The Treasury

Advice on COVID-19 Response Information Release

December 2021

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Supporting businesses' ongoing costs during prolonged Alert Level restrictions

Date:	3 September 2021	**Report No:**	T2021/2218
		File Number:	SH-1-6-1-3-3-22

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Discuss** with the Treasury at the next Weekly Agency Meeting **Refer** to the Ministers for Revenue and Small Business	3 September 2021

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Silkie Whitworth	Senior Analyst, Regions, Enterprise and Economic Development	[39] [35]	✓
Jean Le Roux	Manager, Regions, Enterprise and Economic Development		

Minister’s Office actions (if required)

Return the signed report to Treasury.

Refer the report to the Minister of Revenue and the Minister for Small Business.

Note any feedback on the quality of the report	

Enclosure: No

Executive Summary

Prolonged periods of severe Alert Level restrictions will put more pressure on firms' ability to meet their costs. This will be particularly challenging for sectors that have had very limited revenue, such as accommodation and food services. Our analysis suggests that from six weeks spent continuously at Alert Levels 3 or 4 (i.e. from 28 September), there is a strong rationale for additional economic support to ensure firms remain viable.

The implication is that if further support is provided any sooner, there is a greater risk of unnecessary fiscal expenditure. Our assessment of this risk is based on the scale of ongoing costs faced by impacted firms over time and evidence that in aggregate, firms were in a stronger position coming into this resurgence event than in 2020; this is also the case for the accommodation and food sector overall.

The Resurgence Support Payment (RSP) and Small Business Cashflow Scheme (SBCS) are designed in line with our fiscal strategic approach: they are timely, targeted and temporary. We suggest these channels of support for firms' costs will remain the most effective tools in a prolonged period of restrictions.

Of the two schemes, on balance we recommend prioritising use of the RSP scheme at this time. An important advantage of the RSP is that it can be delivered more quickly, providing no changes are made to the scheme. This option provides cashflow support to preserve firms during a period when their activities are severely limited. It could also be priced to correspond to firms' costs and is particularly beneficial to the most vulnerable businesses.

You have expressed a preference for any additional support to be issued as soon as possible rather than towards the end of this month. Inland Revenue has advised that due to operational constraints, the soonest an additional RSP payment could be made is on 20 September. The agency has stated that this is on the basis that none of the scheme rules are changed. Whilst the agency will commence preparations for a second payment as soon as your authorisation is provided, a Cabinet decision is also required. For additional payments to be issued from 20 September, the latest time Cabinet could provide this authorisation would be 13 September.

We recommend that a second payment of the RSP issued either on 20 September or later is paid at a lesser rate. Adjusting the payment rate of a second instalment of the RSP would ensure it is priced to correspond with businesses' ongoing costs more effectively. It would also signal that businesses should be taking measures to adapt to the new economic conditions.

Ideally a second RSP would be priced according to the Alert Level conditions facing businesses at the time of issuance. We suggest that:

- If Alert Level 4 is in use, the base payment of $1500 is kept in place (to tilt support towards the smallest firms) but the FTE rate is reduced to $200.
- If Alert Level 4 is not in place, we suggest the base payment is reduced to $1000 and the FTE rate is reduced to $200.

Inland Revenue has informed us that any changes to these schemes are administratively complex. It is therefore likely to take longer to deliver changes to the existing scheme, but until the agency knows the specific changes preferred, they cannot confirm how much longer that would be. If you agree to an adjusted payment rate, IR will need 24 hours to evaluate whether this is deliverable and the likely impact on timeframes. Please refer to BN2021/356 for further information on administrative pressures Inland Revenue is currently facing.

With a longer lead-in time, changes to the SBCS (such as allowing a second loan) would allow the scheme to provide an appropriate level of cashflow support to firms at lower long-term fiscal cost. We recommend against these options now given timing and administrative constraints, but you may want to consider whether they could be appropriate in an even more prolonged outbreak or in future outbreaks. Inland Revenue will advise you of the administrative impacts if this is your preferred option.

