

Briefing

Setting the aggregate expenditure figure for 2023-2024 levies for alcohol-related purposes

Date due to MO:	21 March 2023	Action required by:	22 March 2023
Security level:	IN CONFIDENCE	Health Report number:	2023021815
To:	Hon Dr Ayesha Verrall, Minister of Health		
Consulted:	Te Whatu Ora - Health New Zealand Te Aka Whai Ora – Māori Health Authority The Treasury		

Contact for telephone discussion

Name	Position	Telephone
Dr Andrew Old	Deputy Director-General, Public Health Agency, Te Pou Hauora Tūmatanui	s 9(2)(a)
Jane Chambers	Group Manager, Public Health Policy & Regulation, Public Health Agency, Te Pou Hauora Tūmatanui	

Minister's office to complete:

- | | | |
|---|------------------------------------|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Decline | <input type="checkbox"/> Noted |
| <input type="checkbox"/> Needs change | <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn | |

Comment:

Setting the aggregate expenditure figure for 2023-2024 levies for alcohol-related purposes

Security level: IN CONFIDENCE **Date:** 21 March 2023

To: Hon Dr Ayesha Verrall, Minister of Health

Purpose of report

1. This paper provides you with advice to determine the aggregate expenditure figure required for setting the 2023/24 levies for alcohol-related purposes (the alcohol levy), under the Pae Ora (Healthy Futures) Act 2022 (Pae Ora Act). Please note this is the first year the alcohol levy will be set and allocated under the Pae Ora Act, having previously been set under the New Zealand Health and Disability Act 2000.
2. The Ministry seeks your decision for the total aggregate figure for the 2023/24 financial year after consultation with the Minister of Finance.

Recommendations

We **recommend** you:

- a) **Note** this is the first year the alcohol levy setting process will occur under the Pae Ora Act, and that the context for application of the levy funds is now broader than when previously allocated to Te Hiringa Hauora – Health Promotion Agency, under the New Zealand Health and Disability Act 2000. **Noted**
- b) **Note** the aggregate figure options set out in this briefing are informed by interim recommendations from an independent review of the levy being carried out by Allen + Clarke in partnership with NZIER. **Noted**
- c) **Note** the proposed aggregate levy options are informed by the cost of committed and planned alcohol harm-reduction work programmes identified by the health agencies. This briefing indicates the key areas of focus of those work programmes. **Noted**
- d) **Note** that ongoing allocations across those work programmes will be decided by the cross-agency Shared Public Health Leadership Group once the total alcohol levy fund has been confirmed. **Noted**
- e) **Note** that the Public Health Agency, Te Whatu Ora and Te Aka Whai Ora have worked in partnership to commission and contribute to the external review **Noted**

§ 9(2)(f)(iv)

f) **Indicate** your preferred option in this paper before consulting with the Minister of Finance to provide the Ministry with some early guidance: Yes/No

- 1) Status quo
- 2) CPI adjustment
- 3) increase to \$16 million
- 4) Indicate another option.

On basis that phase 1 has not provided costed options, but phase 2 will, when complete.

g) **Agree** to consult with the Minister of Finance to obtain concurrence as to your preferred option for the aggregate expenditure figure for 2023/24. Yes/No

h) **Determine** the aggregate expenditure figure for 2023/24 and sign the letter attached as Appendix One seeking the Minister of Finance's agreement to this figure, by 22 March 2023, for his response by 29 March 2023. Yes/No

1 - await stage two



Dr Diana Sarfati
Director-General of Health
Manatū Hauora
Date: 21 March 2023



Hon Dr Ayesha Verrall
Minister of Health

Date: 23/3/23

Setting the aggregate expenditure figure for 2023-2024 levies for alcohol-related purposes

