



BRIEFING

Initial Baseline Exercise Options for the Tourism and Hospitality Portfolio

Date:	18 January 2024	Priority:	High
Security classification:	Budget - Sensitive	Tracking number:	2324-1552

Action sought		
	Action sought	Deadline
Hon Matt Dooney Minister for Tourism and Hospitality	<p>Note and Agree to options which allow you to achieve savings of 7.5% of across the eligible base of the Tourism and Hospitality portfolio.</p> <p>Agree to discuss with officials on options for ways to use the International Visitor Conservation and Tourism Levy, noting that the revenue is currently split between Tourism and Conservation portfolios.</p> <p>Agree for MBIE to engage with the Department of Conservation and Treasury on the proposed change to the International Visitor Conservation and Tourism Levy rate and any potential change in allocation.</p> <p>Agree Confidential advice to Government</p>	23 January 2024

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Heather Kirkham	General Manager, Tourism	Privacy of natural persons	✓
Privacy of natural persons	Principal Policy Advisor, Tourism Environment and Economy	Privacy of natural persons	

The following departments/agencies have been consulted

Minister's office to complete:

- | | |
|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comments



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Purpose

To agree savings options in the Tourism and Hospitality portfolio to contribute to the Ministry of Business, Innovation and Employment's (MBIE) Initial Baseline Exercise, which supports the Government's fiscal objectives for Budget 2024.

Executive summary

The Minister of Finance has directed Ministers to conduct an Initial Baseline Exercise for MBIE to deliver the Government's economic priorities as part of Budget 2024. This exercise is focused on ensuring Government spending represents value for money and is achieving impact. All agencies have been asked to review their baseline expenditure to identify where savings can be made to incorporate into Budget 2024.

We have proposed a range of options to deliver savings. Between 2024/2025 and 2027/2028, the options sum to \$48.82 million or a 10.3% reduction in the eligible Tourism and Hospitality portfolio baseline. You have choices about how to do this, both through savings and through funding switches to existing levy funding.

Your key choices are within non-departmental spend, including:

- Reducing Tourism New Zealand's baseline and/or switching some baseline funding to the International Visitor and Conservation Levy (IVL). Tourism New Zealand is a key lever to grow tourism, so savings made may impact on Tourism New Zealand's ability to deliver on this goal.
- Switching funding for Ngā Haerenga New Zealand Cycle Trails Great Rides baseline to the IVL.
- Closing the Innovation Programme for Tourism Recovery.

Large COVID-19 funds have closed, or are closing, so there are no additional savings which would contribute the savings target.

For departmental spend, MBIE will realise a 10% reduction in the cost of all-of-MBIE services and functions. There are no other eligible appropriations for savings in departmental spend.

Based on your priorities to grow the tourism and hospitality and lift the contribution of the industry to New Zealand, we have also provided options for increasing the IVL. Lifting the rate of the IVL could raise between \$35 million and \$150 million of additional revenue annually, and the Government will have choices about what this revenue funds. Every \$5 increase raises approximately an additional \$12 million in revenue annually. We seek your preference on this rate.

Confidential advice to Government

The detailed fiscal impacts are demonstrated in **Annex One**.

Recommended actions

The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** that the Minister of Finance has written to you regarding the Government's Budget 2024 priorities and directed that Ministers must identify options to meet a 7.5% savings target from MBIE's eligible base for Budget 2024's Initial Baseline Exercise, equating to \$233.9 million per annum across departmental and non-departmental appropriations.

Noted

- b **Note** that for the Tourism and Hospitality portfolio, 7.5% of the eligible base equates to **\$35.51** million in departmental and non-departmental appropriations over four years between 2024/2024 and 2027/2028.

Noted

- c **Note** the budget allocation for the Tourism and Hospitality portfolio in 2024/2025 is \$173.7 million. This is primarily non-departmental funding (\$156.8 million, of which 71.4% is for Tourism New Zealand) with a small amount of departmental funding (\$16.9 million for IVL management, policy advice and related services to Ministers, tourism fund management, and tourism data and analysis).