This report also notes that a re-instatement of a Business Finance Guarantee is not recommended at this time, and provides an update on what is being done to reduce businesses' ongoing costs through regulatory means.

Recommended Action

We recommend that you:

a **note** that in aggregate, firm resilience (including in hospitality) is judged to be stronger going into this resurgence than in 2020; however Treasury analysis of ongoing costs for firms most heavily impacted by restrictions shows that additional economic support could be warranted after six weeks spent at Alert Level 3 or above (i.e. from 28 September);

b **note** that given their strengths in targeting the most affected firms and their current readiness, provision of extra economic support for businesses' ongoing costs is best delivered through the Resurgence Support Payment (RSP) or the Small Business Cashflow Scheme (SBCS);

c **note** that given implementation readiness and the advantages of a grant scheme over a debt-based approach at this time, use of the RSP is recommended;

d **note** that the earliest Inland Revenue can issue an additional RSP payment is 20 September; that this is on the basis none of the scheme rules are changed; and this is Inland Revenue's preferred option;

e **note** that if you wish to change any of the RSP scheme rules for a second payment, Inland Revenue will require 24 hours to confirm whether it is operationally feasible, taking into account the impacts for its Business Transformation programme;

f **note** that if operationally feasible, we recommend adjusting the payment rate of a second RSP as follows:

i. If Alert Level 4 is in use at the time of the second payment: $1500 base payment + $200 per FTE; it is estimated this would cost a total of $330-540 million depending on the regional Alert Level settings; or

ii. If Alert Level 4 is not in use at the time of the second payment: $1000 base payment + $200 per FTE; it is estimated this would cost a total of $90-$150 million depending on the regional Alert Level settings.

EITHER:

g agree to seek Cabinet's agreement to a second payment under the RSPAUG21 under the same settings (Inland Revenue's preferred option);

Agree/ Do not agree.

OR:

h **agree** to seek Cabinet's agreement to a second, reduced payment of the RSP under the RSPAUG21 at the rate described in recommendation (f) (subject to confirmation that this is operationally feasible) **[RECOMMENDED];**

Agree/ Do not agree.

IF you agree to recommendation (h):

i **agree** to discuss with Inland Revenue the administrative impacts and delivery timelines;

Agree/ Do not agree.

j **note** that if you agree to (g) or (h) we suggest you do not commit at this stage to regular RSP payments becoming part of the permanent suite of economic support products until further work can be undertaken to consider the best approach in a changing context;

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- **refer** to the Minister for Revenue and the Minister for Small Business.

  Referred/ Not referred.

Jean Le Roux
Manager Regions, Enterprise and Economic Development

Hon Grant Robertson
Minister of Finance

Treasury Report: Supporting businesses' ongoing costs during prolonged Alert Level restrictions

Purpose of Report

1. This report outlines the trade-offs and options associated with issuing rapid additional economic support to small- and medium-sized enterprises (SMEs) affected by a prolonged period of Alert Level restrictions.

Context

2. In recent advice we proposed that the key objectives of the COVID economic response for at least the next three months should be to (i) support the public health response by supporting compliance with public health restrictions, and (ii) reduce the social and economic disruption associated with outbreaks [T2021/2190 refers].

3. As long as there is uncertainty around the length of time New Zealand will remain at higher Alert Levels, clear and credible signals that the Government is prepared to act as required to preserve viable firms will be important for maintaining business confidence. Any decision to increase the CRRF could help provide that signal [T2021/2228 refers].

4. The economic support currently provided through the Resurgence Support Payment (RSP) and Small Business Cashflow Scheme (SBCS) are also significant components of our strategy to fulfil these objectives, particularly for SMEs, by supporting firms' non-wage costs. Providing cashflow support and ensuring firms are preserved whilst Alert Level restrictions prevent them from fully operating, also supports a swift rebound in activity.

