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Issuing a second payment under the Resurgence Support Payment August 2021 Scheme

Proposal

- 1** This paper seeks agreement to issue a second payment under the COVID-19 Resurgence Support Payment (RSP) scheme to support in alleviating cashflow pressures experienced by firms directly impacted by the prolonged increase in Alert Levels put in place on 17 August 2021.

Relation to Government Priorities

- 2** The RSP scheme supports the Government's 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 firms to pay business expenses if they are struggling to do so as a result of an increase in COVID-19 Alert Levels.
- 3** Providing further support for firms' ongoing non-wage costs through a second payment of the RSP following the 17 August Alert Level escalation is well-aligned with the government's public health objectives. It supports cashflow to allow businesses to meet ongoing obligations while remaining compliant with Alert Level restrictions, while also supporting a swift rebound once restrictions are lifted, and reducing the social and economic disruption associated with outbreaks.

Executive Summary

- 4** This paper seeks agreement to a second payment under the current RSP scheme, by amending COVID-19 Resurgence Support Payments Scheme (August 2021) Order 2021. Approval is sought for \$430-700 million in new operating funding as a charge against the COVID-19 Response and Recovery Fund (CRRF) to meet the estimated cost of further payments made.
- 5** The decision to provide further support for firms' ongoing non-wage costs is a deviation from the one-off nature of RSP support previously agreed by Cabinet [CAB-20-MIN-0531 refers], but judged to be appropriate and desirable in the present context of prolonged restrictions.
- 6** Prolonged periods of severe Alert Level restrictions will put more pressure on firms' ability to meet their fixed costs. Providing further support for firms' ongoing non-wage costs is well-aligned with the government's public health objectives, supporting cashflow to allow businesses to meet ongoing obligations while remaining compliant with Alert Level restrictions, and while also supporting a swift rebound once restrictions are lifted, and reducing the social and economic disruption associated with outbreaks.

- 7 Given its strengths in targeting the most affected firms and current implementation readiness, provision of extra economic support for businesses' ongoing costs in a timely manner is best delivered through the Resurgence Support Payment.
- 8 There are options on setting the "impacted window" for the second payment. The "impacted window" refers to the seven consecutive day period which applicants compare to a typical week in the six weeks prior to an Alert Level escalation, in order to demonstrate a 30% revenue decline. The 30% revenue decline is part of the eligibility criteria for the RSP, and the commencement date of the impacted window is the main determinant of the fiscal cost and level of targeting of a second payment.
- 9 The options are summarised in the below table:

Fiscal cost of second RSP payment with impacted period set during different public health scenarios

Impacted period commencing	Alert level		Total cost (\$ million)
	Auckland	RoNZ	
<i>Option 1: 18 August</i>	4	4	700
<i>Option 2: 31 August</i>	4	3	550
<i>Option 3: 8 September</i>	4	2	430

- 10 Following an amendment to the Order in Council, applications for a second payment will be open for applications from 17 September and be available until one month after a nationwide return to Alert Level 1.

Background

- 11 The RSP was designed to provide a one-off payment to eligible firms in the event of an escalation in Alert Levels that lasts seven consecutive days or more. Eligible firms receive the lesser of:
 - 11.1 the formula amount (\$1,500 and an additional \$400 per FTE (up to 50 FTEs)), or
 - 11.2 four times the firm's experienced revenue drop over the impacted 7-day period.
- 12 On 18 August 2021, the group of COVID-19 Ministers with Power to Act (the Prime Minister, Deputy Prime Minister, Minister for COVID-19 Response and Associate Minister of Health) agreed to activate the Resurgence Support Payment Scheme (RSPAUG21) and seek Cabinet approval for the financial implications resulting from activation of the Scheme [CVD-21-MIN-0004 refers].
- 13 High demand in the initial days of opening led to a further \$300 million in CRRF funding agreed on 28 August 2021 [CAB-21-MIN-0344 refers], with the option for Joint Ministers to draw a further \$100 million if required, bringing the total available to meet the cost of the RSPAUG21 to \$899.9 million.

