



PROACTIVE RELEASE COVERSHEET

Minister	Hon Stuart Nash	Portfolio	Tourism
Title of Cabinet paper	Establishing the broad parameters of an Innovation Programme for Tourism Recovery	Date to be published	14/07/2022

List of documents that have been proactively released		
Date	Title	Author
May 2022	Establishing the broad parameters of an Innovation Programme for Tourism Recovery	Office of the Minister of Tourism
9 May 2022	Establishing the broad parameters of an Innovation Programme for Tourism Recovery CAB-22-MIN-0169	Cabinet Office

Information redacted

No

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Budget Sensitive

Office of the Minister of Finance

Office of the Minister of Tourism

Cabinet

Establishing the broad parameters of an Innovation Programme for Tourism Recovery

Proposal

- 1 This paper seeks agreement to the broad parameters for the Budget 2022 Tourism Recovery Programme, for the purposes of supporting the tourism industry's recovery from COVID-19 and the Government's strategic direction to 'reset and rebuild tourism on a sustainable model'.

Issue identification

- 2 As the tourism sector starts to rebuild and noting that many businesses are likely to have limited cash flow and capital, there is an opportunity to support the sector's recovery by encouraging more innovative and regenerative activities. By co-funding higher risk, innovative activities in partnership with industry and other key stakeholders, the government can take advantage of this opportunity to support transformational activities that drive the sector towards a more regenerative model.

Relation to government priorities

- 3 This proposal will contribute to the Government's goal of supporting an accelerated rebuild of the tourism sector that delivers a more productive, inclusive and sustainable tourism industry.
- 4 This proposal also supports the Government's broader COVID-19 economic response through *accelerating the recovery and rebuild from COVID-19*, as noted in the Speech from the throne.

Executive Summary

- 5 On 11 April 2022, it was agreed through the Budget process to transfer \$54.226 million in underspends from the Tourism portfolio from 2021/22 to 2022/23. The establishment of a Tourism Recovery Programme was also agreed, to support both the tourism sector's recovery from COVID-19 and the Government's strategic direction to 'reset and rebuild tourism on a sustainable model'[CAB-22-MIN-0129].
- 6 COVID-19 has had a significant impact on the tourism industry. As New Zealand's borders reopen and international visitors return, there is a need to understand how government can support the sector's recovery. The Minister of Tourism recently reconfirmed the priorities for the tourism portfolio at Cabinet Priorities Committee and outlined the future vision for the tourism sector [CPC-22-MIN-0005]. The future

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vision for the tourism sector is one that is regenerative, sustainable, low carbon, high skill, high wage, productive, inclusive and innovative.

- 7 Submissions from Tourism Industry Aotearoa (TIA) and the Tourism Futures Taskforce highlight existing industry demand for a range of innovation opportunities in areas such as decarbonisation, investment in waste reduction systems to improve the circularity of the tourism system, collection and collation of tourism data and the improvement of workforce standards. We are therefore seeking Cabinet's agreement to establish a programme that supports innovation in the tourism sector, to help drive immediate systemic change as part of the sector's recovery and support the transition to the Government's future vision for tourism.
- 8 We recommend that the Tourism Recovery Programme be renamed and publicly known as the Innovation Programme for Tourism Recovery to align with the objectives of the programme and to manage the expectations of the sector.
- 9 We are seeking agreement to the broad parameters of the Innovation Programme for Tourism Recovery to enable announcement on Budget Day, 19 May 2022 and to inform the design process in consultation with stakeholders.
- 10 We propose Cabinet agree to the following broad parameters:
 - 10.1 The programme should meet the following principles:
 - 10.1.1 support the transition of the tourism sector to a high wage, low carbon model;
 - 10.1.2 deliver transformational outcomes for the tourism sector;
 - 10.1.3 support a successful tourism recovery;
 - 10.1.4 support the intended outcomes of long-term strategic initiatives such as the Tourism Industry Transformation Plan (ITP);
 - 10.1.5 be based on a sustainable, co-investment funding model; and
 - 10.1.6 complement and minimise duplication of existing initiatives and programmes.
 - 10.2 Broad eligibility to enable all firms, organisations, consortia and local government entities with a New Zealand presence to be eligible for funding;
 - 10.3 The programme should fund initiatives that deliver outcomes in one or more of the following areas: climate change, decarbonisation, sustainability and technology;
 - 10.4 A stakeholder group will be established, to enable engagement on further policy design of the programme, including mechanisms for delivery, investment criteria, co-funding requirements, assessment criteria, permitted use of funding and the application process.

