



## **Border Clearance Levy**

# **Performance report for the year to 30 June 2017, and proposed levy rates beginning 1 July 2018**

Prepared by the New Zealand Customs Service and Ministry for Primary Industries.

Prepared December 2017

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## EXECUTIVE SUMMARY

The Border Processing Levy, also known as the Border Clearance Levy (the Levy), came into force on 1 January 2016. The purpose of the Levy is to ensure that the New Zealand Customs Service (Customs) and the Ministry for Primary Industries (MPI) are resourced to manage risks at the border effectively.

At current rates the Levy represents a very small proportion of the total costs of travel, but it ensures that the right resources are in place to keep New Zealand safe from biosecurity and Customs' risks and maintain levels of service. The shift in the source of revenue from the Crown to travellers also reflects that those who present risks to the security of our borders should pay for the services required to manage those risks.

The Levy has enabled agencies to invest in improvements to border services through continued investment in technology and staff capability. The Levy will enable ongoing investment in border services.

Customs has continued the roll-out of SmartGate, more than doubling the number of gates over the last 18 months and continuing investment in technological development to streamline border processes. This has led to an almost 30% increase in the number of travellers using SmartGate.

MPI has made changes to the operating model for clearance relating to the cruise travellers. Cruise operators can now participate in an accreditation programme, which focusses on enhancing on-board risk management activities and enables more efficient processing of travellers on-wharf.

Service performance is strong, despite significant and sustained growth in traveller numbers. Customs and MPI also expect demand for border services to continue to grow over the forecast period.

Consideration is currently being given in both agencies to the implications of the growth in numbers, combined with the changing risk profile as the flow of travellers becomes increasingly diverse, which may require further technology investments and other changes in operating models to improve the traveller experience and safeguard New Zealanders.

During the initial levy period, growth in traveller numbers has led to revenues above the levels anticipated when the Levy rates were first set. This, along with careful management of expenditure, has resulted in memorandum account surpluses as at 30 June 2017, with a Customs' surplus of \$8.55 million and MPI surplus of \$7.74 million.

These are forecast to grow further to \$11.55 million and \$9.55 million respectively by 30 June 2018, and have been taken into account in the review of the rates.

The Levy is scheduled for review and reset from 1 July 2018.

Customs' non-cruise levy rates have dropped by \$1.02 and \$0.37 for arrivals and departures respectively. This has been achieved through increased SmartGate capacity, efficiencies gained through smarter deployment of resources and the return of the accumulated surplus related to the non-cruise costs and revenues in the memorandum account.

Customs' cruise levy rates have increased by \$2.90 and \$1.00 for arrivals and departures respectively. This is due to forecasted accumulated cruise related deficits in the memorandum account to 30 June 2018 and also the removal of initial Crown funding to cap the Levy below the maximum rates.

While one memorandum account is reported on in the annual report for the Customs' Border Clearance Levy, cruise and non-cruise revenues and expenditure are separately tracked to ensure there is no cross subsidisation between them when levy rates are reset.

MPI's non-cruise levy rate has dropped by \$1.08 for arrivals. This is due to volumes exceeding forecasts for the period and costs not increasing at the same rate. MPI's cruise levy rate has dropped by \$6.86 for arrivals. This is largely due to the introduction of MPI's cruise accreditation scheme during the summer of 2016/17. This has meant that costs were lower than originally forecast for the current levy period and going forward.

The proposed combined Customs and MPI rates, will be reduced by approximately 13% for both cruise travellers and non-cruise (air and private vessels) travellers.

# 1 INTRODUCTION

## 1.1 PURPOSE OF THIS REPORT

The New Zealand Customs Service (Customs) and the Ministry for Primary Industries (MPI) report annually on the performance of the Border Clearance Levy (the Levy). This report is one of the ways in which Customs and MPI provide transparency and accountability for performance in the operation of the Levy.

This report has two parts:

- Part A details the actual financial results and non-financial performance for the full 2016/17 year
- Part B sets out updated agencies forecasts for 2017/18 and out-years, and proposed rates for the next levy period to commence from 1 July 2018.

## 1.2 BACKGROUND

Customs and MPI are the border agencies that are primarily responsible for processing individuals (both travellers and crew) that arrive in New Zealand. Customs has primary responsibility for processing travellers departing from New Zealand. Customs and MPI work together, along with other border agencies, to manage risk at the border.

Border clearance activities are primarily funded through the Levy. The Levy was first implemented on 1 January 2016 and is paid by all travellers entering or departing New Zealand not subject to specific exemptions.

### 1.2.1 Legislative authority

The Levy is authorised by section 288B of the Customs and Excise Act 1996 and section 140AA of the Biosecurity Act 1993.

The Levy is given effect by the:

- Biosecurity (Border Processing Levy) Order 2015.
- Customs and Excise (Border Processing Levy) Order 2015.

Levy rates are set (up to prescribed maximums) according to formula set out in the Levy Orders. Rates are set by the Comptroller of Customs and the Director-General of MPI and must be notified in the New Zealand Gazette prior to the commencement of the next levy period.

The initial levy period was set to expire on 30 June 2018. For Customs, subsequent levy periods are currently defined as the 36 month period commencing on 1 July following the previous levy period. For MPI, subsequent levy periods are currently defined as any 12 month period commencing on 1 July and concluding on 30 June the following year.

### 1.2.2 Activities funded by the levy

The Levy provides funding for a range of activities carried out by Customs and MPI for the purpose of clearing travellers. The specific activities that the Levy funding is used for are detailed in Appendix 1.

### 1.2.3 Memorandum accounts

Customs and MPI both use memorandum accounts to transparently record expenditure and revenue associated with the Levy. Revenue and expenditure are monitored on a monthly basis, and reported annually via this report, but also in the Annual Reports that public sector agencies are required to table in Parliament in accordance with the requirements of the Public Finance Act 1989.