- 14** As of 8 September, \$550 million in support has been applied for under the scheme, with \$502 million disbursed to approximately 163,000 applicants. The final cost of the scheme is forecasted to reach \$700 million.

Further support for firms' ongoing non-wage costs through a second payment of the RSP

- 15** Prolonged periods of severe Alert Level restrictions will put more pressure on firms' ability to meet their costs.
- 16** The RSP was previously agreed to be a single payment at the outset of an escalation from AL1 to support firms when the need to adjust is most acute, covering immediate costs, supporting firms' cashflow as they make appropriate adjustments in their operating costs or access alternative finance [CAB-20-MIN-0531 refers]. However, it was acknowledged in the related Supplementary Analysis Report that an additional grant within an escalation period may be desirable under a protracted period above Alert Level 1.
- 17** Providing further support for firms' ongoing non-wage costs is well-aligned with the government's public health objectives, supporting cashflow to allow businesses to meet ongoing obligations while remaining compliant with Alert Level restrictions, while also supporting a swift rebound once restrictions are lifted, and reducing the social and economic disruption associated with outbreaks.
- 18** Given its strengths in targeting the most affected firms and current implementation readiness, provision of extra economic support for businesses' ongoing costs in a timely manner is best delivered through the RSP.
- 19** Continuity in the use of economic support schemes is also advantageous. Feedback from businesses shows consistent and simple eligibility criteria increase certainty and benefit business confidence during resurgence events.
- 20** Operational and system constraints have limited the available options for providing support sooner than 17 September 2021.
- 21** Applications for the second payment will remain open until one month after a nationwide return to Alert Level 1 – meaning firms that have received the RSPAUG21 will be able to also receive the second payment. Having received the Wage Subsidy will have no impact on a firm's eligibility.

Setting the impacted revenue period ("impacted window")

- 22** The "impacted window" refers to the seven consecutive day period which applicants compare to a typical week in the six weeks prior to an Alert Level escalation, in order to demonstrate a 30% revenue decline. This is part of the eligibility criteria for the RSP. The point at which the impacted window commences is the main determinant of the fiscal cost and level of targeting of a second RSP scheme.

- 23** The Treasury has identified three options for the commencement of the impacted window for the second payment, each of which are broadly in line with impacted window periods agreed for the payments issued under the Wage Subsidy Scheme August 2021. Each option results in different estimated fiscal costs and levels of targeting.

Option 1 (from 18 August): applications based on Alert Level 4 impacts

- 24** Choosing the impacted period to be the same as in the first RSPAUG21 payment would result in all businesses who are eligible to apply for the RSPAUG21, or have done so already, being eligible to receive the second payment.
- 25** Under this approach, all applicants could qualify based on the impacts they experience or experienced under Alert Level 4.
- 26** This represents the most generous option, providing support to the greatest number of firms and resulting in the largest fiscal cost.
- 27** Many of these firms would now be operating at Alert Level 2, and no longer be suffering a qualifying level of revenue impact. In this way, the scale of fiscal support may exceed the scale of need for support for firms' ongoing costs.
- 28** Nonetheless, to support social license for the ongoing restrictions, this generosity in making support widely available may be favourable.
- 29** The estimated total cost of Option 1 is \$700m.
- 30** This is the Minister of Finance's preferred option.

Option 2 (from 31 August): applications based on Alert Level 4 impacts for Auckland businesses, and Alert Level 3 impacts for businesses outside of Auckland

- 31** The window could be placed such that Auckland businesses would qualify based on the impacts they experience under Alert Level 4, while businesses outside of Auckland would qualify based on the revenue impact they experience under Alert Level 3. This would provide a middling level of fiscal savings and targeting.
- 32** This option may generate confusion amongst applicants, given that areas outside of Auckland have now shifted down to Alert Level 2. The initial days of Alert Level 3 are also likely to capture overhanging effects of Alert Level 4, reducing the targeting effect of this option.
- 33** The estimated total cost of Option 2 is \$550m.

