



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HĪKINA WHAKATUTUKI



Briefing for Incoming Minister for Small Business

3 November 2020



MBIE Karakia

Tāwhia tō mana kia mau, kia māia

Ka huri taku aro ki te pae kahurangi,
kei reira te oranga mōku

Mā mahi tahi, ka ora, ka puāwai

Ā mātau mahi katoa, ka pono, ka tika

TIHEI MAURI ORA

TRANSLATION:

Retain and hold fast to your mana, be bold, be brave

We turn our attention to the future, that's where the opportunities lie

By working together we will flourish and achieve greatness

Taking responsibility to commit to doing things right

TIHEI MAURI ORA

MĀIA
BOLD & BRAVE

**PAE
KAHURANGI**
BUILD OUR FUTURE

MAHI TAHI
BETTER TOGETHER

**PONO
ME TE TIKA**
OWN IT

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1. Portfolio overview

Purpose

This briefing provides you with information about the Small Business Portfolio.

Introduction to Small Business

Small businesses are vital to the NZ economy and communities

Small businesses are pivotal to the growth of the New Zealand economy and the backbone of our communities, cities and regions. They make an enormous contribution to inclusive and sustainable growth for New Zealand and their value to the economy should not be underestimated.

New Zealand has a higher percentage of micro, small and medium-sized enterprises than other countries and our large businesses are generally smaller in comparison to those overseas. A definition of small businesses is provided in Annex One.

There are approximately 546,732 small businesses in New Zealand making up over 97 per cent of all firms¹. They account for 28 per cent of employees, contribute over a quarter of New Zealand's gross domestic product (GDP), and generate 41 per cent of all new jobs².

The impact of COVID-19 has highlighted the importance of having an economic focus on small business owners, and that their recovery post COVID-19 is vital to the overall growth and sustainability of New Zealand's economy, especially in our communities and regions. The small business portfolio is one of the top five priorities for the Government's economic recovery plan.

Since COVID-19 there has been a surge in new business registrations showing that small businesses are resilient, innovative and vital to rebuilding the New Zealand economy. What we are not yet able to correlate is how many businesses are doing it tough and closing, however, we know the impacts of COVID-19 are still unfolding. These impacts are not evenly distributed across the economy, with disproportionate impacts for some regions, (eg. Central Otago, West Coast and Auckland), some sectors (eg. Tourism, retail, and hospitality), and some groups of people (eg. Māori and Pasifika communities, women and young people). MBIE is building an evidence base on the regional impacts of COVID-19 and is monitoring this via relationships with Economic Development Agencies.

We need to build a better knowledge base to better identify and understand the needs of Māori businesses so we can understand the impacts of COVID-19 and consequently, facilitate greater strategic alignment of business support for Māori small business and consolidate targeted access to finance to grow Māori enterprise. This will enable us to support Māori small businesses to diversify, including a wider range of primary/land-based industries, resetting of tourism and the promotion of growth industries. Initial work is being undertaken to allow for self-identification of Māori small businesses via the New Zealand Business Number (NZBN) identifier.

Despite the challenges we are seeing, we expect a number of small businesses to positively bounce back from the impacts of COVID-19, particularly through embracing digital business models.

There are key strategic opportunities and challenges to support small businesses in NZ

The small business work programme is informed by the recommendations of the pre-COVID-19 Small Business Council Strategy (SBC): Empowering small businesses to aspire succeed and thrive'. It

¹ Xero COVID-19 Insights, New Zealand, August 2020

² Bagrie Economics, 2020. This refers to jobs that did not exist before.

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contained 21 recommendations across four strategic themes, which government's small business work programme is framed against. These themes remain enduring in the current environment:

- Understanding the needs of small businesses – creating an environment that empowers and enables small businesses to succeed by understanding business needs.
- Easier access to finance – recognising finance is one of the essential fuels that gets businesses started, drives them forward and enables them to grow.
- Building capability and skills – building skills and capability for small businesses to reach their full potential.
- Shifting from compliance to enablement – designing an enabling regulatory environment. Our digital enablement focus is a key mechanism in advancing work in these areas.

Small Businesses have been hit hard by COVID-19

During COVID-19, ministers leveraged opportunities by working together on tough interdependent policy initiatives. Using these key partnerships, government was able to actively respond during this challenging time and become more effective and efficient in our work practices. Initiatives include: implementing the three Wage Subsidy Schemes; the Small Business Cashflow (Loan) Scheme (SBCS); and the Business Finance Guarantee (BFG).

Many governments, including New Zealand, have spent heavily on support for small businesses and workers to help cushion them from the immediate economic impacts of COVID-19. So far, more than:

- \$14.0b has been paid through the **Wage Subsidy Schemes**, with 52,215 jobs currently supported and a total of 759,268 approved applications since 20 March. It is forecast the wage subsidy extension will add between \$2.6 and \$3.9b of support to businesses.
- To-date, the **Business finance guarantee scheme** (via Banks) has lent \$176m to 834 businesses.
- To-date, the **Small Business Cashflow loans** (via IRD) have distributed \$1.592b to 97,112 businesses. The average amount applied for is \$16,393.
- An additional **\$69m** was provided to the **Regional Business Partner Network (RBP)** to provide business advice, with an additional \$10m provided to the RBP by Tourism Ministers specifically for tourism firms. From 24 March 2020, 22,582 businesses have registered for RBP support. 16,052 businesses have received 1:1 Covid-19 support because of this funding.