5. We recognise that prolonged periods of severe restrictions will put more pressure on firms' costs which may warrant further economic support. The RSP and SBCS are designed in line with our strategic fiscal approach: they are timely, targeted and temporary. They are also most readily available and can be calibrated to minimise risk of unnecessary and potentially inflationary expenditure. This report therefore explores how they could be used at this time and what the trade-offs involved are.

Evaluating the case for and form of additional support

In aggregate, business resilience was relatively strong heading into this resurgence

6. Whilst there are data limitations associated with monitoring business health due to significant lags on key indicators, we know that the main challenges reported in recent months are supply-side (and beyond the scope of this report).

7. However, in order to make informed decisions about the possible support schemes, an understanding of firm balance sheet stresses and liquidity pressures is required. A short summary of our understanding is as follows:

    - Bank Chief Economists have reported that in aggregate, businesses are much calmer and more prepared for the current lockdown than last year. Businesses were confident of a strong rebound in economic demand, and are in a more resilient position, with the latest RBNZ data confirming stronger cash buffers now than in 2020.

- Reserve Bank data shows the “Accommodation and Food Services” industry has built up its deposits over the past 18 months, with total borrowings largely flat, suggesting a building up of resilience going into this lockdown. However, this data is an aggregate view and so may not represent the whole industry. Individual businesses may have relatively large debts and minimal deposits and vice versa. [34]

- [34]

- A more nuanced picture is provided by the Better-for-Business Research Monitor.[1] Findings in December 2020 from a representative sample of New Zealand businesses indicate that a total of 8% of businesses nationally (10% in Auckland) either do not think they would survive a further lockdown (5%) or do not know if they would (3%), despite existing government assistance. This finding is reflected in the feedback from Regional Skills Leadership Groups, that some businesses are still running at a loss despite supports, exacerbated by labour shortages in some cases. Nationally, 39% of businesses stated that they would only survive a further lockdown with similar government support.

- Nationwide, 43% of businesses state that they have suitable financial reserves to continue operating for several months in a lockdown. However, a further 29% indicated their reserves would last only a matter of weeks, and 20% of businesses have no cash or financial reserves available to them.

- Businesses’ requests for assistance from their banks are starting to emerge, mainly in the retail sector including hospitality, but for now supervisors indicate that it is too early to judge the implications.

Our analysis suggests that firms most affected by AL3/4 will feel pressures on ongoing costs, which should be addressed by the end of September

8. We estimate the total ongoing costs (defined in **Annex 2**) faced by impacted SMEs at $350 million per week. This analysis is informed by IR10 survey data on firms' expenses by industry and firm size, drawn from the IDI, and data on uptake of the RSP to date.

9. It is not necessary or desirable for government to meet these costs fully, given:
   - businesses are expected to undertake actions to relieve some of the cashflow pressure they face, to the extent they are able to;

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1 We note that these surveys have not been in operation long enough to build a meaningful time series, and therefore it is difficult to gauge the extent to which results represent a deterioration or an improvement compared to pre-COVID-19 operating norms, or signal firms' vulnerability to insolvency.

- some cost items included in our analysis as ongoing costs may be reducible or deferable under Alert Level restrictions;

- most businesses are expected to have sufficient reserves and access to resources to weather a few weeks of reduced business activity; and

- most businesses are also not experiencing a 100% revenue drop and will have some inwards cashflow with which to address ongoing costs.

10. Providing further fiscal support for ongoing costs too early or at too generous a rate could prove unnecessary, and risks undermining business adaptation and providing more support to relatively unviable businesses. Earlier support may also raise expectations of a similar frequency and scale of support in future resurgence events.

11. Based on the latest uptake to date, the RSPAUG21 is now forecast to provide approximately $700 million in support during the current resurgence scenario. Considering the above, aggregate coverage is judged to be sufficient to support meeting businesses' ongoing costs for about six weeks (starting from 17 August, when Alert Level restrictions began. We acknowledge that this conceals significant variation in the sufficiency of the payment at a firm level. This is unavoidable when using a broad-based scheme premised on timeliness and simplicity.

