



## BRIEFING

### Fiscal sustainability options for Tourism and Hospitality portfolio

|                                 |                  |                         |           |
|---------------------------------|------------------|-------------------------|-----------|
| <b>Date:</b>                    | 27 November 2023 | <b>Priority:</b>        | High      |
| <b>Security classification:</b> | In Confidence    | <b>Tracking number:</b> | 2324-0926 |

| Action sought  |   |                  |
|--|---|------------------|
|  | Action sought   | Deadline         |
| Hon Matt Doocey<br><b>Minister for Tourism and<br/>Hospitality</b> | <p><b>Note</b> that the Ministry of Business, Innovation and Employment (MBIE) has undertaken a fiscal sustainability and efficiency programme to support the government to achieve its fiscal objectives and ensure value for money in government spend.</p> <p><b>Note</b> that we have identified choices in how you invest in the Tourism and Hospitality portfolio in the order of<br/><b>Confidential advice to Government</b></p> <p><b>Note</b> that there are additional options identified in the MBIE ownership fiscal briefing (2324-0917 refers) and these savings will be apportioned to your portfolio.</p> <p><b>Discuss</b> the contents of this briefing with officials at your initial meeting with MBIE.</p> <p><b>Agree</b> to attend a meeting for MBIE portfolio Ministers to discuss the reprioritisation options presented in this paper and how best to achieve your respective portfolio priorities as well as overall fiscal objectives.</p> <p><b>Note</b> that we will provide further advice on options you would like to progress, including phasing, costs of change, and risk management.</p> | 30 November 2023 |

| <b>Contact for telephone discussion (if required)</b> |  |                            |                    |
|---|--|----------------------------|--------------------|
| <b>Name</b>   | <b>Position</b>  | <b>Telephone</b>           | <b>1st contact</b> |
| Nic Blakeley  | Deputy Secretary, Labour, Science and Enterprise         | Privacy of natural persons |                    |
| Heather Kirkham                                       | General Manager, Tourism, Labour, Science and Enterprise | Privacy of natural persons | ✓                  |

| <b>The following departments/agencies have been consulted</b> |
|---|
| Tourism New Zealand   |

Minister's office to complete:

Noted

Overtaken by Events

Approved

Needs change

See Minister's Notes

Declined

Seen

Withdrawn

### **Comments**



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### Purpose

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This briefing sets out reprioritisation options in the Tourism and Hospitality portfolio to support the Government's fiscal objectives.

### Executive summary

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As the incoming Minister for Tourism and Hospitality, you have a priority to deliver practical support to lift the contribution of tourism to the New Zealand economy. Tourism is one of New Zealand's largest export industries. Pre-COVID-19, the direct impact of tourism (both international and domestic) totalled more than five per cent of New Zealand's gross domestic product and is expected to return to this number this summer.

As Tourism and Hospitality Minister you have options as to:

- the **types and level of activities** which are provided in the Tourism and Hospitality portfolio (marketing, infrastructure and business support, data and insights, policy advice); and
- the **funding sources for those activities** (Crown funding, visitor levies, access charges, departure taxes).

This briefing sets out the key choices for where to invest and reprioritise in the Tourism and Hospitality portfolio, and outlines options for further work on alternative funding models if you are interested.

Because visitor pressures create costs across many portfolios, and the Tourism and Hospitality portfolio itself is relatively small, the biggest opportunity to account for the visitor economy is through the consideration of a package of revenue tools for tourism. These pressures are discussed further in our Briefing to the Incoming Minister for Tourism and Hospitality (2324-0928 refers).

The Ministry of Business, Innovation and Employment (MBIE) has undertaken a fiscal savings prioritisation exercise to identify areas where government spending can be prioritised within the Tourism and Hospitality portfolio. In addition to options to reduce MBIE's shared, stewardship and enablement functions which are proportionally costed to the Tourism and Hospitality portfolio, there are options to save and reprioritise across the portfolio, while delivering on your priorities. These include options to:

- Swap remaining Crown investment in Ngā Haerenga New Zealand Cycle Trails' Great Rides of New Zealand (the Great Rides) for the International Visitor Conservation and Tourism Levy (IVL) funding.

- Close the Innovation Programme for Tourism Recovery and return related contract management funding.
- Make further reductions in funding to Tourism New Zealand in the near-term.
- Return funding put aside because of technical accounting issues within Tourism New Zealand.
- Stop funding the Tourism Growth Partnership and the Tourism Facilities Grant Funds.
- Return funding allocated to the Tourism Industry Transformation Plan.

Potential savings outlined in this briefing total to a further Confidential advice to Government  
Annex One provides you with a two-page fiscal summary for the Tourism and Hospitality portfolio.

Swapping remaining Crown investment in in Great Rides with IVL funding, returning funding put aside because of technical accounting issues within Tourism New Zealand and stopping the Tourism Growth Partnership and the Tourism Facilities Grant Funds are three options with less risk. Closing the Innovation Programme for Tourism Recovery, reducing funding to Tourism New Zealand and returning funding allocated to the Tourism Industry Transformation Plan are options which are likely to have some impact on the future value of tourism in New Zealand, and will impact the Government’s relationship with the tourism sector.

