

# Stage 2 Cost Recovery Impact Statement

## Setting the alcohol levy aggregate expenditure figure for 2024-2025

### Agency Disclosure Statement

This Cost Recovery Impact Statement has been prepared by the Ministry of Health (the Ministry).

It provides an analysis of options to increase the aggregate alcohol levy amount for 2024/25 financial year in response to the new settings created by the Pae Ora (Healthy Futures) Act 2022 (the Pae Ora Act) and the subsequent independent review of the levy. The aggregate is then used to set the individual levy rates across the classes of alcohol products.

This information informs the decision of the Minister for Mental Health for the 2024/25 levy year and outyears.

Analysis in this Cost Recovery Impact Statement is informed by analysis undertaken by Allen + Clarke in the *Independent Review of the Alcohol Levy* 12 March 2024, with further information from the Ministry of Health (Public Health Agency), Health New Zealand (National Public Health Service) and the former Te Aka Whai Ora on the current and future utilisation of levy funds.

### Assumptions

It is not the intent of the levy that it covers the full costs of alcohol harm, which reaches into the billions of dollars, but provides a small, dedicated pool of funds to enable the Ministry of Health to recover costs incurred in addressing alcohol-related harm, and its other alcohol-related activities. It is for this purpose only.

As the legislation is new, no options that require legislative change are considered.

### Constraints

#### New legislative settings


Under the Pae Ora Act, the Minister must determine an aggregate figure that, in their opinion, would be reasonable for the Ministry to spend during the following year for activities addressing alcohol-related harm; and in meeting its operating costs that are attributable to those activities. Due to the sustained low amount over many years, the current work programme has been constrained and does not reflect the new settings of a wider remit of activities, and therefore “reasonable” expenditure needs to be reframed.

The new settings also require new processes to be established, such as governance, allocation criteria, evaluation of current and future programmes, and monitoring of the spend. With limited funding before and since the Pae Ora Act came into force, these aspects have been unable to be fully developed.

## Timing

The alcohol levy setting process occurs annually and requires a new Pae Ora (Healthy Futures) (Alcohol Levy) Order to come into effect on 1 July each year.

The Ministry received the New Zealand Customs alcohol volume data of manufactured and imported alcohol products in March 2024, the final report of the independent levy review in March 2024, and the Ministers determination in May 2024. Therefore, there is limited time available for additional analysis beyond that provided by the Review. The Ministry is confident that the information provided enables informed decision-making.



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## Executive summary

1. The alcohol levy has provided cost recovery for activities addressing alcohol-related harm since 1978. Recent health reforms under the Pae Ora (Healthy Futures) Act 2022 (the Pae Ora Act) have continued the levy provisions but they now apply in a wider setting. Rather than being utilised by the (now disestablished) Health Promotion Agency, the levy is transferred to the Ministry of Health with a broader remit of activities.
2. The levy quantum, \$11.5 million, has not changed for over 10 years and therefore the value of that quantum has decreased in real terms. Programmes and initiatives are constrained and with the wider settings, the levy fund is now more stretched than ever.
3. A review of the levy was commissioned by the Ministry of Health in 2023 to determine if the levy is still fit for purpose and to inform the 2024/5 levy setting process. The review concluded that while the levy is still a valuable source of cost recovery, the quantum was insufficient to meet the objective of the levy and to achieve government priorities.
4. The review recommended an increase to the levy to \$37.3 million for the 2024/25 financial year, and this recommendation is the preferred option of the Ministry of Health and Health New Zealand. This will allow the programme of current activities to be maintained, extended, evaluated and monitored to ensure that the levy investment is achieving its objective and that gaps in New Zealand-based research can be filled. It will also allow for innovative programmes to be trialled and broader initiatives and government priorities to be cost recovered.
5. To supplement the review, the New Zealand Institute of Economic Research (NZIER), has undertaken an up-to-date study into the societal costs of alcohol related harm. Their report estimates the current costs of harms associated with alcohol use in New Zealand, amount to approximately \$9.1 billion annually.

