

The Treasury

Proactive Release of Cabinet Paper: Activating the COVID-19 Wage Subsidy March 2021 Scheme Information Release

May 2021

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In Confidence

Office of the Minister of Finance

Office of the Minister for Social Development and Employment

Chair, Cabinet

Activating the COVID-19 Wage Subsidy March 2021 Scheme

Proposal

1. This paper seeks Cabinet agreement to activate the COVID-19 Wage Subsidy March 2021 scheme (WSSMAR21).

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 providing financial support to employers and self-employed workers to pay wages if they are struggling to do so as a result of the elevation in COVID-19 Alert Levels put in place on 28 February.
3. It complements the Resurgence Support Payment (RSP), which was activated by Cabinet following the escalation to Alert Level 2 on 14 February, and which may be activated again following the 28 February escalation. The RSP supports firms that are directly impacted by the Alert Level escalation to cover fixed and transition costs.

Executive Summary

4. On February 27, Cabinet agreed to a period of seven days at Alert Level 3 in Auckland from 6am on 28 February, fulfilling the activation criteria agreed to by Cabinet in December for future Wage Subsidy Schemes [CAB-20-MIN-0351 refers].
5. We seek Cabinet's agreement to activate the COVID-19 Wage Subsidy March 2021 scheme (WSSMAR21), in line with the settings agreed to by Cabinet.
6. Agreeing now to activate the WSSMAR21 means it will be open for applications within the next week and available nationwide for businesses affected by Alert Level 3. Following Cabinet's decision payments will be available upon application by eligible employers, with total support to match the duration of Alert Level 3 or above, rounded to the nearest 14 days. It will be renewed every two weeks until a nationwide return to below Alert Level 3 and subject to a six-weekly review by Cabinet of the ongoing availability of the scheme.

7. MSD is able to open the WSSMAR21 on either Thursday 4 March or Monday 8 March. The former will provide more rapid access to the scheme, while the latter will coincide with the start date for the second resurgence support payment.
8. We seek Cabinet authorisation for joint Ministers to agree to any minor policy, consequential changes or operational settings required for the Ministry of Social Development to implement the WSSMAR21.
9. We also seek cabinet authorisation for joint Ministers to draw down up to \$1 million in operational funding from the COVID-19 Response and Recovery Fund (CRRF) for the Ministry of Social Development to undertake an evaluation of this and previous wage subsidy schemes.
10. The WSSMAR21 is expected to cost approximately \$520 million every two weeks based on the current alert level settings of Auckland at Alert Level 3 and the rest of the country at Alert Level 2. This cost will be met in the first instance from unallocated funding of approximately \$1.3 billion remaining in the Business Support Subsidy Covid-19 appropriation.
11. The Ministry of Social Development (MSD) do not require additional funding for the administration of the WSSMAR21. Administration costs will be met within existing baseline funding.
12. We will return to Cabinet to seek approval of any additional WSSMAR21 funding required (for example, if uptake is greater or the duration of the elevated Alert Level period is extended or rises further) as a charge against the CRRF.

Background

13. On 14 December 2020, Cabinet agreed the circumstances in which future WSSs would be activated, specifying activation:
 - 13.1 where there is an escalation to Alert Level 3 or higher lasting seven or more consecutive days (of which the seventh day may be a partial day); and
 - 13.2 subject to approval by Cabinet at the time [CAB-20-MIN-0531 refers].
14. Cabinet also agreed to:
 - 14.1 retain key scheme settings from previous schemes including:
 - 14.1.1 two-week lump-sum payments to eligible employers to provide support with paying wages to eligible employees;
 - 14.1.2 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); and
 - 14.1.3 that employers must:
 - be a New Zealand employer, including the self-employed or sole traders, but not a State Sector Organisation;

- take active steps to mitigate the financial impacts of COVID-19 on their business activity;
- have employees who are legally working in New Zealand and are not currently covered by the Leave Support Scheme or the Short-term Absence Payment;
- 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
- repay the subsidy where an employer has not met the eligibility criteria;

14.2 the scheme being a nationwide scheme, but that employers must have been affected by the current escalation to Alert Level 3 or above with firms declaring that their revenue decline is attributable to the escalation in Alert Levels (rather than COVID-19 more generally);

14.3 matching the duration of support to the duration of the time spent at Alert Level 3 or above, rounded to the nearest 14 days;

14.4 a 40% revenue decline eligibility test over a 14-day consecutive period following the escalation date, based on actual or predicted revenue, with the default comparator period being a typical 14-day consecutive period of revenue in the six weeks prior to the escalation (with specific rules for seasonal and pre-revenue firms); and

14.5 a requirement for firms to keep evidence to support their eligibility as set out in the declaration (i.e. records showing the specific effects on their business and the resulting impact on revenue).

