In Confidence

Office of the Minister of Customs

Chair, Cabinet

Financial impact of COVID-19 on border and transport agencies

Proposal

1 This paper seeks Cabinet's agreement to establish a liquidity facility for border and transport agencies to mitigate the revenue shortfall from COVID-19.

2 I am seeking the establishment of this liquidity facility on behalf of the Ministers of Economic Development, Transport, Immigration and Biosecurity.

Executive Summary

3 Border and transport agencies collect revenue based on passenger numbers; some also collect revenue on imported and exported goods. This revenue funds significant portions of each agencies' activities. Passenger and goods volumes began decreasing with the outbreak of COVID-19. The passenger stream is now effectively suspended, significantly and suddenly reducing the agencies' third party revenue.

4 The ability for the agencies to significantly reduce their operating baselines immediately to match the funding reduction is limited given the long term nature of the expenditure, as they do not reduce when volumes decrease.

5 The reductions in third party revenue will adversely impact each department's respective operating balance, and therefore the overall Crown's operating balance and net core Crown debt. This will be built into the Budget forecasts. However, the drop in revenue also presents significant liquidity issues for all agencies who must continue to meet their present and short term obligations. s 9(2)(g)(i) OIA [redacted]

6 This paper seeks to put in place a liquidity facility that agencies can draw on if required, to ensure they can meet their payroll and supplier obligations over the coming months.

7 While support for departments is fairly straight-forward through the granting of capital injections, there is a slightly more involved process needed to ensure Crown entities receive comfort that they will remain going concerns.

8 Consistent with provisions in the Crown Entities Act 2004, the Boards of these agencies will need certainty of funding, for at least to the end of the 2021 financial year, to enable these organisations to continue to operate as successful going concerns. As these are essential transport services that need to continue to be delivered, the Crown would be purchasing these services off these entities rather than industry, requiring a non-departmental output expense appropriation. These additional expenses will impact on the operating balance and net core Crown debt.

9 Each department will make their cash requests to the Treasury and each transport agency will make their cash requests to the Ministry of Transport, who will review the requests and make the payments in the normal course of business.

10 For departments, unlike other capital injections, which are usually used for capital expenditure, these capital injections will be used to fund operational costs. The liquidity facility will enable agencies to draw down cash as needed to pay their bills. It effectively enables cash that is held by the Crown to be moved to agencies as needed to ensure liquidity. Both the proposed capital injections to departments and purchase of services from transport agencies will impact net core Crown debt

11 The requested funding facility for departments is until 30 June 2020, as they may call on their 2020/21 Crown funding from 1 July 2020. For many agencies, this will underpin some of their cash flow for part of 2020/21, but is not expected to replace all of it. Depending on the track of the pandemic, agencies may need to return to Cabinet requesting further cash support later in the 2020/21 financial year.

12 I recommend a funding facility of up to $190 million capital and $236.6 million operating across the departments and Crown entities covered in this paper. Cash that is not needed will not be drawn down. Instead, the agencies will individually draw down cash as needed, subject to the limits for each agency set out in this Paper, based on the approval of the Treasury, and the Ministry of Transport for transport agencies.

13 s 9(2)(g)(i) OIA [redacted]

Background

14 In response to the outbreak of COVID-19, the New Zealand Government and governments from around the world have taken measures to mitigate cross-border transmission. The combination of these measures have led to the airline industry suspending or reducing international and, to a lesser extent, domestic air services. Additional actions taken by countries have also impacted on the flow of goods across New Zealand's border.

15 The resulting collapse of passenger volumes, and reduction of import and export volumes, has affected the revenue streams for border and transport agencies[1].

16 As part of the Aviation Relief Package, all funding reviews across border and aviation agencies are suspended for 12 months [CVD-20-MIN-0010 refers].

Border and transport agencies are losing third-party revenue as COVID-19 affects passenger and goods volumes

17 Border and transport agencies collect revenue based on passenger numbers; some also collect revenue on imported and exported goods. This revenue funds significant portions of each agencies' activities. Passenger and goods volumes began decreasing with the outbreak of COVID-19. The passenger stream is now effectively suspended for both international and domestic travel.

18 The Ministry for Primary Industries (MPI) modelled the effects of COVID-19 on behalf of, and in partnerships with, border and transport agencies. The model shows forecast net financial impacts as a result of border restrictions being enforced in New Zealand and across the world.

19 The dynamic operating environment has uncertainties (eg, how long the pandemic plays out, potential effects of an economic recession and how long border restrictions remain in place, whether airlines that have withdrawn from New Zealand will return, and whether international visitor numbers recover), highlighting risks around these forecasts (ie, under or over estimating financial impacts).[2] The key assumptions are:

- international passenger volumes (comprising both air and cruise) drop by up to 100 percent in a worst case scenario due to border restrictions, with these restrictions in place until December 2020
- goods volumes (comprising both imports and exports) or port visits by foreign cargo ships, drop by up to 50 percent in a worst case scenario, reflecting the expected disruption to supply chains and markets.

[1] Border and transport agencies are: the Ministry of Business, Innovation and Employment (Immigration NZ), Ministry for Primary Industries (Biosecurity NZ), Ministry of Transport (Civil Aviation Authority (incl Aviation Security Service) and Maritime NZ) and the NZ Customs Service. For the purposes of this paper, 'transport agencies' does not include Waka Kotahi the NZ Transport Agency.