To achieve a sustainable and productive long term recovery, we need to support small businesses to move their focus from addressing immediate and current demands and facilitate opportunities for them to invest in their long-term growth potential.

COVID-19 presents a pivotal opportunity for New Zealand

Looking ahead, our economic response to the impacts of COVID-19 provides a unique opportunity to reset the New Zealand economy away from a volume based growth model towards a high value, high quality employment and low emissions economy.

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We are now working with Treasury, MSD and Inland Revenue on the long-term outcomes we want to achieve to support small businesses to survive and thrive through COVID-19. These initiatives are supported from an operational perspective from business.govt.nz, Business Connect, NZBN and e-Invoicing.

COVID-19 has emphasised the importance of digitisation and digital enablement of New Zealand businesses. Supporting the long-term resilience of small and micro businesses, we will assist more small businesses to gain access to relevant digital solutions and help boost their confidence and trust in working more digitally. There are also private sector led, government-enabled opportunities to support small business owners to realise the benefits of digitisation.

Our digital enablement work programme was a priority pre-COVID, however digital adoption is no longer a 'nice to have' – it's key to futureproofing businesses and the economy, for example, small businesses used the NZBN to promptly apply for the SBCS. Insights from Xero shows that tech enabled businesses had 40 per cent fewer job losses than non-tech enabled businesses³.

To deliver this our work programme is focused on a framework we have called 'the 4Es of digital enablement':

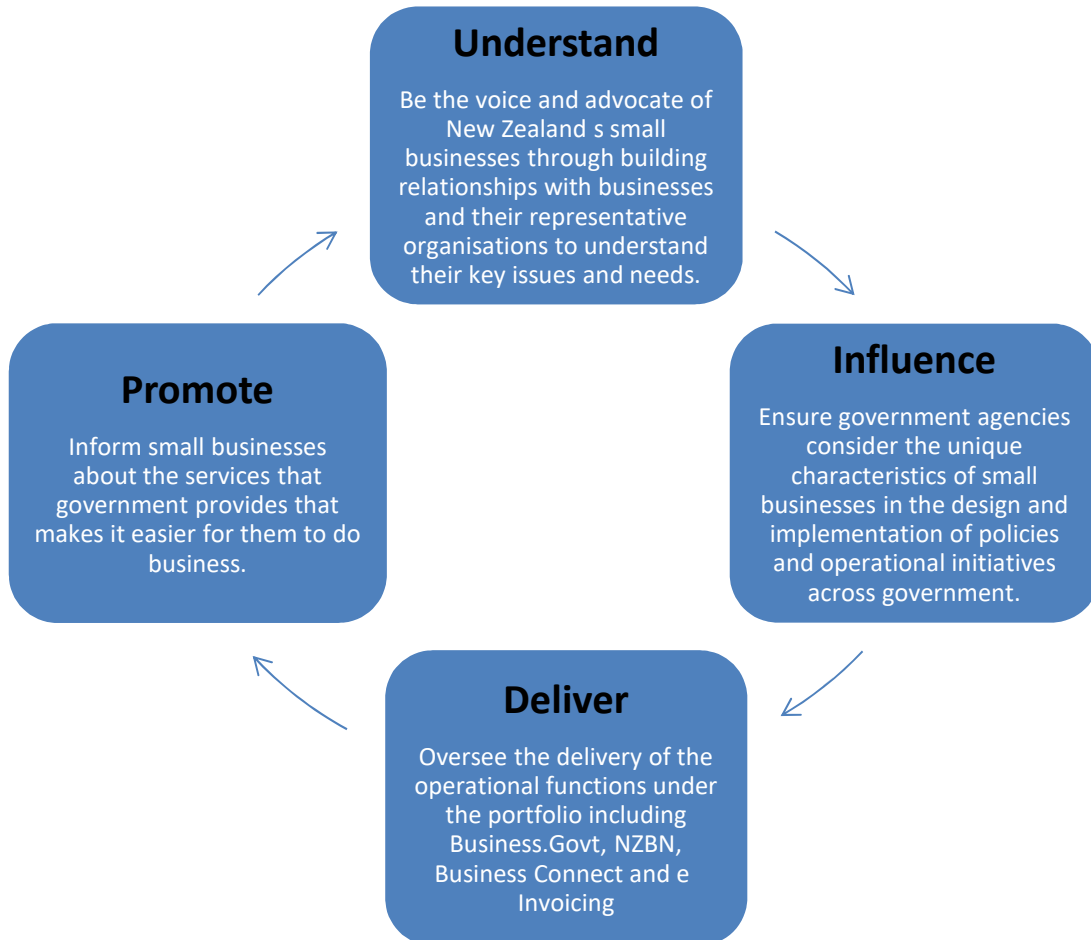
- Energising small business owners to adopt digital business tools and practices
- Educating small business owners on how digital tools and practices can enhance their business
- Equipping small businesses to access a wide range of trusted and relevant tools and services
- Embedding digital tools and practices into the business.

