The Treasury

Budget 2011 Information Release

Release Document

June 2011

www.treasury.govt.nz/publications/informationreleases/budget/2011

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[2] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[3] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[4] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

[5] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[7] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government

[8] 9(2)(h) - to maintain legal professional privilege

[9] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial

[10] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand

[11] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, an [8] appearing where information has been withheld in a release document refers to section 9(2)(h).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Vote Tourism

Four Year Budget Plan

Version [2]

10 February 2011

Submitted by:

Ministry of Economic Development

Section 1: New Baseline and Summary of Changes

Vote Tourism contributes to the generation of economic growth in New Zealand. It helps strengthen New Zealand's international linkages and the growth of enterprising and innovative businesses in the tourism sector by providing advice on the role of Government in addressing opportunities and barriers for tourism businesses and in the marketing of New Zealand as a visitor destination. Currently the Government's primary intervention is made through its funding for Tourism New Zealand's international marketing activities.

The Minister of Tourism's focus for Vote Tourism over the next four years is to:

- increase the cost-effectiveness of tourism marketing and maximise the return from the Government's marketing investment;
- complete the National Cycle Trail project as a part of New Zealand's overall tourism infrastructure; and
- review and action priorities for reducing barriers to tourism sector growth and maximising tourism's economic contribution.

This focus is reflected in the three priorities outlined in Section 2 of this document.

In 2010 Tourism New Zealand (TNZ) commenced implementation of a new three-year marketing strategy focused on a new digital approach to marketing. TNZ's appropriation comprises 80% of the Vote, and this new strategy enables TNZ to use marketing resources to more efficiently and effectively target visitors who are most likely to decide to come to New Zealand, and among this target market to focus promotions on those who are likely to spend more while they are in New Zealand. TNZ complements this activity with a focus on improving quality in the industry through Qualmark and managing operators participating in the Approved Destination Status agreement with China; and by providing information to visitors through digital channels and i-SITE visitor centres to encourage them to do more (and spend more) on their visit to New Zealand. The net result is an improved contribution to the New Zealand economy.

Also, as outlined in EGI Min (10) 5/1, the Minister has signalled an intention to seek a baseline increase in funding for Vote Tourism into out-years as part of Budget 2011, provided that a review of the benefits from the additional funding in 2009/10 demonstrated satisfactory results.

Overall Impact

Operating	**Impact ($000s)**				
	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Policy Advice - Tourism	*7,989*	*7,362*	*7,362*	*7,362*	*7,362*
Management Support – National Cycleway	*801*	*500*	-	-	-
Marketing of New Zealand as a Visitor Destination	*93,931*	*68,861*	*68,851*	*68,850*	*68,850*
Implementation of the Tourism Strategy	*1,352*	*1,222*	*1,222*	*1,222*	*1,222*
Wairakei Infrastructure	*10*	-	-	-	-
Marketing New Zealand as a Visitor Destination through Joint Venture Partnerships	*5,000*	-	-	-	-
Tourism Facilities Development Grants	*267*	*267*	*267*	*267*	*267*
Rental Payments Whakawarewa Trust	*1,500*	-	-	-	-
The National Cycleway Fund	*30,900*	*16,000*	-	-	-
Current Baseline	***141,750***	***94,212***	***77,702***	***77,701***	***77,701***
Partnership marketing work with the Time Warner Media Group[1]	*13,358*	-	-	-	-
Marketing of New Zealand as a Visitor Destination	-	**[2]**			
Marketing New Zealand as a Visitor Destination through Joint Venture Partnerships	-				
Cost of new/increased activities	***13,358***				
Amount reprioritised in Vote Tourism	-	*(1,000)*	*(1,400)*	*(1,400)*	*(1,400)*
New baseline*	***155,108***	**[2]**			

*The proposal also includes a proposed transfer of $2.0 million of savings in Vote Economic Development and Vote Energy in 2011/12. This reprioritisation has not been included in the table above, as it is not a reduction from Vote Tourism baselines. This will be achieved through a fiscally neutral transfer from these Votes after agreement with the Minister for Economic Development and Minister of Energy and Resources.

[1] This is not reflected in current baselines in this table as the appropriation was approved after the October Baseline Update process [CAB Min (10) 39/20 refers].

