

# The Treasury

## Economic Response to Future Resurgences of COVID-19 Information Release

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### Cabinet Document Details

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Creator: Office of the Minister of Finance, Office of the Minister for Social Development and Employment, Office of the Minister of Revenue, and Office of the Minister for Small Business

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[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Office of the Minister of Finance

Office of the Minister for Social Development and Employment

Office of the Minister of Revenue

Office of the Minister for Small Business

Chair, Cabinet

## **Economic response to future resurgences of COVID-19**

### **Proposal**

- 1 This paper seeks agreement to a sustainable and proportionate economic support package for use in the event of further resurgences of COVID-19 in the community.

### **Relation to government priorities**

- 2 This proposal supports the Government's first overarching objective to keep New Zealanders safe from COVID-19, including by protecting jobs and livelihoods, and strengthening the economy. It does so by ensuring a package of financial support is in place for businesses and individuals in the event of Alert Level escalations following future resurgences of COVID-19 in the community, with the aim of limiting the economic and social impacts if outbreaks occur. It also seeks to reduce the risk of resurgences by supporting workers to stay home when sick. These goals are complementary, as protecting New Zealanders from the virus will also support economic activity resuming quickly after any outbreaks.

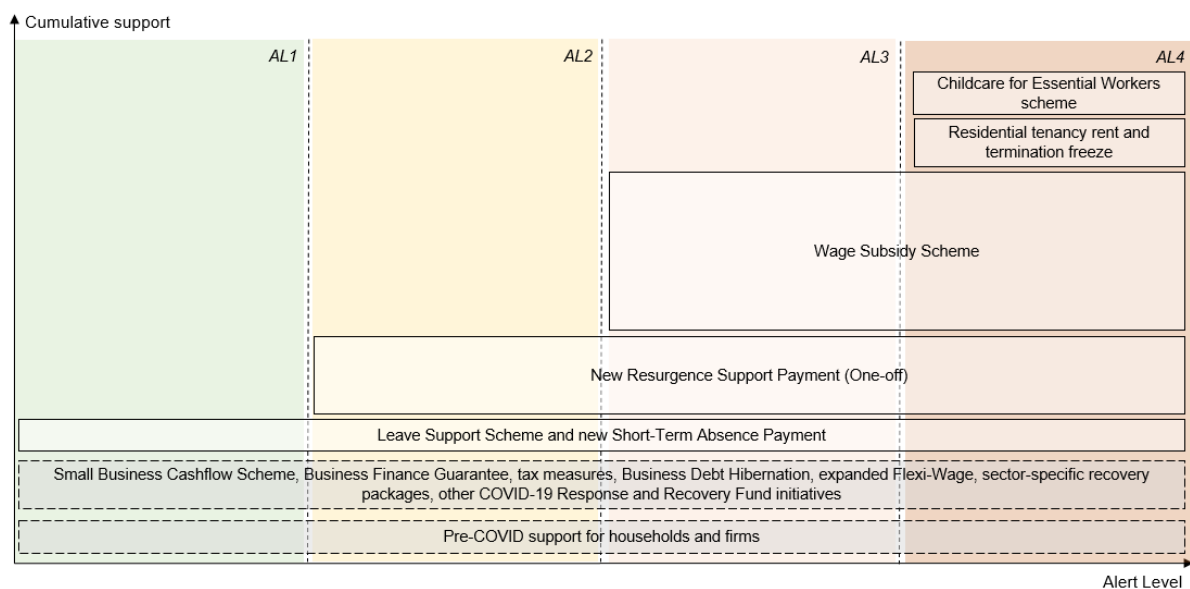
### **Executive Summary**

- 3 In the event of Alert Level escalations, a sustainable and proportionate package of economic support is needed to minimise the impact of public health restrictions on employment and incomes, deliver more equitable outcomes in the face of very short and severe economic shocks, and help to maintain social license and encourage compliance with the public health response. In turn, that enables economic activity to resume quickly after any outbreaks of the virus, allowing the economy to take advantage of the economic benefits of no or low community transmission.
- 4 Our economic response to the initial national lockdown and the subsequent outbreak in Auckland achieved these aims. We have also heard consistent feedback from business that certainty about the support measures that will apply in future Alert Level escalations is critical for ongoing investment and hiring activity.

- 5 This paper proposes a package of measures that develops and improves our previous response, building on our experience to date and feedback from business, and recognising the added stress to firms and individuals as uncertainty around the trajectory of the virus continues. Key components of the package are:
  - 5.1 a new one-off **Resurgence Support Payment (RSP)** to help firms who are directly impacted by an Alert Level change to cover their fixed costs (such as rent) when transitioning from Alert Level 1 to Alert Level 2 or above;
  - 5.2 an improved **Wage Subsidy Scheme (WSS)** at Alert Level 3 and above; and
  - 5.3 additional measures at Alert Level 4 on childcare and residential tenancies, with further work on commercial tenancies.
- 6 The elements of the package have been designed to complement each other, with existing measures to support employment and wages buttressed by a new measure to help firms in any escalation from Alert Level 1. In designing the package we have attempted to strengthen the targeting and integrity of measures, while ensuring that there is timely and adequate support.
- 7 The proposed package is intended to promote confidence, employment, and a rapid return to activity following the end of Alert Level increases by providing the most affected firms with increasing levels of support as the severity and impact of public health restrictions rise.
- 8 The approach aims to be proportionate to the impacts. In the event of an escalation from Alert Level 1, businesses would be able to apply for a comparatively modest one-off payment under the RSP, providing cash flow to cover their costs. Businesses that require additional cash flow support could access the extended Small Business Cashflow Scheme (SBCS) or seek lending from their banks (including through the Business Finance Guarantee Scheme).
- 9 In any future escalation to Alert Level 3 or above, the most affected firms could also seek the WSS to help them keep their employees. Other supports on childcare and residential tenancies will also assist firms and households in an escalation to Level 4.
- 10 While the package is designed to be ready in the event of Alert Level escalations, the strongest way to support businesses and individuals is to sustain our public health response so that escalation is a last resort and economic activity is maximised.
- 11 Alongside the proposed resurgence measures, we therefore recommend complementing the **Leave Support Scheme** with a new **Short-Term Absence Payment** at all Alert Levels, to address an existing gap in coverage by facilitating workers who are awaiting test results to stay home and self-isolate. This aims to support compliance with the public health guidance, reducing the risk of resurgences and prolonged escalations.
- 12 The package of measures proposed here is designed to mitigate the direct economic costs of Alert Level escalations by protecting jobs and incomes. However, we recognise that outbreaks have multi-faceted impacts on individuals, particularly on the most vulnerable or at-risk groups.

13 In the previous term, the Government introduced a significant number of schemes, funded through the COVID-19 Response and Recovery Fund (CRFF) to address those impacts. But we will need to continue to review the integrity of that safety net to ensure it remains fit for purpose, particularly given the recent expiry of the COVID-19 Income Relief Payment (CIRP).

14 The existing economic supports and proposed new measures are outlined here:



15 The full resurgence package and new Short-Term Absence Payment will be ready to implement early next year, subject to legislation. To ensure that we are prepared for a resurgence in the meantime, we propose that the existing Wage Subsidy Scheme be reinstated in the event of a reescalation to Alert Level 3 or 4, using similar settings as the August resurgence.

16 Communicating the resurgence measures in advance of further outbreaks will provide greater certainty to businesses and individuals about the Government’s economic response. While businesses will still face uncertainty over the number of outbreaks, they will be able to better plan and make investment and hiring decisions, knowing what support they will receive should an Alert Level escalation occur.

17 It is therefore proposed that the Minister of Finance announces the package, including the timeline for implementation and the interim approach, prior to Christmas.

18 The package of resurgence measures would cost around \$920 million in response to an Auckland-equivalent resurgence. While a significant sum, it reflects the scale of the economic impact of higher Alert Levels. Temporary and time-limited measures are critical to limit ongoing economic damage from the impacts of escalations. There is a sufficient balance in the CRRF to fund the proposed package through multiple resurgence events.

## Background

- 19 The Government's COVID-19 elimination strategy allows us to take advantage of the opportunities of protracted periods of minimal community transmission. Where necessary, periods of higher restrictions are required to stamp out the virus. Our economic strategy complements this, by continuing to support people, businesses and jobs and keeping the recovery moving.
- 20 Key to these objectives is a sustainable and proportionate economic response to potential resurgences of the virus.
- 21 Our economic response to Alert Level escalations so far has comprised support for jobs, firms' non-wage costs through the SBCS, and support for vulnerable populations. The response has been successful and well-received, but there is scope to further improve aspects of its effectiveness and integrity.
- 22 At the time of the August outbreak, the Government commissioned further work on more sustainable arrangements for financial support in the event of future restrictions [CAB-20-MIN-0402 refers]. Since then, we have heard consistent feedback from business that certainty about the support that will be available at higher Alert Levels is critical for ongoing business and hiring activity.
- 23 Having considered officials' advice and listened to feedback from business, we now propose the Government announces a package of measures that develops and improves the existing model by:
  - 23.1 making a clearer link between the period and level of support and the period and severity of restrictions;
  - 23.2 improving the clarity and integrity of the measures, to ensure support goes to firms and individuals in need; and
  - 23.3 providing a sustainable solution to supporting firms' fixed and transition costs beyond the Small Business Cashflow Scheme (SBCS).
- 24 The package maintains the same objectives as the existing model: protecting jobs and incomes, limiting economic damage by enabling a swift resumption of economic activity, and supporting social licence for the public health response and compliance with restrictions. Its core components are:
  - 24.1 a new Resurgence Support Payment (RSP) to support firms' fixed costs when they are directly impacted by the transition from Alert Level 1 to Alert Level 2 or above;
  - 24.2 an improved Wage Subsidy Scheme (WSS) at Alert Level 3 and above; and
  - 24.3 additional measures at Alert Level 4 on childcare and residential tenancies, with further work on commercial tenancies.
- 25 While this package is designed to be ready in the event of an Alert Level escalation, the strongest way to support business and individuals is to sustain a strong public health response so that escalation is a last resort and economic activity is maximised.

- 26 The package will therefore be complemented by a new Short-Term Absence Payment available at all Alert Levels to facilitate workers to stay home and self-isolate while they are awaiting COVID-19 test results.

