



COVERSHEET

Minister	Hon Grant Robertson	Portfolio	Finance
Title of Cabinet paper	Interim Response Package for Cyclone Gabrielle and January Flooding – inclusion of the Wairarapa Cyclone Gabrielle – additional funding injection for interim response, and proposed future work Cyclone Gabrielle – further funding for business support grants	Date to be published	16 August 2023

List of documents that have been proactively released

Date	Title	Author
March 2023	Interim Response Package for Cyclone Gabrielle and January Flooding – inclusion of the Wairarapa	Office of the Minister of Finance
7 March 2023	Cyclone Gabrielle: Wairarapa Business Support EWR-23-MIN-0007 Minute	Cabinet Office
March 2023	Cyclone Gabrielle – additional funding injection for interim response, and proposed future work	Office of the Minister of Finance
14 March 2023	Cyclone Gabrielle: Additional Business Support EWR-23-MIN-0018 Minute	Cabinet Office
April 2023	Cyclone Gabrielle – further funding for business support grants	Office of the Minister of Finance
11 April 2023	Cyclone Gabrielle: Business Support Further Funding Injection CAB-23-MIN-0133 Minute	Cabinet Office

Information redacted

NO

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.

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Office of the Minister of Finance
Cabinet

Cyclone Gabrielle – further funding for business support grants

Proposal

- 1 I propose to make a further \$25 million available for business support grants in cyclone affected regions.

Executive Summary

- 2 In response to the damage caused by Cyclone Gabrielle, Cabinet allocated \$50 million to support businesses through a series of decisions in February and March [CAB MIN 23-0044, EWR-23-MIN-0007, and EWR-23-MIN-0018].
- 3 Most of this funding was spent on business support grants delivered by Local Delivery Partners (LDPs) in each of the affected regions, and as expected, demand has been high. Total support requested across all regions is nearly \$70 million and rising, against the nearly \$50 million allocated.
- 4 I therefore propose to make a further \$25 million available for business support grants in cyclone affected regions. As per Cabinet's existing authorisation, Joint Ministers will decide on the final regional allocations.
- 5 This funding injection will conclude this stage of the Government's interim business support package. Any more business support funding decisions will need to be subject to rigorous analysis, and will need to await the Budget 2023 process and receipt of advice from the Cyclone Recovery Taskforce.

Background

To date, the Government has provided \$50 million for Cyclone Gabrielle interim business support

- 6 On 20 February 2023, Cabinet set aside \$25 million for an interim Cyclone Gabrielle business support package. Cabinet delegated the Prime Minister, Deputy Prime Minister, Minister of Finance, Minister for Economic Development, Minister for Regional Development and Minister of Agriculture (Joint Ministers) to decide on the details of the recovery package, including regional allocations for its grants funding component [CAB MIN 23-0044].
- 7 Most of the \$25 million was for used for grants administered by LDPs in Northland, Waikato, Tairāwhiti, Auckland, Hawke's Bay, and the Tararua District. Subsequently, an additional LDP was established in the Wairarapa [EWR-23-MIN-0007].
- 8 Due to strong demand for the grants, on Tuesday 14 March, EWR (using its Power to Act) agreed to provide a further \$25 million of business support grants to be delivered by the LDPs [EWR-23-MIN-0018].

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The available grants budget is nearly fully spent, and LDPs still report significant unmet demand

- 9 LDPs in all regions are reporting significant oversubscription against their available funds. Total support requested across all regions (arrived at by summing the support requested for all applications, from all those LDPs that have reported this figure) is nearly \$70 million, against nearly \$50 million allocated. Given that not all LDPs have provided this figure and that applications are still being submitted across the country, however, this is likely to be a significant underreporting.
- 10 **Annexes One and Two** contain information currently available on how much each LDP has received, how much it has spent, and (where recorded) the quantum of outstanding grant applications.

I propose a final funding injection of \$25 million for business support grants...

