KPMG

Targeted Rates for Sports and Recreation Facilities

Report prepared for Sport New Zealand

Final Report

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Executive Summary

Introduction and purpose

This report sets out key principles and considerations for the potential use of targeted rates to fund regional and sub-regional sport and recreational facilities. Sport New Zealand has sought this initial ‘101’ advice from KPMG on potential use cases, justifications, and limitations of regional targeted rates with the intention that it supports further sector discussions on the topic.

Targeted rates are viewed as a potential funding source to support investment in community sports and recreation infrastructure, for which funding can be relatively constrained. This has been exacerbated in recent years as councils around New Zealand have faced greater financial pressure due to historically high inflation, ageing road and water infrastructure and for many, population growth pressures.

Demand and funding challenges for sports and recreation facilities

There is a demand for new sports facilities across the country, particularly in regions with high population growth, as well as for specific sports that require facilities with currently limited provision (for example: indoor courts for volleyball, basketball and badminton). While some of these facilities only serve those within the town or suburb it is located, larger facilities are often utilised by those in the wider sub-region or region. While the scale can be debated, there is a broad need for additional capacity and upgraded facilities that exceeds what is likely possible under existing funding arrangements from councils and other sources.

The potential role of regional targeted rates

Targeted rates are a potential funding tool that raises revenue from ratepayers for a designated purpose. In particular, a regional targeted rate raises revenue across a region or sub-region and seeks to recognise that certain facilities are used by those living outside of the specific territorial boundary in which the facility is located. In addition to spreading the cost more broadly, a regional targeted rate could potentially also promote cross-council collaboration and provide greater certainty and transparency for projects to be delivered.

Case study: Northland Regional Council

Northland Regional Council has had a targeted rate for regional sports facilities since 2018. The current arrangements evolved from a targeted rate to pay down debt from the upgrade of Okara Park in Whangārei for the 2011 Rugby World Cup.

The current rate charges each property across Northland ~$16 a year. This raises a total of ~$4.5m per 3-year council cycle, which is ringfenced for sports facilities in Northland. Projects are required to be identified through the Regional Spaces and Places Plan by a cross-council committee and Sport Northland, while also being listed in the respective local council Long Term Plan. These arrangements have generally been seen as a success, delivering 11 projects across the region.

Principles and decision framework

This report sets out a high-level decision framework for whether a regional targeted rate should be considered given project characteristics. It suggests that there is a potential case for regional targeted rates for projects where there is broad community support, regional/sub-regional scope of benefits, a genuine need for upfront ratepayer funding support and a sustainable ongoing operating model.

Where there is a potential case for a regional targeted rate, we briefly summarise the key design features and considerations that would need to be worked through to ensure the rate is affordable and fair. For example, this more detailed design work requires consideration of the total amount of revenue to be generated, the method for rate setting, the scope of ratepayers and how differential rates across a region should be set.

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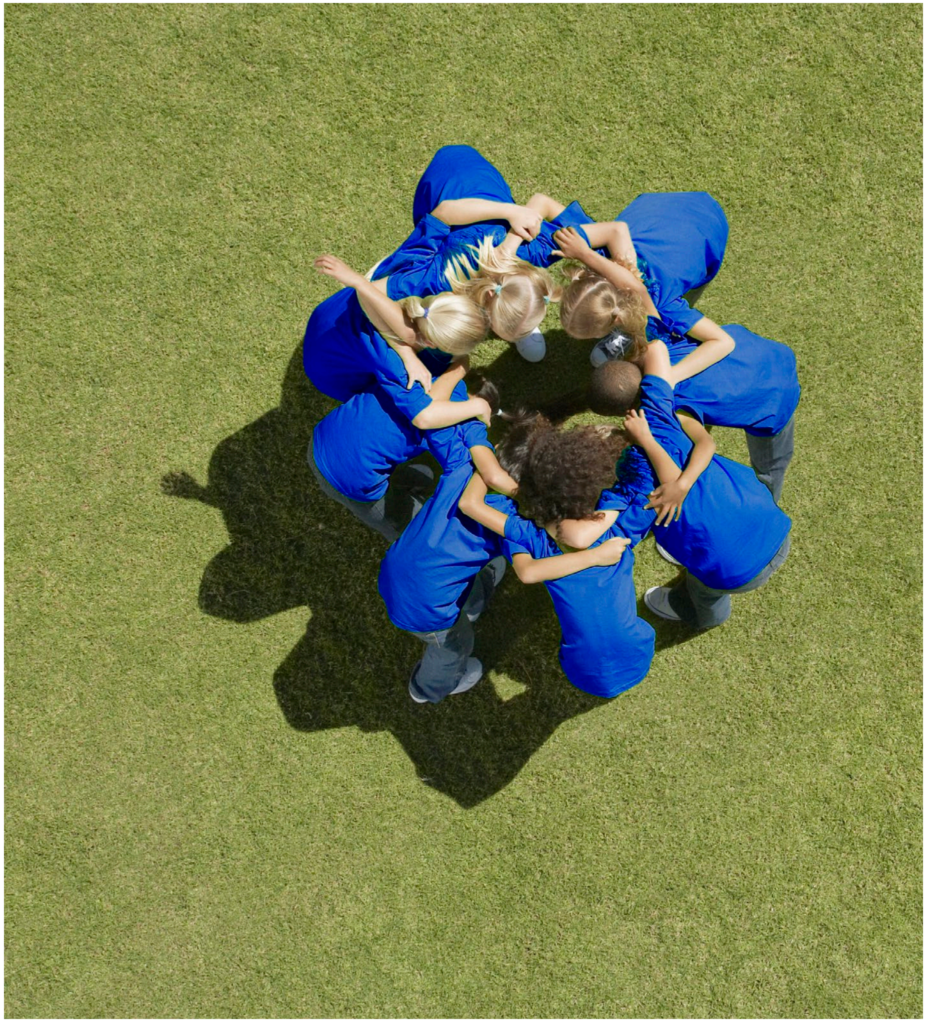

