

The Treasury

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

1 December 2010

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 below.

In 2010 Tourism New Zealand (TNZ) commenced implementing a new three-year marketing strategy which is focused on implementing 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 compliments 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. That is provided that a review of the benefits from the additional funding that was provided in 2009/10 demonstrates 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	000	000	000
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	000	000	000	000
Marketing New Zealand as a Visitor Destination through Joint Venture Partnerships	5,000	000	000	000	000
Tourism Facilities Development Grants	267	267	267	267	267
Rental Payments Whakawarewa Trust	1,500	000	000	000	000
The National Cycleway Fund	30,900	16,000	000	000	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	000	000	000	000
Marketing of New Zealand as a Visitor Destination	000	[2]			
Marketing New Zealand as a Visitor Destination through Joint Venture Partnerships	000				
Cost of new/increased activities	13,358				
New Zealand Tourism Strategy Implementation Fund.	000	000	000	000	000
Amount reprioritised	000	000	000	000	000
New baseline	155,108	[2]			

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	<i>000</i>	<i>000</i>	<i>000</i>	<i>000</i>	<i>000</i>
Capital proposals seeking new funding in Budget 2011.	<i>000</i>	<i>000</i>	<i>000</i>	<i>000</i>	<i>000</i>

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 be placed also 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 here 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.

What are the activities within the vote that contribute least to Government’s priorities?

The Ministry of Economic Development 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, the Ministry of Economic Development will undertake an 18 month review of the Core Tourism Dataset and the other tourism surveys 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.

In addition, TNZ would need to reprioritise their activities should their total Crown funding be reduced from the current \$99.0 million to \$69.0 million. Markets where activities could be scaled back (with resulting impacts on visitor expenditure) include:

- **Australia:** reducing funding for marketing in Australia (a [2] reduction in visitor numbers could equate to a reduction in visitor expenditure of between [2] 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] 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] annually).
- **UK and Germany:** rationalisation of marketing activities potentially accelerating the decline of arrivals from the UK (an impact of [2] per annum) and at best the maintenance of current levels of arrivals from Germany (an impact of [2] per annum).
- **New Zealand-based events:** withdrawing marketing support from major events, such as the [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] of visitor revenue.

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 by [2] 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 increased 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)

What will change?

As noted above, the Minister of Tourism has signalled previously his intention to seek an increase in baseline funding of [2] in Budget 2011, provided that the reviews currently underway of earlier additional funding show satisfactory results [Cabinet EGI (10) 5/1 refers].

This funding increase is intended to enable TNZ to remain competitive in marketing New Zealand as a tourism destination, in particular through fully implementing its Three Year Marketing Strategy which was endorsed by Cabinet in March 2010. That 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.

Currently TNZ has funding of \$99.0m, but its funding in out-years reduces to \$69.0 million per annum. However TNZ's three year strategy was developed around an expectation that \$99.0 million per annum would be available for this purpose.

Should this full amount not be available TNZ would reduce the scope of the marketing effort along the lines described in section 2 above.

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 Vote².

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..

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]

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

Section 4: Summary of Financial Movements

A CFIS table outlining the changes is attached.