

The Treasury

Advice on COVID-19 Response Information Release

December 2021

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Treasury Report: Approach to payments 3 and 4 of the RSPAUG21 scheme

Date:	14 September	Report No:	T2021/2322
		File Number:	SH-1-6-1-3-3-22

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	<p>Respond to the recommendations in this report.</p> <p>Refer to the Minister for Revenue and the Minister for Small Business.</p>	14 September 2021

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Silkie Whitworth	Senior Analyst, [39] Regions, Enterprise, and Economic Development	N/A (mob)	✓
Jean Le Roux	Manager Regions, Enterprise, and Economic Development	n/a (mob)	

Minister's Office actions (if required)

<p>Return the signed report to Treasury.</p> <p>Refer to the Minister for Revenue and the Minister for Small Business.</p>
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Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Approach to payments 3 and 4 of the RSPAUG21 scheme

Executive Summary

This paper seeks your agreement to design settings for the third and fourth payments to be made under the RSPAUG21 scheme so that they can be presented in your Cabinet paper, which is scheduled for discussion by Cabinet on 20 September.

One of the key rules of the Resurgence Support Payment (RSP) scheme is that eligible applicants must demonstrate a 30% loss in revenue over seven consecutive days. Given that the window between payments 2, 3 and 4 will be three weeks there are choices about what technically would activate the scheme and when to measure impacts on revenue. At present, these are the most critical decisions required by Ministers.

Officials have identified two options to activate each payment:

- **Option A:** If at least seven consecutive days at Alert Level 2 or above occurs between each application date; or
- **Option B:** If Alert Level 2 is in place on the application date (**RECOMMENDED**).

We recommend **Option B**, which is in line with the current approach and government communications to date. However, this option means that confirmation that a payment will go ahead may be determined with less notice than under Option A, making it more difficult for businesses to anticipate. Unlike Option A, it would not be available if there was a nationwide return to Alert Level 1 between any of the payments, and there would be no lag between the impacts incurred and applying for the payment.

The decision on how to trigger the payments affects your choices on the commencement of an impacted revenue drop period. Officials have identified two options which are more suitable for a regular payment approach, and offer more simplicity for applicants:

- **Option 1:** From the seven consecutive days before applications open (only possible in combination with Option B above) (**RECOMMENDED**); or
- **Option 2:** From the day after the last payment was made available (possible with Option A or B above).

We recommend **Option 1**, because it is the simplest to understand, ensures payments are made quickly following applications, and is the best targeted to the most affected firms. Assuming that lower Alert Levels are in place at 22 October than at 17 September, Option 1 could also be cheaper than Option 2 by up to \$390 million.

The report also seeks your agreement to draw down \$6 million in additional administrative funding for Inland Revenue, and to seek approval for this from Cabinet.

It also presents some more minor recommendations in the upcoming Cabinet paper to provide clarity on the parameters of regular payment settings, and to inform the government's approach to communications.

For your information (not suggested for inclusion in the Cabinet paper), we also provide more information on the targeting adequacy of the RSP scheme, in light of the feedback you have received on this issue from businesses based in Auckland.

Recommended Action

We recommend that you:

- a **agree** that the upcoming Cabinet paper on the third and fourth payments of the RSPAUG21 scheme seeks agreement to the following:

Issue	Cabinet recommendation	Agree/ disagree
Adjusting the objective of the RSPAUG21 scheme (not the RSP more broadly)	Agree the RSPAUG21 is now supporting firm viability through cashflow support for ongoing fixed costs <i>during this prolonged period of disruption</i> , rather than in response to the initial Alert Level escalation.	Y / N
Setting the activation trigger for each payment	Agree to activate each payment EITHER: Option A: If at least 7 consecutive days at Alert Level 2 or above occurs between each application date; OR Option B: If Alert Level 2 is in place on the application date (RECOMMENDED).	Option A: Y / N Option B: Y / N Present both options: Y / N
Determining the impacted revenue period (" impacted window ")	Agree to set the impacted window EITHER Option 1: From the 7 consecutive days before applications open (only possible in combination with Option B above) (RECOMMENDED); OR Option 2: From the day after the last payment was made available (possible with Option A or B above).	Option 1: Y / N Option 2: Y / N Present both options: Y / N
	Note that the impacted window for all payments under the RSPAUG21 scheme will close at the same time, immediately before a nationwide return to Alert Level 1.	Y / N
Other policy details	Agree that the application dates are set at 8 and 29 October and will not deviate if Alert Levels increase between payments.	Y / N
	Note that if a nationwide return to Alert Level 1 occurs, but an increase in Alert Levels follows, this would activate a new RSP scheme (e.g. RSPOCT21) and applications would be possible seven consecutive days later, subject to constraints detailed in the following recommendation).	Y / N
	Note that owing to Inland Revenue's Business Transformation programme, any RSPAUG21 applications and payments will not be possible between 4pm on 21 October and 8am on 28 October.	Y / N
	Note that applications for all payments available under RSPAUG21 will be permitted until one month following a nationwide return to Alert Level	Y / N