### **Introducing a new Resurgence Support Payment at Alert Level 2 and above**

- 27 We propose Cabinet agrees to establish a new one-off Resurgence Support Payment (RSP) scheme administered by Inland Revenue. This would help firms who are directly impacted by an Alert Level change to cover their fixed costs (such as rent) when transitioning from Alert Level 1 to Alert Level 2.
- 28 The RSP would complement other elements of our economic response to resurgences by providing a relatively modest grant to help with fixed costs such as rent, particularly at Alert Level 2, where the Wage Subsidy Scheme (WSS) is unavailable. It would be paid as a grant because many small firms are not in a position to take on additional debt.
- 29 A one-off grant soon after an escalation from Alert Level 1 would help offset businesses' increased costs at the outset of public health restrictions being imposed. The payment would provide cashflow support at the most critical moment, when uncertainty is likely to be highest and businesses have had the least opportunity to adapt to the restrictions.
- 30 This payment will support businesses who are directly impacted by the escalation in Alert Levels. For example, when the country moves from Alert Level 1 to Alert Level 2, hospitality and related businesses have to make significant changes to their operations and face significantly reduced revenue.
- 31 At a macroeconomic level, the RSP can also help ensure that fiscal policy provides sufficient total support to the economy. A broad-based payment of this kind can compensate for lost revenue and output more effectively than conventional fiscal stimulus measures (such as direct subsidies to support consumer activity) during periods when the economy remains constrained by public health restrictions.
- 32 Agreement to the design parameters specified below is sought from Cabinet, to enable further work to be completed on the implementation of the scheme. We propose that the broad outline of the scheme be announced prior to Christmas, including the rate of payment, eligibility threshold, activation triggers, key declaration requirements, role of Inland Revenue, and relationship to other support schemes.

#### *Objectives of the Resurgence Support Payment*

- 33 The purpose of the RSP is to provide support for businesses' fixed costs (such as rent) when transitioning from Alert Level 1 to Alert Level 2 or above. We propose the objectives of the scheme are as follows:
- 33.1 Support firms to maintain viability and employment levels across escalations in public health restrictions;
  - 33.2 Support firms to pay fixed costs if they are struggling to do so as a result of escalated Alert Levels;
  - 33.3 Share the cost associated with escalated Alert Levels between Government, firms and across economic sectors; and

33.4 Encourage the shift to a COVID-19 resilient economy.

- 34 The RSP assists firms with fixed costs when there has been a significant reduction in revenue. This complements the WSS support for short-term labour market attachment by providing cashflow support in a broad-based manner to firms impacted by public health restrictions. Firms will be required to use funds for business expenses, such as wages, capital expenditure and core operating expenses.

*One payment limited to the initial escalation in Alert Levels*

- 35 We propose that the scheme be limited to a one-off payment at an initial escalation from Alert Level 1 to Alert Level 2 or above. We do not propose activating the scheme each time there is a change to a lower or higher Alert Level during a resurgence event. Payment would be restricted to this format to reflect that for many firms the impact of an escalation from Level 1 is most acute at the outset, and that transitional costs are greater in respect of an increase than a decrease in Alert Levels. A one-off payment also reduces the fiscal risk of multiple payments in quick succession in the event of rapid changes in Alert Levels.

*Scheme activated after seven days*

- 36 We recommend Cabinet agrees to establish a minimum period of seven consecutive days that must elapse at Alert Level 2 or above before the scheme comes into effect, of which the seventh day may be a partial day. A minimum period is desirable before the RSP becomes available, as it is reasonable to expect that businesses can absorb the cost of a very short escalation in Alert Levels.
- 37 Firms would not begin submitting applications until 14 days after an escalation, as they would be required to declare they have experienced an actual decline in revenue over a 14-day period. If an escalation to Alert Level 2 or above occurs for seven or more days (activating the scheme) but fewer than 14 days (the period to demonstrate a decline in revenue), firms would still be eligible to apply if they experienced a decline in revenue of at least 30%.

*National availability*

- 38 The RSP will be available on a national level by default, even in the case of regionally elevated Alert Levels. This reflects the nationwide supply chain impacts a regional escalation can have and the administrative difficulty associated with allowing applications from certain regions only. This is consistent with the WSS.

*Payment rate and structure*

- 39 We propose that the payment be structured as a per-firm payment with an additional per-FTE component. This is the same structure as the SBCS, weighting relative support in favour of smaller firms. Smaller firms are likely to have weaker financial reserves, and consequently be less resilient to revenue shocks. However, unlike the SBCS, the RSP would be available to firms of all sizes.

- 40 We recommend that the rates are set at \$1,500 per firm and an additional \$400 per FTE. For most firms, this provides a lower level of support than the WSS, which is appropriate, given that the RSP will be available in the event of an escalation to Alert Level 2 when the economic impacts are generally lower. The payment rates for the RSP would not need to be increased at Alert Levels 3 and 4, as firms that are most impacted by the restrictions will become eligible for the WSS.
- 41 The per-FTE component will be capped at a maximum of 50 FTEs. Firms with more than 50 employees will still receive a payment (up to a maximum of \$21,500).
- 42 It is estimated a payment at these rates would cover 51% of an average sole trader's fixed costs for one week, 59% for an average firm with 1-5 FTEs, and 25% for the average firm with 20-50 FTEs. Within these averages, there will be significant variation, including as a result of sectoral differences.
- 43 We consider that these rates are sufficient to be credible and that they recognise the impact of public health restrictions on firms, while still requiring most firms to cover some of the costs associated with resurgence events (and therefore build their resilience).
- 44 In effect, this means a sole trader would receive a payment of \$1,900, a small-to-medium enterprise (10 FTEs) would receive \$5,500, and medium-to-large sized firms (50 FTEs or more) would receive \$21,500. This would be complemented by the WSS in an escalation to Alert Level 3 or 4, subject to the firm's revenue declining by 40%.

*Requirement to declare a drop in revenue caused by an escalation*

- 45 The RSP will be limited to firms that declare an actual drop in revenue due to the effects of the escalation from Alert Level 1 in place at the time.
- 46 Similar to what is proposed for the WSS below, we propose to introduce a further declaration for applicants as follows:
- 46.1 The firm attributes the effect to the escalation in Alert Levels that began on [date of current escalation]; and
- 46.2 The effect has led to the decline in revenue that the firm has declared.
- 47 This would help to distinguish revenue drops relating to the public health escalation from effects of border closures, broader economic effects of COVID-19, and normal baseline revenue volatility. Applicants will be required to keep evidence to support this declaration (i.e. records showing the specific effects on their business and the resulting impact on revenue). This would be implemented in a high-trust manner, meaning firms establish an impact by declaration with the knowledge that records may be checked in case of audit. Officials will develop guidance on suitable record-keeping as evidence for the attributable declaration and revenue decline test.



- 48 We considered more prescriptive approaches to this declaration, such as requiring firms to link the decline in revenue to specific health restrictions (including adherence to physical distancing requirements). However, officials advised that enforcement would be difficult, could increase uncertainty and compliance costs for businesses, and would have limited benefit, given most businesses are affected in some way by restrictions at Alert Level 2 or above.

*Revenue must decline by at least 30% to be eligible*

- 49 We consider firms should be required to demonstrate a revenue decline of at least 30%, alongside the declaration that the decline is attributable to the current Alert Level escalation. Any test lower than 30% would be insufficiently targeted, resulting in too many firms receiving support, with greater associated fiscal cost. A higher revenue drop test such as 40% would be inconsistent with the revenue impacts felt by firms at Alert Level 2 and would likely result in too few firms receiving support.
- 50 Firms would be required to declare they have experienced an actual decline in revenue over a 14-day consecutive period after the initial escalation from Alert Level 1. This is unlike the WSS which allows for predicted revenue drops, as described below. The divergence reflects the lower economic impact on firms at Alert Level 2, when concerns about business confidence and firms' access to immediate short-term cashflow support are less present. The requirement to declare an actual drop improves the integrity of the scheme.
- 51 Firms would be required to hold information that demonstrates their revenue declined by at least 30%. This impact must be compared against a useful data point. The current comparison point for the WSS is a similar period in the prior year, which is becoming progressively less accurate at selecting firms in need of support as the economy adjusts to COVID-19.
- 52 We propose that the default comparator period for the revenue drop test, for both the RSP and WSS, should be the typical fortnightly revenue in the six weeks prior to the Alert Level escalation that triggered the scheme. Employers that have highly seasonal revenue can use a prior year comparator if their seasonal revenue changes make it harder for them to meet the revenue decline test.
- 53 Eligible firms would be able to apply after the first 14 days of an escalation, as firms will need to demonstrate an actual decline in revenue over a period of that length. The test would apply to any 14-day period between the start and end of an escalation from Alert Level 1 to Alert Level 2 or above (unless a return to Alert Level 1 nationally occurs within 14 days of the initial escalation, in which case the 14-day period will include the period spent at Alert Level 2 or above and any subsequent days at Alert Level 1). This recognises that, while the decline must be attributable to the effects of the escalation, the impact on a firm's revenue may not be immediate in some cases. There may also be lags in a firm's ability to generate the information required to make the declaration. Firms will therefore be able to apply until one month after a return to Alert Level 1 nationally.

- 54 The revenue drop test will serve as the principal targeting mechanism for the scheme, as it is likely to identify the firms most in need of economic support owing to the impact of public health restrictions. It will target support at those sectors or regions that are most affected by higher Alert Levels, while also ensuring affected firms in any sector or region are eligible.
- 55 A well-designed declaration process and revenue drop test, as we propose, will assist in targeting support to sectors most in need owing to the impact of the escalation in restrictions. Therefore, we do not propose that the RSP include any additional sectoral or regional targeting, as this is likely to add significant operational complexity, create difficult boundary issues, and exclude some firms legitimately in need of support.

#### *Definition of revenue*

- 56 For the purposes of the RSP and WSS, revenue is used as a proxy for income-generating activity. In elevated Alert Levels, physical distancing measures would reduce activity, and therefore income or revenue. The challenge is how a firm determines whether it has experienced a drop in activity/revenue, particularly when its business operates on an accrual (and not cash) basis and “earns” income by sending out invoices on a monthly or infrequent basis rather than having a daily cashflow.
- 57 We propose that revenue is clarified by guidance material published by Inland Revenue. The guidance would cover the following matters:
- 57.1 Revenue is derived from standard income-generating activities; and
- 57.2 Revenue is to be determined by applying standard accounting principles.
- 58 The 14-day revenue decline period starts on or after the escalation period commences. The comparison amount would be on an average fortnightly revenue within the six weeks before the escalation that triggered the scheme.
- 59 Revenue will not include funds from the WSS, SBCS or RSP. Revenue will not include income that is received passively (meaning those whose income is wholly derived passively, for example, landlords, or through dividend or interest payments).
- 60 The guidance will be developed by officials, who will report back to the Ministers responsible for the WSS, SBCS and RSP if the guidance is found to have unintended negative effects on applicants or if the definition of revenue shifts from what is stated above.

#### *Viability test*

- 61 Firms would be required to declare that they are a “viable, ongoing business” in order to apply for the RSP. This is aligned with the requirements for the SBCS, and is intended to help ensure that support is provided only to firms that have reasonable future prospects.