- 11 We are seeking agreement to delegate the approval of any funding recommendations to the Minister of Finance and Minister of Tourism. Following Cabinet agreement, we will develop a detailed engagement plan in preparation for the engagement process with stakeholders. We will announce the programme on Budget Day, 19 May 2022 and send invitations to participants for the stakeholder group.

Background

- 12 COVID-19 has had a significant impact on tourism in New Zealand, and the Government has invested heavily to support the sector through the pandemic. Direct support has been provided through the \$400 million Tourism Recovery Package and \$200 million Tourism Communities: Support, Recovery and Re-set Plan. Broad-based economic support has also been provided through the rollout of the wage subsidy and COVID-19 support payment. As New Zealand's borders reopen and international visitors return, there is a need to look to the future and understand how government can support the sector's recovery. This is in common in other international markets.
- 13 The Minister of Tourism recently reconfirmed the Government's priorities for the tourism portfolio at Cabinet Priorities Committee and outlined the future vision for the tourism sector [CPC-22-MIN-0005]. The future vision for the tourism sector is one that is regenerative, sustainable, low carbon, high skill, high wage, productive, inclusive and innovative. It is also important that the sector regains the social licence to operate, has a sustainable funding model, and visitors contribute more than the costs they generate.
- 14 There is a range of work underway to improve the quality of the visitor and community experience of tourism, including destination management plans, International Visitor Conservation and Tourism Levy (IVL) investments, and freedom camping reforms. There is also work underway to improve small business capability (through digital boost, and R&D Grants), and to improve the quality of tourism jobs (immigration rebalance, and the Tourism ITP).
- 15 The industry is driving similar improvements through its Tourism Sustainability Commitment and has been a willing participant in the Tourism Futures Taskforce and ITP process.
- 16 However, there is a risk that New Zealand will be left behind as other countries accelerate innovation in the tourism industry.
- 17 There are gaps in the immediate opportunities and incentives that help to stimulate a shift towards a regenerative, low carbon, productive and innovative sector in advance of the outcomes sought through the ITP and Tourism Sustainability Commitment.
- 18 On 11 April 2022, it was agreed through the Budget process to transfer \$54.226 million in underspends from the Tourism portfolio from 2021/22 to 2022/23 and to establish a Tourism Recovery Programme [CAB-22-MIN-0129]. It was agreed that the purpose of the programme is *to support the tourism sector's recovery from COVID-19 and the Government's strategic direction to 'reset and rebuild tourism on a sustainable model'*.

Establishing the broad parameters for the Innovation Programme for Tourism Recovery

- 19 As the tourism sector starts to rebuild and noting that many businesses are likely to have limited cash flow and capital, there is an opportunity to support the sector's recovery by encouraging more innovative and regenerative activities. By co-funding in partnership with industry and other key stakeholders, higher risk, innovative activities, the government can take advantage of this opportunity to support transformational activities that drive the sector towards a more regenerative model.
- 20 Submissions from TIA and the Tourism Futures Taskforce highlight that there is existing industry demand for a range of innovation opportunities in areas such as the decarbonisation of the industry, investment into waste reduction systems to improve the circularity of the tourism system, collection and collation of tourism data and the improvement of workforce standards. However, current balance sheets likely do not prioritise investment in these opportunities.
- 21 This could be achieved through the establishment of a programme to support innovation in the tourism sector, to help drive immediate systemic change as part of its recovery and support the transition to the Government's future vision for tourism. This could also better position the sector to embrace the outcomes of the Tourism ITP and deliver on the commitments set through the sector's own Tourism Sustainability Commitment.
- 22 We recommend that the Tourism Recovery Programme be renamed and publicly known as the Innovation Programme for Tourism Recovery to align with the objectives of the programme and to manage the expectations of the sector.
- 23 We propose that Cabinet agree the broad parameters for the Innovation Programme for Tourism Recovery to enable announcement on Budget Day, 19 May 2022 and to inform the design process in consultation with stakeholders. These parameters are designed to set expectations for the sector at the time of announcement and to enable sufficient direction within which we, as the Ministers of Finance and Tourism, can be delegated authority to take decisions required to further develop and implement the Innovation Programme for Tourism Recovery.

