



## COVERSHEET

<b>Minister</b>	Hon Stuart Nash	<b>Portfolio</b>	Small Business
<b>Title of Cabinet paper</b>	Further Regional Business Partnership advice for small businesses	<b>Date to be published</b>	16 October 2020

### List of documents that have been proactively released

<b>Date</b>	<b>Title</b>	<b>Author</b>
9 June 2020	Further Regional Business Partnership advice for small businesses	Office of the Minister for Small Business
17 June 2020	DEV-20-MIN-0102	Cabinet Office

### Information redacted

**YES**

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reason of Confidential advice to Government.

In Confidence

Office of the Minister for Economic Development

Office of the Minister for Small Business

Chair, Cabinet Economic Development Committee

## **Further Regional Business Partnership advice for small businesses**

### **Proposal**

1. We are seeking Cabinet's agreement to immediate funding of \$40.0m from the Covid Response and Recovery Fund for business advice support, as continuation of the additional business consultancy advice funding provided through the Regional Business Partner Network, which has now been fully committed.

### **Executive Summary**

2. The Regional Business Partnership (RBP) programme supports small and medium sized enterprises (SMEs) to grow and innovate. The RBP received two funding allocations from government totalling \$29 million to support SMEs within the COVID-19 context. \$15 million of this funding, provided in April, was to provide vouchers to SMEs to purchase expert business advisory support. Vouchers were fully funded, up to a maximum of \$5,000.
3. This funding is now fully committed, and there is significant remaining demand. Support services purchased includes business continuity planning (67%) and financial, HR and digital advice. These advisory services will be instrumental in positioning SMEs for recovery.
4. Surveys of businesses shows that 67% of the vouchers are being used for business continuity planning and that recipients of the vouchers recorded a +85% satisfaction rating. The services are therefore reaching the intended targets for support. A survey of impact of the programme will start in June and will report in July this year.
5. We therefore recommend that Cabinet agrees to a further allocation of \$40 million from the CRRF to the RBP programme to extend the fully funded vouchers to 30 September 2020, plus continue the delivery of administration which ensures appropriateness of the funding allocated.

### **Background**

6. The RBP programme supports SMEs looking to grow and innovate. The RBP has Growth Advisors spread across 14 regions who work with business owners to assist with their growth plans through connections, advice and support.
7. The RBP was identified as a scalable, existing network that had the ability to reach SMEs to provide business continuity support as the impacts of COVID-19 became

known. Consequently, the RBP has received two funding allocations from government totalling \$29 million to support SMEs within the COVID-19 context [CAB-20-MIN 0068 and CAB-20-MIN-0165 refer]. The RBP business advice voucher scheme is designed to complement other advice and support that might be available, such as sector specific support.

- 7.1. March 2020 - \$4 million was allocated to the RBP network: Growth Advisors were given the mandate to provide fully funded vouchers to SMEs, up to the value of \$5,000. \$2 million of this fund was allocated to enable RBPs to provide vouchers for business continuity services, HR, Health & Wellbeing, Finance & Cashflow. \$780,000 was allocated specifically towards the provision of workshops and webinars to meet specific business needs. \$1.14 million was spent on securing 20 additional growth advisors, and 17 administrative staff to support the increased demand on the network.
- 7.2. April 2020 - \$25m was allocated to SMEs with the same conditions for support (SMEs able to access fully funded vouchers, up to the value of \$5,000). Of the \$25 million small business package, \$20 million was for small business advisory services, directed accordingly:
  - \$15 million to RBP channels
  - \$5 million to export SMEs via NZTE
  - \$2 million to innovative firms via Callaghan Innovation
  - \$2 million towards resourcing helplines in the North Island and South Island
  - \$1 million towards an Innovation Fund.

### **Summary of demand and state of the current funding allocation**

8. SME demand for Covid-19 support through the RBP network has far outstripped this additional supply. For context, 2,770 new businesses registered for RBP support from 1 May – 12 May (equivalent to a year of new business registrations).
9. Based on the pipeline of firms that have registered with RBPs for support, the total remaining funding is now fully committed across all regions, with 4,028 companies receiving 1:1 RBP Covid-19 Advisory Support.
10. SMEs have received help with cashflow, preparation to seek bank loans, forecasting, creating a business plan (often for the first time), and wellbeing guidance so that business owners can support their own wellbeing, as well as their employees.
11. Topics covered include business continuity – including business strategy, operating tools etc. (67%), finance (21%), HR and employment relations (6%), and digital (2%), marketing (2%), and health & wellness (1%). Digital and marketing service offerings were made available from 26 April. These numbers are expected to increase as SMEs grow their digital capability and get their businesses online.
12. A summary of the 1:1 RBP business advisory supports provided to date, by size, business, and sector, is included in Annex One.