### *Other eligibility settings*

- 62 We propose that sole traders should be eligible for the RSP. While this creates some integrity risk, sole traders are a significant proportion of firms and therefore should be eligible for support.
- 63 In line with recent changes to the SBCS, we recommend that firms should be eligible only if they have been in business for at least six months. This is an integrity measure and limits the fiscal risk associated with businesses being formed in order to apply for the support.
- 64 Pre-revenue firms, such as start-ups, are eligible for the WSS and the SBCS if they meet specific eligibility criteria. This reflects that pre-revenue firms may suffer financially if an escalation event delayed their capital raising activities or deferred their progress towards being market-ready (particularly upon an increase to Alert Level 3 or 4). We therefore propose that pre-revenue firms be eligible for the RSP, subject to satisfying the eligibility criteria for pre-revenue firms established through the WSS and SBCS.
- 65 We recommend that groups of related companies be eligible for a single per-firm payment, with the per-FTE payment similarly capped at 50 FTEs across all related entities. This avoids advantaging a firm with groups of companies and incentivising firms to split their businesses to increase their entitlement.
- 66 Charities and not-for-profit entities should be eligible for the RSP scheme, provided they meet the other eligibility criteria for the scheme (including a requirement to declare they are a “viable, ongoing organisation”).
- 67 State sector entities will be subject to the same rules for State Sector Organisations (SSOs) as under the WSS. This means SSOs (including State Owned Enterprises) would be excluded by default from the scheme, but can be granted an exemption to apply for the scheme by the Minister of Finance. Inland Revenue would then make an assessment of the application. We recommend existing exemptions made under the WSS be transferred to the RSP.
- 68 We also recommend a minimum age requirement to prevent young people (e.g. children with paper runs) from applying for the grant and receiving what is likely to be significantly more than their usual monthly revenue. We recommend the minimum age limit be 18 years (as with the SBCS).

### *Restrictions on use*

- 69 The WSS requires firms to pass through the value of the WSS to employees as wages subject to normal deductions as PAYE. As the SBCS did not have a pass-through requirement, it introduced restrictions on the use of funds as an integrity measure: firms must declare that the funds will be applied to business expenses only and cannot be passed through to shareholders or owners of the business or organisation. This gives firms flexibility in use of the payment, while the declaration constitutes an integrity measure (though the fungibility of money means its enforceability is likely to be complex). We recommend applicants for the RSP be required to declare the fund will be applied to business expenses only (including wages, capital expenditure and core operating costs).

### *Repayment expectation*

- 70 Currently the WSS is repayable when an employer has not met the eligibility criteria (for example, if its predicted revenue loss does not occur); if it has not complied with the conditions attached to the subsidy; if it has provided false information; or if it has received insurance to cover any costs covered by the subsidy. We propose that the same rules apply for the RSP. This means that a firm will be required to repay the RSP if it is demonstrated to have not experienced the revenue decline it declared on application. Consistent with our view on the WSS, we do not recommend any additional rules be added in relation to profit or revenue growth, given the complexity and uncertainty this would add to the scheme, and the risk of creating unintended hardship for certain firms and their employees.

### *Complementary supports*

- 71 We propose that firms should be able to receive the RSP alongside other forms of support including the WSS, SBCS, Short-Term Absence Payment (STAP) and LSS. The schemes serve different purposes, with the SBCS providing lending for cashflow purposes, the WSS supporting the retention of the workforce during higher Alert Levels, and the RSP providing firms with fungible, non-repayable support to assist transitions from Alert Level 1 to Alert Level 2 or above.

### *Implementation agency*

- 72 Inland Revenue would administer the RSP. It has indicated that it could implement the scheme six to eight weeks after Cabinet decisions are taken, subject to passage of the required legislative amendments.

### *Tax treatment*

- 73 We consider businesses should not be subject to income tax on payments under the RSP they receive, nor should they be able to claim deductions for expenditure funded by those payments. This is consistent with the standard income tax treatment of Government grants.
- 74 We recommend GST-registered businesses should pay GST on payments they receive under the RSP, with those businesses being able to claim input tax deductions for the relevant expenditure. This is consistent with the standard GST treatment of Government grants, but will differ from the GST treatment of the WSS payments. We consider the difference is justified because the WSS is required to be passed on to employees, and employee salaries and wages are not subject to GST.

### *Delegation to Joint Ministers*

- 75 To ensure that officials have sufficient mandate from Ministers, we propose that Cabinet authorise the Minister of Finance, the Minister of Revenue, and the Minister for Small Business to take decisions relating to further design details and operational matters required to progress the implementation of the RSP, in alignment with the key parameters agreed in this paper.

## **Strengthening the Wage Subsidy Scheme at Alert Levels 3 and above**

- 76 The Wage Subsidy Scheme has been the core element of the Government's economic response to COVID-19. Since March of this year, there have been three main iterations of the scheme: the 12-week Wage Subsidy Scheme opening in March, a further 8-week extension opening in June, and the 2-week Wage Subsidy Resurgence Scheme available during the August outbreak of COVID-19 in Auckland. These are collectively referred to as the Wage Subsidy Scheme (WSS).
- 77 Under the WSS, employers that experienced a COVID-19-related drop in revenue (30% for the initial iteration, and 40% subsequently) were able to claim a subsidy of \$585.80 per week for each full-time employee (20 hours or more) or \$350 for part-time employees (less than 20 hours). Employers were obliged to retain, for the duration of the subsidy, staff for whom they claimed the subsidy or repay it if staff were not retained. They were also required to exercise their best endeavours to pay at least 80% of those employees' ordinary salary or wages or, at a minimum, pay at least the value of the subsidy to those staff (or their normal wages if less). A total of \$14 billion has been paid out across the three schemes, in respect of 1.8 million unique jobs.
- 78 Following the Auckland outbreak, the last Government directed officials to report back on a more sustainable, longer-term Wage Subsidy Scheme [CAB-20-MIN-0402 refers]. That advice has informed our recommendations detailed below.

### *Confirming the objectives of the Wage Subsidy Scheme*

- 79 We propose that, going forward, the objectives of the WSS be to:
- 79.1 Temporarily support workers' incomes and employment attachment during periods at Alert Level 3 or above;
  - 79.2 Provide support for employers to pay wages if they are struggling to do so as a result of an escalation to Alert Level 3 or above;
  - 79.3 Share the cost associated with a period at Alert Level 3 or above between the Government, employers and employees, and across economic sectors;
  - 79.4 Balance short-term labour market attachment with long-term labour market reallocation; and
  - 79.5 Encourage the shift to a COVID-19-resilient economy.

### *Signalling support in advance*

- 80 We propose that the Government signals now that it intends to introduce a WSS if there is an escalation to Alert Level 3 or above, anywhere in New Zealand, for seven or more consecutive days (of which the seventh day may be a partial day), subject to any other factors relevant at the time.

- 81 We do not propose to open the WSS for Alert Level escalations of fewer than seven days. As with the RSP, we consider it is reasonable for employers to manage the effects of Alert Level escalations that are shorter than one week without support. In addition, it takes MSD five business days to open the scheme with current operational arrangements and around a week after restrictions are in place for support to begin flowing to most employers.
- 82 We also propose linking, through automatic rules, the duration of support to the duration of lockdown. Under current settings, the WSS is provided in two-week lump-sum payments. We propose to continue this arrangement but clarify upfront that the subsidy payments will be “rounded” to the nearest fortnight. For example, there would be a two-week payment for both an eight-day lockdown and a twenty-day lockdown. We also propose that the availability and settings of an open scheme are reviewed by Cabinet every six weeks, and to review this approach again six months after its introduction.
- 83 In addition, we propose publicly communicating the key parameters of the WSS in advance of any future resurgence and as part of an announcement on the overall package. These parameters are discussed below.

*Core Wage Subsidy Scheme parameters would be unchanged*

- 84 We propose that the core parameters of the August iteration of the WSS be retained for any future resurgence. This includes:
- 84.1 The 40% revenue drop eligibility test;
  - 84.2 Payment rates of \$585.80 per week for each full-time employee (20 hours or more) and \$350 for part-time employees (less than 20 hours);
  - 84.3 An obligation for employers to retain, for the duration of the subsidy, staff for whom they claimed the subsidy (or repay it if not), and to endeavour to pay at least 80% of those employees’ ordinary salary or wages, or, at a minimum, to pay at least the value of the subsidy to those staff (or their normal wages if less); and
  - 84.4 Nationwide availability of the scheme by default, even in the case of regionally elevated Alert Levels (for the reasons discussed above for the RSP).

*Proposed changes to the Wage Subsidy Scheme*

- 85 Stakeholder feedback on the WSS has been highly positive, with the scheme widely viewed as being timely and effective at enabling rapid cashflow (which was especially important for small businesses) and at maintaining workplace connections in the face of significant uncertainty due to COVID-19. Nevertheless, there are opportunities to make improvements.
- 86 The need to deliver support at pace during a resurgence and the limitations of MSD’s delivery systems means that the scheme will always need to be relatively high-trust, but minor changes can be made in the short term to improve its integrity.

- 87 MSD’s original approach to WSS integrity built on the applicant declarations for each scheme, and included pre- and post- payment checks of employer details, a coordinated complaints process, a thorough investigations process, and a repayment process. This approach has been refined over time, and enhancements made for later schemes will carry through to future schemes.
- 88 These include enhanced up-front controls, and the exception of applications that appear to pose some integrity risk in relation to their entitlement for previous schemes (including where repayments have been requested).
- 89 Pre-payment validation of information with IR and pre-payment checks of [39] This includes more detailed discussions [39] that they met the eligibility criteria before approval, and that they understand their obligations under the scheme.
- 90 Officials are progressing work on the following minor short-term improvements to the scheme’s integrity:
- 90.1 Increasing visibility and publicity around audit, enforcement and repayments, including through ministerial communications;
  - 90.2 Improving guidance for applicants to reduce error rates and improve automation rates; and
  - 90.3 Clarifying the drafting of rules under the scheme, including a definition of “revenue” and eligibility of company groups (the intent is for these rules to be consistent with the proposed settings where possible, as discussed above).
- 91 Beyond these operational changes already being progressed, we seek Cabinet agreement to a small number of other changes to the WSS in relation to the below areas that can be delivered in the short term.

*New attribution test*

- 92 First, similar to what is proposed for the RSP above, we propose to introduce a new test to distinguish revenue declines relating to public health escalation, from the effects of border closures, broader economic effects of COVID-19 and normal baseline revenue volatility. As at present, a firm applying for the WSS will need to declare that it has been affected by COVID-19. However, unlike at present, the firm will also need to declare that:
- 92.1 the firm attributes the effect to the escalation in Alert Levels that began on [date of current escalation]; and
  - 92.2 the effect has led to the decline in revenue that the firm has declared.

- 93 Applicants will be required to keep evidence to support this declaration, such as records showing the specific effects on their business and the resulting impact on revenue. Like other elements of the WSS, this would be implemented in a high-trust manner, meaning records may be checked in case of audit. Officials will redraft the existing WSS declaration to give effect to this change and develop guidance on records that applicants can keep as evidence.
- 94 It is intended that employers suffering indirect effects of elevated Alert Levels could still qualify for WSS support under this test, such as a business with heavily affected customers or suppliers. While this may appear to be a broad test, the requirement for this to also have led to a revenue decline creates a more robust test that will help target support to those that are genuinely affected.