## Status Quo

6. The alcohol levy has been in place since 1978 and was originally set up to fund the Alcohol Advisory Council (ALAC) and its work in addressing alcohol-related harm. In 2012, the levy was re-directed to the Health Promotion Agency for similar purposes. In 2022, the Health Promotion Agency was disestablished, with its functions transferred to Health New Zealand under the Pae Ora Act.
7. The Pae Ora Act has maintained much of the technical alcohol levy setting processes from the previous New Zealand Public Health and Disability Act 2000 but has widened the levy settings to account for the responsibilities of the Ministry of Health, rather than the specific promotion functions of the Health Promotion Agency.
8. Section 101 of the Pae Ora Act allows for levies to be imposed for the purpose of “enabling the Ministry to recover costs it incurs in addressing alcohol-related harm, and in other alcohol related activities”. The Minister of Health (or delegate) sets the aggregate figure that is considered reasonable for the Ministry of Health to spend on addressing alcohol harm.
9. The aggregate alcohol levy quantum is determined after consideration of the proposed alcohol harm reduction work programme costs for the following financial year. The levy is raised against alcohol that is manufactured and imported for sale in New Zealand. The amounts payable on each class of alcohol product are calculated to an amount equivalent to the aggregate levy figure. New Zealand Customs collects the levy.

10. The levy is a small part of a broader system. Alcohol excise duty revenue is significantly larger (approximately \$1.29 billion in 2023), is directed to general Crown revenue, and is used for any Crown expenditure. There are a number of alcohol harm related activities that are funded from the general Crown revenue in both the health sector and broader government (such as drink driving measures). The excise duty is adjusted for inflation annually.
11. It should be noted the recently finalised NZIER report attributes \$9.1 billion of societal costs to alcohol related harm in New Zealand, based on currently available data and evidence. While the costs of the impacts of alcohol harms are not the same as the costs of preventing or reducing the harms, the NZIER analysis does demonstrate the scale of the harm caused by alcohol, and the significant opportunity to invest in prevention.
12. In this context the alcohol levy provides a small dedicated fund for harm reduction and effective prevention activities and support services, with scope for further expansion.

### **Evidence-base of current programmes**

13. Currently funded programmes, and those identified by the reviewers that have been proven pilots and are ready to be rolled out more widely, are aligned with international and national evidence for best practice interventions and are supported by communities. They are also value for money programmes that address alcohol harm at the national level and help to empower communities to address specific local concerns.
14. Review participants agreed current programmes are working well but that there are significant gaps to fill. Participants felt there is a strong case to increase funding to current programmes and to expand proven pilots, but also felt the levy would need a significant increase to meet the wider needs of communities to reduce alcohol harm.
15. Increasing levy funds to enable a comprehensive programme of monitoring and evaluation of programmes will support the ongoing evidence base, and ensure future investment is meeting the needs in communities, and delivers a return on investment.

### **Current level of levy funding and allocation to agencies**

16. The levy has not increased since the last uplift in 2009 to \$12.7million and settling at \$11.5 million since 2015.
17. With the transfer to the Ministry of Health in mid-2022 under the Pae Ora Act, the levy has been allocated across:
  - The Ministry of Health (the Public Health Agency) - \$980,000 from which fees to NZ Customs is paid for the collection of the levy, FTEs and the alcohol levy review;
  - Health New Zealand (National Public Health Service, Health Promotion) - \$8.52 million for alcohol-related harm activities in community health promotion and harm reduction programmes, and internal costs; and
  - The former Te Aka Whai Ora - \$2 million for Fetal Alcohol Spectrum Disorder (FASD) initiatives.
18. The legislation does not define the services that are covered by the levy. It provides broad, enabling powers to allow for levies to recover costs that the Ministry of Health incurs to address alcohol-related harm. The levy however, is small relative to the potential work programmes that could be cost recovered via the levy. Therefore, work

programmes need to be prioritised that have evidence of effectiveness and are aligned with best practice interventions and the health principles.

19. Appendix 1 provides a summary of the current use/work programmes funded from the alcohol levy. Several of the programmes and initiatives are multi-year and are showing positive impacts on reducing alcohol-related harm. This is particularly so for some pilot projects, (such as the Community Social Movement initiative), that have proven successful, and which now have the potential to be rolled out more widely.
20. With the disestablishment of Te Aka Whai Ora, allocation of the levy going forward will be between the Ministry of Health and Health New Zealand, although it is expected that the work programme funded by the levy for Te Aka Whai Ora will continue within Health New Zealand.