### *Impact and value of business advisory support provided*

13. Uptake of support to date has been primarily from small and small to medium firms, with over 90% of vouchers going to firms with less than 20 employees, and nearly 80% going to firms with less than 10 employees. The services are therefore reaching the intended targets for support.
14. Surveying businesses shows that 67% of the vouchers are being used for business continuity planning. We know that recipients of the vouchers recorded a +85% satisfaction rating, based on ongoing Net Promoter Score assessment<sup>1</sup>, with 27,803 attendances at 510 webinars recording a Net Promoter Score of +77%. This indicates that the business supports are reaching the intended targets, are being utilised for the purpose of business survival and recovery, and are seen as valuable by the business in receipt of support.
15. A survey of impact of the programme will start in June and will report in July this year. Surveying in June gives firms the chance to use the voucher and identify what benefits are accruing from the new information they have learned.
16. In the meantime, the NZTE Business Impact Survey for May 2020 gives anecdotal feedback on the impact of the RBP. Feedback from businesses receiving 1:1 Advisory Support included:
  - 16.1. “We have found you guys and your support invaluable and think she would benefit from something similar.”
  - 16.2. “It’s good to discuss various aspects of your business with someone else, who looks at things with a fresh perspective.”
  - 16.3. “For support - guidance around what direction to take, have a sounding board - esp when in business on your own. For reassurance and for confidence building. It’s been a great support at this time. Thank you!”
  - 16.4. “Because of how the situation has constantly changed all the time it is difficult to create something concrete to work with. What has been hugely helpful is having somebody to discuss issues and ideas. That has been invaluable.”
17. The quality, appropriateness and cost of supports being purchased is controlled through the Growth Advisors, who are experts in the field. We note that despite the excess in demand, average hourly charges have continued to be appropriate for the services provided, and anecdotally, a number of providers have discounted their services to help businesses.

### **Options for additional funding for expert advice and support**

18. Given the current excess demand for the voucher scheme, and the limited runway of existing funding, we have considered the following options for extending this support:
  - 18.1. Continue fully funded vouchers (up to \$5,000)
  - 18.2. Change to co-funded 90:10 split between government and business

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<sup>1</sup> Net Promoter Score – which covers a scale of -100 to +100.

18.3. Reduce the size of voucher (from a maximum of \$5,000 to \$2,000)

18.4. No new funding.

19. Analysis of these options is set out in the table below.

Option	Advantages / Disadvantages	Funding implications (to 30 September)	Assumptions
<p>1. Continue fully funded vouchers (up to \$5k)</p>	<p><i>Advantages</i></p> <ul style="list-style-type: none"> <li>- Consistent message</li> <li>- RBP able to meet SME demand.</li> <li>- Broad reach to SMEs</li> <li>- Enables RBPs to increase relationships with businesses in their regions.</li> </ul> <p><i>Disadvantages</i></p> <ul style="list-style-type: none"> <li>- Potential to provide support for non-viable businesses i.e. less targeted</li> <li>- Channel requires additional resources to service demand</li> </ul>	<p>\$40m additional funding for the RBP channel.</p> <p>Includes up to \$2.75m to extend contracts for growth advisors and administrative staff to meet demand to 30 September.</p>	<p>Funding implications have been calculated from the following:</p> <p>Number of new registrations per day: 200</p> <p>Voucher spend per SME: \$3k</p> <p>Daily spend across the RBP: \$375k</p> <p>Monthly spend: \$11.25m</p> <p>Total number of SMEs reached through the programme: 13,100</p>
<p>2. Change to co-funded</p> <p>90:10 split between government and business</p>	<p><i>Advantages</i></p> <ul style="list-style-type: none"> <li>- More targeted (likely more viable businesses would receive support)</li> <li>- Ensures businesses are invested in their capability building</li> <li>- Will slow demand</li> </ul> <p><i>Disadvantages:</i></p> <ul style="list-style-type: none"> <li>- Change of messaging</li> <li>- Less attractive for some businesses.</li> </ul>	<p>\$35m additional funding for the RBP channel.</p> <p>Includes up to \$2.75m to extend contracts for growth advisors and administrative staff to meet demand to 30 September.</p>	<p>Funding implications have been calculated from the following:</p> <p>Number of new registrations per day: 200 (assuming that an approx. \$250 co-contribution does not reduced demand)</p> <p>Average voucher spend per SME: \$2.5k</p> <p>Average daily spend across the RBP: \$338k</p> <p>Monthly spend: \$10m</p> <p>Total number of SMEs reached through the programme: 13,100</p>
<p>3. Reduce the size of voucher (from a maximum of \$5k to \$2k)</p>	<p><i>Advantages</i></p> <ul style="list-style-type: none"> <li>- May be sufficient funding to cater to smaller businesses</li> <li>- Funding can be spread to reach more SMEs</li> </ul> <p><i>Disadvantages</i></p>	<p>\$27m additional funding for the RBP channel.</p> <p>Includes up to \$2.75m to extend contracts for growth advisors and administrative staff to meet demand to 30</p>	<p>Number of new registrations per day: 200</p> <p>Voucher spend per SME: \$2k</p> <p>Daily spend across the RBP: \$250K</p>

