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Inquiry into the Strategic Tourism Assets Protection Programme



Photo acknowledgement:
Chris Tse, Office of the Auditor-General

Inquiry into the Strategic Tourism Assets Protection Programme

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Auditor-General's overview

E ngā mana, e ngā reo, e ngā karangarangatanga maha o te motu, tēnā koutou.

Covid-19 created unprecedented challenges for New Zealand. The border closure on 19 March 2020 and the lockdowns that followed severely affected the tourism sector. By May 2020, the Government had forecast 92,000 job losses in 2020 and cumulative losses of \$18-21 billion over four years for the tourism sector.

There was uncertainty about how long the border would remain closed and when domestic travel would resume. There was also concern among officials about the potential purchase of tourism assets by foreign buyers and that strategically significant assets might pass into foreign ownership.

The \$290 million Strategic Tourism Assets Protection Programme (STAPP) formed part of a \$400 million government response to support the tourism sector. STAPP aimed to provide rapid financial support for strategically significant tourism assets that contribute significantly to the region that they are in and to tourism in New Zealand.

STAPP was not intended to save every job or tourism business in the tourism sector – rather it aimed to ensure that the “wheua” would survive so a more sustainable tourism sector could form in the future. A group of Ministers (known as the Tourism Recovery Ministers) was responsible for making decisions about STAPP. The Tourism Recovery Ministers considered it important to deliver targeted support quickly. STAPP was publicly announced on 14 May 2020 and funding decisions were made in late July 2020.

Public sector officials, the Tourism Recovery Ministers, and tourism businesses applying for STAPP funding were working in a challenging environment – the Covid-19 situation was constantly changing, tourism businesses were under significant pressure, and work had to be carried out in tight time frames, often with limited information. As events have transpired, the trajectory and sustained duration of Covid-19 has differed significantly to what was envisaged when STAPP was designed in May 2020.

Concerns have been raised in the media and with my Office about how STAPP was managed. In particular, tourism businesses have questioned the clarity and transparency of STAPP's criteria for funding and whether they were applied consistently. Because of these concerns, and the amount of public money involved, I decided to inquire into the STAPP eligibility criteria for funding and the process for assessing funding applications. It is important that New Zealanders have trust and confidence that public money has been spent appropriately. This importance is even more apparent during an emergency, when decisions need to be made quickly. Clear and transparent processes are a key part of maintaining the public's trust.

What we found

When STAPP began, it was unclear how many tourism businesses with strategically important tourism assets it would fund. The Ministry of Business, Innovation and Employment (the Ministry) designed the application and assessment processes with the understanding that it would cover up to 50 tourism businesses with strategic tourism assets. In the end, 127 tourism businesses received funding.

As with some other government Covid-19 response initiatives, STAPP involved a high-trust approach. This approach required limited evidence and relied on representations from tourism businesses applying for funding to establish eligibility.

Unclear criteria

Some aspects of STAPP's criteria were not as clear as they could have been. Criteria needed to be clear and provide enough guidance so tourism businesses applying for funding could self-assess whether they met the criteria and whether it was worthwhile applying. Clear criteria and assurance processes create trust because people feel that they have been dealt with fairly and transparently. Criteria also need to be clear so that decision-makers can verify that the criteria have been met.

One key criterion was that tourism businesses applying for funding had to have "exhausted all other avenues of support". What this meant in practice was unclear. There was no explanatory guidance about what steps to take to confirm all other avenues of support had been exhausted. Some tourism businesses just referred to banks as being "unlikely to lend". The Ministry did not seek information to support each tourism business's representation about this criterion. No inquiries were made about tourism businesses' equity position or parent company resources.

Some tourism businesses told us that because they had not pursued options like re-mortgaging personal property to support the business, they thought they would be ineligible for STAPP. On that basis they did not apply.

In my view, more thought should have been given to what corroborating information could have been sought and how officials could verify at a later stage whether the criteria had in fact been met.

Ultimately, officials advised that they could not confirm whether applicants had in fact exhausted all other avenues of support. One Tourism Recovery Minister told us that they wanted to ensure that profitable parent companies did not call on STAPP funding to support their subsidiary tourism businesses. The Tourism Recovery Ministers did give funding to tourism businesses with profitable parent

companies, including two parent companies that received funding of \$31.2 million and \$30 million respectively for their subsidiary tourism businesses.

In my view, a scheme should not include criteria if they are ambiguous or inconsequential. That does not provide clarity to applicants nor does it provide confidence to the public and Parliament that public money is being spent as intended.

Three applications were made before STAPP formally opened

Three tourism businesses sought and received funding before STAPP opened. They said that, without government funding, they might hibernate, with resulting job losses. The assessment process for these applications was limited compared to the assessment process for subsequent STAPP applicants.

Consistency of assessment process

There was a two-stage process for assessing STAPP applications. This included officials seeking feedback from other government agencies and New Zealand Māori Tourism (a non-government organisation that represents the Māori tourism industry). However, this was limited due to time constraints and some constraints on access to application information. A financial assessment and a moderation process were also part of this assessment. Through this assessment process, tourism businesses were given a score out of 30. Although the assessment process was consistent, we did not see a documented consistent methodology for deciding the amount of funding awarded.

The Tourism Recovery Ministers' decisions

In July 2020, officials advised the Tourism Recovery Ministers that the economic context had changed so much that STAPP should be stopped or alternative options developed. Since STAPP applications had opened, several relief packages, including the wage subsidy scheme extension, had been publicly announced. The tight time frames officials were working under meant they did not have time to recalculate funding requests to take this into account.

When the Tourism Recovery Ministers made decisions in July 2020, they:

- found it hard to differentiate strategic tourism assets from tourism assets more generally;
- could not confidently identify whether a strategic tourism asset would be lost without STAPP funding; and
- were unsure about how many tourism businesses to fund.

The Tourism Recovery Ministers did not accept officials' advice to stop STAPP or fund a small number of tourism businesses. They asked officials to provide alternative options and requested further advice from officials and New Zealand Māori Tourism about what support was being provided for Māori tourism businesses before making their final decision.

The Tourism Recovery Ministers decided to fund all tourism businesses that scored more than 15 out of 30 points in the assessment process. They also decided to fund all eligible Māori tourism businesses, including those that scored less than 15 out of 30 points in the assessment process. The Ministers told us that they decided to fund more tourism businesses because they believed this gave best effect to Cabinet's original intentions for STAPP: to gain maximum leverage over strategic tourism assets that offered significant regional benefits.

Ministers have broad discretion to make decisions. They can seek further advice from other parties and rely on their own knowledge of particular regions and tourism businesses when making decisions. However, all decisions to spend public money come with an obligation to ensure that the decision-making is consistent and transparent. We saw limited evidence explaining the reasons for the decisions. Without those records, those who have made the decisions are not able to adequately explain why funding was provided. In my view, this is not acceptable practice, regardless of the circumstances. To ensure that the public can be confident in the integrity of the decisions made, the reasons for this should be clearly explained and well documented.

Concluding thoughts

At the time of writing our report, \$166.1 million had been allocated (but not yet completely disbursed) to tourism businesses. STAPP has sustained those businesses that received funding, although many might need further support to survive the ongoing impacts of Covid-19 on international and domestic tourism.

STAPP was designed and rolled out quickly in an environment of significant uncertainty. Evidence suggests that officials did their job and provided free and frank advice throughout the process. As events have transpired, the trajectory and sustained duration of Covid-19 has differed significantly to what was envisaged when STAPP was designed in May 2020.

By the time the Tourism Recovery Ministers made decisions about STAPP, officials advised that they were uncertain about how effective STAPP might ultimately be. However, some STAPP criteria were unclear and it appears that Ministers' decisions were made against a backdrop of uncertainty as to whether some key criteria were met.

This, combined with the decisions made that diverged from officials' advice and the limited documentation to explain the divergence, makes it hard to determine whether the funding was applied fairly in accordance with the published criteria and the extent to which it represents value for money.

Trust and confidence in government depends on transparency and accountability when spending public money. This trust and confidence can be undermined where the criteria are not clear and when some applicants are treated, or are perceived to be treated, differently than most applicants or where there is limited documentation supporting decisions made by Ministers. We saw aspects of each of these factors.

To ensure that future schemes build on the lessons learned from STAPP, I suggest that the Ministry should commit to formally reviewing the effectiveness of STAPP against its goals.

I thank the Ministry of Business, Innovation and Employment, the Tourism Recovery Ministers Group, Deloitte New Zealand, New Zealand Māori Tourism, and the agencies we met for their assistance with this inquiry.

Nāku noa, nā

A handwritten signature in black ink, appearing to read 'JMR Ryan', with a stylized flourish at the end.

John Ryan
Controller and Auditor-General

24 March 2022

1

Introduction

Covid-19 and the tourism industry

- 1.1 Covid-19 was an unprecedented challenge for New Zealanders and for the Government. The tourism sector was severely affected by the border closure on 19 March 2020 and the lockdowns that followed. In May 2020, the Government forecast 92,000 job losses in 2020 and cumulative losses of \$18-21 billion over four years for the tourism sector.
- 1.2 There was uncertainty about how long the borders would be closed and how quickly demand for domestic travel would return. Some public sector officials were also concerned about the potential purchase of tourism assets by foreign buyers, resulting in strategically important assets possibly passing into foreign ownership.

The Strategic Tourism Assets Protection Programme

- 1.3 The Strategic Tourism Assets Protection Programme (STAPP) was established in May 2020. Its purpose was to provide funding for strategically significant tourism assets (that is, tourism assets that contribute significantly to their local region and to tourism in New Zealand). Fast delivery of funding to the tourism sector was a main imperative. At the outset, about \$290 million of the original \$400 million Tourism Recovery Fund was committed to the tourism sector through STAPP.
- 1.4 The Tourism Recovery Ministers Group was responsible for making decisions under STAPP, including setting the eligibility criteria. The group comprised the Ministers of Finance, Tourism, Māori Development, Conservation, and the Under-Secretary of Regional Economic Development. Cabinet had authorised the Tourism Recovery Ministers to make decisions before STAPP started if there was an imminent risk of a tourism business failing.¹
- 1.5 On 4 June 2020, before STAPP started accepting applications for funding, three tourism businesses approached the Minister of Tourism and the Ministry of Business, Innovation and Employment (the Ministry) seeking funding. These three businesses were Whale Watch Kaikōura, AJ Hackett Bungy New Zealand, and Discover Waitomo. The Tourism Recovery Ministers approved funding for these three businesses.²
- 1.6 The formal application round was open for two weeks from 4 June 2020. When STAPP closed on 18 June 2020, the Ministry had received 304 applications. Another four applications were submitted within two hours of the deadline. These were accepted, bringing the total to 308.³

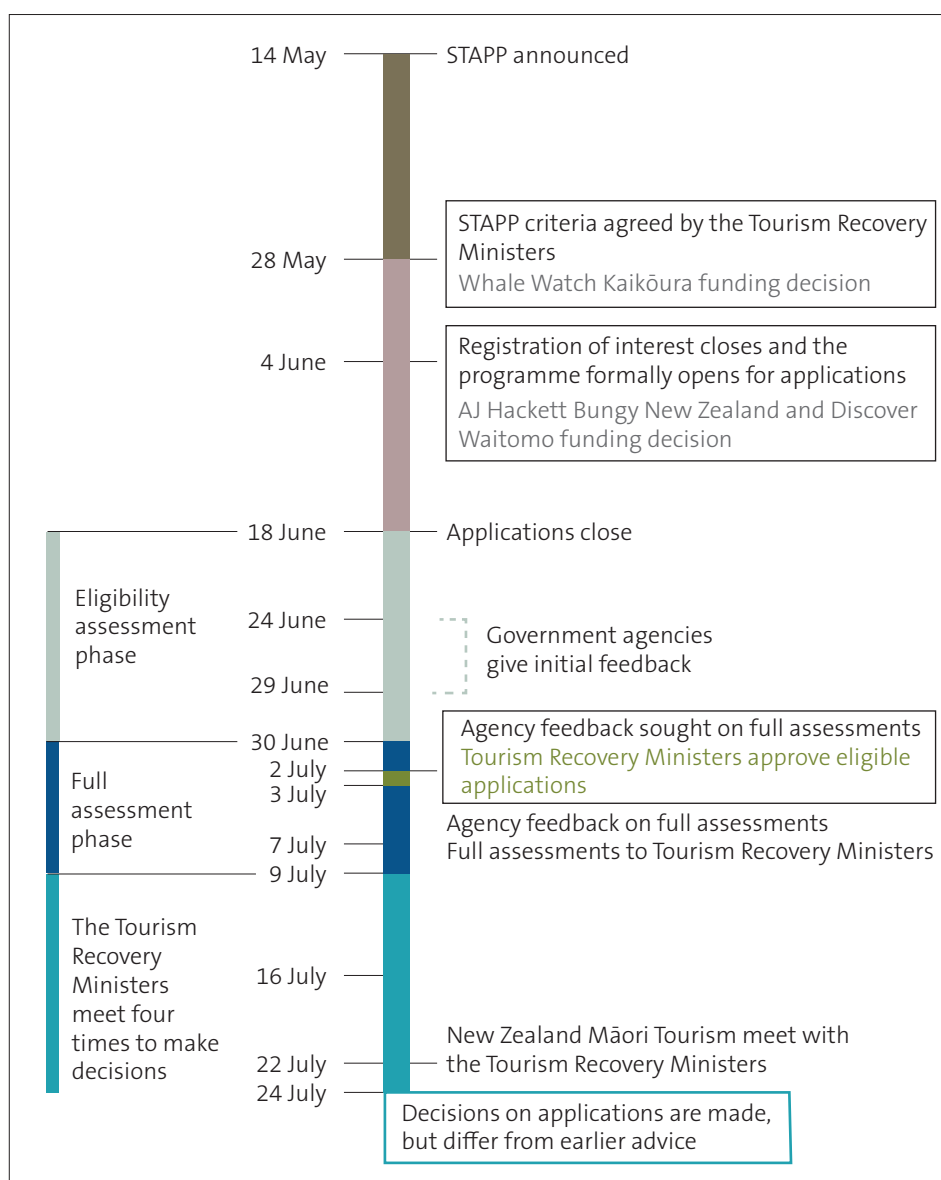
1 DEV-20-MIN-0080 COVID-19 response: Tourism Sector Recovery Plan.