³ Xero COVID-19 Insights, New Zealand, August 2020

2. Portfolio responsibilities

Your responsibilities

As Minister for Small Business, you are the key leader and influencer in advancing the policy and service delivery agenda for small business with your ministerial colleagues. This role has shifted from a coordination function to a central and enabling role which requires a high-level of engagement with business stakeholders and other government agencies. Your key responsibilities and suite of tools to meet them are summarised in the figure below:



Who we are and how we work to support small business

Small Business Collective within MBIE

MBIE's approach to small businesses has shifted from a coordination function to a more strategic role as active enablers of economic development. As a result of this approach, MBIE has been able to introduce interventions for small businesses which are having a far greater impact on the economy.

To achieve this, MBIE reorganised itself to hone its focus and response to small business by establishing two new small business branches known as the 'Small Business Collective', bringing together key policy and operational functions meeting the needs small businesses.

Our work is also informed by four Small Business Advisors (SBAs) appointed by the Minister for Small Business. Their input informs both our advice to government, and how we work to support business.

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MBIE as an organisation now brings together the operational architecture that facilitates business interactions with government and with each other. These functions include:

- *Small Business Policy*, Small Business Policy develops cross-cutting policy advice for the Minister by engaging across government, with businesses and with other business-facing portfolio ministers. This ensures that the regulations and services that we are responsible for address the challenges faced by and meet the needs of small businesses.
- *Better for Business*, represents the voice of NZ businesses and works with a collective of government agencies to make it easier and more seamless for business to deal with government. We measure that business satisfaction by interviewing 2,000 NZ businesses every 6-months.
- *Business Connect* is a cross-agency digital services platform for businesses to easily access a range of government services (such as licences, permits and registrations) in one place. It's about reducing time, effort and frustration for businesses, and enabling true unified public services from across central and local government. Our co-design approach with industry encourages endorsement of the Business Connect platform from those who we are mandated to help.
- *Business.govt.nz* makes it easier for small business in NZ to understand and implement best practices by packaging content and advice from 200 partners across government, industry, regions and global experts into tools and resources designed with each individual small business in mind. Business.govt.nz 250 pages and 40 tools are now used over 100,000 times each week by Kiwi businesses for everything from starting out to creating an employment agreement to getting support for stress. Focus is now on making this guidance easier to understand and act on by tailoring these products to the needs of each small business, and integrating them with the systems of partners.
- *New Zealand Business Number*, enables digital interactions between businesses and with government and is becoming core to systems within both the public and private sector. It is a globally unique digital identifier with associated primary business data available to all NZ businesses; it has 780,000 entities (this includes businesses, trusts, partnerships, and public sector agencies) on the register, and the API⁴ is accessed on average 15 million times per month by businesses and government agencies to consume core business data. The register itself is searched millions of times a year.
- *E-invoicing*, is the direct exchange of invoices between supplier and buyer finance systems. e-Invoicing reduces the requirement for manual invoice processes, saving time and money.

A range of portfolios impact on small businesses

We engage closely with the other key portfolios that have bearing on small businesses, including Economic Development, Finance, Revenue, Commerce and Employment, to provide a cohesive response to the needs of small business during and post-COVID-19 and help small businesses thrive by supporting the development of strong foundational capabilities.

The Government has a series of work programmes active across a number of portfolios, which support the development of systems that enable firms to accelerate their growth-enabling activities.

⁴ An application programming interface (API) is a computing interface which defines machine to machine interactions between multiple software intermediaries

