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OFFICE OF THE ACTING MINISTER
FOR ECONOMIC DEVELOPMENT

The Chair

ADHOC CABINET COMMITTEE ON CANTERBURY EARTHQUAKE RECOVERY

**CHRISTCHURCH EARTHQUAKE: SHORT TO MEDIUM TERM BUSINESS
SUPPORT MEASURES**

PROPOSAL

- 1 The proposals in this paper are part of the overall economic recovery measures for Christchurch in the aftermath of the September 2010 and February 2011 earthquakes.
- 2 International experience indicates that in the aftermath of a natural disaster it is important to take early steps to restore business confidence and reduce the risk that businesses might make precipitate decisions about their future. The proposals in this paper address these concerns, with some short to medium term measures to begin rebuilding the confidence of businesses and maintain their financial liquidity. They will also help businesses make well-informed decisions about their future.
- 3 There are broader, longer-term considerations around the restoration of infrastructure and the rebuilding of business premises for which the proposed new government agency for Christchurch will take the lead role.

EXECUTIVE SUMMARY

- 4 The proposals in this paper respond to the needs of Christchurch businesses following the severe earthquake on February 22, 2011.
- 5 Following consultation with private sector business organisations and government agencies I propose that the Government:
 - Contribute \$1.7 million towards the cost of recovery co-ordinators for businesses to provide needs assessment and referral services.
 - [3]
 - Specifically recognise the Trust as a donee organisation exempt from income tax in its own right.
 - [3]

[6]

[3]

- 6 I propose that \$4.2 million be reprioritised within Vote Economic Development to fund the \$1.7 million towards the cost of recovery co-ordinators and the proposed \$2.5 million contribution to the Business Recovery Trust Fund with no impact on the operating balance.
- 7 The proposed changes to the appropriations within Vote Economic Development (as a result of the reprioritisation of the expected under spend in the Vote in 2010/11) consist of a transfer of \$2.157 million from Non Departmental Other Expenses Regional Partnerships and Facilitation Fund appropriation and \$2.043 million from Non-Departmental Other Expenses International Growth Fund to the Non-Departmental Other Expenses: Canterbury Earthquake Recovery – Business Support appropriation account, to be phased \$3.0 million in 2010/11 and \$1.2 million in 2011/12.

BACKGROUND

- 8 The proposals in this paper respond to the needs of Christchurch businesses following the severe earthquake on February 22, 2011. There is extensive damage to the CBD and to residential areas – significantly more extensive than from the September earthquake – and many businesses are badly affected.
- 9 To limit the risk that reduced consumption, reduced output, increased unemployment and business failures lead to a severe local recession, it is important to quickly implement assistance measures to facilitate a rapid recovery of economic activity.
- 10 Following the September 2010 earthquake, the government implemented direct assistance measures, notably the Earthquake Support Subsidy (ESS – total cost of \$10.8 million), and indirect support measures such as funding promotional activities and business recovery coordinators. These are summarised in Appendix 1 to this paper.

CHRISTCHURCH BUSINESS CONDITIONS

- 11 A number of organisations have surveyed their Christchurch business client bases. Thus far these surveys indicate that 30 to 40 per cent of Christchurch businesses have experienced little or no disruption and will not require assistance. A further 30 per cent (approximately 10,000 businesses) that were viable prior to the February earthquake have sustained moderate to severe damage to their premises and are now reconsidering their future. It is these businesses that will require the needs assessment and referral function

discussed later in this paper. Some will need only initial or intermittent assistance; others are likely to require on-going support.

- 12 The remaining 30 per cent (mainly concentrated in the CBD) are in a more critical position. Many of these will have already had viability concerns as a result of the global financial crisis and the impact of the September earthquake. It is anticipated that some of these businesses will use the assessment and diagnosis process and on the basis of that assessment, will be helped to close their businesses in an orderly manner.
- 13 However the situation remains fluid. Some businesses are only now gaining access to the cordon zone and moving into a position where they genuinely assess their situation. Market responses are also still becoming clear (e.g., Export Education). Accordingly these ratios are undergoing continuous refinement as more information arises. Other work by MED is at an early stage but suggests that because most large firms are relatively unaffected the impact on unemployment will be less than 30 per cent.