2 The Tourism Recovery Ministers approved funding for Whale Watch Kaikōura on 28 May 2020 and funding for AJ Hackett Bungy New Zealand and Discover Waitomo on 4 June 2020.

3 Forty-five inbound tour operators applied for funding under STAPP. On 30 June 2020, the Tourism Recovery Ministers agreed that funding for inbound tour operators should be considered separately from STAPP. Inbound tour operator funding was not in the scope of this inquiry.

- 1.7 The Tourism Recovery Ministers made decisions about which applications would receive funding by the end of July 2020. Payments were made after funding agreements were signed.
- 1.8 Figure 1 shows a timeline from the announcement of STAPP to the decision-making process.

Figure 1
Timeline of the Strategic Tourism Assets Protection Programme



Source: Office of the Auditor-General

Who was involved?

- 1.9 The Ministry led the development of STAPP's application and assessment process, building on work by Tourism New Zealand. The Treasury provided advice to the Minister of Finance on aspects of STAPP's design and of the funding models proposed.
- 1.10 Other agencies that reviewed STAPP's application assessments included:
- the Department of Conservation;
 - Te Puni Kōkiri;
 - the Ministry for Culture and Heritage;
 - Tourism New Zealand; and
 - New Zealand Māori Tourism (a non-government independent incorporated society that promotes and supports Māori tourism).

Why we were interested in this matter

- 1.11 Concerns about STAPP have been raised in the media and with our Office. Tourism businesses have questioned the clarity and transparency of STAPP's criteria and whether they were applied consistently.
- 1.12 Because of the concerns we have heard, the amount of public funding involved, and the importance of robust funding processes to the public's trust and confidence, we decided to carry out an inquiry looking at STAPP's processes for assessing applications for funding.

What we looked at

- 1.13 Our work focused on how applications from tourism businesses were assessed against STAPP's criteria. We looked at:
- the information available about STAPP's eligibility criteria and assessment process;
 - how applications from tourism businesses have been assessed, including the three tourism businesses that received funding approval before the formal application round began;
 - whether there is any evidence that applications have been assessed inconsistently; and
 - any other related matter that we consider desirable to report on.
- 1.14 We also comment on the monitoring arrangements that were put in place for successful STAPP applications.
- 1.15 In keeping with the Auditor-General's role, our inquiry focused on the actions and processes underpinning the initial eligibility assessments of applications for STAPP funding and the subsequent assessment of these applications. We looked at how

a selection of eligibility assessments were carried out. We looked at whether decisions about funding were consistent. We did not examine the substantive merits of the policy, individual applications, or funding decisions.

- 1.16 We understand that one criticism of STAPP is that it has distorted the tourism market because tourism businesses that received funding have a competitive advantage over those that did not apply or were not successful. This issue does not sit within our mandate.

What we did


- 1.17 In carrying out our work, we:
- examined documents from the Ministry and New Zealand Māori Tourism;
 - met Ministry officials who were involved in developing, advising, and decision-making;
 - met with officials from the Ministry for Culture and Heritage, Ministry for the Environment, Department of Conservation, Te Puni Kōkiri, and Tourism New Zealand who were involved in reviewing STAPP applications;
 - met with officials from New Zealand Māori Tourism who were involved in the full assessment process;
 - met with Deloitte New Zealand (Deloitte) to understand the financial analysis and monitoring carried out for STAPP applications; and
 - requested information from the Tourism Recovery Ministers and met with the former Minister of Conservation.

The structure of this report

- 1.18 In Part 2, we discuss the development of the STAPP criteria .
- 1.19 In Part 3, we discuss the three tourism businesses that applied for funding before STAPP officially started. We also discuss the applications and the eligibility assessment process.
- 1.20 In Part 4, we discuss the full assessment process that most STAPP applications went through and the funding decisions.
- 1.21 In Part 5, we discuss the decisions the Tourism Recovery Ministers made about STAPP.
- 1.22 In Part 6, we discuss what monitoring processes were in place for successful applications.

2

Deciding on the eligibility criteria

	14 May	STAPP announced
	28 May	STAPP criteria agreed

- 2.1 In this Part, we describe:
- the background to STAPP;
 - the development of STAPP criteria; and
 - our comments on the process for developing STAPP criteria.

Background to the Strategic Tourism Assets Protection Programme

A response to Covid-19 and its effect on the tourism sector

- 2.2 In April 2020, the Minister of Tourism asked Tourism New Zealand to develop strategies for “the future of tourism”.
- 2.3 Tourism New Zealand prepared a Cabinet paper, dated 12 May 2020, outlining a tourism model that would “enrich New Zealand and the well-being of New Zealanders”. Because responding to Covid-19 posed serious and immediate challenges, work on preserving the “wheua” of the tourism sector was separated from work to maximise the value of international visitors.
- 2.4 The Cabinet paper proposed protecting significant tourism assets that offered significant economic benefits to the regions they were in (“spill-over” benefits). This proposal became the basis for STAPP. Officials cautioned that any funding should not tie labour to jobs that might not exist in the future or interfere with investment signals that might otherwise help to grow tourism.
- 2.5 In early May 2020, Treasury officials advised the Minister of Finance that a support package for the tourism sector could be included in the second wave of the Covid-19 Response and Recovery Fund. The support package could help tourism businesses that were strategically important to the tourism sector and its recovery and contributed to their region’s economic development. At this time, the Ministry had developed indicative criteria for supporting the tourism sector.
- 2.6 The Treasury advised the Minister of Finance on several matters that needed to be considered:
- An approach to target specific tourism businesses could increase the risk of legal challenge to any scheme due to the discretion of decision-makers to determine whether a business met the eligibility criteria.

- Any scheme to support the tourism sector would risk both under- and over-investing.
- Tourism makes a significant contribution to the economy, including the economies of key South Island regions and the Māori economy. About 16% of working-age Māori worked in the tourism sector, and there was a risk that iwi balance sheets could be disproportionately affected by the impact of Covid-19 due to their focus on tourism.

- 2.7 The Treasury and the Ministry were concerned that Tourism New Zealand’s proposal did not prioritise getting money to affected businesses and did not adequately consider longer-term trade-offs.
- 2.8 The Treasury instead recommended producing another report for Cabinet about the approach to the tourism sector recovery package and funding. This would allow the Treasury and the Ministry to work on risks and issues with Tourism New Zealand. This was expected on 1 June 2020.

The Tourism Sector Recovery Fund

- 2.9 On 13 May 2020, Cabinet formally agreed to establish a \$400 million tagged contingency “Tourism Sector Recovery Fund”.⁴ Cabinet gave the Tourism Recovery Ministers responsibility for overseeing tourism recovery.
- 2.10 Cabinet directed the Ministry to prepare implementation advice with the Treasury, Department of Conservation, Department of Internal Affairs, Tourism New Zealand, New Zealand Trade and Enterprise, Ministry of Transport, Ministry for the Environment, Ministry for Social Development, and the Ministry of Foreign Affairs and Trade.
- 2.11 The Minister of Tourism had recommended in the Cabinet paper that New Zealand Māori Tourism (an incorporated society) should also be involved in this process. However, this recommendation was not in the Cabinet minutes.
- 2.12 Cabinet agreed that if there was a risk of losing a strategic tourism asset before the 1 June 2020 report back date, the Ministry and the Treasury could provide advice to the Tourism Recovery Ministers.
- 2.13 On 14 May 2020, the Minister of Tourism announced the \$400 million Tourism Recovery Fund and the establishment of STAPP to protect strategic tourism assets. STAPP was not expected to save every job – rather, its aim was to ensure that the wheua of the tourism industry would survive and form a more sustainable tourism sector in the future.

⁴ DEV-20-MIN-0080 *COVID-19 response: Tourism Sector Recovery Plan*. Tagged contingency funding is an amount set aside in the Budget for possible future use, where Cabinet will subsequently agree the funding and ask Parliament to authorise it.

- 2.14 The priority of the Ministry and the Tourism Recovery Ministers was to fund strategic tourism assets as quickly as possible. The main objectives for STAPP were that it should:
- be implemented quickly and be administratively simple;
 - minimise the economic impact of Covid-19 on key tourism businesses and the regions these businesses are in;
 - include short-term liquidity and solvency support where it was clear that other solutions were not enough; and
 - support the tourism sector to become more productive, sustainable, and inclusive.
- 2.15 The criteria and application processes for STAPP were developed under urgency for the Tourism Recovery Ministers. A registration of interest webpage launched on 15 May 2020 and accepted expressions of interest until 4 June 2020. The intent of this was to gauge interest in STAPP and use the responses to shape its design. However, STAPP criteria were decided before the registration of interest webpage closed.

Developing the criteria for the Strategic Tourism Assets Protection Programme

Eligibility criteria needed to be developed

- 2.16 On 18 May 2020, the Ministry advised the Minister of Tourism on eligibility criteria for STAPP. To ensure that funds would be available to protect New Zealand's strategic tourism assets and mitigate the risk of over-investment, a series of "eligibility gates" were proposed. If an asset met all eligibility gates, the funding offered would be the minimum viable intervention for the minimum period.
- 2.17 The Ministry also noted that advice from other agencies, and feedback from the registration of interest process, indicated that the proposed criteria needed refining.
- 2.18 Ministry officials proposed developing further assessment criteria, such as whether the asset was iconic, critical to the region's tourism, or could not be easily substituted.
- 2.19 The Ministry told us that, at this stage, it understood that Ministers were looking to fund between 10 and 50 strategically important tourism assets. The eligibility criteria and application process were designed with this number in mind. The Ministry noted the key risks were that:
- the number of regionally or nationally significant tourism assets was unknown; and
 - the amount of minimum viable funding needed for tourism businesses and the length of time that funding would be needed was also uncertain.

- 2.20 At that stage, it was intended that scheduled aviation services, central government-owned or funded assets, generic assets that could be repurposed (for example, accommodation), and assets with majority overseas ownership would not be eligible for STAPP funding.

Deciding the criteria and scale of STAPP

- 2.21 On 28 May 2020, Ministry officials briefed the Tourism Recovery Ministers Group about the objectives and proposed criteria for STAPP. Consistent with some other Covid-19 programmes that we have seen, STAPP would involve a “high-trust” approach. We discuss the implications of this in paragraphs 2.40-2.47.
- 2.22 The Ministry intended to work with other agencies to identify strategically significant tourism assets. These included assets that had notable environmental, historic, or cultural value, and were popular with domestic and international tourists.
- 2.23 Tourism businesses applying for STAPP funding would need to demonstrate that support was needed to safeguard the tourism asset and that alternative options for support had been exhausted. Proposed criteria for assessing alternative options for support included whether:
- other forms of government subsidy (such as the wage subsidy scheme) had been used;
 - there was likely to be a market response;
 - there were existing support mechanisms to keep the asset functional in the short, medium, and long term; and
 - the tourism business had alternative support options, such as a parent company that could provide funding.


Figure 2
Eligibility criteria for the Strategic Tourism Assets Protection Programme

What made an asset eligible for support?


Applicants had to answer “yes” to three questions to be considered eligible for Strategic Tourism Assets Protection Programme support.

1. Is the asset a tourism asset?


- Is the application about an attraction, access to an attraction, or an amenity?



Attractions: things to do and see. For STAPP, this includes activities and natural attractions.



Access: visitors need to be able to get to where they want to visit safely. For STAPP, “tourism asset” covers the means of access.




Amenities: services and facilities.

Intangible assets – for example, intellectual property – could be considered eligible if they fit into one of the three asset categories.

2. Is the asset a tourism asset of strategic significance (national or regional, cultural, environmental, and/or historic)?

- Is it nationally or internationally recognised?
- Is it a key attraction for the region or for New Zealand?
- Is it responsible for significant visitation to the region where it is located and, without it, would visitation to the region be significantly diminished?
- Does it generate significant “spill-over benefits” to its region?



3. Has the applicant exhausted all other avenues of support (government broad-based and private)?

- Are there insurmountable costs/challenges to pausing and resuming operations?
- Is the applicant highly reliant on revenue from visitor flows, which were severely reduced?
- Is the applicant facing severe financial stress (for example, unable to meet minimum costs until demand recovers or re-pivot to the domestic market)? Have other sources of cash flow, working capital been exhausted?

The following were not considered eligible:

- Assets that:
 - did not meet all three eligibility criteria;
 - could be readily repurposed;
 - were eligible for support through other sector-specific Covid-19 recovery packages (such as the transport and aviation support package);
 - were new capital developments or upgrades; or
 - were generic features of the tourism system, such as food and beverage.
- Accommodation, transport, or retail.