- 11 A final funding injection of \$25 million should be sufficient to ensure that the LDPs regions which are still experiencing a high level of unmet demand can make a meaningful contribution towards mitigating the cashflow issues being experienced by cyclone-impacted businesses. I have arrived at this sum after considering the current unmet demand in the regions, and the benefits of maintaining rough parity with the support being provided for farmers and growers.
- 12 The LDPs already have a large number of grants applications on hand, and can commence the process of distributing any additional funding quickly. As their administration costs are now much lower than during the establishment phase, MBIE will require them to reduce the administration component for their new regional allocations (currently they are permitted to retain up to four percent).
- 13 The additional funding injection would augment the existing budget. I do not propose to change the Government's base funding criteria¹, nor the \$40,000 cap on the amount of grant funding that can be provided per firm. One clarification of the base criteria, however, is required. Business support grant recipients are not also allowed a Cyclone Gabrielle farmer and grower grant from MPI. The MPI scheme closed on 3 April, so it is now necessary to close the business support grants to farmers or growers who were eligible for the MPI fund (but did not apply, or were not successful). This is to maintain the business support grants' integrity and focus – they were established alongside the MPI fund and are not intended for use by farmers and growers.

¹ Which are that the firm:

- be primarily located where a regional State of Emergency was declared (apart from Wairarapa firms)
- face significant cashflow issues due to continued challenges with customer access, ability to source stock, supply chain issues, inability to operate as usual due to physical damage to equipment or premises, or delays in insurance assessment and repairs
- be an otherwise viable business both before and after the flooding
- not have received any funding from MPI's recovery fund, and
- commit to acting in line with employment law and with due regard to its employees.

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... with Joint Ministers to decide on regional allocations

- 14 As with the two previous funding injections, Joint Ministers will decide on the regional allocations, following receipt of advice from MBIE. If Cabinet agrees to the further \$25 million funding injection, MBIE will provide that advice this week.
- 15 While Joint Ministers will make this decision, my initial preference is to provide the additional funding to Hawke's Bay and Tairāwhiti only. Firms in other regions are experiencing ongoing issues, often related to damaged transport infrastructure. But most cyclone damage was centred in Hawke's Bay and Tairāwhiti, and as such, my preference is to tightly focus the final funding injection for business support grants on those regions. To do otherwise runs the risk of spreading the available funding too thinly, at the expense of those regions where most of the damage occurred.

Risks of this approach

Managing equity issues within and across regions will remain challenging

- 16 When Cabinet decided to use a regionally led approach to distributing interim business support, it was in the full knowledge that the LDPs would use bespoke approaches to assessing grant applications. This is entirely appropriate as each region faces different circumstances, and a centrally led grants process would not have been able to properly take these into account.
- 17 Nonetheless, the differences in regional approaches create some potential for perceived unfairness, both within and across regions. For example:
 - 17.1 across regions, some LDPs have been more generous per firm than others;
 - 17.2 within regions, LDPs have had to balance grant amounts against the available budget (and the number of grant applicants in the queue). This may mean that some grant recipients have a reasonable case for a 'top up' to maintain parity with other firms in that region.
- 18 Providing more funds to the LDPs does not necessarily help or hinder this situation, as much will depend on which LDPs actually receive additional funds, the quantum of these, and the approach that they take to dealing with any perceived inequities within their region.
- 19 In general, however, it is most likely that the LDPs will continue to operate the grants as they have been to date, up to the point at which their budget is fully utilised. At this stage, realistically, the LDPs are largely path-dependent, and a late change in their approach is likely to cause at least as many problems as it resolves.

It is important to clearly signal that this would be the final funding injection for business support grants

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- 20 Providing a third funding injection for business support grants could be perceived as a signal that more funding injections will be made later. That would be wrong, however, and Ministers' communications will need to be very clear on this. This is important for the LDPs also, as they need to balance grant numbers and amounts against the total available budget. A way of doing this would be to set an application close-off date for those LDPs receiving additional funding. I expect Joint Ministers to receive advice on this from MBIE as part of making decisions on the regional allocations.
- 21 This will be the last direct support to businesses in the form of grants, and I have instructed MBIE to work on a funding framework to support the recovery and the re-build. This work sits alongside the current conversations we are having with the financial sector on the support they are able to provide businesses, and the investment we have already made totalling \$843 million of operating funding and \$2 million of capital funding to support immediate relief and response activities in affected regions. I intend to come back to EWR to update the committee on progress on the funding framework.