Background / context

3. The Pae Ora (Healthy Futures) Act 2022 (Pae Ora Act) allows for levies to be imposed under section 101 of the Act for the purpose of enabling Manatū Hauora (the Ministry) to recover costs it incurs in addressing alcohol-related harm, and in its other alcohol related activities.
4. Setting the levies is an annual process, previously carried out under the New Zealand Public Health and Disability Act 2000, that includes the Ministry providing you with advice on the levy amount and the process to be followed.
5. The first step in setting the alcohol levy is for you to determine an 'aggregate expenditure figure' and seek the agreement of the Minister of Finance. This figure is the total amount considered reasonable to enable the Ministry to recover the costs of health-related work programmes to address alcohol harm, and other alcohol-related activities in the coming year.
6. The aggregate expenditure figure is then used to calculate the portions of the alcohol levy that is payable by alcohol producers and importers of different classes of alcohol.
7. The levies must be in place by 1 July 2023. Therefore, decisions need to be made now about the aggregate expenditure figure for the purposes of calculating the alcohol levy.
8. The Ministry is seeking your view, in consultation with the Minister of Finance, on what you consider is the appropriate total aggregate expenditure option for health-led alcohol harm reduction work programmes for the 2023/24 year, prior to completing the levy calculations.
9. **s 9(2)(f)(iv)**
[REDACTED]
10. Given the changed context, at the time Te Hiringa Hauora was disestablished, and its functions transferred into the Health Promotion Directorate of the National Public Health Service (1 July 2022), it was agreed that a review of the levy would be carried out. This was to review the total aggregate figure (which has remained at the same level for around 10 years - approximately \$11.5 million) and to ensure the alcohol levy is allocated across agreed priority areas under the wider Pae Ora context.
11. External independent reviewers were commissioned in late January 2023, and Phase 1 of the review that began in early February 2023, is nearly complete. We have received the interim review recommendations from Phase 1, to inform the levy setting process for this year. The interim report prepared by the reviewers Allen + Clarke, includes economic analysis and review of the levy settings in partnership with NZIER.

12. Phase 2 of the review, with more in-depth stakeholder engagement and further analysis, is due to be complete by November 2023 and will inform the 2024/25 alcohol levy setting process, and subsequent financial years.

Determining the Levy

13. The process for determining the alcohol levy is set out in Schedule 6 to the Pae Ora Act.
14. The first step in the process is to set, with the concurrence of the Minister of Finance, the aggregate expenditure figure that would be reasonable for the Ministry to spend during the year 2023/24 in addressing alcohol-related harm and in meeting programming costs that are attributable to alcohol-related activities. The Ministry, Te Aka Whai Ora, Te Whatu Ora, and New Zealand Customs Service have all contributed to providing you with the advice set out in this paper.
15. Once the total aggregate figure has been confirmed, the Ministry then uses data from the New Zealand Customs Service to determine the distribution of the aggregate levy across 6 classes of alcohol. The Ministry will then provide you with further advice on the alcohol levy rates across the 6 classes of alcohol.
16. Once the levies have been confirmed, an Order in Council and a Cabinet Paper will be prepared for you to seek Cabinet's agreement to submit the Order to the Executive Council.
17. The Ministry will also prepare letters to be signed by you and sent to key alcohol industry stakeholders of the levy, at the same time as the alcohol levy Order is notified in the *New Zealand Gazette* (at least 28 days prior to the Order coming into force on 1 July 2023).

Consultation with the Minister of Finance

18. Due to the time constraints for the alcohol levy review and the necessity of receiving the interim recommendations to inform this year's levy setting advice, there will be a one week consultation period with the Minister of Finance to seek agreement for your selected option.
19. The Ministry has previously provided a timeline for the overall statutory levy setting process to your office, and have provided confirmation for the 1 week consultation period.
20. We are also working closely with our Treasury colleagues to ensure they are able to advise the Minister of Finance appropriately prior to your consultation with him.
21. Due to the nature of how the alcohol levy funding currently impacts the 3 health entities differently, we have not provided a collective preferred option. We have set out the preferred option of each agency (below) and seek an indication of your preferred option and then your decision once you have received concurrence from the Minister of Finance.