[2] As at 23 March 2020. Assumptions include no change in fee rates and no active restructuring of operations.

Passenger volumes: one scenario sees a volume decline of 90%, gradually recovering to pre-COVID-19 level over a 9-month period from December 2020; another scenario sees volumes decline by 100%, gradually recovering to pre-COVID-19 level over an 18-month period from December 2020 (scenarios developed by the Ministry of Transport).

Cargo volumes: one scenario sees a peak volume decline at 34%, gradually recovering to pre-COVID-19 level by March 2022 (scenario developed by Customs); another scenario sees volumes decline by up to 50% over the period April to December 2020, gradually recovering to pre-COVID-19 level by July 2022 (scenario developed by MPI and Maritime NZ).

Agencies require urgent cash injections to remain solvent

20 Based on the modelling described above, each agency has calculated the cash injections required to remain solvent during the remainder of the 2019/20 financial year, and potentially into the 2020/21 financial year. Each agency's situation is different, and the difference in operating models between public service departments and Crown entities means assistance is more urgent for some agencies than others.

21 Establishing a consolidated liquidity facility would allow border and transport agencies to draw down cash as needed to continue critical operations.

22 The table below sets out the amounts each agency will need for the proposed liquidity facility.

	Public service departments			Crown entities	
	MBIE	**MPI**	**Customs**	**Civil Aviation**	**Maritime NZ**
2019/20	$100m	$60m	$30m	$29m	$6.2m
2020/21	TBC	TBC	TBC	$167.4m	$34m

23 Public service departments are likely to require additional funding injections at some stage in 2020/21; the size of each department's 2020/21 funding requirements are unknown at this time and will depend on the duration of the COVID-19 outbreak and its impact on agencies' third party revenue.

24 The situation is different for the Crown entities because they are predominantly funded from third party revenue – third party funding comprises 88 percent, 99.9 percent and 80 percent of the Civil Aviation Authority's (the CAA's), Aviation Security Service's (Avsec's) and Maritime New Zealand's (Maritime NZ's) total funding, respectively. Without Crown funding, these entities will become insolvent in the next few months. Consistent with provisions in the Crown Entities Act 2004 (including specifically section 51), the Boards of these agencies will need certainty of funding, for at least to the end of the 2021 financial year, to enable these organisations to continue to operate as successful going concerns.

25 Agencies face a combination of variable and fixed costs; while variable costs can be reduced in the short term, reducing fixed costs will take longer as they cannot be reduced immediately. The measures each agency is taking to manage their costs is discussed in the agency-specific sections below.

26 Border and transport Ministers will provide an update to Cabinet on the fiscal sustainability of the agencies for 2020/21, including re-forecasting the financial impacts for 2020/21 and what mitigations the agencies will make to offset the impact of forecast reduced revenue from third parties, by the end of July 2020.

27 The Treasury is aware of cost pressures faced by agencies as a result of COVID-19 and is developing advice to ministers regarding a dedicated COVID-19 fund. The new spending proposals in this paper will represent a charge against this dedicated fund.

28 The following section provides a submission prepared by each agency, setting out how COVID-19 has directly impacted the agency's baselines, and how the costs are unable to be met from existing baselines.

Ministry of Business, Innovation and Employment

29 The Ministry of Business, Innovation and Employment (MBIE) receives around half of its departmental revenue from third party fees and levies, and will be therefore be significantly impacted by decreasing economic activity and border volumes.

30 In 2018/19, of the $838 million in revenue, $408 million was from third party fees and levies, of which $226 million was from Immigration New Zealand (INZ) activities. In FY 2019/20, third party revenue from Visa fees was forecast to make up approximately two thirds of INZ's total revenue or 30 percent of MBIE's revenue base.

31 Visa volumes in February 2020 were 28 percent lower than forecast, partly driven by a 70 percent reduction in Chinese visitor visas. As a result, fee revenue was $5.8 million lower than forecast for February. In the first two weeks of March 2020 (ie, prior to the introduction on 16 March of the requirement for arriving international passengers to self-isolate for two weeks), visa volumes were 46 percent lower than forecast.

32 We expect Immigration Visa and Electronic Travel Authority (ETA) revenue to drop to close to zero in the period to 30 June 2020 and increasing demand for visa fee refunds.

33 We are also expecting a significant reduction of other third party revenue across MBIE, as economic activity declines.

Impact of COVID-19

34 The decline in fee revenue will significantly increase the visa services' memorandum account deficit. At the end of February 2020, the deficit was $56.3 million.

35 While revenue has declined, MBIE and INZ's costs remain static. While there is likely to be a reduction in the volume of activity, a large portion of MBIE's cost base is fixed and will not decrease quickly. Included within these costs is $1.48 million per month for INZ's Beijing office, which has been closed since 24 January 2020.

36 INZ's budget makes up 48 percent of the total MBIE budget. The implications of this dramatic decline in visa fee revenue therefore have an impact far beyond INZ's border and visa processing functions.

37 MBIE's current cash reserves are $140 million (including monies owed from the Crown). In addition to Immigration Visa and ETA revenue dropping to close to zero, MBIE's other third party revenue streams are likely to significantly decrease over the short- to medium-term.

38 In developing our cash requirements we are assuming an 80 percent reduction in third-party revenue, although there is still a high level of uncertainty. As such, the decline on MBIE's cash reserves may be significant and immediate. Putting in place measures to mitigate this risk in the short term would be prudent. We are therefore seeking approval for a Capital injection facility of up to $100 million to enable us to have sufficient cash reserves to maintain the ability to cover our expenses.