15. Cabinet agreed to raise Alert Levels from 6.00am on 28 February 2021, placing Auckland in Alert Level 3 and the rest of New Zealand in Alert Level 2 for a period of seven days, in response to identification of a community case of COVID-19 in Auckland with the source of infection unknown.

Activating the Wage Subsidy Scheme March 2021

16. We seek Cabinet's agreement to activate the COVID-19 WSSMAR21, in line with the settings agreed to previously by Cabinet.

17. The WSSMAR21 is expected to cost \$520 million every two weeks, based on current Alert Level settings, with costs to be met in the first instance from the approximately \$1.3 billion underspend remaining in the existing Business Support Subsidy Covid-19 appropriation.

18. We also seek Cabinet agreement to authorise the Minister of Finance and the Minister for Social Development and Employment to make minor policy and consequential policy decisions or changes to operational settings for the WSSMAR21.

State Sector Organisation Exemptions

19. State Sector Organisations (SSOs) (including State Owned Enterprises) have been able to seek exemptions to apply for previous WSSs. We seek agreement to extend these exemptions to the WSSMAR21 and any future COVID-19 Wage Subsidy Scheme.
20. An exemption does not automatically grant access to the wage subsidy. MSD retains decision-making rights on whether to grant the application; the exemption simply enables firms to make an application.
21. Exemptions were provided previously to the following State Owned Enterprises and Crown Entity companies: Airways Corporation of New Zealand, Television New Zealand, Quotable Value, New Zealand Post and Kiwi Rail.

Interaction with other schemes

22. The Short-Term Absence Payment and the Leave Support Scheme are currently available at all Alert Levels. An employer cannot receive these and the WSSMAR21 concurrently for the same employee. However, an employer can receive the WSSMAR21 and a Resurgence Support Payment at the same time.

Implementation

Go-live date

23. MSD will be able to stand-up the WSSMAR21 within a week of Cabinet's agreement to activate the scheme, with payments provided soon after applications are granted.
24. MSD is currently planning to open the scheme for applications on either Thursday 4 March or Monday 8 March, with applications initially open for two weeks.
25. MSD advise that they can have the scheme open for applications from Thursday 4 March at 1pm. If the scheme is open for applications on this day applicants will be using a predicted revenue drop (which is allowed under the WSS). There is also the risk that this could cause confusion if Alert Level 3 is extended beyond the first 14 day payment. Technically the payment is available after seven days at Alert Level 3, but as Cabinet has agreed to the seven day rise to Alert Level 3 already it is possible to open applications earlier. The alternative is to have applications open on 8th of March once the seven day period has been reached. This is also the proposed date for applications to start for the second resurgence payment which is the subject of a companion paper.

Revenue decline period

26. Cabinet agreed to an eligibility test of a 40% decline in revenue over a 14-day period following the escalation date, based on actual or predicted revenue [CAB-20-MIN-

0531 refers]. We propose to allow applicants flexibility to nominate a revenue decline test period beginning up to 14 days after 28 February.

27. This approach reduces administration costs for applicants (for example if an applicant normally calculates revenue on a weekly basis) and allows for some lag in the effect of elevated Alert Levels on revenue. It reduces the chance that some employers are arbitrarily excluded because their revenue did not decline over a strictly-defined test period. This approach is consistent with the approach under the previous resurgence scheme in August and the Wage Subsidy Extension Scheme. We do not propose allowing more than 14 days' flexibility, because this makes operational management and communication of the scheme simpler under any extension to a second two week payment.