### 1.2.4 Current levy rates

Current levy rates are specified in Levy Orders and are detailed in Table 1 below.

**Table 1: Current levy rates (excl. GST)**

	Customs	MPI	Total
<b>For travellers other than a cruise ship traveller</b>			
- Arrivals	\$7.45	\$8.38	\$15.83
- Departures	\$2.93	-	\$2.93
<b>For cruise ship travellers</b>			
- Arrivals	\$7.50	\$12.20	\$19.70
- Departures	\$3.10	-	\$3.10

### 1.2.5 Treatment of exemptions

Levy Orders also set out a number of exemptions to paying the Levy.

There are two classes of exempt travellers:

- Levy funded exempt travellers – the costs of these travellers are met through the Levy.
- Non-levy funded travellers – the costs of these travellers are met by the Crown.

Definitions of exempt travellers in both categories are provided at Appendix 2.

Traveller volumes which are used in levy calculations are those for **levied travellers only**. All other volumes (e.g. travellers under two years old, prepaid and other non-levy funded travellers) are excluded from calculations.

## 1.3 WIDER REVIEW OF THE LEVY

In addition to setting levy rates, both Customs and MPI will periodically undertake a more fundamental review of the operation of the Levy. Both agencies are currently reviewing their wider cost recovery principles and activities. This work will inform future reviews of the Levy's policy components.

This work will progress in 2018 and at this stage agencies expect that any recommendations arising from that review will be made to Ministers in the second half of 2018, and target implementation from 1 July 2019. The review will include ongoing consideration of the scope of activities funded by the Levy and consider aligning MPI's and Customs' levy rate review periods.

Consultation on any proposed changes to policy settings will be undertaken with interested and affected parties in accordance with the requirements of Section 288B(4) of the Customs and Excise Act 1996 and Section 140AA (4) of the Biosecurity Act 1993.

## 2 PART A – 2016/17 LEVY PERFORMANCE

### 2.1 FINANCIAL PERFORMANCE

#### 2.1.1 Traveller volumes

Traveller volumes have seen significant growth over the initial levy period. In 2016/17 eight new international airlines introduced new services to New Zealand.

The current levy rates were calculated based on a forecast of 30 million travellers over the initial 30-month levy period (1 January 2016 to 30 June 2018). Actual results to the end of 2016/17 are 13.3 million (an increase of 9.4% on 2015/16 results). Actual traveller volumes for the 18 month initial levy period are provided in Table 2 below. (Note: all traveller numbers provided in this report exclude any crew.) Full year volumes for 2015/16 are also provided for comparison with subsequent years, even though the Levy came into force mid-year.

**Table 2. Actual travellers (excl. crew) 2015/16 – 2016/17 (000's)**

	2015/16 Jan-Jun	2015/16 Full Year <sup>1</sup>	2016/17 Full Year
<b>Non-cruise travellers</b>			
<b>Arrivals</b>			
- Levied passengers	1,849	4,795	6,316
- < two years old	33	74	81
- Prepaid	1,053	1,053	81
<b>Total non-cruise arrivals</b>	<b>2,935</b>	<b>5,922</b>	<b>6,478</b>
<b>Departures</b>			
- Levied passengers	1,885	4,662	6,257
- < two years old	34	73	80
- Prepaid	1,120	1,111	72
<b>Total non-cruise departures</b>	<b>3,039</b>	<b>5,846</b>	<b>6,409</b>
<b>Cruise-ship travellers</b>			
<b>Arrivals</b>			
- Levied passengers	26	82	192
- < two years old	-	-	-
- Prepaid	107	107	-
<b>Total cruise arrivals</b>	<b>133</b>	<b>189</b>	<b>192</b>
<b>Departures</b>			
- Levied passengers	25	68	191
- < two years old	-	-	-
- Prepaid	107	107	-
<b>Total cruise departures</b>	<b>132</b>	<b>175</b>	<b>191</b>
Total arrivals	3,068	6,111	6,670
Total departures	3,171	6,021	6,600
<b>Total travellers</b>	<b>6,239</b>	<b>12,132</b>	<b>13,270</b>

<sup>1</sup> The totals for 2015/16 include the first six months of the financial year before the levy was in effect.

## 2.1.2 Expenditure on border clearance services

One of the key policy reasons for the Levy was to ensure that agencies had a funding mechanism that could keep pace with increases in the volume of travellers, and allow investment to enhance border services.

Both agencies have focussed on delivering improved customer experience at the border. For Customs this has been reflected in the development of SmartGate – 2016/17 saw the continued roll-out of these at airports, progressively putting in place 29 new gates as well as replacing the 22 existing gates with the new technology. During 2016/17 the number of travellers using SmartGate increased 29% over the prior year, an increase of 1.3 million travellers.

In early 2016/17 the two agencies formed a Joint Border Analytics team to use data modelling techniques to better inform border risk and target interventions. The first joint project, focusing on identifying risk and enabling facilitation in arriving air travellers, commenced in 2016/17.

In 2016/17 MPI changed the operating model for clearance relating to the cruise travellers, encouraging cruise operators to participate in an accreditation programme. This focusses on enhancing on-board risk management activities, and enables more efficient processing of travellers on-wharf. As a consequence of increased volumes and investment in these types of improvements, total expenditure on border services for both agencies has increased.

Agencies are also focussed on improvements to efficiency. In partnership with the cruise industry, MPI has made changes to the operating model for clearance relating to the cruise travellers. Cruise operators can now participate in an accreditation programme, which focusses on enhancing on-board risk management activities and enables more efficient processing of travellers on-wharf. The first year operating under the new model indicates improved biosecurity outcomes, as well as a reduction in the costs of providing services to the cruise sector.