Cost savings have already been made in tourism across 2023, considering government fiscal pressures and MBIE advice on where to prioritise effort in tourism. Over four years from 2024/2025, the effect equates to a reduction of \$80 million from the Tourism and Hospitality portfolio (including a swap of \$5 million from Crown funding to third-party IVL revenue). There are several COVID-19 recovery related funds for tourism which have closed, or are scheduled to close, in 2023/2024. This will further reduce spending in the Tourism and Hospitality portfolio from 2023/2024.

We recommend you discuss relative priorities for progressing Government goals across the MBIE portfolios with other Ministers. To that end, we have recommended that the MBIE ownership Minister (Minister for Economic Development) call a meeting of all MBIE portfolio Ministers.

A summary of the Tourism and Hospitality portfolio baseline, and reprioritisation options from this briefing, is provided below:

|  | 2023/24<br>\$m | 2024/25<br>\$m | 2025/26<br>\$m | 2026/27<br>\$m | 2027/28 &<br>Outyears \$m | FTE  |
|--|----------------|----------------|----------------|----------------|---------------------------|--|
| <b>Current baseline (Crown)</b>  | 215.392        | 135.899        | 130.027        | 114.127        | 113.448                   | ~200 (~168<br>Tourism New<br>Zealand and<br>40.4 MBIE) |
| <b>Current baseline (Third Party)</b><br>Tourism 50% share of IVL  | 37.764         | 37.844         | 37.844         | 37.844         | 37.844                    | 0  |
| <b>Total</b>   | <b>253.156</b> | <b>173.734</b> | <b>167.871</b> | <b>151.971</b> | <b>151.292</b>            | <b>~200</b>  |
| <b>Reprioritisation options<sup>1</sup></b><br>Swap remaining Crown<br>investment in the Great Rides for<br>IVL funding. | -              | -3.000         | -3.000         | -3.000         | -3.000                    | 0  |

<sup>1</sup> MBIE has a multi-category appropriation in each of its Vote, these all cover a range of policy, strategy and enablement functions to provide flexibility in delivering against government priorities. MBIE proposes a 10% reduction for the activity as a whole. This sum is not reflected in these reprioritisation options.

|   | 2023/24<br>\$m                                   | 2024/25<br>\$m | 2025/26<br>\$m | 2026/27<br>\$m | 2027/28 &<br>Outyears \$m | FTE  |
|---|--|----------------|----------------|----------------|---------------------------|--|
| Close the Innovation Programme for Tourism Recovery and return related contract management funding. | -10.639  | -1.500         | -              | -              | -                         | 0  |
| Reduce funding to Tourism New Zealand <small>Confidential advice to Government</small>              |  |                |                |                |                           |  |
| GST obligation for Tourism New Zealand.   | -13.883  | -              | -              | -              | -                         | 0  |
| Stop funding the Tourism Growth Partnership and the Tourism Facilities Grant Fund                   | -  | -              | -              | -              | -11.267                   | 0  |
| Return funding allocated to the Tourism Industry Transformation Plan                                | -6.776   | -5.332         | -2.622         | -2.022         | -                         | 0  |
| <b>Total reprioritisation options</b>   | <small>Confidential advice to Government</small> |                |                |                |                           |  |
| <b>Net impact on baseline<sup>4</sup></b>   | <small>Confidential advice to Government</small> |                |                |                |                           | <small>Confidential advice to Government</small><br>(Tourism New Zealand and MBIE) |

<sup>2</sup> In August 2023, a \$15 million per annum baseline reduction for Tourism New Zealand from 2026/27 onwards was made for Marketing New Zealand as a Visitor Destination. This saving is not reflected in the total sum of reprioritisation options (as it is included in the 2026/2027 and 2027/2028 Tourism and Hospitality portfolio baseline).

<sup>3</sup> As above.

<sup>4</sup> Excludes the savings from the Tourism Industry Transformation Plan as it is held in the Economic Development multi category appropriation and an appropriation for MBIE's policy capability.

## Recommended action

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MBIE recommends that you:

- a **Note** that MBIE has undertaken a fiscal sustainability and efficiency programme to support the government to achieve its fiscal objectives and ensure value for money in government spend.

*Noted*

- b **Note** that we have identified choices in how you invest in the Tourism and Hospitality portfolio in the order of Confidential advice to Government

*Noted*

- c **Note** that there are additional options identified in the MBIE ownership fiscal briefing (2324-0917 refers) and these savings will be apportioned to your portfolio.

*Noted*

- d **Discuss** the contents of this briefing with officials at your initial meeting with MBIE.

*Yes/No*

### *Next steps*

- e **Agree** to attend a meeting for MBIE portfolio Ministers to discuss the reprioritisation options presented in this paper and how best to achieve your respective portfolio priorities as well as overall fiscal objectives.

*Agree / Disagree*

- f **Note** that we will provide further advice on options you would like to progress, including phasing, costs of change, and risk management.

*Noted*



Heather Kirkham  
**General Manager, Tourism**  
MBIE

Hon Matt Dooney  
**Minister for Tourism and Hospitality**

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26 / 11 / 2023

2324-0926

**In Confidence**

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# Strategic choices for reprioritisation in Tourism and Hospitality portfolio

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1. As the incoming Minister for Tourism and Hospitality, you have a priority to deliver practical support to lift the contribution of tourism to the New Zealand economy. Tourism is one of New Zealand's largest export industries. Pre-COVID-19, the direct impact of tourism (both international and domestic) totals more than five per cent of New Zealand's gross domestic product and is expected to return to this number this summer.
2. As Tourism and Hospitality Minister you have options as to:
  - What activity is funded in the portfolio to what level.
  - The source of that funding (eg, it does not all have to be directly from the Crown).
3. This briefing sets out the key choices for where to invest and reprioritise in the Tourism and Hospitality portfolio, and outlines options for further work on alternative funding models if you are interested.

