



BRIEFING

Revenue forecasts and appropriations for the International Visitor Conservation and Tourism Levy

Date:	19 February 2019	Priority:	High
Security classification:	In Confidence	Tracking number:	MBIE 2118 18-19 DOC 19-B-0061

Action sought		
	Action sought	Deadline
Hon Kelvin Davis Minister of Tourism	Note IVL revenue forecast of \$477 million over 5 years Approve changes to appropriations to enable investment of the IVL in conservation, tourism infrastructure, system capability, and to cover administration and fund management costs	21 February 2019
Hon Eugenie Sage Minister of Conservation	Note IVL Investment Plan is in development, and communications underway Forward to the Minister of Finance	
Hon Grant Robertson Minister of Finance	Note IVL revenue forecast of \$477 million over 5 years Approve changes to appropriations to enable investment of the IVL in conservation, tourism infrastructure, system capability, and to cover administration and fund management costs Note IVL Investment Plan is in development	28 February 2019

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Richard Davies	Manager, Tourism Policy, MBIE	04 901 2059	✓
Rebecca Heerdegen	Principal Policy Advisor, MBIE	04 901 1564	
Peter Brunt	Director Policy, DOC	-	
Paul Bruere	Senior Policy Advisor, DOC	-	

Section 9(2)(a)

The following departments/agencies have been consulted

This paper has been developed jointly by MBIE and DOC, and in consultation with the Treasury.

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments

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Revenue forecasts and appropriations for the International Visitor Conservation and Tourism Levy

Date:	19 February 2019	Priority:	High
Security classification:	In Confidence	Tracking number:	MBIE 2118 18-19 DOC 19-B-0061

Purpose

This paper provides Ministers with the International Visitor Conservation and Tourism Visitor Levy (IVL) revenue forecasts, and seeks your agreement to changes in appropriations to enable IVL revenue to be spent on conservation, tourism infrastructure, and fund management costs. We are seeking decisions now so that the management systems can be put in place for the start of the investment programme in 2019/20.

This paper has been developed jointly by the Ministry of Business, Innovation and Employment (MBIE) and the Department of Conservation (DOC), and in consultation with the Treasury.

Executive summary

Immigration NZ will begin collecting the IVL from 1 July 2019. The IVL will provide a sustainable revenue source to invest in conservation and the tourism system. The Investment Plan is currently in development, and Ministers will have at least two opportunities to engage with its content – setting key priorities (March), and approving the draft Plan (June). The latter will be informed by advice from the IVL Advisory Group

DOC and MBIE are seeking your joint approval for appropriation changes to enable investment of the IVL, and to cover the administration and fund management costs for that investment. This includes a small amount of funding in the current financial year to establish the necessary systems.

The following table summarises the revenue, investment, and fund management costs for the IVL. Note that Cabinet has agreed any variation in spend against revenue will be managed through a quasi-memorandum account (that is, carried forward to future years). Likely updates in the next few months include:

- Changes to revenue forecasts following the annual May release of tourism forecasts (potentially a small downward revision)
- Changes to appropriations relating to the substantive investment following approval of the Investment Plan (likely moving expenditure into outyears)

	\$m – increase/(decrease)					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Forecast IVL Revenue	-	87.350	91.360	95.360	99.400	103.320
Bank fees	-	2.184	2.284	2.384	2.485	2.583
Net IVL Revenue	-	85.166	89.076	92.976	96.915	100.737
Advisory Group	0.015	0.030	0.030	0.030	0.030	0.030
Conservation Share						
Management of Natural Heritage	-	41.911	44.123	46.073	48.043	49.954
Fund Management	0.250	0.400	0.400	0.400	0.400	0.400
Tourism Share						
Tourism Infrastructure and System Capability	-	41.601	43.763	45.713	47.683	49.594
Fund Management	0.200	0.760	0.760	0.760	0.760	0.760
Impact on the operating balance	(0.465)	0.465	-	-	-	-

Recommended action

The Ministry of Business, Innovation and Employment and the Department of Conservation recommend that you:

- a **Note** that the IVL will provide a sustainable revenue source to:
- i. protect and enhance the natural environment our visitors enjoy,
 - ii. invest in changes to the tourism system to address the challenges faced by the sector, and
 - iii. enable communities to realise the social and economic benefits of tourism growth

Noted

Noted

Noted

- b **Note** the IVL is on track for collection to commence 1 July 2019, with the IT build well underway, subject to passage of enabling legislation