Option 3: applications based on Alert Level 4 impacts for Auckland businesses, and Alert Level 2 impacts for businesses outside of Auckland

- 34** To improve the targeting and reduce the fiscal cost of a second payment, the period in which applicants must demonstrate a revenue drop could be set to be after the most recent shift down in Alert Levels. This would mean that Auckland businesses would qualify based on the impacts they continue to experience under Alert Level 4, while all other firms would qualify based on the impacts they experience under Alert Level 2.

- 35** This approach means firms operating at lower Alert Levels must demonstrate that any recovery in business activity is insufficient to lift them above the 30% revenue drop level. Businesses operating under more restrictive conditions (e.g. in Auckland) will be more likely to be able to demonstrate the required revenue drop, and proportionately more support will be directed towards those businesses accordingly.
- 36** Firms impacted by the spill-over effects of Auckland's more severe restrictions (for example, supply chain disruptions constraining activity, or reduced or absent demand from Auckland) will remain eligible as long as they are able to demonstrate an ongoing revenue impact. Those experiencing pressures arising from the additional measures at Alert Level 2, expected to be particularly acute for the hospitality industry, will also be able to apply.
- 37** The estimated total cost of Option 3 is \$430m.

Order in Council

- 38** The attached draft Order in Council would amend the COVID-19 Resurgence Support Payment Scheme (August 2021) Order 2021 to allow applicants to apply for a second payment. The amending Order will be finalised for submission to Executive Council following the Committee's decision on the impacted window for a second payment.
- 39** The Order in Council would come into force on 17 September 2021. A waiver of the 28-day rule is sought, on the basis that amending the scheme as soon as possible is necessary to help businesses impacted by the Alert Level restrictions cover their ongoing costs.
- 40** The Order in Council complies with:
- 40.1 the principles of the Treaty of Waitangi;
 - 40.2 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;
 - 40.3 the principles and guidelines set out in the Privacy Act 2020;
 - 40.4 relevant international standards and obligations;
 - 40.5 the Legislation Guidelines (2018 edition), which are maintained by the Legislation Design and Advisory Committee.
- 41** There are no anticipated grounds for the Regulations Review Committee to draw the Order in Council to the attention of the House of Representatives under Standing Order 327.

Financial Implications

- 42** The total cost of the RSP scheme is closely tied to the severity of the impacts of the escalation in Alert Levels on eligible businesses.
- 43** The present Alert Level escalation is more severe than the previous instances in which the RSP was activated. The duration, level and fiscal cost associated with elevated Alert Levels is uncertain and evolving. This is also the first instance of a split Alert Level 4 (in and north of Auckland), Alert Level 3 (south of Auckland) scenario, for which the impacts are uncertain.

44 As set out above, the choice of impacted window for a second payment impacts the fiscal cost of delivering a second payment under the scheme, and determines the degree to which additional fiscal support is targeted towards the most affected firms.

45 The table below provides the Treasury’s latest estimates of the costs of RSPAUG21, subject to decisions on the impacted window:

	Fiscal cost		
Appropriation limit for RSPAUG21	\$900 million		
RSPAUG21 – estimated final cost for first payment	\$700 million		
Forecast amount remaining in the RSP appropriation	\$200 million		
	<i>Option 1</i>	<i>Option 2</i>	<i>Option 3</i>
Estimated cost of a second payment	\$700 million	\$550 million	\$430 million
Further amount to appropriate to meet estimated costs	\$500 million	\$350 million	\$230 million

46 Given updated estimates of the fiscal cost of the present Alert Level escalation, increasing the appropriation by an additional \$230 - 500 million is proposed (subject to the decision on the impacted window). New operating funding will be drawn from the COVID-19 Response and Recovery Fund (CRRF).