Fiscal implications	Note the Minister of Finance will return to Cabinet to seek the additional funding required to meet the cost of the third and fourth payments.	Y / N																																	
	<p>Approve the following changes to appropriations to give effect to the policy decision in the recommendations above, with a corresponding impact on the operating balance and net core Crown debt;</p> <table border="1"> <thead> <tr> <th rowspan="2">Vote Revenue Minister of Revenue</th> <th colspan="4">\$m – increase/(decrease)</th> </tr> <tr> <th>2021/22</th> <th>2022/23</th> <th>2023/24</th> <th>2024/25</th> </tr> </thead> <tbody> <tr> <td>Departmental Output Expenses: Services for Customers MCA (funded by revenue Crown)</td> <td>1.200</td> <td>1.200</td> <td>0.600</td> <td>0.600</td> </tr> <tr> <td><i>Investigations</i></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td><i>Services to inform the Minister and the public about entitlements and meeting obligations</i></td> <td>0.400</td> <td>0.400</td> <td>0.200</td> <td>0.200</td> </tr> <tr> <td><i>Services to process obligations and entitlements</i></td> <td>0.400</td> <td>0.400</td> <td>0.200</td> <td>0.200</td> </tr> <tr> <td>Total Operating</td> <td>2.000</td> <td>2.000</td> <td>1.000</td> <td>1.000</td> </tr> </tbody> </table> <p>Agree that the proposed change to appropriations for 2021/22 above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;</p> <p>Agree that that the expenses incurred under the recommendation above be charged against the COVID-19 Response and Recovery Fund;</p> <p>Note that the administrative funding for Inland Revenue in 2023/24 and 2024/25 relates to post-payment verification, audit and debt-collection activities.</p>	Vote Revenue Minister of Revenue	\$m – increase/(decrease)				2021/22	2022/23	2023/24	2024/25	Departmental Output Expenses: Services for Customers MCA (funded by revenue Crown)	1.200	1.200	0.600	0.600	<i>Investigations</i>					<i>Services to inform the Minister and the public about entitlements and meeting obligations</i>	0.400	0.400	0.200	0.200	<i>Services to process obligations and entitlements</i>	0.400	0.400	0.200	0.200	Total Operating	2.000	2.000	1.000	1.000
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Total Operating	2.000	2.000	1.000	1.000																															
Legislative implications	Note that existing legislation in the Tax Administration Act 1994 allows for an RSP scheme to be amended by Order in Council, including allowing additional payments under the RSPAUG21 scheme.	Y / N																																	

- b **note** the analysis in this report which shows the targeting effectiveness of the RSP, and details Inland Revenue's approach to integrity on this matter;
- c **refer** this report to the Minister for Revenue and the Minister for Small Business.

Referred / Not referred.

Jean Le Roux
Manager Regions, Enterprise, and Economic Development

Hon Grant Robertson
Minister of Finance

Treasury Report: Approach to payments 3 and 4 of the RSPAUG21 scheme

Purpose of Report

1. This report seeks your agreement on the detailed settings of the third and fourth payments to be made under the RSPAUG21, in order to clarify your recommendations to Cabinet on this issue. It requests additional administrative funding for Inland Revenue and responds to questions you have raised regarding risks to targeting effectiveness and integrity that may arise with additional payments.

Key choices on design settings and RSPAUG21 objectives

2. We are seeking your agreement to the below design settings for the third and fourth payments of the RSP, to be presented in your paper to Cabinet on 20 September.