- 2.24 At this stage, the number of assets STAPP would fund was not confirmed. The Ministry proposed three options:
- **Option A** (the Ministry's preferred option): Fund about 30 tourism assets that were nationally and internationally well-known and identified as benefitting the local economy.
 - **Option B**: Fund up to 100 tourism assets and include some assets that were less well known. This could create debate over whether they were in fact strategic assets. There was also a risk that a tourism business that did not receive funding, while its competitor did, could ask for funding for equity and/or competitive neutrality reasons.
 - **Option C**: Fund up to 1000 assets. Ministry officials said this could create debate about which tourism businesses should qualify for STAPP funding. It would also require a lot of administrative work.
- 2.25 The Tourism Recovery Ministers told us that developing STAPP was an iterative process and, as work progressed, the definition of what a strategic tourism asset was expanded.
- 2.26 Ministry officials presented options for grants and loans, including suspensory loans and conditional loans. At that stage, early feedback from the STAPP registration of interest process was that grants, loans, wage support, and support for government compliance costs would be useful.
- 2.27 Loans could link STAPP to funding agreement conditions on social, economic, cultural, and environmental outcomes that the Government wished to influence.⁵
- 2.28 Ministry officials proposed a time frame for the application process. Applications for STAPP funding would begin in early June 2020 and close in early July 2020. Decisions about whether to approve applications would be made in late July 2020. They advised that this time frame would enable them to advise:
- how the funded assets would ensure the viability of other aspects of the tourism supply chain;
 - how proposed funding would overlap with, and leverage, the Provincial Growth Fund and International Visitor Levy;
 - whether the tourism asset would be viable after receiving STAPP funding; and
 - how an asset would operate with reduced visitor demand if government support was not provided.
- 2.29 The Tourism Recovery Ministers decided on an 18 June 2020 closing date for STAPP applications.

⁵ Examples included living wage, commitment to helping staff to thrive, maintaining and encouraging community engagement, educating visitors on the importance of protecting the natural environment, and commitment to waste management and reducing carbon emissions.

There were concerns that the intended scale of STAPP was unclear

- 2.30 Treasury officials briefed the Minister of Finance before the Tourism Recovery Ministers' Group meeting on 28 May without having seen the Ministry's paper.⁶ Documents from Treasury officials state that the Minister of Tourism asked Ministry officials to provide advice without consulting the Treasury.⁷
- 2.31 Treasury officials were concerned that it was unclear whether STAPP aimed to support key tourism businesses or key tourism assets. They wanted clarification about whether the aim was to provide substantial support to a few tourism businesses or assets or smaller amounts of support to many more tourism businesses or assets. The Treasury's view was that STAPP would support a smaller number of tourism businesses.
- 2.32 As part of our work, we asked for documentation showing which of the three options for STAPP (see paragraph 2.24) the Tourism Recovery Ministers had agreed to. However, the Ministry could not locate this documentation.
- 2.33 The Minister of Tourism's talking points for his oral update to Cabinet on 2 June 2020 highlighted three key criteria for STAPP.⁸ The Minister said he expected that STAPP would fund about 50 tourism businesses with strategic tourism assets. This suggested that Cabinet had decided to support Option A (see paragraph 2.24).

The application form

- 2.34 On 4 June 2020, the STAPP application process began, with a closing date of 18 June 2020. Information about the STAPP process was communicated through the Ministry's tourism recovery webpage, which had been set up in May 2020, and through tourism industry channels. Those who had submitted a registration of interest were notified and invited to apply.
- 2.35 When the application process began, the wage subsidy scheme (which had started on 27 March 2020) was due to end on 9 June 2020. After the STAPP criteria had been advertised, and the application process began, the wage subsidy scheme was extended.
- 2.36 Tourism businesses applying for STAPP funding had to complete a self-assessment of the three main criteria⁹ by answering tick-box questions. Businesses had to state that there was a need to protect the tourism asset and that they had

6 The Treasury was sent the paper the day after the meeting (29 May 2020).

7 Ministry officials subsequently advised the Tourism Recovery Ministers that Cabinet had agreed that the Ministry and the Treasury should deliver joint advice on the parameters of STAPP after consultation with other government agencies. However, the Ministry said that, in order to meet the requested time frames, it had not been able to deliver advice jointly with the Treasury or to consult substantively with other agencies.

8 The Minister's talking points paper, dated 29 May 2020.

9 The three key elements of the criteria were that they were a tourism asset, an asset of strategic importance, and all other avenues of support had been exhausted.

exhausted all other avenues of support (including government and private support). There was no explanatory guidance about what steps tourism businesses might have reasonably been expected to take before they could say they had exhausted all other means of financial support.

- 2.37 One section of the application form allowed the tourism business to describe its business and why they believed it was regionally or nationally strategically important. Other questions were about visitor numbers, changes to full-time equivalent staff numbers, and how many staff would be retained if they received STAPP funding.
- 2.38 Tourism businesses were asked about their operations and financial situation before Covid-19 and after Covid-19 entered the country. They were also asked what changes they had made to keep their business operating, the cost of hibernating the business, and the minimum amount of funding needed for the business to operate at a minimum viability level.¹⁰ Tourism businesses were asked how much money they were applying for and a breakdown of how it would be spent. One question asked whether funding had been requested from other sources, such as banks or investors. This question could only be answered with a “yes” or “no”. There was no set expectation for what should happen if an applicant answered no.
- 2.39 The only supporting information requested from applicants was two years of profit and loss statements, a goods and services tax (GST) number, and bank account details with third-party verification of those bank details.

Our comments on developing the criteria

A high-trust model

- 2.40 The Ministry told us it used a high-trust approach to STAPP to be consistent with the Government’s approach to other aspects of the Covid-19 response. A high-trust approach also allowed a quick response to a sector needing support.
- 2.41 In our report on the wage subsidy scheme, we noted that it was not uncommon for governments to adopt high-trust approaches in emergencies.¹¹ However, this can increase the risk of fraud and error because payments might be made to those who are not eligible or who might exploit the process.
- 2.42 For high-trust approaches to work well, people applying for funding need to understand and identify how the eligibility criteria apply to them. Decision-makers will rely on the accuracy of any statements made and information submitted and on the honesty and integrity of the applicants. However, decision-makers should

¹⁰ Hibernating means to close the business but maintain the underlying assets, with the plan to reopen when tourism resumed.

¹¹ Office of the Auditor-General (2021), *Management of the Wage Subsidy Scheme*.

also consider the types of evidence they might wish to seek at a later stage to verify that eligibility criteria had been met. Applicants need to know what type of information or evidence they might be expected to provide at a later stage.

- 2.43 For STAPP, tourism businesses applying for funding had to self-assess against the criteria. The application process relied largely on non-statutory self-declarations and supporting information. Ministry officials told us that, because of pressures to establish STAPP quickly, they decided to require the minimum amount of information needed to check against the key criteria. However, this should not preclude building in adequate checks later to verify whether the key criteria had actually been met. In our view, thinking about validating and monitoring information should have occurred as part of STAPP's design. Instead, monitoring and assurance arrangements were developed months later.
- 2.44 When public organisations develop and implement crisis-support initiatives that approve payments based on "high-trust", they should ensure that criteria are sufficiently clear and complete so applicant information can be adequately verified.¹²

Consideration of Māori tourism when developing criteria

- 2.45 When funding options for the tourism sector were being considered, the Treasury advised the Minister of Finance about the disproportionate impact the loss of international tourists would have on Māori tourism. When developing the criteria for STAPP, Cabinet directed the Ministry to consult with other organisations including Te Puni Kōkiri. The initial Cabinet paper noted Māori tourism's place in the tourism market, and the potential for the downturn in tourism to impact Māori communities that are disproportionately reliant on tourism businesses. However, we did not see evidence of New Zealand Māori Tourism or Te Puni Kōkiri being involved in STAPP's design.
- 2.46 Such consideration came later. In July 2020, the Tourism Response Ministers told us they factored into their decision-making advice from the Ministry that Māori tourism businesses were significantly and disproportionately affected by Covid-19 and loss of international visitors.
- 2.47 Given the disproportionate impact of Covid-19 on Māori tourism businesses, we expected more work done on how to best support Māori tourism when developing STAPP criteria for funding. The unique cultural experience that some Māori tourism businesses provide was not specifically considered when developing the criteria, and cultural aspects in assessing whether a tourism business was strategically important did not contribute to the overall score or weighting in the assessment process.

¹² We make the same point in our report on the wage subsidy scheme. See Office of the Auditor-General (2021), *Management of the Wage Subsidy Scheme*.

Need for clear criteria

- 2.48 Clear criteria and assurance processes create trust and confidence. This is because people feel that they have been dealt with fairly and transparently. The high-trust approach that STAPP used meant tourism businesses only had to provide the minimum amount of information to support their application. For that reason, it is even more important to have sufficiently clear criteria so verification can be carried out later to ensure that the criteria had in fact been met.
- 2.49 In our view, there were aspects of STAPP’s design that were not clear. This created uncertainty when the Tourism Recovery Ministers had to make decisions about which tourism businesses were eligible for STAPP funding. We discuss these aspects below and in Part 5.
- 2.50 The STAPP criteria involved objective and subjective assessments. Factors like visitor numbers and change in revenue can be quantified and objectively assessed. Other factors – such as whether visitation numbers would drop if the tourism asset was gone – were more speculative and, therefore, harder to review for accuracy. The limited documentation explaining the reasoning for some assessment decisions also made this particularly difficult.
- 2.51 Criteria should be clear and provide sufficient guidance so applicants can accurately self-assess and make a judgement about whether they meet the criteria. We identified three policy considerations that could have been decided earlier or explained more clearly. These are discussed in paragraphs 2.54-2.72.
- 2.52 An important part of STAPP’s financial assessment process was the financial viability of the tourism business before Covid-19. Officials told us that they focused on whether the tourism business had been viable for at least two years before Covid-19. With hindsight, it would have been beneficial to have explained this more clearly to applicants in the criteria or in the questions in the application form.
- 2.53 It was not clear to us whether an explicit decision had been made regarding the financial benefits of funding hibernation costs during the tourism downturn over keeping businesses open. When STAPP was first discussed in May 2020, funding for hibernation was contemplated. As time went on, the emphasis changed to keeping tourism businesses operating at minimum viability level. Whether supporting tourism businesses to hibernate or operate at a minimum viability level, there are implications for funding and how applicants pitch their applications. However, we could not see that an explicit decision was made about the preferred outcome.

What did “exhausted all other avenues of support” mean?

- 2.54 One of the key criteria for being eligible for STAPP funding was that applicants had to have “exhausted all other avenues of support”. Applicants ticked a box to say that they had exhausted all other avenues of support and answer a “yes/no” question about whether funding had been requested from other sources (such as banks or investors).
- 2.55 Smaller tourism businesses questioned whether large tourism businesses could provide, or access, financial support for their subsidiary tourism companies. We were advised that some tourism businesses considered applying and self-assessed against this criterion. They ultimately formed the view that, potentially, there were other ways they could access support (such as debt re-financing or borrowing against personal property). On that basis they did not apply because they did not believe they met the requirement of having exhausted all other avenues of support.
- 2.56 There was no guidance for applicants about the steps they might have reasonably been expected to take before confirming they had exhausted all other avenues of support. In reviewing applications, we saw that some tourism businesses did provide evidence of the steps they had taken to refinance their business. Others referred to banks being “unlikely” to lend. There was a high degree of variability in the information provided with applications. Overall, it appeared to us that the fact that a tourism business determined it needed financial assistance was considered enough to demonstrate that they had “exhausted all other avenues of support”.
- 2.57 Since STAPP was using a high-trust model, officials relied on tourism businesses’ unverified statement that they had exhausted all other means for support. The Ministry told us that the two weeks it had to assess applications was not long enough to verify whether a business had exhausted all options for financial support. Officials alerted the Tourism Recovery Ministers that the tight time frames meant that they would not be able to do due diligence on the information provided before decisions were made.
- 2.58 We saw that the Tourism Recovery Ministers asked officials on 30 June 2020 what measures were in place to ensure that funding was appropriately given. This included wanting to understand how tourism businesses would demonstrate that they had exhausted all other means of financial support. The meeting minutes note that Ministers asked about monitoring and sought to understand what other avenues applicants had explored to seek financial support.
- 2.59 The Ministry advised the Tourism Recovery Ministers that tourism businesses would declare that they had exhausted all other avenues of financial support in their application, Deloitte would carry out a financial assessment of their finances,

and tourism businesses would be required to submit quarterly declarations. Funding would only be made when tourism businesses provided a satisfactory report. The Ministry proposed that random audits could be carried out. However, this did not happen. We discuss STAPP's monitoring arrangements in Part 6.

Role of parent companies

- 2.60 People wrote to us with concerns that STAPP was funding tourism businesses that had parent companies with a significant asset base. They questioned the ability to refinance using the resources of the parent company.
- 2.61 Early policy advice to the Tourism Recovery Ministers was that parent company resources could be considered as part of assessing whether a tourism business had exhausted all avenues of support. However, the STAPP application form did not seek any information about whether the business had a parent company. We had expected the Ministry to explicitly determine whether parent company resources should be considered, and if so, what evidence would be needed.
- 2.62 We asked the Tourism Recovery Ministers what they considered having “exhausted all other avenues of support” meant. We also asked them about the role of parent companies. The Tourism Recovery Ministers noted that tourism businesses had to demonstrate a need for support and that alternative sources of support had to have been exhausted.
- 2.63 The Tourism Recovery Ministers said that assessment criteria included considering whether there were existing support mechanisms available, such as parent companies. The Tourism Recovery Ministers referred us to meeting minutes from 2 July 2020. The minutes recorded discussion about the role of declarations, noting that these would be renewed on a three-monthly basis, and engaging Deloitte to assess tourism businesses' finances. However, the application and reporting information did not provide information about, or demonstrate the existence of, any market response or ask about parent company support mechanisms. The Ministry did not ask Deloitte to consider the role of parent company support in its analysis.
- 2.64 We were aware that the Ministry of Transport had set up an essential transport connectivity support scheme at about the same time as STAPP. We were interested to see how that scheme had treated parent company support as part of assessing whether the applicant had exhausted all other avenues of support. The Ministry of Transport explicitly designed the essential transport connectivity support scheme as a scheme of last resort.¹³

13 The Ministry of Transport implemented the essential transport connectivity support scheme to respond to the effects of Covid-19 on the transport sector.