Alcohol work programme currently funded by the levy

22. Since 1 July 2022, the Health Promotion Directorate of the National Public Health Service in Te Whatu Ora has continued to deliver the levy funded alcohol work programme developed by the now disestablished Te Hiringa Hauora (Health Promotion Agency).

23. Areas of current investment draw upon New Zealand and international evidence and the National Alcohol Harm Minimisation Framework. This includes alcohol research, supporting community and whānau projects, provision of information and resources for communities (digital and non-digital), addressing harms from alcohol advertising in settings; supporting policy advice (e.g., Kaupapa Māori health needs assessment), community action, and Pasifika, youth and maternity alcohol harm minimisation programmes.
24. In addition, in the 2022/23 financial year, a portion of the alcohol levy funded specific components of the alcohol-policy work programme within the Public Health Agency at the Ministry, including the cost of carrying out the Alcohol Levy Review.
25. The Health Promotion Directorate's key areas of focus for the 2023/24 financial year include ongoing progress of Te Tiriti and equity focused programmes:
- Supporting targeted community led partnership programmes
 - Research and evaluation of programmes for alcohol harm minimisation
 - Kaupapa Māori regulatory policy change.
26. The 3 health entities will work together to finalise allocation priorities for the 2023/24 year. However, it is likely that most funding portions will remain in the currently committed programmes of work whilst Phase 2 of the review is completed. The exception to this, being any new portion of funding - should you choose an option to increase the total levy.
27. s 9(2)(i) [REDACTED] and will continue to work together to better understand cost drivers, and programme effectiveness which will help inform the future direction of these work programmes. Phase 2 of the review will greatly inform this work.
28. s 9(2)(i) [REDACTED]

Aggregate expenditure figure

Allen+ Clarke Interim Report Review Options

29. The aggregate expenditure figure has remained relatively static over the last decade as successive governments have not increased it.
30. The Allen +Clarke rapid review recommendations have presented 3 main options to support the setting of the aggregate figure for the 2023/24 financial year.
31. Option 1 is to maintain the alcohol levy at the current quantum which results in no funding for expansion of current work programmes but allows the full review and analysis to be completed before making any changes to the alcohol levy quantum.
32. Option 2 is based on a CPI adjustment to account for the last 9 years of no relative increase. Please note, none of the health agencies support this option for the reasons set out below. Option 3 has scaled aggregate amounts to select from. An overview of each option is set out in the table below.

Option (Aggregate expenditure dollar (\$) amount)	Overview	Advantages	Key Risks
1. Status Quo (\$11.5 million)	<p>This option sees the total levy amount remain the same, and any funding of programmes that the NPHS currently have externally committed will remain in place. s 9(2)(i)</p> <p>[REDACTED]</p>	<p>Straight forward in terms of currently committed external funding.</p> <p>Allows the full external alcohol-levy review process to be completed before any adjustment decision is made. This will include in-depth engagement with stakeholders and communities to help increase transparency of the levy spending and agreed priorities, for effectiveness of spend and impact beyond June 2024</p> <p>Allows committed funding and programmes to continue while the broader analysis of the functionality of the levy as a cost recovery mechanism is completed in Phase 2 of the review. s 9(2)(i)</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>	<p>Perception of minimal effort to tackle alcohol-related harm in the short-term.</p> <p>Does not acknowledge or provide for increased costs of current programmes</p> <p>Both community and industry stakeholders have expressed ongoing concern and frustration at lack of visibility for how current levy fund is spent, and have expressed a desire for clear evidence of programme effectiveness</p> <p>Due to pre-existing commitments (which account for majority of levy funding), reduced capacity to build health agency-based partnership approach to the application of the levy as required under Pae Ora (e.g. the provision of any dedicated resource to Te Aka Whai Ora).</p>