Principles

- 24 We propose that the programme should meet the following principles:
 - 24.1 support the transition of the tourism sector to a high wage, low carbon model;
 - 24.2 deliver transformational outcomes for the tourism sector;
 - 24.3 support a successful tourism recovery;
 - 24.4 support the intended outcomes of long-term strategic initiatives such as the Tourism ITP;
 - 24.5 be based on a sustainable, co-investment funding model; and
 - 24.6 complement, and minimise duplication of existing initiatives and programmes.

- 25 The principles above align with the agreed purpose of the programme, to support the tourism sector’s recovery from COVID-19 and the Government’s strategic direction to ‘reset and rebuild tourism on a sustainable model’. A co-investment funding approach is important to ensure the sustainability of funded initiatives, to support the delivery of medium to long-term benefits and to minimise risk by incentivising appropriate investment behaviours.
- 26 There are a range of existing broad-based initiatives that encourage innovation (such as the Research and Development tax incentive, Callaghan Innovation R&D Project Grants and the Digital Boost Programme). It is therefore important to ensure that any additional funding provided for innovation in the tourism sector complements these initiatives and minimises duplication.

Eligibility to access funding

- 27 We propose that Cabinet agrees to a broad eligibility for the programme. This will be an important parameter for setting the expectations of the tourism sector at the time of announcement, ensuring that officials engage with the relevant representatives during the engagement process and for refining the investment criteria.
- 28 We have considered a range of options for limiting the eligibility. However, we recommend there be no restrictions on eligibility for accessing funding through the programme. This would enable all firms, organisations, consortia and local government entities, including domestic and overseas firms (with a New Zealand presence) to be eligible.
- 29 Innovation is a central theme for the programme, and the broader the eligibility, the greater potential there is to drive high levels of innovation and generate the widest range of new ideas. The greatest innovation leaps for tourism will likely come from other parts of the economy or from offshore. Enabling non-tourism sector organisations, such as technology firms and academic institutions, and overseas firms to be eligible for funding will bring the highest level of innovation.
- 30 In addition, the ongoing challenges with defining ‘tourism firms’ given that tourism is defined by the consumer rather than the producer means that limiting the eligibility will create some definitional challenges and implementation complexity.
- 31 We consider that broad, open eligibility is the most effective option for delivering the level of transformational change we are seeking through the Innovation Programme for Tourism Recovery. However, we recognise that broad eligibility also carries risks of scope creep beyond the tourism sector and will require clear and considered project investment criteria to ensure that the funding will drive direct outcomes for the tourism sector. We recommend this investment criteria are developed in detail during the detailed design and engagement process, post-announcement.

Priority areas for investment

- 32 We propose that the Innovation Programme for Tourism Recovery should fund initiatives that deliver on one or more of the following outcomes:

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- 32.1 Climate: reduce carbon emissions in the tourism sector or have a positive impact on the climate
 - 32.2 Sustainability: increase the resilience or environmental sustainability of tourism
 - 32.3 Technology: lift productivity or capability of the tourism sector through technology-based solutions.
- 33 Cabinet has previously specified that investment through the Innovation Programme for Tourism Recovery should also be focused on COVID-19 recovery [CAB-22-MIN-0129]. There is an opportunity to use this programme to support the sector's recovery by encouraging more innovative and regenerative activities. This will ensure that the recovery is aligned with the Government's objectives for tourism.
- 34 Directing funding towards the three outcomes above will also complement existing and planned measures, such as the Government's Emissions Reduction Plan, the ITP and sector initiatives such as the Tourism Sustainability Commitment.