- 2.65 The Ministry of Transport assessed applications against three key factors:
- Had other government support been accessed? While other support was being received, essential transport connectivity support would not be given.
 - Applicants had to demonstrate that they had done what they could do to downscale operations, including reducing staff numbers.
 - If the applicant had a shareholder, the Ministry of Transport wanted evidence it had accessed company reserves. Evidence had to be supplied to demonstrate that all other opportunities for funding had been exhausted.
- 2.66 We acknowledge that the number of applicants for the essential transport connectivity support scheme was significantly lower than for STAPP. However, the essential transport connectivity support scheme demonstrates that a different approach could have been taken to getting more assurance that all other avenues of support have been exhausted.
- 2.67 In our view, if exhausting all other avenues of support was an important pre-condition of being eligible for STAPP funding, this should have been clearly explained. More thought should have also been given to asking applicants to provide evidence that the requirement was met (for example, copies of correspondence with the bank or parent company). If this information was not provided with the application, then it should be asked for at a later stage as part of ongoing compliance monitoring.
- 2.68 The Tourism Recovery Ministers made subsequent decisions in July 2020 to distribute most of the funding through loans rather than grants. This partially lowered the risk of the high-trust approach.

Adequacy of financial information

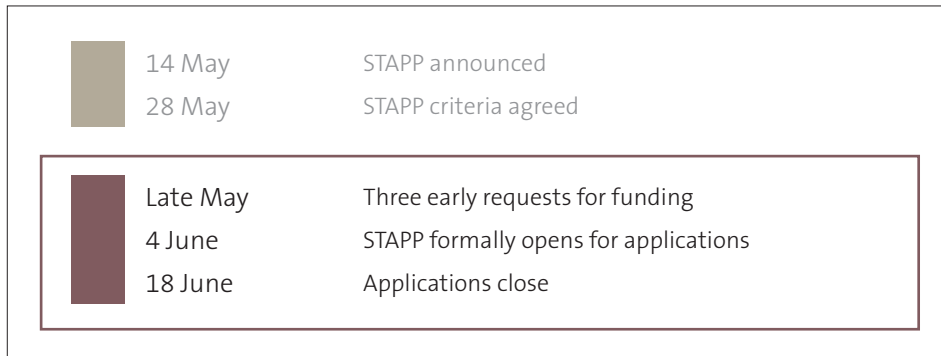
- 2.69 Tourism businesses were required to submit profit and loss statements with their applications for STAPP funding. Although profit and loss statements show revenue changes, they do not provide a complete picture of what resources a business has available (for example, what reserves a business has to draw on). Therefore, profit and loss statements could not be used to help assess whether all other avenues of support had been exhausted, including whether a business had its own cash reserves on the balance sheet. Asking for full balance sheet information would have provided better information about a business' ability to operate under the financial implications of Covid-19.
- 2.70 We asked the Ministry why it chose to only ask tourism businesses for profit and loss statements rather than the full balance sheet. The Ministry told us that it had consulted its Provincial Development Unit and asked what financial information it required for applications. The Provincial Development Unit said that it usually

asked for two years of profit and loss statements and balance sheet information. Ministry officials were advised that, because of the time frame for STAPP, there would not be enough time to get up-to-date balance sheet information from applicants. Therefore, Ministry officials decided to base the financial assessment on the most recently available profit and loss statements. Ministry officials said that the Provincial Development Unit had told them that businesses are reluctant to provide balance sheet information or profit and loss statements.

- 2.71 In our view, the Ministry should have required applicants to provide full balance sheets and evidence that they had exhausted all other avenues of support. This would have provided greater assurance that only tourism businesses that had no alternative options open to them, and met the STAPP criteria, were funded.
- 2.72 For STAPP, the variable responses to the questions about having exhausted all other funding options, use of profit and loss statements rather than full balance sheet information, and lack of early decisions about whether parent company assets should be considered, means that we cannot say with any certainty that funding was only provided to tourism businesses that had exhausted all other avenues of support. It appears to us that the Tourism Recovery Ministers accepted the risk that STAPP was funding tourism businesses that might not have exhausted all other avenues of support and therefore might not have been eligible.

3

Early applications and eligibility assessment



3.1 In this Part, we outline:

- what happened with the three tourism businesses that applied for funding before STAPP started;
- how applications for STAPP funding were assessed; and
- our comments on the eligibility assessment process.

Three early applications

- 3.2 As mentioned in paragraph 2.12, Cabinet had directed the Ministry and the Treasury to provide ad hoc advice to the Tourism Recovery Ministers if there was a risk of losing strategic tourism assets before 1 June 2020.
- 3.3 Three tourism businesses sought support before STAPP officially started accepting applications. These businesses were:
- AJ Hackett Bungy New Zealand (on 27 May 2020);
 - Discover Waitomo (on 28 May 2020); and
 - Whale Watch Kaikōura (on 28 May 2020).
- 3.4 The three tourism businesses that asked for funding did not claim to be at risk of imminent financial failure. Two of the businesses proposed to hibernate for a period. One of the businesses was reportedly considering redundancies for up to 70% of its staff.
- 3.5 AJ Hackett Bungy New Zealand told the Ministry it needed funding so it could retain staff in roles that it considered essential. It did not confirm whether it had considered other funding options. The Ministry asked AJ Hackett Bungy New Zealand to complete a draft application form and provide two years of profit and loss statements.
- 3.6 Whale Watch Kaikōura told us it approached the Government with a partnership proposal: “the Kaikōura Pilot” on 28 April 2020. On 25 May 2020, Whale Watch Kaikōura was told that it needed to submit an application that aligned with the

STAPP funding requirements. On 28 May 2020, it lodged an application for a \$1.5 million grant to enable it to pivot to the Australasian market, meet overhead costs, and carry out repairs and maintenance.

- 3.7 Tourism Holdings Limited wrote to the Ministry seeking STAPP support for Discover Waitomo. Tourism Holdings Limited wanted funding “to bridge the gap” until tourists returned and prevent hibernating the business for 12 months (which would affect other local businesses) and continue to operate on a smaller scale.

The decisions to grant funding to the early applicants

- 3.8 The Tourism Recovery Ministers agreed to fund Whale Watch Kaikōura. We have not seen any evidence to identify what criteria the Tourism Recovery Ministers used when making this decision. We also did not see any advice from Ministry officials. On 10 June 2020, the Minister announced that Whale Watch Kaikōura had been provided \$1.5 million grant funding.
- 3.9 On 2 June 2020, Ministry officials recommended that the Tourism Recovery Ministers approve grants to AJ Hackett Bungy New Zealand (\$10.2 million over two years) and Discover Waitomo (\$4 million over two years). The Tourism Recovery Ministers split the funding equally between grant and loan, which they considered would reduce any risks. This decision was a change from Ministry officials’ original recommendation.
- 3.10 The Minister of Tourism announced the funding decision on 24 June 2020.¹⁴

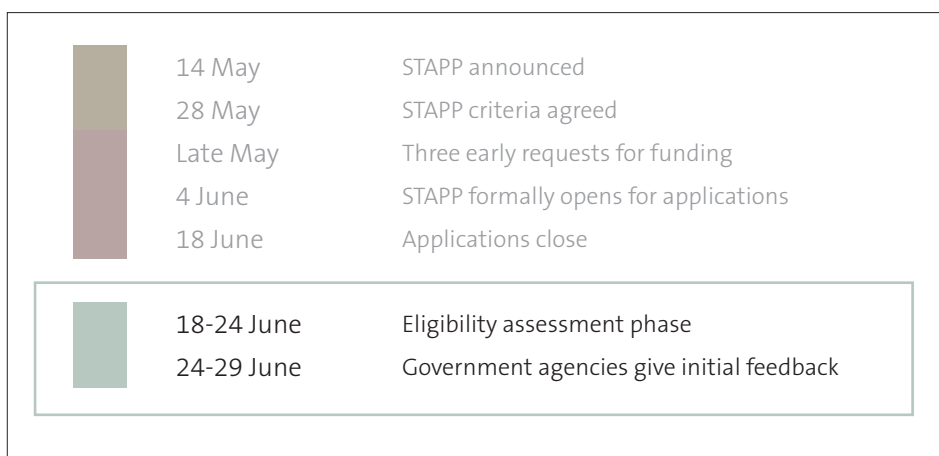
Our comments on the early applications

- 3.11 These early funding decisions were made before STAPP was fully established, which meant they were managed differently from other STAPP applications. Decisions were made at speed, with advice and financial analysis that was more limited than other STAPP applications.
- 3.12 Whale Watch Kaikōura submitted a letter requesting government funding, along with a form it had created itself. We did not see any financial information supporting Whale Watch Kaikōura’s request.
- 3.13 AJ Hackett Bungy New Zealand and Discover Waitomo submitted early versions of the STAPP application form and provided profit and loss statements. Neither business stated a risk of imminent financial failure but both indicated that there could be significant staff redundancies. Both businesses said that hibernation was an option. One business had contacted its bank about funding but the bank had not yet responded. The other indicated that it had a syndicated debt facility and access to capital markets for further funding.

¹⁴ See “Renowned tourism asset protected” (June 2020) at beehive.govt.nz. Subsequent to these decisions being made, the Government decided to extend the wage subsidy scheme.

- 3.14 Both AJ Hackett Bungy New Zealand and Discover Waitomo were funded the amount they said would enable them to operate at a minimal viability.
- 3.15 Overall, these three applicants were not subjected to the same level of financial analysis as the tourism businesses that applied once STAPP started receiving applications. It is not clear to us how the reasonableness of the funding requests was analysed or assessed.

Application process

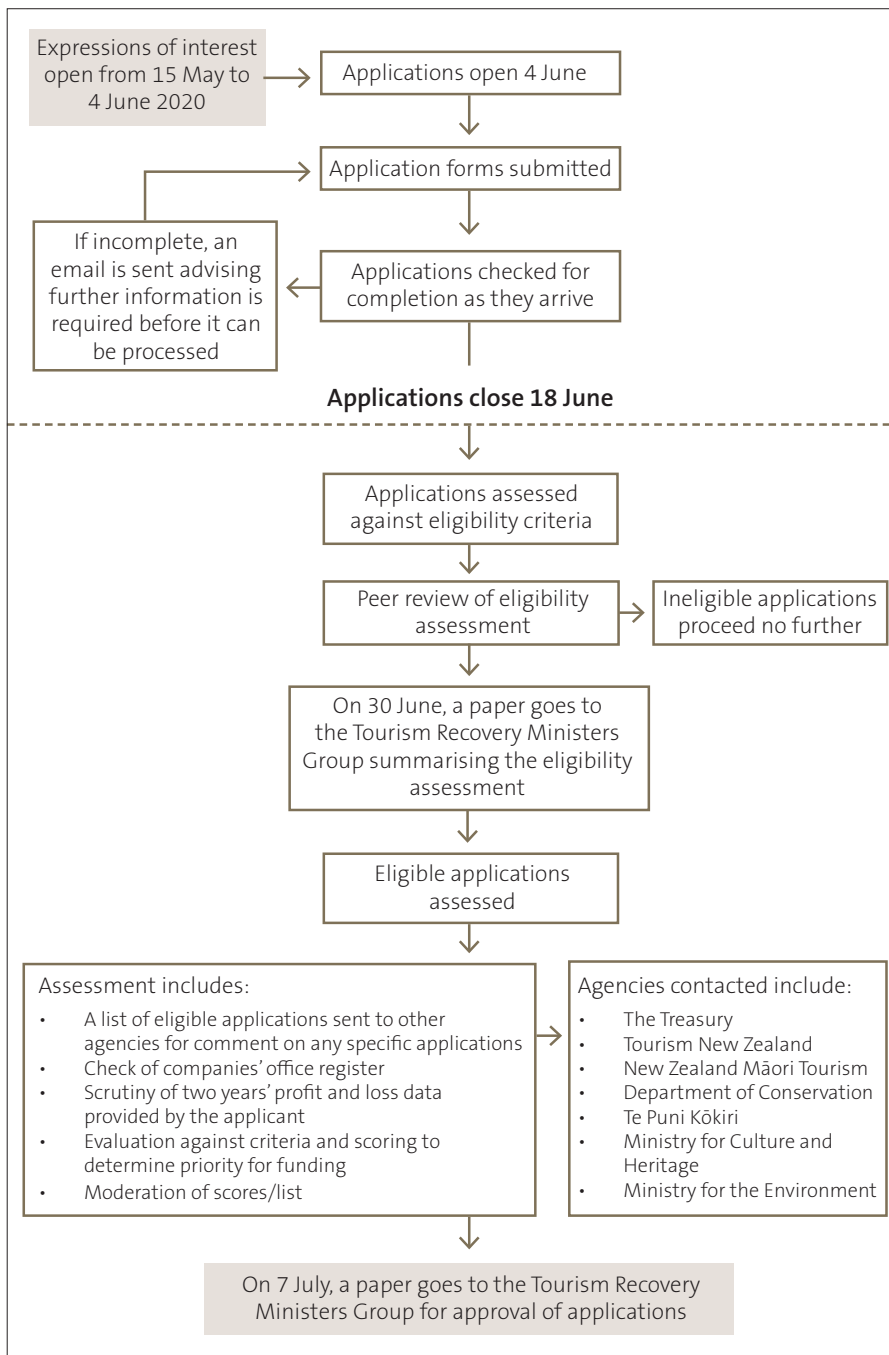


- 3.16 Applications to STAPP were open from 4 to 18 June 2020. We note the intense time pressure that Ministry officials were under when assessing these applications. The application and assessment processes for STAPP were designed to provide funding quickly in an environment of uncertainty. They also required difficult prioritisation decisions.
- 3.17 We looked at the process for assessing whether applications for STAPP funding were eligible. We reviewed a sample of eligibility assessments to see how consistently they were applied. We expected to see alignment between the criteria required by the STAPP application form and the assessment criteria. We also expected to see that criteria was applied consistently.