*Revenue decline test*

- 95 We propose to retain the requirement that employers will need to experience or predict at least a 40% decline in weekly revenue relative to an appropriate comparator period to qualify for the WSS. Applicants will be required to hold information that demonstrates their revenue declined by at least 40%.
- 96 Currently, a prior-year comparator is used for the revenue decline. However, this is becoming progressively less accurate at selecting firms in need of support as the economy adjusts to COVID-19.
- 97 We propose the default test period for the WSS revenue decline will be revenue over a 14-day period following the escalation to Alert Level 3 (or above). Applicants will be able to apply based on a predicted or actual decline (as currently). Allowing for a predicted revenue decline provides rapid confidence for employers who may be deciding whether to retain staff. The Minister of Finance and the Minister for Social Development and Employment will consider whether there is merit in the default test period being subject to a small amount of flexibility to reduce compliance costs associated with calculating revenue outside of the normal accounting cycles.
- 98 We propose the default comparator period for the WSS revenue tests should be the typical fortnightly revenue in the six weeks prior to the Alert Level escalation that triggered the scheme. This will normally align with the RSP comparator period. Employers that have highly seasonal revenue will be allowed to use a prior year comparator, if they can show that the seasonality in their revenue makes it harder to meet the revenue decline test with the default comparator period than if their revenues were not seasonal.
- 99 In some complex public health scenarios, such as several Alert Level escalations in quick succession, it may be necessary to offer a different comparator period which provides a more appropriate baseline.
- 100 We propose that Cabinet delegates final decisions to the Minister of Finance and the Minister for Social Development and Employment jointly on any further implementation details, including for the revenue drop test, test and comparator period (including exceptions to the default period) and reapplication requirements.



*Use of the Wage Subsidy Scheme for employees on annual leave*

- 101 Under current settings, employers can use the WSS to pay for holiday entitlements. In line with the Holidays Act 2003, employers must either agree leave with their employee, or if agreement cannot be reached, an employer can direct their employee to take leave with a minimum of 14 days' notice in writing. However, agencies have received feedback that some employers have not complied with this requirement while receiving the subsidy.
- 102 To address the risk of non-compliance with employment law, we are planning to support employer compliance with clearer explanations and expectations of rights and obligations under employment law and by promoting use of existing Government employment dispute services.
- 103 Using existing employment law levers in this way (rather than changing WSS rules) maintains employees' flexibility to take leave voluntarily and avoids undermining existing employment relationships.

*Repayment obligations*

- 104 Currently payments received under the WSS are repayable when an employer has not met the eligibility criteria (for example, if the predicted revenue loss does not occur) or is not upholding the conditions attached to the WSS, or has provided false information, or has received insurance to cover any costs covered by the WSS.
- 105 There has been some media coverage of firms that have recorded profits after receiving WSS payments. The public may be less supportive of the WSS if they feel the cost of public health restrictions is not being shared fairly. We considered introducing a rule for new schemes to address this issue through repayment obligations. However, with the blunt settings available under the scheme, it is not possible to accurately distinguish firms for whom the WSS contributed to retaining staff versus firms for whom the WSS only increased profits.
- 106 For example, a high level of firm profits over a year does not necessarily mean that payments under the WSS were not warranted. Profit may have been a result of shifting to a more resilient business model or of investments made prior to COVID-19 restrictions.
- 107 Given this, we do not recommend at this stage that any additional repayment rules are added in relation to profit or revenue growth, given the complexity and uncertainty this would add to the scheme, and the risk of creating unintended negative impacts for some firms and their employees.

*Further work on more substantive changes is planned*

- 108 Beyond the changes proposed above, we have directed officials to report back to Ministers in February 2021 on whether other, more substantive changes could be made to the scheme, including:
  - 108.1 introducing a higher-integrity model;
  - 108.2 establishing a legal framework for the scheme;

- 108.3 introducing more payment tiers to reduce windfalls;
  - 108.4 examining the potential benefits of moving scheme delivery to IR; and
  - 108.5 the feasibility of a repayment rule, in a more enduring scheme, for employers who receive payments under the WSS, then subsequently both lay off staff and make a profit.
- 109 We propose that any public communication relating to the WSS emphasise that the core elements of the WSS will remain the same, while noting that officials are continuing to work on further possible improvements to the scheme.

### **Consistency between the RSP, WSS, and SBCS**

- 110 In designing the RSP, and proposing amendments to the WSS, officials have attempted to achieve consistency between the two schemes and the SBCS, where sensible, so as to reduce business confusion. This is reflected in a number of the settings proposed above for the RSP, including many of the settings relating to business declarations and business eligibility.
- 111 There are other settings that are not in alignment. Some are based on policy grounds, such as the differing revenue drop thresholds under the RSP and WSS reflecting the schemes' different purposes. Others are based on the fact that there will be different agencies implementing the schemes, with different system capabilities and different approaches to achieving necessary scheme integrity. Nevertheless, as revisions to the WSS and detailed design decisions for the RSP are made, officials will continue to promote alignment between the schemes where possible and desirable.

### **Other elements of the COVID-19 resurgence package**

#### *Residential tenancies*

- 112 In response to the initial outbreak of COVID-19, the Government introduced legislation to restrict residential tenancy terminations for three months and freeze residential rent increases for six months.
- 113 It is proposed that Cabinet agrees to reinstate these measures in the event of an escalation to Alert Level 4. Doing so would support the public health response and assure temporary maintenance of living standards by ensuring people are able to safely stay in one place throughout the duration of a lockdown.
- 114 Reinstating these measures will require new legislation, as previous provisions have expired and did not include reactivation clauses. Prior to introducing this legislation, further work would be required on the design of residential tenancy measures, to ensure any temporary changes are sufficiently flexible and fit for purpose. This may include limiting the provisions to the period of time spent at Alert Level 4, and considering possible grounds for exemptions to the eviction restrictions.
- 115 Below Alert Level 4, we consider these measures are not justified, as they prevent transition, impede on landlord property rights, and may cause more housing stress for renters in the long term.

- 116 To address the economic impact of a further outbreak, the Ministry of Housing and Urban Development also intends to consider if any changes are warranted to allow break lease fees to be waived for tenants needing to break fixed term tenancies in the event of sudden job and income loss. The situation will depend on what government support is available to the tenant (e.g. the WSS), the position of the landlord, and the duration at Alert Level 4.

#### *Childcare for Essential Workers*

- 117 The Childcare for Essential Workers scheme was available during the first COVID-19 outbreak to provide childcare for essential workers by directly funding government-subsidised childcare providers, via government agencies.
- 118 During the initial period of availability, overall uptake of the scheme was relatively low, driven in part by a delay in decisions on funding which affected the ability to contract providers.
- 119 As the scheme has now lapsed, we propose that Cabinet agree to reinstate a similar but improved measure in the event of an escalation to Alert Level 4, in recognition of the lack of availability of other forms of childcare (such as schooling and early childhood education) at Alert Level 4, and the impact this may have on the ability of essential workers to attend work during a resurgence.
- 120 To address the previous delay in implementation, contracts will need to be negotiated with home-based early childhood education service providers ahead of time. <sup>[38]</sup>
- 121 We propose that decisions on the following matters be delegated jointly to the Minister of Education and Minister of Finance, following advice to be provided by Ministry of Education officials by the end of March 2021:
- 121.1 the hourly rate to be paid to providers and the estimated four-week costs; and
- 121.2 the proposed funding source and mechanism, with any expenditure or draw down of funding subject to Cabinet approval at the time of an escalation to Alert Level 4.

#### *Commercial tenancies*

- 122 The initial Alert Level escalation led to a number of disputes between commercial tenants and landlords regarding payment of rent when commercial premises could not be accessed or used due to the Alert Level restrictions, with many commercial lease contracts silent on the obligations arising in such a situation.
- 123 To address these issues, the Cabinet Economic Development Committee agreed in June to amend the Property Law Act 2007, to imply a clause into leases of businesses that meet eligibility criteria to require a fair proportion of rent and outgoings to cease to be paid when a tenant's business has suffered a material loss of revenue because of COVID-19-related restrictions [DEV-20-MIN-0100 refers]. Legislation to implement this change was ultimately not progressed.

- 124 Ahead of a further escalation in Alert Levels, there is merit in considering further interventions (legislative or otherwise) to better facilitate appropriate negotiations over commercial rent in the event of a resurgence or other emergency event unrelated to COVID-19. However, designing an appropriate intervention in this area is difficult, and the need for intervention may reduce over time as leases are renewed and clauses addressing such a situation are introduced into a higher proportion of lease contracts.
- 125 Given this, we propose to invite the Minister of Justice to report back to Cabinet on this matter by February 2021, [33]

As part of any announcement, we propose to note that further work is being undertaken on the matter of commercial tenancies, without specifying a solution.

#### *Other measures*

- 126 The measures listed above are not exhaustive. In the event of a severe resurgence, it may be possible that other measures will be needed. For example, a number of omnibus Bills were passed immediately prior to, and following, the initial shift to Alert Level 4. However, the measures discussed in this paper represent the core of the economic response to further outbreaks, and are sufficient for communicating the details of a proposed resurgence package to the public.

### **Reducing the risk and extent of resurgences through the COVID-19 Leave Support Scheme**

- 127 The measures discussed above are proposed to be introduced in the case of a resurgence of COVID-19. In contrast, the COVID-19 Leave Support Scheme (LSS) is already available at all Alert Levels. The scheme is intended to incentivise eligible employees and the self-employed to self-isolate and stay home when sick. Self-isolation and staying at home when sick or where there has been a risk of exposure to COVID-19 plays an important role in containing and preventing the spread of COVID-19, and can therefore help reduce the risk of prolonged Alert Level escalations and the associated economic and social costs.
- 128 The existing scheme provides a two-week lump-sum payment (\$585.80 per week for full-time workers, and \$350 per week for part-time workers) to employers in respect of certain eligible workers. Eligible workers include (but are not limited to) people who:
- 128.1 have contracted, or possibly been exposed to, COVID-19;
  - 128.2 are, or have a household member who is, at an increased risk of severe illness if they contract COVID-19;
  - 128.3 have COVID-19-like symptoms and are awaiting a test result and work in a health, disability, or aged-care facility or service; or
  - 128.4 are a parent or caregiver of a dependent who has been told to self-isolate for a period and the dependent needs support to do so safely.

- 129 There are several exclusions from the scheme including:
- 129.1 workers who can work from home;
  - 129.2 international returnees who are in managed isolation facilities;
  - 129.3 workers whose employer is already receiving a WSS payment in respect of them at that time; and
  - 129.4 employees of state sector organisations (unless an exemption has been granted).