12. Overall, we consider there is rationale to provide a further injection of support around 6 weeks into the resurgence event, at which point the aggregate need for cashflow support for ongoing costs may become more acute. In addition, we will have a better idea of the public health outlook and have stronger evidence of what restrictions businesses are facing.

13. However, what constitutes taking on a fair share of the burden is a matter of judgement, and aggregate data (even at a sector level) does not capture the distress experienced by all firms. Other considerations, such as maintaining social license for public health restrictions, may justify intervening earlier.

The RSP and SBCS provide the most effective ways to relieve cost pressures…

14. The schemes support firms' non-wage costs, are designed to be temporary, timely and targeted, and are most readily available to respond to the present economic conditions in light of the operational constraints that currently exist.

… and also effectively target the most affected regions, sectors and firms through the 30% revenue drop test

15. We understand that given the likelihood the most severe restrictions will affect the Auckland region, you are interested in what more can be done to target supports towards this part of the country.

16. We continue to advise that the current 30% revenue drop test should serve as the targeting mechanism for economic supports during resurgence events, because it identifies the firms in need of economic support as a result of the impacts of higher Alert Levels. Evidence from previous resurgence events has shown the RSP both targets support towards those sectors or regions on aggregate that are most affected by higher Alert Levels, while also ensuring firms in any connected sector or region benefit [T2021/775 refers]. We also note the SBCS is predominantly supporting target sectors such as hospitality and construction.

17. Continuing to use the revenue drop test as the targeting mechanism for the schemes is also advantageous given its familiarity to applicants. Feedback from businesses shows consistent and simple eligibility criteria increase certainty and benefit business confidence during resurgence events.

18. As a result, we do not recommend introducing regional targeting. A boundary between Auckland and the rest of the country may cause significant disruption to supply chains and to aggregate demand nationally, with blockages and shortfalls felt across New Zealand. We therefore consider these to be direct impacts of the Alert Level restrictions, which warrant economic support.

19. Regional targeting also creates boundary and administrative issues for the management of the scheme. Verifying locations even in a high-trust declaration model is extremely administratively complex and would require major changes to IR operating systems and a significant lead-in time, undermining the timeliness of support (see **table 1**).

20. If you wish to tighten targeting further, an option would be a change in the level of the revenue drop test for the RSP and SBCS from 30% to 40%. However, because the evidence suggests these schemes support the desired firms, and because changing eligibility criteria is likely to be difficult to implement, we do not recommend proceeding with this option. It would also create an unnecessary cliff-edge in support as the WSS is currently only available in response to firms experiencing a 40% revenue drop.

Deciding between the SBCS and RSP: trade-offs on whether support should take the form of grants or loans

21. The RSP is a grant scheme while the SBCS is a loan scheme. While they are both designed to deliver timely, temporary and targeted support, they have different pros and cons (see **Annex 1** for further detail).

22. In summary, an important advantage in the present circumstances is that a second RSP can be delivered more quickly (if unchanged in format from RSPAUG21), providing cashflow support to preserve firms during this period of restrictions. It is also well suited to the present economic circumstances as it is costed to respond to the scale of anticipated impacts on firms' costs and is particularly beneficial to the most vulnerable (smallest) businesses.

23. However, we note that access to the SBCS was not available in the first 6 weeks of the 2020 lockdown period; there was no RSP available and no corresponding uptick in volume of business insolvencies. With cash reserves generally looking stronger in 2021, there is a risk that the RSP is provided unnecessarily to viable firms.

24. [34]

25. [34]

26. The SBCS may be more targeted than the RSP as businesses should ideally only apply for the loan if they think they are likely to need it and be able to repay it. But it is difficult for businesses to estimate their future capacity to repay loans in the current economic conditions. As we have previously seen, businesses' concerns about their debts may also discourage them from applying for the loan, reducing the initial impact of the scheme. That weakens the desired effect of the scheme.