Noted

- d **Note** there are options to revenue switch for Ngā Haerenga New Zealand Cycle Trails Great Rides, make savings from the Innovation Programme for Tourism Recovery, a 10% reduction in the cost of all-of-MBIE services and functions, and further baseline savings from Tourism New Zealand. These total to \$48.82 million or a 10.3% reduction in the eligible Tourism and Hospitality portfolio baseline between 2024/2025 and 2027/2028.

Noted

- e **Agree** to realise baseline savings from Tourism New Zealand.

Agree, Confidential advice to Government

Disagree

Discuss

- f **Agree** to reduce Crown funding to Ngā Haerenga New Zealand Cycle Trails Great Rides by switching all funding to the International Visitor and Conservation Levy.

Agree / Disagree / Discuss

- g **Note** that savings can be made in the Innovation Programme for Tourism Recovery, but the programme is time-limited for 2023/2024 and savings do not count towards the 7.5% target for the Initial Baseline Exercise, without further agreement from the Associate Minister of Finance.

Noted

- h **Agree** to realise savings from the Innovation Programme for Tourism Recovery (\$12.139 million over four years).

Agree / Disagree / Discuss

- i **Note** MBIE will realise at least a 10% reduction in the cost of all-of-MBIE services and functions, apportioned to the Tourism and Hospitality portfolio (\$3.989 million over four years).

Noted

- j **Note** changing the rate of the International Visitor Conservation and Tourism Levy could be implemented relatively quickly for Budget 2024. *Noted*
- k **Note** the recommended policy process to change the rate of the International Visitor Conservation and Tourism Levy would include targeted consultation supported with a discussion document on the policy choices and analysis on the proposed rate change. *Noted*
- l **Agree** to discuss with officials on options for ways to use the International Visitor Conservation and Tourism Levy, noting that the revenue is currently split between Tourism and Conservation portfolios. *Agree / Disagree*
- m **Note** changes to how International Visitor Conservation and Tourism Levy is spent, and broadening who it is charged to, would require changes to primary legislation. *Noted*
- n **Agree** for MBIE to engage with the Department of Conservation and Treasury on the proposed change to the International Visitor Conservation and Tourism Levy rate and any potential change in allocation. *Agree / Disagree / Discuss*
- o **Confidential advice to Government** *Agree / Disagree / Discuss*



Heather Kirkham
General Manager
 Tourism Branch, MBIE

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Hon Matt Dooney
Minister for Tourism and Hospitality

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Background

1. The Minister of Finance has confirmed the Coalition Government's priorities for Budget 2024, including an Initial Baseline Exercise (IBE) for MBIE that seeks savings of 7.5% of the 'eligible base' across portfolios from 2024/2025 financial year onwards. This equates to \$233.9 million per annum between 2024/2025 and 2027/2028 financial years. Taking a coordinated approach across MBIE Ministers, these savings are due to be confirmed for submission to the Minister of Finance by 1pm 16 February 2024. The Associate Minister of Finance is overseeing this process for MBIE-related portfolios.
2. The IBE forms the basis of Budget 2024 and is part of the fiscal sustainability programme agreed by Cabinet. The IBE focusses on ensuring Government spending represents value for money. All agencies have been asked to review their baseline expenditure to identify where savings can be made.
3. This briefing provides you with oversight of the activities and expenditure in the Tourism and Hospitality portfolio and seeks your agreement on savings proposals for the Initial Baseline Exercise.
4. This briefing refers to fiscal options discussed in *Fiscal sustainability options for Tourism and Hospitality portfolio* [briefing 2324-0926 refers]. The challenges and opportunities for tourism and hospitality are also outlined in the *Briefing for the Incoming Minister for Tourism and Hospitality* [briefing 2324-0928 refers].