*Effectiveness of the COVID-19 Leave Support Scheme*

- 130 Following a recent review, officials have identified areas where the LSS can be improved to close gaps in coverage and address inefficiencies.
- 131 First, many workers are currently ineligible for the scheme. With the exception of health workers (for whom the criteria are broader), the LSS does not cover workers who are sick (or whose dependents are sick) with COVID-19-like symptoms, unless they have either received a positive test result or been advised to self-isolate by a medical practitioner, or advised or directed to self-isolate by a Medical Officer of Health.<sup>1</sup> For example, the LSS is not available to workers who have been told to stay home when sick by Healthline, or workers who have been tested and told to stay home when sick by a community testing station (unless they fulfil other criteria).
- 132 Currently, ineligible workers may continue to go to work while they wait for a test result because of financial necessity, concern about their sick leave balance, or pressure from employers who do not want to absorb the cost of their absence. This creates a risk that they return to work while sick with COVID-19.
- 133 Second, there is an inefficiency in the scheme. Employers are paid a two-week lump sum for workers in aged care, disability and health services if they are told to self-isolate while getting tested. The two-week lump sum is also available to those who meet the high risk of suspicion criteria, or casual contacts who are only required to self-isolate until they return a negative test result. However, the number of days workers are required to self-isolate before receiving a test result is usually between one and three. This generally results in an overpayment of between eleven and thirteen days (although employers are expected to use any remaining subsidy for other eligible staff or return the remaining subsidy to MSD).

*Public health guidance regarding self-isolation and staying home when sick*

- 134 The Ministry of Health is proposing to amend public health guidance regarding the situations in which people are advised or required to stay at home or self-isolate. The proposed guidance recommends that everyone who gets a COVID-19 test (other than those without symptoms that are taking part in routine or surveillance testing) be asked to stay at home while awaiting the result. If agreed, these changes will likely expand the number of people who may be eligible for the LSS, and the proposed new Short-Term Absence Payment, which is discussed below.

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<sup>1</sup> A direction to self-isolate can only be made by a Medical Officer of Health under the Health Act 1956 or as part of an Order made under the COVID-19 Public Health Response Act 2020. Otherwise, instructions to self-isolate or stay home when sick do not have legal effect.

*Introducing a new \$350 COVID-19 Short-Term Absence Payment*

- 135 To address the existing issues around the (lack of) availability of the LSS for workers being tested for COVID-19, we propose to complement the LSS by introducing a new ‘COVID-19 Short-Term Absence Payment’ (STAP).
- 136 We propose that the STAP be a one-off, flat-rate payment of \$350, available to eligible employers (including self-employed workers) to support them in paying workers who:
- 136.1 legally work in New Zealand; and
  - 136.2 cannot work from home; and either
  - 136.3 need to miss a shift or more from work to stay home while awaiting a test result in accordance with either public health guidance or requirements; or
  - 136.1 are the parent or caregiver of a dependant who needs to stay home while waiting for a test result and needs support to do so safely, and the parent or caregiver needs to miss a shift or more of work while supporting their dependant.
- 137 We note that public health guidance may be issued from a range of places, including the Ministry of Health website, Healthline, GPs, the National Contract Tracing Centre, Medical Officers of Health, Community-based Assessment Centres, or Public Health Units.
- 138 This proposal is a significant expansion beyond the current LSS criteria and has the potential to make a material difference in encouraging workers to stay home when sick. The proposed STAP aligns with the proposed changes to public health guidance referenced above. In particular, it is focused on supporting workers who have been tested for COVID-19 to stay home when sick, rather than just the much narrower pool of people who are formally directed to self-isolate or advised to self-isolate by a doctor.
- 139 Workers currently covered by the two-week LSS while awaiting a test result (such as health care workers) would no longer be eligible for the two-week LSS in the first instance and would instead be eligible for the STAP. This would address the inefficiency outlined above, as the level of payment would better reflect the shorter period required in self-isolation while waiting for results.
- 140 The existing two-week lump-sum payment would continue to be available for those who need to self-isolate for a longer period (often 14 days), including in the event of a positive test result. Employers who receive the STAP for workers getting tested could therefore subsequently apply for the two-week lump-sum payment if their worker is eligible and required to self-isolate for a longer duration.

- 141 The STAP is intended to reduce incentives or pressures for workers to come into work in a situation in which they risk spreading COVID-19. These incentives and pressures can exist even when employees have sick leave. Accordingly, the STAP will be available irrespective of whether the worker has a sick leave balance and will signal the importance to the wider public and businesses of not going to the workplace while awaiting a test result. We note that the proposed increase to statutory sick leave entitlements from five to ten days will only begin to come into effect in a phased manner from mid-to-late-2021.
- 142 How the worker is to be paid if the employer applies for the STAP will be governed by their employment agreement, employment law and any negotiations between the employer and employee. The employer can apply for the STAP irrespective of whether the employee has or uses an existing sick leave entitlement. There will be an expectation as part of the declaration process that employers use the STAP to support employees who need to stay home while awaiting a test result.
- 143 We note the STAP declaration will not include the obligation to keep the employee employed for the duration of the payment, as there is no specified duration as there is for the LSS. However, employment law means that an employee could not be dismissed for taking time away from work while receiving the STAP. Officials will consider how incorrect payments and overpayments of the STAP will be dealt with and provide advice to delegated Ministers as part of implementation.
- 144 The STAP will not be available to:
- 144.1 employers in respect of workers who are not legally working in New Zealand;
  - 144.2 businesses registered or operating outside New Zealand;
  - 144.3 employers, including self-employed people, who are receiving a WSS or LSS payment for that named worker at that time;
  - 144.4 workers who can work from home;
  - 144.5 workers who have routine testing in their workplace such as border workers and MIQ workers (unless they are symptomatic);
  - 144.6 non-symptomatic people participating in surveillance testing;
  - 144.7 people staying in managed isolation facilities;
  - 144.8 New Zealanders who are currently overseas;
  - 144.9 State Sector Organisations (including State Owned Enterprises), except where an exception has been granted in relation to the WSS or LSS; or
  - 144.10 workers of entities other than registered business, sole traders, self-employed persons, registered charities, incorporated societies, non-government organisations, or post-settlement governance entities.

- 145 Employers or the self-employed will be able to apply for the STAP no more than once in any thirty-day period per eligible worker (unless a health official or medical practitioner advises or requires the worker to re-test). Like current payments made under the LSS, the STAP will be GST-exempt, and treated as excluded income and non-deductible for the employer.
- 146 MSD expects that it will be ready to offer the new STAP, if agreed by Cabinet, from mid-February 2021. MSD will provide advice to joint ministers on when applications will go live.
- 147 We propose confirming the ongoing availability of the LSS and the introduction of the new STAP alongside announcements of the resurgence support package.

#### *Outstanding issues with the COVID-19 Leave Support Scheme*

- 148 Introducing the new STAP will not resolve all potential issues. For example, workers may still be incentivised to come into work if the amount the employer pays to the worker for the days they could not work is less than their normal income.<sup>2</sup> In addition, some employers may choose not to apply for the STAP if they consider it is not worth the effort. Nonetheless, the STAP is an effective short-term solution to key concerns.

#### *Risks associated with the proposed COVID-19 Short-Term Absence Payment*

- 149 Due to the consistently low numbers of people applying for existing LSS, it is difficult to anticipate likely uptake of the STAP. Eligibility for the STAP and LSS will also fluctuate along with public health guidance on who needs to stay home while awaiting COVID-19 test results. While IT changes to stand up the scheme can be made by mid-February 2021, it is currently difficult to fully ascertain the implications for ongoing administration of the STAP. Once live, MSD can monitor uptake to understand any additional resourcing needs; however, this lag could lead to an impact on processing times for applications if application numbers are high in the short-term.
- 150 If there is another community outbreak and an escalation to Alert Level 3 or higher, MSD may need to process a significant number of payments between the STAP, the LSS, and the WSS. This will also have a flow-on impact on MSD's ability to administer the schemes and deliver on other commitments, such as the Flexi-Wage expansion, meet the peak demand for seasonal work, or support the expected growth in people needing income support.
- 151 As with other measures discussed in this paper, MSD will operate the payment in a very high trust manner <sup>[39]</sup>

However, MSD will have some ability to monitor application behaviour that may pose some integrity risk (i.e. duplicate or multiple applications for employees) and will follow up any allegations received about misuse of the scheme.

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<sup>2</sup> Those with a sick leave entitlement should receive their usual sick leave pay; however, for those without sick leave the employer could legally pay the \$350 STAP which may be less than their usual income. If the worker's usual income is less than \$350 for that period an approach consistent with the LSS would mean the employer would only need to pass on their usual income.



- 152 Employers will be asked to declare that they are eligible and that their employee has advised them that they meet the eligibility criteria. There is a risk that some employers and self-employed people may take advantage of the payment's availability to make windfall gains, <sup>[39]</sup>

However, the gain for employers will be relatively small, especially in the context of the administrative effort of applying, which should mitigate this risk.

- 153 Additional criteria will also help to reduce excessive use, such as defining what constitutes missed work. In addition, testing stations generally test only those who have symptoms, and employers will need to declare that they are applying for support for an employee who has been tested and is staying away from work until they get their test results back.

### **Supporting individuals and whānau**

- 154 The package of measures we are proposing to signal in advance largely focusses on fiscal transfers to firms that allow them to continue to pay wages and bills when they are subject to public health restrictions. These measures also support the incomes of individuals employed by those firms, both across the duration of resurgence events and beyond those events, as firms will be more likely to manage through Alert Level escalations without the need for significant cost-cutting or job losses, particularly if subjected to multiple resurgences.
- 155 The economic and social impacts of a COVID-19 outbreak on individuals persist beyond the short period at higher Alert Levels, and many of the impacts – such as job losses – can take time to materialise. The Government has put in place a number of measures to support individuals affected, such as the now expired COVID-19 Income Relief Payment and the recently expanded Flexi-Wage Scheme [CAB-20-MIN-0493 refers].
- 156 The broader social safety net is critical to ensure that individuals and whānau most at risk can access support relevant to more bespoke needs during public health restrictions. That could include individuals already out of work or unable to work, homeless individuals, and young people in deprived households. We have funded a significant number of initiatives through the CRRF to ensure that the safety net is robust.
- 157 In response to the Auckland outbreak the Minister of Finance directed the Treasury to review the support landscape for low income and vulnerable households in South Auckland. The review found that the current support landscape for these groups during outbreaks has no significant gaps, and that the most substantial improvements we can make are in the quick delivery and deployment of support in partnership with relevant groups.
- 158 It is therefore vital to work with our Treaty of Waitangi partners, trusted local leaders, and with community groups (such as churches and local NGO leaders), who have a valuable role to play in providing support to vulnerable people and supporting social licence in the event of any Alert Level escalation.

## **Resurgence preparedness in the near term**

- 159 Given the package of economic measures described above will not be available immediately, in the event of a re-escalation in Alert Levels over the Christmas holiday period, we propose reinstating the WSS if the escalation is to Alert Level 3 or 4. Some of the improvements to the WSS proposed in this Cabinet paper may not be implemented prior to Christmas, meaning that in the event of a resurgence over the Christmas holiday period, settings may be equivalent to those used in the August resurgence.
- 160 MSD is undertaking contingency planning for such an event, but it may take longer than normal for the scheme to be stood up if a resurgence takes place over the Christmas period, owing to limited staff availability.
- 161 It will not be possible to introduce the RSP if an Alert Level escalation takes place ahead of the passage of legislation to enable IR to deliver such a scheme, currently expected in late February or early March 2021. However, there are other possible options available, such as to increase the rate of the WSS paid out or signal retrospective payments of the new grant when it is available to compensate for the new scheme not yet being available. Given that the need for additional support beyond the WSS will depend on the nature of the resurgence, we propose that Cabinet take a decision on any supplementary measures at the time of a resurgence, should this eventuate.