Comparator period

28. Cabinet agreed to a default comparator period for the revenue decline to be the typical fortnightly revenue in the six weeks prior to the Alert Level escalation that triggered the scheme [CAB-20-MIN-0531 refers]. The intent of this was to address the shifting baseline effects seen with a prior year comparator.
29. Cabinet noted it may be necessary to allow exceptions to the 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. Cabinet agreed to delegated authority to joint Ministers to make decisions on allowing exceptions to the default period.
30. Given there have been two Alert Level escalations in quick succession, we consider this criterion has been met. The period of elevated Alert Levels that began on 14 February is likely to have depressed business revenue in Auckland and beyond. This means the six weeks prior to 28 February may not be an appropriate comparator period for all affected businesses, as some firms will find it harder to demonstrate a revenue decline relative to this period. This issue has also been raised by business stakeholders following the 27 February Alert Level announcement.
31. We therefore propose the comparator period for the revenue decline test be a typical 14-day consecutive period of revenue in the six weeks prior to the 14 February. This provides a more appropriate comparator as it was a period entirely at Alert Level 1. Retaining a 6 week period (rather than merely excluding the 2 weeks following 14 February to give a 4 week period) retains the flexibility for employers previously agreed by Cabinet.

Scheme duration

32. As agreed by Cabinet in December [CAB-20-MIN-0531 refers], if Alert Level 3 is extended to last three weeks or more, the WSSMAR21 will be extended to provide a further two-weekly payment. Further extensions will be made as necessary so that the total payments available under the scheme match the continuous period at Alert Level 3 to rounded to the nearest fortnight. Joint Ministers will agree upon the exact revenue decline assessment period for any extension. Cabinet will review the availability and settings of the scheme every six weeks should it remain open at that point.

33. If the period at Alert Level 3 is less than three weeks, the WSSMAR21 will not be extended. Applications will remain open until 14 days after the scheme opened or was last renewed.
34. MSD will continue to administer the scheme using a high-trust model, using existing integrity measures. Officials are redrafting the declaration made by applicants to take into account the changes to policy decisions since the last wage subsidy scheme.

Financial Implications

35. The general estimated costs of a two-week wage subsidy where Auckland is in Alert Level 3 and the rest of New Zealand is in Alert Level 2 is estimated to be between \$450 million and \$585 million with the midpoint estimate of the WSSMAR21 being \$520 million every two weeks.
36. The cost of payments will be met in the first instance from the approximately \$1.3 billion remaining in the existing Business Support COVID-19 appropriation in Vote Social Development in the 2020/21 year.
37. If additional funding beyond the \$1.3 billion underspend is required (such as if the elevated Alert Levels are extended beyond the initial two-week period or there is an increase to Alert Level 4, or take-up of the WSSMAR21 is much higher than expected), it will be necessary to seek further funding for the WSSMAR21 as a charge against the CRRF established through Budget 2020.
38. MSD do not require additional funding for the administration of the WSSMAR21 scheme. Administration costs will be met within existing baseline funding.
39. MSD will undertake an evaluation of the WSSMAR21 and the previous Wage Subsidy Schemes and will report separately on this to joint Ministers.
40. We seek Cabinet agreement to authorise joint Ministers to draw down up to \$1 million from the CRRF for MSD to undertake an evaluation of the WSSMAR21 and previous wage subsidy schemes.

Impact Analysis

Regulatory Impact Statement

41. No change to legislation or regulations is required. A regulatory impact statement is therefore not required. The paper is recommending a scheme consistent with earlier Cabinet decisions on wage subsidy support.

Population Implications

42. Implementing the WSSMAR21 will be of benefit to all New Zealanders as it will support our national effort to eliminate COVID-19, and will provide additional financial support to employers to allow them to continue to pay their staff, and quickly continue operations as Alert Level restrictions allow.
43. Uptake of earlier iterations of wage subsidy schemes was broad across sectors and regions, and reflective of the specific location of restrictions. We expect the

WSSMAR21 to be of benefit to a broad cross-section of society, including women, Māori and Pacific communities, who make up a significant proportion of some the most affected sectors.

44. The WSSMAR21 will be available to registered charities, incorporated societies and non-government organisations who meet the eligibility criteria. Many of these organisations are relied upon by vulnerable groups including disabled people and those with a health condition, and ensuring their viability during this period will be crucial to their ongoing servicing of these population groups.

Human Rights

45. There are no human rights implications resulting from the proposals made in this paper.

Consultation

46. This paper has been prepared by the Treasury and the Ministry of Social Development.

Communications

47. The Ministry of Social Development is providing communications on the application details for the new scheme on its website, alongside officials updating communications on COVID-19 related websites.

Proactive Release

48. This paper will be proactively released with any appropriate withholdings within 30 business days of final decisions being taken by Cabinet.