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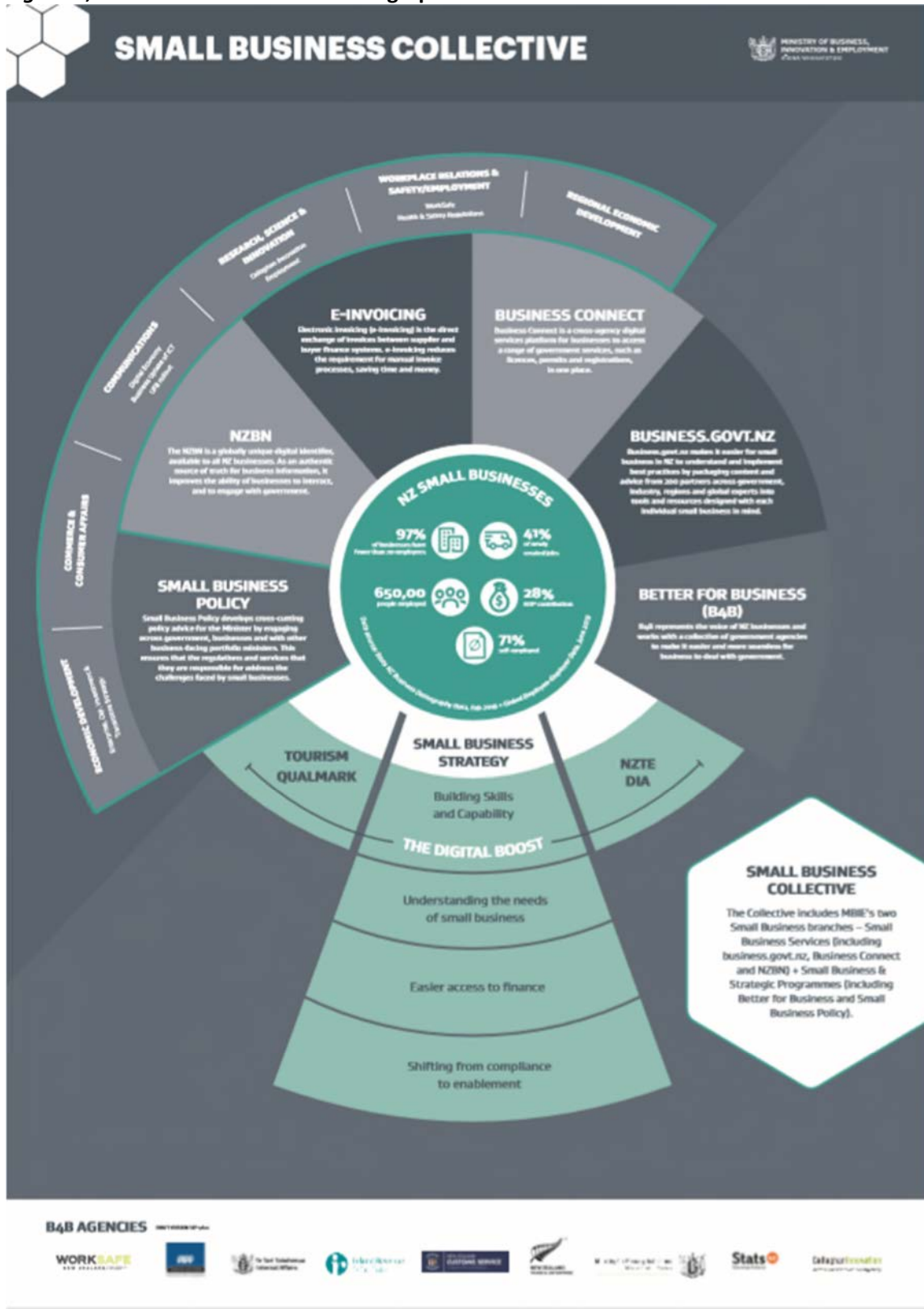
This includes initiatives within the Small Business (information and advice), Economic Development (access to capital and management capability), Research, Science and Innovation (new knowledge and innovation), and Trade and Export Growth (internationalisation) portfolios. The Small Business Cashflow Loan Scheme sits within the Revenue and Finance portfolio and the Merchant Service Fees to support retailers sits within Commerce and Consumer Affairs.

As Minister for Small Business, you also have an opportunity to champion actions across your portfolio to enable Māori economic prosperity through He Kai Kei Aku Ringa (HKKAR), the Crown-Māori Economic Growth Partnership, the Government's Māori Economic Development Strategy. HKKAR is jointly led by the Minister for Regional Economic Development and the Minister for Māori Development, supported by an independent Māori Economic Development Advisory Board.

Through the Small Business portfolio you can coordinate with the Minister for Pacific Peoples to ensure approaches to support Pasifika small businesses are reflective of Pacific culture and aspirations.

The component parts of MBEs operational and policy structure to support small business is outlined in the figure overleaf:

Figure 1, Small Business Collective Infographic:



Portfolio functions and responsibilities

Legislative responsibilities

As Minister for Small Business, you are responsible for the New Zealand Business Number Act 2016. Your role enables you to take an interest in any legislation or regulations that may affect small business and bring these to the attention of the appropriate minister.

Crown entities

As Minister for Small Business, you are not responsible for any Crown entities. You do have an interest in the business support programmes provided by New Zealand Trade and Enterprise and Callaghan Innovation and ensuring that these meet the needs of small businesses.

Other State agencies

As Minister for Small Business, you are not responsible for any State agencies. As many agencies interact with small businesses, your role allows you to identify ways to improve the interactions between government and business and maximise the benefits of support programmes and services for small businesses.

Statutory or advisory bodies

The Minister for Small Business is responsible for the Small Business Advisors. The Small Business Advisors are appointed by the Cabinet's Appointments and Honours Committee (APH). They provide a small business perspective into policy-making; advise government officials on small business issues; and help government communicate more effectively with small businesses.

The Minister for Small Business has regularly attended the Future of Work Tripartite Forum, a tripartite grouping of government, BusinessNZ and the Council of Trade Unions that discusses the future labour market challenges and opportunities, and ways to address them. Representatives of the three partners will meet soon after the election to confirm future meetings dates and agendas. The Minister can expect to hear further details in due course.