Customs' border clearance activity is primarily individual traveller, rather than vessel based. Therefore it is not possible for Customs to adopt the MPI model for clearing of cruise travellers. Customs will continue to investigate opportunities to make efficiencies in the cruise traveller clearance process, including trusted traveller programmes and the use of technologies similar to SmartGates.

During 2016/17 Customs began the roll-out of its Operations Transformation Programme (OTP). This programme reshapes the operational workforce by introducing new technical roles for Senior Customs Officers to make best use of their skills, while streamlining management roles. It also delivers upskilling and increasing the capacity of experienced Customs Officers to focus on the growing priority border risks, by introducing new roles to focus on facilitation and transactional tasks, at a lower cost.

Customs has commenced the implementation of an activity based costing model, which will be delivered over the next 12 months. This will provide significantly enhanced identification of the cost drivers of the services Customs provides, and the allocation of costs to those services. This information will be used to inform fee setting and reporting for the Levy and other cost recovered services.

A breakdown of costs by pathway is provided in Table 3 below.

**Table 3. Cost breakdown (excl. GST) actual 2015/16 – 2016/17 (\$m)**

	Customs		MPI	
	2015/16 Jan-Jun	2016/17 Actual	2015/16 Jan-Jun	2016/17 Actual
Non-cruise	17.42	58.07	15.03	47.81
Cruise	0.69	2.29	0.24	2.07
Crown	12.07	5.81	10.10	1.21
<b>Total expenditure</b>	<b>30.18</b>	<b>66.17</b>	<b>25.37</b>	<b>51.09</b>

A more detailed breakdown of costs for the two agencies is contained in Appendix 3.

### 2.1.3 Revenue

Both agencies develop revenue projections based on forecast numbers of leviable travellers, and the current levy rates.

Crown revenue is used to fund the impact of the cap on the rate for cruise travellers in the initial period and those travellers that had already paid prior to the initial period. It also funds non-levy funded exemptions, which is assumed to continue on the same basis.

**Table 4. Revenue (excl. GST) actual 2015/16 – 2016/17 (\$m)**

	Customs		MPI	
	2015/16 Jan-Jun	2016/17 Actual	2015/16 Jan-Jun	2016/17 Actual
Non-cruise	19.29	65.40	15.52	53.32
Cruise	0.29	2.03	0.32	2.34
Crown	-	-	10.65	2.05
<b>Total revenue</b>	<b>19.58</b>	<b>67.43</b>	<b>26.49</b>	<b>57.71</b>

MPI non-cruise revenue has been overstated by \$390,000 due to a late adjustment to the passenger numbers submitted. This adjustment is reflected in the 2017/18 forecast.

### 2.1.4 Memorandum account position at 30 June 2017

At the end of 2016/17 both agencies reported surpluses in memorandum accounts.

- For Customs, the surplus is \$8.55 million. This equates to 9.8% of levy revenue collected over the initial levy period.
- For MPI, the surplus is \$7.74 million. This equates to 9.2% of total revenue over the initial levy period.

A breakdown of the movements in accounts is provided in Tables 5a and 5b below.

**Table 5a. Customs memorandum account movement (\$m excl. GST)**

	<b>Opening balance</b>	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (deficit)</b>	<b>Closing balance</b>
<b>2015/16</b>					
Non-cruise	-	19.29	17.42	1.87	1.87
Cruise	-	0.29	0.69	(0.40)	(0.40)
<b>Total account</b>	<b>-</b>	<b>19.58</b>	<b>18.11</b>	<b>1.47</b>	<b>1.47</b>
<b>2016/17</b>					
Non-cruise	1.87	65.40	58.07	7.34	9.21
Cruise	(0.40)	2.03	2.29	(0.26)	(0.66)
<b>Total account</b>	<b>1.47</b>	<b>67.43</b>	<b>60.36</b>	<b>7.08</b>	<b>8.55</b>

Expenditure in the Customs memorandum account is net of the amount funded by Crown revenue.

**Table 5b. MPI memorandum account movement (\$m excl. GST)**

	<b>Opening balance</b>	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (deficit)</b>	<b>Closing balance</b>
<b>2015/16</b>					
Non-cruise	-	15.52	15.03	0.49	0.49
Cruise	-	0.32	0.24	0.08	0.08
Crown	-	10.65	10.10	0.55	0.55
<b>Total account</b>	<b>-</b>	<b>26.49</b>	<b>25.37</b>	<b>1.12</b>	<b>1.12</b>
<b>2016/17</b>					
Non-cruise	0.49	53.32	47.81	5.51	6.00
Cruise	0.08	2.34	2.07	0.27	0.35
Crown	0.55	2.05	1.21	0.84	1.39
<b>Total account</b>	<b>1.12</b>	<b>57.71</b>	<b>51.09</b>	<b>6.62</b>	<b>7.74</b>

## 2.2 NON-FINANCIAL PERFORMANCE

Customs and MPI have developed non-financial performance measures for the Levy. The results against these measures for the 2016/17 financial year are shown in Table 6 below.

Customs and MPI will further develop these non-financial measures in the three broad areas of risk management (compliance and enforcement), traveller experience, and cost effectiveness/efficiency, across both the commercial airline and cruise pathways. This may include joint Customs/MPI measures in the future, and/or measures for other craft. As further measures are developed, these will be included alongside existing measures in future reports.

