



BRIEFING

Tourism Concessions Crown Fee Waiver

| | | | |
|---------------------------------|--------------|-------------------------|--------------------------------------|
| Date: | 22 June 2020 | Priority: | High |
| Security classification: | Sensitive | Tracking number: | 3829 19-20 (MBIE) 20-B-0435 (DOC) |

| Action sought | | |
|--|--|--------------|
| Tourism Recovery Ministers | Action sought | Deadline |
| Hon Kelvin Davis Minister of Tourism Hon Eugenie Sage Minister for Conservation Hon Grant Robertson Minister of Finance Hon Nanaia Mahuta Minister for Māori Development Fletcher Tabuteau Under Secretary Regional Economic Development | Agree funding up to \$25m from the Tourism Recovery Fund to offset fees from operators to the Department of Conservation from 1 March 2020 to 30 June 2021. | 25 June 2020 |

| Contact for telephone discussion (if required) | | | | |
|--|-------------------------------------|-----------|--|-------------|
| Name | Position | Telephone | | 1st contact |
| Danielle McKenzie | Programme Director, Tourism | s 9(2)(a) | | ✓ (MBIE) |
| s 9(2)(a) | MBIE Senior Policy Advisor | s 9(2)(a) | | |
| Laura White | Director Pricing & Economics, DOC | s 9(2)(a) | | |
| Marieke Mahoney | Commercial Economics Manager, DOC | s 9(2)(a) | | ✓ (DOC) |
| Deidre Ewart | Business Support Manager, DOC | s 9(2)(a) | | |
| Freya Love | Strategic Coordination Manager, DOC | s 9(2)(a) | | |

| |
|---|
| The following departments/agencies have been consulted on the Tourism Concessions Fee Waiver paper |
| MBIE |

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments

RELEASED UNDER THE
OFFICIAL INFORMATION ACT



BRIEFING

Tourism Concessions Crown Fee Waiver

| | | | |
|---------------------------------|--------------|-------------------------|-----------------|
| Date: | 22 June 2020 | Priority: | High |
| Security classification: | Sensitive | Tracking number: | 20-B-0435 (DOC) |

Purpose

1. This briefing is seeking your agreement to approve up to \$25m from the Tourism Recovery Fund for transfer to the Department of Conservation (DOC). This funding will enable DOC to support tourism operators by providing a 16-month waiver of fixed and activity fees for all tourism-related concessions to provide short-term relief to tourism operators. This funding is backdated to 1 March 2020.

Recommendations

- a **Agree to transfer up to \$25m from the Tourism Recovery Fund to the Department of Conservation. This will enable the Department to waive all tourism fees (except community charges) that are payable for the period from 1 March 2020 to 30 June 2021. \$25m would cover both the expected loss from concession revenue for 2020/21 due to fees being activity-based and the waiving of the remaining fees for 1 March 2020 to 30 June 2021.**
- b **Alternatively, agree to transfer up to \$10m from the Tourism Recovery Fund to the Department of Conservation. This would cover only the waiving of remaining fees for 1 March 2020 to June 2021. The balance of the concession revenue shortfall will remain as a cost pressure bid (refer bid refer bid 12905 – Covid-19 Cost Pressure Arising from Revenue Losses).**

Agree/Disagree

Agree/Disagree

2. Note: For either option, if funding is approved to allow DOC fees to be waived for tourism operators, the amount of funding available for individual STAPP applicants would need to be reduced as they may also have included DOC fees in their operational or fixed costs in some cases. As a result, the removal of the requested funding for DOC concession fees from STAPP agreements will require renegotiation of applications. This may result in delays to decision-making and announcements of the STAPP.

Danielle McKenzie
Programme Director, Tourism
Labour Science and Enterprise, MBIE
22 / 6 / 2020

Hon Kelvin Davis
Minister of Tourism
..... / /

Rachel Bruce
Deputy Director-General, Corporate Services
Department of Conservation
22 / 6 / 2020

Hon Grant Robertson
Minister of Finance
..... / /

Hon Eugenie Sage
Minister of Conservation
..... / /

Hon Nanaia Mahuta
Minister for Māori Development
..... / /

Fletcher Tabuteau
**Under Secretary Regional Economic
Development**
..... / /

Background

3. Tourism operators are under severe cashflow pressure for 2020/21. By enabling DOC to waive fees for those concessionaires operating on public conservation land the government would:
 - a. ease cashflow pressures for COVID-affected tourism businesses that hold DOC concessions;
 - b. fund the conservation activities and investment that concessions revenue from tourism normally contributes to.

