The Government Business Finance Guarantee Scheme - at the coalface

The Business Finance Guarantee Scheme was effective from 1 April, introduced in response to the COVID-19 economic downturn. While great in theory, when you delve into the detail, it's less useful than might first appear.

The original plan was for the scheme to cover up to about $6 billion of loans to New Zealand business. The point being that the government was stepping up to guarantee 80% of the business risk, leaving the banks to deal with the remaining 20%. So this was meant to be a scheme for those who were short on equity, but still had plenty of serviceability.

Under the scheme, each loan cannot exceed $500,000, and the maximum term was 3 years. After that time the loan had to be repaid in full, if the government is going to continue to stand behind 80% of the borrowing. However, there was never any discussion around what would happen in the event of default - would the government put the onus back on the bank to pursue the customer, or maybe step into the shoes of the bank and act as the lender – oh god – it's the GFC coming back from the grave! The easy answer of course is don't default on the loan and we won't have to have any of these conversations said a bank!

Importantly, the focus of the loans is for New Zealand based businesses, those affected by the COVID-19 pandemic, and those businesses which turn over no more than $80 million annually. As the loans are limited to those who are carrying on a "business" rather than those who are involved in investment activities, property investors are out. And obviously to limit the risk to the government, those involved in land development activities are also excluded.

One of the positive aspects of the government guarantee loan scheme is the requirement to provide cash flows and the all-important business plan as part of the application process.   In our experience, banks have been wanting a cash flow for the years ended 31 March 2021 and 2022, together with completed 2020 financial statements. Whilst 2020 financial statements and a 2021 budget and cash flow are probably do-able with some sort of reasonable accuracy, a 2022 cash flow and budget is all a bit ridiculous in our view. Nonetheless, these have all been submitted on an all care, but "how could anyone take responsibility" basis.

The business plan is a different story. Without wanting to single out any banks (so I will), the ANZ business plan is a great document, and to be honest, we have used it a couple of times for providing information to other banks. The ANZ business plan document is concise, easy to follow, and it really does allow our clients to focus their mind on what they need to do right now, and in the next couple of years, in order to get through this current downturn. Quite a bit of the information required in the business plan will already have been attached with the financial reports and projections, so that cuts down the work involved.

We have submitted about half a dozen applications under the Government Business Finance Guarantee Scheme, and after a little bit of to-ing and fro-ing (well – weeks of to-ing and fro-ing), we have largely been successful in obtaining finance.

The major difficulty we have encountered is around serviceability. The point of the loan is to provide short-term "operating" cash flow (no capital purchases) for those businesses affected by the COVID-19 business downturn. What this means is that, in order to demonstrate that the business is likely to suffer some cash flow issues without the loan, your cash flow projections need to be in "deficit".

If your projected cash flows are positive, in our experience the banks take the position that you do not need the loan. Conversely, if your cash flows are negative, this raises the issue of serviceability. All of this has to be addressed in the context of those 2021 and 2020 budgets and cashflows you have prepared based on a best guess around:

1. Will we go back in to lockdown?
2. When will the borders open?
3. Will my business actually survive even though my cashflows says it will?
4. Should I actually borrow any more money as working capital?

Word on the streets is that there might be a further extension to the Government Business Finance Scheme, where the government could step up to guarantee even more than they currently do. However, this is not going to deal with the serviceability issues on the loans. Maybe what it will do is make it slightly easier to access the large amounts of money that banks currently have available to lend, offset slightly by the Reserve Bank keeping a very tight rein on the banks requiring them to be responsible lenders. Watch this space.

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