**Table 6. Performance measures**

**Customs measures:**

<b>Performance Measure</b>	<b>Target</b>		<b>2015/16 Actual</b>	<b>2016/17 Actual</b>
% of arriving international air passengers satisfied or very satisfied that Customs provides a friendly welcome to New Zealand	Equal to or more than 80% of those surveyed	✓	n/a	85.7%
% of international air passengers satisfied or very satisfied that Customs processes passengers quickly and conveniently	Equal to or more than 77% of those surveyed	✓	85.7%	82.7%
% of arriving international air passengers who exit Customs' primary processing points within 45 minutes of arrival	Equal to or more than 90%	✓	95.5%	94.3%
% of arriving international air passengers who trust Customs	Equal to or more than 85%	✓	n/a	94.0%
% of arriving international air passengers that find the information provided by Customs helpful	Equal to or more than 85%	✗	n/a	82.7%
% of arriving international air passengers and crew who are deemed compliant based on risk assessment and facilitated without further intervention	Equal to or more than 90%	✓	n/a	94.3%

**MPI measures:**

<b>Performance Measure</b>	<b>Target</b>		<b>2015/16 Actual</b>	<b>2016/17 Actual</b>
% of international air passengers that comply with biosecurity requirements by the time they leave the airport	Equal to or more than 98.5%	✓	98.7%	98.8%
Level of passenger formal complaint of MPI biosecurity clearance service	< 0.01% of passengers complain	✓	No result	0.0013%
Average processing time at Auckland Airport for compliant passengers.	< 10 minutes	✓	No result	7 minutes and 24 seconds
% cruise ship port visits where gangway surveillance was undertaken	Reducing over time	✓	78%	37%
- accredited vessels	Reducing over time		n/a	31%
- non-accredited vessels	Reducing over time		n/a	55%
Number of passengers with Seizures / 1,000 passengers on-board screened cruise ships	< 10 seizures	✓	1.2	1.3
- accredited vessels	< 5 seizures	✓	No result	1
- non-accredited vessels	< 10 seizures	✓	No result	2.4
% of airlines participating in an NZ biosecurity awareness programme	100%	✓	No result	88.5% 23 out of 26 airlines

## 3 Part B – Financial forecasts and proposed levy rates

### 3.1 FINANCIAL FORECASTS

#### 3.1.1 Traveller forecasts

Strong growth in traveller numbers is forecast to continue. The forecast for traveller volumes uses:

- annual growth rates as detailed in the latest tourism forecast<sup>2</sup> produced by the Ministry of Business, Innovation and Employment - this forecast covers visitors only, arriving by air (it excludes New Zealanders returning from overseas travel)
- a growth rate in New Zealand travellers equivalent to the growth rate of overseas visitors
- a growth rate in departing travellers equivalent to arriving travellers
- a growth rate in cruise travellers derived from the actual growth in cruise travellers over the last two years, as reported by Statistics New Zealand<sup>3</sup>.

**Table 7. Forecast travellers (excl. crew) 2017/18 – 2020/21 (000's)**

	2017/18	2018/19	2019/20	2020/21
<b>Non-cruise travellers</b>				
<b>Arrivals</b>				
- Levied passengers	6,766	7,090	7,416	7,742
- < two years old	87	91	95	100
- Prepaid	-	-	-	-
<b>Total non-cruise arrivals</b>	<b>6,853</b>	<b>7,181</b>	<b>7,511</b>	<b>7,842</b>
<b>Departures</b>				
- Levied passengers	6,695	7,016	7,339	7,661
- < two years old	86	90	94	98
- Prepaid	-	-	-	-
<b>Total non-cruise departures</b>	<b>6,781</b>	<b>7,106</b>	<b>7,433</b>	<b>7,759</b>
<b>Cruise-ship travellers</b>				
<b>Arrivals</b>				
- Levied passengers	206	220	236	253
- < two years old	-	-	-	-
- Prepaid	-	-	-	-
<b>Total cruise arrivals</b>	<b>206</b>	<b>220</b>	<b>236</b>	<b>253</b>
<b>Departures</b>				
- Levied passengers	206	220	236	253
- < two years old	-	-	-	-
- Prepaid	-	-	-	-
<b>Total cruise departures</b>	<b>206</b>	<b>220</b>	<b>236</b>	<b>253</b>
Total arrivals	7,059	7,401	7,747	8,095
Total departures	6,987	7,326	7,669	8,012
<b>Total travellers</b>	<b>14,046</b>	<b>14,727</b>	<b>15,416</b>	<b>16,107</b>

<sup>2</sup> <http://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/international-tourism-forecasts>

<sup>3</sup> [http://www.stats.govt.nz/browse\\_for\\_stats/industry\\_sectors/Tourism/cruise-ship-stats.aspx](http://www.stats.govt.nz/browse_for_stats/industry_sectors/Tourism/cruise-ship-stats.aspx)

### 3.1.2 Expenditure forecasts

#### Customs

In 2017/18 Customs is forecasting costs of \$70.17 million for border clearance related activities, increasing to \$77.08 million by 2020/21.

Customs has applied the following assumptions to the expenditure forecast.

- There is sufficient capacity in SmartGates to manage increasing eligible volumes without additional gates.
- Wages will increase by the Treasury Pre-election Economic and Fiscal Update (PREFU) wage rate increase forecast, namely 2.6% in 2017/18, followed by annual increases in the following 3 years of 2.3%, 2.2% and 2.1%.
- Other costs will increase by the Treasury PREFU CPI forecast of 1.6% in 2017/18, followed by annual increases in the following 3 years of 2.1%, 2.2% and 2.1%.

The current allocation of costs to activities and services will continue, noting Customs has started work on implementing a new activity based costing model. Forecast costs include the full year costs for the 29 new SmartGates, which were estimated to avoid the cost of over 55 additional staff to manage volume increases. The forecast costs also reflect the new staffing model delivered by the OTP. This includes the new Assistant Customs Officers, who are utilised throughout the international airports to facilitate travellers and manage risk.