47 There is an existing authorisation for Joint Ministers to draw down on the CRRF to meet the final cost of the scheme, should they escalate beyond estimates, up to a cap of \$100 million [CAB-21-MIN-0344 refers].

48 Similar to the approach taken for the Wage Subsidy Scheme, any underspends in the RSP appropriation after the scheme closes will be retained and could be used to fund payments under a future activation of the RSP scheme, subject to the approval of Cabinet.

Impact Analysis

49 A joint Regulatory Impact Analysis quality assurance panel with representatives from the Treasury and Inland Revenue has reviewed the *Resurgence Support Payment Supplementary Analysis Report* produced by the Treasury and Inland Revenue, dated 28 January 2021. The panel considers that it met the Cabinet requirements to support its decision.

- 50** Treasury's Regulatory Impact Analysis team has determined that this proposal for an additional round of the Resurgence Support Payment is exempt from the requirement to provide a Regulatory Impact Statement on the grounds that the relevant issues have been addressed by existing impact analysis [CAB-20-MIN-0531].
- 51** This exemption is granted on the condition that the Cabinet paper clearly demonstrates the estimated fiscal costs and sustainability of the additional round of the payment, and outlines any relevant contextual changes since the previous impact analysis was developed.

Consultation

- 52** The Treasury and Inland Revenue prepared this paper.

Communications

- 53** Inland Revenue will publish additional guidance to support businesses with their applications.

Proactive Release

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

Recommendations

I recommend that the Committee:

- 1** **note** that on 18 August Ministers with the Power to Act activated the Resurgence Support Payment (RSP) August 2021 (RSPAUG21) scheme, which is open for applications until one month after the date on which a national return to Alert Level 1 occurs [CVD-MIN-21-0004 refers];
- 2** **note** that the prolonged period of severe Alert Level restrictions is putting more pressure on firms' ability to meet their costs, and providing further support for firms' ongoing non-wage costs is well-aligned with the government's public health objectives, because it will:
 - 2.1 support cashflow to allow businesses to meet ongoing obligations while remaining compliant with Alert Level restrictions;
 - 2.2 support a swift rebound once restrictions are lifted; and
 - 2.3 reduce the social and economic disruption associated with outbreaks;
- 3** **note** that given its strengths in targeting the most affected firms and current implementation readiness, provision of extra economic support for businesses' ongoing costs is best delivered through the Resurgence Support Payment;
- 4** **note** the decision to provide further support for firms' ongoing non-wage costs is a deviation from the one-off nature of RSP support previously agreed by Cabinet [CAB-20-MIN-0531 refers], but judged to be appropriate and desirable in the present context of prolonged restrictions;

- 5** **note** that “impacted window” refers to the seven consecutive day period which applicants compare to a typical week in the six weeks prior to an Alert Level escalation in order to demonstrate a 30% revenue decline, as part of the eligibility criteria for the RSP;
- 6** **note** that the commencement of the impacted window for a second payment impacts the fiscal cost of delivering a second payment under the scheme, and determines the degree to which additional fiscal support is targeted towards the most affected firms;
- 7** **note** that there are three options for the impacted window to commence, each tied to Alert Level changes:
- i. on 18 August, when all of New Zealand was in Alert Level 4;
 - ii. on 31 August, when Auckland and Northland were in Alert Level 4 and regions south of Auckland were in Alert Level 3;
 - iii. on 8 September, when Auckland was in Alert Level 4 and regions outside of Auckland were in Alert Level 2;
- 8** **note** that option 7(i) is most generous, likely costing \$700m in total and is the preferred option of the Minister of Finance; option 7(ii) represents a middle-way, costing \$550m, but risks generating confusion amongst applicants, given that areas outside of Auckland have now shifted down to Alert Level 2; and option 7(iii) represents the strongest targeting of payments towards firms experiencing ongoing impacts, because firms in Alert Level 2 are likely to experience a rebound in revenue; it is also expected to cost the least (\$430m);
- 9** **agree** to issue a second payment of the RSP, paid at the same rate and according to the same eligibility criteria agreed for RSPAUG21,