<p>2. CPI increase (\$21.5 million)</p>	<p>Adjustment based on the previous nine years of no relative change</p>	<p>Clear and proven method for relative adjustment.</p> <p>Enables existing work programme funding to be maintained in real terms.</p> <p>New programmes can be funded due to CPI increase being backdated.</p>	<p>Assumes original aggregate expenditure sum was correct.</p> <p>Complex to implement (adopting appropriate inflation measure; backdating to last major adjustment of levy).</p> <p>Increase is not based on costed programmes and assumes there are new costed programmes waiting for funding.</p> <p>Almost doubles the total levy fund before the complete analysis and review of the levy, including the in-depth stakeholder engagement is complete.</p> <p>Difficult to justify to stakeholders due to above perceived lack of visibility of current fund.</p>
<p>3. Fixed \$ increase (3 sub-options: \$16 million, \$21 million, or \$26.5 million)</p>	<p>Fixed increase based on actual cost of a set of recommended evidence-based investments. These investments include expansion of existing programmes where the evidence of effectiveness was available and new interventions based on international research, New Zealand research and feedback from communities.</p>	<p>Allows for more innovation in context of Pae Ora Act.</p> <p>May enable increased research and data collection without jeopardising existing work programmes</p> <p>Enables further community engaged planning for use of new funding, without jeopardising existing work programmes.</p> <p>Acknowledges lost opportunity costs</p>	<p>Raises the ongoing issue of effectiveness and impact of funded work programmes as industry and communities will require justification for the increase.</p> <p>Needs to be justifiable in context of Pae Ora Act.</p> <p>Significant increase in total levy fund as a proportion, before the complete analysis and review of the levy, including the in-depth</p>

		associated with the status quo option.	stakeholder engagement is complete. Therefore could be seen as pre-emptive of review outcomes.
--	--	--	--