Customs is planning to invest in enhanced prevention and enforcement measures over the forecast period in response to the growing risk presented by smuggling. The illicit drug market, which costs New Zealand \$1.8 billion in social harm and government interventions, continues to be fuelled by organised crime groups exploiting the New Zealand border. Over the past three years there has been a 186% increase in the volume of drugs intercepted through the passenger stream.

Areas of new investment being considered to address this include:

- the development of enhanced intelligence and liaison capability to identify and target risks early, and strengthen information sharing with partners, including overseas, and investigative capability to disrupt organised crime networks
- a financial unit to target and investigate border related financial crimes through enhanced cash detection and financial analysis to identify and target the cross border smuggling of criminal proceeds.

The details of these investments, including the costs, are currently being worked through so have not been factored into the setting of the levy rate. If these investments are confirmed and approved the costs will be factored into future cost forecasts, which will be recovered through the Levy.

Total border clearance expenditure forecasts for the next levy period (3 years: 1 July 2018 – 30 June 2021) is shown in Table 8a below.

**Table 8a. Customs forecast expenditure (\$000)**

	<b>2017/18 Budget</b>	<b>2018/19 Forecast</b>	<b>2019/20 Forecast</b>	<b>2020/21 Forecast</b>
Non-cruise	67.26	69.40	71.44	73.43
Cruise	2.91	3.38	3.52	3.65
<b>Total expenditure</b>	<b>70.17</b>	<b>72.78</b>	<b>74.96</b>	<b>77.08</b>

## MPI

In 2017/18 MPI is forecasting costs of \$58.60 million, increasing to \$69.34 million by 2020/21. The forecast increase in expenditure is made up of both cost pressures and new investment initiatives. Immediate cost pressures include:

- increased frontline staff to process the growing traveller volumes
- increased staff costs associated with a more flexible collective employment agreement
- costs associated with infrastructure improvements, including modern facilities to house MPI detector dogs.

Significant planned investments over the forecast period include:

- new workforce planning management tools, including introducing new processes for biosecurity officers to be deployed in a more agile, mobile, and adaptable way
- capability training through competency standards for frontline staff to ensure the efficient, consistent and ongoing provision of biosecurity services across the country.

Expenditure forecast for the next levy period (12 months; 1 July 2018 – 30 June 2019) and the following 2 years is described in Table 8b below:

**Table 8b: MPI forecast expenditure (\$000)**

	<b>2017/18 Budget</b>	<b>2018/19 Forecast</b>	<b>2019/20 Forecast</b>	<b>2020/21 Forecast</b>
Non-cruise	55.93	58.28	62.91	66.65
Cruise	2.08	1.96	1.97	1.99
Crown (non-levy funded travellers exempt)	0.59	0.59	0.59	0.59
<b>Total expenditure</b>	<b>58.60</b>	<b>60.83</b>	<b>65.74</b>	<b>69.23</b>

MPI has also applied the following assumptions to the 2018/19 expenditure forecast:

- wages will increase by 2% in line with SSC guidance
- other operating expenses will increase by 2%, based on the CPI forecast contained in the Reserve Bank's quarterly Monetary Policy Statement, released in August 2017.

### 3.1.3 Forecast memorandum account position at 30 June 2018

Based on forecast expenditure and revenue, agencies are forecasting some additional surplus to accrue in memorandum accounts by 30 June 2018. Memorandum account breakdowns are provided in Tables 9a and 9b below.

**Table 9a. Customs memorandum account projections (\$m excl. GST)**

	<b>Opening balance</b>	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (deficit)</b>	<b>Closing balance</b>
<b>2017/18</b>					
Non-cruise	9.21	69.98	66.30	3.68	12.89
Cruise	(0.66)	2.18	2.86	(0.68)	(1.34)
<b>Total account</b>	<b>8.55</b>	<b>72.16</b>	<b>69.16</b>	<b>3.00</b>	<b>11.55</b>

Expenditure in the Customs' memorandum account is net of the amount funded by Crown revenue.

**Table 9b. MPI memorandum account projections (\$m excl. GST)**

	<b>Opening balance</b>	<b>Revenue</b>	<b>Expenditure</b>	<b>Surplus/ (deficit)</b>	<b>Closing balance</b>
<b>2017/18</b>					
Non-cruise	6.00	56.31	55.93	0.38	6.38
Cruise	0.35	2.51	2.08	0.43	0.78
Crown	1.39	1.59	0.59	1.00	2.39
<b>Total account</b>	<b>7.74</b>	<b>60.41</b>	<b>58.60</b>	<b>1.81</b>	<b>9.55</b>

## 3.2 PROPOSED ADJUSTMENTS TO LEVY RATES FOR 1 JULY 2018

### 3.2.1 Proposed rates

Agencies have reviewed and calculated new levy rates in accordance with the requirements set out in Levy Orders. Proposed rates are described in Table 10 below.

**Table 10. Proposed levy rates from 1 July 2018 (excl. GST)**

	<b>Customs Proposed Rate</b>	<b>MPI Proposed Rate</b>	<b>Proposed Combined Rate</b>	<b>Current Combined Rate</b>
<b>Non-cruise ship travellers</b>				
- Arrivals	\$6.43	\$7.30	<b>\$13.73</b>	\$15.83
- Departures	\$2.56	-	<b>\$2.56</b>	\$2.93
<b>Cruise ship travellers</b>				
- Arrivals	\$10.40	\$5.34	<b>\$15.74</b>	\$19.70
- Departures	\$4.10	-	<b>\$4.10</b>	\$3.10

The Customs calculated levy rate for arriving and departing cruise traveller exceeds the maximum rates specified in the Levy Order. This is due to forecasted accumulated cruise related deficits in the memorandum account to 30 June 2018 and also the removal of initial Crown funding to cap the levy below the maximum rates. The new rate will be set at the maximum allowable rate, as shown above.