Alternative options I have considered

- 22 A further \$25 million funding injection is the most pragmatic approach. It is not the only possible option, however. MBIE has advised that alternative options could include the following.
- 22.1 Maintain the status quo and provide no additional funding. This will require the LDPs to manage within their existing allocations. A clear signal was sent to the LDPs that no further funding would be available following the last allocation in March.
- 22.2 The government could set up a direct loans or a loan guarantee scheme for Small to Medium Enterprises. But either scheme would be costly and time consuming to establish, and it is unclear whether there is actually a market failure in the credit market that would warrant this kind of intervention.
- 22.3 The Government could direct additional funding to regional recovery initiatives, rather than individual firms. This would see the establishment of a contestable fund for which EWR Ministers make funding decisions, informed by their roles as lead Ministers for their region, and the regional governance and advisory structures established to support them. This fund, however, would be costly and time-consuming to set up and run.
- 23 While I appreciate the importance of sending a signal that the interim support phase of the cyclone recovery is now concluded, my preference is to do that as part of the communications for this additional and final funding injection. The Government could choose to withhold any additional funding, but that decision would be hard to defend in the face of strong sentiment in the affected regions that the funding provided to date is still not sufficient.
- 24 At this point in time, I do not think there is a strong case for either a direct loans scheme, or underwriting bank loans. The COVID-19 pandemic presented a

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very different situation, where an act of Government policy required many firms to cease trading. In that context, such interventions had a strong rationale.

- 25 The situation for cyclone-affected firms, however, is quite different. Most are still able to trade, and the banks assert that they are working with their business clients to manage cyclone impacts, including by extending credit terms when appropriate. I suggest we reconsider this if there is a need once Cabinet has received advice from the Cyclone Recovery Taskforce.
- 26 There may be however some merit in considering the case for a longer-term approach where funding to is provided to collaborative regional recovery initiatives rather than individual firms. Further work on this would be necessary, however, and this kind of initiative would likely be costly.
- 27 At present, therefore, my preference is to proceed with an additional \$25 million for business support grants only, and defer any further funding decisions on business support for cyclone recovery until a later stage.

Financial Implications

- 28 This paper seeks agreement to allocate an additional \$25 million to the appropriation "*Cyclone Gabrielle: To provide for interim business and primary sector support for the impacts of Cyclone Gabrielle and other recent weather events not covered by the Auckland Package*". The proposed additional appropriation would be made available immediately to MBIE for distribution to the LDPs, once Joint Ministers have agreed on regional allocations.

Legislative Implications

- 29 There are no legislative implications.

Impact Analysis

- 30 The regulatory impact analysis requirements do not apply to this paper.

Climate Implications of Policy Assessment

- 31 Due to the urgency associated with preparation of this paper, there has not been time to consult with the Ministry for the Environment as to whether a Climate Implications of Policy Assessment is required for this project. It is unlikely, however, that any would be identified.

Population Implications

- 32 None have been identified.

Human Rights

- 33 MBIE considers that the proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

- 34 The Treasury, MPI and Inland Revenue were consulted. DPMC was informed.

Communications

- 35 The Minister for Regional Development and I will announce the Government's new funding injection for the business support grants in Hawke's Bay and Tairāwhiti at the earliest opportunity after a Cabinet decision is made.

Proactive Release

- 36 I intend to release this paper, with appropriate redactions consistent with the Official Information Act 1982, within 30 business days of decisions being confirmed by Cabinet and announced.