Funding in the Tourism and Hospitality Portfolio

5. The overall budget allocation for the Tourism and Hospitality portfolio in 2024/2025 is \$173.7 million under Vote Business, Science and Innovation. This includes \$16.937 million of departmental funding for MBIE to provide services directly. \$156.806 million of non-departmental funding provided for other entities for outputs or other activities, including funding for Tourism New Zealand (71.4% of non-departmental funding is appropriated to Tourism New Zealand). There is a significant reduction in non-departmental funding from 2024/2025, when COVID-19 related funding expires.
6. The Tourism and Hospitality portfolio appropriation is broken down in the table below:

Table 1: Tourism and Hospitality portfolio appropriations

	2024/25 \$m	2025/26 \$m	2026/27 \$m	2027/28 & outyears \$m
<i>[Levy Revenue] International Visitor Conservation and Tourism Levy Collection</i>	1.808	1.808	1.808	1.808
Tourism Fund Management	2.793	1.093	0.793	0.793
Policy Advice and Related Services to Ministers	9.157	6.598	5.998	5.319
Tourism Data and Analysis	3.179	3.179	3.179	3.179
Total	16.937	12.678	11.778	11.099
<i>[Levy Revenue] Tourism: Tourism Strategic Infrastructure and System Capability (IVL)</i>	35.243	35.243	35.243	35.243
Marketing New Zealand as a Visitor Destination (Tourism New Zealand)	111.950	111.950	96.950	96.950
GST Obligation for Tourism New Zealand	0.000	0.000	0.000	0.000
COVID-19 Tourism Response (Innovation Programme for Tourism Recovery)	0.000	0.000	0.000	0.000
Regional Events Fund	1.613	0.000	0.000	0.000
Tourism Infrastructure Fund	0.000	0.000	0.000	0.000
Ngā Haerenga, The New Zealand Cycle Trail Fund	8.000	8.000	8.000	8.000
Tourism Facilities Development Grants	0.000	0.000	0.000	0.000
Total	156.806	155.193	140.193	140.193

7. Not all of the budget allocation for the Tourism and Hospitality portfolio is considered eligible under the IBE. Ineligible allocations include revenue from the International Visitor Conservation and Tourism Levy (IVL) and closed grants or funds. For the purposes of the IBE, you have been asked for savings of 7.5% or the eligible base of the Tourism and Hospitality portfolio (\$35.51 million) and/or other revenue options over five years.

Choices for the Tourism and Hospitality portfolio

8. As the Minister for Tourism and Hospitality, you have priorities to grow the value of tourism, balanced with Cabinet's direction to address the rising cost of living; deliver effective and fiscally sustainable public services; and build for growth and enable private enterprise in Budget 2024.
9. We have proposed a range of options to deliver the required 7.5% savings from the Tourism and Hospitality portfolio. Between 2024/2025 and 2027/2028, the potential actions result in a \$48.82 million or a 10.3% reduction in the eligible Tourism and Hospitality portfolio baseline. The detailed fiscal impacts are demonstrated in **Annex One**.
10. We also propose that MBIE considers revenue options which will enable tourism growth to be delivered sustainably.

Savings options

Savings from Tourism New Zealand

11. Tourism New Zealand holds the single largest pool of funding in the Tourism and Hospitality portfolio, with annual baseline funding of \$111.950 million in 2024/2025. Key markets Tourism New Zealand operates in are Australia, United States, China, United Kingdom, Germany, Japan, with further presence in Korea, Canada, Singapore, India, Indonesia, Malaysia, and Thailand. Tourism New Zealand have two domestic and ten international offices (in Sydney, Los Angeles, Shanghai, Beijing, Guangzhou, Singapore, Tokyo, Seoul, Mumbai and London).
12. Tourism New Zealand has operated on a fixed baseline since 2013, and are now managing a number of cost pressures (from global media inflation and competition from international destination marketing agencies). As part of the rapid savings exercise in mid-2023, Tourism New Zealand's baseline was reduced from \$111.950 million to \$96.950 million, effective from 2026/2027 onwards. Confidential advice to Government
[REDACTED]
13. You have choices about how to make further reductions, or use funding switches to create additional savings for the Crown, including:

a. Confidential advice to Government
[REDACTED]

b. Make Confidential advice to Government savings across four years to reflect the fiscal context, which would encourage Tourism New Zealand to create efficiencies and streamline their business model. If all other savings are realised, Confidential advice to Government saving would allow the Tourism and Hospitality portfolio to realise Confidential advice to Government savings.