### Independent review of the levy, and costs of alcohol harm report

21. As part of this shift to the new Act, a comprehensive review of the levy was commissioned in early 2023 by the Ministry, working in partnership with Health New Zealand and the former Te Aka Whai Ora. The final review report and recommendations were delivered in March 2024 and have informed the 2024/2025 levy setting decision.
22. The review was designed to enable assessment of the current state of alcohol harm and alcohol levy expenditure, as well as consideration of the potential future state of the levy. This included consideration of how any proposed changes in relation to the alcohol levy may contribute to equitable health outcomes, and align with wider health system priorities.
23. The review included engagement with over 200 people (review participants) involved in alcohol harm reduction across community-based service providers and non-governmental organisations, academics, crown entities and government agencies. The engagement also included representatives from the alcohol industry.
24. The review report included analysis of the feedback from participants, alongside international best practice and evidence for effective alcohol harm reduction programmes, and Te Tiriti o Waitangi considerations to develop a proposed levy investment framework. It also considered the ongoing administration of the levy across the agencies in the Pae Ora setting, and potential future governance structures.
25. It concluded that demand outstrips supply for alcohol harm reduction services and communities have advocated for further support. Additionally, the static nature of the levy quantum has resulted in the reduced purchasing power of the funding, with \$11.5m buying significantly less than it did a decade ago.
26. The review noted there is opportunity to recover the costs of a broader scope of activities than those that could be undertaken by the Health Promotion Agency, following a robust assessment of potentially eligible activities.
27. The review recommended an increase the levy for the 2024/25 financial year to \$37.3 million. This total figure is made up of the following components:
  - the \$11.5 million currently collected, plus
  - **Core:** an additional \$10 million CPI-based increase to return the levy to the purchasing power it had ten years ago. This will enable current levy activities to be sustained, plus enable providers to train and retain staff, enhance monitoring

and reporting and provide for comprehensive evaluations of services to be undertaken,

- **Extend:** a further \$13.8 million to fund the extension of current evidence-based programmes that have been piloted, proven to be successful, are supported by communities, aligned to the Pae Ora context, and should now be extended and rolled out nationally or to more regions, and
- **Trial:** a small \$2 million fund for innovative programmes through ‘seed funding’ style arrangements.

28. This amount would:

- sustain current programmes and to provide the opportunity to carry out evaluations, therefore increasing the transparency of funding, and provide reassurance regarding effectiveness of spending
- increase the ability to effect substantive change in communities by making more funding available to community providers and proven community programmes
- provide a strong governance framework for investment decisions
- enable communities to better address alcohol-related harm for Māori (who are disproportionately affected), by taking a ‘by Māori for Māori’ approach
- provide greater funding certainty across financial years for providers to be able to build required organisational infrastructure, train and retain staff, build evaluation into programmes from the beginning, and provide commitment to communities and service users.

29. The reviewers considered the potential health services that could be funded by the levy, are grouped into six categories:

- **Promotion:** health promotion activities aimed at the general population to inform their own decisions about their use of alcohol.
- **Prevention:** targeted campaigns or interventions based on risk, such as at targeted population groups, self-selected individuals, or otherwise.
- **Treatment:** secondary or tertiary specialist services within the health system for people requiring treatment for alcohol use disorders or alcohol-related disease and injury conditions.
- **Research:** research and evaluation to understand the nature and extent of alcohol-related harm and the effectiveness of activities to address it.
- **Data collection:** comprehensive national and regional collection of data
- **Policy services:** machinery of government services to support Ministerial decision-making, policy development, policy implementation and operationalisation, public finance requirements, public reporting, and relationship with other stakeholders.

30. To supplement the review, the New Zealand Institute of Economic Research (NZIER), were commissioned to undertake an up-to-date study into the societal costs of alcohol related harm. The NZIER report estimates the current costs of harms associated with alcohol use in New Zealand, based on currently available evidence and data, amount to

approximately \$9.1 billion annually. The report notes this estimate is conservative and likely to be underestimated due to data limitations in key areas.