Purpose of this report

This report sets out key principles and considerations for the potential use of targeted rates under the Local Government (Rating) Act 2002 to fund regional and sub-regional sport and recreational facilities. It is intended to be of primary use by councils and Regional Sports Trusts (RSTs) for considering the merits of a targeted rate within their own context.

Sport New Zealand has sought this initial '101' advice from KPMG on potential use cases, justifications and limitations of regional targeted rates with the intention that it supports further sector discussions on the topic.

Specifically, this short report summarises:

- the **current demand landscape** for additional sports and recreational facilities in New Zealand, along with **funding and wider challenges** in delivering projects.
- the role of **targeted rates within local government** and their potential applicability to sports and recreation facilities.
- **examples of comparable targeted rates already in place,** with a particular focus on existing arrangements by Northland Regional Council.
- a high-level set of **principles and decision framework** for assessing whether a regional targeted rate could potentially be justified given particular project characteristics and other considerations.
- **key design considerations** for a regional targeted rate and answers to some commonly asked questions.
- high-level **calculations** of potential revenue from different approaches.

In this report, we refer to both regional councils and territorial authorities (TAs) (or collectively 'councils'). In some regions, including Auckland, a unitary council exists that undertakes both of these roles.

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Current arrangements for funding sports and recreational facilities

Key issues and case studies

The role and demand for sports and rec facilities

Background

Sports and recreation activities play an important role in community building and supporting broader health and wellbeing outcomes. However, the facilities required to support these activities can often be relatively high cost and face challenges in securing upfront capital funding and/or ongoing operating funding support. These facilities include, but are not limited to, sports fields, courts, club/changing rooms indoor facilities, swimming pools, skate and bike parks, and related supporting infrastructure.

Demand for new and upgraded facilities

A number of strategies have identified shortfalls in current capacity for specific types of facilities. For example, the *National Indoor Active Recreation and Sport Facilities Strategy* identified a national shortfall of 107 indoor courts (73 of which are needed in Auckland). While the *National Aquatics Facilities Strategy* identified substantial shortfalls in Northland, Auckland, Waikato and the Bay of Plenty, equivalent to 17 Olympic swimming pools. In addition to larger facilities, community sports clubs also have challenges in securing funding for club rooms and sports facilities, including in high growth regions where existing facilities may face capacity constraints.

In addition to increased capacity:

- there are challenges in meeting demand for upgraded facilities, for example improving drainage of sports pitches or adding lighting to enable pitches to be used more often or support a higher standard of play and optimising existing assets.
- there is a desire to rejuvenate aged assets, to deliver improved facilities and capacity, while minimising carbon impact and improving environmental sustainability.

Nature of sports and recreation facilities

Unlike some other categories of infrastructure assets, sports facilities can be heavily utilised by those who travel significant distances to access them, including across council territorial boundaries. Sport New Zealand defines these facilities by spatial categories, as follows:

- **Local facilities:** A facility which often facilitates people’s introduction to sports and recreation and primarily serves a town or suburb (or potentially two suburbs) only.
- **Sub-regional facilities:** A facility with the ability to draw significant numbers of participants/teams/competitors from a whole district or across adjacent TA boundaries for either competition or training purposes.
- **Regional facilities:** A facility with the ability to host inter-regional and internal regional competitions and/or serves as a regional high-performance training hub for one or more sports codes. Larger facilities which, given their nature, are designed to serve an entire region and where the region may only be able to sustain a single venue of its type (e.g. stadium capable of holding international-level events).

The above distinction is important in evaluating the catchment of population that would likely use and therefore benefit from a facility, and which parties would typically cover the cost under current arrangements.

Organisational landscape

There are a significant number of organisations that play a role in delivering sports facilities to the community, often depending on the specific sports code:

- Clubrooms are often owned by clubs or local sports trusts (which can be incorporated societies or charities) but often sit on public land owned and managed by the TA.
- Public swimming pools are generally owned and operated by TAs directly or by another party under contract.

In addition, Regional Sports Trusts (RSTs) promote and deliver play, sport, active recreation, health and wellness initiatives to their respective communities. There are currently 14 RSTs across New Zealand.

Summary

While the exact scale can be debated, there is a broad need for additional capacity and upgraded facilities for sports and recreation, some of which would provide benefits outside their immediate territorial boundaries. The current challenges in delivering these projects are discussed further on the next page.

Funding landscape and challenges

How are projects currently funded?