## An all-of-MBIE approach to reprioritisation

4. MBIE operates a number of functions that operate across portfolios, as well as working to realise synergies between them. MBIE has considered a wide range of options for reprioritisation. This includes stewardship (such as economic strategy), enablement functions (such as human resources and finance) and shared services (such as call centre services). We recommend considering the portfolios as a suite, as this enables:
  - Consideration of enablement and stewardship functions as part of the whole (which will have proportional savings for each portfolio).
  - Opportunities to align and consolidate related functions between portfolios, including Crown entities.
  - Enabling trade-offs across functions in order to calibrate/equalise impacts, such as directing policy resource.
5. MBIE are proposing a 15% reduction in discretionary spend such as travel, conferences, training, recruitment costs and savings in core services (human resources, information technology, and other corporate functions). The financial impact of these options on the Tourism and Hospitality portfolio will depend on the scale of changes progressed. These savings will be apportioned out to portfolios once Ministers have provided direction on which options they want to pursue.
6. MBIE also has a multi-category appropriation in each of its Votes, these all cover a range of policy functions to provide flexibility in delivering against government priorities. We are proposing a 10% reduction for the activity as a whole. The current allocation of resourcing reflects existing work programmes. Further savings will likely emerge based on decisions Ministers take in portfolios.
7. We recommend you discuss relative priorities for progressing Government goals across the MBIE portfolios with other Ministers. To that end, we have recommended that the MBIE ownership Minister (Minister for Economic Development) call a meeting of all MBIE portfolio Ministers. Further advice on the all-of-MBIE approach to reprioritisation is covered in the Fiscal Omnibus Briefing (2324-0917 refers).

## Fiscal background for Tourism and Hospitality portfolio

8. The role of government in tourism is primarily to overcome market failures that limit the value of tourism. These are usually the responsibility of:
  - Local government (eg the infrastructure tourists rely on).
  - Other agencies (eg rules around use of conservation land).
  - The sector (eg international marketing).
9. However tourism, or economic development more generally, is often not a priority for those organisations. The role of MBIE is to work with these groups to ensure the value of tourism is maximised, with most of the fiscal and regulatory implications the responsibility of others.
10. The overall budget allocation for the Tourism and Hospitality portfolio in 2023/2024 is \$253.2 million under Vote Business, Science and Innovation. This is primarily non-departmental funding (funding provided via MBIE to other agencies and organisations), with \$19.8 million departmental funding (funding provided to MBIE to provide services directly).
11. The current portfolio baseline is outlined below, which reflects cost savings made across the portfolio already (see paragraphs 17 and 18). There will be a significant reduction in non-departmental funding from 2024/2025, as remaining COVID-19-related contracts are paid out.
12. The Tourism and Hospitality portfolio is supported by MBIE, with 40.4 full-time equivalent (FTE) staff, which is 0.6% of the total MBIE workforce.
13. The main expenditure in the Tourism and Hospitality portfolio is international marketing through Tourism New Zealand, a Crown Entity. Tourism New Zealand receives baseline funding of \$111.5 million, which will reduce to \$96.95 million from 2026/2027 as a result of a savings exercise completed in mid-2023.
14. There is one revenue stream in the Tourism and Hospitality portfolio. The IVL is a \$35 charge paid by many international visitors when they travel to New Zealand.<sup>5</sup> It is paid alongside a visitor's short-term visa or New Zealand Electronic Travel Advisory. Assuming 2019 arrival figures, the IVL is expected to raise around \$80 million per annum which is currently split evenly between the Tourism and Conservation portfolios.

### Current portfolio baseline (October Baseline Update)

|   | 2023/24<br>\$m | 2024/25<br>\$m | 2025/26<br>\$m | 2026/27<br>\$m | 2027/28 &<br>Outyears<br>\$m | FTEs                          |
|---|----------------|----------------|----------------|----------------|------------------------------|-------------------------------|
| <b>Departmental Crown Revenue</b><br>(policy advice and related services, tourism data and analysis)  | 17.180         | 14.336         | 10.077         | 9.177          | 8.498                        | 40.4<br>(MBIE)                |
| <b>Departmental Third Party Revenue</b><br>(IVL fund management and bank fees)  | 2.601          | 2.601          | 2.601          | 2.601          | 2.601                        | 0                             |
| <b>Non-Departmental Crown Revenue</b><br>(Tourism New Zealand, COVID-19 Events Transition Support Payment, Tourism Regional Events Fund, Tourism Infrastructure Fund, Innovation Programme for Tourism) | 198.212        | 121.563        | 119.950        | 104.950        | 104.950                      | ~168<br>(Tourism New Zealand) |

<sup>5</sup> Australians, most Pacific Islanders and diplomats etc. are exempt.