The decrease in Customs rates for non-cruise ship travellers is primarily driven by the surplus in the memorandum account from traveller volumes being greater than forecast.

The decrease in rates for MPI is driven by:

- for non-cruise travellers: actual traveller volumes significantly in excess of forecast volumes, leading to a significant surplus to be returned through this rate reset
- for cruise travellers: efficiencies being realised through changes to the operating model following introduction of the accreditation programme for cruise operators, combined with the forecast surplus relating to cruise ship travellers.

We currently anticipate the next MPI reset of the rate (effective 1 July 2019) to return close to the current levy rates, with significant investment planned in:

- improving workforce planning technology to quickly and efficiently forecast demand
- investigating and implementing new technology around assessment and screening of luggage.

More detail about how rates have been calculated is provided below.

### 3.2.2 Rate calculations

#### *Formula for setting the rates*

Levy rates are set (up to prescribed maximums<sup>4</sup>) according to formula set out in the Levy Orders. Both Levy Orders require levies to be set for each category (cruise and non-cruise travellers) by:

- estimating the border processing costs for the levy period
- dividing the costs by the estimated number of travellers who will arrive in New Zealand in the levy period, excluding any exempt travellers.

In accordance with Levy Orders, the estimated border processing costs must be adjusted to take into account:

- any estimated shortfall in recovery, or any estimated over-recovery, of the border processing costs for the previous levy period; and
- any actual shortfall in recovery, or any actual over-recovery, of the border processing costs for the levy period before the previous levy period so far as the shortfall remains to be recovered, or the over-recovery remains to be allowed for.

#### *Definition of levy periods*

The initial levy period was set to expire on 30 June 2018. For Customs, subsequent levy periods are defined as any 36 month period commencing on 1 July following the previous levy period. For MPI, subsequent levy periods are currently defined as any 12 month period commencing on 1 July and concluding on 30 June the following year.

#### *Rate calculations*

Both agencies have reviewed the rates, and are proposing revised rates effective from 1 July 2018. These rates are calculated based on the forecasts provided in this report.

Calculations are provided in Tables 11a-11f below<sup>5</sup>:

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<sup>4</sup> Each Levy Order prescribes maximum thresholds which levy rates must not exceed. For Customs, the rate of levy for non-cruise arriving and departing travellers must not exceed \$7.80 and \$3.10 respectively and the rate of levy for cruise arriving and departing travellers must not exceed \$10.40 and \$4.10 respectively. For MPI, the rate of levy for non-cruise travellers must not exceed \$8.80 and the rate of levy for cruise travellers must not exceed \$17.90.

<sup>5</sup> Levy rate calculations are based on full figures and not the rounded estimates as shown in the tables, this may lead to minor rounding variances in the final rate calculations.

**Table 11a. Customs rate calculations – Arriving Cruise**

		<b>2018/19 to 2020/21</b>
A	Estimated costs for the levy period	\$7.41m
B	Estimated surplus/(deficit) as at 30 June 2018	(\$0.95m)
C	Estimated traveller volumes over the levy period	0.71m
	<b>Levy rate = (A-B)/C</b>	<b>\$11.77</b>
	<b>Maximum levy rate to be applied</b>	<b>\$10.40</b>

**Table 11b. Customs rate calculations – Arriving Non-Cruise**

		<b>2018/19 to 2020/21</b>
A	Estimated costs for the levy period	\$152.57m
B	Estimated surplus/(deficit) as at 30 June 2018	\$9.25m
C	Estimated traveller volumes over the levy period	22.24m
	<b>Levy rate = (A-B)/C</b>	<b>\$6.43</b>

**Table 11c. Customs rate calculations – Departing Cruise**

		<b>2018/19 to 2020/21</b>
A	Estimated costs for the levy period	\$3.06m
B	Estimated surplus/(deficit) as at 30 June 2018	(\$0.39m)
C	Estimated traveller volumes over the levy period	0.71m
	<b>Levy rate = (A-B)/C</b>	<b>\$4.87</b>
	<b>Maximum levy rate applied</b>	<b>\$4.10</b>

**Table 11d. Customs rate calculations – Departing Non-Cruise**

		<b>2018/19 to 2020/21</b>
A	Estimated costs for the levy period	\$60.00m
B	Estimated surplus/(deficit) as at 30 June 2018	\$3.64m
C	Estimated traveller volumes over the levy period	22.02m
	<b>Levy rate = (A-B)/C</b>	<b>\$2.56</b>

**Table 11e. MPI rate calculations – Non-Cruise**

		<b>2018/19</b>
A	Estimated costs for the levy period	\$58.28m
B	Estimated surplus/(deficit) as at 30 June 2018	\$6.38m
C	Estimated traveller volumes over the levy period	7.09m
	<b>Levy rate = (A-B)/C</b>	<b>\$7.30</b>

**Table 11f. MPI rate calculations - Cruise**

		<b>2018/19</b>
A	Estimated costs for the levy period	\$1.96m
B	Estimated surplus/(deficit) as at 30 June 2018	\$0.78m
C	Estimated traveller volumes over the levy period	0.22m
	<b>Levy rate = (A-B)/C</b>	<b>\$5.34</b>

### 3.3 NEXT STEPS

Rates are set by the Comptroller of Customs and the Director-General of MPI and must be notified in the New Zealand Gazette prior to the commencement of the next levy period.

At this stage it is intended to notify rates in the gazette by 28 February 2018.