Sports and recreational facilities typically have a mix of funding sources, for both upfront capital and ongoing operating costs. TAs as the landowner and general funder of public parks and other facilities play a key role, including fully or partially providing capital funding for new assets. This TA funding is generally derived from general rates from within the territorial boundary in which the facility is located. These are allocated through Long-Term Plans (LTPs) and subject to prioritisation processes against other council activities. In recent years, most councils around New Zealand have faced budget challenges leading to higher than typical increases in general rates, heightening concerns about ratepayer affordability. Unlike many other infrastructure types, there is generally no central government funding for community sports facilities.

As summarised below, many projects also seek and receive funding from a range of sponsorships, philanthropic donations, class 4 gaming societies, lines trusts and Lotteries New Zealand.

Territorial authority general rates

Including where these are structured as dedicated contestable funds for non-council facilities (e.g. Auckland).

Lotteries, licensing trusts and Community trusts

Licensing and community trusts, and Lotteries NZ provide funding, typically through a contestable process.

User charges, club fees and other revenue sources

Facilities can charge users directly & generate some revenues from commercial activities.

Fundraising and philanthropic

Donations and other large grants.

Wider challenges

In addition to limits on the quantum of funding available for sports and recreation facilities, the relatively fragmented nature of the current system gives rise to a number of wider challenges:

Issue	Summary
Competing priorities and funding uncertainty	Councils have many priorities. This means there can be limited funding certainty as projects are being developed (including from council LTPs where funding levels can vary as elected members, and their priorities change while a project is still being planned). This can be exacerbated by the length of time projects can take to develop, the significant reliance on volunteers to maintain momentum, and the challenge of aligning with council 3-year funding cycles.
Timing of funding challenges	Projects can suffer from a 'first mover' funding problem, where, until the first significant portion of funding is secured, other funders are cautious about also committing to the project. Equally, some funders prefer a wide range of funding sources to be committed. Different funders can also mean working within multiple funding cycles, providing a challenge for organisations.
Cross-council challenges	TAs are naturally focused on activities within their own boundaries, although sports facilities can often be used by ratepayers outside the district. For these facilities, there is not necessarily a close alignment between the community who benefits from a facility and the council boundary. This can create inequities with regard to who should pay, as well as require councils to collaborate more and achieve alignment on priorities, both of which have historically been challenging in some regions.
Operational cost challenges	The inherent nature of some sports facilities is they may struggle to cover operational costs without ongoing subsidies. We understand aquatic centres are one such example, where even with significant 'learn to swim' classes and recreation facilities, the sports component (lap pools) can struggle to sufficiently cover costs.
Construction cost inflation	The construction sector has seen particularly high levels of inflation over the past 5 years due to a range of factors, including supply chain and skills shortages during the Covid-19 pandemic. This has had a flow-on effect to the sports and recreation sector, particularly when projects face funding delays and costs continue to increase.

The potential role of targeted rates

Targeted rates have been identified as a potential tool by some RSTs and others to help address challenges with funding sports and recreation facilities

What is a targeted rate?

Targeted rates are a funding tool that is available to councils and enabled through the Local Government (Rating) Act 2002. Specifically:

A local authority may set a targeted rate for 1 or more activities or groups of activities if those activities or groups of activities are identified in its funding impact statement as the activities or groups of activities for which the targeted rate is to be set

In practice, a local authority can set a targeted rate for a defined purpose to raise funds to pay for a programme, project or other investment, or pay debt associated with said project or programme. This differs from a general rate that supports a wide range of council activities, and whose allocation can change across time subject to changing council priorities. Other aspects of targeted rates include:

- Like general rates, targeted rates may be set by either a TA or a regional council and are typically set as a percentage of the capital value of a property or on a flat per unit rate.
- Targeted rates can be set with differential rates for properties within defined benefit areas, while the wider district or region pays a lower rate. These are generally set based on proximity or benefits from the use of the funds raised.
- The introduction of targeted rates requires public consultation, and other consultation requirements may be needed (e.g. in instances where the rate would support a regional council to undertake a significant new activity).

We note that targeted rates are conceptually similar to Infrastructure Funding and Financing (IFF) levies that have been introduced by Tauranga City Council and Wellington City Council. IFF levies seek to achieve a similar objective to targeted rates (a dedicated separate rate, for a specified purpose, set with reference to those who benefit from the spending), although are applied towards servicing off-balance sheet private financing. While not yet used for sports facilities, the IFF framework provides a further precedent for charging ratepayers on the basis of who benefits from infrastructure investment.

Why consider regional targeted rates for sports and recreational facilities?

The potential appeal of targeted rates for regional sports facilities includes:

1. **Cross boundary collaboration:** Traditional funding tools are based on geographic boundaries of territorial authorities and are not well suited to solving regional/sub-regional infrastructure challenges that benefit an entire region/ sub-region. By jointly agreeing to co-fund projects together, it can ensure genuine regional prioritisation to meet community needs.
2. **Greater certainty and transparency**: The ring-fenced nature of the funds can help address some funding uncertainty, as it is not subject to reprioritisation in the way that general rates are. Further, through the required consultation process, the public can be presented with clear costs for a specific proposal and respond accordingly.
3. **Aligned with those who benefit**: The costs of facilities can be spread across those who benefit from it, rather than the burden fully falling on residents of the territory in which the facility happens to be situated.

What are some of the potential downsides?

