

# The Treasury

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

**March 2021**

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### Cabinet Document Details

Title: **Cabinet Minute: CAB-20-MIN-0531: Economic Response to Future Resurgence of COVID-19**  
Date: **15 December 2020**  
Creator: Cabinet Office

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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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# Cabinet

## Minute of Decision

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

**Portfolios**      **Finance / Social Development and Employment / Revenue / Small Business**

On 14 December 2020, Cabinet:

#### Background

- 1      **noted** that, in the event of COVID-19 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      **noted** that the government's economic response to Alert Level escalations so far has been effective, albeit with scope for further improvements;
- 3      **noted** 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      **noted** 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      **noted** 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 two weeks, AL2 for six weeks
<b>Resurgence Support Payment</b>	\$350 million	\$450 million
<b>Wage Subsidy Scheme</b>	N/A	\$960 million

- 6     **noted** that reintroducing the Childcare for Essential Workers scheme at Alert Level 4 for four weeks is expected to cost [38]
- 7     **noted** 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     **noted** 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     **noted** 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    **agreed** to the proposed package of measures set out in paragraph 4 above for use in a future Alert Level escalation, subject to Cabinet approval at that time;
- 11    **agreed** that the Minister of Finance announce the above package prior to Christmas 2020;

### **Resurgence Support Payment scheme – detailed recommendations**

- 12    **noted** that the purpose of the 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    **agreed** that the objectives of the RSP scheme 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;
  - 13.4   encourage the shift to a COVID-19 resilient economy;
- 14    **agreed** that the RSP scheme be administered by Inland Revenue;
- 15    **agreed** 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    **agreed** 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 that 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 percent 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 the date of the 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 percent;
  - 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 **noted** 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 **noted** 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 **agreed** 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   **agreed** that existing exemptions provided to State sector organisations by the Minister of Finance under the WSS transfer to the RSP;
- 21   **noted** 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   **authorised** the Minister of Finance, the Minister of Revenue and the Minister for 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   **noted** that Inland Revenue estimates that the RSP could be in place by late February 2021 and could be applied retrospectively, subject to the required legislation;
- 24   **directed** 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   **agreed** 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   **agreed** to provide WSS support to match the duration spent at Alert Level 3 or above, rounded to the nearest 14 days;
- 27   **noted** that the proposal in paragraph 26 above 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   **noted** that employers would be able to apply for a two-weekly payment once Ministry of Social Development 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 paragraph 26 above;
- 29   **invited** the Minister of Finance and the Minister for Social Development and Employment to report back to Cabinet on this activation approach by June 2021;
- 30   **invited** the Minister of Finance and the Minister for 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   **agreed** to retain core WSS settings, including a revenue drop test of 40 percent, current payment rates, employee retention obligations, pass-through requirements, and the scheme being available on a nationwide basis by default;
- 32   **noted** 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 **agreed** 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 the date of the current escalation; and
  - 33.2 the effect has led to the decline in revenue that the firm has declared;
- 34 **noted** that officials will redraft the declaration made by applicants to the WSS to reflect this change;
- 35 **agreed** 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 **agreed** 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 **agreed** 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 **noted** 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 **noted** that employers are allowed to use the WSS to pay for periods when employees are on annual leave;
- 40 **noted** that, to address any potential misunderstandings around the interaction between the WSS and employment law, in particular related to the 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 **noted** that firms are already required to repay the WSS in a number of situations, and that, 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 **noted** 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 **authorised** 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    **noted** that further design work and new legislation will be required to reinstate a freeze on residential rent increases and restrictions on tenancy terminations;
- 45    **agreed** 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    **agreed** 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    **invited** the Minister of Justice to report back to Cabinet in February 2021 on the matter of commercial lease disputes, [33]

## Support for individuals and whānau

- 48    **noted** 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    **noted** that, in the event of future resurgence, it will be important to ensure that effective and timely support is deployed in partnership with Treaty of Waitangi partners, with trusted local leaders, and community groups;

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

- 50    **noted** that the COVID-19 Leave Support Scheme (LSS) continues to remain available at all Alert Levels, and that the LSS promotes compliance with the public health response by supporting workers to stay home and self-isolate in certain situations;
- 51    **noted** 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    **noted** 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    **agreed** 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 **agreed** 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 **noted** 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 **agreed** 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 **noted** that the Ministry of Social Development will administer the STAP using a very high-trust approach, [39]

58 **noted** that the STAP will not override an employer's legal obligations under employment law;

59 **noted** that the Ministry of Social Development'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 **authorised** the Minister of Finance, the 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 the paper under CAB-2-SUB-0531, 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    **noted** 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    **noted** 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 implications – resurgence package and new STAP

- 63    **noted** 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 paragraphs 5 and 6 above;
- 64    **agreed** 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    **agreed** 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    **directed** Ministry of Education officials to report back to the Minister of Education and the Minister of Finance by the end of March 2021 on the appropriate hourly subsidy rate, the cost of the scheme over a four-week period, and the funding source;
- 67    **authorised** 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    **agreed** to provide Inland Revenue with funding to build the administrative capabilities required to deliver the RSP scheme, ending in 2024/25;
- 69    **noted** 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    **agreed** that any underspends for 2023/24 and 2024/25 relating to the funding described at paragraph 68 above be returned to the Centre;

- 71 **approved** the following changes to appropriations to give effect to the decision in paragraph 68 above, with a corresponding impact on the operating balance and net core Crown debt:

<b>Vote Revenue Minister of Revenue</b>	<b>\$ million - increase / (decrease)</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>-</b>	<b>3.000</b>	<b>3.000</b>	<b>1.500</b>	<b>1.500</b>

- 72 **agreed** that the expenses incurred under paragraph 71 above be charged against the CRRF, established as part of Budget 2020;
- 73 **noted** that the likely cost of the STAP, including administration costs for the Ministry of Social Development, 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 **agreed** 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 **directed** 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 **authorised** 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 CRFF established as part of Budget 2020, with any further funding required to be sought from Cabinet;

### **Preparedness in the near term**

- 77 **noted** that the proposals in the paper under CAB-20-SUB-0531 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 **noted** that, should there be a resurgence in the interim, the WSS can be reinstated within approximately five working days;

- 79    **noted** that the Ministry of Social Development is undertaking contingency planning for the Christmas 2020 period, and is prepared to implement the WSS over this period if needed;
- 80    **noted** that the decision to escalate Alert Levels in the event of community transmission rests with Ministers with Power to Act [CBC-20-MIN-0096];
- 81    **authorised** 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 2020 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;
- 82    **invited** the Minister of Finance and the Minister for Social Development and Employment jointly to seek Cabinet approval for funding to meet the costs of introducing the WSS over the Christmas 2020 holiday period, if costs are estimated to exceed the existing balance of appropriated funding described in paragraph 81 above.

Michael Webster  
Secretary of the Cabinet