Capital	**Impact ($000s)**				
	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Capital proposals seeking decisions in Budget 2011	-	-	-	-	-
Capital proposals seeking new funding in Budget 2011.	-	-	-	-	-

Section 2: Vote Priorities and Pressures

Vote Tourism priorities

The Minister of Tourism's three key priorities for the Vote are:

(1) Increase the cost-effectiveness of tourism marketing and maximise the return from the Government's marketing investment

The Minister's first priority in Vote Tourism will in large part be delivered through the implementation of the TNZ's three-year marketing strategy. This aims to secure higher returns per visitor through a targeted, digital, approach to tourism marketing. The effectiveness of this approach will be measured against new and appropriate performance measures.

New methodologies for developing robust return-on-investment measures for tourism marketing will be pursued, including joint work with Australian colleagues.

Work on a public-private sector New Zealand Inc approach to marketing our country offshore will be advanced also.

(2) Complete the National Cycle Trail project as a part of New Zealand's overall tourism infrastructure

The Minister's second priority is the development and completion of the National Cycle Trail. Particular focus will be given to ensuring that partner support and construction momentum is maintained to deliver completed trails during 2011.

Emphasis will also be placed on establishing enduring governance arrangements that ensure the branding and construction standards established for the trail are enforced, that the trail is effectively marketed, and that the maintenance of the cycleways that make-up the National Cycle Trail is suitable and effective.

(3) Review and action priorities for reducing barriers to tourism sector growth and maximising tourism's economic contribution.

In 2011 the Minister of Tourism intends that a medium term action plan for achieving the Government's goals for the tourism sector is developed. That plan will include cross-Government projects to address the following issues:

- International air connectivity – given the critical role of air linkages for New Zealand's export and knowledge economy, this work will build on work already undertaken to assess economically significant international air linkage risks and opportunities, and develop strategies to address these.

- Delivery of effective tourism marketing – the effectiveness of the way in which Government agencies engage with the industry on, and deliver, the marketing of New Zealand as a tourist destination should be of a quality that attracts a greater share of private sector support. This should ensure that the

Government funds the marketing effort only to the point where there is a net benefit to the economy from additional tourism spend relative to other expenditure priorities.

- Lifting tourism sector productivity – with tourism directly and indirectly employing nearly 10% of available labour, there needs to be a better understanding of the influences on productivity within the sector, and, if appropriate, assistance with enhancing productivity levels.

- Sector co-ordination – the disjointedness observed within the tourism industry is not unique to this sector. **[2]**

- Environment and the Economy – the world-wide trends towards environmental sustainability are expected to impact on the New Zealand tourism sector (and indeed the economy as a whole). First, New Zealand's geographical location and reliance on long-haul air connectivity mean that travel to New Zealand will be scrutinised increasingly in terms of its environmental impacts. Secondly, as international environmental standards tighten New Zealand's actual performance in relation to its 'clean, green' brand will be examined more closely. Therefore New Zealand needs to establish how these, and similar, trends, will impact its tourism industry and what measures need to be put in place now to prepare for likely changes in the future.

These Vote priorities all contribute to the Government's support for science, innovation, and trade policy.

<u>What are the activities within the vote that contribute least to Government's priorities?</u>

The Ministry of Economic Development (MED) has identified the following activities as contributing least to the Government's priorities:

[2]

The Minister has instructed the Ministry to provide him (and subsequently Cabinet) with advice on the impact of abolishing those schemes and reprioritising the funding.

Also, MED will undertake an 18 month review of the Core Tourism Dataset and the other tourism survey it funds. It is expected that the review will identify efficiencies and lower priority activities, which may lead to savings and/or the cessation of some activities.

Vote Tourism pressures

With a large portion of the appropriation being spent offshore on marketing activity, the level of funding required in the Vote is vulnerable to external pressures such as:

- Increasingly competitive marketing efforts by competitor destinations. The proposal to increase the baseline is a response to this pressure.

- Volatile foreign exchange fluctuations which result in reducing the quantity and effectiveness of TNZ's in-market spending power. The new Foreign Exchange Reserve approach that was approved by Cabinet in August 2010 will assist in mitigating this risk but the pressure remains.