	<ul style="list-style-type: none"> <li>- May compromise quality of advice</li> <li>- Change of messaging</li> <li>- Some services/suppliers would no longer be on offer.</li> </ul>	September.	<p>Monthly spend: \$7.5m</p> <p>Total number of SMEs reached through the programme: 13,100</p>
4. No new funding	<p><i>Advantages</i></p> <ul style="list-style-type: none"> <li>- 3,183 SMEs have received support</li> </ul> <p><i>Disadvantages</i></p> <ul style="list-style-type: none"> <li>- Cannot meet demand from SMEs</li> <li>- No new registrations for the service, effective immediately.</li> </ul>	No funding implications.	Not applicable.

## Discussion on options

20. Demand for the RBP programme is very strong. Around 200 SMEs have registered each day, and registrations show little sign of slowing. We therefore recommend that funding for the voucher scheme be extended until 30 September 2020. Confidential advice to Government

Confidential advice to Government

21. We consider that 30 September 2020 is a useful pause point. On the current trajectory of Alert Levels businesses should be in a position to have addressed immediate and pressing concerns, and been able to access available supports (through business advice, or Small Business Loans Scheme) to support their business strategy and model looking to recovery.
22. The continuation of this funding complements the Small Business Loans Scheme, which has been announced since the voucher system has been in place. Consultancy advice will support business planning and decision making on whether to apply for the loans scheme and how best to utilise the funding received via a loan.

### *Co-funding or reduced voucher size*

23. The RBP programme normally requires a 50:50 co-funding contribution. This is to ensure that businesses have 'skin in the game' and can see the cost and value of external business advice. We agreed to fully fund the additional RBP capability voucher (up to \$5,000) in light of it being an emergency situation.
24. As we move towards recovery, we should reconsider this approach and move to return to some co-funding expectation. Co-investment signals a reduced reliance on government, and embeds understanding that business advice is a necessary business expense.
25. A graduated approach could potentially be taken to co-investment, for example initially fully funded or 90:10 (in recognition of significant cash flow issues most SMEs face at this point), and reducing the government's contribution over time,

possibly with different degrees of co-funding depending on the size or type of business.

26. However, we note that the current fully funded approach has been well messaged and received, and significant goodwill has been established. Adjusting co-funding now, even for a period of three months, risks creating confusion and potentially undermining this goodwill. Confidential advice to Government

[Redacted text block]

27. With regards to reducing the maximum voucher size, we note that the average size of vouchers being provided is around \$2,800. Reducing the size of the voucher risks compromising the quality and depth of the advice that can be purchased, thereby undermining its effectiveness. We recommend continuing with a maximum cap of \$5,000.

#### *Delivery of support through Regional Business Partners*

28. We have also considered alternatives to delivery of this support. This includes, for example, whether to continue third party distribution of vouchers or an alternative approach. The voucher approach was designed to stimulate/determine the business advisory service market and its offerings. However, there may be some specific needs, such as digital commerce, that could be met in alternative ways such as providing more 'one to many' services. There are also alternative models for providing support such as targeting particular industries or sectors and their specific needs.
29. Prior to the COVID-19 outbreak, MBIE conducted a review of the RBP. This review identified opportunities for improvement that depend on our preferred approach to economic development (including regional economic development). The Small Business Council also identified that changes to the RBP were necessary as it was not meeting the needs of small businesses.
30. The RBP programme has been effective in providing a national infrastructure to quickly deploy funding to enable practical advice for businesses in response to COVID-19, and we consider that in the immediate term this is the most effective option for delivering this additional funding.
31. We will continue to monitor the effectiveness of the RBP programme, and what the vouchers are being used for, in what regions and whether the services are meeting the needs of SMEs, including Maori and Pasifika businesses. NZTE propose undertaking a review of the impact of the vouchers, including how the advice contributed to firm survival and recovery in September.
32. On balance, we consider that it is preferable to continue the existing RBP model in the short term and consider alternative approaches in the longer term as the broader economic recovery work takes shape. As businesses work through the phases of

survival, recovery and repositioning for growth, their needs will change and therefore their support requirements will also change. We need to make sure the RBP network and systems are agile and flexible to respond to these needs.