All applications were checked for eligibility

- 3.18 By 18 June 2020, the Ministry had received 304 applications. Four further applications arrived within two hours of the deadline. These were accepted, bringing the total to 308.
- 3.19 A two-phase process was used to assess the applications: an eligibility assessment phase and then the full assessment phase (see Figure 3). We discuss the full assessment phase in Part 4. Officials worked long hours to keep to the short time frames set by the Tourism Recovery Ministers.

Figure 3
Strategic Tourism Assets Protection Programme application process



Source: Office of the Auditor-General

How was the eligibility assessment phase managed?

Eligibility checklist

- 3.20 A checklist was created to assess whether STAPP applications met eligibility requirements. This checklist relied on several fields from the application form where the applicants had self-declared that they met certain criteria (such as having exhausted all other avenues of support).
- 3.21 Other parts of the checklist required interpreting information provided in the application form about the nature of the applicant's business, visitor numbers, spill-over benefits to the region, and the financial impact of Covid-19.
- 3.22 The assessments were peer-reviewed before the results were collated and provided to other government agencies for feedback.

Input from other agencies

- 3.23 After completing its own assessments, the Ministry asked for feedback from government agencies with expertise in cultural, historic, and environmental areas. On 24 June 2020, the Ministry provided Tourism New Zealand, Te Puni Kōkiri, the Ministry for Culture and Heritage, the Ministry for the Environment, and the Department of Conservation with a complete list of all eligible and ineligible applicants.
- 3.24 Feedback from government agencies was due by Monday 29 June 2020.
- 3.25 There were some limitations to the feedback that was requested. The government agencies were given only the names of the tourism businesses and whether the Ministry had assessed them as eligible. This meant that the agencies relied on what they already knew about the tourism business. They did not have the benefit of understanding the factors that the Ministry relied on to reach its decisions.
- 3.26 The feedback from government agencies at the eligibility assessment phase is summarised in Figure 4.

Figure 4
Feedback from government agencies on eligibility assessment decisions

Government agency	Feedback
Tourism New Zealand	Tourism New Zealand provided feedback on tourism businesses it considered to be top attractions and focused on applicants that had been deemed ineligible, providing additional advice about those businesses. This led to the Ministry changing five applications from ineligible to eligible. Tourism New Zealand considered there were potential inequities in how some types of tourism assets had been assessed and told the Ministry that it needed to have a good rationale for why some assessments resulted in different outcomes for applicants from industry segments (for example, air and water operators and accommodation). In response, the Ministry said that accommodation providers were considered a generic part of the tourism system and ineligible for STAPP funding unless there were strong cultural, historical, or environmental considerations.
Department of Conservation	The Department of Conservation advised which applicants held Department of Conservation concessions and commented that some applicants might also be eligible for Wildlife Institutions Relief funding. The Department of Conservation highlighted tourism operators that made significant contributions to, or provided support for, conservation activities. It disagreed with the assessment outcome of 19 applications because the justification for the suggested outcome for some was unclear. The Department of Conservation also questioned the consistency of the eligibility assessments for water, accommodation, and bungy operators.
The Ministry for Culture and Heritage	The Ministry for Culture and Heritage identified applications that it supported from an arts, culture, and heritage perspective. It did not disagree with any of the assessments.
Te Puni Kōkiri	Te Puni Kōkiri disagreed with 16 of the Ministry's eligibility decisions. Of the 16 eligibility assessments that Te Puni Kōkiri disagreed with, five were changed by Ministry officials from ineligible to eligible.
The Ministry for the Environment	<p>The Ministry for the Environment chose not to comment on the eligibility assessment list, saying:</p> <p><i>[we] do not feel we can provide meaningful input into the initial eligibility of applications for STAPP funding as we have not seen the original applications or the eligibility assessment which means that we have no basis for making a judgment on eligibility for STAPP funding or for providing a judgement on MBIE's assessment of eligibility.</i></p> <p>The Ministry for the Environment recommended that support be directed towards tourism businesses with clear social economic, cultural, and environmental outcomes and that successful applicants commit to an environmental accreditation scheme.</p>

3.27 The feedback from agencies resulted in the Ministry amending its initial assessments so that six tourism businesses that had initially been deemed ineligible became eligible.

3.28 The Minister asked the Ministry to seek feedback from New Zealand Māori Tourism on the eligibility assessments. On 30 June 2020, the Ministry asked New Zealand Māori Tourism to complete a confidentiality agreement (but did not ask for declarations of conflict of interests). The Ministry gave New Zealand Māori Tourism a list of eligible and ineligible tourism businesses that the Ministry was providing the Tourism Recovery Ministers later that same day.

Moderation of eligibility assessments

3.29 After the Ministry had completed the eligibility assessments and received feedback from other agencies, it moderated the results.

Final decisions on application eligibility

3.30 The Ministry recommended to the Tourism Recovery Ministers that 146 applications should progress to a full assessment. It considered 118 applications to be ineligible. Reasons for deeming applications ineligible included:

- the business was a generic part of the tourism sector (such as accommodation, transport, or restaurants);
- the business was too small to be significant;
- the funding requested was out of scope (for example, requests for new capital investment or marketing); or
- in one case, a business requested funding for an asset that it did not own.

3.31 The Tourism Recovery Ministers approved the eligibility assessments on Thursday 2 July 2020. Before discussing the eligibility assessments, the Tourism Recovery Ministers were asked to declare conflicts of interest. The Minister of Tourism declared a conflict of interest with four tourism businesses and left the room when those businesses were discussed.

3.32 The Tourism Recovery Ministers required officials to provide more detail to support the decision-making for the full assessment process. They also asked the Ministry to implement random audits of successful applicants. On 9 July 2020, Ministry officials subsequently advised the Tourism Recovery Ministers that improved monitoring would be resource intensive and require additional resourcing. The Tourism Recovery Ministers agreed that monitoring would be informed by self-reporting by tourism businesses applying for STAPP funding.

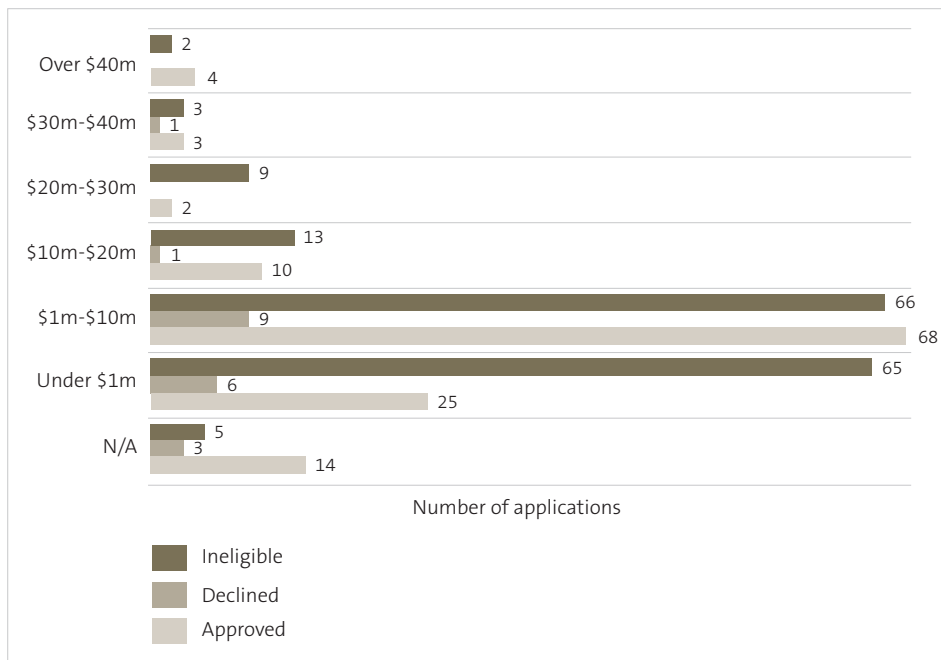
- 3.33 Officials reminded the Tourism Recovery Ministers that since STAPP started, the wage subsidy scheme had been extended (it had been due to end on 9 June 2020). Department of Conservation concessions and a relief package for wildlife institutions and eco-sanctuaries had also been announced. This meant that the amount of funding requested by tourism businesses would need to be recalculated to take these other schemes into account. However, the Ministry advised that, due to the short time frames, it could not do this before the decision-making meeting.

Our comments on the eligibility assessment phase

- 3.34 From looking at the criteria, the applications, and the eligibility assessments, it was clear that some applications were not eligible for STAPP funding. Specific reasons for declining applications were not listed in the assessment sheet. As moderation process changes were entered directly into a spreadsheet, underlying reasons for decisions were not recorded.
- 3.35 For some tourism businesses applying for STAPP funding, we saw that the Ministry considered that the tourism aspect of their business was not sufficient for it to be considered as holding a strategic tourism asset. However, it is unclear to us what information Ministry officials relied on to form this view.
- 3.36 Some similar tourism businesses were treated differently on the basis that an asset needed to be the reason why tourists came to a region, rather than just a secondary activity. We are not sure what evidence informed an assessment that some tourism assets were not the reason people came to an area. From reviewing the eligibility assessment forms, it is not clear how Ministry officials came to their views on this. The eligibility checklist mostly consisted of “yes/no” tick boxes without supporting comment. This implies that there was a degree of comparison in making an assessment, but we are not sure how this was evidenced or tracked in the assessment process.
- 3.37 In our view, it seems that revenue and visitor numbers were key factors (see Figures 5 and 6). Tourism businesses with turnover in the \$1 million to \$10 million range and tourism businesses with visitor numbers between 10,000 and 100,000 were more likely to be deemed eligible.¹⁵

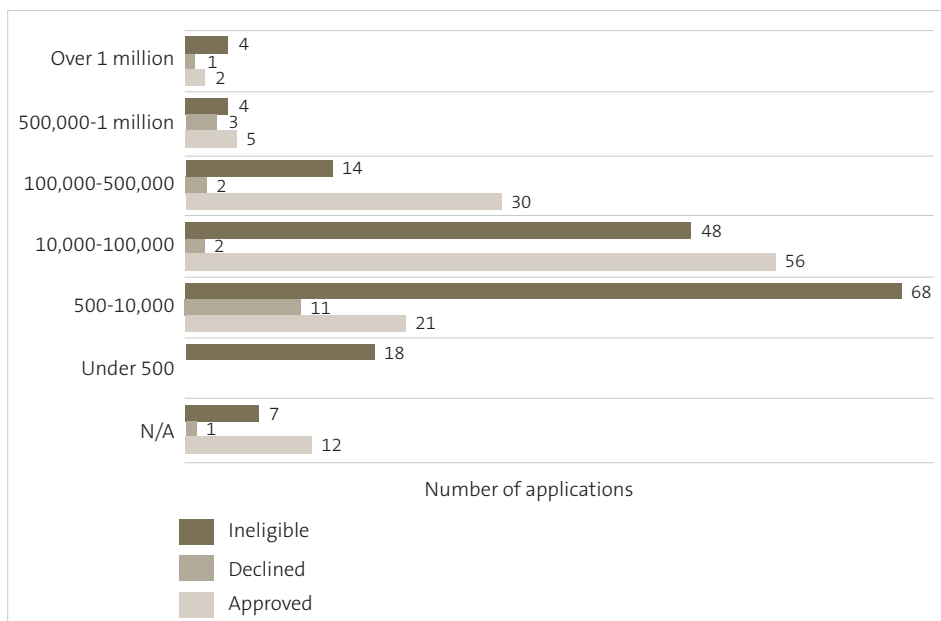
¹⁵ For example, overall, ineligible aviation businesses tended to be from smaller operators with annual visitor numbers up to 6800 and revenue between \$200,000 to \$1 million. Businesses that were eligible for funding had visitor numbers up to 28,971 and business revenue from \$1.2 million to \$2.5 million at the lower end and between \$8 million and \$13 million at the upper end.

Figure 5
Application outcomes by annual revenue



Source: Data from the Ministry of Business, Innovation and Employment.

Figure 6
Application outcomes by annual visitor numbers

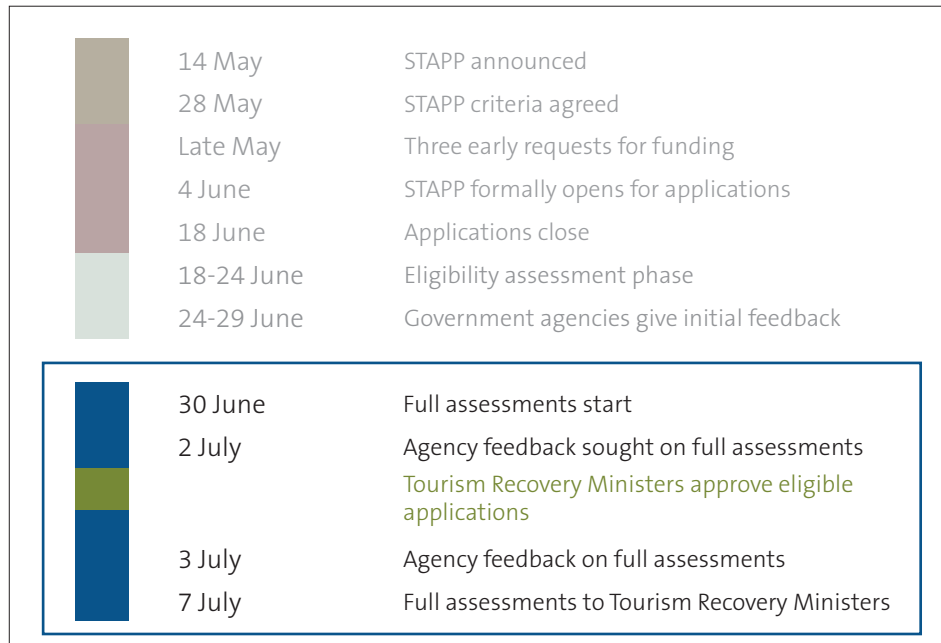


Source: Data from the Ministry of Business, Innovation and Employment.