|   | 2023/24<br>\$m | 2024/25<br>\$m | 2025/26<br>\$m | 2026/27<br>\$m | 2027/28 &<br>Outyears<br>\$m | FTEs |
|---|----------------|----------------|----------------|----------------|------------------------------|------|
| Recovery, Great Rides)                                    |                |                |                |                |                              |      |
| <b>Non-Departmental<br/>Third Party Revenue<br/>(IVL)</b> | 35.163         | 35.243         | 35.243         | 35.243         | 35.243                       | 0    |
| <b>Total</b>  | 253.156        | 173.743        | 167.871        | 151.971        | 151.292                      | ~200 |
| Fiscal impact   | 215.392        | 135.899        | 130.027        | 114.127        | 113.448                      | 0    |
| No fiscal impact  | 37.764         | 37.844         | 37.844         | 37.844         | 37.844                       | 0    |

## Changes in Tourism and Hospitality portfolio spending and activities

15. In the last five years, there has been little change to the baseline for tourism policy or Tourism New Zealand. However, there have been several one-off work programmes and funds since 2020, especially in support of the sector's recovery from the COVID-19 pandemic.
16. Cost savings have already been made in tourism across 2023, considering government fiscal pressures and MBIE advice on where to prioritise effort in tourism. Over four years from 2024/2025, the effect of Budget 2023 and the Rapid Savings Exercise equates to a reduction of \$80 million from the Tourism and Hospitality portfolio (including a swap of \$5 million from Crown funding to third-party IVL revenue).
17. In Budget 2023, the Tourism and Hospitality portfolio returned \$59 million over four years. This was made up of:
  - \$11.267 million per annum of baselined non-departmental funding (this had been used to fund additional Tourism Infrastructure Fund rounds and manage freedom camping issues)
  - \$10 million (one-off) from the Innovation Programme for Tourism Recovery, and
  - \$4 million (one-off) from the COVID-19 Tourism Recovery Package.
18. In August 2023, MBIE found further savings of \$60 million over four years as part of a rapid savings exercise, including:
  - \$5 million per annum baseline reduction for the Great Rides from 2024/25 onwards (with the difference to be from directed funding from the IVL)
  - a further \$30 million (one-off) from the Innovation Programme for Tourism Recovery, and
  - \$15 million per annum baseline reduction for Tourism New Zealand from 2026/27 onwards for Marketing New Zealand as a Visitor Destination.

## Revenue options

19. The biggest opportunity to change the fiscal position of the Tourism and Hospitality portfolio is through the consideration of a package of revenue tools for tourism.
20. As discussed in our Briefing to the Incoming Minister for Tourism and Hospitality, visitors rely on a range of publicly provided goods and services that are paid for and used by ratepayers and taxpayers. This includes everything from roads to water infrastructure to walking tracks. These are usually free at the point of consumption. Because there is no direct revenue link between users and the use of these public goods and services, there is both under-investment and over-consumption.

21. The sector, regions and government agencies (including MBIE, Treasury and the Department of Conservation) are interested in exploring options for ensuring that visitors contribute to the amenities that they use and costs they create. New Zealand lags many other nations in implementing charging tools.
22. New Zealand is also disadvantaged in its distance from most markets, with significant additional carbon generated for travel to New Zealand. New Zealand is exposed to any changes in consumer preference and has very few tools to fund adaptation or mitigation.
23. There are several charging tools which could be considered, individually or as a package, which would ensure visitors make a fair contribution, provide potential revenue streams to offset under-investment, and increase government revenue. Charging tools, including the examples below, could all be set at a level that did not affect demand or access for New Zealanders:
  - further differentiated charging for Great Walks and Great Rides
  - increasing the IVL levy
  - regional or local accommodation taxes ('bed tax'); or
  - a departure tax ('decarbonisation charge') to address the emissions associated with international air travel.
24. There are choices and limitations with each. We would welcome a discussion with you about new or revised charging tools for tourism.

## IVL

25. The IVL is a revenue stream within the Tourism and Hospitality portfolio, which you are jointly responsible for with the Minister of Conservation and the Minister of Finance. IVL revenue is currently ringfenced for tourism and conservation initiatives by statute. As the IVL is not charged to New Zealanders, it does not affect the cost of living for New Zealanders, and so it provides an option for switching away from Crown funding.
26. While the IVL is a source of revenue, its design means it is not capable of addressing all the issues facing tourism. There is a current investment plan and a number of work streams which have a potential draw from the IVL. The table below demonstrates the investments which have been nominally allocated from the IVL, including two of your manifesto commitments:

|  | 2023/24<br>\$m | 2024/25<br>\$m | 2025/26<br>\$m | 2026/27<br>\$m | 2027/28 &<br>Outyears \$m | FTEs |
|--|----------------|----------------|----------------|----------------|---------------------------|------|
| <b>Current committed uses for IVL</b>                  |                |                |                |                |                           |      |
| Tourism Data Leadership Group                          | 5.020          | -              | -              | -              | -                         | -    |
| Local Revenue tools, guidance                          | 0.350          | -              | -              | -              | -                         | -    |
| Freedom Camping implementation                         | 1.843          | 1.050          | 1.050          | 1.050          | 1.050                     | -    |
| Destination Management Plans, professional development | 0.300          | -              | -              | -              | -                         | -    |
| iSITE network upgrade                                  | 1.200          | 0.800          | -              | -              | -                         | -    |
| Fund management  | 2.116          | 2.116          | 2.116          | 2.116          | 2.116                     | -    |
| Great Rides  | -              | 3.000          | 3.000          | 3.000          | 3.000                     | -    |
| <b>Potential or proposed uses for the IVL</b>          |                |                |                |                |                           |      |
| National Destination Management coordination           | 2.500          | 2.500          | -              | -              | -                         | -    |
| Tourism New Zealand                                    | -              | 2.200          | 2.200          | 15.000         | 15.000                    | -    |
| Great Rides  | -              | 5.000          | 5.000          | 5.000          | 5.000                     | -    |