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PRINCIPLES FOR GOVERNMENT INTERVENTION

- 15 An assistance package must reflect the need for specific and tailored solutions that will best meet the needs of affected businesses.
- 16 It also needs to satisfy some key principles for business recovery measures and where possible be driven by the business community. Any action should:
 - be timely (provide assistance when it is needed);
 - be time limited (taking into account that recovery will take some time)
 - be targeted (address a clearly defined problem, have clear parameters for use, and be capped). Local involvement is also critical for success;
 - minimise transaction costs for businesses;
 - be proportional to the magnitude of the effects of this earthquake, including the cumulative impact of prolonged stress on businesses and their owners and employees;
 - make the best use of private sector resources, information and professional advice and local/regional resources; and

- not displace or detract from private and voluntary effort and resources directed at business recovery.

A NEW CHRISTCHURCH EARTHQUAKE BUSINESS SUPPORT PACKAGE

Initial Measures

- 17 The Earthquake Support Subsidy has been re-introduced following the most recent earthquake. The higher rate of subsidy (\$500 per week per employee), the extended length of time the subsidy will be available (6 weeks) and the extension to larger businesses and sole traders has been very well received by the business community. IRD has relaxed a number of tax payment deadlines which has also relieved some of the immediate pressure on businesses. These measures are only the first steps and they now need to be followed up with a package of targeted business recovery measures.

New Measures

- 18 A number of organisations and businesses have put forward, or are developing proposals, for government-funded or private-public funded activity. The Canterbury Development Corporation (CDC) and the Canterbury Employers Chamber of Commerce (CECC) are key participants.
- 19 These proposals reflect a hierarchy of issues that need addressing now or in the near future for those businesses affected by the immediate impacts of the February 22 earthquake. They are:

A systematic needs assessment and referral service

- 20 The needs assessment function will primarily be performed by a mixture of staff from the Canterbury Employers Chamber of Commerce, Canterbury Development Corporation and local offices of Government agencies. Where existing relationships exist with professional service firms such as lawyers or accountants, businesses will be able to use these firms to provide them with this initial advice. The New Zealand Law Society and the New Zealand Institute of Chartered Accountants have indicated they will support this approach. A joint model has been developed (refer to Appendix 2 to the paper) aimed at having fully integrated services which businesses can access regardless of whether their first point of contact is CDC/CECC, a government agency or their own trusted advisor (accountant or lawyer). Data gathering and reporting will be an important element of this model and will allow Government to assess on-going business needs.
- 21 CDC/CECC propose to provide 30 recovery co-ordinators from existing and contracted staff, fully funded by government. They will be supplemented by suitable staff from government agencies funded from within those agencies' baseline appropriations. In determining the level of support government should provide for the assessment function, a balance needs to be struck between supporting local business organisations which are important to the future economic development of Canterbury, and making the best use of Government resources, including staff.

22 Taking this and the estimated number of businesses likely to need some form of assistance into account, I propose that the Government provides \$1.7 million to support the delivery of the assessment and referral function over a period of 12 months. The cost of government agency staff is not included in this figure.

23 I further propose a review after six months to determine whether this remains an appropriate level of support.

Funding for the Canterbury Business Recovery Trust

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25 The Canterbury Business Recovery Group Ltd (an organisation set up by the Canterbury Employers Chamber of Commerce and the Canterbury Development Corporation) has developed The Trust to act as repository for business to business donations. This was an identified gap following the September earthquake.

26 The objectives and purpose of the Trust are to benefit the Canterbury community and provide relief from poverty in the Canterbury region by providing grants and financial assistance to Canterbury businesses to:

- Provide relief from damage and loss suffered as a consequence of the Canterbury Earthquake; and
- Assist them to restore their business operations and prepare them for future growth.

27 In practice this will mean that funds are distributed to business to support relocation, re stocking, replacement of plant and access to professional services to identify priority actions for maintaining cash flow and developing new business models.

28 Officials have worked with the Recovery Group on defining the objectives of the trust so that the Government can have confidence that the money donated will be distributed to businesses. The Recovery Group wishes to seek registration as a registered charity under the provisions of the Charities Act 2005.

29 Inland Revenue advises that donors who make cash donations to the Trust will qualify for the donation tax credit or tax deduction if the Trust is a "donee organisation". A donee organisation is an organisation or fund that is not carried on for the private pecuniary profit of an individual and whose funds are applied to wholly or mainly charitable, benevolent, philanthropic, or cultural purposes within New Zealand. It is not clear that this Trust will be able to meet the requirements of a charity and be capable of registering with the Charities Commission and, furthermore, whether it would be benevolent, philanthropic or cultural.

