Rise Three new treatment plants (Shotover Country, Beacon Point and Two Mile) Increased transmission and network capacity
Wastewater	<ul style="list-style-type: none"> Project Pure treatment plant upgrade Wastewater pump station Increased reticulation capacity

Other key investments

There is no additional international visitor-related investment beyond the ‘eroded’ scenario. However, the revegetation of Coronet Forest proceeds.

Table 23: Other key investments under the ‘sustained’ experience

	Total infrastructure investment in LTP 2018/19–2027/28	Portion of investment that relates to the international visitor for Years 1–5	
Investment	\$ millions	\$ millions	Percentage
Solid waste	\$26	\$7	27%
Parks and reserves	\$44	\$0	0
Other	\$99	\$0.2	0
Total	\$169	\$7	4%

Table 24: Other key international tourism-related investments under the ‘sustained’ experience

Other key tourism-related investments <i>(Bold type denotes investment above the ‘eroded’ scenario)</i>	
Solid waste	<ul style="list-style-type: none"> Transfer station upgrade to meet current demand





Helga's experience

Helga arrives in Queenstown and immediately starts exploring. She ferries into town and checks into her hotel. Getting into the city is relatively quick and hassle-free, considering how much traffic is around.

Helga spends the evening walking around the redeveloped town centre, which has an abundance of locally-owned restaurants, bars and shops, and is bustling with a diverse mix of tourists and locals.

The next day, she explores the town on a Council-provided electric bike. An avid cyclist, Helga is excited that this innovative way of getting around is so readily available. She uses an electric bike charging station to recharge her bike.

Helga finds the town centre very safe to cycle around in. Why would you drive in anyway, when links to the town centre from the park-and-ride by the airport are so readily available and cheap?

Helga spends the week exploring several of Queenstown's dedicated cycling tracks, which are clean and well-maintained. The natural environment is one of the most beautiful and most pristine that she has ever seen.

One week later, it's time to fly home. Helga takes a bus to the airport, which uses a dedicated bus lane to get to the terminal in around 20 minutes. She sees locals cycling to work on the wide cycling path along Frankton Road.

It's been a great week, Helga thinks to herself. There is no doubt that she will return to Queenstown in the next few years, perhaps with some friends, and take the opportunity to explore the wider region.



Community impacts

These days, it's good to be a local in Queenstown. Residents think back to only 13 years ago, when congestion, soaring house prices and a growing tourist load was making life increasingly difficult.

Getting to work is relatively easy. Most locals cycle or take public transport to work. The dedicated bus lanes mean that travel times are consistent and the commute from Frankton to town takes a maximum of 15 minutes, even in rush hour.

1,000 affordable homes were built in Queenstown between 2018-2028 under the 'Secure Home' and the 'Shared Home Equity Product' schemes. Housing pressures have also been alleviated by new residential developments in the Frankton area and the Queenstown Lakes Community Housing Trust's affordable rental programme.

New lower-priced apartments and duplexes are making it more affordable for the workers servicing the tourism industry.

Public transport is getting cheaper and more regular. Inexpensive commuter buses connect the hills suburbs with the town centre, and buses run down Frankton road every 5 to 10 minutes. A new ferry service also connects Frankton and the town centre.

A heavy focus on increasing pedestrianisation and creating more shared spaces in the town centre has significantly increased footfall in the town centre and local businesses and cafes are thriving as a result.

Several new parking garages in the town centre makes parking in town much easier than it used to be. There's also the choice of bussing, ferrying or cycling into town.

Water quality standards were met only a few years ago, and locals are keen for the new Hawthenden reservoir to open next year, which will reduce ongoing pressure on the water network.

Overall, locals are happy to live and work in Queenstown, and are positive about sharing it with visitors.



SCENARIO 3: ENHANCED SCENARIO

What are the impacts of the investments that underpin the ‘enhanced’ experience?

Snapshot of investments

- Under the ‘enhanced’ experience, the cost of the LTP is \$1,020 million over 10 years. Of this, \$442 million relates to international visitors (43% of the total investment).
- Over years 1–5 (2018/19–2022/23), the cost of the LTP is \$726 million, and the international visitor-related portion of this cost is estimated at \$330 million (45% of the total).
- QLDC is able to fund \$372 million of the 5-year cost of the LTP (50% of the total LTP over this period).
- The international visitor infrastructure investment being sought from the Crown under this scenario is \$330 million over 5 years.

Table 25: ‘Enhanced’ scenario investment

Investment	Total infrastructure investment in LTP 2018/19–2027/28		Portion of investment that relates to the international visitor for Years 1–5	
	\$ millions		\$ millions	Percentage
Transport	\$460		\$240	52%
Water	\$370		\$78	21%
Other services	\$190		\$12	6%
Total	\$1,020		\$330	32%



A sustainable transport system

Under this scenario, there is a focus on planning for mass transit corridor options from the town centre to the airport – such as high-capacity gondola operations and/or ferry services – to future-proof the Frankton Road corridor and provide a high-quality visitor experience.

Table 26: Transport investment under the ‘enhanced’ experience

Investment	Total infrastructure investment in LTP 2018/19–2027/28		Portion of investment that relates to the international visitor for Years 1–5
	\$ millions	\$ millions	
Pedestrian and cycling access	\$119	\$38	32%
Public transport	\$33	\$29	88%
Roading and traffic management	\$309	\$174	56%
Total	\$460	\$240	52%

Table 27: Key tourism-related transport investments under the ‘enhanced’ experience

Key tourism-related transport investments (<i>Bold type denotes investment above the ‘sustained’ scenario</i>)	
Pedestrian and cycling access	<ul style="list-style-type: none"> • Further investments in Wakatipu walking/cycling • Improved access to Lake Hayes reserve • Dedicated cycle lanes in and around town centre • Increased amount and quality of public spaces • Wider footpaths on all major foot traffic routes (eg waterfront to Skyline Gondola) • Development of plans to enhance cultural and arts facilities in the town centre
Public transport	<ul style="list-style-type: none"> • Planning for mass transit corridor from town centre to airport (eg, gondola and high-speed ferry) • Wharf infrastructure for water taxis and ferry service • Priority bus lanes and public transport system • New public transport facility in Stanley Street Ferry network infrastructure
Roading and traffic management	<ul style="list-style-type: none"> • Shotover Bridge (Arthurs Point) duplication • Major ‘enabler’ investment to shift main arterial routes outside of town centre • Two new parking buildings and on-street parking, and technology to manage parking demand and enforce parking rules



Water quality standards met by 2023

Further investment in water infrastructure future-proofs Queenstown against additional resident and visitor growth.

Drinking water supply is increased with additional reservoirs and treatment plant. Wastewater quality improves, which protects the environment against contamination from flooding events.

There is a shift away from a ‘sweating the assets’ approach (that is, delaying asset renewal work until it is unavoidable), resulting in operating cost savings over time.

Table 28: Water investment under the ‘enhanced’ experience

Investment	Total infrastructure investment in LTP 2018/19–2027/28		Portion of investment that relates to the international visitor for Years 1–5	
	\$ millions	\$ millions	\$ millions	Percentage
Stormwater	\$50	\$5		10%
Water supply	\$180	\$42		24%
Wastewater	\$140	\$31		22%
Total	\$370	\$78		21%

Table 19: Key tourism-related water investments under the ‘enhanced’ experience

Key tourism-related water investments

(Bold type denotes investment above the ‘sustained’ scenario)

- Water standards met before 2028
- Better water asset procurement, and investment structured to attract future public-private partnerships

Storm Water	<ul style="list-style-type: none"> • Frankton Flats stormwater investment
Water Supply	<ul style="list-style-type: none"> • Two new reservoirs at Hawthenden and Beacon Point • Water treatment plant at Shotover Country • Two reservoirs at Beacon Point and New Quail Rise • Three new treatment plants (Shotover Country, Beacon Point and Two Mile) • Increased transmission and network capacity
Wastewater	<ul style="list-style-type: none"> • Additional investment into Project Pure treatment upgrade • Project Shotover wastewater upgrade • Major wastewater infrastructure renewals • Project Pure treatment plant upgrade • Wastewater pump station • Increased reticulation capacity



Other key investments

Existing assets are improved to enhance the community and international visitor experience and beautify Queenstown. The Queenstown Gardens, a popular attraction for international visitors, are developed. The town hall is upgraded and extended to allow for bigger community events.

Table 29: Other key investments under the ‘enhanced’ experience

Investment	Total infrastructure investment in LTP 2018/19–2027/28	Portion of investment that relates to the international visitor for Years 1–5	
	\$ millions	\$ millions	Percentage
Solid waste	\$26	\$7	25%
Parks and reserves	\$53	\$3	6%
Other	\$109	\$2	2%
Total	\$188	\$12	5%

Table 30: Other key international tourism-related investments under the ‘enhanced’ experience

Other key tourism-related investments	
<i>(Bold type denotes investment above the ‘sustained’ scenario)</i>	
Solid waste	• Transfer station upgrade to meet current demand
Parks and reserves	• Queenstown Gardens development investment made
Venues and facilities	• Queenstown Events Centre – extension to main hall





Helga's experience

Upon arrival, Helga takes a ferry into town, which gives her a stunning entrance to Queenstown, gliding down the crystal blue Wakatipu Basin surrounded by snow-capped mountains.

The ferry operator tells her that tourists will have even more options for getting to the town centre soon, and points to the gondola construction which in a few years will allow visitors to literally soar over Queenstown Hill and into town.