|                                | 2023/24<br>\$m | 2024/25<br>\$m | 2025/26<br>\$m | 2026/27<br>\$m | 2027/28 &<br>Outyears \$m | FTEs     |
|--------------------------------|----------------|----------------|----------------|----------------|---------------------------|----------|
| <b>Manifesto commitments</b>   |                |                |                |                |                           |          |
| E-bike chargers on Great Rides |                | 0.750          | 0.750          | 0.750          | 0.750                     | 0.5      |
| Regional events promotion      |                | 1.250          | 1.250          | 1.250          | 1.250                     | 0.5      |
| <b>Total</b>                   | <b>13.329</b>  | <b>18.666</b>  | <b>15.366</b>  | <b>28.216</b>  | <b>28.216</b>             | <b>1</b> |

27. The IVL is a major lever for you in the Tourism and Hospitality portfolio, and we will brief you separately on this.
28. The rate of the IVL is due for review in 2024. There is an opportunity to consider a full range of options for the IVL, including: reducing the levy, raising the levy, using the revenue to fund baseline expenditure rather than specific investments, or changing legislation so the IVL revenue can reprioritised elsewhere.
29. We recommend that Ministers consider what tourism and conservation activity would best be funded by the IVL to avoid ad hoc and low value spend. We will provide you with further advice on how money available to be invested from the IVL can have the highest value. Refreshing the IVL Investment Plan is the best mechanism to do this.

## Opportunities for savings or reprioritisation

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### Options for the Tourism and Hospitality portfolio

30. We have identified the below options to make savings:
- Swap remaining Crown investment in the Great Rides for IVL funding.
  - Close the Innovation Programme for Tourism Recovery and return related contract management funding.
  - Make further reductions in funding to Tourism New Zealand.
  - Return funding put aside because of technical accounting issues within Tourism New Zealand.
  - Stop funding the Tourism Growth Partnership and the Tourism Facilities Grant Funds.
  - Return funding allocated to the Tourism Industry Transformation Plan.

### *Savings from Ngā Haerenga New Zealand Cycle Trails Great Rides*

31. MBIE has played a role in supporting investment in New Zealand's Great Rides and helps coordinate \$8 million of annual Crown operational funding available for the maintenance, development and promotion of the Great Rides alongside Ngā Haerenga New Zealand Cycle Trails Incorporated.<sup>6</sup>
32. As part of the rapid savings exercise in mid-2023, annual funding for the Great Rides was amended so that only \$3 million per annum of operational funding was provided by the Crown, with \$5 million provided directly from the IVL.
33. The remaining \$3 million Crown funding could be swapped out for IVL funding. In effect, this would be a funding switch, enabling all funding for the maintenance, development and promotion of the Great Rides to come from the IVL and allow MBIE to divest itself from Great Rides.


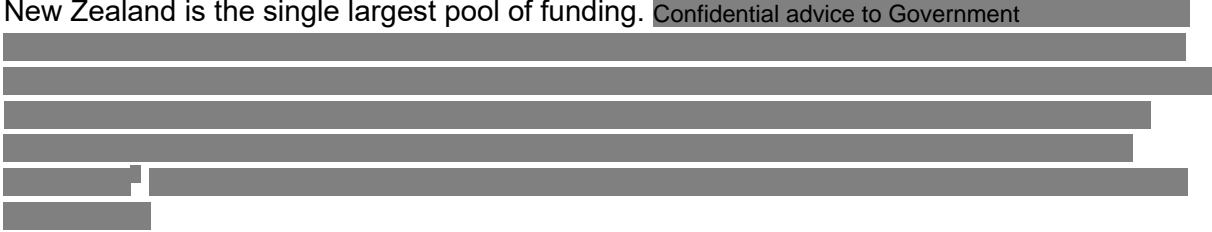
<sup>6</sup> Ngā Haerenga New Zealand Cycle Trails Incorporated was established in 2014 as an independent body responsible for the long-term governance and management of the New Zealand Cycle Trails.

- 34. From MBIE’s perspective, work on the Great Rides is not core business for MBIE. We also note that there are likely to be ongoing cost pressures as the trails are not self-sustaining and significant maintenance upgrades and resilience expenditure is expected. There are further options to implement charging tools for cycle trails, other targeted rates or concessions which could help with these cost pressures.
- 35. We will discuss this option with you further and provide you advice on charging tools.