## Why a levy?

31. The levy is not intended to address all the costs associated with alcohol harm, and is not a punitive tax on industry, hence its modest quantum. The creation of the levy in 1978 was to ensure a stand-alone fund specifically to address alcohol related harm activities, that cannot be re-directed elsewhere.
32. The Pae Ora Act allows the Ministry of Health to undertake activities to address alcohol-related harm, and funding is required to support that function. Section 101 of the Act has specified the purpose of the alcohol levy to be a cost recovery instrument.
33. The societal costs of alcohol harm are significant and neither the alcohol excise duty or the levy can recover those costs. Additionally, the costs of the impacts of alcohol harms are not the same as the costs of preventing or reducing the harms. Therefore, the alcohol levy provides a small, dedicated fund for effective prevention activities and support services to reduce alcohol harm.
34. The review undertook a comprehensive analysis of the levy, its purpose and its intersection with various population groups, frameworks and legislation. It looked at options for charging (direct, general taxation, and a levy) and established that a levy is an appropriate and well-established mechanism to meet the Ministry's responsibilities in relation to alcohol harm, and this view is supported by the Ministry.
35. The reviewers concluded that using the levy to fund activities designed to address alcohol-related harm is widely supported and there is strong support for continued funding for more and different activities.
36. A levy on alcohol products enables the costs to be recovered from industry<sup>1</sup>. It is acknowledged that while the levy is only collected from industry participants, the total costs to industry can be passed to consumers through the retail price of alcoholic beverages.

## Cost Recovery Principles and Objectives<sup>2</sup>

37. The cost recovery principles of the alcohol levy have not changed. The proposed change is to increase the aggregate amount of the levy for 2024/25 year.
38. The most relevant cost recovery principle applied by the Ministry to the alcohol levy for the purpose of this CRIS is effectiveness - the desired outcomes will be achieved by the activity.
39. The objective of the cost recovery proposal is to provide adequate funding to cost recover the alcohol-related harm reduction activities of the Ministry of Health. This would require processes that:
  - provide for a rationale of the spend

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<sup>1</sup> The industry is levied as they are risk exacerbators.

<sup>2</sup> A principle is a general rule that should be used to guide cost recovery design, a feasible option must meet the stated principles. An objective is more of a goal that a specific cost recovery proposal should meet, the recommended option does not need to meet all of the objectives.

- provide for a robust cost allocation process, with clear assumptions
- are clear and transparent in the way the costs are assessed, incurred, future demand is forecast and how those charges are determined
- have robust evaluation of the activities and their outcomes and impact
- show clear lines of accountability
- provide for implementation, monitoring and review.

## Levy Setting Process

40. Schedule 6 of the Pae Ora Act provides further information on the power to recover costs. It provides a mandatory process for setting the levy that requires the Minister to:

- assess the level of spending that would be ‘reasonable’ for the Ministry of Health to spend that year in addressing alcohol-related harm and in meeting the operating costs that are attributable to alcohol-related activities, and
- determine the total amount to be collected by the levy.

41. Schedule 6, clause 2(3) provides that the Ministry of Health does not need to spend the entire levy amount collected and can accumulate levy in one financial year to be spent in a future year. This differs from other common cost-recovery provisions that can require levy income to be spent in a specific period. In practice, accumulated surplus expenditure could be considered by the Minister when identifying a reasonable levy quantum for a particular year.

42. The levy setting steps required are:

1. New Zealand Customs collates volume data from the previous year’s manufacturing and import of alcoholic beverages.
2. The Minister of Health (or delegate) determines, with the concurrence of the Minister of Finance as required by the Act, the aggregate expenditure figure that is considered reasonable for the Ministry of Health for the next year.
3. Using the aggregate expenditure figure, the portions of the levy that are payable by alcohol producers and importers across different classes of alcohol (levy rates) are calculated.
4. Once the levy rates have been confirmed, an Order in Council and a Cabinet Paper is prepared to seek Cabinet’s authorisation to submit the Order to the Executive Council.
5. Letters signed by the Minister of Health (or delegate) are sent to key alcohol industry stakeholders, at the same time as the levy Order is notified in the New Zealand Gazette (at least 28 days prior to the Order coming into force on 1 July 2024).

43. Should the Minister choose not to determine the levy for the 2024/25 financial year, no levy would be raised and the work programmes, some of which involve contracted services and providers, would be without funding and would be unable to deliver the work programme.