EITHER:

- i. with the impacted period commencing 18 August 2021, in line with 7(i) above;

OR:

- ii. with the impacted period commencing 31 August 2021, in line with 7(ii) above;

OR:

- iii. with the impacted period commencing 8 September 2021, in line with 7(iii) above;

- 10** **agree** that applications for the second payment of the RSP will remain open until one month after a nationwide return to Alert Level 1 – meaning applications for both RSPAUG21 payments will close simultaneously;

Order in Council

- 11 note** that a new Order in Council is required to amend the current *COVID-19 Resurgence Support Payments Scheme (August 2021) Order 2021*;
- 12 note** that the attached draft Order in Council, *COVID-19 Resurgence Support Payments Scheme (August 2021) Amendment Order (No 2) 2021*, will be finalised for submission to Executive Council following the Committee's decision on recommendation 9;
- 13 authorise** the submission of the *COVID-19 Resurgence Support Payments Scheme (August 2021) Amendment Order (No 2) 2021* to the Executive Council;
- 14 note** that a waiver of the 28-day rule is sought so that the Order in Council is able to come into force by 17 September, on the grounds that the COVID-19 Alert Level impacts necessitate providing financial support as soon as possible;
- 15 agree** to waive the 28-day rule so that the Order in Council can come into force by 17 September.

Financial Recommendations

- 16 note** that a total of \$899.9 million was appropriated to meet the cost of RSPAUG21 [CAB-21-MIN-0328, CAB-21-MIN-0344 refer];
- 17 note** there is an existing authorisation for Joint Ministers to draw down on the CRRF to meet the final cost of the scheme, should costs escalate beyond estimates, up to a cap of \$100 million [CAB-21-MIN-0344 refers];
- 18 note** the expected final cost of the first payment made under the RSPAUG21 is \$700 million, and as such it is expected that \$199.9 million will be available from the existing appropriation to meet the cost of the second payment;
- 19 note** the second payment made under the RSPAUG21 is expected to cost between \$300-700 million, subject to your decision in recommendation 9, uptake and the evolving nature of the current COVID-19 resurgence event;
- 20 agree** that the cost of the second payment issued under RSPAUG21 will be met from within the COVID-19 Resurgence Support Payment appropriation, and topped-up with new funding corresponding to your decision in recommendation 9:
- i. IF 9(i) is agreed: \$500 million;
 - ii. IF 9(ii) is agreed: \$350 million;
 - iii. IF 9(iii) is agreed: \$230 million;
- 21 approve** the following changes to appropriations to give effect to the policy decision in recommendation 9 above, with a corresponding impact on the operating balance and net core Crown debt:

IF 9(i) is agreed:

	\$m – increase/(decrease)				
Vote Revenue Minister of Revenue	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyear

					s
Non-departmental Other Expense: COVID-19 Resurgence Support Payment	500.000	-	-	-	-

IF 9(ii) is agreed:

	\$m – increase/(decrease)				
Vote Revenue Minister of Revenue	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
Non-departmental Other Expense: COVID-19 Resurgence Support Payment	350.000	-	-	-	-

IF 9(iii) is agreed:

	\$m – increase/(decrease)				
Vote Revenue Minister of Revenue	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
Non-departmental Other Expense: COVID-19 Resurgence Support Payment	230.000	-	-	-	-

- 22 agree** that the proposed change to appropriations for 2021/22 in recommendation 21 above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 23 agree** that the expenses incurred under recommendation 21 above be charged against the COVID-19 Response and Recovery Fund (CRRF), established as part of Budget 2020;

Authorised for lodgement

Hon Grant Robertson

Minister of Finance