30 The tax status of an entity is usually determined by its legal form and the activities it carries out. As it stands, the entity would be taxed as a Trust and subject to tax at 33 per cent on its retained income. If the Trust is registered with the Charities Commission it would be eligible for the charities-related income tax exemption.

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32 To achieve this policy outcome, Inland Revenue officials recommend that the Income Tax Act 2007 be amended to:

- specifically exempt from income tax the income of the Trust; and
- add the Trust to the list of donee organisations in Schedule 32. The effect of this amendment is that cash donations made to the Trust would be eligible for the donation tax credit and tax deduction for donations, but would not be subject to gift duty.

33 I propose that the Committee invite the Minister of Revenue to issue drafting instructions to Parliamentary Counsel office for the appropriate amendments to the Income Tax Act 2007.

Support for the resettlement of CBD businesses – office based and retail/hospitality

34 While the Trust Fund will provide some financial support to businesses to relocate, and the Recovery Group will help businesses needing space to identify accommodation offered via websites and other means, additional space may be required for offices, and retail/hospitality businesses that have been displaced from the CBD.

35 Officials are working with potential temporary office park providers to identify the need for such space and envisage these providers will provide a market solution for office space. The support needed from the City Council or the proposed new government agency for Christchurch is likely to be more in the area of fast-track consenting or ensuring transport or infrastructure services get to the proposed sites, if appropriate.

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Monitoring and Reporting

42 Funding for the recovery co-ordinators will be managed through a funding agreement between MED and the relevant organisations. This will include reporting requirements to enable on-going assessment of demand and will inform any future decisions on business support measures. Reporting requirements will include: business demographics, numbers of assessments, action plans developed, referrals to specialist advice services, referrals to Business Mentors NZ, identification of issues, risks and trends.

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[3]

INTERFACE BETWEEN WELFARE AND BUSINESS SUPPORT

44 On 28 February Cabinet approved the establishment of the Earthquake Support Subsidy (ESS) [CAB Min (11) 9/8]. The purpose of the subsidy is to

maintain the employer/employee relationship where possible. Cabinet also approved an Earthquake Job Loss Cover (JLC) for individuals who have lost employment, or were unable to contact their employer, and who were no longer being paid.

- 45 As at 10 March 2011, 7,882 businesses had applied for the ESS in relation to 39,900 employees. In addition, over 9,000 sole traders had made applications for ESS while more than 5,000 people had applied for the JLC. More than \$65 million had been paid out on the ESS and JLC.
- 46 The speed with which the ESS was introduced, the rate (\$500 gross per week per full-time employee and \$300 gross per week per part-time employee) and the initial length of time it is available (6 weeks) have been very well received by the business community. It has been an important first step in giving business owners confidence by allaying their immediate fears in relation to their staff obligations.
- 47 The funding for recovery co-ordinators and the contribution to the Recovery Trust, which will be implemented immediately, will allow many businesses to access the support and advice to make decisions about their future operations and the impact on their staff. Equally, there will be many, primarily those with premises in the CBD, who will not have had access to their business properties to assess the extent of loss and will not be in a position to make future staffing decisions.
- 48 Officials from the Ministries of Economic Development and Social Development are working together on the transition from the ESS, a wage subsidy focused on maintaining employment relationships that may have otherwise been at risk, to support focused on business recovery, which provides targeted assistance to keep viable businesses operational and able to pay their employees.
- 49 It is too early yet to make decisions about whether there is a need for further assistance along the lines of the ESS after it expires on 8 April. Information gathered by the recovery co-ordinators discussed in this paper will be an important resource in providing information about the future viability of businesses in Christchurch.
- 50 The Minister for Social Development and Employment will provide advice to the Ad-Hoc Cabinet Committee on Earthquake Recovery by the end of March seeking decisions about the need for any further assistance along the lines of the ESS after its 8 April expiry.
- 51 Officials from the Department of Labour are also working with a number of agencies including the Canterbury Development Corporation to provide advice about the short and medium labour market needs of Canterbury to plan for the longer term economic recovery of the city.