The newly developed cultural and arts centre is warm and inviting, and she enjoys a meal at a local restaurant. She spends the week exploring Queenstown's many world-class mountain biking trails. The natural environment is one of the most beautiful and most pristine that she has ever seen.

She also finds time to visit several attractions, such as the redeveloped Queenstown Gardens and the Lake Hayes Reserve. On the Friday night, she enjoys a concert in the extended main hall of the Queenstown Events Centre.

Helga is excited to hear about a new ski resort that has been developed at the back of the Remarkables – she would definitely love to try it out next time she visits.

One week later, it's time to fly back to Auckland. Helga chooses to take an electronic bus to the airport, which uses a dedicated bus lane to get to the terminal in under 15 minutes. She sees locals cycling to work on the wide, dedicated cycling path along Frankton Road.

Helga has had an outstanding week, and she can't wait to visit Queenstown again in the future.



Community impacts

Queenstown is a great place to be. Getting to work is easy – cycling and public transport are especially popular, with the commute between Frankton and the town centre taking approximately 15 minutes if you cycle or take a public bus.

Public transport is cheap, regular and reliable and a new ferry connects Frankton and the town centre. The Wakatipu walking and cycling improvements have contributed to increasing the number of people cycling to work.

Air connectivity nationally and internationally has also improved, benefitting both locals and tourists alike.

Heavy investment in pedestrianisation means that the town centre is walkable and teeming with life.

Locals are proud of the extended Events Centre, where local and sometimes international bands play concerts, and the high-quality facilities have hosted several high-profile conferences.

On weekends, locals like to take their kids to the redeveloped Queenstown Gardens, which is a great place for families to visit.

Water quality standards were met several years ago. Several new reservoirs such as the Hawthenden reservoir, the new Shotover Country Water treatment plant and investment into waste water management has placed Queenstown in front of future demand.

Locals are proud that Queenstown has avoided many of the water quality issues facing other Councils across New Zealand.

New housing schemes and developments mean that the immense housing market pressures have been alleviated, and seasonal workers servicing the tourism industry typically live in the new affordable housing dotted around town.



IMPACT ON INTERNATIONAL VISITOR SPEND



Estimating visitor spend because of Queenstown and for each scenario

Below is an outline of how the international visitor spend has been determined.

1 Determine proportion and spend of international visitors coming to New Zealand primarily because of Queenstown

The first step was to identify the total visitors to Queenstown, and then isolate within that group the visitors who came to New Zealand primarily because of Queenstown.

This latter group is relevant, as determining the economic impact of spending by international tourists who come to New Zealand because of Queenstown, allows us to analyse what would happen to the South Island and NZ economies if the Queenstown visitor experience was significantly diminished or improved.

The proportion of international visitors coming to New Zealand primarily because of Queenstown was determined through analysing international credit card data spending. This group was defined as those international visitors to New Zealand who spend more than 40% of their total spend in Queenstown – that is, Queenstown is the main destination on their New Zealand itinerary.

2 Identify how the spend is dispersed locally, regionally and nationally

The next step was to analyse the credit card data for this group to determine where, geographically, they spent their money. We broke

expenditure down into three geographic areas: Queenstown; the rest of the South Island; and the North Island. We then used MBIE's Regional Tourism Estimates to reflect total expenditure in Queenstown, the South Island and New Zealand.

3 Identify key measures of international visitor spend

International visitor spend is a function of two inputs:

- *the number of international visitor numbers to Queenstown (to quantify the benefits that result from visitors coming to New Zealand because of Queenstown)*
- *the average spend per international visitor. We use this as a proxy for measuring the proportion of high quality international visitors (that is, a higher per visitor spend equates to a greater proportion of higher quality visitors).*

4 Assess how the measures are influenced

Changes to international visitor spend are considered over a 10 year period. Although the business case seeks investment over a 5 year period, we do not expect material changes to visitor numbers resulting from the investment to occur within the first five years.¹¹² In years 1–5, for all scenarios, we use an annual average international visitor growth rate of 2.4%, which is based on Rationale Consulting Ltd's visitor growth projections.¹¹³

Our judgement on the change in visitor numbers and average spend is informed by a number of qualitative and quantitative inputs.

We have discussed the influencers of international visitor spend with QLDC and its key tourism stakeholders, including Destination Queenstown, Queenstown Airport, Air New Zealand and Tourism New

¹¹² In the early years any infrastructure development to improve the visitor experience is in planning and construction stages. The international visitor experience would not be materially impacted (either in terms of risk avoided or benefit realised) until the infrastructure has been completed and is operational.

¹¹³ Rationale Consulting Ltd's growth projections are based on Statistics NZ and MBIE tourism data. The firm's projection figure is lower than actual visitor growth in Queenstown Lakes District over the last two years as it assumes that recent growth rates will taper off in the longer term.



Zealand. We have also liaised with Rationale Consulting, who advise QLDC on long-term visitor and resident population projections for planning purposes, and MBIE officials involved with producing the tourism statistics.

We have reviewed visitor surveys, paying careful attention to the results of the quarterly Visitor Insight Programme, which is produced by a third party for Destination Queenstown. This survey covers a range of Queenstown activities, exploring the reason for staying, visitor satisfaction, gap between experience and expectation, and the propensity to recommend Queenstown as a destination.

5 Determine impact on international visitor spend

Based on this broader understanding of visitors to Queenstown, we then determine the impact of these investments on the number and average spend of international visitors. We have deliberately been very conservative in our estimates, to avoid overstating the benefits of the 'sustained' and 'enhanced' scenarios compared to the 'eroded' experience.¹¹⁴

¹¹⁴ We have made judgments on two of the three drivers of international spend (visitor numbers and average spend), but not length of stay. We were unable to identify an appropriate basis for determining whether length of stay would change due to changes in infrastructure investment.



Impact on international visitor spending under 3 scenarios

	ERODED SCENARIO	SUSTAINED SCENARIO	ENHANCED SCENARIO
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Key variables influencing international visitor spend – considered over 10 years

Average annual change in international visitor numbers



2%

High value international visitors are sensitive to issues caused by infrastructure pressures. Increasingly, the 'eroded' scenario results in negative experiences associated with the town and natural environments, authenticity, congestion and parking.

This leads to a reduction in referrals for Queenstown made by other high-quality visitors (key influencer for this type of visitor when choosing destination country).



2.4%

Improvements to the infrastructure (including accommodation and tourist attractions funded by private industry) continue to meet or exceed expectations of a high proportion of international visitors.

Visitor referrals for Queenstown continue to attract high-quality visitors.

International visitors continue to return to Queenstown over time

This results in a sustained increase in the number of international visitors to Queenstown, with a small increase in the proportion of visitors coming from North America, Europe and China.



3.2%

International visitor satisfaction levels are very high, with a reduction in the proportion of visitor experiences failing to meet expectations.

Online and social media referrals for Queenstown remain high and continue to influence visitors to come to New Zealand.

Average annual change in international visitor spend



(1.1%)

The drop in high value visitors are partially offset by an increase in the number of backpackers, who are less sensitive to problems associated with infrastructure.

A lower proportion of high value visitors reduces the average visitor spend.



1.3%

International visitors continue to return to Queenstown over time

This results in a sustained increase in the number of international visitors to Queenstown, with a small increase in the proportion of visitors coming from North America, Europe and China.



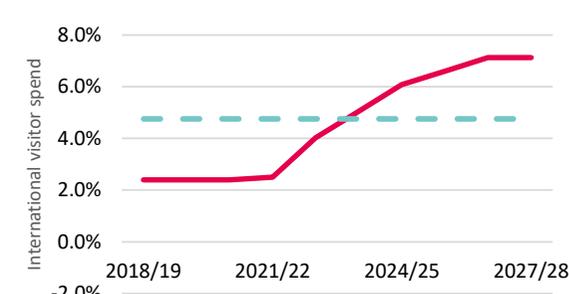
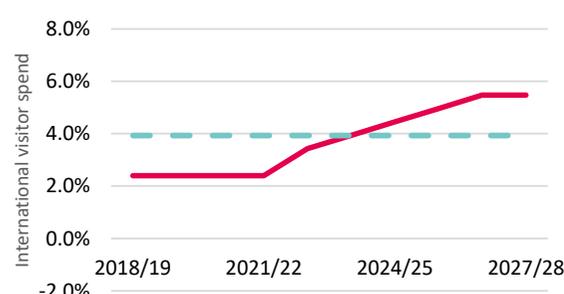
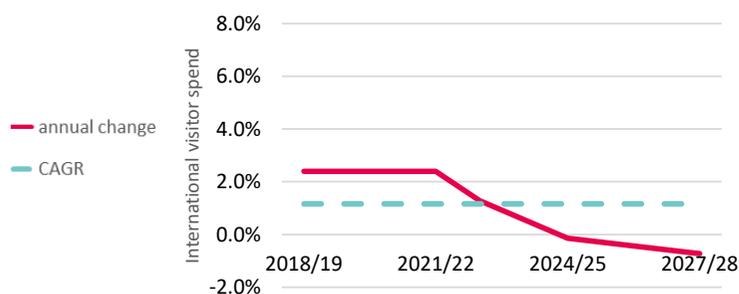
1.3%

Visitors of all types are attracted to Queenstown, with a small increase in the proportion of high quality visitors to Queenstown.

International visitor numbers grow at a higher rate than under the 'sustained' scenario.

Forecast change in international visitor spend

Note: Compound annual growth rate (CAGR) shows the average annual change.