Recommendations

We recommend that Cabinet:

1. **note** that on 14 December 2020, Cabinet agreed [CAB-20-MIN-0531 refers] to:
 - 1.1 the circumstances in which future Wage Subsidy Schemes would be introduced including where there is an escalation to Alert Level 3 or higher 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;
 - 1.2 the settings for future wage subsidy schemes including matching the duration of payment to duration at Alert Level 3 or above, rounded to the nearest 14 days;
2. **note** that on 27 February 2021, Cabinet agreed that Auckland go into Alert Level 3 from 6.00am on 28 February 2021 and the rest of the country into Alert Level 2 for a period of seven days;

3. **note** that on 27 February the Minister of Finance indicated publicly that the Wage Subsidy would be made available as the trigger for application had been met;
4. **agree** to activate a nationwide wage subsidy scheme, the COVID-19 Wage Subsidy March 2021 scheme (WSSMAR21), with the settings agreed to by Cabinet in December 2020;
5. **note** that employers will be able to apply for a two week payment once the scheme opens;
6. **agree** to open the WSSMAR21 for applications on:
 - EITHER**
 - 6.1 Thursday 4 March
 - OR**
 - 6.2 Monday 8 March;
7. **note** that to give effect to recommendation 1.2, if Alert Level 3 is extended to last three weeks or more, the WSSMAR21 will be extended to provide a further two-weekly payment;
8. **agree** that employers who receive a payment under the WSSMAR21 will be required to re-apply for each subsequent payment;
9. **invite** joint Ministers to report back to Cabinet ever on the ongoing availability and settings of the scheme every six weeks should it remain open at that point;
10. **note** that an employer cannot receive a wage subsidy payment for an employee who is currently covered by the Leave Support Scheme or the Short-term Absence Payment but can receive the Resurgence Support Payment at the same time as the wage subsidy;
11. **agree** that applicants to the scheme will be able to nominate a revenue decline test period of 14 consecutive days during the period 28 February to 20 March;
12. **note** that the default comparator period for the revenue decline test of the typical revenue within the six weeks prior to 28 February is not appropriate given the Alert Level escalation between 14 February and 22 February is likely to have depressed business revenue in Auckland and beyond;
13. **agree** that the default comparator period for the revenue decline test be a typical 14-day consecutive period of revenue in the six weeks prior to 14 February;
14. **note** that in spite of recommendation 13, as previously agreed by Cabinet, seasonal and pre-revenue firms may be allowed to use a different comparator to the default comparator period in recommendation 13;
15. **authorise** the Minister of Finance and the Minister for Social Development and Employment to jointly make decisions on further revenue decline assessment periods should the scheme be extended beyond an initial two-week period, on the revenue

decline test for pre-revenue and highly seasonal firms, and other minor policy and consequential policy decisions or operational settings for the WSSMAR21;

16. **note** that officials are redrafting the declaration made by applicants to take into account the changes agreed by Cabinet in December 2020 and any further decisions made by joint Ministers under recommendation 15;
17. **agree** that exemptions previously provided to State Sector Organisations (including State Owned Enterprises) enabling them to apply for a COVID-19 Wage Subsidy Scheme will be automatically extended to the WSSMAR21 and any future wage subsidy schemes;
18. **note** that exemptions enable companies to apply for the wage subsidy, but do not guarantee they will receive it, as the Ministry for Social Development retains control over eligibility decision-making;
19. **note** that officials will report separately to the Minister of Finance and the Minister of Social Development and Employment on the details of an evaluation of the WSSMAR21 and previous Wage Subsidy Schemes.
20. **authorise** the Minister of Finance and the Minister for Social Development and Employment to draw down up to \$1 million from the COVID-19 Response and Recovery Fund (CRRF) established as part of Budget 2020 for MSD to undertake an evaluation of the WSSMAR21 and previous wage subsidy schemes;
21. **note** that the WSSMAR21 is expected to cost \$520 million every two weeks based on current alert level settings;
22. **note** that funding for payments under the scheme will be provided in the first instance from the approximately \$1.3 billion underspend remaining in the existing Business Support Subsidy Covid-19 appropriation for the 2020/21 year;
23. **note** that if the \$1.3 billion remaining in the appropriation is required to be spent there will be a corresponding impact to the operating balance and net core Crown debt, as the latest fiscal forecasts assume that the unallocated appropriation will not be spent; and
24. **note** that if additional funding beyond the \$1.3 billion underspend is required, the Minister of Finance will seek approval from Cabinet for further funding for the WSSMAR21 as a charge against the CRRF.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

Hon Carmel Sepuloni
**Minister for Social Development and
Employment**