1. **Affordability:** While targeted rates are an additional tool to raise revenue, they ultimately rely on the same funding source as general rates – residential and commercial ratepayers. The introduction of a targeted rate faces many of the same affordability challenges as an increase in general rates.
2. **Council decision making flexibility:** While the ringfenced nature of targeted rates revenue creates greater certainty for the projects it is intended to fund, it does ultimately restrict the ability for elected members to prioritise council revenue to what they consider the greatest need.

Further information

Additional information on the setting of targeted rates, including frequently asked questions, is set out in section 3

Case study: Northland Regional Council (1 of 3)

There are limited examples of regional targeted rates for community sports facilities. The primary current example of this is the region-wide sporting facilities targeted rate charged by Northland Regional Council (NRC).

History of the NRC sporting facilities rate

The current targeted rate has its origins in an earlier arrangement established in 2008 to pay for the upgrade of Okara Park (now known as the Northland Events Centre) for the 2011 Rugby World Cup. In recognition of the regional benefits of the stadium, the NRC introduced the regional targeted rate to service a loan associated with the stadium upgrade. While charged across the region, it was recognised that Whangarei would receive the greatest benefits from the project, so the rate was set at $25 per year for the Whangarei District and $15 per year for the rest of the region.

In 2014, as the debt associated with the stadium upgrade was close to being paid off, it was identified as a potential source of revenue for regional community sports facilities on an ongoing basis to fund a future pipeline of projects. This went to public consultation in the 2018 LTP development process and was implemented.

The current design of targeted rate

The current rate is set at just over $16 region-wide raising approximately $1.5m per annum, charged across all rating units (properties) in Northland. This raises approximately $4.5m for each three-year LTP cycle.

The funding is only used for new projects or substantial upgrades (i.e. cannot be applied to renewals, maintenance or other ongoing operating costs) that have:

- been identified in Kokiri ai Te Waka Hourua, the regional strategy for play, active recreation and sport, developed through a regionwide consultation process, and;
- TA support in the form of funding contributions through the relevant Territorial Authority's Long-Term Plan.

The rate is not intended to cover 100% of project costs but rather provide a portion to provide certainty and create a "crowding in" effect of TA, lottery, community fundraising and other funding sources.

How are projects selected and prioritised

Sport Northland and the representatives from the three TAs form a monitoring group, who develop and maintain a regional priority facilities plan within Kokiri ai Te Waka Hourua. Projects are considered against a set of 10 criteria from the Sport New Zealand Spaces and Places Framework. Sport Northland subsequently added an 11th principle considering the capability of the project's governance group. It also seeks to balance the allocation across the region to align funding with the source.

This plan is formally updated every 3 years to recognise projects completed and new emerging priorities. Projects are listed in as short (1-3 years), medium (4-6 years) and long term (7+ years) priorities. Projects can be considered between these updates and put forward by sports clubs and community groups raising their projects to Sports Northland.

Spaces and Places Framework – Sport New Zealand

Case study: Northland Regional Council (2 of 3)

Wider criteria for funding

In addition to those already discussed, other project selection criteria include:

- be sporting facilities, rather than active recreation facilities. However, funding from the rate can be applied to the sporting component of a wider recreation facility funded from other sources.
- limited to construction and construction management costs only.
- there is no specific minimum or maximum funding amount.
- the funding pool is not leveraged – allocated funding each year broadly matches revenue from the rate.
- there is no specific co-funding requirement. NRC has provided 10% - 50% of total project costs, and is intended to encourage other funding sources to crowd in.
- while there is no formal requirement for the funding to be allocated in proportion to the district it originated from, we understand NRC seeks to ensure that there is a broad alignment over time.
- while the monitoring group (discussed on previous page) submits recommendations, all final funding allocation decisions must be agreed by NRC elected members.
- funds are typically provided relatively early in the project development, with 1/3rd of allocated funding given to start the project, 1/3rd a quarter of the way through construction, and the final 1/3rd at halfway.

Key outcomes achieved

From our interviews with stakeholders, a key benefit of the rate is that it provides a greater level of certainty that funding will be available should projects develop sufficiently, providing incentive to progress proposals and reassurance for other potential funding partners that funds will not be reprioritised to other areas of council activity.

Across the period 2018 – 2024, NRC has allocated approximately $7.8m across 11 different projects across the region, with contributions ranging from $100,000 to $1.4m. Detail on the territorial authority split across this 6-year period is adjacent:

Territorial Authority	Rate collected	Rate allocated	# of projects	%
Far North	$3,104,200	$3,105,600	4	39%
Kaipara	$1,196,500	$1,100,000	2	15%
Whangarei	$3,670,500	$3,580,000	5	46%
Total	$7,971,200	$7,785,600 ($185,600 buffer)	11	100%

Kaikohe Sportsville was completed in 2023 and partly funded by the regional targeted rate - Image source: Northland Regional Council

Case study: Northland Regional Council (3 of 3)

The new indoor courts at the Kaikohe Sportsville, which opened in April 2024 – Sport Northland

Pohe Island Rugby Project – Sport Northland

Key lessons, challenges and success factors

From our interviews with stakeholders, we provide the following reflections on the design of the NRC targeted rate:

- The introduction of the current targeted rate was supported by the existence of the previous rate for the Okara Park project. In that sense, the community and political support for a rate in this space had already been established, and therefore provided a platform for the current arrangements. This was considered a key feature that supported its introduction, which was further helped by the current quantum collected being broadly consistent with the original amount.
- Ultimately, the current rate only supports a portion of upfront capital costs, and therefore projects still must successfully seek funding from a wider set of sources. We did hear consistently however that the rate provides certainty to more easily enable those discussions with other funders.
- The rate has been able to operate in a reasonably flexible manner (e.g. no prescribed co-funding requirements) given its relatively small scale. In a larger region and/or higher rate, there may be a need to be more prescriptive in how the fund operates and project selection criteria.
- As the immediate high priority sporting projects are successfully completed, there is a question whether the scope of the rate should be broadened to apply to a wider set of recreation activities (e.g. recreational cycle trails).
- While the fund can contribute to the upfront capital cost, many facilities require ongoing operating support for maintenance and other costs. Where these costs are met by the TA, it is important that these are factored into their LTPs and reinforce the need for projects to be genuinely supported by TAs, as they may still incur an ongoing funding burden from general rates.
- NRC has broadly tried to ensure that there is an alignment over time in matching funding collected and funding allocated across geographic areas. While this is likely important from a social licence perspective and aligning with a 'beneficiary pays' principle, there is also a need to consider specific projects from a whole regional network perspective. While specific projects may only have sub-regional benefits, they can be part of providing fair and equitable access across the whole region (i.e. as part of a hub and spoke model).

Other examples of targeted rates

The NRC case study is the primary example of a regional targeted rate being used to fund new or upgraded community sports facilities. However, targeted rates are used by councils around New Zealand for a wide-range of operational and capital costs in different areas.

Introduction

We have identified a number of other targeted rates that focus on community facilities defined more broadly. These provide a wider perspective on how targeted rates are currently utilised by both TAs and regional councils for specific purposes.

Waikato Regional Theatre targeted rate

Waikato Regional Theatre, to be completed in 2025, provides another relevant case study. As a sub-regional facility for the Hamilton Metro area, the benefits extend beyond the Hamilton City Council boundary into neighbouring Waikato and Waipā Districts. In order to enable funding contributions from across the region, the Waikato Regional Council introduced a differential targeted rate, with rating units in Waikato, Waipā and Matamata-Piako District contributing a higher amount, $5.92 per rating unit, than TAs across the wider region at $0.58 per rating unit. This will raise approximately $5m over 10 years to fund 6.3% of the total project cost. While not a sports facility, this provides an example of a regional council utilising its rating powers for a regional facility despite not being activity that it would traditionally play a significant role in.

Other targeted rates

There are a number of other community facility targeted rates, including by Waikato District Council for maintenance and operation of community halls. This targeted rate defines community hall catchments for each facility. Waimakariri District Council has a flat targeted rate to cover operating costs of the local swimming pools. These examples are for operational costs (rather than upfront capital), but provide a useful demonstration on the role targeted rates can play.

Table: Examples of targeted rates in New Zealand

Targeted rate	Council	Year introduced	Use	Application
Climate Action Targeted Rate	Auckland Council	2022	Established to fund improved bus services, new ferries, walking and cycling infrastructure and tree planting to support the Council's Urban Ngahere strategy.	Region-wide, uniform rate.
Stadium Taranaki	Taranaki Regional Council	2021	Established to help fund the redevelopment and earthquake strengthening of Yarrow Stadium in New Plymouth	Uniform rates within sub-district catchments.
Community Facilities Targeted Rate	Waikato District Council	Reviewed 2021	Covers maintenance and operational costs of halls and community facilities in the respective defined rating areas.	Uniform rates within sub-district catchments.
Community Swimming Pool Rate	Waimakariri District Council	2024	Funds the net cost (after income from other sources) of operating the district swimming pools.	Uni-form rate, district wide.

02

Considering a regional targeted rate for sports and recreation facilities

Principles and decision framework

General principles

Principles

A targeted rate is only one of several funding tools available to local government to fund community sports infrastructure. Administratively speaking, general rates are arguably simpler and provide more flexibility for councils to balance budgets. Further, given sports and recreation is generally the responsibility of territorial authorities, there is an important consideration on what would justify a regional council to be rating for an activity it is not typically involved in.

It is therefore important that there is clear and strong justification for considering the use of regional targeted rates for sports facilities. While there are particular features of certain facilities that may lend themselves to being funded through regional targeted rates, further criteria are required.

With that in mind, this section sets out a set of general principles in considering the use and setting of a targeted rate (below), as well as a high-level decision framework for considering targeted rates in a sports and recreation context.