## How the levy is calculated



44. The amount of levy to be collected on each class of alcohol is calculated using data from Customs New Zealand detailing the number of litres of alcohol imported or manufactured in the previous financial year and working out the proportion of the total levy aggregate borne by each class of alcohol. The formula for calculating the individual levy rates is provided in Appendix 2.
45. It is important to note that the actual levy recovered may be more or less than the agreed aggregate if the volumes of alcohol manufactured or imported for sale in the current financial year differ from the volumes upon which the rates are calculated.

## The level of the proposed fee and its cost components (cost recovery model)

46. The Ministry and Health New Zealand agree with the recommendations of the review and have assessed four possible options for the 2024/25 levy as set out in the table below. Option 4 was the key option recommended by the reviewers, with option 3 suggested as the 'minimum baseline uplift'. The Ministry has provided an additional "maintenance" option (option 2) which is simply a CPI-based calculation.
47. The Ministry and Health New Zealand consider that an uplift to \$37.3 million is the preferred option. It would ensure that:
- current and established programmes are maintained and have adequate funding to expand if proven effective
  - robust evaluation of the activities can be built in to provide assurance to Ministers and the Ministry that the investment is directed to the right place
  - new activities, including those arising from evaluations and from government priorities, can be initiated with evaluations built in from the beginning and supported by a strong evidence-base
  - research, particularly in the New Zealand context, can be undertaken to support activities, and inform investment decisions
  - a comprehensive FASD work programme can be established
  - investment can be monitored.
48. Monitoring and evaluation are vital mechanisms to demonstrate value for money and the return on investment. With an uplift in the levy the Ministry would be able to develop and apply a comprehensive and robust monitoring and evaluation framework. This could then be used to provide all parties with improved information to support future decision-making.

## Impact analysis

49. A number of options were initially considered, including no levy and an increase that better reflected the true (high) cost of alcohol-related harm.
50. These three options were discounted as:
- No levy removes a valuable funding stream for important harm prevention and reduction initiatives and activities.

- Directing a portion of the alcohol excise duty to alcohol harm activities instead of having a levy would essentially result in the same situation as the current standalone levy, with similar administrative costs, but potentially less certainty in the level of funding. Additionally, it would require legislative change to two Acts (Pae Ora and the Customs and Excise Act). Therefore, it is not appropriate for this year's annual levy setting process.
- The review provided a careful assessment of the current state of activities and those that could be extended, and recommended an increase to \$37.3m for now. This allows for a comprehensive assessment of all current and *potential* funding that could be directed to alcohol harm related activities to be carried out, including government priorities. While further increases could be considered in future, we do not have an evidence base for any increase beyond \$37.3 million at this time, but the comprehensive assessment of programmes will provide that evidence.

51. Options that are considered to be reasonable for the 2024/25 alcohol levy setting under the Pae Ora Act are provided in Table 1.

### Impacts on industry and on consumers

52. The impacts of an increase will fall on the alcohol industry, who can choose to pass on the total costs to consumers.
53. While it is expected that any proposed uplift in the levy will have a material impact on the ability to prove, sustain and expand alcohol harm reduction programmes, the actual impact on consumers would be very small as it is spread across the retail price of individual classes of alcohol products.
54. The impact would still be much less than the impact of alcohol excise on prices (for example if raised to \$37.3 million, the impact on the retail price of a standard bottle of wine would be 7.7 cents) but provides the industry with a low-cost opportunity to support harm reduction measures.

### Risks of underfunding

55. The Ministry has a statutory mechanism to recover some of the costs of its alcohol-related harm activities and underinvestment in this area would result in poor outcomes for that investment. Programmes should be adequately funded to ensure that they are built on a strong evidence base, can achieve their intended outcomes and be of value to New Zealand.
56. Current programmes are at risk of being stretched too thinly without adequate evaluation to assess the effectiveness of the spend. The review showed industry and the public (consumers and providers of programmes) are seeking greater transparency of the effectiveness of the spend. Transparency in the use of levy money is a fundamental principle and, while applicable to all of the options below.