33.

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### *Integrity of the system*

34. NZTE has been tasked to move at pace to ensure the RBP funding is deployed in regional areas of need. The Serious Fraud Office (SFO) recently issued new guidelines for government agencies to ensure proper counter-fraud measures are deployed in the current emergency management context. The guidance suggests rapid design and delivery of upfront low friction checks, which don't slow down the delivery of relief funds. Where upfront controls are not possible, post-event assurance should be delivered at the right time, and in the right way.
35. To date, NZTE's approach to managing its components of the Small Business package are consistent with the SFO guidance. NZTE is working with the RBP programme to develop light touch monitoring during the emergency period, and is working towards undertaking a post-emergency service audit in September 2020.
36. At the national level, NZTE ensures value for money and quality of services by:
- 36.1. Registering and monitoring all business support providers, the services they provide and the cost of those.
  - 36.2. If the costs of the proposed services are too high then Growth Advisors are tasked to discuss this with the provider and negotiate the price down. If the price is not reduced to an acceptable level then Growth Advisors will not recommend that service provider to businesses.
37. At the regional level, RBP Growth Advisors are responsible for allocating funding for services to individual Service Providers and for ensuring value for money. The Growth Advisors:
- 37.1. Assess the most pressing needs of the business.
  - 37.2. Match the business with a service provider.
  - 37.3. Assess the value of the service to be provided and compare the proposed fees to the average market rate for their region. Monitor the fees/hourly rates charged and will contact a provider if they feel the fees are higher than the services they are providing.
  - 37.4. If the Service Provider does not alter their rate accordingly, the Growth Advisor will not use their services.
  - 37.5. They also engage with other business support services (e.g. The Māori Business Support Service) to ensure that there is no overlap in service and there is consistent pricing of services.



38. To date (7 June) there have been 1239 Providers register their services with RBP (note that many of these Providers have registered multiple services e.g. Digital, and Business Continuity, and Financial Advice). Of those 1239 Service Providers, 52% (644) have been used by businesses accessing RBP.
39. The RBP network is an existing mechanism, with longstanding contractual and reporting arrangements with NZTE and Callaghan Innovation. This contractual oversight will be supplemented by an audit of the distribution of voucher funding in September. The results of this audit will be provided to the Minister of Finance, the Minister for Economic Development, the Minister of Research, Science and Innovation and the Minister for Small Business.
40. This proposal seeks, as part of the \$40 million of new funding, \$2.75 million to continue to employ additional Growth Advisors to oversee the system. This is important for two reasons. The Growth Advisors assess the appropriateness of the advice sought and the cost of this advice, and therefore are a key part of ensuring integrity of the system.
41. The remaining \$37.25m will be allocated across the regions based on the business population for each region as a percentage of the total number of businesses.

<b>Regional partners</b>	<b>Business population from Stats NZ</b>	<b>% of business population</b>	<b>Covid-19 Advisory funding</b>
Auckland	201,255	34.54%	\$12,866,150
Bay of Plenty	38,172	6.56%	\$2,443,600
Canterbury	72,714	12.49%	\$4,652,525
East Coast	5,073	0.87%	\$324,075
Hawkes Bay	19,146	3.29%	\$1,225,525
Manawatu Whanganui	25,677	4.41%	\$1,,642,725
Marlborough, Nelson, Tasman	20,430	3.51%	\$1,307,475
Northland	21,381	3.67%	\$1,367,075
Otago	30,078	5.17%	\$1,925,825
Southland	14,088	2.42%	\$901,450
Taranaki	15,519	2.67%	\$994,575
Waikato	57,282	9.84%	\$3,665,400
Wellington	57,777	9.92%	\$3,695,200
West Coast	3,705	0.64%	\$238,400
	<b>582,297</b>	<b>100.00%</b>	<b>\$37,250,000</b>

## **Recommended approach**

42. We recommend proceeding with Option One – enabling the RBPs to continue to provide fully funded vouchers up to \$5,000 per SME until September 2020.
43. In order for this approach to be delivered, around \$2.75 million will be required to continue the employment of the additional Growth Advisors and support staff brought on to deal with the surge in numbers. These staff were brought in to manage the \$4 million allocation of funding in March and are only employed to 30 June 2020. This funding will enable them to continue to be employed until 30 September. Without this added staffing, there will be significant blockage in SMEs accessing the voucher funding.
44. The total cost of continuation of this service is \$40 million which we are seeking from the CRRF.