Operationalising the Innovation Programme for Tourism Recovery

- 35 There are various mechanisms for delivering the programme in accordance with the objectives and principles discussed above.
- 36 A purely contestable process such as a contestable fund will draw out a wide range of proposals and enable them to be compared against set criteria. This could be used to achieve a wider distribution of funding. An alternative process is to focus a much smaller spread of funding and target larger-scale projects. Overseas, this has included examples such as a Tourism Innovation Centre.
- 37 There are both advantages and risks associated with the range of possible delivery mechanisms. What we know is that we need to have clear and unambiguous criteria. This was highlighted in the Auditor-General's recent review of the Strategic Tourism Assets Protection Programme. It is important that the lessons learned from that review are incorporated into the development of the Innovation Programme for Tourism Recovery.
- 38 The detailed design process for the programme, and the associated engagement with the sector will be important for narrowing the specific mechanism for delivery. We propose that officials engage stakeholders on the potential buy-in of the different models for delivery, including the level of appetite for investment in significant game-changing projects versus a wider range of smaller scale innovative projects. This process will also maximise industry buy-in to the process and ownership of the outcomes.

Engagement with stakeholders to inform detailed policy design

- 39 It is important to engage with the sector and subject matter experts to understand the current barriers the sector is facing to investing in innovation themselves, as well as seeking input on the development of any specific solutions. At present, there is no reliable oversight or assessment of the scale of innovation already underway in the

tourism sector. This increases the risk for duplication of government support as well as industry efforts if a consultative approach is not taken.

- 40 On advisement from officials, we recommend establishing a small group, made up of key sector representatives and experts to engage with. This could include leveraging existing government-industry relationships with key stakeholders and engaging with representatives from the following stakeholder groups:
- 40.1 Regional economic development agencies
 - 40.2 Māori tourism
 - 40.3 Tourism peak bodies
 - 40.4 Tourism ITP Leadership Group
 - 40.5 Outcome area experts (innovation, climate, sustainability, technology).
- 41 Based on the parameters set by Cabinet, officials will engage with the group to help inform recommendations for detailed policy design of the Innovation Programme for Tourism Recovery. This will include recommendations for the mechanism of delivery, investment criteria, investment parameters (including any cap or minimum funding), co-funding requirements, permitted use of funding, application and assessment process and the monitoring and evaluation requirements. While the group will help inform the detailed policy design of the programme, joint Ministers will ultimately be responsible for final decisions on policy design.
- 42 We propose that the Minister of Tourism agrees the membership of this group and the plan for the engagement process. The Minister of Tourism will send letters inviting individuals and representatives to be part of the group shortly after announcement.

Implementation

- 43 The establishment of the Innovation Programme for Tourism Recovery stakeholder group will occur following announcement on Budget Day and it is expected that engagement with the group will begin in June 2022. Officials will report to joint Ministers for detailed policy decisions, including further implementation decisions such as timing and delivery agent (MBIE or external provider) in the third quarter of 2022.

Financial Implications

- 44 There are no financial implications resulting from this proposal as funding has already been allocated through the Budget 2022 process. This proposal will be funded from the \$54.226 million underspend in the Tourism portfolio, which has been transferred to the 2022/23 financial year.
- 45 Depending on the outcome of the engagement process and subsequent decisions taken by joint Ministers, administrative spending may be required to operationalise the programme (for MBIE or another provider), as well as potential changes to the funding spread across financial years. We propose that any further financial decisions be delegated to joint Ministers to approve within the allocated \$54.226 million.

Legislative Implications

46 There are no legislative or regulatory impacts due to the proposals in this paper.

Impact Analysis

Regulatory Impact Statement

47 There are no regulatory proposals in this paper, therefore Cabinet's impact analysis requirements do not apply.

Climate Implications of Policy Assessment

48 While the Innovation Programme for Tourism Recovery encourages the adoption of climate change adaptation/mitigation practices within the tourism sector, there are no direct climate implications arising from this proposal.

Population Implications

49 There are no population implications arising from the proposals in this paper.

Human Rights

50 There are no human rights issues arising from the proposals in this paper.

Consultation

51 The Treasury, the Ministry of Business, Innovation and Employment (Kānoa – Regional Economic Development & Investment Unit, Research, Science and Innovation) have been consulted on the proposals in this paper. The Department of Prime Minister and Cabinet were informed.