**Table 1 – Options for the alcohol levy 2024/25**

	<b>Option 1</b> <b>Status Quo</b> <b>\$11.5 million</b>	<b>Option 2</b> <b>Status quo, plus simple CPI adjustment</b> <b>\$16.6 million</b>	<b>Option 3</b> <b>Address cost pressures – strengthen and sustain current activities</b> <b>\$23.5 million</b>	<b>Option 4</b> <b>Scale – Significantly strengthen current initiatives and grow new initiatives, including FASD</b> <b>\$37.3 million [preferred option]</b>
Effectiveness Principle (the desired outcomes will be achieved by the activity)	Static funding over a long period of time has resulted in a levy insufficient to sustain current minimum programmes, or address service gaps. With increasing cost-pressures, the status quo investment will continue to see an erosion of our ability to address alcohol harm.	This will build on the status quo by addressing the erosion of funding with a simple CPI increase. It will allow for a baseline of activity as well as allow the current FASD pilots to be maintained.	This quantum will enable current levy activities to be sustained, providers to train and retain staff, enhance monitoring and reporting, and provide for comprehensive evaluations of services to be undertaken, but will not provide adequate investment for the extension of proven pilots, or the development of new programmes	This will enable us to build further on existing programmes and provide greater investment to grow new initiatives to address the complex and widespread harm attributed to alcohol, as well as support the development of investment criteria that better accounts for cost-recovery across the health system.
Score:	-	0	+	++
<b>Impact on activities and breakdown of costs</b>	Reduced community health promotion and harm reduction programmes, and social marketing	Maintain at current service levels current health	Increased investment in established health promotion and social marketing programmes, including, for	Increased investment in established community health promotion and harm reduction programmes, and

	<p>commissioned by Health Promotion Directorate, National Public Health Service due to cost pressures.</p> <p><b>\$6.9 million</b></p>	<p>promotion and social marketing programmes</p> <p><b>\$10.9 million (indicative)</b></p>	<p>example Community Social Movement, Auckland Rugby League 'Aunties', Pacific harm minimisation programmes, Tamariki to Mokopuna programme, and an innovation fund</p> <p><b>\$13.9 million (indicative)</b></p>	<p>social marketing, and new initiatives commissioned by Health Promotion Directorate, National Public Health Service</p> <p><b>\$22.2 million (indicative)</b></p>
	<p>FASD community support pilot programme and national FASD campaign</p> <p><b>\$2.0 million</b></p>	<p>Continue existing FASD pilot programme and national awareness campaign</p> <p><b>\$3 million (indicative)</b></p>	<p>FASD: Expand community support pilot programme, FASD campaign, screening, workforce development, prevalence study and Strategic Action Plan refresh</p> <p><b>\$6.8 million (indicative)</b></p>	<p>FASD: Significant expansion of community support pilot programme, FASD campaign, workforce development into education, justice and law enforcement, FASD register, improved referral pathways and Strategic Action Plan refresh</p> <p><b>\$12 million (indicative)</b></p>
	<p>Programme management, internal costs, FTEs etc in NPHS, Hauora Māori Services, Public Health Agency, and includes Customs' levy collection cost recovery</p> <p><b>\$2.6 million</b></p>	<p>Programme management, internal costs, FTEs etc in NPHS, Hauora Māori Services, Public Health Agency, and includes Customs' levy collection cost recovery</p> <p><b>\$2.7 million (indicative)</b></p>	<p>Programme management, internal costs, FTEs etc in NPHS, Hauora Māori Services, Public Health Agency, and includes Customs' levy collection cost recovery</p> <p><b>\$2.8 million (indicative)</b></p>	<p>Programme management, internal costs, FTEs etc in NPHS, Hauora Māori Services, Public Health Agency, and includes Customs' levy collection cost recovery</p> <p><b>\$3.1 million (indicative)</b></p>

- - negative impact, 0 – no change, + - meets the Principle but with some caveats, ++ - meets the Principle

## Consultation

57. The levy review included substantial engagement with over 200 people (review participants) involved in alcohol harm reduction across community-based providers and NGOs, academics, crown entities and government agencies. The engagement also included representatives from the alcohol industry.
58. The Alcohol Levy Working Group, (comprising members from the Public Health Agency (PHA), National Public Health Service (NPHS) and Te Aka Whai Ora), has worked together closely to support the review process and to consider the options and advice provided to Ministers.
59. The Ministry has also consulted with the Ministry of Justice, New Zealand Customs Service, and the Treasury on the levy setting process.
60. There is no requirement in the legislation for the levy rates to be consulted with industry or the public. However, as stated above, consultation during the review was conducted and there was strong support for an increase from communities and those working in alcohol harm reduction, and acknowledgement from industry that the levy has a minor impact on them and consumers.