General principles for funding sports and recreational facilities

1. **Clear, identified demand for investment and prioritised funding:** Projects should have a clear demand from the community and be identified as high priority through processes like a Regional Spaces and Places Plan and/or the TA's Long Term Plan.
2. **Those who benefit pay:** Evaluating who can access the service or benefits from the project, and therefore who should pay. For some types of council investment, such as water networks, this is clear. For social infrastructure, such as pools, libraries or sports facilities, the catchments can be less well defined. Teams may play across a region and therefore, while majority of benefits may be to a specific sub-region or township, the benefits can be spread much more widely.
3. **Historic fairness:** Funding arrangments should ensure that no particular group is paying an unfair share of a cost. While this can be partially achieved through a beneficiary pays approach as above, it is important to also consider if there has been historic inequitable distribution of funding that has given rise to some areas in a region having existing facilities, and new investment is essentially designed to bring a different area up to the same standard.
4. **Clearly defined purpose and transparency:** If a new funding source is implemented, it should be clear and transparent on how the funding amount has been set, how it will be managed and what it will be applied towards.
5. **Vertical equity:** Those who benefit from a service or funding tool may have very different financial abilities to pay for it. Therefore, when creating a new funding mechanism, it is important to consider making it progressive, meaning that it adjusts based on these differing abilities. This approach may result in some deviation from the principle that those who benefit should always fully bear the costs.
6. **Ratepayer affordability:** A new targeted rate needs to be considered in light of the entire rates burden of ratepayers. As stated earlier, the introduction of a targeted rate faces many of the same affordability challenges as an increase in general rates.

Specific design choices are discussed further in section 3.

Decision framework

The following high-level decision tree is intended to provide guidance on whether a targeted rate may be an appropriate tool for the proposed project or pipeline of projects. This summarises the key decision questions that we believe are likely most relevant when considering a regional targeted rate as a funding tool.

High-level decision tree

The following diagram sets out an illustrative decision tree for considering a regional funding approach for sporting facilities.

	Key hurdle criteria		Recommendation if criteria not met	Rationale for requirement
1	**Community support and alignment with Regional Facilities Plan**	The project has strong community support e.g. identified in the Regional Spaces and Places Plan as a priority project with a clear demand.	Reevaluate the project to consider inclusion in the Regional Spaces and Places Plan and engagement with the community to understand demand and support.	In a constrained funding environment, it is important to priortise investment. Regional Spaces and Places Plans provide a clear prioritisation framework that projects should be tested against.
2	**Regional or sub-regional scope of benefits**	The project(s) is anticipated to deliver material benefits across more than a single district (i.e. the incidence of benefits/users are not closely contained within a single district boundary).	Seek support through TA funding streams (which could include a new targeted rate, but not one that would function at a regional level).	Where the proposed project or likely pipeline of projects are local facilities only, there is unlikely to be a strong case for a regional approach.
3	**Need for ratepayer funding support at sufficient scale**	Requirement for ratepayer support as the project is not financially viable from users and other funding sources. Scale of investment is sufficient give administration costs.	Progress project using existing funding sources.	Where a project is financially viable through wider revenue sources that could service capital (e.g. through commercial revenues), there is a more limited case for ratepayer support.
4	**Sustainable ongoing funding model**	There is an agreed funding model for meeting ongoing operational costs.	Seek further subsidy support / reconsider operating and commercial model.	A facility with an unsustainable future operating model creates a future liability that needs to be considered at project inception.

POTENTIAL CASE FOR A **REGIONAL OR SUB-REGIONAL FUNDING APPROACH**

Regional funding tool options

The following table provides a summary of the key options for funding regional or sub-regional sports infrastructure. The options are colour-coded, green (high), yellow (medium) and red (low) to show how well the funding approach aligns with the principle. We appreciate that councils have a broader suite of potential funding sources (e.g. development contributions for facilities in new development areas) but have focused on the key rating options for new facilities in existing developed areas of the region. These ratings are necessarily subjective, and the conditions column explains the rationale for the rating.

Regional funding approach	Description	Conditions / comment	Alignment with those who benefit	Simplicity to implement	Transparency	Certainty
1. Territorial authority general rates / debt headroom	Relevant TAs agree to contribute beneficiary-aligned funding through allocation of existing or higher general rates	• TAs have sufficient debt headroom within their financial management policies / LGFA covenants • Sufficient coordination/agreement of respective contributions and priorities				
2. Regional council general rates / debt headroom	Regional council agree to contribute funding and provide through allocation of existing or higher general rates	• Regional council has sufficient debt headroom within their financial management policies / LGFA covenants • The expansion of the role of the regional council may require consultation • May be also beneficial option where TAs are debt constrained				
3. Territorial authority targeted rates	Multiple territorial authorities introduce new targeted rates for a project (or pipeline of projects)	• Sufficient coordination/agreement of respective contributions and priorities				
4. Regional council targeted rate	Regional council introduces new targeted rates for a project (or pipeline of project)	• The expansion of the role of regional councils would likely require consultation • May be also beneficial where TAs are debt constrained				

Summary

As discussed previously, all of these approaches ultimately charge a similar set of ratepayers, however regional targeted rates have some advantages for funding of regional or sub-regional sports and recreation infrastructure.

Broad steps to establish a targeted rate

For RSTs seeking to progress a regional targeted rate, the diagram below sets out five high-level steps for progressing a targeted rate from concept to implementation

01

Identifying need and role of a targeted rate

It is critical to first define the role the targeted rate is intended to play in terms of scale of funding, types of projects it will fund and to what proportion. This will vary by region and context based on the challenges faced.

Other steps include identifying a project priorities list in a Regional Spaces and Places Plan.

02

Building community understanding and support for a targeted rate

To create "buy-in" requires understanding and support for what the targeted rate will fund or co-fund and ultimately deliver to the ratepayer's benefit.

For RSTs, this could include using the network of Sports Clubs and communities to present the targeted rate as an option.

03

Engaging with territorial authorities and regional councils

Support for a targeted rate requires engaging with both council staff and elected members of the respective councils ahead of the LTP.