Spend of international visitors coming to New Zealand because of Queenstown, at local, regional and national levels and the forecast change in international visitor spend

	Current annual spend 2017/18	ERODED SCENARIO Total spend over 10 years	SUSTAINED SCENARIO Total spend over 10 years	ENHANCED SCENARIO Total spend over 10 years
Spend in Queenstown	\$988–\$1,100 million	\$11,658 million	\$12,706 million (+\$1,048 million above 'eroded' scenario)	\$13,074 million (+\$368 million above 'sustained' scenario)
Spend in rest of South Island	\$157–\$254 million	+\$2,293 million	+\$2,500 million (+\$207 million above 'eroded' scenario)	+\$2,572 million (+\$72 million above 'sustained' scenario)
Spend in North Island	\$295–\$386 million	+\$3,769 million	+\$4,108 million (+\$339 million above 'eroded' scenario)	+\$4,227 million (+\$119 million above 'sustained' scenario)
Total spend in New Zealand	\$1,440–\$1,740 million	\$17,720 million	\$19,313 million (+\$1,593 million above 'eroded' scenario)	\$19,873 million (+\$560 million above 'sustained' scenario)



IMPACT ON GDP, GST AND EMPLOYMENT



How was the impact (from the change in international visitor spend) on GDP, GST and employment determined?

1 Analyse how the spend contributes to GDP and employment

Using earlier analysis that identified how the international visitor spend was dispersed locally, regionally and nationally, we used an input output model to assess how the international visitor spend in each geographic area translated into GDP and employment. The input output model also allows us to apply multipliers to estimate indirect and induced impacts on GDP and employment.

2 Determine GDP and employment for each of the scenarios

Using earlier analysis that estimated the change in international spend of visitors who came to New Zealand because of Queenstown for each of the three scenarios, we calculated GDP and employment using input output and multiplier analysis.

Input-Output (I-O) multiplier analysis is used to estimate the economy-wide effects that a change in economic activity (in this case spending by international visitors who come to New Zealand because of Queenstown across three scenarios) has on a particular economy (in this case Queenstown, the South Island and all of New Zealand).

Regional I-O tables and multipliers are constructed from a detailed set of industry accounts that measure the commodities produced by each industry and the use of these commodities by other industries and final users. An initial change in economic activity results in diminishing rounds of new spending as leakages occur through saving or spending outside the local economy.

The economic impact analysis identified impact from direct expenditure and then applying regional multipliers to determine the indirect and induced effects of that initial expenditure in terms of gross output, value added (GDP), and employment.

All figures have been tested and cross-checked with relevant experts and various data sources.

3 Estimate GST

We have used Statistics New Zealand Tourism Satellite Account (TSA) ratios to estimate the GST resulting from the additional spend. Based on the TSA, GST is equivalent to around 8% of total expenditure. The lower share of GST (compared to the 15% GST rate) reflects the exclusion of imports and intermediate production from the final visitor spend.

The following economic impact analysis is based on the assumption that if an international tourist spends more than 40% of their total New Zealand spend in Queenstown, then *Queenstown is the main destination on their NZ itinerary and they are visiting NZ primarily because of Queenstown.*

This means that any additional expenditure by this group outside Queenstown can be attributed to the Queenstown tourism proposition.



Impacts of the three scenarios on GDP, GST and employment

The following section discusses the economic and fiscal benefits that result from Crown investment in Queenstown’s international tourism-related infrastructure.

The benefits are based on the direct spend from **international tourists who come to New Zealand primarily because of Queenstown** – that is, visitors for whom Queenstown was the primary reason or major drawcard for visiting New Zealand.

Snapshot

The figures on the right show the GDP, GST revenue and jobs generated under each of the scenarios:

- The ‘eroded’ scenario
- The ‘sustained’ scenario
- The ‘enhanced’ scenario

The ‘eroded’ scenario shows the level of economic activity and GST revenue that is expected if there is no additional funding above the 2018 LTP. The ‘sustained’ and ‘enhanced’ scenarios show the level of benefit that can be expected if further investment is made by the Crown.

GDP and GST revenue are expressed as total amounts over 10 years. The job forecast is for 2028.

Figure 35: Impact of Crown investment on Queenstown Lakes District

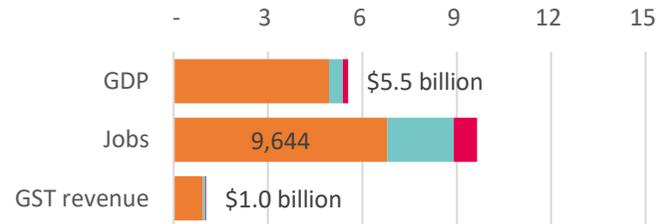


Figure 36: Impact of Crown investment on the South Island

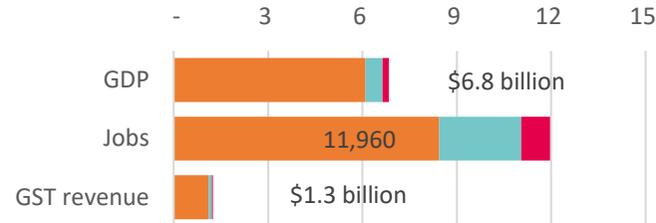


Figure 37: Impact of Crown investment on the whole of New Zealand



The figures on the right show the proportion of GDP and GST revenue generated in Queenstown Lakes District, the rest of the South Island and the North Island.

Figure 38: Proportion of GDP generated in Queenstown Lakes District, rest of South Island and the North Island

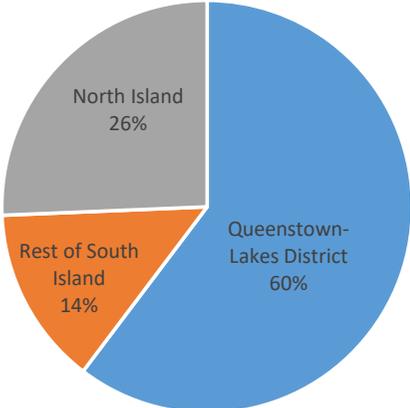


Figure 39: Proportion of GST revenue

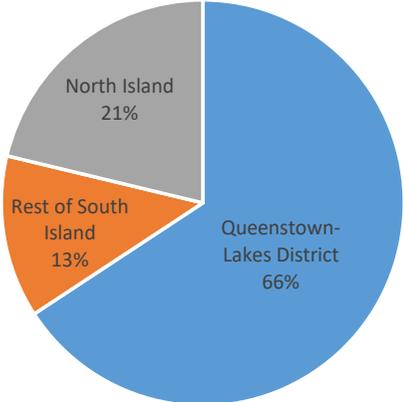


Table 31 sets out the additional economic benefits (GDP and jobs) and fiscal benefits (GST revenue) for the 'sustained' and 'enhanced' scenarios.



Table 31: Economic and fiscal benefits

		'SUSTAINED' SCENARIO <i>Additional benefits above the 'eroded' scenario</i>	'ENHANCED' SCENARIO <i>Additional benefits above the 'sustained' scenario</i>
Investment sought for international visitor-related infrastructure		+\$278 million	+\$52 million \$330 million in total
Benefits			
Queenstown Lakes District	Total 10 year spend by international visitors coming to NZ because of Queenstown	+\$1,048 million	+\$368 million
	GDP over 10 years	+\$440 million	+\$160 million
	Jobs by 2028	+2,110 FTES	+740 FTES
	GST revenue over 10 years	+\$80 million	+\$30 million
All of the South Island	Total 10 year spend by international visitors coming to NZ because of Queenstown	+\$1,254 million	\$441 million
	GDP over 10 years	+\$550 million	+\$190 million
	Jobs by 2028	+2,610 FTES	+910 FTES
	GST revenue over 10 years	+\$100 million	+\$35 million



All of New Zealand	Total 10 year spend by international visitors coming to NZ because of Queenstown	+\$1,593 million	+\$560 million
	GDP over 10 years	+\$740 million	+\$260 million
	Jobs by 2028	+3,640 FTES	+1,270 FTES
	GST revenue over 10 years	+\$130 million	+\$45 million

Table 32 presents the same economic and fiscal benefits, but in a different way. It shows the benefits for Queenstown Lakes District and the additional benefits to the rest of the South Island (excluding Queenstown Lakes District) and the North Island.

Table 32: Economic and fiscal benefits

		'SUSTAINED' SCENARIO	'ENHANCED' SCENARIO
Investment sought for international visitor-related infrastructure		\$278 million	\$330 million
Benefits			
Queenstown Lakes District	Total 10 year spend by international visitors coming to NZ because of Queenstown	\$12,705 million	\$13,075 million
	GDP over 10 years	\$440 million	\$600 million
	Jobs by 2028	2,110 FTES	2,840 FTES
	GST revenue over 10 years	\$80 million	\$110 million



Rest of South Island <i>Additional benefits above Queenstown</i>	Total 10 year spend by international visitors coming to NZ because of Queenstown	+\$2,500 million	+\$2,570 million
	GDP over 10 years	+\$105 million	+\$140 million
	Jobs by 2028	+510 FTES	+680 FTES
	GST revenue over 10 years	+\$16 million	+\$22 million
North Island <i>Additional benefits above South Island</i>	Total 10 year spend by international visitors coming to NZ because of Queenstown	+\$4,110 million	+\$4,225 million
	GDP over 10 years	+\$190 million	+\$260 million
	Jobs by 2028	+1,025 FTES	+1,380 FTES
	GST revenue over 10 years	+\$27 million	+\$36 million



A comment on the benefit cost ratio

The benefit-cost ratio (BCR) is an indicator used to summarise the overall value for money of an investment proposal. We have calculated a BCR for the ‘sustained’ and ‘enhanced’ scenarios – supplementing the figures in Table 32 with further analysis. On the cost side, we have included ongoing operating cost to maintain the infrastructure. On the benefit side, we have excluded the benefits that fall to Queenstown.