Customs and MPI are available to meet with interested parties that wish to provide feedback on this report, or discuss the intended rates for the next levy period. If you wish to meet with Customs or MPI please contact us by emailing:

[BCLFinance@customs.govt.nz](mailto:BCLFinance@customs.govt.nz)

[costrecovery@mpi.govt.nz](mailto:costrecovery@mpi.govt.nz)

## Appendix 1: Activities funded through the levy

Stage of the process	Customs	MPI
Pre-border activities	<ul style="list-style-type: none"> <li>• Identification of persons of interest from advanced information</li> <li>• Planning processes for significant operations/events</li> <li>• Intelligence/information sharing with other agencies and administrations to inform risk identification and operational activity</li> <li>• Forecasting and supporting analysis</li> <li>• Provision of co-ordination functions (including for ad hoc arrivals)</li> </ul>	<ul style="list-style-type: none"> <li>• Screening for targeted interventions - identifying travellers of biosecurity interest</li> <li>• Co-ordination of resourcing and tasking of border activities</li> <li>• En-route biosecurity clearance - where possible</li> <li>• Management of craft applications for arrival at non-approved Places Of First Arrival</li> </ul>
At border activities	<ul style="list-style-type: none"> <li>• Primary-line processing (manual and via SmartGate): validation of identity, completion of immigration processes, identification of persons of interest</li> <li>• Secondary activities and processes i.e. interaction with persons of interest, questioning and search activities</li> <li>• En-route and alongside processing of cruise passengers</li> <li>• On-site support to secondary and verification activities and processes (i.e. more involved questioning and intervention with persons of interest, assistance around examination of electronic devices)</li> <li>• Customer service functions</li> </ul>	<ul style="list-style-type: none"> <li>• Assessment of arrival documentation against biosecurity requirements</li> <li>• Verification of compliance to biosecurity requirements of travellers</li> <li>• Application of intervention tools e.g. communications, searches, detector dogs, x-ray</li> <li>• Collection of information relating to pathways and effectiveness of interventions</li> </ul>
Post-border activities	<ul style="list-style-type: none"> <li>• Investigative activity (including surveillance and monitoring of persons of interest once they move beyond the border process)</li> <li>• Processing of the reporting that is completed (i.e. activity and information reports) including review and management of entities/alerts/profiles</li> <li>• Post-seizure analysis (including supporting frontline briefing processes)</li> <li>• Debriefing processes for significant operations/events</li> <li>• Information-sharing with other agencies/administrations</li> <li>• Storage and disposal of seized goods</li> <li>• More involved analysis and intelligence processes (i.e. strategic assessments, analysis and refinement of profiles and alerts)</li> </ul>	<ul style="list-style-type: none"> <li>• Review and management of high-risk travellers</li> <li>• Verification of the process for the disposal of risk goods seized from travellers</li> <li>• Investigations into non-compliance</li> <li>• Compliance monitoring and analysis to measure performance of pathways</li> </ul>

## Appendix 2: Exemptions

### Levy funded travellers

- (a) a traveller under the age of 2 years:
- (b) a traveller who arrives in, or departs, New Zealand on an international aircraft otherwise than as a passenger:
- (c) a traveller who arrives in, or departs, New Zealand on a cruise ship otherwise than as a passenger:
- (d) a traveller who—
  - (i) arrives in New Zealand on an aircraft; and
  - (ii) is not required to report to a Customs officer at an arrival hall because the traveller is in transit to a place outside New Zealand:
- (e) a traveller who, having arrived in New Zealand as referred to in paragraph (d), departs New Zealand on an aircraft for the place outside New Zealand without having been required to enter a departure hall:

### Non-levy funded travellers

- (f) a traveller who arrives in, or departs, New Zealand on any of the following:
  - (i) a craft being operated by the New Zealand Defence Force or the defence forces of any Government other than that of New Zealand;
  - (ii) a craft being used wholly for diplomatic or ceremonial purposes of any Government;
  - (iii) a craft being used wholly for the purposes of a mission being carried out or organised by any Government that is a humanitarian mission or a mission in response to an emergency or a crisis;
  - (iv) a craft being used for the purposes of an official expedition of a Contracting Party<sup>6</sup>;
  - (v) a non-passenger commercial craft;
- (g) a traveller who arrives in New Zealand after having been rescued at sea:
- (h) a traveller who arrives in New Zealand wholly for the purpose of seeking temporary relief from stress of weather:
- (i) a traveller who, having arrived in New Zealand as referred to in paragraph (h), departs New Zealand as soon as is reasonably practicable:
- (j) a traveller who departs New Zealand on a craft on a journey—
  - (i) that is not intended to go beyond the exclusive economic zone; and
  - (ii) that is not intended to include a meeting with any craft or persons entering the exclusive economic zone from a point outside New Zealand:
- (k) a traveller who arrives in New Zealand on a craft—
  - (i) that has returned to New Zealand after a journey that did not extend beyond the exclusive economic zone; and
  - (ii) that did not meet during that journey with any other craft or persons entering the exclusive economic zone from a point outside New Zealand:
- (l) a traveller who arrives in, or departs, New Zealand before 1 January 2017 on an international aircraft as a passenger being carried on a ticket that was purchased, and fully paid for, before 1 January 2016:
- (m) a traveller who arrives in, or departs, New Zealand before 1 January 2017 on a cruise ship as a passenger on an international cruise and whose place on the cruise was purchased, and fully paid for, before 1 January 2016.

<sup>6</sup> **Contracting Party** has the meaning given by section 7(1) of the Antarctica (Environmental Protection) Act 1994; **official expedition**, in relation to a Contracting Party, has the meaning given by section 7(1) of the Antarctica (Environmental Protection) Act 1994.