- The health of the global economy. A major economic downturn in key markets, spikes in fuel costs and other unforeseen events such as terrorism, earthquakes, pandemics etc may, as in the recent past, require a significant increase in funding for marketing.

[2]

Section 3: Proposed Changes for Budget 2011 (Reprioritisation)

Context

The Minister of Tourism has signalled previously his intention to seek an increase in baseline funding of **[2]** million in Budget 2011 for marketing New Zealand as a visitor destination, provided that the reviews currently underway of earlier additional funding showed satisfactory results [Cabinet EGI (10) 5/1 refers].

Currently TNZ has funding of $99 million, but its funding in out-years reduces to $69 million per annum. However TNZ's three-year marketing strategy was developed around an expectation that $99 million per annum would be available for this purpose.

The recent evaluation of additional funding provided to TNZ for joint venture work in Australia indicated the expenditure had achieved some of its broader objectives, particularly in the area of attracting private sector investment and increasing the overall amount of co-ordinated marketing activity in Australia. The fund would need to be assessed after three years to fully establish its impact on tourism outcomes, and officials believe there is merit in continuing the fund. A second evaluation of the remaining additional funds will be completed by the end of April 2011.

What will change?

On 20 December 2010, Budget Ministers directed MED to explore ways to fund the **[2]** million new expenditure that was requested for TNZ marketing activities in version one of the Four Year Budget Plan (1 December 2010), with a focus on further reprioritisation **[2]**

In response to the Budget Ministers' directive and in light of the fiscal environment, MED have developed an alternative option (as outlined in Section 1), which provides for a more modest increase in funding (though at a lower level than the last three years), consisting of savings and some new money.

The new funding increase outlined in this proposal (i.e. **[2]** million in 2011/12 and **[2]** million in out-years), is intended to enable TNZ to remain competitive in marketing New Zealand as a tourism destination, in particular through implementing its three-year marketing strategy, which was endorsed by Cabinet in March 2010. The strategy will enable the Government to deliver on its priority focus of increasing the cost-effectiveness of tourism marketing and maximising the return from the Government's marketing investment through a targeted digital approach to tourism marketing.

The proposal:

- Leads to a reduction in previous Government funding for TNZ's marketing activities as proposed in their three-year marketing strategy. This will lead to reprioritisation across all marketing output areas, and will result in reduced marketing outputs. However, through improved efficiency it is likely that much of the effect of this reduction could be off-set. Therefore TNZ are unlikely to cease in full any significant output class of activity in a particular region to achieve these savings.

- Provides TNZ with consistent funding levels for the next four years, which will assist them to plan strategically and allow for greater certainty. The funding is also sufficient to manage some of the risks associated with reducing the existing levels of investment that have been planned for in TNZ's three-year marketing strategy.
- Will incentivise TNZ to seek additional funds through partnering with the private sector because funding targets for joint private sector activity will be established.
- [2]
-
- Recognises the Government's additional funding of Time Warner (NZD $13.358 million in 2010) for the strategy marketing opportunities New Zealand will gain from the Hobbit movies being filmed in New Zealand. As a result of this funding, TNZ benefits by becoming a strategic partner of Time Warner Global Media Group, which will work in partnership with TNZ to promote New Zealand to the global marketplace through to the date of release of the second planned Hobbit movie, which is estimated to be late 2013.
- Includes an evaluation, by 30 October 2014, that will cover [2] an initial assessment of the Return on Investment for the [2] million per annum funding each year. [2]

Other funding within the Vote that is available, in 2010/11 only, for reprioritisation is the $3.628 million from the Tourism Demand Subsidy Scheme (available at the end of the 2010/11 financial year). The activity relating to this scheme has now been completed and the resulting surplus of $3.628 million is available to either be returned to the Crown or reprioritised within the Vote[2].

The Minister of Tourism intends that $1.5 million of that sum be transferred to the Ministry of Conservation for use in funding the final stages of the construction of Te Araroa (the walking and tramping trail from Cape Reinga to Bluff) and that the remaining $2.128 million be returned to the Crown's operating allowance.

---

[2] Note that this funding is not included in the baseline figures above as it was a two year appropriation concluding in 2006/07.