- 3.38 Most venues were deemed ineligible for STAPP funding, but some council-owned venues were initially assessed as being eligible. This inconsistency was picked up at the full assessment phase, at which point they were deemed ineligible. One further venue was excluded late in the assessment process when it should have been deemed ineligible from the beginning.

4

Full assessment of applications



- 4.1 In this Part, we:
- outline the full assessment process; and
 - comment on how the process was carried out.

How the full assessment of eligible applications was carried out

- 4.2 The full assessment phase ranked and prioritised applications so that the Tourism Recovery Ministers could compare and make decisions based on the merits of the applications.
- 4.3 The time frame for this process was short. The Tourism Recovery Ministers approved the eligible applications on 2 July 2020. The Ministry had until 7 July 2020 to carry out full assessments and peer review them, get feedback from other agencies, moderate decisions, and present the recommendations to the Tourism Recovery Ministers in time for a meeting on 9 July 2020. Because of the time frame, the Ministry started the full assessments shortly after finalising the eligibility assessments, and before the Tourism Recovery Ministers had formally approved the eligibility assessments.
- 4.4 The Ministry told us that there was a lot of variation in the information submitted by tourism businesses. This caused difficulty considering the short time frames of the application and assessment processes. We reviewed a sample of assessments to see how consistently those applications were assessed against the criteria.

Several factors informed the assessment

- 4.5 Applications were scored against the STAPP criteria on a scale of 1 to 5. The Ministry assessed how significant the tourism business was to its region based on visitor numbers. One consequence of this was that zoos, museums, and art galleries became strategic assets. The Ministry told us it had not anticipated this. However, the Ministry followed the criteria it had designed to maintain consistency.
- 4.6 When assessing spill-over benefits to the region, the Ministry focused on financial benefits, such as whether it supported other businesses or employed people. The Ministry looked at broader information that tourism businesses provided about how it contributed to the community. However, the Ministry did not do further research.
- 4.7 We asked the Ministry whether it considered council-owned assets were eligible for STAPP. This is partly because, in our view, it would be difficult for council-owned assets to establish that they had exhausted all other avenues of support. The Ministry told us that it had raised this with the Tourism Recovery Ministers and was told that council-owned assets should be considered.
- 4.8 We asked the Ministry whether it considered the allocation of funding at a regional level. The Ministry told us that assessments were based on the individual applications, but it did provide advice to the Tourism Recovery Ministers on what the regional impact would be if they funded the top 50 or 100 applicants.
- 4.9 Although there was an assessment for whether a tourism asset was culturally, historically, or environmentally significant, no scores were assigned to these criteria.

Financial analysis

- 4.10 The Ministry commissioned Deloitte to carry out financial analysis of the applications. Because of the time constraints, Deloitte had to begin this before the Tourism Recovery Ministers met to approve eligible applications.
- 4.11 Deloitte carried out several checks, including a credit check, and extracted a common set of financial information from up to two years of profit and loss information in the application. Deloitte noted any gaps for the Ministry to follow up, noting how the amount of funding requested would be used in one of four pre-defined categories, and calculated a set of financial ratios that showed the trend in earnings and the amount of funding requested relative to the earnings. Deloitte calculated scores for each tourism business based on these ratios, and provided the Ministry with a worksheet that ranked applications on the basis of the financial ratios. Tourism businesses were given a lower score if they were asking an amount of funding that seemed disproportionately large compared with its pre-Covid revenue.

- 4.12 Deloitte noted the variability of the information it received. Larger tourism businesses tended to have easy access to robust financial information, whereas some smaller tourism businesses did not.
- 4.13 Deloitte told us that it reviewed the funding requested and flagged matters in applications that needed further investigating. The Ministry had to decide whether to investigate further or to request additional information to assist the assessment. If the information requested was not provided, the application became ineligible as the assessment was considered incomplete. The Ministry told us that one tourism business provided insufficient information. The Ministry said it made several attempts to get the information it needed but the business did not provide it, which resulted in the application not progressing.
- 4.14 The Ministry told us that this financial analysis provided a “reasonableness check” of what the tourism business was requesting and provided assurance that the business had been financially viable before Covid-19.

Agencies’ and New Zealand Māori Tourism feedback on applications

- 4.15 On 2 July 2020, the Ministry gave other agencies and New Zealand Māori Tourism the suggested rating scores for applications to review and provide feedback on by 3 July 2020. At that time, the team working on STAPP was unaware of the Ministry’s secure file transfer system. This meant that to view the actual applications (which contained commercially sensitive information), the agencies had to go to the Ministry’s offices.

What did the agencies say?

- 4.16 New Zealand Māori Tourism and the agencies that reviewed the assessments had a focus specific to their background and knowledge (see Figure 7).

Figure 7
The focus of government agencies when considering applications

Government agency	Agency focus
Tourism New Zealand	Tourism New Zealand focused on significant tourism assets. It relied on its knowledge of the tourism sector to advise on the international reputation and visitor numbers of tourism businesses.
Department of Conservation	The Department of Conservation focused on the environmental contribution of tourism assets. The Department of Conservation noted which operators were engaged in environmental or conservation activities such as breeding programmes, pest control, and waste minimisation.
The Ministry for Culture and Heritage	The Ministry for Culture and Heritage focused on the cultural and historical significance of tourism assets and how they contributed to the broader cultural and historical landscape.
Te Puni Kōkiri	Te Puni Kōkiri focused on the social and cultural significance of specific Māori tourism assets.
New Zealand Māori Tourism	New Zealand Māori Tourism focused on the cultural significance of specific Māori tourism assets and what they contributed to the broader community.

- 4.17 In some instances, the Ministry for Culture and Heritage endorsed the amount of funding requested, questioned the rationale for the amount of funding requested, or questioned what other sources of funding were available to businesses, such as the Provincial Growth Fund. The Ministry for Culture and Heritage recommended that the Ministry increase its rating for some applications. This advice was adopted in most, but not all, cases.
- 4.18 New Zealand Māori Tourism pointed out the local and regional social, economic, and environmental contributions that the tourism businesses made. It also pointed out the significance of the unique cultural experience that the tourism businesses were offering. It described these businesses as going beyond more formulaic “haka, hāngi and hongī” experiences. New Zealand Māori Tourism did further analysis to understand the structures behind business names and which businesses shared the same parent company.
- 4.19 Although New Zealand Māori Tourism’s focus was primarily on Māori tourism businesses, it also commented on other tourism businesses that had a significant impact (employment and training opportunities and flow-on business effects) on Māori communities.
- 4.20 New Zealand Māori Tourism identified inconsistencies in how the assessment criteria were applied, particularly with respect to assessing whether an asset was nationally or internationally recognised. New Zealand Māori Tourism noted that the Ministry rated 10 Queenstown/Southland tourism businesses as being top attractions for the region (and therefore eligible for the maximum score available). However, Rotorua only had two tourism businesses in the top 53, and one business in the top 75 assets. New Zealand Māori Tourism recommended increasing some of the Ministry’s ratings. This was done in some cases, but not in others or only partly.¹⁶
- 4.21 New Zealand Māori Tourism told us that the STAPP criteria were likely to result in Māori tourism businesses scoring relatively low marks because the criteria ultimately focused too much on awarding high points based on the number of tourists. In its view, this was inconsistent with the desired “future state of tourism” that had been developed, which had a goal for lower volume but higher-quality tourism offerings.

What did the Ministry do with that advice?

- 4.22 We asked the Ministry how it responded to feedback from other agencies. The Ministry said it was “disciplined” about looking at what was relevant. Where comments were out of scope, the Ministry did not take this into account and focused on the criteria.

¹⁶ Of the New Zealand Māori Tourism recommendations, three were accepted, four were partially accepted, and nine were not accepted.

4.23 Where an agency said that an asset was culturally significant, this information was incorporated into assessments that were provided to the Tourism Recovery Ministers.

Moderation of the full assessment phase

4.24 The Ministry had peer review processes to ensure that assessments were carried out consistently, and a moderation process to identify and address any anomalies.

4.25 The Ministry identified clusters of applications such as aviation, jet boats, kayaking, and museums. The Ministry tried to make sure that they had been treated consistently and any differences were assessed. The Ministry said that for the aviation, kayaking, and accommodation industries, it tried to ensure that there was consistency through comparative analysis and moderation of these assets. The Ministry's legal team participated in the moderation meeting to ensure that it was done impartially and correctly.

4.26 We saw a couple of exceptions where tourism businesses that should have been ineligible made it through to the full assessment process. These were identified and removed.

4.27 The Ministry worked at speed to review agency feedback over the weekend and incorporated this in its advice to Ministers on 9 July 2020.

Our comments on the full assessment phase

4.28 Because of the short time frames Ministry officials were working under, we did not expect perfection. However, we looked for what steps the Ministry took to ensure that there was consistency in the assessment process and that decisions made on a high-trust basis were accompanied by good verification later.

4.29 Tourism businesses applying for STAPP funding were not given detailed instructions about the information they needed to provide or what format it needed to be in. Both the Ministry and Deloitte told us that there was inconsistency in the nature, extent, and quality of information that tourism businesses provided. This made making direct comparisons between applications more difficult.

4.30 The Ministry had a standardised assessment process that harnessed the same key information for all tourism businesses. Deloitte used a standardised assessment framework and rating tool for the financial assessment.

4.31 Because of technology constraints, as well as the short time frames, other agencies had limited access to information about the applications. This might have limited their ability to give feedback. However, the feedback that agencies provided indicated that, in most cases, the agencies had a good understanding of the nature

of the tourism businesses being assessed and the unique contribution that they made to the work of other agencies. These views were recorded in the documents that went to the Tourism Recovery Ministers to support their decision-making.

- 4.32 Although the cultural, historic, and environmental significance of the tourism businesses was part of the assessment process, no rating was applied to these factors. The assessment was based on whether one or more of those factors was present. Because this was one of the key areas that other agencies were providing input into, we expected these factors to be scored. This might have disproportionately affected Māori tourism businesses that had tourism offerings centred on unique cultural, historic, or environmental experiences.

Funding decisions

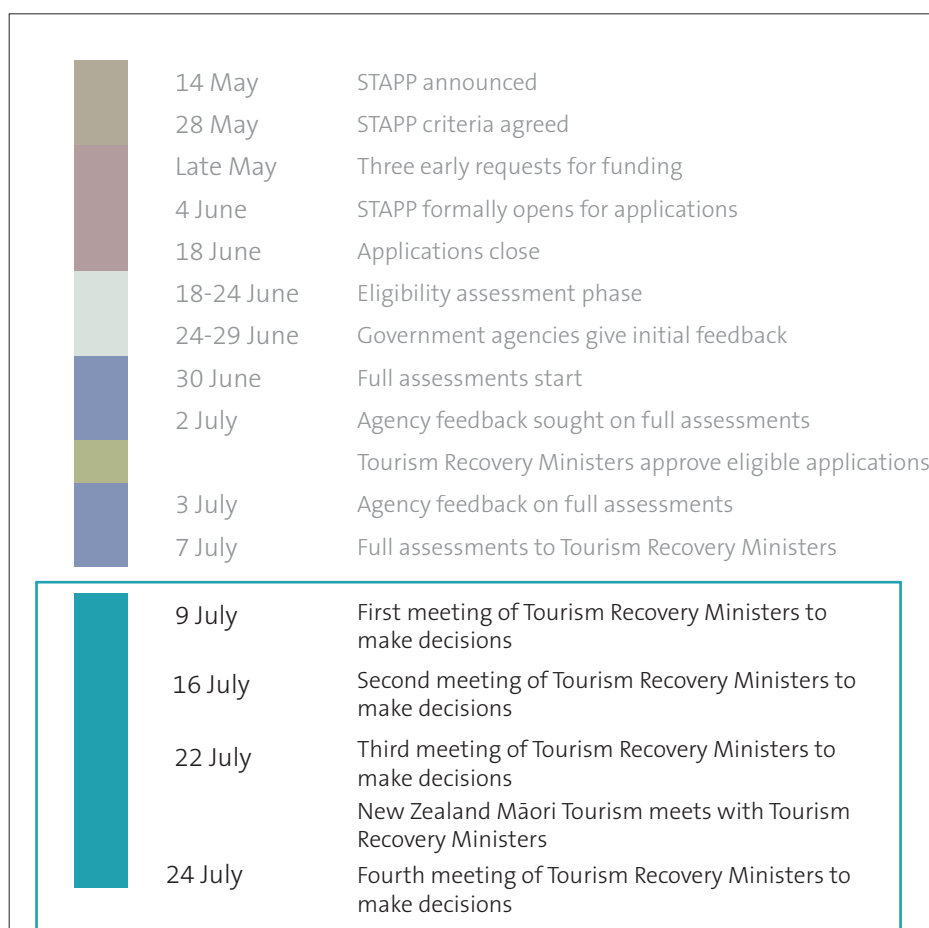
- 4.33 We reviewed a sample of assessments to see how consistently the Ministry assessed these applications against the criteria at the eligibility phase and full assessment phase. We analysed samples of two types of tourism business: aviation and kayaking. These were two segments of the tourism industry where people raised complaints with us about the STAPP process. From what we saw, the Ministry applied criteria evenly across similar tourism businesses in the same category.
- 4.34 We wanted to understand the methodology behind the amount of funding awarded and how consistently this was applied.
- 4.35 We compared the Ministry's worksheets (which contain some financial analysis, the amount applicants requested, and the calculated minimum viability amount nominated by the tourism business) against the funding decisions that were ultimately confirmed by the Tourism Recovery Ministers.
- 4.36 We looked for discrepancies and excluded the tourism businesses that were awarded a total grant or loan amount that matched what they asked for in their application. We reviewed the remaining tourism businesses against the full financial analysis and commentary that Deloitte provided to see if there was a reason for the difference between the amount tourism businesses asked for and the amount the Ministry recommended to the Tourism Recovery Ministers. For example, Deloitte advised that in some cases tourism businesses had asked for less funding than would be required so they could operate at a minimum viability level. This might be because they intended to hibernate the business.
- 4.37 The Ministry told us that when determining funding for Māori tourism businesses, it considered advice from New Zealand Māori Tourism about the recommended funding amount. Only 5.5% of Māori tourism businesses received more funding than they had sought. This is compared with 30.5% of non-Māori

tourism businesses that received more funding than they had sought. Less funding was offered to Māori tourism businesses compared with other tourism groups with revenue in a similar range.¹⁷

- 4.38 Of the 126 applications we reviewed:
- 22% were awarded the amount they requested in their STAPP application;
 - 27% received more funding than they requested;
 - 51% received less funding than they requested; and
 - 40% received funding for minimum viability level operations.
- 4.39 Tourism businesses that were funded less than the minimum funding amount that they requested raises the question of whether the funding would be adequate to keep them viable and was good value for money.
- 4.40 There might be other information we are not aware of that would explain these discrepancies – for example, final sums might have been reduced because of negotiations between the Ministry and businesses or the Ministry reduced the final sum because funding was requested for items that were out of scope. Overall, given the variation in outcomes, it was not clear to us that the decisions about final funding amounts had a consistent and documented framework.
- 4.41 In our view, the fast assessment process ultimately resulted in slower decision-making. This is because the Tourism Recovery Ministers began to understand some of the limitations that the short time frames had imposed on the assessment process.