39 This is a highly uncertain estimate, so MBIE has taken a conservative approach to ensure that it has access to cash reserves to meet one month of expenses ($75 million) until the end of June 2020.

40 We will only draw down on this facility should it be required. MBIE will endeavour to maintain the bank account at one month's worth of expenses.

41 MBIE will request the cash through standard processes with the Treasury. MBIE will work with the Treasury to ensure that only what is required is provided so that MBIE does not carry unnecessary cash reserves.

42 We also seek agreement that any balance of the departmental capital injection utilised as at 30 June 2020 be available for transfer to the 2020/21 financial year, to ensure that funding is available to meet any ongoing shortfalls. This will enable MBIE to utilise unspent funding in the next financial year, should it be required.

Possible steps to manage financial impacts

43 In line with the Treasury guidance, MBIE is currently considering options for reducing operating costs. However, the fixed nature of the cost base means that any decreases to operating costs would not be sufficient to offset the revenue decline in the short term. There will be immediate cost savings in areas like travel, contractors and consultants as some projects are paused or stopped altogether. In addition to this, there is a recruitment freeze for activity outside of the response and essential services.

44 We are actively redeploying some employees to support essential functions, such as the Ministry of Health's contact tracing work and the all-of-Government response.

What MBIE needs to keep going

45 MBIE is seeking a $100 million capital injection from the Crown in order to provide operational certainty and maintain expense levels until 30 June 2020. The sudden fall in MBIE's third party revenue has led to the urgency of this request.

46 MBIE is working on the assumption of maintaining current expenditure levels for the short-term. However, once the immediate crisis has passed, consideration will need to be given to ongoing cost reduction as the medium- to long-term impacts become more certain.

47 Further analysis will be required to assess any medium- to long-term policy adjustments required, impacts on memorandum accounts, and changes to any fees and levies.

Ministry for Primary Industries

48 Cost recovery plays a significant role in funding services critical to protecting New Zealand's biodiversity and the success of the primary industries. Prior to COVID-19, around $230 million (approximately 30 percent) of MPI's departmental funding was forecast to come from cost recovery. More than half of this funding ($118 million) was forecast to come from border biosecurity fees and levies.

49 Approximately 95 percent of MPI's border biosecurity services are funded through levies and direct charges on arriving travellers and importers of goods. In recent years the level of investment in this area has increased, largely to fund investment in new technology and increase staff capability and retention.

50 To ensure ongoing costs can be met, MPI has consulted on proposals to increase fees and levies for border biosecurity from 1 July 2020 ($12.7 million increase for arriving passengers and $10.2 million increase for goods). The Cabinet Economic Development Committee was due to consider these increases on 18 March 2020, but the item was deferred. Separately, on 18 March 2020, the Ad Hoc Cabinet Committee on COVID-19 Response agreed to the suspension of funding reviews across all aviation and border agencies for the next 12 months [CVD-20-MIN-0010 refers].

Impact of COVID-19

Border biosecurity for travellers arriving

51 Based on the modelled reduction in traveller arrivals, there would be a shortfall in forecast revenue of approximately $18.0 million for the four months to 30 June 2020. Without intervention, the memorandum account would be approximately $30.4 million in deficit for these services.

Border biosecurity for goods arriving

52 Based on the modelled reduction of incoming goods, there would be a shortfall in forecast revenue of approximately $4.9 million by 30 June 2020. Without intervention the memorandum account balance would be approximately $10.4 million in deficit for these services.

Managing the financial impact on MPI to 30 June 2020

53 At the end of February 2020, the total deficit across memorandum accounts was $23.4 million. Based on the above scenarios, MPI would see an overall reduction of $22.9 million in forecast revenue for border biosecurity services over the four months to June 2020.

54 At the end of February 2020, MPI's cash balance was $53.5 million. While the impact on funding for border biosecurity is informed by the forecasts modelled in this paper, the impact on third party revenue across other MPI systems is less certain. The impact of COVID-19 on top of other ongoing pressures on the primary sector, such as drought, may cause a significant reduction in revenue in the short term.

55 We are working on the assumption of maintaining current expenditure levels for the short term while adopting a considered approach to cost reduction as we become more aware of medium to long term impacts.

56 To provide operational certainty and meet expenses levels until 30 June 2020, MPI is seeking a $60 million capital injection from the Crown.

57 To help manage operating costs in the short term, Biosecurity New Zealand has deferred recruitment of up to 36 staff. Biosecurity New Zealand is also looking at other ways of reducing costs, while maintaining robust border biosecurity. This includes renegotiating service contracts, using staff for other services where appropriate and reducing leave liability.

New Zealand Customs Service

58 The New Zealand Customs Service (Customs) receives approximately 61 percent of its departmental revenue from third party fees and levies and will be significantly impacted by decreasing economic activity and border volumes.

59 In 2018/19, of Customs' $201 million revenue, $124 million was from third party fees and levies, of which $66m was for Border Clearance Levies, $43 million was for Import Entry Transaction Fees and $15 million for Goods Cost Recovery. In FY 2019/20, third party revenue from these fees and levies was forecast to make up approximately $132 million or 61 percent of Customs' total revenue.