### Appendix 3: Detailed breakdown of Agency costs for 2016/17

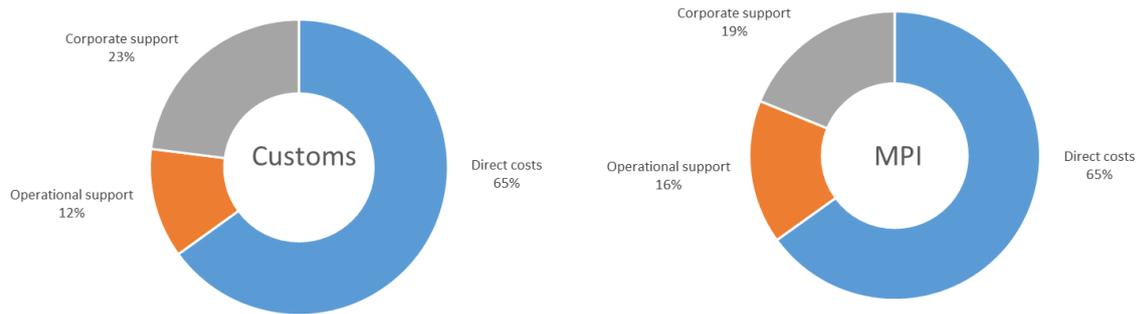
<b>Customs</b>	<b>\$m</b>	<b>%</b>
Direct costs:		
- Personnel	29.78	45
- IT and equipment	11.25	17
- Accommodation	1.98	3
<b>Total direct costs</b>	<b>43.55</b>	<b>65</b>
Operational support:		
- Finance and legal	2.46	4
- Operations management	1.59	2
- Human resources	1.19	2
- Accommodation	1.19	2
- Other	1.51	2
<b>Total operational support</b>	<b>7.94</b>	<b>12</b>
Corporate support:		
- Border management	7.15	11
- Occupancy	3.35	5
- Planning and development	3.20	5
- Other	1.52	2
<b>Total corporate support</b>	<b>15.22</b>	<b>23</b>
<b>Total expenditure</b>	<b>66.17</b>	<b>100</b>

<b>MPI</b>	<b>\$m</b>	<b>%</b>
Direct costs:		
- Personnel & Contracts	30.52	60
- Travel, IT and equipment	0.98	2
- Accommodation	0.69	1
- Other	1.05	2
<b>Total direct costs</b>	<b>33.24</b>	<b>65</b>
Operational support:		
- Border management	4.72	9
- Process improvement	1.42	3
- Accommodation	1.38	3
- Planning & development	0.72	1
<b>Total operational support</b>	<b>8.23</b>	<b>16</b>
Corporate support:		
- IT applications	3.78	7
- Finance & legal	3.13	6
- Human resources	0.81	2
- Other	1.90	4
<b>Total corporate support</b>	<b>9.62</b>	<b>19</b>
<b>Total expenditure</b>	<b>51.09</b>	<b>100</b>

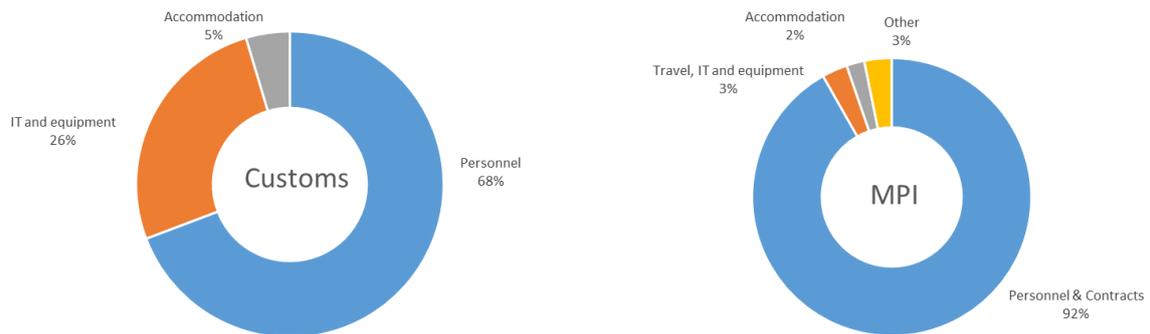
#### Notes:

Cost profiles across the two agencies differ, as does the categorisation of costs, e.g. IT and equipment costs are treated by Customs as direct costs while MPI treat IT applications costs as corporate support costs.

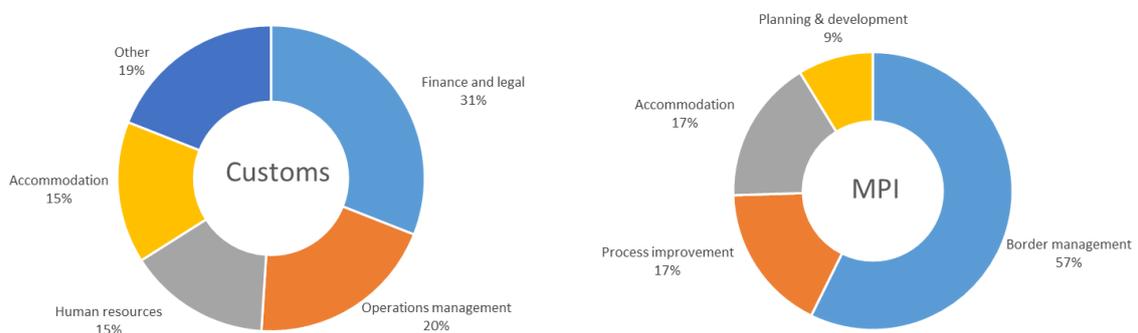
**Figure 1: Recoverable border clearance costs by category – 2016/17**



**Figure 2: Levy direct costs by category – 2016/17**



**Figure 3: Operational support costs by category – 2016/17**



**Figure 4: Corporate support costs by category – 2016/17**