27. Overall, officials consider that the RSP is a more appropriate mechanism for providing economic support.

Consideration of precedent setting for future resurgence events

28. The decision to provide further support for firms' ongoing non-wage costs is a deviation from the one-off nature of RSP support previously agreed by Cabinet [CAB-20-MIN-0531 refers]. In the interest of providing business certainty and confidence for any future prolonged resurgence events, it may be desirable to embed the approach taken so that it may be signalled as a permanent addition to the resurgence support package.

29. However, for this advice we have not been able to consider how this might be undertaken. Recommendations in the present context are primarily driven by operational constraints in the short-term.

30. [33]

31. If you decide to proceed with an additional payment of the RSP, we suggest that any implication that regular RSP payments may become part of the permanent suite of economic support products is avoided until further work can be undertaken to consider the best approach in a changing context.

Scheme-specific options and trade-offs

RSP options

32. The full range of options available to adjust the RSP to respond to the evolving public health scenario is provided below.

33. The fastest option is to provide a second payment under the same parameter settings used to date. This is Inland Revenue's preference, noting the risks identified in paragraphs 46-49. This could be open for applications from 20 September (or at a later date up until 7 October). The risk with this approach is that it is more likely to provide support to some firms unnecessarily, as it would not be re-scaled to account for lower ongoing costs and potentially improved Alert Level conditions in some parts of New Zealand.

34. Any changes to the RSP would be administratively complex. However, if feasible, we recommend issuing a second payment at a time that minimises fiscal costs whilst better targeting the most affected firms (see paragraphs 10 - 13).

Table 1: Options to re-issue the RSP in the present Alert Level period

	Option	Cost	Delivers against scheme policy objectives?	Recommended?
More targeted----Less targeted	(a) No rule changes: launch between 20 September – 7 October	Dependent on AL settings, $300 – 700m.	Most timely form of support available and relatively well targeted (see paras 15-20). Well understood by business community. Most economic risk of supporting some firms unnecessarily.	Yes, unless option (d) is possible.
	(b) Top up existing RSPAUG21 recipients with additional “booster” payment	Scalable.	Extremely administratively complex to deliver. Guarantees payment to firms that may have already experienced a bounceback in activity (e.g. construction, where only AL4 is restrictive).	No.
	(c) Increase revenue drop threshold (to target most affected firms and decrease costs)	Dependent on AL settings, $120 – 550m.	TSY assessment is 30% is sufficiently targeted. Risks “cliff-edge” effect, as WSS % drop is 40%. Adds complexity for customers. Could create inconsistent treatment of those who have already applied under the current settings.	No.
	(d) Decrease the payment amount for second payment, and issue at the end of September (better targets ongoing costs)	Scalable, Dependent on AL settings (see **table 2**); $100 – 550m.	A tapering measure to save fiscal cost and better correspond to actual scale of costs, given initial transition costs covered by first RSP. Encourages transition by communicating less of the burden accommodated by Government. By delivering later, also more likely to more effectively target the most affected firms given revenue drop period would likely apply when some parts of the country are at AL1 or 2.	Yes, if implementable in required timescales
	(e) Issue payment to firms only in AL3/4 for prolonged period (i.e. in Auckland)	Dependent on AL settings, $100 – 250m.	Extremely administratively challenging to verify. Ignores significant supply chain effects associated with Auckland.	No.

Recommended option (d): further detail and costing options

35. The main determinant of the fiscal cost of any second RSP scheme is the Alert Level situation at the time of applications.

36. To improve the targeting and reduce the fiscal cost of a second payment, we recommend setting the period in which applicants must demonstrate a revenue drop to be after any additional shift down in Alert Levels. We anticipate this is more likely to happen further into September.

37. This approach means firms operating at lower Alert Levels must demonstrate that any recovery in business activity is insufficient to lift them above the 30% revenue drop level.

38. Businesses operating under more restrictive conditions (e.g. in Auckland) will be more likely to be able to demonstrate the required revenue drop, and proportionately more support will be directed towards those businesses accordingly.