Recommendations

The Minister of Finance recommends that the Committee:

- 1 **note** that in response to the damage caused by Cyclone Gabrielle, Cabinet has allocated \$50 million to support businesses through a series of decisions in February and March [CAB MIN 23-0044, EWR-23-MIN-0007, and EWR-23-MIN-0018];
- 2 **note** that most of this funding has been spent on business support grants delivered by Local Delivery Partners (LDPs) in each of the affected regions (Northland, Waikato, Tairāwhiti, Auckland, Hawke's Bay, the Tararua District and the Wairarapa);
- 3 **note** that demand has been high, with nearly \$70 million in grants funding requested across all regions, against the nearly \$50 million allocated (and with more grants applications yet to be made);
- 4 **agree** to a further funding injection of \$25 million for business support grants, with specific regional allocations to be determined by Joint Ministers in accordance with their existing authority;
- 5 **approve** the following changes to appropriations to give effect to the policy decision in recommendation 4 above, with a corresponding impact on the operating balance and net debt;

Vote Business, Science and Innovation Minister for Economic Development	\$m - increase/(decrease)				
	2022/23	2023/24	2023/24	2024/25	2025/26 & Outyears
Non-departmental Other Expense: Cyclone Gabrielle – Business support for the impacts of Cyclone Gabrielle and January 2023 weather events (funded by revenue Crown)	25.000	-	-	-	-
Total Operating	25.000	-	-	-	-

- 6 **agree** that the proposed changes to appropriations for 2022/23 above be included in the 2022/23 Supplementary Estimates and that, in the interim, be met from Imprest Supply;

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- 7 **agree** that the operating expenses of \$25 million are managed separately from allowances.

Authorised for lodgement
Hon Grant Robertson

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Annex One: Local Delivery Partners and their total funding allocations to 5 April 2023

REGION	Local Delivery Partner	Total allocation	Regional funding as a % of the total
Northland	Northland Inc	\$6,544,000	13.31%
Auckland	Auckland Business Chamber	\$6,192,000	12.60%
Waikato	Thames Coromandel District Council	\$4,023,500	8.19%
Bay of Plenty	Toi EDA	\$375,000	0.76%
Tairāwhiti	Trust Tairāwhiti	\$12,285,500	25.00%
Hawkes Bay	Hawkes Bay Chamber of Commerce	\$19,105,000	38.87%
Tararua	Tararua District Council	\$375,000	0.76%
Wairarapa	Masterton District Council	\$250,000	0.51%

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Annex Two: Detailed breakdown of grants funding, including outstanding funding requests (where recorded)

Region	Delivery partner	Total allocation (tranches 1 and 2)	Administration fee (4%)	Applications (received / approved)	Funding requested (note not all partners have yet reported on this so the total figure is a significant underreporting)	Funding paid to applicants	Remaining unpaid (total allocation – admin – committed – funding paid)
Northland	Northland Inc	\$6,544,000	\$261,760	869 / 186		\$1,113,000	\$5,331,000
Auckland	Auckland Business Chambers (ABC)	\$6,192,000	\$247,680	906 / 297		\$1,233,750	\$4,878,250
Waikato	Thames-Coromandel District Council (TCDC)	\$4,023,500	\$160,940	344 / 43	\$6,100,000	\$0	\$522,500
Bay of Plenty	Toi EDA	\$375,000	\$20,000	67 / 35	\$1,044,243	\$350,790	\$4,211
Tairāwhiti	Trust Tairāwhiti	\$12,285,500	\$491,420	704 / 389	\$16,920,129	\$4,292,148	\$7,751,352
Hawke's Bay	Hawke's Bay Chamber of Commerce	\$19,105,000	\$764,200	1735 / 751	\$42,654,892	\$14,691,904	\$3,989,096
Tararua	Tararua District Council (TDC)	\$375,000	\$20,000	52 / 30		\$339,500	\$15,500
Wairarapa	Masterton District Council	\$250,000	\$10,000				\$240,000
Totals:		\$49,150,000	\$1,976,000	4677 / 1731	\$66,719,264	\$22,021,092	\$21,731,909

Note: using the information available from the four regions that have returned a funding requested" figure, funding allocated meets approximately 53% of the funding requested. If scaled up to all impacted regions, this would suggest funding requested across all regions to be approximately \$90 million, representing a shortfall of at least a further \$40 million across all regions.