Re-framing the objectives of the scheme for this outbreak

3. Cabinet previously agreed (CAB-20-MIN-0531) that the objectives of the RSP were to (emphasis added):
 - a Support firms to maintain viability and employment levels across escalations in public health restrictions;
 - b Support firms to pay fixed costs if they are struggling to do so as a result of escalated Alert Levels;
 - c Share the cost associated with Alert Levels between Government, firms and across economic sectors; and
 - d Encourage the shift to a COVID-19 resilient economy.
4. We suggest that your Cabinet paper re-frames the objectives (a) and (b) of the RSPAUG21 scheme (and not the RSP scheme more broadly), so that it states that the RSP is now supporting viability during this prolonged period of disruption rather than in response to an initial Alert Level escalation.
5. Whilst additional payments will support firms during any decrease in Alert Levels, we suggest its purpose is not to assist with any costs from de-escalation. We judge these to be marginal and in aggregate, offset by a rebound in economic activity.

Activation trigger and the affected revenue period (“impacted window”)

6. The COVID-19 Ministerial Group agreed that a third and fourth payment of the RSP would be available assuming that the Alert Level conditions that trigger a payment are still in place. Ministers also agreed that the criteria and settings for the payment should remain the same to the extent that is practical and possible (CMG-21-MIN-0023 refers).
7. One of the key rules of the scheme is that eligible applicants must demonstrate a 30% loss in revenue occurs over seven consecutive days. Given that the window between payments 2, 3 and 4 will be three weeks, there are choices about what technically would activate the scheme and when to measure impacts.

Activating each payment

8. Officials have identified two options to activate each payment. Both assume that if a nationwide return to Alert Level 1 occurs between each payment, but Alert Levels are subsequently raised again, this would activate a new RSP scheme and payments would be made after seven days.¹
9. The options to activate the payments are as follows:
 - a If at least seven consecutive days at Alert Level 2 or above occurs between each application date; or
 - b If Alert Level 2 or above is in place on the application date, i.e. there would have been 21 consecutive days at Alert Level 2 or above since the last payment. **(RECOMMENDED)**.
10. **Option A** would allow for up to 14 days between payments to be spent at Alert Level 1 nationwide but would still compensate for the impacts of seven consecutive days spent in higher Alert Levels at the earliest stage between payments. This would be the most generous option, because it would compensate for only one week of impacts and payments would be issued after businesses had the opportunity to experience a rebound in activities. It would however create a lag between the impacts felt by businesses and the point at which they could apply for support.
11. **Option B** implies that seven consecutive days would be spent at Alert Level 2 or above prior to applications opening. This is in line with the current approach and ensures that payments are issued soon after applications are made, providing cashflow support in a timely manner. However, this option means that confirmation that a payment will go ahead may be determined with less notice and would not be available if there was a nationwide return to Alert Level 1 between any of the payments. This means that a return to Alert Level 1 as late as the day before the end of the three-week period would cancel the additional payment.

Determining the commencement of the impacted window

12. The decision on how to trigger the payments affects your choices on the commencement of an impacted revenue drop period.
13. The COVID-19 Ministerial Group recently agreed to set the impacted window on 8 September for the second RSP payment, based on the Alert Level decision that came into effect that day (CMG-21-MIN-0023 refers). Officials have considered whether maintaining the approach of tying the impacted window to an Alert Level decision is appropriate for subsequent payments.
14. Whilst it is the most effective way to target economic support in proportion to Alert Level impacts, we have concluded that this approach is too complex for a regular payment model and risks creating uncertainty and confusion. For the second RSP payment we had certainty that a part of New Zealand (Auckland) would be at Alert Level 2 or above at the time applications were opened. However, this is not necessarily the case for the third payment and even less likely for the fourth payment. Alert Levels could also shift many times between payments. If the Alert Levels changed in the last seven days before a payment date, this would need to be disregarded as it fails the seven-day test. Together, these factors could create confusion for applicants.

¹ However, applications and payments will not be possible between 4pm on 21 October and 8am on 28 October (see paragraph 31(c)).