c. Confidential advice to Government
[REDACTED]

Confidential advice to Government

14. The Government is committed to increasing the value of New Zealand exports, including growing the value of international tourism. Historically this has come from increasing volumes of visitors, and MBIE considers that this will be required at least in part to achieve this goal. Tourism New Zealand, as a Crown entity that markets New Zealand as a visitor destination, plays a central role in increasing visitors to New Zealand.
15. There are choices to make for Tourism New Zealand to balance their role in tourism growth with the Government's fiscal sustainability programme. This includes decision on how much the Government wants to spend on international tourism marketing or what focus areas Tourism New Zealand has (for example, promoting visitors to travel off peak, which puts less pressure on our tourism assets and provides more sustainable work opportunities).

16. Confidential advice to Government

17. Confidential advice to Government
The outcomes that you expect Tourism New Zealand to deliver, including delivering increased export earnings from tourism, would need to reflect its reduced capacity if further savings were made.

Additional funding options for Tourism New Zealand

18. Under each of these savings options, you have additional choices about how Tourism New Zealand is funded. In combination with decisions on Tourism New Zealand's global footprint and target markets, you can consider alternative funding tools. These could include:
 - a. directing IVL revenue towards Tourism New Zealand's baseline or for short-term specific targets (off season visitors); and/or
 - b. creating a mechanism for industry or local authority contributions.
19. As these would be third-party revenue, these would enable some savings to be made from the Crown appropriations but reduce the impact on Tourism New Zealand's total baseline. Choosing to do this would reduce the ability for the IVL to fund your other priorities.
20. We can discuss these options and potential outcomes and risks with you further.

Alternative funding for Ngā Haerenga New Zealand Cycle Trails Great Rides (the Great Rides)

21. As discussed in the briefing on fiscal sustainability options, there is an opportunity to make savings in the Tourism and Hospitality portfolio by using the IVL to maintain the Great Rides infrastructure. The remaining \$3 million per annum (or \$12 million over four years) Crown funding for the Great Rides could be swapped out for IVL funding.
22. This would enable all funding for the maintenance, development and promotion of the Great Rides to come from the IVL. There would be no change in the delivery of services, but this change would mean there is less funding available from the IVL for other priorities.
23. We recommend that you swap remaining Crown investment in the Great Rides for IVL funding.

Savings from the Innovation Programme for Tourism Recovery

24. As discussed in the briefing on fiscal sustainability options, there is an opportunity to close the Innovation Programme for Tourism Recovery, saving \$12.139 million over two years.
25. The Innovation Programme for Tourism Recovery seeks to grow the tourism sector by investing in innovative business models, products and services that will support its ongoing growth and resilience. 23 applications, seeking a total of \$48.30 million (out of an available \$11.26 million), were received in December 2023. Projects are wide-ranging, but many include implementing green energy within the tourism sector. It is expected a paper seeking your decisions on funding will be sent to you in April 2024.
26. We recommend that you do not return the \$12.139 million of remaining funding from the Innovation Programme for Tourism Recovery. There is stakeholder interest in the programme and applicants that are likely to meet the threshold for funding. The funding is time-limited and any savings would not have a significant impact on Budget 2024 or subsequent Budgets.
27. If you wish to cancel, you could talk with the Associate Minister of Finance about how these savings could be counted towards the overall Tourism and Hospitality portfolio savings target.