39. It is also well-aligned with the scheme's objectives and the scale of need to reduce the rate. The scheme's stated objectives include covering the one-off transition costs incurred at the outset of a period of elevated Alert Levels. Though it is not explicitly stated what portion of the payment represents coverage of these transition costs, there is no reason to cover this cost twice.

40. We also suggest that in line with the scheme objectives to support viable firms to transition, reducing the payment rate is an important signal that businesses should adjust to new economic conditions.

41. Fiscal costs of the scheme when activated in different Alert Level scenarios, under different payment structures, are given below. Assumptions of uptake in different resurgence scenarios rely on the impacted window for the revenue drop test being positioned to reflect firms' activity levels in that Alert Level, and do not partially capture effects of previous periods at higher Alert Levels.

Table 2: Fiscal cost of second RSP payment in different public health scenarios, with different payment rates

Alert level		**Total cost at different payment rates ($ million)**		
Auckland	RoNZ	Current	$1500 + 200 per FTE	$1000 + 200 per FTE
4	4	700	540	410
4	3	550	430	250
4	2	430	330	180
3	3	260	210	150
3	2	150	120	90

Note: Initial estimates. Subject to change as we develop our understanding of how the economic implications of Auckland remaining at AL4 affects other regions in the coming week. Green highlight denotes recommended pricing options.

42. There is no scientific way to arrive at an ideal amount for the payment to firms. Even with the number of FTEs proxying firm size, the sufficiency of any payment amount in covering a firm's ongoing non-wage costs at higher Alert Levels will vary.

43. Ideally the payment rate would be set according to the Alert Level conditions at the time of the RSP being issued so that it corresponds with the scale of need for support.

44. The payment is calculated based on a per-firm and a per-FTE component, so as to weight the size of payments in favour of smaller firms. The choice of balance between the base payment and FTE component represents a choice to direct relatively more or less support towards small firms. We suggest that as the base payment is particularly supportive of the most vulnerable firms, it is maintained where Alert Level 4 is in place.

45. However, if Alert Level 4 is not in place, we suggest the base payment could be reduced.

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Small Business Cashflow Scheme options

50. The SBCS pre-dates the RSP. It was similarly intended to provide support to vulnerable but viable small businesses. A loan scheme was deemed to balance the fiscal risk to the Government against the need to assist businesses during a period of economic difficulty.

51. Officials took the view then, and continue to advise, that support should be timely, targeted and temporary. It must be fiscally responsible, minimising administration and compliance costs, comprehensible by the public, and it should not exacerbate existing inequalities or vulnerabilities.

52. [33]

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53. [33]

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Other potential options to alleviate firms' ongoing cost pressures

54. There are some interventions that could reduce business' ongoing costs by other means. An update on the appropriateness and feasibility of the key interventions in this space is provided below.

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55. [33]

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Commercial leases

57. Ministry of Justice officials will provide the Minister of Justice with a draft Cabinet paper this week that outlines options to intervene in commercial leases. The Ministry is seeking direction from its Minister as to the timing of any Cabinet consideration of the paper. We understand that the options will include:

    a updating guidance for commercial tenants and landlords on negotiating a fair rent reduction;

    b reinstating the previous voluntary mediation and arbitration service, and

    c legislating to include a rent reduction or "no access in emergency" equivalent clause in some commercial lease agreements.

58. [34]

59. [34]

60. The Treasury will provide a view on these proposals once information on the fiscal and non-fiscal implications associated with each option are available.

Consultation

61. Inland Revenue and the Ministry of Business, Innovation and Employment were consulted on this paper.

Next steps

62. Following your response to the recommendations in this report and any discussion at the next Weekly Agency Meeting, the Treasury and Inland Revenue officials will commence the relevant preparations.

63. Any decision to provide a second payment of the RSP will require Cabinet agreement and an amendment to the Order in Council for the RSPAUG21.