The BCR is most sensitive to the length of time that the benefits are considered over. In the tables above, we have been conservative and calculated the GDP over a relatively short period of 10 years – in reality, this timeframe only represents a portion of the expected useful life of the infrastructure assets.

Table 33 shows that when the BCR is calculated over 10 years, the cost of the investment outweighs the benefits, however the BCR improves when a longer term view is taken.

Even with these adjustments, we caution against relying on the BCR as the sole basis for measuring the value of the Crown’s investment.

The benefits only include GDP, which is calculated on an indirect basis. If we took the induced impacts into account, the GDP would be higher (and the BCR greater). There are also a number of other benefits that are not included in the BCR calculation which are expected to occur because of the Crown’s investment in the infrastructure.

Two examples are benefits due to construction activity to build and maintain the infrastructure, and private investment that would occur because of QLDC’s infrastructure investment (eg new hotels, further development around the lake front and ski field development). These benefits are discussed further on the following pages.

Table 33: Benefit cost ratio

	Benefit cost ratio over:			
	10 years	20 years	30 years	40 years
‘SUSTAINED’ SCENARIO	0.44	1.17	1.52	1.74
‘ENHANCED’ SCENARIO	0.48	1.29	1.68	1.93



Additional benefits

Increased activity from investment

So far our analysis of the benefits has focused on the additional international visitor spend. In practice the Crown's investment in international visitor-related infrastructure would also lead to other benefits – for example, additional activity in the construction sector.

We have undertaken a high-level economic impact analysis of construction sector benefits based on additional investment activity under the 'sustained' and 'enhanced' scenarios. Our analysis of these benefits is based on a number of assumptions and should be treated as indicative only.¹¹⁵

Table 34 sets out the additional economic benefits (in terms of GDP) of construction-related activity for the 'sustained' and 'enhanced' scenarios.

Table 34: Economic benefits from additional construction-related activity

		SUSTAINED SCENARIO <i>Additional investment above the 'eroded' scenario</i>	ENHANCED SCENARIO <i>Additional investment above the 'sustained' scenario</i>
Additional cost of the LTP (all infrastructure)		+\$235 million \$872 million in total	+\$150 million \$1,018 million in total
Economic Benefits			
Queenstown Lakes District	GDP	+\$90 million	+\$60 million
All of the South Island	GDP	+\$115 million	+\$75 million

¹¹⁵ Economic impact analysis assumes all of the additional LTP investment occurs in non-residential construction, and 80% of that spending occurs in Queenstown Lakes District and the remaining 20% occurs in the rest of the South Island.



Unlocking commercial activity

As noted in the Strategic Case, private industry investment leverages off the infrastructure investment made by QLDC. This private sector investment plays an important part in alleviating Queenstown's infrastructure pressures, and develops new and existing tourist attractions – all of which adds to the benefits of QLDC's underlying infrastructure investment.

Significant private sector investment has been committed to meet Queenstown's growing need for tourist accommodation, with 240 hotel rooms currently under construction, 588 consented, and 2,000 going through the consenting process.

Opening up land around the lake front (as a result of shifting the arterial roads) will create valuable commercial opportunities for the private sector to take advantage of.

Significant private sector investment to expand and add new tourist attractions are also waiting in the wings, including investments in the Skyline Gondola and ski-fields. QLDC report these investments are on hold pending Council's investment in core infrastructure (eg roading to reduce congestion out to the ski-field).

Queenstown Airport's Master Plan seeks to support the long term growth of the Queenstown region and its continued attractiveness as a place to live, work and play, by providing sustainable air connectivity and a world-class airport experience. The Plan's forecasting indicates that by 2025, passenger movements could reach 3.2 million (around 1.6 million visitors/residents).

While the Airport's analysis shows potential demand of around 7 million passenger movements (3.5 million visitors/residents) each year by 2045, it has been assessed that 5 million passenger movements (2.5

million visitors/residents) per year is more sustainable for Queenstown Airport.

Benefits associated with private industry investment have not been quantified in the economic impact analysis above.



THE PREFERRED WAY FORWARD

How we determined the preferred scenario

To determine the preferred investment scenario, we undertook the following process:

1 Options assessment against investment objectives

First, we assessed the three investment scenarios against two investment objectives, namely:

- to maintain Queenstown's international visitor experience and underpin further growth in international visitors
- to ensure a more proportionate balance between those who fund international tourism-related infrastructure and those who benefit from the investment.

2 Options assessment against critical success factors

The three investment scenarios were also assessed against four key critical success factors:

- strategic fit and business needs
- value for money
- affordability
- achievability.

3 Workshops with Queenstown Lakes District Council and other key stakeholders and meetings with Steering Group

At the inception of the business case development, a Steering Group was set up, consisting of QLDC's Chief Executive, select members of QLDC's senior leadership team, and key MBIE and MartinJenkins staff. The role of the Steering Group has been to agree the critical success factors and investment options in each scenario, as well as to identify and analyse benefits, risks, service requirements, constraints and dependencies.

A number of workshops were held with key staff from QLDC, including the senior leadership team, as well as experts working on infrastructure and tourism-related issues in Queenstown. Through these workshops we were able to discuss the affordability and achievability of different scenarios and the implications of the scenarios for Queenstown's community and international visitors.



The 'sustained' option: The preferred way forward

Having gone through the process described above, the **'sustained' scenario** meets the investment objectives and the critical success factors.

Investment objectives

Maintain Queenstown's visitor experience and underpin further growth in international visitors

The 'sustained' scenario would maintain Queenstown's visitor experience and underpin further growth in international visitors. The enabling investment of shifting arterial roads to outside the town centre unlocks several investment opportunities not available under the 'eroded' scenario.

Under the 'eroded' scenario, investment would not sufficiently maintain Queenstown's visitor experience, nor would it underpin visitor growth. Higher-priority investment would need to be made to address immediate pressures in the town centre, and no new investment would be made to lift the visitor experience, with the added disadvantage of significant trade-offs in community infrastructure investment.

While the 'enhanced' scenario would also maintain Queenstown's visitor experience and underpin further growth in international visitors, the additional investments under that scenario would not provide significant added benefit over the 'sustained' scenario in terms of maintaining the international visitor experience.

A more proportionate balance between those who fund tourism-related infrastructure and those who benefit

As demonstrated in the Strategic Case, Queenstown-Lakes residents are currently funding the infrastructure needs of a population 34 times larger, and this ratio is significantly higher than in other tourist centres in New Zealand. The 'sustained' scenario would provide a more proportionate balance between the residents who fund the majority of tourism-related infrastructure, and the rest of New Zealand, who also benefit from it.

Crown investment in Queenstown would bring considerable benefit to New Zealand, both in terms of employment, GST and GDP generated, and would also play an important role in contributing to regional economic development in the South Island. These regional and national economic benefits serve to justify Crown investment.

Critical success factors

Strategic fit and business needs

In terms of strategic fit and business needs, the 'sustained' scenario meets the agreed investment objectives, related business needs and requirements, and fits well with other strategies, such as the Queenstown Integrated Transport Strategy Programme Business Case and the Town Centre Masterplan Programme Business Case.

The 'enabling' investment that will shift key arterial routes out of the town centre will generate significant investment opportunities for commercial development – in and around the town centre.

Value for money

The 'sustained' scenario optimises value for money – that is, the mix of potential benefits, costs and risks for the investments.



Value for money is maximised under the 'sustained' option by deferring certain investments (which are included under the 'enhanced' scenario) such as investment in Queenstown Gardens, improved access to Lake Hayes reserve, extending the main hall of the Queenstown Events Centre, and investment to take advantage of areas of commercial space that have recently been opened up. While these deferred investments are important, our assessment is that they do not provide the same value for money when it comes to maintaining the international visitor experience compared with improving transport into town, reducing congestion, and diverting traffic out of the town centre.

Affordability

Should the Crown agree to provide the \$278 million needed to move forward with the 'sustained' option, QLDC would take a number of steps to increase its own funding in a financially prudent way, to enable it to deliver the investment successfully.

As described in the Financial Case, under the 'sustained' investment option realistic rates increases were set to maximise QLDC's revenue at an annual average of 7.1% (compared to Auckland Council's forecast increase of 6.2% per annum over the same period).

QLDC's debt level would be increased to a net debt / total revenue ratio of 225% – that is 90% of the 250% limit set by the NZLGFA. The 225% debt level provides a 10% buffer for financial uncertainty and one-off major events.