Noted

Noted

Noted

Forecasts

- c **Note** the IVL revenue forecast which has been updated to include:
- i. operational decisions on the liability of individual visas (within the framework agreed by Cabinet)
 - ii. application of market by market growth projections

	\$m – increase/(decrease)					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Forecast IVL revenue	-	87.350	91.360	95.360	99.400	103.320

Noted

Noted

Noted

- d **Note** that there is potential for downward risk in revenue:
- i. In the first quarter of 2019/20 as travellers will not be required to hold an ETA until October 2019, and the IVL creates a financial incentive for visa-required travellers to apply for visas ahead of the 1 July 2019
 - ii. Potential for downward revisions following the release of the official MBIE tourism forecasts in May 2019

Noted

Noted

Noted

Cabinet agreements on expenditure

- e **Note** that Cabinet has previously agreed the IVL should be spent on conservation, tourism infrastructure and systems capability; and fund management and collection

Noted

Noted

Noted

- f **Note** that Cabinet also agreed revenue would be ring-fenced, and managed through a quasi-memorandum account to ensure that revenue matches expenditure over time

Noted

Noted

Noted

Conservation and Tourism spend

- g **Note** that officials estimate around \$230 million will be available for investment in each of the conservation and tourism portfolios over 5 years (\$460 million in total), based on revenue forecasts and net of fund management and collection costs

Noted

Noted

Noted

- h **Note** Ministers previously agreed the frame for IVL expenditure (annex one provides a summary), which includes an Investment Plan for the IVL which will set out intentions across three pillars – conservation, tourism infrastructure, and system capability

Noted

Noted

Noted

- i **Note** that the development of the IVL Investment Plan is underway, with a report on potential priorities due for Ministers consideration in March, and a draft Investment Plan in June

Noted

Noted

Noted

- j **Note** that the changes to appropriations sought in this report will be updated following approval of the IVL Investment Plan by Ministers of Tourism, Finance and Conservation

Noted

Noted

Noted

- k **Note** that officials anticipate an annual update of appropriations to adjust for progress of individual projects, changes in IVL revenue (actual and forecast), and updates to the Investment Plan

Noted

Noted

Noted

Fund management and collection costs

- l **Note** that bank fees (credit card charges) are around 2.5% of the revenue collected:

	\$m – increase/(decrease)					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Forecast IVL bank fees		2.184	2.284	2.384	2.485	2.583

Noted

Noted

Noted

- m **Note** that MBIE and DOC require fund management staff for the IVL fund, including developing the investment pipeline, provide secretariat support, negotiating and monitoring contracts, and reporting:

- i. Up to 5 FTEs in MBIE
- ii. Up to 3 FTEs in DOC as the department anticipates leveraging internal programmes

Noted

Noted

Noted

- n **Agree** that MBIE and DOC take on some fund management staff in the last quarter of 2018/19 in order to maximise the impact of the IVL in its first year

Agree / Disagree

Agree / Disagree

Agree / Disagree

- o **Note** the fund management staff will focus on establishing contract and financial management systems, so that these can be used as soon as the Investment Plan is approved

Noted

Noted

Noted

- p **Note** the following cost estimates for fund management and advice:

	\$m – increase/(decrease)					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
DOC fund management	0.250	0.400	0.400	0.400	0.400	0.400
MBIE fund management	0.200	0.760	0.760	0.760	0.760	0.760
Total	0.450	1.160	1.160	1.160	1.160	1.160

Noted

Noted

Noted

- q **Note** the following cost estimates for the Advisory Group:

	\$m – increase/(decrease)					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Advisory Group	0.015	0.030	0.030	0.030	0.030	0.030

Noted

Noted

Noted

Financial recommendations

r **Agree** to establish the following new appropriations:

Vote	<i>Business, Science, and Innovation</i>
Appropriation Minister	<i>Minister of Tourism</i>
Title	Tourism strategic infrastructure and system capability
Type	Non-Departmental Other Expense
Scope	This appropriation is limited to investment in tourism-related infrastructure and systems, including capability, in accordance with an agreed International Visitor Conservation and Tourism Visitor Levy Investment Plan
Title	Tourism fund management
Type	Departmental Output Expense
Scope	This appropriation is limited to investment advice, contract management and other aspects of fund management for the tourism portfolio.
Title	International Visitor Conservation and Tourism Levy collection
Type	Non-departmental Output Expense
Scope	This appropriation is limited to the collection costs for the International Visitor Conservation and Tourism Levy