¹⁷ Out of 18 Māori tourism businesses, only one was awarded more funding than it sought. Four businesses (22%) received the amount they sought, and 13 (72%) received less than sought. Only three of the Māori tourism businesses that received less than they sought were awarded funding that aligned with the minimum viability amount.

Decision-making



- 5.1 In this Part, we discuss the:
- four meetings to decide on the direction of STAPP;
 - limited assurance about funding decisions; and
 - recording of the rationale for why decisions were made.

Deciding the Strategic Tourism Assets Protection Programme's direction

- 5.2 When STAPP was designed, Covid-19's impact on the tourism sector was uncertain. Ministry officials initially thought that STAPP would apply to up to 50 tourism businesses that held the most strategic tourism assets.
- 5.3 By the time the Tourism Recovery Ministers made decisions about STAPP in July 2020, the Government had removed most of the significant restrictions on domestic movement. Although the international borders remained closed, domestic tourism in some parts of New Zealand had rebounded faster than expected.

- 5.4 In the interim, other forms of government support had been implemented.¹⁸ Because of this changed environment, Ministry and Treasury officials recommended, on 16 July 2020, ceasing STAPP and considering alternative forms of support. The Tourism Recovery Ministers did not accept this advice and asked Ministry officials to present alternative solutions. However, it is not clear from the meeting minutes why the Tourism Recovery Ministers chose the option that they did. One Minister told us that the situation was “very fluid” and they were trying to work out what the most effective intervention would be.
- 5.5 Between 9 and 22 July, the Tourism Recovery Ministers met four times to discuss STAPP applications. Because the context they were working in had changed, this also led to discussions about STAPP’s overall approach and whether it should end. We describe this below.

9 July 2020

- 5.6 Ministry officials provided the Tourism Recovery Ministers with their assessments of the tourism businesses applying for STAPP funding and information about the regional distribution of these businesses.
- 5.7 Ministry officials recommended that the Tourism Recovery Ministers approve the top 53 tourism businesses (those that had scored more than 22 points out of 30 from the Ministry’s assessment process). Officials noted that there were tourism businesses that ranked 54 or lower that made a significant contribution to their region and might be strategically important. However, consistent with earlier advice, officials considered that there would be greater risk of public scrutiny of applicants (and presumably of the underlying application evidence) if lower-ranked tourism businesses were funded.
- 5.8 Several issues were raised in this meeting:
- Some parent companies might benefit from multiple successful STAPP applications. For example, a list of tourism assets and their parent companies showed two parent companies had requested funding of \$31.2 million and \$32.8 million respectively for their subsidiary tourism business. Several tourism businesses applying for STAPP funding were owned by large firms that had made profits in the last few years and so should have had commercial borrowing options available to them. It is unclear whether a specific decision was made about the role of parent company resources.
 - Ministry officials were unable to determine whether the tourism asset would fail without Crown intervention. Officials also could not confirm whether applicants had in fact exhausted alternative sources of funding.

¹⁸ This included wage subsidy scheme extensions, the leave support scheme, the short-term absence scheme, the small business cash flow loan scheme, the business finance guarantee scheme, and the business debt hibernation scheme.

- 5.9 The Tourism Recovery Ministers did not consider that they had enough information on individual tourism assets to decide whether STAPP support was appropriate.
- 5.10 More generally, the Tourism Recovery Ministers asked whether STAPP was the most appropriate mechanism for supporting the tourism sector. They asked Ministry officials to develop alternative options to STAPP, such as funding a smaller number of tourism assets with more emphasis on its regional importance. It was unusual for the Tourism Recovery Ministers to question, at such a late stage, the fundamental parameters of STAPP and a key funding criterion as part of their decision-making process.

16 July 2020

- 5.11 On 16 July 2020, Ministry officials briefed the Tourism Recovery Ministers about what had changed in the economic context since STAPP was established and recommended that work on STAPP should stop.¹⁹
- 5.12 The short-term outlook had changed due to strong domestic tourism and government measures, such as extending the wage subsidy scheme, business support schemes, and Department of Conservation concessions.
- 5.13 The longer-term effects of Covid-19 on the tourism sector were less clear. Officials advised that postponing STAPP would preserve Crown funds while allowing officials to develop alternative options.
- 5.14 Ministry officials proposed an option of funding 10 or fewer tourism businesses that had strategic tourism assets in regions experiencing the most severe economic downturn due to Covid-19 or those most affected by the loss of international visitors, such as Southland and the West Coast. Ministry officials warned that imposing new criteria part way through the process would create other issues.
- 5.15 Another option was to support a small number of tourism businesses through semi-commercial loans. This would mitigate Crown risk by requiring the private sector to share the risk that the business might not survive until international tourism resumed.
- 5.16 Any of these options would have resulted in a lower level of investment than originally planned. This could have allowed public money to be invested differently in tourism recovery.
- 5.17 The Tourism Recovery Ministers could not decide how to proceed and asked Ministry officials to prepare further advice without specifying what sort of additional information or advice they would find helpful.

¹⁹ Treasury officials also advised the Minister of Finance to endorse ceasing work on STAPP.

22 July 2020

- 5.18 On 22 July 2020, the Tourism Recovery Ministers were asked to decide:
- the number of applicants to support;
 - which funding mechanism to use; and
 - whether to support inbound tourism businesses.
- 5.19 Ministry officials recommended that the Tourism Recovery Ministers support the top 53 tourism businesses that most closely aligned with the original STAPP design.
- 5.20 Another option was to support all eligible applicants except for aviation and accommodation providers (the Minister of Tourism's preference was to exclude these sectors) and three tourism assets.²⁰ However, Ministry officials advised that choosing to fund all eligible applicants would attract scrutiny of how strategic those assets were when considered against the assessment criteria.
- 5.21 Ministry officials recommended that, if the Tourism Recovery Ministers could not decide on an approach, they should formally close STAPP and inform applicants.
- 5.22 For funding options, Ministry officials advised that funding could be provided through concessional loans charged at 3% interest each year, which would be waived in full if the loan was repaid within the year. A loan term of two years, with quarterly payments, and a five-year repayment period was proposed. The Minister of Tourism asked for a second funding option that was the same as how Discover Waitomo and AJ Hackett Bungy New Zealand were funded (a first-year grant of between \$500,000 and \$1,000,000 and a concessionary loan in the second year). Ministry officials did not recommend this because of the high administrative costs.

Māori tourism businesses

- 5.23 On the same day, the Ministry briefed the Tourism Recovery Ministers on support for Māori tourism businesses.

23 July 2020

- 5.24 New Zealand Māori Tourism briefed the Tourism Recovery Ministers on applications from Māori tourism businesses. It recommended funding the tourism businesses holding the top 20 Māori tourism assets through concessional loans (if that was what Ministers chose to offer). For smaller tourism businesses, New Zealand Māori Tourism proposed options including a 50/50 grant from STAPP and New Zealand Māori Tourism, a combination of grants and concessional loans, loan underwrite, or a mixture of funding from STAPP and the Provincial Growth Fund.

²⁰ One tourism asset was the subject of parallel discussions with the Provincial Development Unit, the other two were not eligible for funding.

Decisions were made on 24 July 2020

- 5.25 The Tourism Recovery Ministers rejected Ministry officials' recommendation to fund only top-rated STAPP applications.
- 5.26 Instead, the Tourism Recovery Ministers agreed to fund all tourism businesses that scored more than 15 points out of 30 and all eligible Māori tourism businesses – 127 tourism businesses in total. It is not clear why the Tourism Recovery Ministers regarded 15 out of 30 as a score to warrant funding. This was not part of any advice provided by Ministry officials (officials used a score of 22 out of 30) or recommended as an approach to selecting businesses to fund.
- 5.27 The Tourism Recovery Ministers subsequently told us that, when they were presented with the proposal to fund only the top 53 tourism businesses, they noted officials' advice that there were tourism businesses that rated 54 or lower that still made a significant contribution to their region and could be strategically important. These included several high-profile Māori tourism businesses. The Tourism Recovery Ministers told us that they considered it important to fund a significant number of businesses to achieve Cabinet's goal of helping "bridge the gap" before international travel could resume.
- 5.28 The Tourism Recovery Ministers agreed that local government-owned event facilities were ineligible for STAPP. However, some art galleries, zoos, and museums would be eligible. Although STAPP would not fund generic accommodation providers, three specific accommodation providers that comprised tourist attractions were deemed eligible. The Tourism Recovery Ministers excluded one tourism business that had scored well because they considered that tours could quickly resume when tourism resumed. One Minister told us that the Tourism Recovery Ministers used their knowledge of particular regions and operators when making decisions. However, we saw no analysis to underpin the advice, and the reasoning was not documented.
- 5.29 Two tourism businesses that had earlier been deemed eligible for STAPP funding were removed from the STAPP process to be considered separately.
- 5.30 The Tourism Recovery Ministers agreed in principle that tourism businesses could not receive funding from multiple schemes for the same thing. Therefore, tourism businesses that received Department of Conservation concession funding and/or Wildlife Institutions Relief funding would have to remove those funded components from their STAPP application. On 30 June 2020, the Tourism Recovery Ministers were told by Ministry officials that, due to timing constraints, the impact of the wage subsidy scheme would not be reflected in the recommendations that

went to them before they made decisions.²¹ After the decisions were made about which tourism businesses to fund, Ministry officials had to recalculate payments to remove an amount equivalent to the wage subsidy scheme.

- 5.31 The final decision resulted in more tourism businesses being funded than the Minister of Tourism had publicly signalled and spread lower amounts of funding more widely.

Grant and loan structure

- 5.32 The Tourism Recovery Ministers agreed to the Minister of Tourism's preferred funding structure: a grant of up to \$500,000 in the first year and a loan in the second year. This arrangement lowered the risk of funding decisions. The Ministry and Treasury officials were asked to work closely together on the detail of a loan scheme.
- 5.33 The Ministry told us that when STAPP started, there had been no decision on who would manage the loans. Options considered included commercial banks or the Inland Revenue Department playing a role. The Treasury advised that having commercial banks manage STAPP was not ideal, partly because of the high administrative costs. For Inland Revenue to manage STAPP, legislative change would be needed. The Tourism Recovery Ministers wanted the Ministry Investment Management and Performance team to manage the loans, but Public Finance Act requirements prevented this.
- 5.34 The Provincial Development Unit was given responsibility for managing STAPP loans. The Tourism Recovery Ministers decided on a loan term of five years that would be interest free for the first two years and a 3% interest rate after that.
- 5.35 Tourism businesses had one year to decide whether to accept the loan. Ultimately, grants totalling \$62.4 million and loans of \$71.9 million were offered.
- 5.36 Not all tourism businesses took the loans offered. Reasons for declining loans include an increase in domestic tourism, the Trans-Tasman bubble, and businesses deciding not to borrow if they did not need to.

There was limited information about why the funding decisions were made

- 5.37 Although funding was provided to the tourism sector in a timely way, there was not, in our view, clear documentation about the reasons for the decisions. It is hard to be reassured about why the Tourism Recovery Ministers took the approach they did and whether key criteria were met. There are different and related reasons for this. The lack of clarity about the scale and key criteria of STAPP, and

21 When STAPP was designed, the wage subsidy scheme was due to end in June 2020. By the time STAPP applications were received, the Government had decided to extend the wage subsidy scheme. Subsequently, further extensions and resurgence payments have been implemented.

the type of information that would be required to demonstrate that criteria were met, contributed to this limited confidence.