Further cost savings might be available for reprioritisation after 2011/12, arising from the review of the Core Tourism Dataset and other tourism surveys. **[2]**

Other options that were considered

MED also considered four other options, which are outlined below:

Option (a): **[2]** *million increase to TNZ's destination marketing output, as presented in version one of the Four Year Budget Plan, submitted December 2010*

This option still remains valid as TNZ's approved three-year marketing strategy was developed on the expectation of a $99 million per annum government contribution.

This is warranted because, globally, destination marketing is becoming increasingly competitive. TNZ needs to maintain a level of investment that means New Zealand does not lose its current profile and also allows TNZ to develop its targeted, digital approach to tourism marketing.

Moreover TNZ plays an important role in establishing and maintaining New Zealand's aviation linkages, through its marketing activity and partnerships with airlines. Maintaining effective aviation linkages to a strong network of offshore markets is crucial for maintaining New Zealand's competitiveness as a destination and addressing the distance-related barriers faced by New Zealand businesses. Tourism is an enabler for these connections. There is increasing global pressure to rationalise global air capacity due to increasing fuel costs and/ or environmental measures, and increasing effort is required to ensure New Zealand's connectedness remains in tact.

Option (b): Initial Government investment in 2011/12, with decreases in out-years

MED also considered variations on options that involved initial additional government investment in 2011/12, with decreases in out-years. The aim was to incentivise TNZ more strongly to grow private sector contributions **[2]**

However, it was felt this option may:

- Restrict destination marketing funding to current levels
- Reduce TNZ's ability to attract private sector funding because the private sector would see it simply as substituting for reducing government funding
- Reduce the focus on core destination marketing as the private sector would want to advance their own interests if they were paying for the marketing (as has happened recently in Canada)
- Focus too much of TNZ's attention on managing within a declining baseline and away from core business.

Option (c): $15 million increase to TNZ's destination marketing output

The consequences of taking up this option would be:

[2]

- Tourism New Zealand would maintain its current international and domestic office structure.

- In major markets, marketing and PR budgets would be cut around 15%, with attendant reductions in activity – although efforts would be made to find savings and efficiencies to minimize the level of output reductions.

- Trade budgets would be maintained in all countries except [2]

- Marketing support costs (campaign and brand development, research and intelligence) would be cut around 15%, which would have headcount and output reductions.

Option (d): No increase to TNZ's baseline

If TNZ's baseline were to remain at $69 million (a 30% decrease on current activity), TNZ's three-year marketing strategy would need significant reviewing, and associated targets revised, to reflect a much lower level of marketing activity. For example, marketing initiatives in TNZ's secondary and emerging markets would be stopped, putting at risk other Government initiatives, such as the aviation strategy focused around flights from South America.

The next few years are critical for New Zealand's offshore exposure. TNZ's three-year marketing strategy currently allows for opportunities to be exploited from the increased awareness of New Zealand as a visitor destination resulting from the Rugby World Cup coverage in 2011, as well as the Hobbit films in 2012 and 2013.

A reduction of 30% would lead to major scaling back in activities in (and tourists from):

- ***Australia:*** reducing funding for marketing in Australia (a [2] reduction in visitor numbers could equate to a reduction in visitor expenditure of between [2] million annually).

- ***South America:*** halting current projects to extend the promotion and increase air services to New Zealand (this could reduce the potential growth in visitor expenditure in the order of [2] million annually).

- ***South Africa:*** halting marketing projects aimed at capitalising on the post-Rugby World Cup momentum (potential impact on visitor expenditure in the order of [2] million annually).

- ***UK and Germany:*** rationalisation of marketing activities potentially accelerating the decline of arrivals from the UK (an impact of [2] million per annum) and at best the maintenance of current levels of arrivals from Germany (an impact of [2] million per annum).

- ***New Zealand-based events:*** withdrawing marketing support from major events,[2] which receive Major Events Funding.

- ***Public Private Partnerships:*** reducing opportunities to engage in partnered marketing campaigns. This would impact on the generation of immediate demand and therefore visitor arrivals in the short-term; for example partnered activity in the first half of 2010 generated over [2] million of visitor revenue.

Section 4: Summary of Financial Movements

A CFIS table outlining the changes is attached.