Discussion and agency preferred options

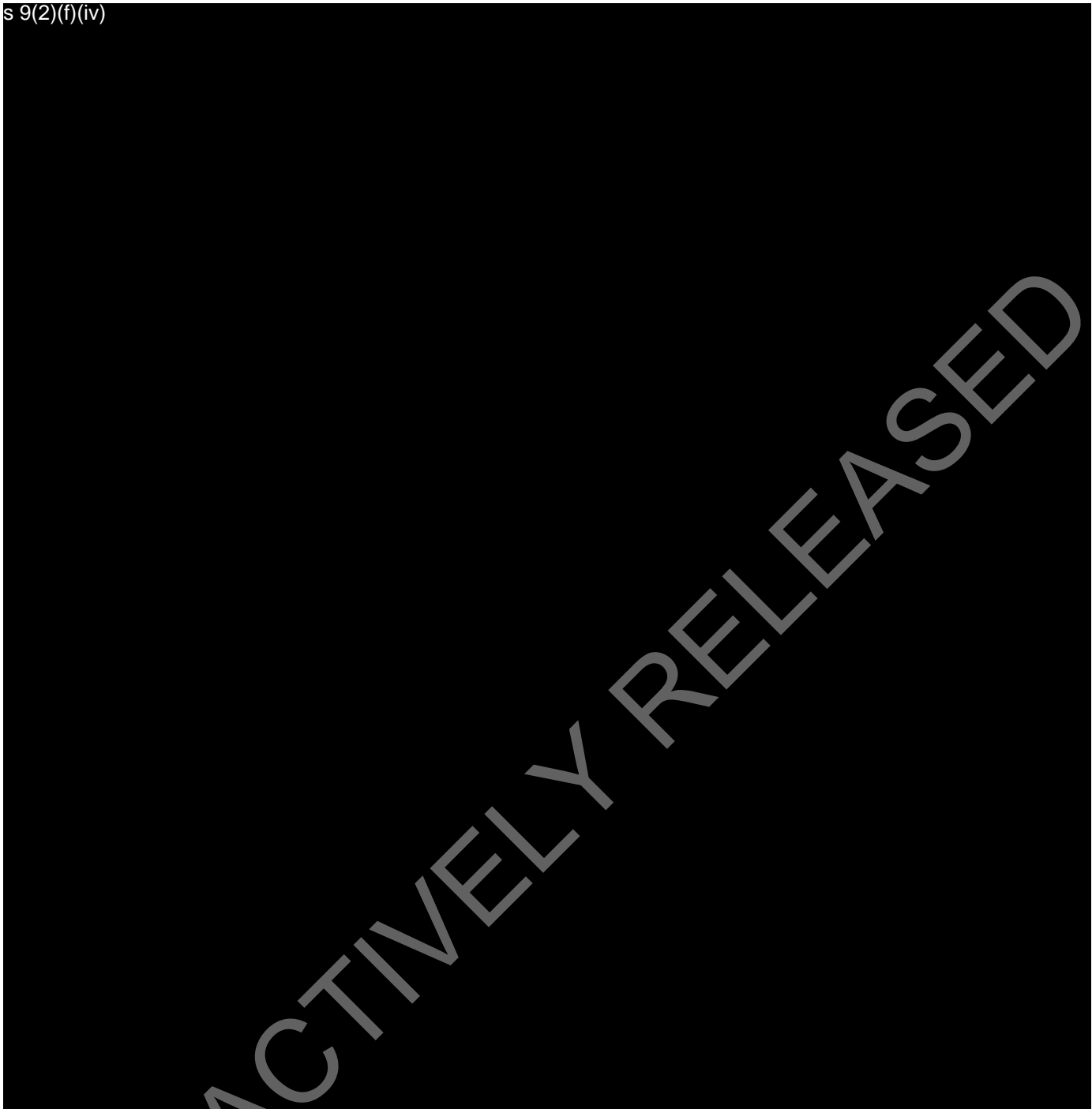
33. A cross health-agency working group (the Alcohol Levy Working Group – ALWG) was formed in November 2022 to work in partnership to procure external reviewers and to work together on the ongoing contribution to the review, (as well as the implementation stage once the review is complete).
34. The ALWG has met regularly with the reviewers, has received the draft recommendations and the draft report, and worked to analyse and understand the different options presented. s 9(2)(f)(iv)

Allen + Clarke and NZIER’s preferred option

35. As set out the Interim Report Summary and Recommendations (Appendix 2), the reviewers have noted that *“Given the constraints within phase 1 of this review we lack the evidence to be able to comfortably recommend moving beyond the status quo for the 2023/24 financial year. Phase 2 of this review will provide the opportunity to better engage with communities and consider fundamental questions relating the role, scope, and purpose of the levy. Answers to these questions are needed to fully assess the appropriate levy quantum.”*
36. They have also stated that *“Any increase in line with Option 2 or 3 proceeds on the presumption that the current allocation is appropriate and consistent with Pae Ora and expectations from communities. Although there may be elements of existing activities that meet these criteria, we are not in a position at this stage of the review to support that conclusion.”*
37. The reviewers have made the following recommendations regarding the total quantum for the alcohol levy for the next financial year:
- a. *The status quo remains for 2023/24*
 - b. *No commitments of levy funding are made either internally or externally beyond June 2024 until Phase 2 of this review is complete and any recommendations regarding the future, scope and application of the fund are considered.*

s 9(2)(f)(iv)

PROACTIVELY RELEASED



Risks

54. The key risks for each option are set out in the options table above.



Financial Implications

59. Any increase in the levy quantum will have financial implications. Discussion with The Treasury has indicated that an increase would not be able to be considered by Cabinet between 11 April and 18 May 2023 due to the Budget Moratorium. This means that the Order in Council would not be able to come into force on 1 July 2023 as required by the Pae Ora Act 2022.
60. If an increase is the chosen option, in order to meet the statutory timeline, a waiver of the 28 day Rule would be sought, to enable the Order in Council to be in force by July 2023, with a guarantee that timing will be reviewed to avoid this situation in future years.