Impact of COVID-19

60 Based on the modelled reduction in traveller and goods volumes crossing the border, Customs is forecasting that there would be a shortfall in forecast revenue of approximately $30 million for the four months to 30 June 2020. Without intervention, Customs' cash position falls below a manageable level in May and June.

61 In particular, the impact on the Border Clearance Levy memorandum account is significant. The account will move from a forecast deficit of $8 million to approximately $28 million by 30 June 2020.

Managing the financial impact on Customs to 30 June 2020

62 Customs is currently forecasting that expenditure will come in close to budget at year end. Year to date the department is under budget by approximately $4 million and this has been applied to manage the forecast shortfall in revenue. Customs will continue to reprioritise activities and investment decisions as they become more aware of the medium- to long-term impacts.

63 To help manage operating costs in the short term, Customs is deferring recruitment except for essential roles and is redeploying staff across the organisation in the first instance. Recruitment of entry front line staff roles has been suspended for now. Other opportunities to manage operating costs include slowing investment projects where possible, using staff for other services where appropriate and reducing leave liability. Customs' focus remains maintaining robust border protection services.

64 Customs will restrain activity, redeploy staff and review all expenditure to reduce costs in an effort to contribute as much as possible to the changing environment. Customs has made significant investments in the training of its workforce, and has invested in specialist and technical skills. s 9(2)(g)(i) OIA [redacted]

65 To provide operational certainty and meet expenses levels until 30 June 2020, Customs is seeking a $30 million capital injection from the Crown.

Consequential Decisions to Defer Changes to Customs' Charges at the Border

66 Customs has some changes to its border charges pending. The decision to suspend all funding reviews across border and aviation agencies for 12 months defers the process of setting the Border Clearance Levy (BCL) rate for passenger clearance.

67 The Customs and Excise (Border Processing Levy) Order 2015 provides Customs with the authority to fully recover its costs of processing international travellers through the BCL. Under the Order, Customs is required to set the levy rates, according to a set methodology, before the commencement of the next levy period on 1 July 2021.

68 Prior to the formal suspension of funding reviews, I asked officials that this review be deferred by amending the Order and that no adjustments are made to levy rates before 1 December 2021. I am also recommending that the Order be amended to allow flexibility in setting the duration of the levy period.

69 To align with the suspension of funding reviews, I recommend deferring the implementation of changes related to Customs' goods clearance fees, Customs' hourly rate and recovery of costs of services on behalf of intellectual property rights holders, set to take effect from 1 June 2020 [CAB-19-MIN-0334 refers], for 12 months.

70 s 9(2)(d) OIA [redacted]

71 However, I propose that one aspect relating to the goods clearance fees proceed: that Customs ceases to require a $5,000 security from intellectual property rights holders. This removes a financial barrier to rights-holders seeking to protect their intellectual property rights.

Civil Aviation Authority (incl the Aviation Security Service)

72 The CAA operates two business arms: the CAA (the regulatory function of the Authority); and the Aviation Security Service (Avsec). The Civil Aviation Act 1990 requires that both operate using separate accounts. Both functions are funded predominantly by passenger-based safety or security levies, fees and charges.

73 Both the CAA and Avsec are fixed cost operations, with the majority of costs being staff. Operational savings have been estimated and included in the analysis below.

Key Assumptions

74 In estimating the impacts of COVID-19, the Authority has assumed that the revenue it currently receives through appropriations for activities such as policy advice, ministerial servicing, rules development, amongst others, will continue at current levels in 2019/20 and 2020/21.

75 Finally, the Authority has assumed that much of its non-passenger based income will also significantly decline as a consequence of the flow-on effects in the aviation sector of declining passenger numbers.

Impacts of COVID-19

76 Neither the CAA or Avsec are funded by appropriation for the core regulatory and security service functions; and neither operate memorandum accounts. Their functions are funded largely by the number of passengers travelling on international and domestic services. Consequently, the primary impact of COVID-19 has been a dramatic drop in operating revenue. Both are drawing down reserves, which are estimated to be exhausted by May 2020. After that date, both are technically insolvent without some form of Crown funding injection.

77 For the CAA, the primary operational impact is a significant increase in work load associated with responding to sector requirements for changes in operational practices in order to remain compliant with Civil Aviation Rules requirements. The changes are managed through exemptions processes. For example, pilots of larger commercial aircraft are required to undertake regular training in simulators to retain their licences — New Zealand does not have simulators, so to maintain currency the CAA is having to assess alternative schemes for each operator to ensure safety risks are not introduced to aviation system.

78 For Avsec, the number of passengers being screened has reduced rapidly. However, other activities need to be sustained (eg, aerodrome security functions, goods screening functions, etc). Avsec is reconfiguring the way it uses its existing workforce and suspending recruitment activity to address these changes.

Revenue Impacts and Mitigations

Civil Aviation Authority

79 The CAA is funded by a mixture of safety levies and other fees and charges. The majority of its revenue comes from the International Passenger Safety (23 percent) and the Domestic Passenger Safety (45 percent) levies. As at 1 March 2020 the CAA held uncommitted reserves of $8.5m. The CAA has identified operational savings of approximately $430k for the remainder of the 2019/20 financial year and of approximately $2.57m for the 2020/21 financial year. Taking account of these savings, its rate of expenditure is projected to be approximately $4.1m per month. This means under the most likely passenger volume reduction scenario the CAA's cash reserves will be exhausted by early May 2020 and the operation will be technically insolvent without a cash injection.