DOC – Concessions context

4. DOC manages approx. 4600 concessions and permits. Of these approx. 1000 are categorised as tourism related concessions. This is a broad categorisation so may include or exclude businesses that consider themselves to be tourism related.
5. In the last few years DOC has worked hard to increase the fair contribution made by businesses using conservation land. This has had two dimensions.
6. Firstly DOC has worked to ensure an economically efficient pricing framework with a move to structure fees around (a) recovering fixed costs through fixed charges such as a monitoring fees not related to the level of business and (b) the majority of fees being related to the volume of business. Typically, this is a fee based on a share of revenue or per activity such as a charge for a helicopter landing. This sees DOC effectively sharing in any benefits from economic activity and allowing DOC fees to increase only as business activity and tourism impact increases. We would not wish to change this broad policy approach which has taken a while to achieve, without consideration of impact. However, this also means that it is difficult to estimate actual fee impact particularly in the current circumstances when there is so much uncertainty.
7. Secondly DOC has been steadily reviewing fee levels to give a fairer contribution back to conservation to support the very thing tourism businesses are based on.
8. This approach has been coupled with repricing of DOC's own facilities such as great walk huts and campgrounds and has seen an increase in revenue earned over recent years.
9. In the past Ministers have supported DOC looking to support conservation work through growing revenue, in effect allowing the department to benefit from a focused effort to lift the contribution from businesses and users of DOC facilities. This has led to for example successful innovations such as differential pricing for Great Walks.
10. However, this exposes the department to the risk of a major tourism downturn, as is currently being experienced. Over the long term a fair and well-run concession and pricing system benefits both the Crown and private sector. The proposed waiving of fees and in effect back filling loss of revenue to DOC should be seen as government sustaining an effective system through a short-term extraordinary shock.
11. As a means to support the tourism sector, the waiving of DOC fees is an effective means of targeting support. It benefits both large and small businesses but has a particular advantage of targeting and rewarding those businesses working hard to grow and adapt to a domestic market. This is a result of the majority of the benefit being the waiving of volume based fees. As many businesses have reduced prices to attract Kiwi customers a reduction in their marginal costs will assist this.
12. DOC has a small number of large tourism businesses and a large number of small businesses. Major tourism business such as ski fields, hotels and motels, large guided walking businesses including overnight stays, bungy jump operators, canyon swings and ziplines, pay in excess of \$100,000 in fee per annum, some paying substantially more than this. Primarily

most of our concessionaires, by volume, are smaller operators that operate across New Zealand or across a region. They include guided walking operators, transport operators, guided kayaking operators etc.

13. In the 2018/19 financial year the Crown earned \$27.3 million from concessions and permits. During the same period, we cost recovered as departmental revenue approx. \$1.0 million in management fees and \$1.5 million in application processing fees.
14. In addition, those concessionaires domiciled in Aoraki Mount Cook and Whakapapa Villages and the concessionaire for Milford and Routeburn tracks contribute to the direct cost of community services provided by DOC in those locations. This is approximately \$1.5 million per annum. This is essentially a local body charge and we note that while these concessionaires also pay rates, we are not aware of any local Councils that are waiving or discounting rates or service charges.
15. The current context is exceptional. The need to close borders to international tourists, and to temporarily halt all domestic tourism activity is challenging for operators and government alike. This exceptional context may require a different approach in the short term which is easy to administer and fair for both concessionaires and government.
16. Given tourism concession fees are based on activity (reduced visitor numbers equals reduced fees owed) it is forecast that Crown revenue for 2020/21 is likely to be in the region of \$12.4 million without any additional waivers. This represents a forecast actual reduction of \$14.9 million in comparison to 2018/19. Note the forecasts reflect a rapidly changing context and will depend on a range on unknown factors, for example borders opening.
17. Estimates for the current financial year (2019/20) are that we expect a reduction of circa \$6-10 million due to the impact of the Southern South Island flooding event and Covid-19 giving a forecast total revenue for the 2019/20 financial year of \$21.3 million. However, these forecasts have also been subject to change as New Zealand has moved through the Covid-19 Alert Levels.
18. The table below details out the 2018/19 concession revenue baseline and forecasts for 2019/20 and 2020/21. *Note that these forecasts are informed by changing scenarios in terms of Alert Levels, border and business closures and the ability to pivot to a domestic market.*