*Savings from the Innovation Programme for Tourism Recovery*

- 36. The Innovation Programme for Tourism Recovery is a contestable fund for projects that seek to stimulate, catalyse or achieve transformative innovation for tourism. A small amount of funding has been approved and contracted (\$515,175) and around \$12 million is remaining. Applications are due for the final stream of funding on 15 December 2023, with decisions expected to be made in the first quarter of 2024.
- 37. A choice could be made to close the Innovation Programme for Tourism Recovery and return unspent fundings. While there was significant interest from the tourism sector in the programme, relatively few applications to date have met the threshold for funding (13% approval rate). However, there are significant applications expected to be made in December which are likely to meet the threshold for funding, and we recommend leaving the programme to run with the remaining (time-limited) funding.
- 38. We will discuss this option with you further.

*Savings from Tourism New Zealand*

- 39. Tourism New Zealand is a Crown entity who markets New Zealand as a visitor destination for the long-term benefit of New Zealand. It aims to shape demand for New Zealand as a destination (encourage off-peak and regional travel) and to influence the type of visitor travelling to New Zealand.
- 40. As part of the rapid savings exercise in mid-2023, Tourism New Zealand’s baseline was reduced from \$112 million to \$96.95 million, effective from 2026/27 onwards.
- 41. Confidential advice to Government  

- 42. If you wish to make further savings in the Tourism and Hospitality portfolio, then Tourism New Zealand is the single largest pool of funding. Confidential advice to Government  

- 43. There are risks in deciding to further reduce funding for Tourism New Zealand. Tourism New Zealand’s marketing work directly impacts consumer choice to visit New Zealand, especially when and where they visit. There is a risk that reduced exposure in market could have an impact on the number of visitors who will choose to visit New Zealand and reduce export earnings, Crown revenue from GST and tourism employment. This risk is difficult to quantify, however, Confidential advice to Government and it is considered this risk can be mitigated by ensuring spending in visitor markets is well-targeted and reviewed.

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<sup>7</sup> Qualmark is a subsidiary of Tourism New Zealand and provides evidence that a business has been independently validated as a quality tourism business. It has more than 2000 tourism business members.

44. Tourism New Zealand's baseline appropriation has been unchanged for ten years. Over this period there has been significant inflation in the cost of media in international markets. Reduced spend reduces the 'share of voice' New Zealand has in a globally competitive environment. While it is difficult to attribute spend to direct outcomes, a review in 2019 found that Tourism New Zealand is highly respected domestically and internationally for its work, and broad indicators suggest that Tourism New Zealand's focus on insights and highly targeted digital marketing is effective and efficient.
45. Tourism New Zealand funding is a hot topic within the tourism sector, and there are strong advocates for Tourism New Zealand to retain or grow its funding to directly shape the mix of international visitors. Global cost increases created cost pressures for Tourism New Zealand before their budget was reduced. Confidential advice to Government
46. Confidential advice to Government
47. Separately, there is a \$13.88 million appropriation that was created to assist Tourism New Zealand manage some technical issues with their treatment of GST. We have identified that this can now be returned.

#### *Savings from tourism funds*

48. There are two funds which retain funding in out-years from 2027/2028, which can be returned. The Tourism Growth Partnership Fund and Tourism Facilities Grant Fund were set up to fund sector-led commercial projects that increased productivity across the sector and projects in regions experiencing infrastructure pressure respectively. Both funds stopped in 2017.
49. Funding for both funds had been re-prioritised in 2023/2024 for four years but resumes again in 2027/2028. Returning the funding in out-years would return \$11.27 million in 2027/2028 and outyears, with minimal impact on the sector.

#### *Tourism Industry Transformation Plan*

50. You have identified Industry Transformation Plans (ITPs) for closure to recover cost savings. There is a specific Tourism ITP, which has a time-limited programme of work to tackle systemic issues in tourism productivity and tourism's impact on communities and the environment, under the ITP programme. Closing the Tourism ITP would result in savings of \$16.75 million over four years.
51. MBIE Ministers in the Economic Development and Building and Construction portfolios also lead ITPs, alongside the Ministers of Agriculture, Oceans and Fisheries, and Forestry Ministers supported by the Ministry for Primary Industries. We recommend a conversation with these colleagues to ensure that decisions are aligned with your economic strategy and achieve greater focus, and that a consistent approach is taken across ITPs. We can provide briefing material to support this if required.
52. Once you have confirmed your decision, we will communicate this with the Tourism ITP Leadership Groups and the wider sector.
53. Should you wish to retain a focus on tourism productivity and tourism's impact on communities and the environment in your portfolio, we recommend you meet with the sector Leadership Groups to discuss their priorities and solutions prior to making funding decisions. We will brief you on the sector's priorities where they align with your economic objectives, as well as opportunities for reprioritisation, if desired. The sector has supported the goals and actions within the Tourism ITP, and closing the programme will have an impact on the Government's relationships with sector leaders.

