

The Treasury

Extension of the Small Business Cashflow (Loan) Scheme After 24 July 2020 Information Release

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Office of the Minister of Finance

Office of the Minister of Revenue

Chair, Cabinet Economic Development Committee

EXTENSION OF THE SMALL BUSINESS CASHFLOW (LOAN) SCHEME AFTER 24 JULY 2020

Proposal

1. This paper seeks the Cabinet Economic Development Committee's agreement to a further extension of the Small Business Cashflow (Loan) Scheme until 31 December 2020. This is an extension from its current end date of 24 July 2020.

Background

2. The Small Business Cashflow (Loan) Scheme (the Scheme) was established as one of the Government's measures to help cushion the economic impact of COVID-19 on businesses and organisations. A summary of the implementation of the Scheme is as follows:
 - 2.1 On 30 April 2020, Cabinet agreed to the establishment of the Scheme (CAB-20-MIN-0196 refers). The original period for applications was from 12 May 2020 to 12 June 2020. Legislation was passed to enable the Scheme to operate and be administered by Inland Revenue;
 - 2.2 On 11 May 2020, we informed Cabinet of minor decisions made on the design of the Scheme, and Cabinet agreed for legislative changes to be included in a Supplementary Order Paper to the COVID-19 Response (Further Management Measures) Legislation Bill (CAB-20-MIN-0217 refers);
 - 2.3 On 2 June 2020, we delivered an oral item advising on our decision to initially extend the closing date of the Scheme by six weeks from 12 June 2020 to 24 July 2020. No other adjustments to the Scheme were made at this time;
 - 2.4 On 29 June 2020, we delivered an oral item to inform Cabinet that we would be taking a paper to the Cabinet Economic Development Committee (DEV) on 1 July 2020 to propose a further extension of the Scheme as outlined in this paper. Cabinet agreed to give DEV the power to act so that this item does not need to return to Cabinet on 6 July 2020.
3. The following statistics on the Scheme are as of Wednesday 24 June 2020:
 - 3.1 87,861 loan applications have been made, with 83,374 of those having been approved and paid;

- 3.2 \$1.475 billion has been applied for, with \$1.400 billion having been approved and paid;
 - 3.3 The average amount applied for is \$16,784 and the average amount paid is \$16,788;
 - 3.4 Between approximately 400 and 700 applications were received per day for the Scheme for the week ending Friday 19 June 2020;
 - 3.5 94% of applicants have applied for the full amount they are eligible for;
 - 3.6 86% of applicants also received the Wage Subsidy;
 - 3.7 49% of applicants have only one full-time-equivalent (FTE) employee, and 31% of applicants have between two and five FTE employees.
4. Appendix One provides a breakdown of loan applications by region and industry.

Further extension of the Scheme

- 5. In accordance with the first extension of the Scheme, the closing date for applications is currently 24 July 2020.
- 6. We seek the Cabinet Economic Development Committee's agreement for the Scheme to be extended a second time to 31 December 2020.
- 7. This will allow businesses and organisations more time to consider their financial position in deciding whether or not to apply for a loan under the Scheme. Some businesses and organisations were not adversely affected by COVID-19 early on but may have suffered a more recent decline in revenue (such as in May/June rather than in February/March).
- 8. A further extension of the scheme will ensure that there is sufficient time for these businesses and organisations to be able to carefully consider whether they need the loan before taking it. Signalling now that the Scheme will be extended will assure businesses that this relief will be available going forward.
- 9. Inland Revenue will require approximately four weeks of lead-in time to implement any small changes to the Scheme, such as an extension of the closing date for applications.
- 10. When considering an extension to the Scheme, we focused on the following factors:
 - 10.1 Do businesses and organisations still need the support provided by the Scheme? Although the uptake of loans under the Scheme has slowed since it began, we note that there are further risks of an economic downturn and that support associated with other Schemes (such as the Wage Subsidy Scheme and the Business Finance Guarantee Scheme) are due to finish in the second half of the year.
 - 10.2 What is the broader macroeconomic situation? Given the evolving economic situation and the associated uncertainty, there may be a number of

businesses and organisations who require help later on that did not require help earlier. Extending the Scheme will enable broader firm support.

10.3 What is the opportunity cost? The existing appropriation for the Scheme represents funding that cannot be used for Wave 2 or Wave 3 initiatives. It may also lead to an increase in net core Crown debt.

11. Given these considerations, we believe that it is worthwhile extending the Scheme to continue to deliver ongoing cashflow relief to businesses and organisations.

12. We do not recommend any other adjustments to the Scheme at this time.

Consultation

13. Inland Revenue and the Treasury were consulted in the preparation of this Cabinet papers and agree with its recommendations.