| | 2018/19 (actual) | 2019/20 (forecast) | 2020/21 (current forecast) |
|--|------------------|--------------------|----------------------------|
| Tourism-related concession revenue | \$20m | \$10-\$14m | Estimated at \$5.6m |
| Total concession revenue | \$27.3m | \$21.3 | Estimated at \$12.4m |
| Expected loss of tourism-related concession revenue (based on activity fees) | - | \$6-10m | Estimated at \$14.4m |
| Expected loss of total concession revenue | - | \$6-10m | Estimated at \$14.9m |

19. A reduction in crown revenue correlates with a reduction in DOC's budget for the following financial year. This has a direct impact on DOC's operational spend, reducing available funds for biodiversity work and investment in maintaining and developing the places that draw visitors to them.

20. A cost pressure bid has been submitted to Treasury to provide third party operating revenue, lost as a result of expected decreases in international tourism and other financial impacts of COVID-19. These revenue streams contribute to funding baseline activities.
21. Cost pressures for 19/20 remain unchanged by the current proposal. Cost pressures for 20/21 and beyond currently include an element of fee recovery that would not be needed if this paper is approved. This previous cost pressures bid could be amended accordingly for the loss of concession fee revenue in the 2020/21.
22. Alternatively (option b), the cost pressures bid could remain as is for the loss of concession fee revenue in the 2020/21 financial year, noting that the cost pressures only cover the unavoidable loss in revenue. This would mean that the Tourism Recovery Fund would cover only the policy option waiving of remaining (much reduced) forecast fees. Note that while the total loss of concession revenue for 2020/21 is estimated at \$20m (based on 2018/19 actuals), we will not be able to determine the exact breakdown between loss of revenue from activity-based fees and cost of waiving the remaining fees until after the end of the financial year once activity returns for the full year are available.

Why DOC is seeking funding for a fee waiver for concessionaires

23. The COVID 19 pandemic and border closure is creating considerable financial challenges for many tourism operators which could continue for some time. The full impact or duration is unknown. It is also creating uncertainty in terms of cashflow and future profitability.
24. A fee waiver for 2020/21 would enable concessionaires to plan for the year ahead, and aid with their adaptation to a domestic tourism market. A recovery year without fees will allow businesses to re-pivot to the new context and provide them with certainty. For some businesses it may also allow them to pass on cost savings to their (mainly) New Zealand customer base.
25. The government would be able to maintain investment from tourism concession to look after and re-invest on public conservation land.
26. TIA and other organisations have asked government to consider support. This includes
 - Remove all fixed, non-revenue based concession fees.
 - Defer payment of all revenue-based concession fees coming due for payment, until 2021.
 - Stop charging activity/revenue-based concession fees while the borders remain closed.
 - Consider the permanent removal of revenue-based concession fees for New Zealand customers of concessionaires. NZers are paying twice for access – once through the general tax system, and again through the DOC fee component of the ticket price.
27. By mid June 2020, we had received contact from 122 concessionaires and permit holders, representing 168 separate authorisations, seeking information or some form of financial relief (e.g. waiving invoices already generated, fees free in the future, deferred payment terms etc.).
28. In general, the requests followed similar themes to TIA's requests:
 - To not invoice for (or refund fees) for activity that had been undertaken prior to Covid-19. This was to support the working capital of a business that should have managed their cashflows to pay costs incurred from revenue earned prior to COVID-19
 - To defer payment of outstanding invoices (for up to 3 years) – this effectively asked DOC to provide a zero interest overdraft facility