## Conclusions and recommendations

61. The alcohol levy has undergone a comprehensive review and this has shown that the levy cost recovery mechanism is still fit for purpose, but the quantum of the levy is insufficient to maintain current activities, provide for robust processes to evaluate activities, or meet current and future government priorities.
62. Over 15 years of no increase in the aggregate figure has eroded the spending power of the levy. The review recommends increasing the aggregate expenditure to \$37.3 million to allow for core work to be sustained, ensure robust evaluation and investment processes for all programmes, and to support new initiatives to be developed to meet the significant demands for services.
63. The Ministry and Health New Zealand agree with this recommendation, and will work together to consolidate improved processes for the levy funding, such as for allocation, research, evaluation and monitoring. This will support work programmes to be successful and enable the tracking and monitoring of activities to assess effectiveness and the return on investment.
64. An increase to \$37.3 million would have a negligible impact on both the alcohol industry and consumers, as the uplift would only add a few cents or less to each alcohol product purchased. However, \$37.3 million would enable robust and best practice activities and approaches to be implemented that support government priorities now and into the future.

## Implementation plan

65. The Parliamentary Counsel Office will be instructed to draft an Order in Council for submission to the Executive Council and Governor General for approval on 13 May 2024. The Parliamentary Counsel Office will gazette the levy changes. Once the Governor-General approves the Order, Customs will be informed of the final levy amount and

letters to key industry stakeholders will be issued. The Order with the new overall aggregate figure for the next financial year will take effect on 1 July 2024.

66. The funding from the levy is transferred directly to the Ministry of Health from Customs.
67. A new allocation process for the levy funds is required due to the Pae Ora settings between the health agencies. The review recommended, and the health agencies agree, that the Ministry of Health and Health New Zealand will:
- identify activities being provided or planned to address alcohol related harm, including government priorities. This includes specifying whether the activities are promotion, prevention, research, data collection, policy services, or other activities;
  - explain the intervention logic for how those activities will address alcohol-related harm;
  - justify the level of operational costs required to support those activities.
68. The Ministry of Health and Health New Zealand will also justify the service level for those activities based on factors such as:
- the level of need in communities and strength of evidence of effectiveness
  - evidence of cost effectiveness (including reducing negative externalities of alcohol-harm)
  - ensuring that Māori and other population groups have access to services in proportion to their needs, and that the proposed services and programmes reflect their needs and aspirations.
69. The identified work programmes and activities will be allocated sufficient funds from the levy to undertake the work. It is important to note that the Ministry is not obliged to spend the total levy transferred from Customs in a financial year (clause 3 of Schedule 6). This allows for the roll-over of funds from one financial year to another and is an approach that can be used to support multi-year contracts.

## Monitoring and evaluation

70. The Ministry of Health will engage Health New Zealand to evaluate the work programmes that are funded by the alcohol levy. This will allow for the monitoring of funding allocations and ensure that the levy is being spent according to agreed criteria and priority areas. A benefit of increasing the alcohol levy is that it will allow for a comprehensive programme of evaluations of services to be funded, and a broader assessment of work programmes to inform decisions going forward.

## Review

71. As noted above, the alcohol levy was comprehensively reviewed in 2023/24 by independent reviewers. It is not practical to undertake a similarly comprehensive review often, but the alcohol levy is set annually, and this provides an opportunity for a light touch review each year, such as reviewing assessment of the spend.