Savings from all-of-MBIE services and functions

28. MBIE operates a number of functions that operate across portfolios. This includes policy functions, enablement functions (such as human resources and finance) and shared services. MBIE will realise a 10% reduction from these activities as a whole, which are proportionally costed to the Tourism and Hospitality portfolio.
29. MBIE will also realise 15% reduction in discretionary spend such as travel, conferences, training, recruitment costs and savings in core services (human resources, information technology, and other MBIE corporate functions).
30. 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. MBIE will also realise a 10% reduction from these activities.
31. Savings from all-of-MBIE services and functions total to \$3.989 million over four years.

Summary of potential fiscal savings for the Tourism and Hospitality portfolio

Table 2: Summary of fiscal savings for the Tourism and Hospitality portfolio

	Four year total (2024/25-2027/28) \$m
Departmental Expenses	
Total Eligible Departmental Expenses	42.088
Close the Innovation Programme for Tourism Recovery and return related contract management funding	1.500
10% reduction in Policy Advice and Related Services to Ministers and Tourism Data and Analysis	3.989
Total Departmental Crown Expenditure Savings by FY	5.489
Savings required (7.5% of Eligible Base)	3.157
Over/Under	2.332
Non-Departmental Expenses	
Total Eligible Non-Departmental Expenses	431.413

Confidential advice to Government

Confidential advice to Government

Swap remaining Crown investment in the Great Rides for IVL funding	12.000
Close the Innovation Programme for Tourism Recovery	0.000

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Savings required (7.5% of Eligible Base)	32.356
Over/Under	

Total Eligible Base Tourism Portfolio	473.501
Total Required Fiscal Saving	35.513
Total Fiscal Savings	

Revenue options

32. The biggest opportunity to change the fiscal position of the Tourism and Hospitality portfolio is through adjusting the revenue tools for tourism. As part of Budget 2024, the Minister of Finance has asked you for significant revenue options from the IVL of at least \$100 million over four years (approximately \$25 million annually). We also recommend you consider other funding tools which will enable tourism growth to be delivered sustainably.

IVL

33. The IVL is your primary funding tool outside of the annual Budget process to financially address tourism issues. It is a \$35 charge paid by many international visitors when they travel to New Zealand. Assuming the current rate of the charge, the IVL is expected to raise around \$80 million per annum and it is split evenly between the Tourism and Conservation portfolios.

34. The IVL is supported by primary legislation and currently has a specific purpose to fund (or contribute to the funding of) conservation, tourism infrastructure, or initiatives related to tourism, as set out in the Immigration Act 2009. The IVL cannot currently be used for general Crown purposes.

Increasing the rate of the IVL

35. The rate of the IVL is due for review by MBIE in 2024. This is an opportunity to consider a full range of options for the IVL and the corresponding investment plan, including raising the levy (and to what level).

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Choices for ways to use the IVL

42. Currently, the revenue is split evenly between the Tourism and Conservation portfolios. The Government also has choices about where any additional IVL revenue is spent.
43. In combination with decisions on the IVL rate, you can consider:
 - a. maintaining current 50 / 50 split with the Conservation portfolio, with each of the Tourism and Conservation portfolios receiving a proportional increase;
 - b. maintaining the current value apportioned to the Conservation portfolio (approximately \$40 million annually) and directing additional revenue to tourism priorities; and/or
 - c. using the revenue to fund baseline expenditure rather than specific investments (for example, Tourism New Zealand, Conservation or other ways to grow tourism).
44. We seek your agreement for MBIE to engage with the Department of Conservation and Treasury on the proposed change to the IVL rate and any potential change in how it is spent.
45. We can discuss these options and potential outcomes and risks with you further.

Other revenue tools

46. In addition, there are also other options for new charging tools which could be considered individually or as a package. These would ensure visitors make a fair contribution, support regions to manage tourism, 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 (i.e. could apply only to international visitors):
 - a. further differentiated charging for Great Walks and Great Rides;
 - b. regional or local accommodation levy ('bed tax'); or
 - c. a departure tax ('decarbonisation charge') to address the emissions associated with international air travel.
47. There are choices and limitations with each. We recommend a discussion with officials about new or revised charging tools for tourism.