- To reduce future activity fees payable. This is to ensure that businesses are given a better opportunity to be able to stay in business by providing them with reduced costs while they rebuild and restructure their operations.
29. We have considered a range of options which could provide fee relief to concessionaires. As a general principle, any option for fee relief would need to be seen as a one-off response to the current situation. Over the longer term there needs to be a return to the current fee setting approach which reflects the approach over recent years to ensure that our Concessionaires are charged a fair and equitable market rate for the access they have to public conservation land for their private or commercial activities. Administration of any fee relief options needs to be simple enough so as not to create a large cost to administer.
30. Our proposed approach to provide fee relief includes:
- Agreement of payment terms, including deferment of payments for fees due based on the period up to 28th February 2020.
 - Waiver of all tourism-related concession and management fees for the 2020/21 financial year (excepting community service fees).
 - Backdating of the waiver to 1st March 2020.
31. Fees incurred up to end of February 2020 will still require payment. Waiving of these fees would be inappropriate. It would reward those who have been slow in paying DOC and penalise those who have already paid. However, DOC will work with operators on an individual basis to agree payment terms for those fees already incurred prior to the 1st of March 2020 to assist with cash flow challenges. This position is supported by TIA.
- 32. We propose to waive all tourism-related concession fees for the 2020/21 financial year.**
- a. **In a normal year this would be approximately \$20m in Crown Revenue – including fixed and activity based tourism fees, plus \$0.45m in departmental revenue from management and monitoring fees.**
 - b. Our forecasts assume that revenue will be reduced for the 20/21 financial year as activity drops. As outlined above, this is a revenue risk shared by both tourism operators and the department. Our assumptions are evolving as we move through the Alert Levels and New Zealanders start to travel again. However, our latest forecasts predict a drop in activity which equates to an expected loss \$14.4m for the financial year.
33. **We also propose to backdate these waivers to the 1st of March 2020.** This will result in refunds in some cases as some operators have already paid. Backdating of management and monitoring fee waivers to 1st of March 2020 would reduce departmental revenue by about \$0.15m for 2019/20. The Crown component of fees includes \$0.17m in fixed accommodation fees and an estimated figure for activity fees due for this period. The impact of the activity based Crown revenue backdating is to be determined. At this stage we do not have activity returns for business that re-opened in level 2 and are currently operating and who in normal circumstances would be generating the need to pay a fee to DOC.
- 34. As a result we are seeking \$20m from the Tourism Recovery Fund for 20/21 and up to \$5 million for the backdated 2019/20 financial year.** We note that if approved we will need to revisit the cost pressures bids. It is not intended to cover anything over and above a normal baseline.
35. It is not proposed to waive community services charges. These are the fees payable for services in Aoraki and Whakapapa and towards the maintenance of the Milford/Routeburn tracks. These are similar to local authority rates. We provide services and infrastructure at a cost and it is only fair those receiving the direct benefit of this, contribute to the cost.
36. Without backfilling this loss in revenue, DOC's ability to deliver biodiversity and conservation work will be significantly impacted.

Funding sought

37. DOC is requesting \$25m funding to support tourism concessionaries to operate in 20/21, and for them to offset lost earnings for the last four months of 2019/20, while at the same time allowing the department to continue to meet its statutory responsibility to manage Public Conservation Land.

| | Estimated refunds from 1 st March to 30 th June 2020 | Estimated revenue loss for 2020/21 |
|--|---|------------------------------------|
| Waiver of management and monitoring fees for tourism operators (standard fees paid by all concessionaires) | \$0.15m | \$0.45m |
| Waiver of tourism-related concession fees (fixed and activity-based Crown revenue) | The detailed breakdown cannot yet be determined. The fixed element of fees (accommodation), is approximately \$0.17m. There will also be an activity/revenue based component. Note that the expected reduction in revenue is covered by a previous cost pressures bid. | \$5.6m |
| Loss of tourism-related concession fees due to reduction in activity-based fees | | \$14.4m |
| | \$0.15m+\$0.17m+ \$unknown | \$20.45m |

38. A cost pressure bid for the loss of tourism-related concession revenue due to activity-based fees for the 2019/20 financial year has been submitted previously. We do not know as of yet how much activity has taken place in the March 2020 – June 2020 period, and therefore the cost split between revenue lost due to activity-based fees and waivers based on fees owing is unknown.