- The introduction of targeted rates requires a majority support of elected members.
- Political support can be linked to the community's understanding and support of what a targeted rate could achieve.

04

Entering the Long Term Plan process

A targeted rate is generally best positioned at the start of a new Long Term Plan cycle. Councils have consultation requirements for LTPs through the Local Government Act, which typically occurs 6-9 months prior to a new LTP coming into effect.

05

Passing a targeted rate

The passing of the LTP requires a majority vote by council in favour. Individual parts of a plan, including specific targeted rates can be voted on separately, meaning majority support for the rate is needed amongst elected members. Steps to build this support can include:

- Strong community support through consultation.
- Clear strategy and process for use of revenue to fund projects.

03

Key design choices

Frequently asked questions, key choices and example calculation

Broad design features

The following diagram summarises some of the key choices in the design of a regional targeted rate, broken into general features (applying in all cases), and additional features to consider depending on whether the rate would support specific projects identified upfront or be used to create an ongoing funding pool that projects would seek funds from.

Clear demand	Beneficiary pays	Historic fairness	Clearly defined purpose	Vertical equity	Affordability

General design features

- 1. Total amount to be collected
- 2. Method for rate setting
- 3. Scope of ratepayers
- 4. Distribution of rate burden across region
- 5. Scope of project costs

Plus: Additional features for a single project / defined set of projects

- 6. Debt repayment period

Plus: Additional features for a funding pool approach

- 7. Project selection criteria
- 8. Ongoing governance and decision making
- 9. Cashflow and use of leverage

Frequently asked questions on targeted rates

The following material covers some frequently asked questions about targeted rates and how they could be applied for sports and recreational facilities. Note that the answers on this page do not represent legal opinions, and any specifc design would need to be considered in light of relevant legislation.

Question	Commentary
How can targeted rates be applied?	The Local Government (Rating) Act 2002 sets our the different ways in which a targeted rate can be applied: a) All rateable land within the territorial authority's district; or b) To one or more categories of rateable land. These categories can be defined by the use, activities that are permitted, the land area, the provision of the service, location, annual value, capital value or land value (set out in Schedule 2 of the Act). It can be set: a) as a uniform rate for all rateable land; or b) differentially for different categories of rateable land.
Who can implement a targeted rate?	Targeted rates can only be established by territorial authorities, meaning TAs and regional councils.
What can targeted rate funding be used for?	Targeted rate funding must be used for activities or groups of activities that it is established to fund. In the context of sports and recreational facilities, targeted rates could theoretically be established to fund new assets, facility or service, renewal of existing facilities, and for operational funding for services or operating costs. However, the scope of the targeted rate would need to be specified.
Could targeted rates work for local facilities, as well as regional facilities?	Yes, targeted rates could theoretically work for local facilities. However, if a project and its benefits were located within a single TA district, it would likely be more suitable to have the TA administer the targeted rate, rather than it being charged by the regional council.

Question	Commentary
Could targeted rates work for community-led or council-led projects?	Yes, the rate could work to ultimately fund community-led projects. The rate would be charged by a council, and then ultimately to support a community led project. Targeted rates can also support council-led projects.
How long can funding be held before implementation?	Funding collected through rates would typically be implemented within the relevant LTP period.
How could benefit-based differentials apply?	Differential rates can be charged based on the spread of benefits from a project or service, with these rates differing by location. In other contexts, the relevant benefits to different groups can be established through specialist economic analysis. For example, a new regional aquatic centre may be of most benefit to the immediate township with other towns nearby having their own facilities. However, it could also have regional benefits from being a larger facility hosting regional competitions and attracting a wider use catchment for having more modern facilities. Therefore, a higher charge could be justified for the immediate township while the surrounding areas make a small contribution through a lower rate.

Discussion: Selected general design features

The following table provides a summary of general considerations for a regional targeted rate. There are no single right answers that apply to all cases, with each design needing to consider the local context and objectives

	Description / rationale	Key considerations
Method for rate setting	Under the Local Government (Rating) Act, the targeted rate could be a flat rate (the same for every rating unit (property)) or set with reference to a range of other factors. A flat rate is administratively simple - rating everyone equally assumes similar use and benefit from the spending. A rate based on the property (capital) or land value, can be more equitable, with higher-value properties paying more, adopting an ability to pay principle. It also means any differential benefit to property values from the spending of the rate is captured.	Key considerations: • If the benefits are expected to be uniform across all ratepayers and the infrastructure is accessible to everyone, a flat rate may be appropriate. Similarly, if the rate is relatively low in quantum and therefore unlikely to create significant affordability challenges, a simpler flat rate approach may be favoured. • If the benefits are expected to be greater to higher value properties, then the latter option could be well suited. A third option could be a hybrid approach using both a flat rate and a portion based on property values.
Distribution of rate burden across region	Differential rates for geographic areas can be considered if spending and therefore benefits are likely to be higher in one area than another. For example, if regional sports facilities are concentrated in the main town or city in a region. Alternatively, if approximately equal spending is considered likely and/or preferred then an equal rating approach across the whole region can be appropriate.	Key considerations: • Where a pipeline of projects is proposed, what is the expected geographic spread? • Are most regional sporting facilities planned or likely located in one town or city and therefore that area receiving a larger benefit? • Is the intention to focus funding on larger regional facilities or also hybrid regional/local facilities?
Scope of project costs	Whether the targeted rate funding is available for new facilities, upgraded/expanded, refurbishments or renewals and maintenance. For many regions, we understand that upfront capital is the key challenge with upgraded/new facilities being the priority.	Key considerations: • Demand for new and increased capacity of sports facilities versus funding demands for renewals and refurbishments. • The level of community support (for example, a targeted rate that delivers new facilities may have greater support than one focused on operating support for existing facilities). • What alternative funding sources exist. For example, general maintenance for many sports can typically be achieved through user/player fees. Community fundraising, sponsorship and philanthropy may be able to meet mid-cost renewals and some new build capital costs.