Aviation Security Service

80 Avsec is funded predominantly by security levies. The majority of its revenue comes from the International Passenger Security Levy on *outbound passengers* (64 percent) and the Domestic Passenger Security Levy (34 percent). As at 1 March 2020, Avsec held uncommitted reserves of $19m. Avsec has identified operational savings of approximately $1.4m for the remainder of the 2019/20 financial year and of approximately $10.7m for the 2020/21 financial year. Taking account of these savings, its rate of expenditure is projected to be approximately $12.1m per month. This means under the most likely passenger volume reduction scenario Avsec's cash reserves will be exhausted by early May 2020, and the operation will be technically insolvent without a cash injection.

What is needed to keep going

81 To ensure the ongoing financial viability of the Authority, an operating cash injection is required. The table below summarises the amount required on a month-by-month basis.

The CAA — operating cash injection required (to maintain solvency only)		
Period 1 May to 30 June 2020 – 2 months	**Period 1 July 2020 to Dec 2020**	**Period 1 Jan 2021 to 30 June 2021**
$3.7m per month	$3.3m per month	$2.8m per month
Avsec — operating cash injection required (to maintain solvency only)		
Period 1 May to 30 June 2020 – 2 months	**Period 1 July 2020 to Dec 2020**	**Period 1 Jan 2021 to 30 June 2021**
$10.8m per month	$11.4m per month	$10.4m per month

82 The table below summarises the funding required by financial year:

The CAA			Avsec		
2019/20 Financial Year	**2020/21 Financial Year**	**Comments**	**2019/20 Financial Year**	**2020/21 Financial Year**	**Comments**
$7.4m	$36.6m	Assumes non-repayable cash operating injection	$21.6m	$130.8m	Assumes non-repayable cash operating injection

Maritime New Zealand

83 Maritime NZ operates three separate entities (Regulatory and Compliance, Rescue Coordination and Marine Pollution Response) with overall annual revenue of $70.2 million. Of this 72 percent is funded through third party maritime and oil pollution levies and fees that are being affected by COVID-19.

84 Maritime NZ's foreign levy regime is based on actual port visits (cargo, passenger, vessel) whilst the domestic regime (which includes maritime tourism operators) use the same characteristics and is levied annually in June for the year ahead.

85 A large proportion of Maritime NZ costs are fixed and relate to staff costs. It has been assumed that current bids for funding of $7.8 million (13 percent) of Crown funding for current baseline activity in 2020/21 will be approved to ensure continuity of funding (Working Safer levy, Fuel Excise Duty s9(1) and Transport Rules programme).

86 Both Maritime's border revenue and non-border revenue are critical to maintaining its core regulatory and response functions. Port visit statistics since late February are indicating a sustained 20 percent reduction in activity (Scenario 1).

Impact of COVID-19

87 Maritime NZ's overall current exposure through to the end of FY2019/20:

- is estimated at $3.4 million (based on Scenario 1)
- could be up to $6.2 million if the foreign cargo visits decline beyond 25 percent (Scenario 2).

88 Maritime NZ's estimated revenue exposure for FY2020/2:

- is $18.4 million (based on Scenario 1)
- could be up to $34 million if there are significant border restrictions in place throughout 2020/21 (Scenario 2).

89 Maritime NZ notes that there would be further adverse financial impacts beyond Scenario 2 if there were full border or port closures.

Managing the financial impacts

90 Maritime NZ maintains an operating reserve of between $5m and $8m which would fund its standard operations for a period of up to 2 months before being depleted. On this basis, the going concern principle of continuity will be unable to be satisfied in the absence of funding assistance from the Crown.

91 Maritime NZ is taking all practical steps to scale back discretionary expenses with urgency including managing down recruitment and projects.

What Maritime NZ needs to keep going

92 To maintain core maritime regulatory and response capability, Maritime NZ requires access to non-repayable supplementary funding estimated at $41 million over the remainder of FY2019/20 and FY202/21.

Financial Implications

93 The proposals in this paper seek Cabinet's agreement to additional funding for border and transport agencies affected by COVID-19, of up to $190 million capital and $236.6 million operating.

94 The $190 million capital will be in the form of capital injections to affected border departments in 2019/20, while the $236.6 million operating will take the form of a non-departmental output expense multi-year appropriation for purchase of services in 2019/20 and 2020/21 from transport agencies where these are not able to be cost recovered as a result of COVID-19.

95 To the extent each department experiences a reduction in third party revenue, there will be a corresponding impact on its operating balance, and therefore on the overall Crown's operating balance and net core Crown debt.

96 The proposed purchase of services from transport agencies will impact the operating balance and net core Crown debt.

97 It is anticipated that the proposed new funding will be charged against the new COVID-19 Notional Fund to be established as part of Budget 2020.

98 It is proposed that any balances of the proposed departmental capital injections not drawn down in 2019/20 should be available for transfer to 2020/21, subject to confirmation jointly by the relevant appropriation Minister and Minister of Finance.

99 It may be that departments face additional costs associated with capital charge in 2020/21 as a result of their proposed capital injections. If so, it is proposed that the relevant appropriation Minister and Minister of Finance jointly increase departmental baselines as necessary through the 2020 October Baseline Update process to compensate for any additional capital charge liabilities. Any such increases to departmental baselines would be fiscally neutral for the Crown.

Next steps

100 I recommend that border and transport Ministers provide an update to Cabinet on the fiscal sustainability of the agencies for 2020/21, including re-forecasting the financial impacts for 2020/21 and what mitigations the agencies will make to offset the impact of forecast reduced revenue from third parties, by the end of July 2020.