Achievability

Should the \$278 million Crown investment be made, QLDC will be able to respond to the changes required, and will also be able to match the level of skills needed to deliver the investment successfully. QLDC has recently increased its staffing capacity by 34 full-time equivalents to a total staff of 323. Coupled with strong support and buy-in from the QLDC senior

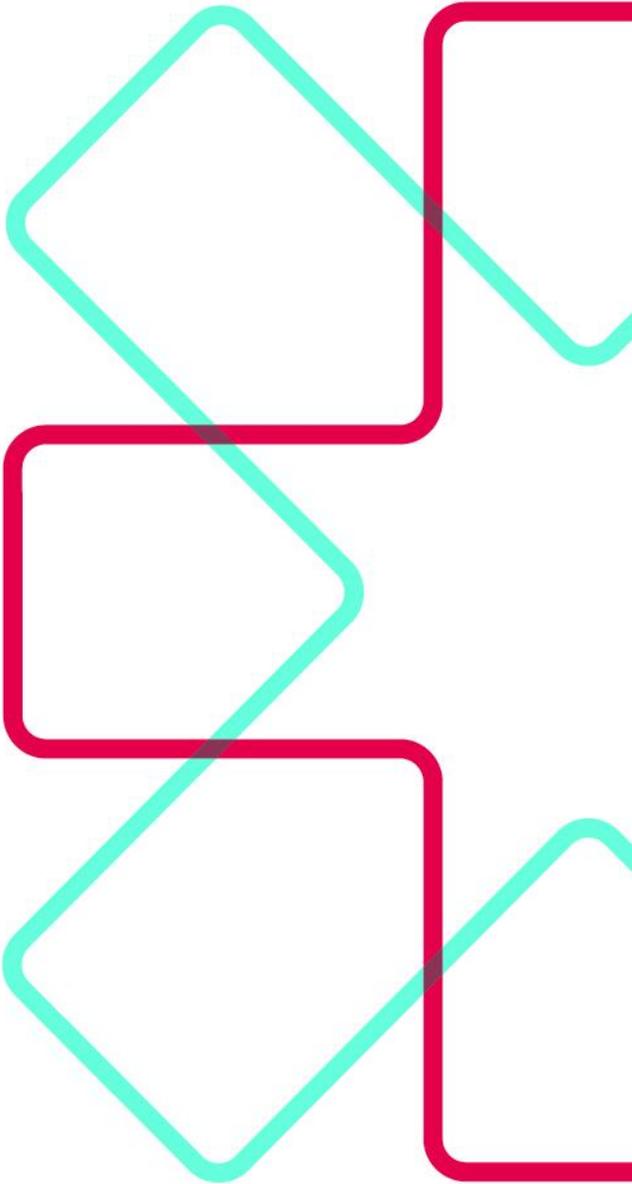
leadership team, the Chief Executive and the Queenstown Mayor, that increase means there is now ample capacity within the organisation to successfully procure and manage delivery of the investment.

QLDC reports that there is sufficient capability and capacity in the construction sector in Queenstown and the South Island to provide the professional services, and the construction and engineering personnel and equipment, needed to deliver the investment projects.



PART THREE: FINANCIAL CASE

	WHAT	FOCUS
1	Strategic Case	
2	Economic Case	
3	Financial Case	What is the financial impact of the 'sustained' scenario? What are some alternative funding options?



FINANCING THE 'SUSTAINED' SCENARIO

Estimating revenue, costs, debt and Crown funding levels

A financial model has been developed to estimate total revenues, costs (operating and capital), debt and possible government funding over 10 years from 2018/19 to 2027/28.

This model calculates results for the three scenarios described in the Economic Case, with additional analysis for the preferred scenario – the 'sustained' experience.¹¹⁶ Appendix 6 provides a summary comparing the financial results of the three scenarios.

The Financial Case analysis in this section of the business case focuses on the first 5 years of investment for the preferred scenario, and the government funding needed to ensure that the immediate short-term needs of QLDC's investment programme are met.

The financial model has been constructed to determine how much government funding will be required in order for QLDC to afford its capital expenditure needs. To do this, the model maximises the expected rates increases (maximising rates income), and draws down the maximum amount of debt – which is constrained by the NZLGFA funding ratio limits, and by how close to those limits QLDC is prepared to go.

QLDC believes that for the main 'at-risk' ratio (net debt / total revenue) operating up to 10% of the limit is prudent, to provide a buffer to allow for uncertainty and one-off major events.

Possible government funding is also constrained by the amount of capital investment that has been identified as being 'tourism-related' – as QLDC is only seeking funding for activities that will enhance or maintain Queenstown's international visitor experience.

Key modelling assumptions

The key modelling assumptions are set out below. They have been discussed and tested with senior QLDC managers and finance staff. These assumptions effectively push QLDC's earnings and debt funding to the top of their reasonable limits, so that any additional government funding is on top of what QLDC can realistically fund itself.

- The forecasts in the financial model were based on a starting point of QLDC's Annual Plan for 2017/18.
- Capital expenditure forecasts for 2018/19 to 2027/28 were based on analysis undertaken by QLDC to develop its 2018 LTP.¹¹⁷
- Operating expenses were grown in line with expected cost increases, as well as with increases in capital expenditure (where appropriate).

¹¹⁷ QLDC's 2018 LTP is currently under development, and only the work on capital expenditure has been available for this business case.



- Non-rates revenues were grown based on increases derived from QLDC's 2015–2025 LTP.
- Rates increases were based on volume growth (using the recommended growth path provided by Rationale to QLDC for planning purposes) and price growth of 8% in year 1 and 5% per annum in years 2 to 10. These price increases were set at a level expected to maximise the revenue that could realistically be available from rates.

As a result, the average rates increases is forecast at 7.1% per year to 2027/28. By comparison, Auckland Council's forecast rates increase is 6.2% per year over the same period.¹¹⁸

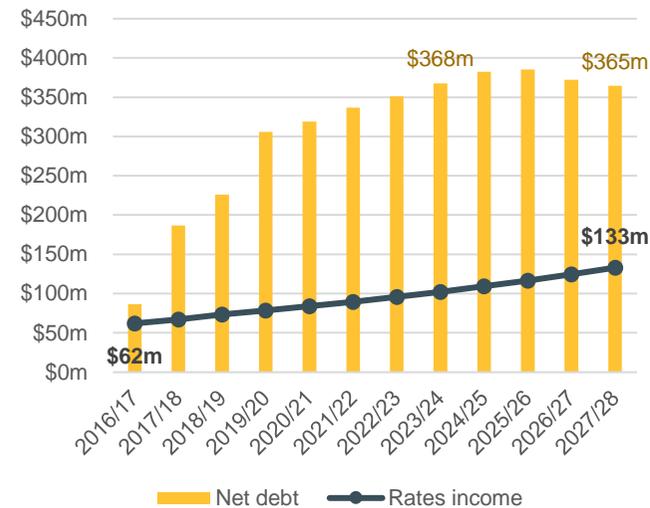
- Sales proceeds of \$70 million from the disposal of QLDC's last large land assets, Lakeview and Commonage, were included across years 1 to 10.
- QLDC is expecting to achieve a suitable credit rating that would allow it to increase its maximum net debt / total revenue ratio to 250%, which is the maximum set by the NZLGFA.¹¹⁹ As noted earlier, QLDC will adopt a prudent approach and draw down debt funding up to a net debt / total revenue ratio of 225%, which is 90% of the maximum allowable debt level of 250%. Interest on debt was set at 5% per year.
- Under the eroded scenario, the National Land Transport Fund contributes 50% (\$35 million) of the funding required to shift some of the arterial roads running through the town centre. No funding assumption is made about the National Land Transport Fund under the 'sustained' and 'enhanced' scenarios.

¹¹⁸ <http://www.newshub.co.nz/home/new-zealand/2017/11/auckland-council-s-10-year-budget-could-deliver-rates-hike.html> This is made up of a general rates rise of 2.5% for the next two years, with an additional 2.8% as a water quality-targeted rate to clean waterways and beaches, and another 0.9% as a natural environment levy.

- QLDC's depreciation reserves are taken into account before calculating the level of Crown support required.

Figure 40 shows QLDC's current and forecast annual debt balance and rates income. It shows a significant increase in QLDC forecast debt levels and rates revenue from 2016/17 to 2027/28.

Figure 40: Annual debt balance and rates income



¹¹⁹ QLDC's current maximum net debt / total revenue ratio is 175%, but this is expected to be increased to 225%.



Financial statements and affordability

Table 35 sets out QLDC's income and expenditure for the preferred scenario for the last financial year, the current year, and the 5 years of the forecast period. A summary of the financial statements for all three of the investment scenarios is contained in Appendix 6.

Table 35: QLDC financial results – 'sustained' scenario

	<i>Actual</i>	<i>Forecast</i>	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>	<i>Total</i>
\$000	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	5 Years
Capital expenditure	(46,766)	(64,116)	(100,561)	(152,457)	(174,589)	(101,898)	(123,638)	(653,142)
Movement in reserves	(6,873)	(1)	0	0	0	0	0	0
Proceeds on sale of assets	162	0	23,333	23,333	23,333	0	0	70,000
Subsidies, grants, development & other contributions	20,860	13,466	14,167	15,542	14,756	15,189	14,560	74,214
Net capital cost	(32,617)	(50,651)	(63,060)	(113,582)	(136,499)	(86,709)	(109,078)	(508,928)
Operating costs (payments to staff & suppliers)	(82,725)	(82,487)	(88,495)	(97,254)	(110,711)	(118,927)	(130,579)	(545,966)
Net interest cost	(3,771)	(10,695)	(10,338)	(13,315)	(15,639)	(16,410)	(17,207)	(72,910)
Rates income	62,733	67,670	74,349	79,418	84,832	90,616	96,793	426,007
Other operating income	48,693	46,503	48,198	49,973	51,831	53,780	55,825	259,607
Net operating income	24,930	20,991	23,714	18,821	10,314	9,058	4,832	66,739
Net pre-funding cash flow	(7,687)	(29,660)	(39,346)	(94,761)	(126,185)	(77,651)	(104,246)	(442,189)



QLDC financial ratios

The figures below compare QLDC's financial ratios over the 10-year forecast with the limits set by NZLGFA. The amounts are based on the assumptions above. QLDC have capped debt at a net debt/ total revenue ratio of 225%. On this basis, the other funding ratios (net interest/ annual rates income and net interest/ total revenue) remain well within acceptable bounds.

