

The Treasury

Advice on COVID-19 Response Information Release

December 2021

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Joint Report: Wage Subsidy August 2021 scheme: Revenue test period

Date:	24 August 2021	Report No:	T2021/2176 REP/21/8/889
		File Number:	SH-3-5

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Agree the recommendations in this paper.	25 August 2021
Minister for Social Development and Employment (Hon Carmel Sepuloni)		

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Danijela Tavich	Analyst, Welfare & Oranga Tamariki ^[39]	^[35]	✓
Keiran Kennedy	Manager, Welfare & Oranga Tamariki		
Megan Beecroft	Policy Manager, Employment Policy, Ministry of Social Development		

Minister's Office actions (if required)

Return the signed report to Treasury and the Ministry of Social Development.
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Enclosure: No

Joint Report: Wage Subsidy August 2021 scheme: Revenue test period

Background

1. Ministers with the Power to Act agreed to activate a nationwide Wage Subsidy Scheme, the COVID-19 Wage Subsidy August 2021 scheme (WSSAUG21) from Friday 20 August 2021 [CAB-21-MIN-0324; CVD-21-MIN-0004 refer].
2. As part of this, Ministers agreed the revenue test period for the purposes of the revenue decline test for the first WSSAUG21 payment would be the 14 days from 17 August 2021 to 30 August 2021 inclusive [CAB-21-MIN-0004 refers].
3. Ministers with the Power to Act authorised the Minister of Finance and the Minister for Social Development and Employment to jointly make decisions on revenue test periods, scheme settings should the scheme be extended beyond an initial two-week period, and other minor technical and policy decisions or operational settings for the WSSAUG21 [CVD-21-MIN-0004 refers].
4. This paper recommends amending the revenue test period so that businesses can choose to exclude 17 August 2021 if appropriate. You may wish to make this decision under your authority as delegated by Cabinet, or it could be included in an upcoming oral item to Cabinet which is confirming the date of a second WSSAUG21 payment [T2021/2133 refers]. We will provide you with talking points for that oral item separately via your respective Offices.
5. We recommend Ministers take this decision under your authorisation rather than go to Cabinet, to ensure it can be addressed in the interests of time and that the change can be communicated to businesses who are applying for the first WSSAUG21 payment as soon as possible.

Amending the revenue decline test period for the first WSSAUG21 payment

6. Since applications opened for the first WSSAUG21 payment, the Ministry of Social Development (MSD) has received four queries about the compulsory inclusion of 17 August 2021 within the revenue test period, including from organisations representing a number of individual businesses. As the Alert Level escalation only came into effect at 11:59pm on 17 August, this means full Alert Level 4 restrictions did not apply on 17 August, and some businesses even experienced a significant uptick in revenue due to people stocking up on supplies between the Alert Level escalation announcement and its activation at 11.59pm that night.
7. Two of the queries received by MSD on this matter are from businesses who expressed concern that this effect, coupled with the compulsory inclusion of 17 August 2021 in the revenue test period, may mean that they are unable to meet the 40% decline in revenue required for the WSSAUG21.
8. We agree that requiring businesses to include a normal trading day within the revenue test period contradicts the objectives of the scheme, as this may disadvantage them in qualifying for the WSSAUG21, and that this should be rectified. We recommend that the revenue test period window should be broadened to add an extra day so that businesses can choose not to include 17 August in their 14-day revenue test period. We recommend the new decline test period should be a 14-day consecutive period between 17 August and 31 August inclusive. This change should also apply to the revenue test period for businesses that have highly seasonal revenue.
9. We do not recommend excluding 17 August from the available test window, since

removing this option will create potential equity issues for those that plan to apply on this basis as well as adding complexity to subsequent integrity processes.

Cost implications

10. This change will make the scheme marginally more flexible for applicants as it allows businesses to nominate their revenue test period during a 15 rather than 14-day window. However, as the initial approach of including 17 August within a mandatory revenue test period made the scheme less flexible than previous scheme iterations, we consider this to be an appropriate rebalancing of the WSSAUG21 settings.
11. This proposed change is likely to increase costs versus current settings. Businesses whose revenue decline is very close to 40% for the current revenue decline period may now meet the test as a result of including one extra day at Alert Level 4. This effect is more significant for businesses who had a large increase in revenue on 17 August, but this is likely to be a very small group. The number of businesses and workers affected by this change is uncertain, but we estimate any increase in costs will be in the order of \$100m, which reflects up to 5% additional uptake of the first WSSAUG21 payment. There is no effect beyond the first payment.