# Version control

Other version	Date	Link

## Appendix 1: Summary of current work use/work programmes funded from the alcohol levy

Programme name	Programme description	Impact
<b>Building an evidence base</b> Current funding \$0.85M	Expanding the evidence base for alcohol interventions in the New Zealand context. Includes research projects and evaluations, and knowledge dissemination to inform policy and programmatic decision-making across the health system.	Existing research outputs have strengthened health service delivery for young people, equipped communities with knowledge to support local alcohol priorities, informed national intervention decision-making, and been foundational to national reviews of services.
<b>Regional grants</b> Current funding \$0.7M	These grants provide for funding to be devolved at a regional level, and includes examples such as: <ul style="list-style-type: none"> <li>Auckland Rugby League their affiliated clubs to provide sideline ambassadors to build a positive atmosphere at matches and minimise inappropriate consumption of alcohol.</li> </ul>	Rugby League in Auckland has extensive reach into the most vulnerable communities, with 60% of their players identifying as Pacific and 30% Māori. The project has increased awareness in clubs and communities of the harm that is caused from the over-use and abuse of alcohol. It also contributed to a decrease in negative sideline behaviour and drinking, including behaviour that had previously led to court appearances.
<b>Sports and alcohol programme</b> Current funding \$0.5M	This pilot in a small number of sports clubs aims to reduce exposure of alcohol marketing to children, and also supports sport club culture change by promoting family and player health and wellbeing. This project is also aligned with the WHO recommended best practice interventions for alcohol harm prevention.	This programme has assisted sports clubs to find alternatives to all forms of alcohol sponsorship and maintain strong relationships with other businesses/forms of sponsorship. Programmes to provide alternatives to alcohol sponsorship in Australia have also been shown to reduce alcohol consumption during and after sports matches and events.



<p><b>Community Law Centres alcohol harm reduction project</b></p> <p>Current funding \$0.3M</p>	<p>Provides support for community groups and individuals to participate in local alcohol licensing processes by providing resources and advice to help participants to prepare for and appear at district licensing hearings.</p>	<p>This project has been independently evaluated and found to have improved the quality and effectiveness of community participation in the district licensing process.</p>
<p><b>Community Social Movement (CSM)</b></p> <p>Current funding \$0.5M</p>	<p>The CSM provides innovative social marketing targeted at specific needs. The movement is led, and driven, by Māori and is currently made up of a collective of five rōpū who design locally grounded, community-led, and strengths-based initiatives that contribute to reducing alcohol-related harm in Māori communities.</p> <p>Targeting towards needs of specific populations has included: Youth aged 14-24; Young parents and alcohol, focused on FASD; Alcohol host responsibility in family-friendly settings and at large scale events.</p>	<p>Rangatahi who have completed the youth programme are showing signs of improved wellbeing and are engaging in other pro-social activities.</p> <p>The FASD programme has raised awareness of how alcohol can impact pregnancies, whānau and future generations.</p>
<p><b>Pacific Harm Minimisation programme</b></p> <p>Current funding \$0.35M</p>	<p>This programme has included the development of a community led evidence brief which has provided a strong case for action to address inequitable alcohol harm experienced by Pacific peoples, and led to the establishment of the Pacific Alcohol Advisory Group which is now a key governance body supporting the development of a strategy and action plan to reduce alcohol harm for Pacific people in New Zealand.</p>	<p>The strategy development begins in April with consultation and engagement in Sept-Oct and the strategy being finalised in December 2024. The programme is ready to be implemented once funding has been secured.</p>

## Appendix 2: Process for determining levies payable as per clause 3 of Schedule 6 to the Pae Ora (Healthy Futures) Act 2022

### Clause 3: Minister to determine amount of levy for each class of alcohol

- (1) After determining the aggregate levy figure for any financial year, the Minister must determine, in accordance with subclause (2) [of Schedule 6], the amounts of the levies payable under clause 5, [of Schedule 6] in respect of each class of alcohol, in order to yield an amount equivalent to the aggregate levy figure.
- (2) The process for determining the amounts of levy is as follows:
  - (a) *Step 1* — for each class of alcohol, determine the total number of litres of that class of alcohol that was imported into or manufactured in New Zealand during the preceding statistical year
  - (b) *Step 2* — for each class of alcohol, multiply the result of step 1 by the appropriate rate, as set out in the table in Schedule 7. This gives the (nominal) total number of litres of alcohol for each class of alcohol
  - (c) *Step 3* — for each class of alcohol, divide the number of litres of alcohol for that class by the total number of litres of alcohol for all classes. This gives the proportion of the aggregate levy figure that is to be borne by that class of alcohol in the next financial year
  - (d) *Step 4* — for each class of alcohol, multiply the result of step 3 by the aggregate levy figure. This gives the amount of levy to be borne by each class of alcohol in the next financial year
  - (e) *Step 5* — for each class of alcohol, divide the result of step 4 by the result of step 1. This gives the amount of levy payable on each litre of alcohol of that class in the next financial year.
- (3) If a rate for a class of alcohol is described in the table in Schedule 7 as a variable rate, the Minister must-
  - (a) determine the rate to be applied to that class of alcohol
  - (b) in making that determination, use the method for determining variable rates in Schedule 7.