Impact and risks

48. We have proposed a range of options to deliver the required 7.5% savings from the Tourism and Hospitality portfolio and create additional revenue options. Given your priority to increasing the value of New Zealand exports, including growing the value of international tourism, a reduction in all-of-MBIE services (including policy and data), and a reduction in baseline funding for Tourism New Zealand may require some trade-offs against your policy priorities.
49. Access to government-supported data and Tourism New Zealand funding are hot topics within the tourism sector. There are strong advocates for Tourism New Zealand to retain or grow its funding to directly shape the mix of international visitors and for more data which provides the evidence base for growing the tourism sector.
50. Revenue options will need further consultation with agencies and the sector. While the IVL rate could be consulted on and changed for Budget 2024, changes to primary legislation to change the purpose of the IVL or create additional revenue tools have a longer lead-in timeframe. The industry is sensitive to additional costs for visitors, as they can be perceived as a barrier for potential visitors. Levies, or other revenue tools, would need to be carefully set a rate which did not significantly affect demand. However, they are an important tool to ensure visitors contribute to costs they create (currently met by tax and ratepayers) and manage the Government's fiscal priorities to deliver sustainable public services.

Next steps

51. We recommend that you discuss this briefing with officials. Based on your advice, we will prepare the required documents for Treasury to realise these savings and prepare for Budget 2024.
52. We will brief you further in February. We will also provide you with a letter for you to submit to the Minister of Finance to confirm the completion of the IBE and that the required savings will be made from the Tourism and Hospitality portfolio.

Annexes

Annex One: Tourism and Hospitality portfolio IBE options

Annex One: Tourism and Hospitality portfolio IBE options

	2024/25 \$ million	2025/26 \$ million	2026/27 \$ million	2027/28 & Outyears \$ million	Total
Departmental Expenses					
Total Eligible Departmental Expenses	14.336	10.077	9.177	8.498	42.088
Tourism Fund Management	2.793	1.093	0.793	0.793	
Policy Advice and Related Services to Ministers	9.157	6.598	5.998	5.319	
Tourism Data and Analysis	3.179	3.179	3.179	3.179	
Close the Innovation Programme for Tourism Recovery and return related contract management funding	1.500	0.000	0.000	0.000	1.500
10% reduction in Policy Advice and Tourism Data and Analysis	1.234	0.987	0.918	0.850	3.989
Total Departmental Crown Expenditure Savings by FY	2.734	0.987	0.918	0.850	5.489
Savings required (7.5% of Eligible Base)	1.075	0.756	0.688	0.637	3.157
Over/Under	1.659	0.231	0.230	0.213	2.332
Non-Departmental Expenses					
Total Eligible Non-Departmental Expenses	116.563	114.950	99.950	99.950	431.413
Marketing New Zealand as a Visitor Destination (Tourism New Zealand)	111.950	111.950	96.950	96.950	
COVID-19 Tourism Response (Innovation Programme for Tourism Recovery)	0.000	0.000	0.000	0.000	
Regional Events Fund	1.613	0.000	0.000	0.000	
Tourism Infrastructure Fund	0.000	0.000	0.000	0.000	
Ngā Haerenga, The New Zealand Cycle Trail Fund	3.000	3.000	3.000	3.000	
Tourism Facilities Development Grants	0.000	0.000	0.000	0.000	
Confidential advice to Government					
Swap remaining Crown investment in the Great Rides for IVL funding	3.000	3.000	3.000	3.000	12.000
Close the Innovation Programme for Tourism Recovery	0.000	0.000	0.000	0.000	0.000
Confidential advice to Government					
Savings required (7.5% of Eligible Base)	8.742	8.621	7.496	7.496	32.356
Over/Under	2.654	2.775	2.775	2.775	10.979
Total Eligible Base Tourism Portfolio	130.899	125.027	109.127	108.448	473.501

Total Fiscal Savings	Confidential advice to Government
% savings against eligible base	Confidential advice to Government

Confidential advice to Government