Funds and appropriations

The Small Business portfolio forms part of Vote Business, Science and Innovation. The Minister for Small Business is responsible for the following funding:

- Multi-Category Expense: Policy Advice and Related Outputs MCA **\$1.472m departmental**
- Multi-Category Expenses and Capital Expenditure: Digital Enablement of Small Business MCA (Budget 2020), **\$15m** in total (\$13.5m drawn down and \$1.5m in contingency), and came into effect 1 July:
 - **\$12.6m non-departmental (including \$5 million transferred from the Tourism fund); and**
 - **\$0.9m departmental.**

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In addition, the FY2020/21 appropriations which sit under the Minister of Commerce and Consumer Affairs and is inclusive of COVID-19 funding is:

- **Business.govt.nz \$5.669m departmental,**
- **NZBN I&E \$1.990m departmental; and**
- **E-Invoicing is \$3.097m departmental.**

The Minister for Economic Development is responsible for funding to support the Business Connect initiative (including COVID-19 funding):

- **Business Connect \$6m departmental, and**
- **Better for Business \$2.42m departmental.**

MBIE's Financial Position

Pre-COVID-19, 50 per cent of MBIE's departmental revenue was from third-party sources. The remainder is funded by the Crown. Third-party revenue has dropped significantly this year, principally as a result of a large fall in revenue from immigration fees, which are expected to be only 50 per cent of the previous year. While revenue has decreased, our workload has remained at similar levels due to regulatory requirements and new activity (border exemptions process for example).

Subsequent to the border closure, MBIE has secured capital injections and tagged contingencies of \$306 million to support our liquidity until June 2021. Absent a substantial increase in third-party revenue, a significant level of Crown support will continue to be required. This is separate to the additional funding required to continue operating the Managed Isolation and Quarantine system.

COVID has had a structural impact on MBIE's funding. s 9(2)(g)(i)

Departmental funding covers [18] portfolios, making a cross-portfolio approach to prioritisation essential.

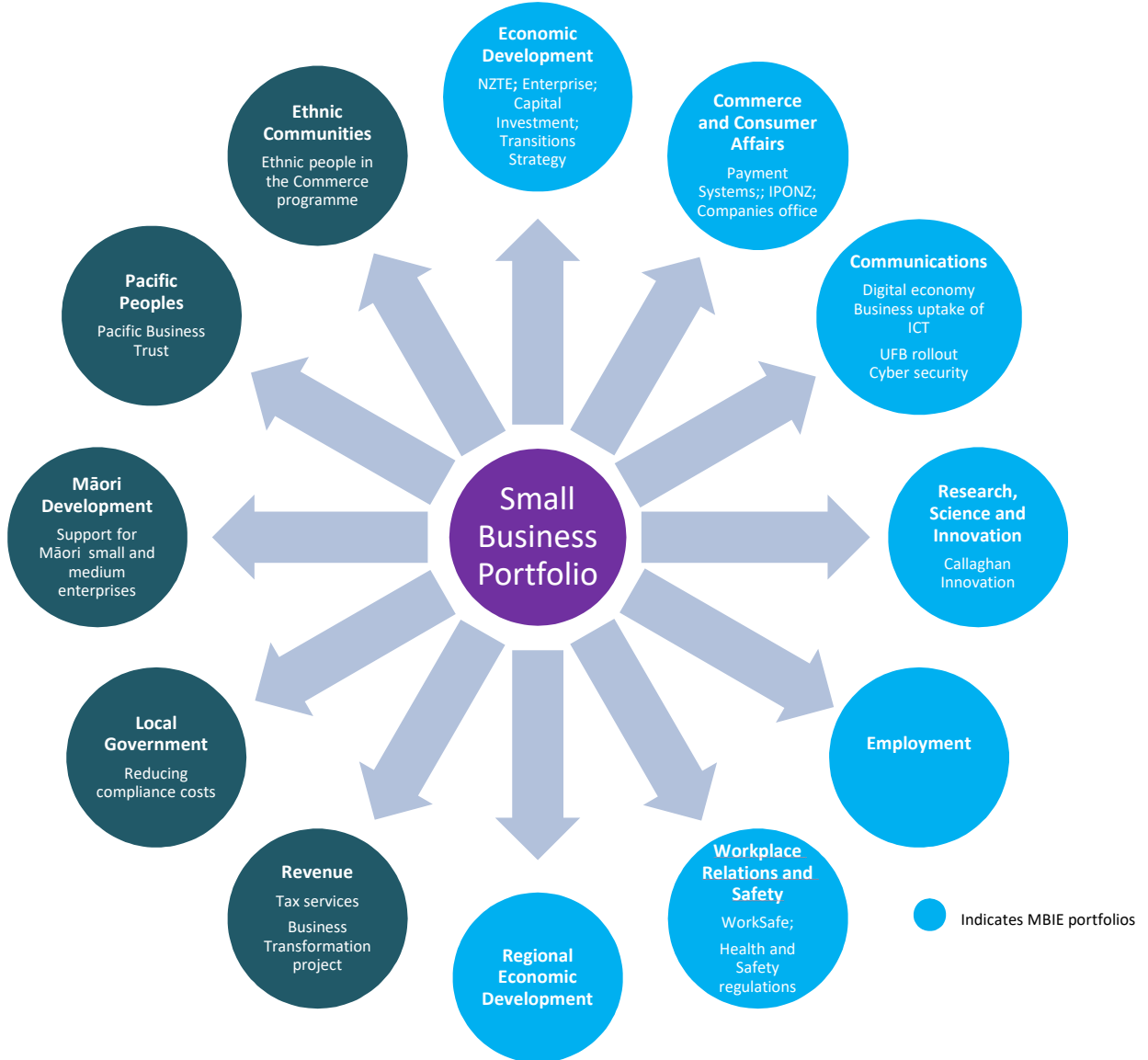
However, there are limits to our ability to re-prioritise as third party funding can only be used for the purpose that it was collected – for example revenue from the building levy can only be used to fund activities under the Building Act.