Agree / Disagree

Agree / Disagree

Agree / Disagree

s **Agree** to increase spending on conservation and tourism, funded by the IVL, with the following impacts on the operating balance (fiscally neutral over the period):

	\$m – increase/(decrease)					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Operating Balance Impact	(0.465)	0.465	-	-	-	-

Agree / Disagree

Agree / Disagree

Agree / Disagree

- u **Approve** the following changes to appropriations to enable 50% of the IVL to be invested in conservation activity, and 50% in tourism infrastructure and systems capability:

	\$m – increase/(decrease)					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Vote Conservation						
Minister of Conservation						
Departmental Output Expense: Management of Natural Heritage (funded by revenue Crown)	0.250	42.311	44.523	46.473	48.443	50.354
Vote Business, Science, and Innovation						
Minister of Tourism						
Departmental Output Expense: Tourism fund management (funded by revenue Crown)	0.215	0.790	0.790	0.790	0.790	0.790
Non-departmental Output Expense: International Visitor Conservation and Tourism Levy collection	-	2.184	2.284	2.384	2.485	2.583
Non-departmental Other Expense: Tourism strategic infrastructure and system capability	-	41.601	43.763	45.713	47.683	49.594
Total Operating	0.465	86.885	91.360	95.360	99.400	103.320

Approved / Not approved

Approved / Not approved

Approved / Not approved

- v **Agree** that the proposed changes to appropriations for 2018/19 above be included in the 2018/19 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply

Agree / Disagree

Agree / Disagree

Agree / Disagree

Communications with stakeholders

w **Note** the following actions are underway to maintain communications with stakeholders:

- i. MBIE Tourism Policy is engaging with local government and industry representatives through a range of forums to seek input for the Investment Plan as well as the Departmental Advisory Group
- ii. INZ is working with the tourism sector (e.g. airlines and cruise sector) to ensure that they (and their customers), are ready for the ETA changes.
- iii. INZ is developing an education campaign to support the rollout of the ETA and to provide the collection mechanism for IVL payment.
- iv. MBIE Tourism Policy will work with DOC to develop ongoing communications to support the launch and ongoing operation of the IVL.

Noted

Noted

Noted



Richard Davies
Manager, Tourism Policy
Labour, Science and Enterprise, MBIE

19 / 02 / 2019



Peter Brunt
Director Policy
Department of Conservation

19 / 02 / 2019

Hon Kelvin Davis
Minister of Tourism

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Hon Grant Robertson
Minister of Finance

..... / /

Hon Eugenie Sage
Minister of Conservation

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Background

1. Tourism growth in New Zealand is creating pressure on visitor-related infrastructure, and our public lands and waters. However, managed well, tourism is also a significant opportunity for productive, sustainable and inclusive growth that promotes conservation outcomes. To realise this opportunity it is necessary to establish a package of revenue tools that puts visitor-related infrastructure on a financially sustainable footing and supports conservation activity.
2. The IVL is one part of that package and will ensure that international visitors are contributing to the natural environment they enjoy and the facilities they use. Last year Cabinet approved the establishment of the IVL, to be set at \$35 and collected by Immigration New Zealand alongside visa and Electronic Travel Authority (ETA) fees.
3. Cabinet also delegated decisions on expenditure to the Ministers of Tourism, Finance and Conservation. Ministers have previously made decisions on the framework for IVL expenditure (Annex One provides a summary). This paper seeks your agreement to changes in appropriations to enable IVL revenue to be spent on conservation, tourism infrastructure, and administration and fund management. Decisions are required now in order to stand up the management systems for the investment programmes.

Revenue forecasts and appropriations

IVL Revenue forecast is \$477 million over 5 years

4. MBIE has now finalised the revenue forecasts for the IVL. These forecasts are higher than the original estimate of around \$80 million per annum and include the following refinements:
 - a. operational decisions on the liability of individual visas (within the framework agreed by Cabinet)
 - b. application of market by market growth projections (rather than the average growth in total visitors)

	\$m – increase/(decrease)						
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears	5 Year Total
Forecast IVL revenue	-	87.350	91.360	95.360	99.400	103.320	476.790

Risks to the forecast

5. These forecasts represent our best estimate. However, there are some known downside risks, including:
 - a. The most likely impact is a downside risk in the first quarter. As the IVL is only payable on applications after 1 July, people may apply for their visas earlier than normal to avoid paying the IVL. In addition, the ETA is not required for entry into New Zealand until 1 October.
 - b. There is also potential for some (small) downward revisions in the tourism growth forecasts (due to be released in May 2019). MBIE has run a 'worst case' weaker growth scenario (reducing growth from 4-5% per annum to 2-3% per annum), which would reduce revenue by around \$40 million over 5 years
 - c. There is no adjustment for potential changes in behaviour resulting from the introduction of the IVL. As noted by Cabinet, there is potential for a small reduction in the number of visitors, however, \$35 is a small cost relative to long haul international

travel costs. When considered as part of the 2018 tourism forecasts, neither MBIE's forecast team, nor the industry mediation panel considered the potential impact to be material.