## **Decision-making process for resurgence measures**

- 162 On 9 December, the Cabinet Business Committee considered a paper from the Minister for the COVID-19 Response, detailing plans for the public health response to COVID-19 over the summer holiday period and seeking agreement to a Standard Operating Procedure for the response to a case of COVID-19 being tested in the community [CBC-20-MIN-0096 refers]. This set out that Ministers with the Power to Act would decide whether to escalate Alert Levels in the event of future community transmission. It would therefore not be a decision for Cabinet.
- 163 The measures in the resurgence package will be introduced only in the event of an escalation to the Alert Level at which they are applicable. The Minister of Finance and relevant Joint Ministers will seek Cabinet approval to their introduction and the necessary funding at that time.
- 164 In the meantime, relevant Joint Ministers will progress the outstanding design decisions and legislation required on the components of the resurgence package in line with the recommendations below.
- 165 In the event of a resurgence over the Christmas period, we propose that Cabinet authorise the Minister of Finance and relevant Joint Ministers to take the necessary decisions to introduce the WSS if there is a decision to escalate to Alert Level 3 or above for more than one week.

## Financial Implications

### *Overall resurgence package*

- 166 The eventual fiscal cost of the proposed package depends directly on the frequency, duration and severity of any Alert Level escalations.
- 167 Different scenarios will result in different fiscal costs. Multiple separate resurgence events would trigger several payments of the RSP and increase the cost of the scheme. Remaining at Alert Level 3 or above for longer durations would increase expected uptake of the WSS, and at Alert Level 4 the Childcare Support for Essential Workers support would be introduced.
- 168 The table below shows the estimated indicative combined fiscal cost of the RSP and WSS in different scenarios:

Scenario	Estimated cost		
	RSP	WSS	Total
<b>Alert Level 2 nationally for four weeks</b>	\$350 million	N/A	<b>\$350 million</b>
<b>Auckland-equivalent outbreak<sup>3</sup></b>	\$400 million	\$520 million	<b>\$920 million</b>
<b>Alert Level 3 nationally for 2 weeks, Alert Level 2 for 6 weeks</b>	\$450 million	\$960 million	<b>\$1,410 million</b>

- 169 As discussed above, Cabinet approval will be sought for the introduction of the measures and the necessary funding, at the time of an Alert Level escalation at which the measures are applicable.
- 170 Unless otherwise identified below, we propose that any additional funding required to meet the cost of the measures in the resurgence package be charged against the COVID-19 Response and Recovery Fund (CRRF), established as part of Budget 2020.
- 171 Around \$12.84 billion remains unallocated from the CRRF as at 4 December 2020. There are likely to be upcoming calls on the CRRF of approximately \$2.84 billion, which would leave around \$10 billion unallocated. This amount would be sufficient to meet the estimated costs of the schemes through multiple resurgence events.

<sup>3</sup> Auckland at Alert Level 3 for 2 weeks followed by Alert Level 2 for 6 weeks. The remainder of NZ is at Alert Level 2 for a total of 6 weeks, with the Wage Subsidy Scheme available nationally to eligible businesses while Auckland is at Alert Level 3.

### *Resurgence Support Payment scheme*

- 172 Based on the parameters of the RSP scheme proposed in this paper, the fiscal cost is estimated to lie between \$350 and \$450 million per outbreak and escalation from Alert Level 1 to Alert Level 2 or above.
- 173 There is some uncertainty regarding uptake of the scheme. The costings above are based on a revenue drop requirement of 30%, and an estimated 150,000 firms qualifying for the payment at Alert Level 2.
- 174 The cost of operationalising and establishing administrative capacity for the scheme will be met within Vote Revenue baseline in 2020/21. Thereafter, an estimated total of \$9 million in new operating funding is required across the period 2021/22 – 2024/25. This assumes the scheme will be in place for two years and will require a further two years of funding for integrity and compliance work once it has ended.
- 175 IR has noted that it will need to provide for these administrative costs across the period 2020/21 to 2022/23 while the scheme is in place, whether or not it is activated. While the scheme is inactive, resources funded for the RSP will be used for other tax administration duties. If the RSP is underspent, funding for 2023/24 and 2024/25 will be returned to the Centre.
- 176 We propose to fund the estimated administrative cost of \$9 million from the COVID-19 Response and Recovery Fund (CRRF), established as part of Budget 2020.

### *Wage Subsidy Scheme*

- 177 The cost of the WSS is dependent on the number of recipients. In an Auckland-equivalent outbreak – where Auckland is at Alert Level 3, the remainder of the country is at Alert Level 2, and the WSS is available nationally – the estimated cost is \$520 million per fortnight. In the event of a nationwide escalation to Alert Level 3, the estimated cost is \$960 million per fortnight, as demand is expected to be higher.
- 178 Both the Wage Subsidy Extension and Resurgence Wage Subsidy had lower uptake than originally forecast. This has resulted in an underspend of around \$1.3 billion remaining in the existing *Business Support Subsidy Covid-19* appropriation. In the first instance, we recommend that any future WSS payments be funded (in full or in part) from the underspend in the appropriation.

### *Childcare for Essential Workers*

- 179 Reintroducing a Childcare for Essential Workers support at Alert Level 4 for four weeks [38]
- 180 Officials have identified two options for funding the revised Childcare for Essential Workers scheme:
- 180.1 through reprioritisation of unspent funding [33]

180.2 through Cabinet approval [33]

- 181 We propose that Cabinet authorise Joint Ministers (the Minister of Finance and the Minister of Education) to agree on the preferred funding option following advice to be provided by Ministry of Education officials by the end of March 2021.

*Other resurgence package measures*

- 182 There are no direct financial implications from the proposals to introduce legislation to restrict residential tenancy terminations and freeze residential rent increases.

*Complementing the Leave Support Scheme with a new Short-Term Absence Payment*

- 183 The likely cost of the STAP, including administration costs for MSD, is still being determined. However, it could potentially be very significant if there are high rates of testing, high numbers of people advised to stay home while sick, and there is high take-up of the payment by those eligible.
- 184 The cost of the STAP will be met in the first instance from a balance of approximately \$85 million remaining in the existing COVID-19 Leave Support Scheme appropriation in Vote Social Development.
- 185 We recommend that Cabinet direct officials to report back to the Minister of Finance, the Minister for Workplace Relations and Safety, and the Minister for Social Development and Employment with updated fiscal cost estimates including administration costs, based on expected take-up of the LSS and STAP and any required amendments to settings, once proposed changes to health guidance regarding self-isolation and staying home when sick have been confirmed.
- 186 We propose that Cabinet authorise these Ministers to appropriate funding for the administration of the scheme up to \$10 million, to be a charge against the COVID-19 Response and Recovery Fund established as part of Budget 2020, with any additional funding required to be sought from Cabinet;

**Legislative Implications**

- 187 Legislation will be required to enable Inland Revenue to deliver the proposed new RSP. In particular, amendments will need to be made to the Tax Administration Act 1994. These amendments should be included in a stand-alone tax bill to be introduced and passed through all stages under urgency in February 2021. This would enable the RSP to become available in late February or early March 2021.
- 188 This stand-alone tax bill will be included in the Minister of Revenue's Bill bid for 2021. The Joint Ministers for the RSP will present a paper to the Legislation Cabinet Committee in early February seeking approval to introduce the Bill giving effect to the proposed RSP. This paper directs Inland Revenue officials to draft the necessary amendments to the Tax Administration Act 1994 to implement the RSP.
- 189 Legislation will also be required to implement the freeze on residential tenancy rent increases and tenancy terminations. The current expectation is that this legislation will not be progressed unless a shift to Alert Level 4 is imminent.

## Impact Analysis

### Regulatory Impact Statement

- 190 Cabinet's Impact Analysis requirements apply to the proposal to establish a new RSP and the proposal to agree in principle to freeze residential tenancy rent increases and restrict tenancy terminations upon escalation to Alert Level 4.
- 191 There is no Regulatory Impact Statement for the RSP proposal. The relevant Treasury policy team and the Treasury Regulatory Quality Team have agreed on the nature and timing of a Supplementary Analysis Report (SAR). This SAR will be provided to the Cabinet Legislation Committee meeting in February 2021.
- 192 There is also no Regulatory Impact Statement for the proposal to agree to freeze residential tenancy rent increases and tenancy terminations upon escalation to Alert Level 4 and the Ministry of Housing and Urban Development has not agreed to a SAR. If the proposal proceeds to discussion at a Cabinet committee, and substantive decisions are made, Cabinet's impact analysis rules require the responsible Minister to provide a SAR, the nature and timing of which will be determined in conjunction with the Minister of Finance.

### Population Implications

- 193 The proposals in this paper will support our national effort to eliminate COVID-19, for the benefit of all New Zealanders. The RSP and WSS will provide additional financial support to firms to allow them to continue to pay their staff and cover non-wage costs, and quickly continue operations as soon as Alert Level restrictions allow. In turn, this benefits individuals employed by those firms. The Short-Term Absence Payment will be available to workers who have been advised to stay at home while awaiting a test result, which will help all businesses to continue to pay those taking leave from work to protect others from a potential outbreak.
- 194 Uptake of the SBCS and previous iterations of the WSS has been broad across sectors, ethnicities and regions, benefiting a wide cross-section of society, including women, Māori and Pasifika, who make up a significant proportion of some of the most affected sectors. We expect the take-up of a new RSP to be consistent with this, as the proposed eligibility criteria are broadly equivalent. Uptake of the LSS has been low, partly due to the criteria that it cannot be received at the same time as the WSS. The new STAP proposed in this paper will focus on workers being tested. This year testing rates have been higher for the Auckland region, women and Pasifika.
- 195 The proposed approach to communications set out below will seek to ensure government works and communicates with Māori and Pasifika groups and partners in order to maximise the effectiveness of the measures in these communities.

## Human Rights

- 196 There are no human rights issues raised by the Resurgence Support Payment proposal. The proposed minimum age of 18 reflects the legal minimum age for minors to enter into contracts, and is consistent with the requirements for the Small Business Cashflow Scheme.
- 197 In the time available, the Ministry of Justice (MOJ) has not been consulted on the RSP proposal. MOJ will be consulted as part of the legislative stage in early 2021.