64. In the meantime, we suggest you refer this report to the Ministers of Revenue and Small Business.

Annex 1: Overview of the RSP and SBCS

Criteria	**RSP (grant)** Current rate ($1500+$400*FTE, max 50 FTE).	**SBCS (Loan)** Current rate: $10k+($1800*FTE), max 50 FTE.
Fiscal: Overall cost	RSPAUG21 now estimated to cost $700m. Subject to design rules but a second payment would likely cost in the region of $200-500m.	Prior to the recent AL change, $1.73b in support to firms had been issued. 15,000 customers had repaid, totalling $137m in repayments. Of the 15,000 only 5,000 of loans have been repaid in full. Original default expectations of around 50% are yet to be confirmed. However, this assumption looks to be broadly appropriate.
Timely	Payments normally issued within 48 hours of application.	Payments normally issued immediately or overnight, unless stopped for review. If stopped for review, payment times depend on when the customer provides further information.
Temporary	One-off payment paid on an initial increase in Alert Levels to support firms' fixed comments.	Stimulatory to the extent that businesses draw down loans, but temporary as business pay them back. Less control over when businesses may choose to draw down loans.
Targeted	30% rule tends to reach construction at AL4, and hospitality/retail/arts at AL2-4. Analysis of previous payments shows funding goes to regions most affected and compensates for supply chain effects.	Major sectors supported to date are construction, accommodation and food, and scientific and technical. Evenly spread across FTE groupings within the 1-50 range. Potential risk of lending businesses more than they need (loans are capped by employee numbers rather than comprehensive risk metrics).
Economic: reducing the social and economic disruption	Analysis indicates in aggregate RSP over-compensates for non-wage costs if significant restrictions last less than 3 weeks; cashflow issues may become acute after 6 weeks.	Advantage of loan scheme is that businesses only repay when they are in need. Disadvantage is that it may only defer business failure if the recovery is weak. Also increases business' debts, making them more vulnerable in the future.

Annex 2: Definition of ongoing costs

Taking from IR10 expense categories, we consider a firm's ongoing costs to be composed of insurance payments, interest payments, rates and fees, rents and leases, and "other expenses".

The "other expenses" category captures: administration costs, cleaning, communication costs, consumables, electricity, travel and accommodation, training and staff development, and vehicle expenses. Some of these are ongoing at levels consistent with or greater than usual, and some are likely to reduce or cease during the period of public health restrictions. The portion of "other expenses" that continues to be faced by business will vary. We have included this category for the purpose of this analysis.

Excluded are: bad debts, depreciation and amortisation (these not being incurred in cash terms), remuneration, salaries and wages, payments to contractors (wage costs addressed by the wage subsidy), and purchases of goods sold (incurred as a function of business activity and reduced in proportion to activity reduction under public health restrictions).

Annex 3: Business Finance Guarantee summary [33]

The BFGS was established in April 2020 to help small and medium businesses access credit for cashflow, capital assets and projects related to, responding to or recovering from the impacts of COVID-19.

While the scheme was primarily designed to encourage banks to continue lending in a financial crisis, it also attempted to get banks to lend to more risky firms.

Throughout the duration of the scheme, it has become clear that the BFGS was not successful in influencing change in banks' lending practices or risk appetite to any great degree.

The addition of Non-Deposit Taking Lenders (NDTLs) to the scheme went some way in extending support to riskier firms (as highlighted in the table below) however with NDTLs representing 3% of total lending, this has had minimal impact on the overall scheme.

BFGS lending within PD ranges – NDTL vs. Bank Aggregate:

Probability of Default (PD) Code	**Probability of Default (PD) Range**	**NDTL Aggregate (as at 30 June 2021)**	**Bank Aggregate (as at 30 June 2021)**
PD11	0.00% - 0.295%	2%	8%
PD12	0.296% - 1.190%	0%	40%
PD13	1.191% - 2.100%	1%	29%
PD14	2.101% - 5.900%	51%	20%
PD15	5.901% - 16.000%	38%	2%
PD16	16.001% - 100.000%	9%	1%

The BFGS availability period ended on 30 June 2021. This largely reflected the ongoing strength of the economy and banking sector, as well as the growing problems of maintaining a scheme that was brought in rapidly to push against a credit crunch that did not eventuate.

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