15. Officials have however identified two options to commence the impacted periods which are more suitable for a regular payment approach and offer more simplicity for applicants:
 1. From the seven consecutive days before applications open (only possible in combination with Option B above) (**RECOMMENDED**); or
 2. From the day after the last payment was made available (possible with Option A or B above).
16. In each case, the impacted window for all payments under the RSPAUG21 scheme will close at the same time, immediately before a nationwide return to Alert Level 1.
17. To weigh up these options, we have provided the below framework:²

Table 1: Options to activate future payments and commence impacted windows

Activation trigger	A. At least seven consecutive days at Alert Level 2 or above occurs between each payment date	B. AL2+ in place on day of payment	
Impacted window commencement	2. Day after last payment made available	1. From the 7 consecutive days before applications open	2. Day after last payment made available
Simple to understand	Could create confusion that an application is not possible until 2 weeks after the impacts are felt.	Similar to the Wage Subsidy and usual approach for RSP (impacted window right before payment); pays out nearer to application.	A different rhythm to normal but consistent.
Proportionate to costs / targets firms effectively (red = most generous, green = most targeted)	Most generous option, allowing the most time for firms to experience a bounce-back in activity for up to two weeks in AL1 (contra to RSP policy).	More closely reflects the <i>ongoing</i> impacts of the Alert Levels in place at the time of application.	Provides firms with the most flexibility to select an impact period under Option B approach. Perceived to set payment in relation to three weeks' effects.

18. ^[34]

19. Announcing the activation triggers and impacted revenue periods for future RSP payments in advance increases the risk that businesses will deliberately limit their activities to qualify for future payments. This is in tension with the benefit that comes with providing businesses with certainty of the rules during particularly challenging economic conditions.

20. ^[33]

² We assessed the gaming risks associated with each option and concluded there is a marginal difference across each, so these are not presented.

Fiscal implications

Impacts of impacted window choice on fiscal costs

21. The main determinant of the fiscal cost of the RSP scheme is the Alert Level situation in place during the agreed impacted window. Ahead of decisions on the impacted window and confirmation of the restrictions applying at the time, there will therefore be considerable uncertainty around the cost of the third and fourth payments. Additional uncertainty is present while we continue to refine our understanding of the economic implications of Auckland remaining at AL4 for other regions, as well as the additional public health measures at Alert Level 2.
22. Such impacts are loosely accounted for in the costings provided below, however these are to be revised as we develop our understanding of the additional pressures.

Table 2: Estimated fiscal cost of each RSP payment issued during different Alert Level scenarios

Alert level		Total cost per RSP payment (\$ million)
Auckland	RoNZ	
4	2	430
3	2	200
3	1	120
2	2	100
2	1	40

23. The difference in cost between impacted window Options 1 and 2 arises from it being likely that a de-escalation in Alert level occurs in between the dates of their respective commencements:
- For the third payment, the cost of Option 1 is largely determined by the Alert Levels in place in the week from 1 October, whereas the cost of Option 2 is largely determined by the Alert Levels in place in the week from 17 September.
 - Similarly, with respect to the fourth payment, the cost of Option 1 is largely determined by the Alert Levels in place in the week from 22 October, whereas the cost of Option 2 is largely determined by the Alert Levels in place in the week from 1 October.
24. We expect a downwards change in Alert Levels to take place between these dates, and therefore estimate that Option 1 could be cheaper than Option 2 by up to \$390 million.

Table 3: Estimated fiscal cost of third and fourth RSP payments under impacted window Options 1 and 2

	Commencement of impacted window		Estimated cost (\$ million)*		
	Third payment	Fourth payment	Third payment	Fourth payment	Combined cost of payments
Option 1 (recommended)	1 Oct	22 Oct	100 - 200	40 - 120	140 - 320
Option 2	17 Sept	1 Oct	120 - 430	100 - 200	220 - 530

*Dependent on Alert Level situation in the week after the commencement of the impacted window

- 25. Given the three-week interval between payments, aggregate support delivered through Option 1 is judged to support meeting businesses' ongoing costs at a sufficiently generous level. We acknowledge that this conceals significant variation in the sufficiency of the payment at a firm level. This is unavoidable when using a broad-based scheme premised on timeliness and simplicity [T2021/2218 refers].
- 26. Funding to meet the costs of each of these payments will need to be sought once there is greater clarity on the Alert Level scenario, nearer the time of each payment. New operating funding will be drawn from the COVID-19 Response and Recovery Fund (CRRF).

[33]

27. [33]

28.

29.

30.