Figure 41: NZLGFA financial covenants – net debt / total revenue

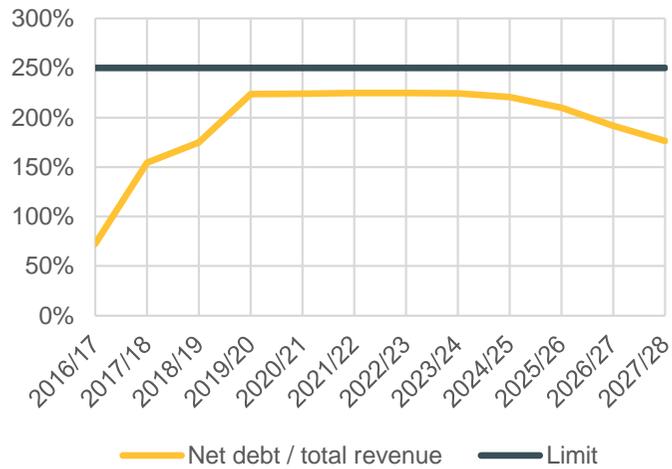


Figure 42: NZLGFA financial covenants – net interest / annual rates income

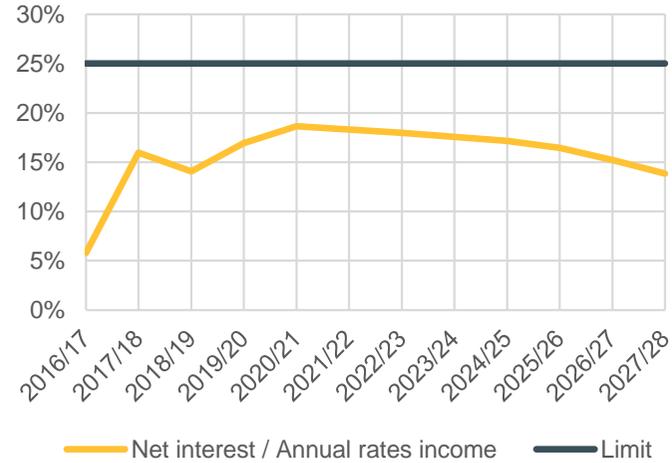
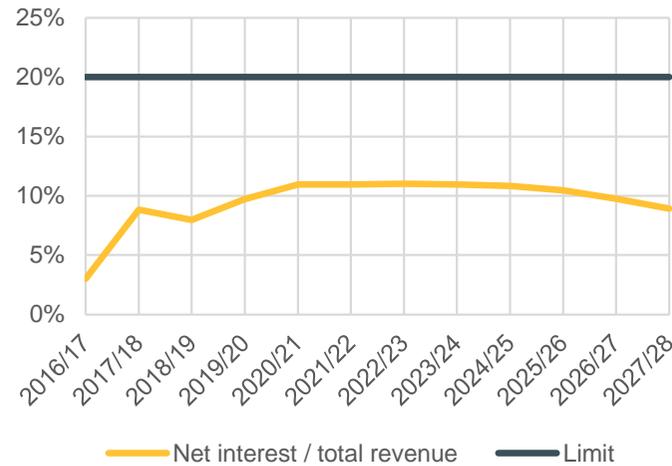


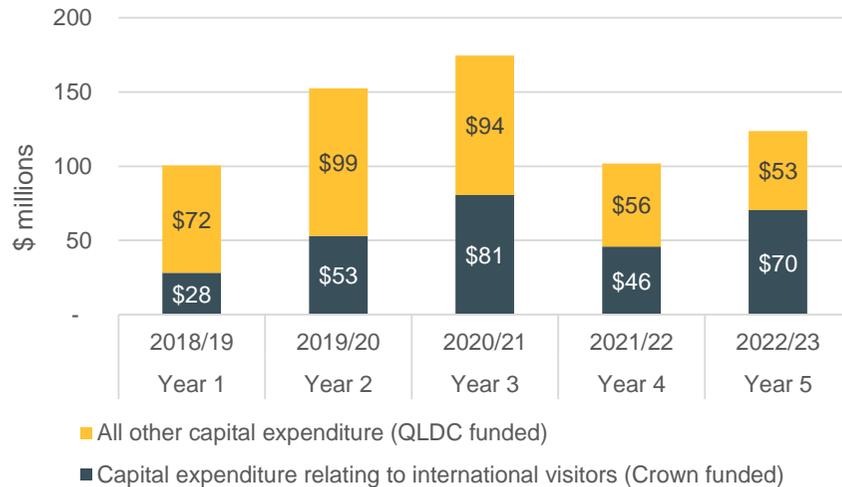
Figure 43: NZLGFA financial covenants – net interest / total revenue



Funding requirement

A total Crown investment of \$278 million is sought to fund QLDC's international visitor-related infrastructure pressures over the 5 years from 2018/19 to 2022/23. Figure 44 sets out the annual profile of the Crown's investment in capital expenditure, together with the additional capital expenditure of \$375 million being funded by QLDC over the same period (primarily through debt and rates increases).

Figure 44: Crown and QLDC funding of capital expenditure



Potential future funding issues

Beyond the 5-year horizon shown here, there is likely to be a need for additional funding of approximately \$20 million.

While this Business Case focuses on relieving short-term infrastructure pressures in order to sustain the Queenstown international visitor experience, QLDC is developing a sustainable long-term partnership approach with regional stakeholders to underpin ongoing tourism growth and related economic opportunities in the Queenstown Lakes District. It is expected that this process would identify solutions to fund the \$20 million shortfall beyond year 5.



ALTERNATIVE FUNDING OPTIONS

This section summarises a selection of alternative possible options to fund the international visitor-related infrastructure in Queenstown, starting with a short discussion about charging a levy on international visitors.

Stewart island/Rakiura visitor levy

Stewart Island/Rakiura has a small resident population and is a destination for a relatively large number of short-term visitors. This creates a unique funding challenge for Southland District Council.

In 2012, the Southland District Council (Stewart Island/ Rakiura Visitor Levy) Empowering Act 2012 was passed into law. The Act allows the council to generate levy revenue from visitors for the purposes of providing visitors with better services, facilities, and amenities.

How the levy works

The Act empowers the council to make bylaws to set the levy amount and determine the levy collection mechanism. A \$5 levy is collected by either the council (in the case of freedom campers) or approved tourism operators when a visitor travels to the island. Several exemptions to the levy apply – for example visitors under the age of 18 or visitors staying longer than 21 consecutive days do not have to pay the levy.

Each year, a Visitor Levy Subcommittee (which includes the councillor presenting Stewart Island and a Community Board member) allocate levy revenue for investment.

Visitor levies are common internationally

A visitor levy/tax on international visitors is common practice in top tourist destinations around the world – for example:

- Austria's overnight accommodation tax for international visitors
- Belgium's camp site tax
- Switzerland's tourist tax, which is payable by anyone staying overnight in the country, charged on a per person, per night basis and varying by town and type of accommodation.¹²⁰

Modelling the international visitor accommodation levy

Under the 'sustained' scenario, the income required to fund the capital expenditure related to international visitor investments could be met by introducing an accommodation levy or 'bed tax'. As practised in other jurisdictions, there are a lot of design options for how the levy could be targeted effectively. For example, the amount of the levy could be differentiated by the type of visitor (class of international visitor and/or domestic visitors), the time of year and/ or the type of accommodation. Decisions about the levy design will also influence the cost and efficiency of administering the levy.

Figure 45 shows how much the visitor levy would need to be to fund the 'sustained' scenario – based on a uniform amount charged per night to all international visitors (but not to domestic visitors). The levy amount increases in year 4 because of the timing of the infrastructure investment and QLDC's debt profile and debt limits. Assumptions about rates increases remain unchanged (forecast at an average of 7.1% per year).

¹²⁰ Express The hidden tourist tax Brits will be forced to pay around the world, accessed 8/12/2017 <https://www.express.co.uk/travel/articles/686533/hidden-tourist-tax-british-tourists-travel>.



In practice, a memorandum account may be used to manage fluctuations in the amount of revenue collected and the timing for when it is used to fund infrastructure, and to smooth any price increases in the levy over time.

Figure 45: Visitor levy



Our analysis is provided here to give a sense of what the levy amount might need to be in order to fund the international visitor portion of the infrastructure investment. The per-night levy would be reduced if it was expanded to include domestic tourists.

Before any levy is introduced, there would need to be an in-depth assessment in order to provide an understanding of how much a visitor levy would influence the behaviour of international visitors to Queenstown and also of the impact on New Zealand’s tourism industry more generally.

¹²¹ <http://www.nzherald.co.nz/index.cfm?objectid=11936797&ref=twitter>

Other funding options

- **Petrol tax:** This could be similar to the regional fuel tax on Auckland motorists that will help fund a multibillion-dollar investment in light rail to the airport and West Auckland.¹²¹
- **Infrastructure bonds:** These would allow local infrastructure to be funded off the Council’s balance sheets, with assets transferring at a later date, provided revenue could be allocated to the vehicle holding the debt.
- **GST revenue from tourism:** QLDC could explore options for reinvesting GST revenue earned by central government back into the regions.

Wellington City Council contacted the chief executives of several government departments in August 2016 with an approach for implementing this idea, which contained three policy tools:

- an earn-back mechanism, where the Crown returns a share of its revenue to the Council in return for investment in initiatives with growth potential
- special economic zones that could be exempted from national regulation
- land assembly changes that would give the Council more power to acquire land not owned by them.