52 Officials intend to engage with key representatives from the tourism sector, along with the respective subject matter experts to undertake an engagement process.

Communications

53 We intend to announce this proposal on Budget Day, 19 May 2022. Following Cabinet agreement, a detailed engagement plan will be developed to accompany this announcement.

54 Following announcement, MBIE will publish a webpage that outlines the broad parameters of the scheme and next steps. The Minister of Tourism intends to contact the proposed group members to invite their participation in the engagement process.

Proactive Release

55 This paper will be proactively released with any appropriate redactions as soon as practicable after public communication of the programme.

Recommendations

We recommend that Cabinet:

- 1 **note** that COVID-19 has had a significant impact on tourism in New Zealand, and the Government has provided significant investment to support the sector through the pandemic;
- 2 **note** that on 11 April 2022, it was agreed through the Budget process to transfer \$54.226 million in underspends from the Tourism portfolio from 2021/22 to 2022/23 and establish a Tourism Recovery Programme to ‘support the tourism sector’s recovery from COVID-19 and the Government’s strategic direction to ‘reset and rebuild tourism on a sustainable model’ [CAB-22-MIN-0129];
- 3 **note** that Cabinet also agreed that detailed policy design decisions will be made jointly by the Minister of Finance and Minister of Tourism [CAB-22-MIN-0129];
- 4 **note** that by funding higher risk, innovative activities, which are unlikely to be a priority for firms in the rebuild phase due to limited cashflow and capital, the government can take advantage of the opportunity to drive the sector towards a more regenerative model;
- 5 **agree** that the Tourism Recovery Programme be renamed to the Innovation Programme for Tourism Recovery;
- 6 **note** that the Innovation Programme for Tourism Recovery will be announced on Budget Day, 19 May 2022;
- 7 **agree** that the Innovation Programme for Tourism Recovery should meet the following principles:
 - 7.1 support the transition of the tourism sector to a high wage, low carbon model;
 - 7.2 deliver transformational outcomes for the tourism sector;
 - 7.3 support a successful tourism recovery;
 - 7.4 support the intended outcomes of long-term strategic initiatives such as the Tourism ITP;
 - 7.5 be based on a sustainable, co-investment funding model; and
 - 7.6 complement, and minimise duplication of existing initiatives and programmes.
- 8 **agree** that the Innovation Programme for Tourism Recovery has broad, open eligibility (entities with a New Zealand presence) to drive the greatest level of innovation and transformational change;
- 9 **note** that joint Ministers may revisit this eligibility after engagement with the stakeholder group;

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- 10 **agree** that the Innovation Programme for Tourism Recovery should fund initiatives that deliver on one or more of the following outcomes:
- 10.1 Climate: reduce carbon emissions in the tourism sector or have a positive impact on the climate
 - 10.2 Sustainability: increase the resilience or environmental sustainability of tourism
 - 10.3 Technology: lift productivity or capability of the tourism sector through technology-based solutions;
- 11 **agree** to establish a stakeholder group made up of key industry and expert stakeholders to engage with on detailed policy design, including but not limited to:
- 11.1 Mechanism of delivery;
 - 11.2 Detailed investment criteria;
 - 11.3 Investment parameters (including cap and/or minimum level of funding);
 - 11.4 Co-funding requirements;
 - 11.5 Application and assessment process;
 - 11.6 Permitted use of funding;
 - 11.7 Monitoring and evaluation requirements;
- 12 **note** that the Minister of Tourism will agree the membership of the stakeholder group and engagement plan and will send invitations to participants shortly following announcement;
- 13 **note** that engagement with the stakeholder group will begin in June 2022 with final policy design decisions expected to be taken by joint Ministers in the third quarter of 2022, including parameters outlined in recommendation 11 as well as further implementation decisions (timeframe and delivery provider); and,
- 14 **agree** to delegate the approval of any further financial decisions within the allocated \$54.226 million, including administration funding, to the Minister of Finance and Minister of Tourism.

Authorised for lodgement

Hon Grant Robertson

Minister of Finance

Hon Stuart Nash

Minister of Tourism