FUNDING

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- 53 The Ministry of Economic Development (MED) advises that this can be reprioritised within Vote Economic Development. The Regional Partnerships Facilitation Fund supports regional partnerships to develop and implement economic growth strategies, projects within this fund can be deferred to the 2011/12 financial year, enabling the current funding of \$2.157 million to be redirected to Canterbury Earthquake recovery.
- 54 Savings have been identified through the four year budget plan in the International Growth Fund for the 2010/11 financial year. This is a new fund that has been formed through the consolidation of a number of previous funds into a single fund to support export focused businesses to enter and develop international markets.
- 55 This fund is in its first full year of operation and the focus has been on getting the systems and processes in place. Applications are being subjected to more rigorous assessment of their net economic benefit. Application levels have been low in the first months of this year, but current projections suggest that the fund will be 65% subscribed this year and fully subscribed in out-years. The low number of applications is due to a combination of reduced economic activity (applications require 50% industry co-funding) and bedding down the processes associated with the new fund. This means that \$2.2M is available for reprioritisation this year.
- 56 As a result of this reprioritisation in Vote Economic Development in 2010/11 I propose to transfer \$2.157 million within Vote Economic Development from the Non-Departmental Other Expenses: Regional Partnerships and Facilitation Fund and \$2.043 million from Non-Departmental Other Expenses International Growth Fund appropriations to Non-Departmental Output Expense: Canterbury Earthquake Recovery – Business Support. This will be phased \$3.0 million in 2010/11 and \$1.2 million in 2011/12 with provision to transfer any under-spend in this year to the following year.

CONSULTATION

- 57 Agencies consulted include MED, New Zealand Trade and Enterprise, The Treasury, Inland Revenue, the Department of Labour and the Ministry of Social Development. The Canterbury Development Corporation and the Canterbury Employers Chamber of Commerce were also consulted. The Department of the Prime Minister and Cabinet, Te Puni Kokiri, the Ministry of Agriculture and Forestry, the Ministry of Education and the Ministry of Science and Innovation have been kept informed.

FISCAL IMPLICATIONS

- 58 With the exception of the proposed tax amendments the costs of the initiatives outlined in this paper are fiscally neutral. Subject to Cabinet approval, the following changes to appropriations will be required to fund the \$1.7 million towards the cost of recovery co-ordinators for businesses and the proposed \$2.5 million contribution to the Business Recovery Trust Fund:

Vote Development Minister for Economic Development	Economic Purpose of New Funding	\$m – increase/ (decrease)				
		2010/11	2011/12	2012/13	2013/14	2014/15 & out years
Non-Departmental Other Expenses: Regional Partnerships and Facilitation Fund		(2.157)	-	-	-	-
Non-Departmental Other Expenses: International Growth Fund		(2.043)	-	-	-	-
Non-Departmental Output Expense: Canterbury Earthquake Recovery - Business Support	Canterbury Earthquake Support Package	3.000	1.200	-	-	-
	Total operating:	(1.200)	1.200	-	-	-

59 [5]

HUMAN RIGHTS

60 These proposals have no human rights implications.

LEGISLATIVE IMPLICATIONS

61 Amendments to the Income Tax Act 2007 will be required to give effect to the specific tax exemption for Trust and tax relief for donations made to the Trust.

REGULATORY IMPACT ANALYSIS

62 As these proposals do not involve any regulatory changes, no regulatory impact analysis is required.

PUBLICITY

63 I propose to issue a press release announcing these initiatives on Tuesday, 15 March 2011.

RECOMMENDATIONS

64 I recommend that in response to the needs of Christchurch businesses following the 22 February 2011 earthquake the Committee:

- 1 **Agree** that, in the aftermath of the February 2011 Christchurch earthquake, it is important to take early steps to restore business confidence and reduce the risk that businesses might make precipitate decisions about their future.
- 2 **Agree** to contribute \$1.7 million towards the cost of recovery co-ordinators for businesses to provide needs assessment and referral services, with a review after six months.
- 3 **Agree** to contribute \$2.5 million to the proposed Business Recovery Trust Fund.
- 4 **Agree** that the Trust should be specifically recognised as a donee organisation and be exempt from income tax in its own right.
- 5 **Agree** that, to achieve this policy outcome, the Income Tax Act 2007 be amended to:
 - a. specifically exempt from income tax the income of the Trust; and
 - b. add the Trust to the list of donee organisations in Schedule 32.
- 6 **Note** that agreeing to recommendation 5 above will result in a reduction in tax revenue as per the following table, with a corresponding impact on the operating balance, and will be funded from the between-Budget spending contingency.

Vote Revenue Minister of Revenue	\$ millions increase / (decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15
Crown Revenue and Receipts: Tax Revenue	(2.250)	(0.750)	-	-	-

- 7 **Invite** the Minister of Revenue to issue drafting instructions to Inland Revenue's Drafting Unit for the appropriate amendments to the Income Tax Act 2007.