101 I also recommend that relevant Ministers report back to Cabinet by the end of November 2020, once agencies have a more firm view of what a post-outbreak rebound might look like. This report back would include proposed processes, timelines and parameters for future reviews of border and aviation fees for passengers and goods.

Legislative Implications

102 Retaining current levy rates for Customs' Border Clearance Levy past 30 June 2021, and providing for greater flexibility in setting the duration of the levy period, will require an amendment to the Customs and Excise (Border Processing Levy) Order 2015. I propose to bring a revised Order to Cabinet as soon as possible so that we can provide some clarity to industry.

Impact Analysis

Regulatory Impact Statement

103 The Treasury has determined that this is a direct COVID-19 response for which the RIA requirement is being suspended. The Treasury has worked with Customs to ensure that available relevant analysis has been included in the Cabinet paper to help inform Ministers' decisions.

Climate Implications of Policy Assessment

104 There are no specific climate implications.

Population Implications

105 There are no specific implications for population groups.

Human Rights

106 The proposals discussed in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

107 This paper has been prepared by Customs, in conjunction with MBIE, the Ministry of Transport, MPI, the CAA and Maritime NZ, and with involvement from the Treasury. The Department of the Prime Minister and Cabinet has been informed.

Communications

108 Agencies will communicate changes to cost recovery proposals to stakeholders, where applicable. Funding decisions will be communicated through the Government's financial statements.

Proactive Release

109 It is intended to proactively release this paper on Departmental websites once the matters are no longer under active consideration, subject to any appropriate withholding of information that would be justified if the information had been requested under the Official Information Act 1982.

Recommendations

On behalf of the Ministers of Economic Development, Transport, Immigration and Biosecurity, I recommend that Cabinet:

1 **note** that COVID-19 is having a significant negative impact on border and transport agencies'[3] revenue collection, through reduced volumes of international and domestic travellers, and reduced volumes of goods imports and exports;

2 **note** the negative impact on revenue will adversely impact those agencies, and therefore the overall Crown's operating balance and, in the case of departments, net core Crown debt;

3 **note** that, under modelled scenarios, departmental capital injections totalling $190 million are required to ensure affected departments remain solvent for the remainder of 2019/20, and a non-departmental output expense multi-year appropriation totalling $236.6 million over 2019/20 and 2020/21 is required to ensure affected transport agencies remain solvent through to the end of 2020/21;

4 **note** that as part of the Aviation Relief Package, Cabinet suspended all funding reviews across border and aviation agencies for 12 months [CVD-20-MIN-0010 refers];

5 **agree** to provide additional capital and operating funding as described in recommendation 3 above to affected departments and Crown entities, as set out in recommendations 6 to 16 below;

Ministry of Business, Innovation and Employment (MBIE)

6 **note** that MBIE receives around half of its departmental revenue from third party fees and levies (particularly from issuing visas), and significantly decreased border volumes and economic activity will adversely impact MBIE's already existing visa services memorandum account deficit and other revenue sources and quickly erode its cash reserves;

[3] Border and transport agencies are: the Ministry of Business, Innovation and Employment (Immigration NZ), Ministry for Primary Industries (Biosecurity NZ), Ministry of Transport (Civil Aviation Authority (incl Aviation Security Service) and Maritime NZ) and the NZ Customs Service.

7 **approve** the following capital injection to MBIE to give effect to the decision in recommendation 5 above:

	$m – increase/(decrease)				
	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24 & out-years**
Ministry of Business, Innovation and Employment: Capital Injection	100.000	-	-	-	-

Ministry for Primary Industries (MPI)

8 **note** that approximately 95 percent of MPI's border biosecurity services are funded through levies and direct charges on arriving travellers and importers of goods, and that the combined impact of significantly reduced revenues from levy-funded border biosecurity services, existing memorandum account deficits, and ongoing pressures on the primary sector (such as drought) will quickly erode MPI's cash reserves;

9 **approve** the following capital injection to MPI to give effect to the decision in recommendation 5 above:

	$m – increase/(decrease)				
	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24 & out-years**
Ministry for Primary Industries: Capital Injection	60.000	-	-	-	-

New Zealand Customs Service (Customs)

10 **note** that Customs receives approximately 61 percent of its departmental revenue from third party fees and levies and, on the basis of significant reductions in volumes of travellers and goods crossing the border, will face a $30 million shortfall in forecast revenue for the four months to 30 June 2020 and a balance sheet position falling below a manageable level by May 2020;

11 **approve** the following capital injection to Customs to give effect to the decision in recommendation 5 above:

	$m – increase/(decrease)				
	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24 & out-years**
New Zealand Customs Service: Capital Injection	30.000	-	-	-	-

Civil Aviation Authority (CAA), Aviation Security Service (Avsec) and Maritime New Zealand (Maritime NZ)

12 **note** that CAA is funded by a mixture of safety levies and other fees and charges, and Avsec predominantly by security levies, and that under the most likely passenger volume reduction scenario both of these Crown entities' cash reserves will be exhausted by early June 2020 and their operations technically insolvent without a cash injection;

13 **note** that 56 percent of Maritime NZ's levy revenue derives from variable border levy revenue from visiting passenger and cargo vessels, and domestic operators, and that under current scenarios Maritime NZ will be technically insolvent around July/August 2020 without a cash injection;

14 **agree** to establish the following new multi-year appropriation, to run from 1 April 2020 to 30 June 2022:

Vote	Appropriation Minister	Title	Type	Scope
Transport	Minister of Transport	Protection of Transport Sector Agency Core Functions	Non-Departmental Output Expense	This appropriation is limited to purchase of core services from the Civil Aviation Authority (including Avsec) and Maritime New Zealand that are no longer able to be cost-recovered from third parties as a result of COVID-19.