Lack of clarity about key criteria delayed decision-making

- 5.38 In May 2020, officials asked the Tourism Recovery Ministers to select from supporting up to 30 tourism businesses, 100 tourism businesses, or 1000 tourism businesses. We have not seen any documentation about which of the options they chose. However, the Minister of Tourism made a public statement that STAPP would fund about 50 tourism businesses with strategic tourism assets. In July 2020, Ministers were again asked to decide the intended scale/scope of STAPP and were unsure how to proceed.
- 5.39 Each option carried different risks and required different mitigations. It is important that decision-makers clearly establish how much risk they are willing to tolerate at the outset because this will inform the decisions that they make. We saw a lack of clarity in criteria, which meant there was uncertainty about whether the assessments adequately addressed key criteria.
- 5.40 STAPP application and assessment processes were initially designed to fund a small number of tourism businesses. The type of application and due diligence processes for a scheme involving a small number of applications, but with higher funding amounts, differs substantially from a scheme funding more applicants with smaller funding amounts. If it had been anticipated that 127 applicants would receive funding, different applications and assessment processes might have been developed. This might also have provided the Tourism Recovery Ministers greater confidence when they had to make decisions. Lack of clarity about other criteria had implications when the Tourism Recovery Ministers had to make decisions in July 2020. They found it hard to differentiate strategic tourism assets from tourism assets more generally, and whether, without Crown support, a tourism asset would be likely to be lost.
- 5.41 The Tourism Recovery Ministers asked how they could be assured that STAPP was a fund of last and not first resort and what the role of parent companies was when considering whether all avenues of support had been exhausted. At the 9 July 2020 meeting, the Tourism Recovery Ministers questioned the appropriateness of funding assets owned by large businesses that had made profits in the last few years and who should have had commercial borrowing options available to them.
- 5.42 Ministry officials advised the Tourism Recovery Ministers that parent companies might benefit from multiple successful applications, saying that the aim of STAPP was to keep assets open and that, without government funding, parent

companies might make a commercial decision to hibernate assets.²² Despite the concerns, Ministers decided to fund tourism businesses that were subsidiaries of large parent companies. This brings into question how important the “exhausting all other avenues of support” aspect of the criteria was.

The importance of keeping records about decision-making

- 5.43 There was limited documentation about why the Tourism Recovery Ministers did not go with options recommended by Ministry officials. Although Ministers can make decisions that differ from officials’ advice, the reasons for this should be clear to ensure that the public can have confidence in the integrity of the decisions made.
- 5.44 As we have said in our previous work,²³ public trust and confidence in government depends on transparency and accountability when spending public money. This trust and confidence can be undermined where there is limited documentation supporting Ministers’ decisions.
- 5.45 In this case, the reasons to support some key decisions are not well documented. This has led to concerns about the actions taken. Without those records, those who have made the decisions are not able to adequately explain why funding was provided. This is not acceptable practice, regardless of the circumstances.
- 5.46 We appreciate the Tourism Recovery Ministers had to make decisions under the extraordinary situation of Covid-19. Many of the steps happened under short time frames. The desire to provide a timely response could have contributed to a lack of records.
- 5.47 However, good process and record keeping can assist situations where extraordinary steps need to be taken or quick action is required. Rather than an administrative burden, recording the reasons why an action was taken quickly, or why a decision was taken contrary to advice, helps to reinforce those decisions. The public can see why those steps were taken and trust that they were made for good reason.

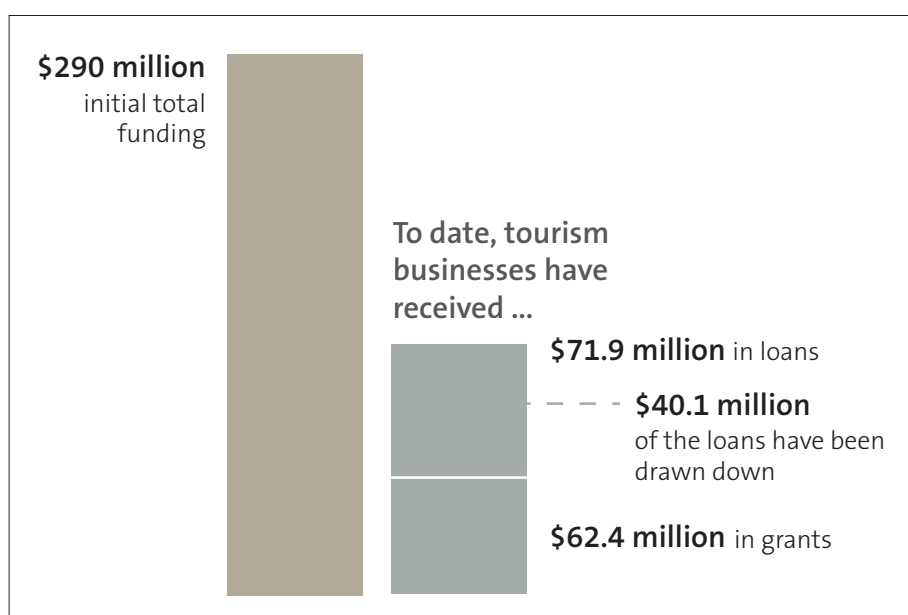
22 We found this point interesting, as, when setting up the tourism recovery fund, Cabinet was told that the tourism funding package would help firms that can hibernate, pivot, and restart. That means hibernation was clearly always seen as an option, though not the preferred option. See Cabinet paper (May 2020) *COVID-19 Response and Recovery Fund Foundational Package*, paragraph 11.

23 For example, in our 2018 report *Reflecting on our work about information*, we quoted the Chief Archivist, who said that “people lose trust in government if there is poor record keeping [and] difficulties accessing information”.

Monitoring

- 6.1 In this Part, we describe the monitoring arrangements for STAPP.
- 6.2 A significant amount of public money has been provided to the tourism sector through STAPP (see Figure 8). To date, tourism businesses have received:
- loans totalling \$71.9 million; and
 - grants totalling \$62.4 million.

Figure 8
Amount of funding provided through the Strategic Tourism Assets Protection Programme, as at 6 March 2022



Source: Office of the Auditor-General

- 6.3 The Tourism Recovery Ministers appear to have taken some reassurance that STAPP criteria had been met through declarations that tourism businesses made in their applications, Deloitte's financial assessment, and contract monitoring processes.
- 6.4 Deloitte had advised the Ministry about the constraints and limited assurance that the financial assessment process provided. Deloitte considered that additional protection could be provided by partially distributing funds and implementing follow-up processes to check that tourism businesses:
- remained eligible for funding by meeting loan conditions; and
 - still needed STAPP funding due to reduced revenue throughout the funding period.

- 6.5 We wanted to understand what monitoring the Ministry had put in place, the extent to which the monitoring process could substantiate the accuracy of the tourism business's information, and whether the tourism business had maintained eligibility for funding.
- 6.6 We talked to Deloitte to understand what analytical support work it had been asked to do. The review process aimed to provide reassurance that STAPP funding had been used in accordance with grant conditions, that the STAPP funding did not duplicate other forms of government support, and that the basis on which funding was granted was supported by subsequent tourism business performance.

What monitoring processes were put in place for successful applicants?

Six-monthly reports

- 6.7 The grant and loan agreements stated that tourism businesses that received funding could be reviewed at any time or asked to provide further information. There is a clause in the grant agreements that tourism businesses must maintain eligibility to receive funding throughout the duration of the grant agreement and must declare that they continue to be eligible for funding.
- 6.8 Tourism businesses that received grants have to provide six-monthly reports, including profit and loss statements, for the period as well as information about:
- full-time equivalent employee numbers;
 - visitor numbers for the period shown against the same period in 2019;
 - a description of how the STAPP funding had been used in the previous six months and how the tourism business intends to use the next round of funding; and
 - a description of progress made against funding indicators the tourism businesses had selected when negotiating their contracts.
- 6.9 The Ministry reviews these reports. The Ministry told us that it staggered grant payments so that it could withhold payments if eligibility lapsed or adjust the final payment to reflect any other subsidies received. In September 2021, a further round of six-monthly reporting was provided by tourism businesses. Of the 127 tourism businesses that had received grants, 82 claimed their final payment in that six-monthly reporting period²⁴ and a further 35 claimed their final payment in February/March 2022.²⁵

²⁴ Final funding payments during the period of March-September 2021 totalled \$9.3 million.

²⁵ Final payments in 2022 for 35 recipients will total \$2.5 million.

Dealing with the risk of double payment

- 6.10 The Ministry asked Deloitte to analyse whether there had been any overlap between STAPP grant funding and other subsidies. Deloitte sent tourism businesses a questionnaire asking what the STAPP funding has been used for, whether they still need funding, and what their future needs are.
- 6.11 Deloitte has been clear that it carried out a financial review and not an audit or due diligence. The process was not set up to detect fraud, to look at what has been taken out of tourism businesses over recent years, or at related-party transactions.
- 6.12 Deloitte considered potential sources of duplicate funding: the wage subsidy scheme extension, resurgence payments, Wildlife Institutions Relief funding, and Department of Conservation concessions.²⁶
- 6.13 The Ministry advised Deloitte that it did not consider the wage subsidy scheme extension or resurgence payments to be duplicate funding. This is because tourism businesses would have already moved to their reduced operating model and the STAPP funding was to compensate for loss of revenue due to the border closure and lockdown. This appears to contrast with the Ministry's earlier advice to the Tourism Recovery Ministers that the impact of the wage subsidy scheme would ideally need to be factored into any agreements by removing aspects of funding that duplicated wage subsidy scheme payments. We were told that tourism businesses could use STAPP funding to top up wage subsidy scheme funding. However, Deloitte told us that it was hard to tell from many tourism businesses' financial records if STAPP did duplicate wage subsidy scheme payments.
- 6.14 The Ministry also decided that the Wildlife Institutions Relief funding did not duplicate STAPP funding as long as payments were not applied to the same costs that were requested when applying for STAPP funding.
- 6.15 The main source of duplicate funding was Department of Conservation concession fee waivers, which in many cases formed part of the operational costs that tourism businesses proposed using STAPP to cover in their application. For 72 tourism businesses, there was a funding overlap due to Department of Conservation support totalling \$386,156.
- 6.16 For tourism businesses that still needed STAPP funding, and which have received duplicate funding, the Ministry can reduce the final payment by the amount of the overlap. We understand that the Ministry intends to apply a materiality threshold of 1% or \$5000 (whichever is lower), meaning that it would not seek to recover or adjust payments under \$5000.

26 Most contracts started after the completion of the first wage subsidy scheme so there is no overlap there.

6.17 Deloitte and the Ministry concluded that 121 tourism businesses still needed funding and four did not.²⁷ We understand that two of the four tourism businesses assessed as no longer needing STAPP funding had already advised that they were declining further STAPP funding in the form of the grants and loans. The Ministry planned to inform the other two tourism businesses that their funding agreements would be terminated.

Closer scrutiny of some tourism businesses

6.18 The Ministry also commissioned Deloitte to do a “deep dive” into 25 tourism businesses. The Ministry provided a list of tourism businesses that it wanted Deloitte to look at. Deloitte selected the remaining tourism businesses.

6.19 Deloitte obtained the tourism businesses’ full balance sheets and profit and loss statements. Deloitte looked at:

- what funding amount the tourism business applied for originally;
- how the tourism business had used the funding;
- whether there were funding overlaps;
- whether the tourism business still needed funding support; and
- whether the tourism business was in a strong enough position to seek alternative financing.

6.20 The review intended to provide some reassurance that the claims about drop in revenue made by tourism businesses was because of subsequent events.

6.21 As with the initial applications, there was inconsistency in the data provided by tourism businesses. Deloitte told us that the STAPP funding was not always evident from the profit and loss statements, and that some tourism businesses might have used the STAPP funding to pay for an asset, to reduce debt, or meet some other liability.

6.22 Due to the flexibility in the funding agreements, Deloitte told us that it was not sure what the funding was specifically granted for. If a tourism business had asked for \$8 million and was granted \$1 million, for example, Deloitte would ask what the funding had been spent on because it was not clear how much funding was meant to be allocated to specific line items such as wages, repairs and maintenance, or leases.

6.23 Deloitte rated the 25 tourism businesses according to whether they faced a low, medium, or high level of risk reflecting their financial viability and sustainability (see Figure 9). This provides a deeper insight into whether tourism businesses still needed STAPP funding and the likelihood of them being able to source alternative funding.

²⁷ Deloitte grouped seven businesses from one parent company together, meaning that 121 assessments were carried out in respect of 127 businesses that received STAPP funding.

Figure 9
Deloitte’s risk assessment of 25 applications

Score	Definition	Number of tourism businesses assessed with this score
Low risk	The tourism business might be able to obtain funding on commercial terms.	1
Medium risk	The tourism business might have difficulty obtaining funding from other sources on commercial terms.	10
High risk	The tourism business had a high risk of not being able to obtain funding on commercial terms.	14

- 6.24 Deloitte commented that even tourism businesses that appeared to have balance sheet equity that might act as a buffer against short-term losses, key questions or policy choices arise. These include:
- whether equity could in fact be realised, for example, was the equity key property assets essential to delivering the service;
 - the willingness of lenders to lend based on equity in the face of erratic cashflow; and
 - the extent to which wider group assets should be considered.

6.25 Although access to balance sheet information enabled Deloitte to form a view on financial capacity, it commented that this did not provide any greater certainty about future financial prospects or cashflow, particularly considering the international and domestic uncertainty about the ongoing impact of Covid-19 on international and domestic travel. In many respects, these comments reinforce officials’ early advice on STAPP, which noted that not every tourism business would survive, and that some of those that did receive funding might still fail.

Need to review the effectiveness of STAPP

6.26 The trajectory and sustained duration of Covid-19 has differed significantly to what was envisaged when STAPP was designed in May 2020. By the time the Tourism Recovery Ministers made decisions about STAPP, Ministry officials were uncertain about how effective STAPP might be. The Tourism Recovery Ministers’ decisions were made against a backdrop of uncertainty as to whether some key criteria had been met. Considering these factors, and to ensure that future schemes build on the lessons learned from STAPP, we suggest that the Ministry formally review the effectiveness of STAPP against its stated goals.

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