Discussion: Selected design features for a funding pool

The following table provides a summary of selected considerations where the targeted rate will be used for a funding pool that projects over time can access (rather than being specified up front at the time of establishment).

	Description / rationale	Key considerations
Project selection criteria *Co-funding requirement*	A co-funding requirement, particularly from the relevant TA, signals that a genuine level of support for the project from that authority is required before the project would qualify. Similarly, there may be other parties that would typically be expected to contribute.	Key considerations: • The relative scale of the targeted rate relative to the number of projects (is it seeking to support a small defined number of projects, or provide limited support to a wide number). • Whether commitment from TAs could be demonstrated through other means. • The distribution of costs and benefits if the regional targeted rate was the only local government funding source.
Project selection criteria *Project type*	A sports and recreation facilities targeted rate needs a clear definition on what it will and will not fund to provide clarity on the types of costs and projects that would qualify. This should provide clear boundaries on where sports infrastructure crosses into active recreation, and then into passive recreation.	Key considerations: • The public mandate and appetite for what a targeted rate should fund. • The demand for facilities and the scale of investment needed. • The available funding sources for a wider set of projects (i.e. that may qualify for central government support). • There is scope to begin with a narrow definition and expand at a later date if appropriate following consultation with the community.
Ongoing governance and decision making	Once a targeted rate has been established, there is a need for ongoing governance on how projects are selected, prioritised and ultimately funded.	Key considerations: • Capacity of the council(s) or RST to take on project selection and ongoing governance through construction and funding period. • Whether there are any existing regional or sub-regional forums that could be used for ongoing coordination / governance purposes. • Level of political oversight desired.

Example worked calculations

Discussion

The following considers the potential level of capital that a regional targeted rate could support under a number of different approaches. In practice, we consider:

- The pay as you go model could be considered where there is a future pipeline of projects that will be selected and prioritised over time, and where that is expected to be reasonably consistent over a number of years. These projects may not be specifically identified up front, but there is a reasonable expectation that a range of sub-regional and regional projects will have community support to proceed, and there are significant coordination benefits for the funding and planning of these to occur at a regional level.
- The debt repayment model could be considered where there is a single or well-defined set of projects that would occur over the near term, for which upfront borrowing would occur. For example, a large regional stadium that would allow the region to host international cricket and rugby events, along with providing training grounds for local clubs.

Pay as you go fund model (i.e current NRC model)

Under the most basic model, funds would be allocated based on the annual revenue received through the targeted rate. At a high-level, this would simply be the level of the rate multiplied by the number of residential ratepayers.

Revenue over a 3-year LTP cycle			
Annnual charge per rating unit	# of ratepayers		
	50,000	100,000	500,000
$10 per ratepayer	$1.5m	$3m	$15m
$25 per ratepayer	$3.75m	$7.5	$37.5m
$75 per ratepayer	$11.25m	$22.5m	$112.5m

Importantly, the existence of the targeted rate may attract additional funding to projects that would not have been provided otherwise. Whilst hypothetical, this could achieve a multiplier effect on the amounts shown in the table above.

Debt repayment model

Under this approach, we determine a very high-level order of magnitude of ringfenced debt that a targeted rate could potentially support. This model is similar to the approach initially taken in Northland for paying for the Okara Stadium upgrade.

For simplicity, we have assumed an average interest rate of 5% p.a. that is repayable over a 15-year period. While leveraging the income from a targeted rate inevitably has associated interest costs, it does allow project expenditure (and therefore benefits) to be brought forward in time and realised earlier).

Approximate additional debt that could be supported			
Annnual charge per rating unit	# of ratepayers		
	50,000	100,000	500,000
$10 per ratepayer	$5m	$10m	$52m
$25 per ratepayer	$13m	$26m	$130m
$75 per ratepayer	$39m	$78m	$390m

Even without ringfenced borrowing, we also note that a targeted rate could support a council to generally increase its borrowing if it were constrained by its debt to revenue ratio. This is generally less of factor for regional councils than growth TAs but is provided here for context.

A

Appendix

Appendix

Information sources

The information in this report draws upon a combination of desktop research and interviews. We interviewed 5 representatives of councils and Regional Sports Trusts. This includes interviews with Northland Regional Council and Sport Northland, to understand in detail how the existing Northland targeted rate came into existence and how it is used today. We also spoke to representatives from Aktive (Auckland Regional Sports Trust) and Sport Waikato to understand their challenges in supporting the delivery of sports infrastructure and their consideration of targeted rates previously. We thank all interviewees for their helpful participation in developing this report.

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