## Consultation

- 198 The Treasury, Ministry of Social Development and Employment, Inland Revenue, Ministry of Business, Innovation and Employment, Ministry of Health, Ministry of Education, Ministry of Justice, Ministry of Housing and Urban Development, and the Department of Prime Minister and Cabinet (COVID-19 Group and Policy Advisory Group) were consulted on this paper.
- 199 Officials engaged with Business New Zealand, the New Zealand Council of Trade Unions, the Auckland Chamber of Commerce, the Corporate Taxpayers Group, the Chartered Accounts Australia and New Zealand, and Māori and Pacific business leaders in developing the resurgence package. Stakeholders were broadly supportive of the approach to create greater certainty on the landscape of government support, and particularly welcoming of measures that address non-wage costs.
- 200 There was strong feedback that the integrity of the schemes will be critical, with both Māori and Pacific business leaders raising concerns about possible gaming of the WSS by large firms. It was suggested that the communications approach to the package should be accompanied by clear guidance to maximise accessibility of the schemes, and partnership with trusted community partners will also aid access.

## Communications

- 201 In order to provide business clarity on the supports provided in the event of a resurgence, we propose that the package of measures are announced by the Minister of Finance prior to Christmas.
- 202 Alongside the development of an announcement package, we propose that materials and content are developed and distributed across key business government channels, through the COVID-19 Group administered Unite Against COVID-19 campaign, and trusted community channels where appropriate, and for a range of audiences, including Māori and Pasifika businesses and sole traders.
- 203 In order to ensure consistency of content and approach, we propose that the Treasury works with operational agencies to ensure that content is prepared and is live both at the time of the announcement, as well as in the event of an escalation. To aid the uptake and support of the package, opportunities for early engagement with business stakeholders such as Business New Zealand, local chambers of commerce, and Regional Business Partners will be pursued.

## Proactive Release

204 This paper will be proactively released with any appropriate withholdings as soon as practicable after public communication of the support package. The Minister of Finance is proposing to publicly announce the support package before Christmas.

## Recommendations

The Minister of Finance, the Minister for Social Development and Employment, the Minister of Revenue, and the Minister for Small Business recommend that the Committee:

- 1 **note** that, in the event of Alert Level escalations, a comprehensive package of economic support is critical to minimise the associated economic and social impacts, and to support compliance with the public health response;
- 2 **note** that our economic response to Alert Level escalations so far has been effective, albeit with scope for further improvements;
- 3 **note** that communicating in advance a resurgence package to be introduced in the event of future escalations responds to business requests for certainty and allows firms and individuals to better plan;

### *Resurgence package measures – summary of proposals*

- 4 **note** that the package of measures proposed for use in future escalations builds on the existing model and comprises:
  - 4.1 a new Resurgence Support Payment (RSP) to help firms directly impacted by an Alert Level change to cover their fixed costs (such as rent) when transitioning from Alert Level 1 to Alert Level 2 or above;
  - 4.2 an improved Wage Subsidy Scheme (WSS) at Alert Level 3 and above; and
  - 4.3 measures that relate to childcare and residential tenancies at Alert Level 4, with further work on commercial tenancies;
- 5 **note** that the indicative fiscal cost of the RSP and WSS in the following Alert Level scenarios is estimated to be:

Measure	AL2 nationally for four weeks	AL3 nationally for 2 weeks, AL2 for 6 weeks
Resurgence Support Payment	\$350 million	\$450 million
Wage Subsidy Scheme	N/A	\$960 million

- 6 **note** that reintroducing the Childcare for Essential Workers scheme at Alert Level 4 for four weeks is expected to cost <sup>[38]</sup>



- 7 **note** that, as the proposed measures would be introduced only in the event of a future Alert Level escalation, the eventual fiscal cost depends directly on the frequency, duration and severity of any escalations;
- 8 **note** that, due to substantial uncertainty around the timing, frequency and duration of any future Alert Level escalations, funding for the resurgence package is not being sought at this time, except for administrative costs;
- 9 **note** that, except where an existing appropriation or relevant contingency has been identified, the proposed funding source for the measures, subject to Cabinet approval at the time of an escalation, is the COVID-19 Response and Recovery Fund (CRRF), established as part of Budget 2020;
- 10 **agree** to the proposed package of measures set out in recommendation 4 for use in a future Alert Level escalation, subject to Cabinet approval at that time;
- 11 **agree** that the Minister of Finance will announce the above package prior to Christmas;

*Resurgence Support Payment scheme – detailed recommendations*

- 12 **note** that the purpose of the Resurgence Support Payment (RSP) scheme is to complement the WSS and support firms' fixed costs when transitioning from Alert Level 1 to Alert Level 2 or above;
- 13 **agree** that the objectives of the RSP scheme will be to:
  - 13.1 Support firms to maintain viability and employment levels across escalations in public health restrictions;
  - 13.2 Support firms to pay fixed costs if they are struggling to do so as a result of escalated Alert Levels;
  - 13.3 Share the cost associated with escalated Alert Levels to be shared between Government, firms and across economic sectors; and
  - 13.4 Encourage the shift to a COVID-19 resilient economy;
- 14 **agree** that the RSP scheme will be administered by Inland Revenue (IR);
- 15 **agree** that the RSP scheme will provide a one-off payment to eligible firms in the initial event of an escalation from Alert Level 1 to a higher Alert Level anywhere in New Zealand, subject to approval by Cabinet at the time of an escalation from Alert Level 1 at which the scheme becomes applicable and within the parameters agreed below;
- 16 **agree** to the following parameters for the design of the RSP scheme:
  - 16.1 the scheme will be activated after a minimum period of seven days (of which the seventh day may be a partial day) under Alert Level 2 or above;

- 16.2 the scheme will be available nationally, recognising supply chain implications occur even when an escalation is limited to a region;
  - 16.3 firms will be eligible if they have experienced a revenue decline of at least 30% across a 14-day consecutive period at Alert Level 2 or above (including days at Alert Level 1 if there is a national return to Alert Level 1 within 14 days of the initial escalation);
  - 16.4 eligible firms will declare that, in respect to the declared decline in revenue, they have been affected by a current escalation from Alert Level 1 to Alert Level 2 or above, and that:
    - 16.4.1 the firm attributes the effect to the escalation in Alert Levels that began on [date of current escalation]; and
    - 16.4.2 the effect has led to the decline in revenue that the firm has declared;
  - 16.5 the default comparator period for the RSP revenue tests will be the typical fortnightly revenue in the six weeks prior to the Alert Level escalation that triggered the scheme;
  - 16.6 firms that have highly seasonal revenue will be allowed to use a prior year comparator if they can show the seasonality in their revenue makes it harder to meet the revenue decline test with the default comparator period, than if their revenue were not seasonal;
  - 16.7 the payment rate will be \$1,500 per firm and an additional \$400 per FTE, with the per-FTE component capped at 50 FTE;
  - 16.8 eligible firms will declare that funds will be repaid if their decline in revenue is found to have been less than 30%;
  - 16.9 eligible firms will declare that funds will be applied to business expenses only, including wages, capital expenditure and core operating costs;
  - 16.10 eligible firms will have to be in business for at least six months and declare that they are a “viable, ongoing business”;
  - 16.11 the types of organisations that are eligible for the WSS will also be eligible for the RSP, including State Sector Organisations, pre-revenue firms, sole traders, charities and not-for-profit organisations (who must declare they are a “viable, ongoing organisation”);
  - 16.12 the minimum age of an applicant will be 18 years; and
  - 16.13 the scheme will close for applications one month after a national return to Alert Level 1;
- 17 **note** that the one payment per firm rule will apply to firms with groups of companies to avoid advantaging such firms or incentivising firms to split their businesses to increase entitlements;

- 18 **note** that officials are developing a common definition of revenue across the WSS, Small Business Cashflow Scheme (SBCS) and RSP, and will report back to relevant Joint Ministers before publishing this guidance;
- 19 **agree** that firms will be able to receive the RSP alongside other forms of support, including the WSS, Short-Term Absence Payment (STAP), Leave Support Scheme (LSS) and SBCS, and that funding provided through these schemes will not count as revenue for the purposes of the RSP revenue drop test;
- 20 **agree** that existing exemptions provided to State Sector Organisations by the Minister of Finance under the WSS transfer to the RSP;
- 21 **note** that firms in receipt of the RSP will not be subject to income tax or be able to claim deductions for expenditure funded by the RSP, and that GST-registered firms will pay GST on the RSP and, in turn, be able to claim input tax deductions for the relevant expenditure;
- 22 **authorise** the Minister of Finance and the Minister of Revenue and Minister of Small Business (Joint Ministers for the RSP) to jointly take decisions relating to the further design details and operational matters required to progress the implementation of the RSP, in alignment with the parameters agreed above;
- 23 **note** that Inland Revenue estimates that the RSP could be in place by late February 2021, subject to the required legislation;
- 24 **direct** Inland Revenue officials to draft the necessary amendments to the Tax Administration Act 1994 to implement the RSP proposals described above;

*Wage Subsidy Scheme – detailed decisions*

- 25 **agree** that the Government introduce a WSS in the event of an escalation to Alert Level 3 or above, anywhere in New Zealand lasting seven or more consecutive days (of which the seventh day may be a partial day), with the introduction of the scheme subject to approval by Cabinet at the time;
- 26 **agree** to provide WSS support to match the duration spent at Alert Level 3 or above, rounded to the nearest 14 days;
- 27 **note** that recommendation 26 means that WSS support could exceed or fall short of the total period spent at Alert Level 3 or above by up to one week;
- 28 **note** that employers would be able to apply for a two-weekly payment once MSD opened the WSS scheme (which is likely to be within a few days of the seventh day of elevated Alert Levels) and could apply for subsequent two-weekly payments as long as the scheme remains open, subject to recommendation 26;
- 29 **invite** the Ministers of Finance and of Social Development and Employment to report back to Cabinet on this activation approach by June 2021;
- 30 **invite** the Ministers of Finance and of Social Development and Employment to report back to Cabinet on the continued availability and settings of the WSS if it remains open for more than six consecutive weeks, and every six weeks thereafter;

- 31 **agree** to retain core WSS settings including a revenue drop test of 40%, current payment rates, employee retention obligations, pass-through requirements and the scheme being available on a nationwide basis by default;
- 32 **note** that officials are progressing the following minor short-term improvements to WSS integrity:
- 32.1 increasing visibility and publicity around audit, enforcement and repayments, including through ministerial communications;
  - 32.2 improving guidance for applicants to reduce error rates and improve automation rates;
  - 32.3 clarifying the drafting of rules under the scheme, including a definition of “revenue” and eligibility of company groups;
- 33 **agree** that to be eligible for the WSS, employers must have been affected by a current escalation to Alert 3 or above, and:
- 33.1 the firm attributes the effect to the escalation in Alert Levels that began on [date of current escalation]; and
  - 33.2 the effect has led to the decline in revenue that the firm has declared;
- 34 **note** that officials will redraft the declaration made by applicants to the WSS to reflect this change;
- 35 **agree** that the test period for the WSS revenue decline be revenue over a 14-day period following the escalation to Alert Level 3 (or above), based on actual or predicted revenue;
- 36 **agree** that the default comparator period for the WSS revenue tests be the typical fortnightly revenue in the six weeks prior to the Alert Level escalation that triggered the scheme;
- 37 **agree** that employers that have highly seasonal revenue be allowed to use a prior year comparator if they can show that the seasonality in their revenue makes it harder to meet the revenue decline test with the default comparator period, than if their revenues were not seasonal;
- 38 **note** that it may be necessary to allow exceptions from this proposed default comparator period in complex public health circumstances, such as several Alert Level escalations in quick succession which make it more difficult to identify an appropriate baseline;
- 39 **note** that employers are allowed to use the WSS to pay for periods when employees are on annual leave;
- 40 **note** that, to address any potential misunderstandings around the interaction between the WSS and employment law, in particular related to use of annual leave, Ministers and officials will provide prominent and clear explanations and expectations of employment law rights and obligations and promote existing Government employment dispute services;