## **Consultation**

45. The Treasury, New Zealand Trade and Enterprise and Callaghan Innovation were consulted in the development of this paper.

## **Financial Implications**

46. This paper seeks additional funding of \$40 million from the CRRF to continue the provision of business advice services through the RBP network.

## **Legislative Implications**

47. There are no immediate legislative implications arising from this paper.

## **Impact Analysis**

48. Regulatory Impact Analysis did not apply as this proposal is a direct COVID-19 response and RIA requirements have been suspended in accordance with Cabinet decision (CAB-20MIN- 0138).

## **Human Rights**

49. The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

## **Publicity**

50. We intend to issue a media statement accompanying the Cabinet decision.

## **Proactive Release**

51. Proactive release will be delayed until such time that the Government can properly consider the impacts of proactive release.

## Recommendations

The Minister for Economic Development and Minister for Small Business recommends that the Committee:

1. **note** that COVID-19 funding of \$15 million for business advice provided through the Regional Business Partner network in April is now fully committed
2. **note** that this funding, provided as vouchers (to a maximum of \$5,000) has primarily been utilised by smaller firm (with over 90% by firms with less than 20 employees) to ensure business continuity and survival
3. **note** that there is still a significant unmet pipeline of demand for these services and they will play an important role in business recovery over the coming months
4. **agree** to the additional funding of \$40 million for business advice provided through the Regional Business Partner network, subject to the decisions by Budget Ministers on the next Covid-19 Response and Recovery Fund round.
5. Confidential advice to Government
6. **note** that a survey of impact of the programme will start in June and will report in July this year. Surveying in June gives firms the chance to use the voucher and identify what benefits are accruing from the new information they have learned
7. **note** that NZTE will undertake an audit of business advice services in September 2020 and will forward the results of the audit to the Minister of Finance, the Minister for Economic Development, the Minister of Research, Science and Innovation and the Minister for Small Business
8. **approve** the following change in appropriation as a result of decisions in paragraphs 12 and 13 above, with a corresponding impact on the operating balance

	\$m - increase/(decrease)				
	2019/20	2020/21	2021/22	2022/23	2023/24 & Outyears
<b>Vote: Business Science and Innovation</b>					
<b>Minister for Economic Development</b>					
<b>Multi-Category Expenses and Capital Expenditure:</b>					
Support the Growth and Development of New Zealand Firms, Sectors and Regions MCA					
Non-Departmental Output Expense:					
Services to Support the Growth and Development of New Zealand Businesses	-	40.000	-	-	-
<b>Total Operating</b>	-	<b>40.000</b>	-	-	-

9. **agree** that the change to the appropriation for 2020/21 above be included in the 2020/21 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply
10. **agree** that the expenses incurred under paragraph 17 above be charged against the COVID-19 Response and Recovery Fund established as part of Budget 2020
11. **agree** that any unspent funding for business consultancy services in 2019/20 be transferred to 2020/21

Authorised for lodgement

Hon Phil Twyford

Minister for Economic Development

Authorised for lodgement

Hon Stuart Nash

Minister for Small Business

## Annex One: Outline of RBP business advisory support by size, business, sector and services accessed (as of 13 May 2020)

Vouchers Allocated by business size (number of employees)	
Employees	Number of businesses
0-5	2338
6-10	832
11-20	540
21 - 30	186
31 - 40	81
41 - 50	51
50+	0

Sectors	Number of Companies
A - Agriculture, Forestry and Fishing	155
B - Mining	6
C - Manufacturing	392
D - Electricity, Gas, Water and Waste Services	78
E - Construction	607
F - Wholesale Trade	142
G - Retail Trade	424
H - Accommodation and Food Services	494
I - Transport, Postal and Warehousing	88
J - Information Media and Telecommunications	122
K - Financial and Insurance Services	45
L - Rental, Hiring and Real Estate Services	86
M - Professional, Scientific and Technical Services	298
N - Administrative and Support Services	53
O - Public Administration and Safety	3
P - Education and Training	133
Q - Health Care and Social Assistance	170
R - Arts and Recreation Services	111
S - Other Services	621

### Services accessed

Service category	Number of businesses	%
Business continuity	2545	67%
Digital	70	2%
Finance	814	21%
Health and Wellness	45	1%
HR/ER	246	6%
Legal	3	0%
Marketing	74	2%
<b>Total</b>	<b>3797</b>	<b>100%</b>