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- 11 **Approve** the following changes to appropriations within Vote Economic Development to fund the \$1.7 million towards the cost of recovery co-ordinators for businesses and the proposed \$2.5 million contribution to the proposed Business Recovery Trust Fund with no impact on the operating balance.

Vote Economic Development	\$m – increase/(decrease)				
	2010/11	2011/12	2012/13	2013/14	2014/15 & out years
Minister for Economic Development					
Non-Departmental Other Expenses: Regional Partnerships and Facilitation – Enterprising Partnerships Fund	(2.157)	-	-	-	-
Non-Departmental Other Expenses: International Growth Fund	(2.043)	-	-	-	-
Minister for Canterbury Earthquake Recovery					
Non-Departmental Output Expense: Canterbury Earthquake Recovery – Business Support	3.000	1.200	-	-	-
Total	(1.200)	1.200	-	-	-

- 12 **Agree** that the change to the appropriations in recommendation 10 above be included in the 2010/11 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.
- 13 **Authorise** the Minister of Finance and the Minister for Canterbury Earthquake Recovery (jointly) to transfer any under-spent Canterbury Earthquake Business Support Package funding within the Canterbury Earthquake Recovery - Business Support appropriation in one year to the next financial year, with the final amount to be transferred being confirmed as part of the October baseline update, following the presentation of that

year's audited financial statements of the non-departmental activities administered by the Ministry of Economic Development.



RP

Hon David Carter

Acting Minister for Economic Development

Date signed: 11.3.2011.

APPENDIX 1: SEPTEMBER 2010 BUSINESS SUPPORT MEASURES

- Earthquake Subsidy Scheme (ESS), to help businesses pay wages during the initial period after the earthquake until 1 November 2010 (funded by Work and Income to \$10.8 million);
- Recovery workshops, to train business people in methods to help them recover from the effects of the earthquake (funded by New Zealand Trade and Enterprise (NZTE) up to \$100,000);
- Business Mentors, to work with individual business owners (registration fee funded by NZTE);
- A report on the economic impact on key industries and potential growth scenarios (funded by NZTE up to \$30,000);
- Ongoing assistance for severely affected employers and the self-employed through the Unemployment Benefit: Canterbury Earthquake;
- Two full-time business recovery co-ordinators for Christchurch for 18 months (\$360,000);
- One part-time business recovery co-ordinator for Kaiapoi for 18 months (\$90,000);
- Funding for promotional and marketing activities in Christchurch (\$70,000);
- Funding for promotional and marketing activities in Kaiapoi (\$30,000);
- Further support for Business Mentors NZ (\$50,000).

APPENDIX 2: DRAFT NEEDS ASSESSMENT AND REFERRAL SERVICE MODEL

ENTRY	NEEDS ASSESSMENT	SPECIALIST SERVICES	IMPLEMENTATION
<p>Self Initiation → Businesses self identify through</p> <ul style="list-style-type: none"> • Calling contact centres • Contacting trusted advisors • Accessing specialist services • Visiting a recovery centre • Visiting a business hub <p>Out reach Contact → Businesses are reached by</p> <ul style="list-style-type: none"> • Out bound calling • Mobile Biz centre visit • Welfare agency referral • Business group referral • Targeted personal invitation 	<p>EQ Business coordinators → Needs assessment and Initial support plan that;</p> <ul style="list-style-type: none"> • Identifies barriers to business • Prioritizes issues • Identifies specialist advice and support needed <ul style="list-style-type: none"> • Includes welfare and • home issues 	<p>Multiple Providers/services</p> <ul style="list-style-type: none"> • Chamber, CDC • Government departments • Professional services • Banks • Private providers • Sector Associations <p style="text-align: center;">↓</p> <p>Detailed plan informed by specialist advisors drawn up →</p>	<p>Business implements plan On going support provided by advisors and specialist services Business support networks in place.</p>
<p><i>Note no wrong door. If a business enters into a government department, Chamber, CDC or their trusted advisors they will have access to the services. Outreach services are provided as stressed. Businesses are not asking for assistance.</i></p>	<p><i>EQ coordinators will be employed by CECC, CDC(15?), and combined Government Departments, 15. They will be housed in 2 hubs at CDC and DOL. They will be jointly managed and share information, tools and reporting.</i></p>	<p><i>The coordinators regardless of who employs them can refer clients across the spectrum and knit together the most effective support. Not all businesses may be able to be restored to a viable state and the support may be to cease trading</i></p>	<p><i>The aim is to leave businesses with key barriers resolved, on going networks and advice systems without ongoing dependence to this level of support.</i></p>