[33]

Other policy aspects to confirm

31. We suggest the following are noted in the Cabinet paper discussed on 20 September in order to provide clarity on the parameters of regular payment settings and to inform the government's approach to communications:
 - a The application dates are set at 8 and 29 October and will not deviate if Alert Levels increase between payments.
 - b If a nationwide return to Alert Level 1 occurs, and an increase follows, this would activate a new RSP scheme (e.g., RSPOCT21) and applications would be possible seven consecutive days later. At the time of activation, Cabinet would need to indicate whether the intention in this scenario is to revert to the original intent of the scheme and make a single payment or to make multiple payments.
 - c Owing to the final release of Inland Revenue's Business Transformation programme, all their systems will be closed down from 21 to 28 October to bring Child Support into Inland Revenue's new system. As a result, any RSP applications and payments will not be possible between those dates.
 - d Applications for all payments available under RSPAUG21 will be permitted until one month following a nationwide return to Alert Level 1.

Legislative implications

32. We suggest your Cabinet paper notes that the existing RSP legislation in the Tax Administration Act 1994 allows for an activated CRSP scheme to be amended, and that an amendment can accommodate additional payments under the RSPAUG21 scheme.
33. Officials will continue to monitor the extent to which any changes to the scheme made in future are in line with legislative obligations.
34. An Order in Council is required to amend the existing RSPAUG21 scheme to allow further payments to be made under that scheme. Once the activation triggers and impacted revenue periods for both 3rd and 4th payments have been agreed to by Cabinet, you will be required to report back to Cabinet to seek agreement to the amending Order in Council.

Targeting and integrity

35. This section of the paper is intended for your information, and not for inclusion in the Cabinet paper unless that is your preference.
36. You have asked officials to provide more information on the targeting adequacy of the RSP scheme, in light of feedback from Auckland businesses who argue they are unfairly treated by the RSP scheme due to the ability for firms outside Auckland to apply for the RSP when they are at Alert Level 1.
37. Since our last advice on this topic, we have done further analysis on the share of payments made to firms geographically situated at lower Alert Levels but whose claim

to support relies on another part of the country being affected by more severe restrictions. The findings are summarised below:³

- a There has only been one instance to date of the RSP being activated during an Alert Level 2 / 1 split: in July, when Wellington was in Alert Level 2 and the rest of New Zealand was in AL1. During this time 78% of support was directed to Wellington businesses. Auckland accounted for 8%, Canterbury 3%, and Manawatu 2%.
 - b In February and March, with Auckland in Alert Level 3 and the Rest of New Zealand in AL2, 75% of support was directed to Auckland businesses. Canterbury, Waikato, and Wellington each accounted for a 4% share of the support. The Bay of Plenty and Otago each accounted for 3%, and Northland accounted for 2%.
38. Notably, aside from urban centres that have economic interdependencies with Auckland (Wellington and Christchurch), the regions accounting for the most support outside of the city are those in closest proximity (Waikato, Bay of Plenty, Northland). In addition, Otago (for which Auckland provides a lot of demand for tourism) is most likely to have been experiencing spill-over economic effects from Auckland's Alert Level 3.
39. We do not recommend limiting the payment to specific regions in higher Alert Levels. This is because there will be businesses operating in regions at lower Alert Levels that will be genuinely impacted by a higher Alert Level in other regions.
40. ^[33]
41. Businesses applying for the RSP must declare that the necessary revenue decline is the result of increased Alert Levels. Businesses must also keep records of their revenue decline calculation and be prepared to demonstrate that it was the result of increased Alert Levels.

Next steps

42. Following your response to the recommendations in this report, officials will draft a Cabinet paper to be lodged ahead of Cabinet meeting on 20 September.
43. Following Cabinet decisions on 20 September, officials will provide drafting instructions to the Parliamentary Counsel Office for an Order in Council to amend the *COVID-19 Resurgence Support Payments Scheme (August 2021) Order 2021*. The amending Order would be considered by Cabinet on either 27 September or 4 October and would come into force on 8 October.

Officials will support you to return to Cabinet in order to draw down additional funds for each payment.

³ This information is based on applicants' headquarter location information which is held by Inland Revenue. It is therefore an approximation. It is not recommended this information is used to change the scheme so that it is directed towards locations rather than on the basis of a revenue drop [T2021/2218 refers].