39. Forecasting for concession fees in the 2020/21 financial year is being updated regularly based on the evolving situation. Tourism-related concession revenue in a normal year is expected to be around \$20m. This request covers **both** fixed and variable (activity) fees for tourism businesses, excepting the community services charges.

Funding from the Tourism Recovery Package

40. Ministry of Business Innovation and Employment (MBIE) officials agree in principle that funding of DOC concession fee waivers could be considered from the \$400 million Tourism Recovery Package.

41. Tourism operators have signalled through various forums that a reduction of costs such as DOC fees would help them to manage the financial effects COVID-19 has had on their business operations and assist their cashflow.
42. Funding of DOC concessions up to \$25 million from the \$400 million Tourism Recovery Package will need to be considered alongside the priorities of the Package - protection of strategic tourism assets, tourism futures planning and support to firms to pivot to the new market conditions.
43. From the \$400 million, \$53.75 million has already been committed for the following purposes:
 - a. New Zealand Māori Tourism (through TPK): \$10 million
 - b. Tourism Transitions Programme: \$7 million
 - c. Strategic Tourism Assets Protection Programme (STAPP): \$36 million in urgent applications including \$20.2m for regional tourism organisation support
 - d. MBIE tourism support cost - \$0.75 million
44. At the close of the STAPP application round, applicants had requested a total of over \$400 million. This includes all eligible and ineligible applications yet to be assessed, the three approved applications and numerous inbound tour operator applications.
45. The following tourism initiatives are currently being considered for funding through the Wave 3 COVID-19 Response and Recovery Fund. The initiatives amounting to \$118.15 million are listed below:
 - a. Support for strategically important inbound tour operators: \$20 million
 - b. Taking a systematic approach to New Zealand's travel and trade pipeline and potential support for a future-focussed buyer event: \$8.15 million over 2 years
 - c. Support to consolidate the i-SITE network: \$40 million over 5 years
 - d. A Tourism Recovery events fund \$50 million
46. MBIE officials recommend that Tourism Recovery Ministers consider funding for DOC concessions alongside other Tourism Recovery Package priorities, including the Wave 3 Budget bids, recommended suite of STAPP applications, resourcing the New Zealand Tourism Futures Taskforce and any additional Tourism Transitions Programme priorities.
47. Some tourism operators have already applied to the STAPP fund and some will have requested support to cover their DOC concession fees. So, if funding is approved to allow DOC fees to be waived for tourism operators, the amount of funding available for STAPP applicants would need to be reduced. The removal of DOC concessions from STAPP agreements will require renegotiation of applications and may result in delays to decision-making and announcements of the STAPP.
48. Waiving of DOC concession fees would benefit all tourism businesses operating on public conservation land.

Implementation

49. If this proposal is supported in principle all the necessary steps, including discussions with Treasury on the correct allocations of the funding will be undertaken to ensure that the processes and decisions accord with the Public Finance Act.

50. There will be additional administration costs and resource impacts for the department. If these impacts cannot be mitigated through reprioritisation, they would be identified as a cost pressure.
51. All tourism operators would need to provide an activity return to DOC but would not be invoiced. Note that the billing period will vary by operator.
52. One third of the fixed fees (management & monitoring and accommodation) will be either refunded or payment waived. Note that the billing period will vary by operator.
53. All tourism operators need to provide an activity return to DOC, which itemises the period from 1 March 2020 to 30 June 2020 if they wish to access this waiver (or refund). This creates additional effort for the concessionaire, so they will need to judge if they wish to request this. For some operators the activity level in the final third of the year is low and fees are normally minimal.

Next steps

54. If Ministers agree to this transfer, DOC and MBIE will engage with Treasury to determine the appropriate method for transferring the funds and any associated financial processes.
55. Following a decision, a communication plan and implementation timetable would need to be actioned.