15 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 5 above, with a corresponding impact on the operating balance and net core Crown debt:

	$m – increase/(decrease)		
Vote Transport **Minister of Transport**	**2019/20/ to 2021/22**	**2022/23**	**2023/24 & out-years**
Non-Departmental Output Expense: Protection of Transport Sector Agency Core Functions	236.600	-	-

16 **note** that the indicative spending profile for the new multi-year appropriation described in recommendation 15 above is as follows:

	$m – increase/(decrease)				
Indicative annual spending profile	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24 & out-years**
	35.200	201.400	-	-	-

General

17 **agree** that the proposed changes to appropriations and departmental capital injections for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

18 **agree** that the expenses and departmental capital injections incurred under recommendations 7, 9, 11 and 15 above be charged against the COVID-19 Response and Recovery Fund to be established as part of Budget 2020;

19 **agree** that any balances of capital injections for 2019/20 above that are not drawn down in 2019/20 may be transferred to 2020/21 to ensure that funding is available to meet any ongoing shortfalls, subject to joint agreement of the relevant appropriation Minister and the Minister of Finance;

20 **authorise** the relevant appropriation Minister and Minister of Finance jointly, as part of the 2020 October Baseline Update process, to increase departmental baselines as necessary to provide for any additional capital charge liabilities arising from the above capital injections, noting that any such increases to departmental baselines will be fiscally neutral for the Crown;

21 **agree** that the border and transport agencies provide information on the level of cash required to the Treasury when the cash payments are requested;

22 **note** that the capital injections for 2019/20 above are a maximum and that the cash will only be drawn down as required;

Other matters and next steps

23 **invite** border and transport Ministers to provide an update to Cabinet on the fiscal sustainability of the agencies for 2020/21, including re-forecasting the financial impacts for 2020/21 and what mitigations the agencies will make to offset the impact of forecast reduced revenue from third parties, by the end of July 2020;

24 **invite** border and transport Ministers to report back to Cabinet by the end of November 2020 on what a post-outbreak rebound might look like, on proposed processes, timelines and parameters for future reviews of border and aviation fees for passengers and goods;

25 **agree** to amend the Customs and Excise (Border Processing Levy) Order 2015 to enable the current levy rates to be carried over into the new levy period starting 1 July 2021 and enable greater flexibility in setting the duration of the levy period;

26 **invite** the Minister of Customs to issue drafting instructions to the Parliamentary Counsel Office to implement the decision in recommendation 25 above;

27 **defer** the implementation of changes related to Customs' goods clearance fees, set to take effect from 1 June 2020 [CAB-19-MIN-0334 refers], for 12 months, to align with the suspension of funding reviews [recommendation 4 refers];

28 **agree** that Customs implement one of the changes related to recommendation 27 above – that Customs cease to require a $5,000 security from intellectual property rights holders;

29 s 9(2)(d) OIA [redacted]

Authorised for lodgement

Hon Jenny Salesa

Minister of Customs

Cabinet

Minute of Decision

Financial implications of COVID-19 on Border and Transport Agencies

Portfolio **Customs**

On 6 April 2020, the Cabinet:

Additional capital and operating funding

1 **noted** that:

1.1 COVID-19 is having a significant negative impact on border and transport agencies'[1] revenue collection, through reduced volumes of international and domestic travellers, and reduced volumes of goods imports and exports;

1.2 the negative impact on revenue will adversely impact those agencies, and therefore the overall Crown's operating balance and, in the case of departments, net core Crown debt;

2 **noted** that, under modelled scenarios, departmental capital injections totalling $190 million are required to ensure affected departments remain solvent for the remainder of 2019/20, and a non-departmental output expense multi-year appropriation totalling $236.6 million over 2019/20 and 2020/21 is required to ensure affected transport agencies remain solvent through to the end of 2020/21;

3 **noted** that in March 2020, as part of the Aviation Relief Package, the Ad Hoc Cabinet Committee on COVID-19 Response suspended all funding reviews across border and aviation agencies for 12 months [CVD-20-MIN-0010];

4 **agreed** to provide the additional capital and operating funding described in paragraph 2 above to affected departments and Crown entities, as set out in paragraphs 5 to 15 below;

Ministry of Business, Innovation and Employment (MBIE)

5 **noted** that MBIE receives around half of its departmental revenue from third party fees and levies (particularly from issuing visas), and that significantly decreased border volumes and economic activity will adversely impact MBIE's already existing visa services memorandum account deficit and other revenue sources and quickly erode its cash reserves;

[1] Border and transport agencies are: the Ministry of Business, Innovation and Employment (Immigration NZ), Ministry for Primary Industries (Biosecurity NZ), Ministry of Transport (Civil Aviation Authority (incl Aviation Security Service) and Maritime NZ) and the NZ Customs Service.