Comparison with other schemes

12. We note that previous Wage Subsidy Schemes have all provided more flexibility in nominating a revenue test period than is proposed for the WSSAUG21, even after the current change, as indicated in the table below. In previous Wage Subsidy Schemes, officials have been more concerned about arbitrarily excluding any businesses affected by Alert Level escalations outside of a strictly defined test period.
13. We consider the shift toward a more targeted Wage Subsidy Scheme with a narrower revenue test period reflects the strength of the current macroeconomic situation, and businesses' adaptation to COVID-19 over time, which has led to a greater focus on the opportunity cost from increased fiscal spending on COVID-19 economic supports.

[33]

Scheme iteration	Flexibility to nominate revenue decline test period
WSS (March 2020)	Choose one month from 3 months
WSX (June 2020)	Choose 30 days from 40 days
WSR (August 2020)	Choose 14 days from 29 days
WSSMAR21 (March 2021)	Choose 14 days from 20 days
WSSAUG21 (<i>current</i>)	<i>No flexibility</i>
WSSAUG21 (<i>proposed</i>)	<i>Choose 14 days from 15 days</i>

14. This issue does not apply to the Resurgence Support Payment (RSP) due to businesses having more flexibility to nominate a revenue test period of one week following the Alert Level escalation, with the period ending once the country has been at Alert Level 1 for one month. This means businesses can choose to include or exclude the day of the Alert Level escalation.

Communications

15. We recommend that the Minister of Finance should announce this amendment at the next available opportunity to ensure businesses are aware of the change, and have provided talking points at Appendix 1 to support this. MSD will update the WSSAUG21 webpages and declaration to reflect the change.

Recommended Action

We recommend that you:

- a **note** Ministers with the Power to Act authorised the Minister of Finance and the Minister for Social Development and Employment to jointly make decisions on revenue test periods, scheme settings should the scheme be extended beyond an initial two-week period, and other minor technical and policy decisions or operational settings for the WSSAUG21 [CVD-21-MIN-0004 refers];

b **either:**

- i) **agree** to make decisions on the revenue test period for WSSAUG21 under Joint Ministers' authorisation by Ministers with the Power to Act [CVD-21-MIN-0004 refers] (**recommended**);

Agree/disagree

Hon Grant Robertson

Agree/disagree

Hon Carmel Sepuloni

or:

- ii) **agree** to take the proposals in this paper to Cabinet for confirmation, as part of a forthcoming oral item on timing of the second WSSAUG21 payment [T2021/2133 refers];

Agree/disagree

Hon Grant Robertson

Agree/disagree

Hon Carmel Sepuloni

- c if you agree to make decisions on the revenue test period under your authorisation by Ministers with the Power to Act (per **recommendation b(i)**):

- i) **agree** the revenue test period window for the first WSSAUG21 payment should be extended to allow businesses to nominate a period of 14 consecutive days between 17 August and 31 August inclusive to avoid excluding businesses that experienced higher than normal revenue on 17 August;

Agree/disagree

Hon Grant Robertson

Agree/disagree

Hon Carmel Sepuloni

- ii) **agree** that the amended revenue test period window will also apply to businesses that have highly seasonal revenue;

Agree/disagree

Hon Grant Robertson

Agree/disagree

Hon Carmel Sepuloni

- d **agree** that the Minister of Finance will announce this amendment at the next available opportunity to ensure businesses are aware of the change;

Agree/disagree

Hon Grant Robertson

Agree/disagree

Hon Carmel Sepuloni

- e **note** the Ministry of Social Development will update the WSSAUG21 webpages, operational guidance, and declaration after the Minister of Finance's announcement.

Keiran Kennedy
Manager, Welfare & Oranga Tamariki, The Treasury

Megan Beecroft
Policy Manager, Employment Policy, Ministry of Social Development

Hon Grant Robertson
Minister of Finance

Hon Carmel Sepuloni
Minister for Social Development and Employment

Appendix 1 – Talking points to support an announcement on the revenue test period change

- Ministers with Power to Act agreed the revenue test period for the first WSSAUG21 payment would be the 14 days from 17 August 2021 to 30 August 2021 inclusive [CAB-21-MIN-0004 refers].
- Since applications opened for the first WSSAUG21 payment, the Ministry of Social Development has received queries from businesses who are concerned that the inclusion of 17 August may mean they are unable to meet the 40% revenue decline required for the WSSAUG21, particularly those that experienced a significant uptick in revenue due to people stocking up between the Alert Level escalation announcement, and its activation at 11.59pm that night.
- To address this, Joint Ministers have agreed to extend the window for the revenue test period to add an extra day. The new revenue test period window should be between 17 August and 31 August 2021 inclusive. Businesses can nominate a 14-day consecutive period within this 15-day window, so they can choose not to include 17 August. This approach is consistent with flexibility provided under some previous Wage Subsidy Scheme iterations. This change will also apply to the revenue test period window for businesses that have highly seasonal revenue.