6. A external shock could also affect arrivals. MBIE has modelled a scenario based on the Global Financial Crisis. This scenario shows a revenue loss of around \$65 million over 5 years.
7. Any variation in IVL revenue will be managed through the quasi-memorandum account¹, and updates to the Investment Plan. In addition, the first Investment Plan is unlikely to fully commit five years of funding, as some of the bigger programmes are unlikely to have been fully costed at that point. This will also mitigate any financial risk to the Crown.

Breakdown of how the IVL will be spent

8. The following table summarises the proposed spend, which flows through to changes in appropriations. We have allocated net revenue equally between conservation and tourism, and made provision for fund management costs from within each share. This methodology results in around \$230 million over 5 years for substantive investment in each of conservation and tourism (\$460 million in total)

	\$m – increase/(decrease)					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Forecast IVL Revenue	-	87.350	91.360	95.360	99.400	103.320
Bank fees	-	2.184	2.284	2.384	2.485	2.583
Net IVL Revenue	-	85.166	89.076	92.976	96.915	100.737
Advisory Group	0.015	0.030	0.030	0.030	0.030	0.030
Conservation Share						
Management of Natural Heritage	-	41.911	44.123	46.073	48.043	49.954
Fund Management	0.250	0.400	0.400	0.400	0.400	0.400
Tourism Share						
Tourism Infrastructure and System Capability	-	41.601	43.763	45.713	47.683	49.594
Fund Management	0.200	0.760	0.760	0.760	0.760	0.760
Impact on the operating balance	-0.465	0.465	-	-	-	-

Updating appropriations and managing variances

9. Officials will update appropriations following forecast rounds (tourism forecasts are due for release in May 2019) and to align expenditure with the Investment Plan.
10. Given the normal variations in revenue actuals from forecast and the lumpy nature of infrastructure investment, Cabinet has agreed any variation in spend against revenue will be managed through a quasi-memorandum account, that is any under- or over-spend will be carried over into following years.

¹ Cabinet has previously agreed that IVL revenue and expenditure should be managed through a quasi-memorandum account. This does not have the same legislative requirements as a memorandum account, such as tabling in the House. However, it will enable transparent management of revenue and expenditure, and MBIE and DOC will publish the financial position of the fund annually, and ensure adjustments are made to appropriations accordingly.

Investment Plan for the IVL

11. Ministers have previously agreed that the IVL will be spent 50:50 on tourism and conservation, and that an Investment Plan will set out spending intentions for 5 years. That plan is currently in development, including:
 - a. Officials are meeting with the sector (including local government and industry), and other government agencies to get their input informally
 - b. We will also be appointing the departmental advisory group to provide formal input (we have consulted separately with the Ministers of Tourism and Conservation on membership)
 - c. We will provide a priorities option paper for Ministers in March, and a draft Investment Plan for approval in June.

Collection and fund management costs for the IVL

12. There are no departmental collection costs, as we are using Immigration NZ systems. However, as previously flagged, there are bank fees/credit card charges associated with online payments. These are estimated at 2.5% of revenue.
13. DOC and MBIE have also identified the resources needed to adequately manage the investment of the IVL, including developing the investment pipeline, provide secretariat support, negotiate and monitor contracts, and reporting. MBIE will require up to 5 FTEs, and will pay the Advisory Group fees. DOC will require up to an additional 3 FTEs. DOC requires fewer FTEs as most of the conservation investment is expected to be managed through existing systems, MBIE on the other hand will be managing a substantial grant-based programme that will include some complex infrastructure development².
14. We are seeking funding in 2018/19 so that management systems can be put in place for the start of the investment programme in 2019/20. This will ensure that the IVL fund is investing as early in 2019/20 as possible. The \$0.465 million sought will go to putting investment systems in place (fund management systems, templates etc) and expenditure programme development. Any funds approved for 2018/19 will be an advance call on the IVL revenue, managed through the quasi-memorandum account, and therefore fiscally neutral over the period.
15. Finally, Ministers have previously agreed that advice on the IVL Investment Plan should be informed by an Advisory Group. Fees for the group are estimated at \$0.030 million per year (daily rate covering two meetings and preparation time)
16. Fund management costs (i.e. excluding bank fees) are 1.3% of revenue.
17. The following table provides a breakdown of costs, which are included in the recommended changes to appropriations:

	\$m – increase/(decrease)					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Forecast IVL bank fees (2.5%)	-	2.184	2.284	2.384	2.485	2.583
Advisory Group	0.015	0.030	0.030	0.030	0.030	0.030
DOC fund management	0.250	0.400	0.400	0.400	0.400	0.400
MBIE fund management	0.200	0.760	0.760	0.760	0.760	0.760
Total	0.465	3.374	3.474	3.574	3.675	3.773

² The Tourism Infrastructure Fund is \$25 million per annum for small to medium investments, and requires approximately 2 FTEs over the year.

Communications

18. The following actions are underway to maintain communications with stakeholders:
- MBIE Tourism Policy is engaging with local government and industry representatives through a range of forums to seek input for the Investment Plan as well as the Advisory Group.
 - INZ are working with the tourism sector (e.g. airlines and cruise sector) to ensure that they (and their customers) are ready for the ETA changes.
 - INZ are developing an education campaign to support the rollout of the ETA and to provide the collection mechanism for IVL payment.
 - MBIE Tourism Policy will work with DOC to develop ongoing communications to support the launch and ongoing operation of the IVL Fund. This will include links with INZ and Tourism NZ.

Financial implications

19. The IVL will be fiscally neutral over time. Variations in revenue forecasts, and differences in investment profiles from revenue flows will be managed through a quasi-memorandum account (overs and unders will be carried forward to future years).
20. In addition, the inaugural investment plan will not fully commit 5 years of IVL revenue. This is primarily due to the stage of planning most infrastructure projects are at, however, it also reduces any fiscal risk.
21. To enable expenditure, we are proposing the following changes to appropriations:
- Creation of three new appropriations in Vote Business, Science, and Innovation:

Vote	<i>Business, Science, and Innovation</i>
Appropriation Minister	<i>Minister of Tourism</i>
Title	Tourism strategic infrastructure and system capability
Type	Non-Departmental Other Expense
Scope	This appropriation is limited to investment in tourism-related infrastructure and systems, including capability, in accordance with an agreed International Visitor Conservation and Tourism Visitor Levy Investment Plan
Title	Tourism fund management
Type	Departmental Output Expense
Scope	This appropriation is limited to investment advice, contract management and other aspects of fund management for the tourism portfolio.
Title	International Visitor Conservation and Tourism Levy collection
Type	Non-departmental Output Expense
Scope	This appropriation is limited to the collection costs for the International Visitor Conservation and Tourism Levy

- b. Increases to appropriations as follows, to enable 50% of the IVL to be invested in conservation activity, and 50% in tourism infrastructure and systems capability (around \$230 million each in substantive investment). Note fund management costs are included in the Vote Conservation Departmental Output Expense:

	\$m – increase/(decrease)					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
Vote Conservation						
Minister of Conservation						
Departmental Output Expense: Management of Natural Heritage (funded by revenue Crown)	0.250	42.311	44.523	46.473	48.443	50.354
Vote Business, Science, and Innovation						
Minister of Tourism						
Departmental Output Expense: Tourism fund management (funded by revenue Crown)	0.215	0.790	0.790	0.790	0.790	0.790
Non-departmental Output Expense: International Visitor Conservation and Tourism Levy collection	-	2.184	2.284	2.384	2.485	2.583
Non-departmental Other Expense: Tourism strategic infrastructure and system capability	-	41.601	43.763	45.713	47.683	49.594
Total Operating	0.465	86.885	91.360	95.360	99.400	103.320

Next steps

22. Following your approval, DOC and MBIE will establish IVL fund management teams. Officials have also sought input from the Ministers of Tourism and Conservation for the Departmental Advisory Group. We intend to make appointments in February.
23. We will be reporting to Ministers in March on priority options for investing the IVL. Officials and the Advisory Group will then develop a draft Investment Plan, which will be ready for Ministers to consider in June.

Annexes

Annex One: Summary of IVL Expenditure Framework

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