## Summary of portfolio savings options

54. A summary of the Tourism and Hospitality portfolio baseline, and reprioritisation options from this briefing, is provided below:

|  | 2023/24<br>\$m                           | 2024/25<br>\$m | 2025/26<br>\$m | 2026/27<br>\$m | 2027/28 &<br>Outyears<br>\$m | FTE  |
|--|--|----------------|----------------|----------------|------------------------------|--|
| <b>Baseline (Crown)</b>  | 215.392                                  | 135.899        | 130.027        | 114.127        | 113.448                      | ~200 (~168<br>Tourism New<br>Zealand and<br>40.4 MBIE) |
| <b>Baseline (Third Party)</b>  | 37.764                                   | 37.844         | 37.844         | 37.844         | 37.844                       | 0  |
| <b>Reprioritisation options<sup>8</sup></b>  | -  | -3.000         | -3.000         | -3.000         | -3.000                       | 0  |
| Swap remaining Crown investment in Great Rides to the IVL  |  |                |                |                |                              |  |
| Close the Innovation Programme for Tourism Recovery and return related contract management funding | -10.639                                  | -1.200         | -              | -              | -                            | 0  |
| Reduce funding to Tourism New Zealand  | <b>Confidential advice to Government</b> |                |                |                |                              |  |
| GST obligation for Tourism New Zealand   | -13.883                                  | -              | -              | -              | -                            | 0  |
| Stop funding the Tourism Growth Partnership and the Tourism Facilities Grant Funds                 | -  | -              | -              | -              | 11.267                       | 0  |
| Return funding allocated to the Tourism Industry Transformation Plan                               | -6.776                                   | -5.332         | -2.622         | -2.022         | -                            | 0  |
| <b>Total reprioritisation options</b>  | <b>Confidential advice to Government</b> |                |                |                |                              |  |
| <b>Net impact on baseline<sup>11</sup></b>   | <b>Confidential advice to Government</b> |                |                |                |                              |  |

## Additional tourism reprioritisation options in tourism data

55. MBIE also coordinates shared services for data and insights, including the support of a specific tourism data workstream. You are responsible for \$3.38 million in funding to support this work, including the funding of a tier one statistic<sup>12</sup> (the International Visitor Survey). It also funds three other data products that help the sector and regional planning: the Monthly Regional Tourism Estimates, the Accommodation Data Programme and the Tourism Satellite Account. These tourism data products are developed by Statistics New Zealand under contract to MBIE, so there are limited savings to be made in consultancy or contractor cost and little impact on the government's fiscal position.

56. MBIE has identified some savings (\$140,000) in right-sizing our data and insights tourism work. There are also options to scale back MBIE's work to support tourism data, through reducing sample sizes or having longer timeframes between data series. However, this

<sup>8</sup> MBIE has a multi-category appropriation in each of its Vote, these all cover a range of policy, strategy and enablement functions to provide flexibility in delivering against government priorities. MBIE proposes a 10% reduction for the activity as a whole. This sum is not reflected in these reprioritisation options.

<sup>9</sup> In August 2023, a \$15 million per annum baseline reduction for Tourism New Zealand from 2026/27 onwards was made for Marketing New Zealand as a Visitor Destination. This saving is not reflected in the total sum of reprioritisation options (as it is accounted for in the 2026/2027 and 2027/2028 Tourism and Hospitality portfolio baseline).

<sup>10</sup> As above.

<sup>11</sup> Excludes savings from the Tourism Industry Transformation Plan as it is held in both the Economic Development multi category appropriation and within an appropriation for MBIE's policy capability.

<sup>12</sup> New Zealand's most important official statistics are known as 'tier 1' statistics.

option is not recommended, as the current products provide a strong evidence base for both the sector and government to grow and develop the tourism sector. Access to tourism data is of high priority for the sector. Statistics New Zealand and Tourism New Zealand have already signalled that they need to manage existing cost pressures, including no longer delivering some tourism data sets.

57. We will discuss this option with you further.

## **Next steps**

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### **Progressing options**

58. We will provide you with further advice on areas you indicate you would like to reprioritise. This advice will include how fast savings can be realised, any costs associated, and further information on the likely impacts of those changes.
59. We also expect to receive advice from Treasury shortly about the process for submissions for the Fiscal Sustainability Payment, and/or Budget processes. We will take direction from Ministers on which of the potential reprioritisation options in this briefing should be included in that submission.

## **Annex**

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Annex One: Fiscal Summary for the Tourism and Hospitality Portfolio

# Fiscal Summary for the Tourism and Hospitality Portfolio



## Current baseline

The following table sets out the appropriated funding for the Tourism and Hospitality portfolio, by funding source. Departmental funding is received by MBIE to directly provide services. Non-departmental funding is provided via MBIE to other agencies, including Crown Entities and grant recipients.

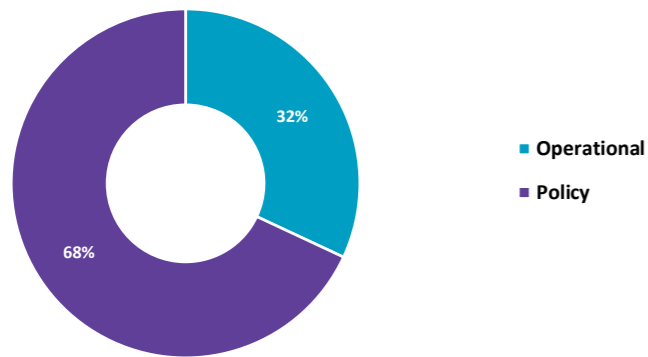
Changes to Crown funded activities will have a direct impact on the Government's financial position. Changes to Third Party funded activity will generally have no impact on the Government's financial position, as most third-party charges are set on a cost-recovery basis.