Equity

61. Evidence indicates that Māori are more likely to be impacted by alcohol-related harm compared to other New Zealanders. The Alcohol Levy Review has been commissioned with an explicit focus on assessing the impact and effectiveness of current levy spending on Māori communities and has sought recommendations for how to prioritise levy funding to improve outcomes for Māori.
62. This aspect of the review will be explored in greater depth during Phase 2 of the review, however based on initial recommendations from Phase 1, should you select an increase in the levy as your preferred option for the next financial year, any new funding will be targeted to priorities agreed between the three agencies as envisaged under Pae Ora, and in particular to 'by Māori, for Māori' programmes.

Next steps

63. A proposed letter seeking the Minister of Finance's concurrence with your preferred aggregate expenditure option is attached as Appendix 1. Once you have selected your preferred option, please sign, and send the letter to the Minister of Finance by 22 March 2023.
64. Ministry officials are available to provide any further advice you require to support your decision making process.
65. The final decision from you on the aggregate levy figure for the 2023/24 financial year is due no later than the end of the day on 29 March 2023.

66. This will allow time for the Ministry to proceed with the detailed levy calculations and provide you with further advice on the portions of the levy that will be payable by alcohol producers and importers on different classes of alcohol.
67. Once the levies have been confirmed, an Order in Council and a Cabinet Paper will be prepared for you to take to LEG Committee on 4 May 2023 (or the subsequent LEG Committee after the Budget Moratorium has ended, if you select to increase the levy).

ENDS.

PROACTIVELY RELEASED

Appendix 1: Letter to the Minister of Finance

PROACTIVELY RELEASED

Hon Dr Ayesha Verrall

Minister of Health
Minister of Research, Science and Innovation



Hon Grant Robertson
Minister of Finance
Parliament Buildings
Wellington

Tēnā koe Grant,

Re: Levies for alcohol related purposes 2023/24

I write seeking your concurrence to the proposed aggregate expenditure figure for calculating the 2023/24 levies for alcohol-related purposes (the levy). The levy, on alcohol manufactured in or imported into New Zealand, funds health-led alcohol-related work programmes, and is hypothecated for that purpose.

Clause 2 of Schedule 6 to the Pae Ora (Healthy Futures) Act 2022 required that:

- (1) For each financial year, the Minister, acting in concurrence with the Minister of Finance, must assess the aggregate expenditure figure for that year that, in his or her opinion, would be reasonable for the Ministry to spend during that year –
 - (a) in addressing alcohol-related harm; and
 - (b) in meeting its operating costs that are attributable to alcohol-related activities.

I consider that an aggregate expenditure figure of \$11.5 million, which approximates to the 2022/23 expenditure figure, continues to be appropriate in light of the ongoing external review of levy, and trust that you will concur.

This recommendation is consistent with the Interim Report from Allen + Clarke who are undertaking the independent review of the alcohol levy and whose full report is expected in November 2023. Allen + Clarke have expressed some limitations as to the available evidence on which to base an increase at this point in time, with which I concur.

s 9(2)(f)(iv)

I intend to seek the agreement of the Cabinet Legislation Committee to the proposed figure for the levies for 2023/24 once the Ministry of Health has completed the levy calculations. The Order in Council will come into effect on 1 July 2023.

I would appreciate you advising me of your decision by 29 March 2023.

Ngā mihi nui

Hon Dr Ayesha Verrell
Minister of Health

Appendix 2: Allen + Clarke Interim Review Summary and Recommendations

The published report can be found here:

https://www.health.govt.nz/system/files/documents/publications/independent_review_of_the_alcohol_levy_stage_1_rapid_review.pdf

PROACTIVELY RELEASED