Greater Manchester City negotiated a similar arrangement with the UK government in 2012. This allowed the city to earn back a portion of tax revenue and also led to the establishment of an apprenticeship and skills hub and a housing investment fund. Since then, a further 20 UK cities have entered into similar arrangements with the government.



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APPENDIX 2: TERMS OF REFERENCE

Background

Queenstown is an iconic tourism destination and is central to New Zealand's tourism success. The Queenstown Lakes district has experienced strong growth, with international visitor expenditure totalling \$1.8 billion in the year to June 2017, and the number of guest nights expanding at a rate of 7.6% per annum over the last 5 years.

Tourism growth has benefited the Queenstown Lakes and surrounding districts, creating jobs and sustaining profitable businesses, with flow on benefits to the wider regional and national economies. At the same time, it has given rise to capacity constraints and infrastructure pressures, which have the potential to compromise the visitor experience and constrain future growth.

The opportunities and challenges faced by the Queenstown Lakes are nationally significant reflecting the area's status as an iconic New Zealand tourism destination, its role as a regional tourism gateway, its unique geography and associated transport challenges; and its high ratio of visitors to resident population/ratepayers. A strong Queenstown Lakes visitor experience is central to the continued growth of New Zealand's tourism exports and the realisation of the objectives of the Tourism 2025 Framework, the New Zealand Tourism Strategy, and the government's Regional Growth Programme.

Purpose

The Government is committed to engaging with representatives of Queenstown Lakes District Council, the tourism industry and other stakeholders to identify opportunities and solutions to the capacity

constraints and infrastructure pressures that pose risks to sustained economic development in Queenstown Lakes and surrounding areas.

The purpose of this engagement is two-fold:

- 2 To develop a sustainable long-term plan to underpin ongoing tourism growth and related economic opportunities in the Queenstown Lakes area, which generate significant economic benefits for the district, the Central Otago region, and New Zealand as a whole; and
- 3 To develop a business case for the immediate investment in infrastructure required to maintain the Queenstown Lakes visitor experience and underpin further growth over the medium-term, consistent with the direction of the long-term plan.

Scope

Long-term plan for sustaining tourism growth in Queenstown Lakes

There is a good understanding between the Queenstown Lakes District Council, central government, the tourism industry and other key stakeholders about the issues, opportunities and challenges facing the Queenstown Lakes area. These issues are broad-ranging and relate to:

- Air transport, roading capacity, parking and public transport
- Accommodation for visitors, tourist workers and housing generally
- Tourism-related facilities
- The availability and supply of labour and skills



- Investment opportunities to improve tourism product, including developments on council-owned and conservation land
- Issues associated with the visitor mix, including growth in freedom camping
- Constraints on available funding mechanisms (ie to recover the costs imposed by visitors on councils and their ratepayers).

While there are a variety of views on the scale of these issues and the best way to address them, enduring solutions will require a number of parties to work together to resolve them. None of the issues are amenable to quick-fixes and addressing them will require a sustained, strategic engagement based upon an agreed long-term vision and action plan. By involving key stakeholders in the development of that plan, there is greater opportunity for the development of innovative solutions, including public-private partnerships and alternative funding mechanisms.

The development of a long-term vision and action plan that enables Queenstown to maintain and enhance the quality of the visitor experience and sustaining tourism growth, requires consideration of:

- A range of future growth scenarios and associated consequences for infrastructure demand, visitor and worker accommodation, transport, tourism facilities, and the labour and housing markets
- A strategy for maintaining and enhancing the visitor experience, and managing further growth in visitors to the Queenstown Lakes area having regard to:
 - The Government’s Tourism Strategy, in particular the need to ensure an authentic visitor experience, attract the right mix of tourists, and ensure tourism benefits are dispersed regionally
 - The Tourism 2025 Growth Framework, including the Queenstown area’s contribution toward the achieving the tourism industry’s

aspirational nationwide target of \$41 billion of tourism expenditure by 2025

- The National Policy Statement on Urban Development, which aims to enable growing districts and regions to plan adequately for their growth and development
- The need for coordinated, staged investment in supporting infrastructure, including ensuring provision of a good range of accommodation options, development of the town-centre and Queenstown bay area, provision of key tourism-related facilities and further development of key transport nodes including the airport, improved parking and public transport
- The need to align the land-use and transport plans, and the Council’s Long-term Plan, with the investment requirements
- The implications of increased tourism growth for the labour and housing markets and how best to alleviate potential constraints on supply
- Queenstown district’s relationship with the surrounding areas, including Central Otago, Westland and Southland as well as its contribution to the New Zealand tourism value proposition

Business case to address tourism-related infrastructure pressures

Strong visitor growth has placed significant pressure on Queenstown infrastructure, in particular road transport and the town centre. In order to maintain the area’s status as an iconic tourism destination, it is important to ensure that capacity constraints and infrastructure pressures do not diminish the visitor experience and provide for sustained growth over the medium-term.



The Minister of Tourism has invited development of a business case for the short-term investment in infrastructure needed to maintain the visitor experience and underpin further tourism growth over the medium-term. This business case needs to:

- Describe the short- to medium-term investment requirements¹²² and establish a clear link between those requirements and the long-term plan for sustaining tourism growth.
- Present an analysis of the costs and benefits of the investment and show how the economic benefits¹²³ are distributed across local, regional and national economies and how the costs and risks are borne under a range of funding scenarios¹²⁴.
- Identify the potential costs and risks under several investment scenarios, including risks to New Zealand's tourism reputation if the Queenstown visitor experience is degraded
- Follow the Treasury's Better Business Case (BBC) framework and quality standards, with a particular emphasis on the strategic, economic and financial cases.

The business case will be considered by Queenstown Lakes District Council and the Crown as part of the Council's Long-term planning process and the Government's Budget 2018 decision-making process. This will give both parties confidence to proceed with the investment required to sustain tourism growth that benefits the local and national economies.

¹²²That is, the nature of the investment required, the value of assets created, the capital investment required, and their whole-of-life costs. The scope of investment required is to include tourism-related growth pressures only and does not extend to more general needs for investment in community assets and infrastructure.

Deliverables

The principal deliverables include:

- A business case for addressing tourism-related infrastructure pressures, for consideration by Queenstown Lakes District Council and the Crown, by November 2017
- A long-term plan to underpin ongoing tourism growth and related economic opportunities in Queenstown Lakes and surrounding districts, by May 2018.

Relationship Management

The Sponsor for this project is the Mayor of Queenstown Lakes District.

This Sponsor will assemble a Reference Group comprising representatives of Queenstown Lakes District Council, neighbouring districts, Otago Regional Council, relevant central government agencies, tourism industry and RTOs, local business interests, iwi/Māori and other stakeholders.

The Reference Group will be responsible for:

- Bringing local and international perspectives and experience to bear on shaping a long-term plan to underpin tourism growth and related economic opportunities in the Queenstown Lakes area
- Ensuring there is strong local leadership and buy-in from stakeholders

¹²³These should include but are not limited to: additional tourist expenditure, salaries and wages, business profits, and tax receipts.

¹²⁴Funding scenarios should describe the implications for debt levels, borrowing costs, rates and other council revenues, and any implications for the Crown, and analyse sustainability and risks of those scenarios.



- Establishing a constructive environment in which innovation solutions can emerge, including actions that catalyse or stimulate new investment opportunities
- Providing input into the development of a long-term vision and action plan at key points in the process.

The project will be led and managed by Queenstown Lakes District Council, with support from the Ministry of Business, Innovation and Employment. The following principles will guide the project:

- Participants in the project will work constructively and cooperatively together
- Participants will share data, information and maintain a high-level of transparency
- A principle of 'no surprises' will be adhered to.



APPENDIX 3: INVESTMENT OBJECTIVES – WHAT DOES SUCCESS LOOK LIKE?

This Business Case’s investment objectives specify the desired outcomes for the proposed investment – what success looks like. The investment objectives have been developed through an inclusive approach to allow key stakeholders to engage with, challenge and shape the objectives.

The objectives are SMART (specific, measurable, achievable, relevant, and time-bound) to help facilitate the generation and assessment of potential options and to provide the basis for determining the investment’s success (or not).

Table 36: Investment objectives

Investment objective	Measures
To maintain Queenstown’s international visitor experience and underpin further growth in international visitors	Queenstown’s international visitor satisfaction rates remain stable or increase. International visitor levels continue to grow at a sustainable rate.
To ensure a more proportionate balance between those that fund international tourism-related infrastructure and those that benefit from the investment	The relative share of those who fund tourism-related infrastructure is comparable to those who benefit from the infrastructure investment



APPENDIX 4: STRATEGIES, PLANS AND PLAYERS SHAPING QUEENSTOWN'S FUTURE

Queenstown Integrated Transport Strategy

What is it trying to do?

NZTA has developed QITS, which seeks to:

- 1 improve the performance of Queenstown's transport network by:
 - increasing alternative modes of transportation
 - increasing the number of people moved along State Highway 6
 - improving travel time reliability for general traffic.
- 2 improve levels of customer service, as well as improving liveability and visitor experience in Queenstown, by:
 - improving the punctuality of public transport
 - improving resident satisfaction with the transport system
 - improving visitor satisfaction with the transport system.

The total estimated cost for the programme is estimated at \$447-\$647 million over 30 years. Short-Medium term programme excluding Mass Rapid Transit is estimated at \$259-\$363 million over 10 years

Third party and value capture funding opportunities are recommended for further investigation, eg commercial activity around proposed transport hubs in Queenstown town centre and Frankton, PPP for Mass Rapid Transit solution. The cost for a Mass Rapid Transit solution between the airport and town centre has been estimated at \$184-\$276 million

Interdependencies with other plans and strategies

The QITS has been developed with NZTA, QLDC, ORC and Queenstown Airport Corporation, and has been aligned with existing master plans and known future land use plans. These include the Queenstown Town Centre Masterplan, new residential areas in and around Frankton, Housing Infrastructure Fund applications, and proposed Special Housing Areas.