| Baseline \$million       | 2023/24        | 2024/25        | 2025/26        | 2026/27        | 2027/28 & Outyrs | Current FTE                     |
|--------------------------|----------------|----------------|----------------|----------------|------------------|---------------------------------|
| Dept.                    | 17.180         | 14.336         | 10.077         | 9.177          | 8.498            | 40.4 (MBIE only)                |
| Non-Dept                 | 198.212        | 121.563        | 119.950        | 104.950        | 104.950          | ~168 (Tourism New Zealand only) |
| <b>Total Crown</b>       | <b>215.392</b> | <b>135.899</b> | <b>130.027</b> | <b>114.127</b> | <b>113.448</b>   | <b>~200</b>                     |
| Dept.                    | 2.601          | 2.601          | 2.601          | 2.601          | 2.601            | 0                               |
| Non-Dept                 | 35.163         | 35.243         | 35.243         | 35.243         | 35.243           | 0                               |
| <b>Total Third Party</b> | <b>37.764</b>  | <b>37.844</b>  | <b>37.844</b>  | <b>37.844</b>  | <b>37.844</b>    | <b>0</b>                        |

Figures relate to October Baseline Update (OBU) amounts.

## People Resources in MBIE

The Tourism and Hospitality portfolio is supported by MBIE with 40.4 FTE as of 30 September 2023, which is 0.6% per cent of total MBIE workforce. Enablement functions (corporate, ICT) have not been included. This is broken down as follows:



### Tourism and Hospitality portfolio FTE by Function (MBIE staff only)

| Function           | Portfolio FTE | Portfolio % |
|--------------------|---------------|-------------|
| Operational        | 12.9          | 32%         |
| Policy             | 27.5          | 68%         |
| <b>Total staff</b> | <b>40.4</b>   | <b>100%</b> |

## Fiscal sustainability

The following table summarises options identified for reprioritisation within the Tourism and Hospitality portfolio (either within the portfolio, or for return to the centre). This includes programmes that could be stopped, and others that can be scaled.

| Option for reprioritisation  | Fiscal implication                       | FTE implication  | Implementation  | Comment   |
|--|--|------------------|---|---|
| Swap remaining Crown investment in Ngā Haerenga New Zealand Cycle Trails' Great Rides of New Zealand to the International Visitor Conservation and Tourism Levy. | \$3.000m (per annum from 2024/25)        | 0                | Ongoing Implement from 2024/25  | Grant funding and co-ordination role could be funded from IVL.  |
| Close the Innovation Programme for Tourism Recovery and return related contract management funding.  | \$12.139m (one-off)                      | 0                | One-off Implement in 2023/24  | FTEs would absorb IVL contract management instead. Note: Fund currently open with applications closing 15 December 2023.  |
| Reduce funding to Tourism New Zealand.   | <b>Confidential advice to Government</b> |                  |   |   |
| Return funding put aside because of technical accounting issues within Tourism New Zealand.  | \$13.883m (one-off)                      | 0                | One-off Implement in 2023/24  | This can be returned as was paid from MBIE's balance sheet and will not affect the operating statement, technical change.   |
| Stop funding the Tourism Growth Partnership and the Tourism Facilities Grant Funds.  | \$11.267m (in 2027/2028 and outyears)    | 0                | Ongoing Implement in 2027/28  | Funding for both funds had already been re-prioritised in 2023/2024 for four years but resumes again in 2027/2028.  |
| Return funding allocated to the Tourism Industry Transformation Plan*  | \$16.752m (over four years)              | 0                | Between 2023/24 and 2027/28 only  | This was time-limited funding for a specific programme of work under the Tourism Industry Transformation Plan.  |
| A share of cross-MBIE reprioritisation options.  | To be determined                         | To be determined | These savings will be apportioned to portfolios, following discussions with Ministers | The MBIE ownership fiscal briefing includes options for reductions in core services (both immediate efficiencies, and further 'right-sizing' following portfolio decisions), 15% reduction in specified discretionary spend, and 10% reduction in policy capacity with resources to be redirected based on Government priorities. |
| <b>Total</b>   | <b>Confidential advice to Government</b> |                  |   |   |

The Fiscal Briefing has further details on options and the implications of these choices. Items marked \*are drawn from, or consistent with, Manifesto Commitments and/or the Coalition Agreement. Options with staff implications will need to be phased, and may incur transition costs.

## Manifesto Commitments/Coalition Agreement

The Government has made two manifesto commitments relating to the Tourism and Hospitality portfolio. The high-level costing estimates are set out below:

| Source                 | Manifesto Commitment/ Coalition Agreement | High level cost estimate \$million pa | FTE implication | Implementation   | Comment on estimates   |
|------------------------|---|---------------------------------------|-----------------|--|--|
| 100 Point plan         | E-bike chargers on Great Rides            | 0.750                                 | 0.5             | Great Rides are independently managed, so MBIE would just be allocating grants. Direct procurement would be more complex for MBIE. | Proposed to be funded via IVL. Would be ongoing contract management and questions about depreciation.  |
| 100 Point plan         | Regional events promotion                 | 1.250                                 | 0.5             | Would likely be a grants process – either contestable or formula based.  | Proposed to be IVL funded. Would be ongoing contract management. Need some rules upfront to avoid regions bidding for the same events and driving up prices. |
| National-ACT Agreement | Stop work on Industry Transformation Plan | 0                                     | 0               | See discussion in 'option for reprioritisation' above.   | See discussion in 'option for reprioritisation' above.   |