Uncertainty around our third-party revenue is forecast to remain for the next few years. Looking ahead, a more sustainable funding model is needed as re-prioritisation alone will be insufficient to meet the shortfall. In the short term, opportunities for greater cross-portfolio prioritisation are being identified to minimise the degradation of services or regulatory functions. This reprioritisation is also intended to ensure that MBIE can continue to contribute effectively to the COVID response and recovery.

3. Major links with other portfolios

As the Minister for Small Business you will be actively engaging and influencing other portfolios around issues which affect small business.

The key portfolio relationships are outlined in the diagram below:



The Small Business portfolio has an important role in supporting the broader economic development strategy. One aim of the Economic Development portfolio is to cultivate an environment where firms of all sizes can accelerate their growth-enabling activities. The majority of key programmes that support outcomes for small businesses also sit within the Economic Development Portfolio. You will need to work closely with that Portfolio to ensure alignment around strategic objectives.

4. How MBIE assists you




Key MBIE officials

Responsibility for advice on the Small Business portfolio sits across two Branches:

- Small Business and Strategic Programmes (Policy); and
- Small Business Services (Operational, Business and Consumer).

Key MBIE contacts are set out in the table below and key stakeholder contacts are set out in Annex Two.

Key contacts

Contact	Role	Priority Area	Contact details
<p>Carolyn Tremain</p> 	<p>Chief Executive, Ministry of Business, Innovation and Employment</p>	<p>All</p>	<p>s 9(2)(a)</p>
<p>Oliver Valins</p> 	<p>Acting Deputy Chief Executive, Reports to Carolyn Tremain</p>	<p>Strategic Policy and Programmes</p>	<p>s 9(2)(a)</p>
<p>Suzanne Stew</p> 	<p>Deputy Chief Executive, Reports to Carolyn Tremain</p>	<p>Te Whakatairanga Service Delivery</p>	<p>s 9(2)(a)</p>

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<p>Stewart McRobie</p> 	<p>Chief Financial Officer and Deputy Chief Executive COVID-19</p>	<p>Finance and Performance</p>	<p>s 9(2)(a) [REDACTED]</p>
<p>AJ Millward</p> 	<p>General Manager, Reports to Oliver Valins</p>	<p>Small Business and Strategic Programmes</p>	<p>s 9(2)(a) [REDACTED]</p>
<p>Ross van der Schyff</p> 	<p>General Manager, Reports to Suzanne Stew</p>	<p>Business and Consumer</p>	<p>s 9(2)(a) [REDACTED]</p>

5. Small Business Work Programme

s 9(2)(g)(i)

s 9(2)(g)(i)

s 9(2)(g)(i)

6. Annexes

Annex 1: Definitions of Small Business

Although New Zealand has a similar proportion of small businesses to other Organisation for Economic Co-operation and Development (OECD) countries, New Zealand has few very large firms. New Zealand's small size means that we also think about small businesses differently from other countries. For example, many small businesses in the United States would be considered a large business in New Zealand. The table below shows the different employment categories for the United States, Australia, the United Kingdom, and New Zealand.

Category	US	Australia	UK	NZ
Micro	0 – 9	0 – 4	0 – 9	0 – 4
Small	10 – 99	5 – 19	0 – 49	5 – 19
Medium	100 – 499	20 – 199	50 – 249	20 – 49
Large	500+	200+	250+	50+