Financial Implications

14. The current lending envelope for the Scheme is \$5.2 billion. Given the current demand for loans under the Scheme, the likelihood of this appropriation being exceeded is low. This means that the current appropriation is sufficient to last until 31 December 2020. We therefore recommend no changes to the appropriation for the Scheme.

15. We will continue to monitor the uptake of the loan. We note that the ending of the Wage Subsidy Scheme and any potential credit crunches in the second half of 2020 could lead to an increase in loan applications.

Legislative Implications

16. No legislative implications arise from the decision to extend the Scheme or any of the adjustments.

Impact Analysis

17. The Treasury has determined that the regulatory proposals in this paper are exempt from the requirement to provide a Regulatory Impact Statement (RIS) because they are intended to alleviate the short-term impacts of a declared emergency event of the COVID-19 pandemic. They introduce an urgent change and the exemption has been granted on the understanding the agency have included in the proposal's design a sunset clause limiting the duration of emergency response to December 2020, and that available analysis is included in this paper to support the policy decision making.

Publicity

18. We expect to make an announcement about the extension promptly. Officials have provided us with an appropriate communications pack.

Proactive Release

19. This paper will be included in a future proactive release of documents associated with COVID-19.

Recommendations

The Minister of Finance and the Minister of Revenue recommend that the Cabinet Economic Development Committee:

1. **note** that, on 30 April 2020, Cabinet agreed to the establishment of the Small Business Cashflow (Loan) Scheme (CAB-20-MIN-0196 refers);
2. **note** that, on 2 June 2020, the Minister of Finance and the Minister of Revenue decided on a first extension of the closing date for applications to the Small Business Cashflow Loan Scheme by six weeks from 12 June 2020 to 24 July 2020;
3. **note** that, on 29 June 2020, Cabinet gave the Cabinet Economic Development Committee the power to act on deciding on a further extension of the Small Business Cashflow (Loan) Scheme;
4. **agree** to further extend the closing date for applications to the Small Business Cashflow (Loan) Scheme to 31 December 2020 to give businesses and organisations more time to apply for the Scheme;
5. **note** that no change to the \$5.2 billion appropriation for the Small Business Cashflow (Loan) Scheme is required with the extension of the closing date for applications;
6. **note** that this Cabinet paper, the associated Cabinet minute, and key advice papers will be released as part of a proactive release of documents associated with COVID-19.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

Hon Stuart Nash
Minister of Revenue

Appendix One

1. Breakdowns of loan applications by each of region and industry are as illustrated in the following tables:

Table 1: Applicants by location as at Wednesday 24 June 2020

Location	Loan approved (\$m)	Volume (N)
The Greater Auckland Region	\$601.8	36,790
Christchurch	\$179.3	10,391
Wellington	\$133.2	7,969
Hamilton	\$102.3	5,884
Tauranga	\$75.6	4,579
Dunedin	\$69.7	3,953
Palmerston North	\$48.9	2,841
Whangarei	\$45.8	2,822
Nelson	\$40.7	2,334
Napier	\$37.1	2,133
Rotorua	\$34.2	1,986
New Plymouth	\$27.1	1,559
Timaru	\$20.1	1,078
Invercargill	\$19.4	1,086
Gisborne	\$8.3	484
Greymouth	\$8.0	488
No location Information	\$22.8	1481
Totals	\$1,474	87,858

Table 2: Applicants by industry as at Wednesday 24 June 2020

Industry	Loan approved (\$m)	Volume (N)	Avg. Loan per applicant ('000)
Construction	\$232.9	14,066	\$16.60
Accommodation	\$195.4	8,574	\$22.80
Professional, Scientific and Technical Services	\$137.6	8,862	\$15.50
Retail Trade	\$132.1	7,689	\$17.20
Manufacturing	\$109.6	5,175	\$21.20
Other Services	\$102.1	6,381	\$16.00
Transport, Postal and Warehousing	\$81.2	5,832	\$13.90
Administrative and Support Services	\$76.4	4,923	\$15.50
Wholesale Trade	\$61.0	3,332	\$18.30
Rental, Hiring and Real Estate Services	\$61.0	4,277	\$14.30
Health Care and Social Assistance	\$48.1	2,670	\$18.00
Agriculture, Forestry and Fishing	\$39.9	2,423	\$16.50
Arts & Recreation Services	\$29.4	1,795	\$16.40
Education and Training	\$22.6	1,314	\$17.20
Information Media and Telecommunications	\$19.7	1,260	\$15.60
Financial and Insurance Services	\$18.4	1,272	\$14.50
Public Administration & Safety	\$5.1	271	\$18.80
Electricity, Gas, Water & Waste Services	\$4.1	227	\$18.10
No industry Information / very low industry volumes	\$97.7	7,515	\$13.00
Totals	\$1,474	87,858	\$16.78