6 **approved** the following capital injection to MBIE to give effect to the decision in paragraph 4 above:

	$m – increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & out-years
Ministry of Business, Innovation and Employment: Capital Injection	100.000	-	-	-	-

Ministry for Primary Industries (MPI)

7 **noted** that approximately 95 percent of MPI's border biosecurity services are funded through levies and direct charges on arriving travellers and importers of goods, and that the combined impact of significantly reduced revenues from levy-funded border biosecurity services, existing memorandum account deficits, and ongoing pressures on the primary sector (such as drought) will quickly erode MPI's cash reserves;

8 **approved** the following capital injection to MPI to give effect to the decision in paragraph 4 above:

	$m – increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & out-years
Ministry for Primary Industries: Capital Injection	60.000	-	-	-	-

New Zealand Customs Service (Customs)

9 **noted** that Customs receives approximately 61 percent of its departmental revenue from third party fees and levies and, on the basis of significant reductions in volumes of travellers and goods crossing the border, will face a $30 million shortfall in forecast revenue for the four months to 30 June 2020 and a balance sheet position falling below a manageable level by May 2020;

10 **approved** the following capital injection to Customs to give effect to the decision in paragraph 4 above:

	$m – increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & out-years
New Zealand Customs Service: Capital Injection	30.000	-	-	-	-

Civil Aviation Authority (CAA), Aviation Security Service (Avsec) and Maritime New Zealand (Maritime NZ)

11 **noted** that CAA is funded by a mixture of safety levies and other fees and charges, and Avsec predominantly by security levies, and that under the most likely passenger volume reduction scenario both of these Crown entities' cash reserves will be exhausted by early June 2020 and their operations technically insolvent without a cash injection;

12 **noted** that 56 percent of Maritime NZ's levy revenue derives from variable border levy revenue from visiting passenger and cargo vessels, and domestic operators, and that under

current scenarios Maritime NZ will be technically insolvent around July/August 2020 without a cash injection;

13 **agreed** to establish the following new multi-year appropriation, to run from 1 April 2020 to 30 June 2022:

Vote	Appropriation Minister	Title	Type	Scope
Transport	Minister of Transport	Protection of Transport Sector Agency Core Functions	Non-Departmental Output Expense	This appropriation is limited to purchase of core services from the Civil Aviation Authority (including Avsec) and Maritime New Zealand that are no longer able to be cost-recovered from third parties as a result of COVID-19.

14 **approved** the following changes to appropriations to give effect to the policy decision in paragraph 4 above, with a corresponding impact on the operating balance and net core Crown debt:

	$m – increase/(decrease)		
Vote Transport Minister of Transport	2019/20/ to 2021/22	2022/23	2023/24 & out-years
Non-Departmental Output Expense: Protection of Transport Sector Agency Core Functions	236.600	-	-

15 **noted** that the indicative spending profile for the new multi-year appropriation described in paragraph 14 above is as follows:

	$m – increase/(decrease)				
Indicative annual spending profile	2019/20	2020/21	2021/22	2022/23	2023/24 & out-years
	35.200	201.400	-	-	-

General

16 **agreed** that the changes to appropriations and departmental capital injections for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

17 **agreed** that the expenses and departmental capital injections incurred under paragraphs 6, 8, 10 and 14 above be charged against the COVID-19 Response and Recovery Fund to be established as part of Budget 2020;

18 **agreed** that any balances of capital injections for 2019/20 above that are not drawn down in 2019/20 may be transferred to 2020/21 to ensure that funding is available to meet any ongoing shortfalls, subject to the joint agreement of the Minister of Finance and relevant appropriation Minister;

19 **authorised** the Minister of Finance and relevant appropriation Minister jointly, as part of the 2020 October Baseline Update process, to increase departmental baselines as necessary to provide for any additional capital charge liabilities arising from the above capital injections, noting that any such increases to departmental baselines will be fiscally neutral for the Crown;

20 **agreed** that the border and transport agencies provide information on the level of cash required to the Treasury when the cash payments are requested;

21 **noted** that the capital injections for 2019/20 above are a maximum and that the cash will only be drawn down as required;

Other matters and next steps

22 **invited** the Minister of Economic Development, Minister of Transport, Minister of Customs, Minister of Immigration, and Minister for Biosecurity (border and transport Ministers) to provide an update to Cabinet by 31 July 2020 on the fiscal sustainability of the agencies for 2020/21, including re-forecasting the financial impacts for 2020/21 and what mitigations the agencies will make to offset the impact of forecast reduced revenue from third parties;

23 **invited** border and transport Ministers to report back to Cabinet by 30 November 2020 on what a post-outbreak rebound might look like, on proposed processes, timelines and parameters for future reviews of border and aviation fees for passengers and goods;

24 **agreed** to amend the Customs and Excise (Border Processing Levy) Order 2015 to enable the current levy rates to be carried over into the new levy period starting 1 July 2021 and enable greater flexibility in setting the duration of the levy period;

25 **invited** the Minister of Customs to issue drafting instructions to the Parliamentary Counsel Office to implement the decision in paragraph 24 above;

26 s 9(2)(d) OIA [redacted]

27 **agreed** to defer the implementation of changes related to Customs' goods clearance fees, outlined in paragraph 26 above, for 12 months to align with the suspension of funding reviews noted in paragraph 3 above;

28 **agreed** that Customs implement one of the changes related to paragraph 26 above – that Customs cease to require a $5,000 security from intellectual property rights holders;

29 s 9(2)(d) OIA [redacted]

Michael Webster
Secretary of the Cabinet