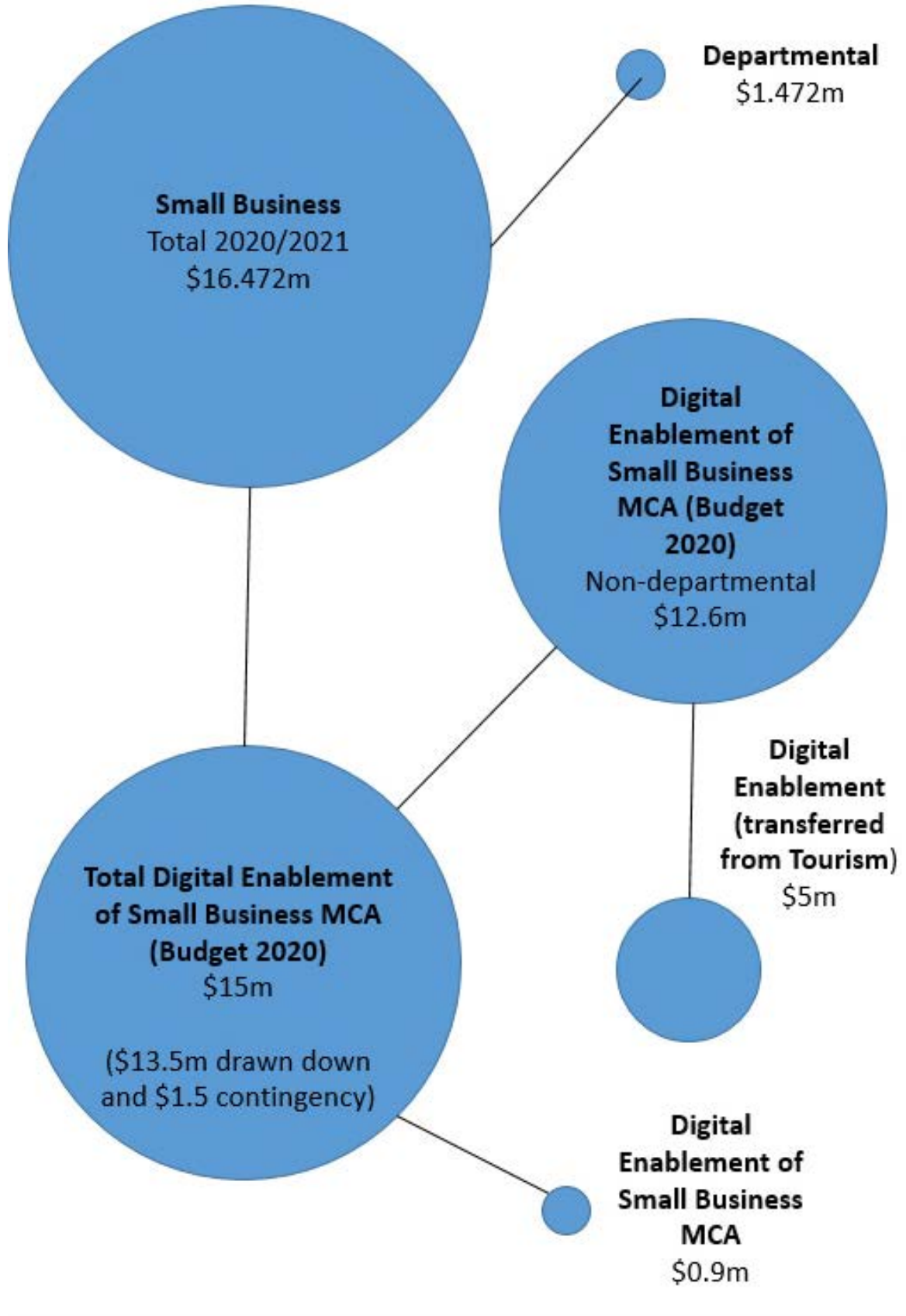
The European Union model (outlined in the table below) is different again and uses a combination of employment, turnover and assets.

	Micro businesses	Small businesses	Medium-sized businesses	Large businesses
Employment	<10 staff	10-49 staff	50-249 staff	250+
Annual Turnover	< €2 million	< €10 million	< €50 million	>€50 million
Total Assets			< €4	>€43 million

Even in New Zealand, there is no one definition of a small business. Across New Zealand agencies the definition of a small business varies based on purpose. For example, the Inland Revenue Department defines a small business based on annual turnover. MBIE uses the employee measure because it aligns to the greatest degree with international measures for small business.

s 9(2)(a)

Annex 3: Funds and Appropriations

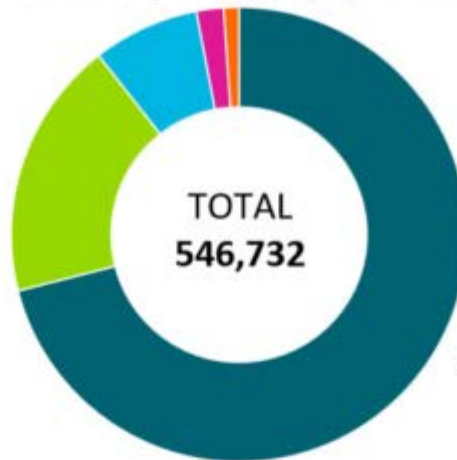


Annex 4: Small Business Data

Number of Enterprises by Employee Size Group

71%
of enterprises
have 0 employees

97%
of enterprises have fewer
than 20 employees
(530,301 enterprises)



Zero Employees
388,323

1-5 Employees
100,662

6-19 Employees
41,316

20-49 Employees
10,536

50 or More Employees
5,895

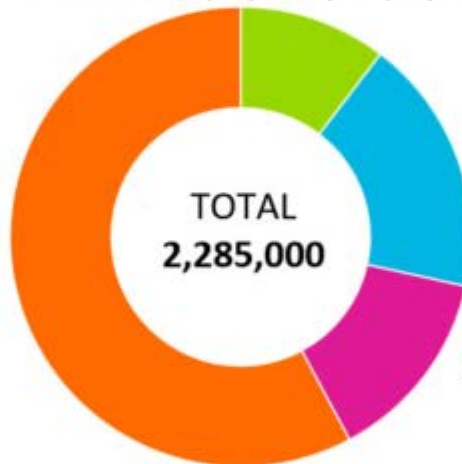
Data source: Statistics New Zealand Business Demography, February 2019

Number of Employees by Employee Size Group

28%
of employees are employed by
enterprises with fewer than 20
employees.