Town Centre Masterplan Programme Business Case

What is it trying to do?

The goals of the Town Centre Masterplan are to ensure that:

- people enjoy spending time in town, because the built environment complements the natural environment and references local history and culture
- Queenstown has a liveable, thriving and authentically New Zealand Town Centre, where visitors and locals freely mix and participate in a range of activities
- there is improved access to the town centre for all
- there is increased commercial activity, without any major negative impact on the environment or on local residents' peaceful enjoyment.

A major part of the Town Centre Masterplan is the Town Centre Arterials project, which will divert traffic out of town and create an alternative route, making it easier to get through and around town.

The Masterplan will also establish a smarter road network that bypasses the town centre and that frees up and returns Shotover and Stanley Streets to the town centre street network.

Interdependencies with other plans and strategies

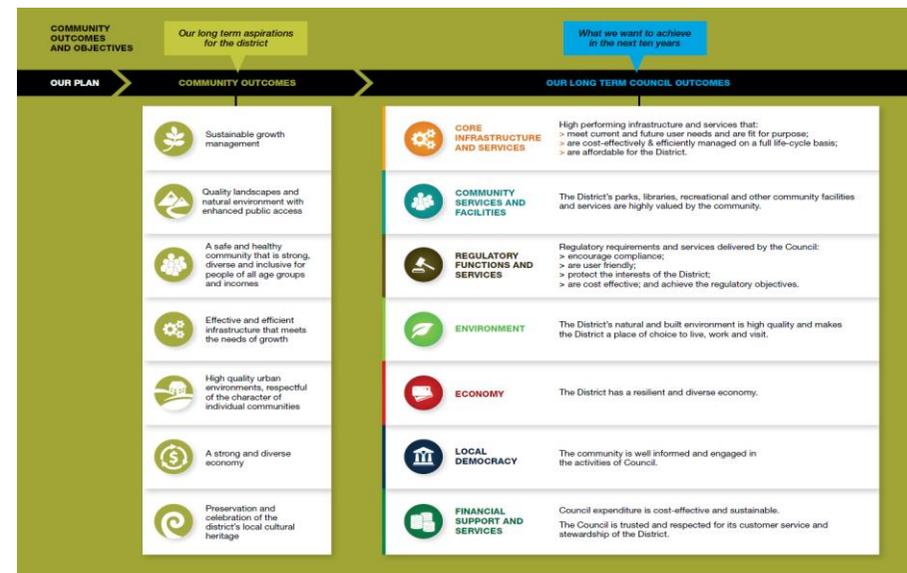
The Queenstown Town Centre Masterplan Programme Business Case brings together a set of other business cases related to improving the town centre experience. These include:

¹²⁵ The Long Term Plan is a document required under the Local Government Act 2002 that sets out a local authority's priorities in the medium to long term.

QLDC plans

Every three years all New Zealand councils adopt a LTP¹²⁵ covering a period of 10 years. Queenstown's latest LTP was developed in 2015 and covers the period 2015–2025. It sets out a number of council and community outcomes for the next 10 years (see Figure 49).

Figure 46: Outcomes from the 2015–2025 LTP



QLDC's new LTP for 2018–2028 is currently being finalised. It sets out the following broad thematic goals: vibrant community, enduring landscapes and bold leadership.



The Council's medium-term (by 2025) outcome for core infrastructure and services is:

“High performing infrastructure and services that: meet current and future user needs and are fit for purpose; are cost-effectively & efficiently managed on a full life-cycle basis; are affordable for the District”.

The Council's long-term aspirations for the district are “effective and efficient infrastructure that meets the needs of growth”, and “sustainable growth management.”¹²⁶

An overview of key players shaping Queenstown's future

A number of stakeholders are playing a key role in shaping Queenstown's future.

Figure 47: Key players shaping Queenstown's future



¹²⁶ 2015–2025 LTP.



APPENDIX 5: INTRODUCING HELGA

This Business Case includes three scenarios that bring to life the international visitor experience to Queenstown by describing the experience of a fictional German adventure tourist – who we have chosen to call Helga – who visits Queenstown in 2030.

Providing a face for the international visitor experience will deepen and enrich the reader’s understanding of what the international visitor experience to Queenstown may look like in the future. We have chosen to focus on a German tourist for the following reasons:

German tourists are an attractive market segment.

- Germany is New Zealand’s sixth largest market for arrivals but our fourth largest market by number of stay days.¹²⁷
- Germany is New Zealand’s second-largest visitor market in Europe and one that presents significant opportunities¹²⁸
- Germans visit more regions (seven on average) than any other international visitors.¹²⁹
- Despite the long journey, 18% of Germans are repeat visitors.¹³⁰
- German tourists average spend is high (an average of \$6,190 per visit compared to \$2,027 for Australian and \$4,903 for Chinese visitors).

- 67% of German tourists have at least one overnight stay in the Otago region and spend 13% of their total spend in Otago.
- Compared to Australians (who make up the largest number of international visitors to New Zealand), international tourists from outside Australia are likely to spend more nights in Queenstown (5 nights compared to 4).¹³¹
- Germany independent professionals (like Helga) make up 50% of the German holiday market.¹³² National parks and walking/hiking/tramping are the top activities for German tourists. In fact, they visit 5 national parks on average.¹³³

Looking forward, Germans will likely make up an even bigger market segment.

5.9 million Germans are “actively considering” a holiday in New Zealand. German tourist arrivals to New Zealand are forecast to grow nearly 6% annually to 2022.¹³⁴

¹²⁷ Tourism New Zealand, Germany Market Snapshot, <http://www.tourismnewzealand.com/media/2615/germany-market-snapshot.pdf> Accessed 21/11/2017.

¹²⁸ Tourism New Zealand, Market Stats Germany <http://www.tourismnewzealand.com/markets-stats/markets/germany/> Accessed 21/11/2017.

¹²⁹ Tourism New Zealand, Germany Market Snapshot.

¹³⁰ *Ibid.*

¹³¹ Angus and Associates, Visitor Insight Programme, Visitor Experience Queenstown, Q2 2017 (April-June), p 7.

¹³² Tourism New Zealand, Germany Market Snapshot, <http://www.tourismnewzealand.com/media/2615/germany-market-snapshot.pdf> Accessed 21/11/2017.

¹³³ *Ibid.*

¹³⁴ *Ibid.*



APPENDIX 6: FINANCIAL SUMMARY OF THE SCENARIOS

CASH FLOW AND CHANGE IN DEBT	Years 1 to 5			Years 1 to 10		
	Eroded	Sustained	Enhanced	Eroded	Sustained	Enhanced
Sources of Operating Funding						
General Rates, charges, and penalties	20,906	21,152	21,245	49,439	50,568	50,995
Targeted Rates	400,137	404,855	406,623	946,255	967,863	976,037
Fees and Charges	171,896	172,132	172,506	372,101	373,060	374,585
Subsidies & Grants for Operating purposes	29,924	29,924	29,924	63,911	63,911	63,911
Interest and Dividends from Investments	25,192	25,728	26,596	64,593	67,315	71,876
Local authorities fuel tax, Fines, Other receipts	31,780	31,823	31,893	68,793	68,971	69,252
VISITOR LEVY FUNDING INCOME	0	0	0	0	0	0
Total Sources of Operating Funding	679,835	685,614	688,786	1,565,092	1,591,687	1,606,656
Applications of Operating Funding						
Payments to Staff and Suppliers	506,477	545,966	565,969	1,136,652	1,283,425	1,357,175
Finance Costs	72,504	72,910	74,457	161,380	166,258	176,086
Total Applications of Operating Funding	578,982	618,875	640,426	1,298,032	1,449,683	1,533,261
Surplus/(Deficit) of Operating Funding	100,853	66,739	48,360	267,060	142,004	73,395
Sources of Capital Funding (excl Govt)						
Subsidies & Grants for Capital expenditure	29,748	29,005	37,834	45,532	44,231	61,889
Development & Financial Contributions	45,209	45,209	45,209	120,027	120,027	120,027
Gross Proceeds from Sale of Assets	70,000	70,000	70,000	70,000	70,000	70,000
Total Sources of Capital Funding (excl Govt)	144,958	144,214	153,043	235,559	234,258	251,916
Applications of Capital Funding (excl debt)						
Major projects	248,253	413,273	413,273	276,557	506,294	506,294
Minor projects	160,755	166,167	166,167	207,999	214,931	214,931
Renewals	73,702	73,702	73,702	150,857	150,857	150,857
Deferred projects (re-instated)	0	0	73,016	0	0	146,033
Less: PPP funded	0	0	0	0	0	0
Total Applications of Capital Funding (excl debt)	482,711	653,142	726,159	635,413	872,081	1,018,114
Net cash flow - before Government funding	(236,900)	(442,189)	(524,755)	(132,793)	(495,819)	(692,803)
NEW GOVERNMENT CAPITAL FUNDING	35,003	278,000	354,000	35,003	318,000	427,000
Net cash flow - after Government funding	(201,897)	(164,189)	(170,755)	(97,790)	(177,819)	(265,803)
Opening debt	187,082	187,082	187,082	187,082	187,082	187,082
Closing debt	388,979	351,271	357,837	284,872	364,901	452,885