- 41 **note** that firms are already required to repay the WSS in a number of situations, and, due to difficulty in designing a well-targeted repayment rule under the current scheme, no additional repayment rules in relation to firm profit or revenue growth are proposed at this stage;
- 42 **note** that Ministers have asked officials, as part of advice on a more enduring WSS, to look at the feasibility of a repayment rule for employers who receive payments under the WSS, then subsequently both lay-off staff and make a profit;
- 43 **agree** to delegate authority to the Minister of Finance and the Minister for Social Development and Employment jointly to make operational changes, and decisions on minor changes and clarifications to WSS settings, including on any further implementation details for the revenue decline test, test and comparator period (including exceptions to the default period), and reapplication requirements;

*Other resurgence package measures*

- 44 **note** that further design work and new legislation will be required to reinstate a freeze on residential rent increases and restrictions on tenancy terminations;
- 45 **agree** that a freeze on residential rent increases and restrictions on tenancy terminations be reinstated, subject to the passage of the required legislation and approval by Cabinet at the time of an escalation to Alert Level 4;
- 46 **agree** that an improved Childcare for Essential Workers scheme be introduced, subject to approval by Cabinet at the time of an escalation to Alert Level 4;
- 47 **invite** the Minister of Justice to report back to Cabinet in February 2021 on the matter of commercial lease disputes, <sup>[33]</sup>

*Support for individuals and whānau*

- 48 **note** that the Government funded a significant number of initiatives from the COVID-19 Response and Recovery Fund to ensure that the safety net for low-income and vulnerable people is robust;
- 49 **note** that, in the event of future resurgence, it will be important to ensure that effective and timely support is deployed in partnership with our Treaty of Waitangi partners, with trusted local leaders, and community groups;

*Leave Support Scheme and new Short-Term Absence Payment*

- 50 **note** that the COVID-19 Leave Support Scheme (LSS) continues to remain available at all Alert Levels and promotes compliance with the public health response by supporting workers to stay home and self-isolate in certain situations;
- 51 **note** that the Ministry of Health is proposing to amend public health guidance, which will clarify that everyone who gets a COVID-19 test (other than those without symptoms that are taking part in routine or surveillance testing) should be asked to stay at home while awaiting the result;

- 52 **note** that a review of the LSS has identified a need to expand the situations in which financial support is available to support compliance, and to address inefficiencies;
- 53 **agree** to address these issues by introducing a one-off COVID-19 Short-Term Absence Payment (STAP) of \$350, available to eligible employers (including self-employed workers) to support them in paying workers who:
- 53.1 legally work in New Zealand; and
  - 53.2 cannot work from home; and either
  - 53.3 need to miss a shift or more from work to stay home while awaiting a test result in accordance with either public health guidance or requirements; or
  - 53.4 are the parent or caregiver of a dependant who needs to stay home while waiting for a test result and needs support to do so safely, and the parent or caregiver needs to miss a shift or more of work while supporting their dependant.
- 54 **agree** that workers currently covered by the two-week LSS while awaiting a test result would no longer be eligible for the two-week LSS payment in the first instance and would instead be eligible for the STAP, but that, provided they meet the other criteria, could move onto the LSS if required;
- 55 **note** that the payment will not cover:
- 55.1 employers in respect of workers who are not legally working in New Zealand;
  - 55.2 businesses registered or operating outside New Zealand;
  - 55.3 employers, including self-employed people, who are receiving a WSS or LSS payment for that named worker at that time;
  - 55.4 workers who can work from home;
  - 55.5 workers who have routine testing in their workplace such as border workers and MIQ workers (unless they are symptomatic);
  - 55.6 non-symptomatic people participating in surveillance testing;
  - 55.7 people staying in managed isolation facilities;
  - 55.8 New Zealanders who are currently overseas;
  - 55.9 State Sector Organisations (including State Owned Enterprises), except where an exception has been granted in relation to the WSS or LSS; or
  - 55.10 workers of entities other than registered business, sole traders, self-employed persons, registered charities, incorporated societies, non-government organisations, or post settlement governance entities;

- 56 **agree** that employers are able to apply a maximum of once in any thirty-day period for the STAP for each individual worker (unless a health official or medical practitioner advises or requires the worker to re-test);
- 57 **note** that MSD will administer the STAP using a very high-trust approach, [39]
- 58 **note** that the STAP will not override an employer's legal obligations under employment law;
- 59 **note** that MSD's ability to process applications under the STAP will be limited in situations in which applications are open for the WSS or there is a surge in applications for the LSS;
- 60 **authorise** the Minister of Finance, Minister for Social Development and Employment, and the Minister for Workplace Relations and Safety to make minor policy decisions and clarify eligibility criteria regarding the LSS and STAP if required within the overall policy settings set out in this paper, including:
- 60.1 to align eligibility settings with public health guidance regarding testing, self-isolation and staying home when sick;
  - 60.2 the implementation date; and
  - 60.3 repayment obligations;

#### *Legislative implications*

- 61 **note** that legislation will be required to enable Inland Revenue to deliver the proposed new RSP, with legislation expected to be introduced in early 2021;
- 62 **note** that legislation will be required to implement the freeze on residential tenancy rent increases and tenancy terminations, with the current expectation being that this legislation will not be progressed unless a shift to Alert Level 4 is imminent;

#### *Financial recommendations – resurgence package and new STAP*

- 63 **note** that, as at 4 December 2020, approximately \$12.84 billion remains in the CRRF, although there are likely to be upcoming calls on this funding of approximately \$2.8 billion, leaving approximately \$10 billion, which is sufficient to fund the estimated costs of the proposed resurgence package through multiple resurgence events, based on the estimated fiscal costs of the measures set out at recommendations 5 and 6 above;
- 64 **agree** that future payments of the WSS could be funded in the first instance from a balance of approximately \$1.3 billion remaining in the existing *Business Support Subsidy Covid-19* appropriation in Vote Social Development;
- 65 **agree** that future payments of the Childcare for Essential Workers support could be met through reprioritisation of funding previously appropriated to Vote Education or through Cabinet approval [33]

- 66 **direct** Ministry of Education officials to report back to the Minister of Education and the Minister of Finance on the appropriate hourly subsidy rate, the cost of the scheme over a four-week period, and the funding source by the end of March 2021;
- 67 **authorise** the Minister of Education and the Minister of Finance jointly to agree the appropriate hourly rate and funding option for future payments of the Childcare for Essential Workers support, to avoid delays in the event of an escalation to Alert Level 4 when Cabinet approval will be sought;
- 68 **agree** to provide Inland Revenue with funding to build the administrative capabilities required to deliver the RSP scheme, ending in 2024/25;
- 69 **note** that Inland Revenue expects it will need to provide for administrative costs across the period 2020/21 to 2022/2023 while the scheme is in place, whether or not it is activated;
- 70 **agree** that any underspends for 2023/24 and 2024/25 relating to the funding described at recommendation 68 above be returned to the Centre;
- 71 **approve** the following changes to appropriations to give effect to the decision in recommendation 68 with a corresponding impact on the operating balance and net core Crown debt:

	<b>\$ million - increase / (decrease)</b>				
<b>Vote Revenue Minister of Revenue</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
Multi-Category Expenses and Capital Expenditure:					
Services for Customers (MCA)					
Departmental Output Expenses:					
Investigations (funded by revenue Crown)	-	0.708	0.708	0.354	0.354
Services to Inform the Minister and to Inform the Public about Entitlements and Meeting Obligations (funded by revenue Crown)	-	1.416	1.416	0.708	0.708
Services to Process Obligations and Entitlements (funded by revenue Crown)	-	0.876	0.876	0.438	0.438
<b>Total operating</b>	-	<b>3.000</b>	<b>3.000</b>	<b>1.500</b>	<b>1.500</b>



- 72 **agree** that the expenses incurred as a result of recommendation 71 be charged against the COVID-19 Response and Recovery Fund (CRRF), established as part of Budget 2020;
- 73 **note** that the likely cost of the STAP, including administration costs for MSD, is still being determined, but could potentially be very significant if there are high rates of testing, high numbers of people advised to stay home while sick, and there is high take-up of the payment by those eligible;
- 74 **agree** that the costs of payments under the STAP should be met in the first instance from a balance of approximately \$85 million remaining in the existing *COVID-19 Leave Support Scheme* appropriation in Vote Social Development;
- 75 **direct** officials to report back to the Minister of Finance, the Minister for Workplace Relations and Safety and the Minister for Social Development and Employment with updated fiscal cost estimates including administration costs, based on expected take-up of the LSS and STAP and any required amendments to settings, once the changes to health guidance have been confirmed;
- 76 **authorise** the Minister of Finance, the Minister for Workplace Relations and Safety and the Minister for Social Development and Employment to agree to new operating funding of up to \$10 million for Vote Social Development for the administration of the STAP, with the associated expenses to be charged against the COVID-19 Response and Recovery Fund established as part of Budget 2020, with any further funding required to be sought from Cabinet;

*Preparedness in the near term*

- 77 **note** that the proposals in this paper relating to the new RSP and STAP and some of the proposed changes to the WSS will not be in place until February 2021 or later;
- 78 **note** that, should there be a resurgence in the interim, the WSS can be reinstated within approximately five working days;
- 79 **note** that the Ministry of Social Development is undertaking contingency planning for the Christmas period, and is prepared to implement the WSS over this period if needed;
- 80 **note** that the decision to escalate Alert Levels in the event of community transmission rests with Ministers with Power to Act [CBC-20-MIN-0096 refers];
- 81 **authorise** the Minister of Finance and the Minister for Social Development and Employment jointly, in the event of an escalation to Alert Level 3 or above over the Christmas holiday period, to take the necessary decisions to introduce the WSS, with costs to be met in the first instance from a balance of approximately \$1.3 billion remaining in the existing Business Support Subsidy COVID-19 appropriation in Vote Social Development; and

82 **agree** that the Minister of Finance and the Minister for Social Development and Employment will jointly seek Cabinet approval for funding to meet the costs of introducing the WSS over the Christmas holiday period, if costs are estimated to exceed the existing balance of appropriated funding described in recommendation 81 above.

Authorised for lodgement

Hon Grant Robertson

**Minister of Finance**

Hon Carmel Sepuloni

**Minister for Social Development and Employment**

Hon David Parker

**Minister of Revenue**

Hon Stuart Nash

**Minister for Small Business**