

The Treasury

Advice on COVID-19 Response - Tranche Two Information Release

September 2022

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Reference: T2021/2566 SH-1-6-1-3-3-22

Date: 8 October 2021

To: Minister of Finance (Hon Grant Robertson)

Examining the differences in ongoing costs estimates arising from use of different data sources: implications for the RSP

Purpose

1. This report clarifies the basis for assessing business' ongoing costs in order to inform the design of the Resurgence Support Payment (RSP).
2. The focus for this analysis is on the non-wage costs faced by firms regardless of the firm's business activity. These costs put ongoing cashflow pressure on firms while public health restrictions require reduced business activity.

The IR10 form and the Annual Enterprise Survey

3. In recent analysis (T2021/2218 refers), taking from IR10 expense categories, we considered 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 "other" costs could be considered ongoing at fixed levels, 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. On balance we considered it best to include the category for the purpose of this analysis.
4. Excluded were: 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 (incurred as a function of business activity and reduced in proportion to activity reduction under public health restrictions).
5. Earlier analyses (T2020/3583) used in 2020 drew from the Annual Enterprise Survey (AES). The data provided in the IR10 form are not entirely consistent with the information obtained from the AES survey. Expenses are grouped differently across the two data sources. Attempting the same inclusion and exclusion of cost categories outlined above is not possible given the difference in category definitions between the surveys.
6. A particular issue arises from excluding "purchases" from the measure of ongoing costs. The AES variable for purchases specifically identifies purchases *for resale*,

however the IR10 measure of purchases is broader. The components of the broader conception of purchases which are captured in the IR10 category would be captured under the AES categories “other expenditure” or “other miscellaneous expenditure”.

7. As a result, the IR10 category for “purchases” represents a much greater proportion of a firm’s costs than the AES category. Attempting to exclude “purchases” from the measure of ongoing costs, while seeking to include “other expenditure”, produces quite different results between the two surveys, owing to systematic differences in variable definitions.
8. Further, in the IR10 data, “Total expenditure” excludes purchases, while the AES totals include purchases. The implication is that approaching the estimation of firms’ ongoing costs from IR10 data produces a significantly lower estimate than using AES data does.
9. We have adjusted the measure of “Total expenditure” as treated in the IR10 data, to make it comparable to the totals measure in the AES data. Purchases could then be treated in line with IR10 variable definitions or with AES variable definitions.
10. On balance we consider it more appropriate in the current policy context to make use of the AES conception of purchases rather than use IR10 data. This is because the narrow definition of purchases makes for a more conservative view of firms’ ongoing costs (ie, estimates greater ongoing costs), which would lead us towards a more generous view of the appropriate payment per firm. We consider the risk of overproviding to be less consequential than the risk of underproviding in the COVID-19 business support context.
11. In making use of this output to guide advice on RSP parameter changes, as we have done in our parallel advice on the future of COVID-19 support (T2020/2529 refers), we will primarily focus on the costs faced by those industries expected to experience ongoing impacts under public health restrictions – hospitality (Accommodation and Food Services) in particular.
12. Estimates of the ongoing costs faced by firms when using the AES, and the consequent coverage of costs by the RSP, are provided overleaf for information.

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[39]

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Table 1: RSP coverage of mean ongoing costs, using AES data and variable definitions

Firm size (employee count)	Mean ongoing costs (\$000 per week)			RSP coverage		
	1-5	6 - 9	10 - 19	1-5	6 - 9	10 - 19
Accommodation and Food Services	2.6	4.8	8.1	83%	93%	87%
Administrative and Support Services	2.4	7.7	18.0	88%	58%	39%
Arts and Recreation Services	3.7	12.8	16.5	58%	35%	43%
Construction	6.5	20.5		33%	22%	
Education and Training	1.9	3.7	5.5	111%	122%	128%
Electricity, Gas, Water and Waste Services	6.8	34.6	45.9	31%	13%	15%
Health Care and Social Assistance	1.9	5.8	9.4	112%	76%	75%
Information Media and Telecommunications	5.2	16.5	37.3	40%	27%	19%
Manufacturing	4.8	16.0	28.8	44%	28%	25%
Other Services	1.9	6.2	13.6	109%	71%	52%
Professional, Scientific and Technical Services	2.1	7.3	15.7	98%	61%	45%
Public Administration and Safety	2.8	16.4	9.3	75%	27%	76%
Rental, Hiring and Real Estate Services	5.6	10.5	18.9	38%	42%	37%
Retail Trade	1.7	3.8	8.4	124%	116%	84%
Transport, Postal and Warehousing	4.1	13.4	33.3	51%	33%	21%
Wholesale Trade	4.3	8.0	23.2	50%	56%	30%