Small businesses employ
650,000
people

388,323
small businesses have no employees.
That's 71% of all firms in NZ.



1-5 Employees
237,000

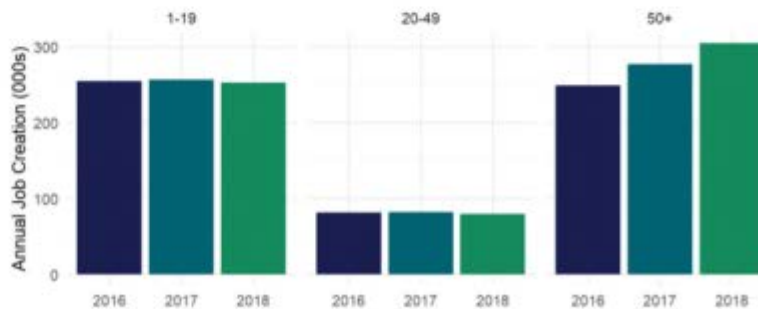
6-19 Employees
413,000

20-49 Employees
313,700

50 or More Employees
1,321,300

Annual Job Creation by Employee Size Group

40%
of all jobs created in YE
December 2018 were in firms
with 1-19 employees

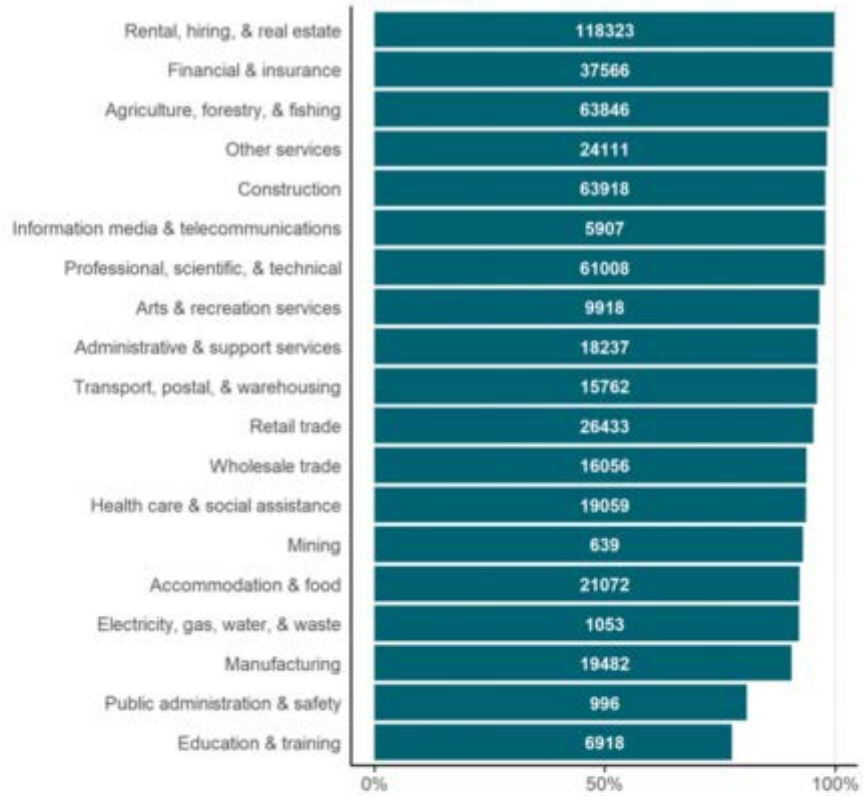


Data source: Statistics New Zealand Linked Employee-Employer Data, 2018

Small businesses are found across the economy. They tend to have a higher representation in some industries.

The rental, hiring & real estate services industry has the highest number of enterprises with fewer than 20 employees

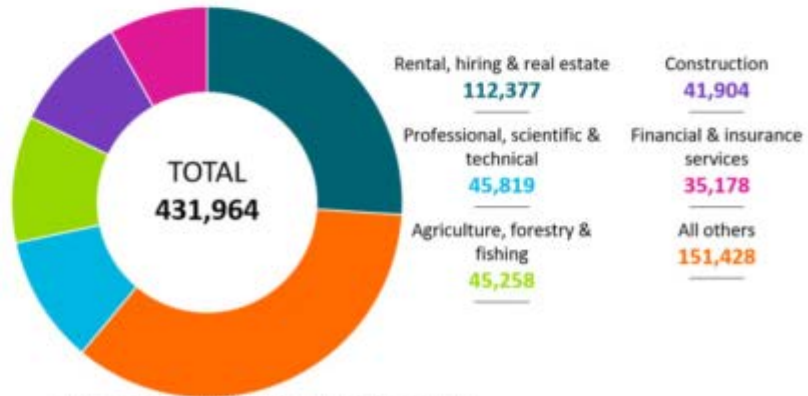
Enterprises with 0-19 Employees by Industry



Data source: Statistics New Zealand Business Demography, Feb 2019

Zero-Employing Firms by Industry

26%
Of firms with zero employees are in the rental, hiring and real estate industry



Data source: Statistics New Zealand Business Demography, February 2019

