

The Treasury

CAB-21-SUB-0375 - Approach to the Third and Fourth Payments Under the Resurgence Support Payment August 2021 Scheme

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Office of the Minister of Finance

Chair, Cabinet

Approach to the third and fourth payments under the Resurgence Support Payment August 2021 Scheme

Proposal

- 1 This paper seeks agreement to the design settings for the third and fourth payments under the COVID-19 Resurgence Support Payment (RSP) August 2021 scheme.

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 third and fourth 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 the design settings of a third and fourth payment under the COVID-19 Resurgence Support Payment (RSP) August 2021 scheme. Approval is sought for \$5 million over three years in new administrative funding for Inland Revenue to continue to run the RSP scheme.
- 5 On 9 September 2021, following discussions with officials and Ministers, 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. It was 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).
- 6 This, coupled with the decision taken at the same time to provide a second payment on 17 September, adjusts the objective of the RSPAUG21 from the original intent of the scheme agreed by Cabinet (CAB-20-MIN-0531 refers). For this outbreak, the focus is now on supporting firm viability through cashflow support for ongoing fixed costs during this prolonged period of disruption, rather than in response to the initial Alert Level escalation of 17 August 2021.

- 7 Subject to the Alert Level conditions being in place, it was agreed that applications for each payment will be permitted on three-week intervals. This means payment 3 would be available for applications on Friday 8 October, and payment 4 would be available for applications on Friday 29 October.
- 8 One of the key rules of the RSP scheme is that eligible applicants must demonstrate a 30% loss in revenue occurs over 7 consecutive days at an elevated Alert Level. Given that the window between payments 2, 3 and 4 will each be 3 weeks, there are choices about what would activate the scheme and when to measure impacts on revenue.
- 9 I propose that the additional RSP payments are available if anywhere in New Zealand is at Alert Level 2 or above on the application date. This is in line with the current approach and Government communications to date. The implication is that, should New Zealand return to a nationwide Alert Level 1 scenario in the period between payment dates, no payment would be made available.
- 10 The “impacted window” refers to the seven consecutive day period spent above Alert Level 1 which applicants compare to a typical week in the six weeks prior to an Alert Level escalation (the “comparator period”), 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 additional payments.
- 11 I propose the impacted window for payments 3 and 4 commences from seven days before applications open. This will be consistent with the payments to date, is the simplest to understand, ensures minimal lag between impact and payment, and is the best targeted to the most affected firms.
- 12 The impacted window for each RSP payment would end at the same time, immediately before a nationwide return to Alert Level 1.
- 13 The comparator period, which applicants use as a baseline to assess their revenue impact, will remain as it has been for the first and second payments: a typical week in the six weeks preceding the nationwide shift to Alert Level 4 on 17 August.
- 14 All payments under the RSPAUG21 scheme will be available for applications until one month after a nationwide return to Alert Level 1.

Background

- 15 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:
 - 15.1 the formula amount (\$1,500 and an additional \$400 per FTE (up to 50 FTEs)), or
 - 15.2 four times the firm’s experienced revenue drop over the impacted 7-day period.

- 16 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).
- 17 On 9 September 2021, the COVID-19 Ministerial Group agreed to issue a second payment of the RSP, paid at the same rate and according to the same eligibility criteria agreed for RSPAUG21. Applications for the second payment will open on 17 September (CMG-21-MIN-0023 refers).
- 18 As of 16 September, \$612 million in support has been applied for under the first payment of the scheme, with \$563 million disbursed to approximately 185,000 applicants. Uptake data on the second payment is not yet available. The final cost of the scheme is forecasted to reach \$700 million for the first payment and up to \$430 million for the second payment.
- 19 The COVID-19 Ministerial Group also 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. It was also agreed that the criteria and settings for the payment should remain the same to the extent that is practical and possible.
- 20 One of the key rules of the scheme is that eligible applicants must demonstrate a 30% loss in revenue occurs over 7 consecutive days. Given that the window between payments 2, 3 and 4 will be 3 weeks, there are choices about what technically would activate the scheme and when to measure impacts.

Activating the third and fourth payments of the RSPAUG21 scheme

- 21 I propose that the additional RSP payments are available if anywhere in New Zealand is at Alert Level 2 or above on the application date. This is in line with the current approach and Government communications to date.
- 22 The implication is that, should New Zealand return to a nationwide Alert Level 1 scenario in the period between payment dates (between the second and third, or the third and fourth), no payment would be made available.

Setting the impacted revenue period (“impacted window”)

- 23 The decision on how to activate the payments affects the commencement of an impacted revenue drop period.
- 24 The “impacted window” refers to the seven consecutive day period at elevated Alert Levels 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 payments under the RSP scheme.
- 25 The COVID-19 Ministerial Group recently agreed to set the impacted window for the second RSP payment from the Alert Level change that came into effect on 8 September (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. Whilst it is the most effective way to target economic support in proportion to Alert Level impacts, officials have advised that it is too complex an approach for a regular payment model.

- 26 For the second RSP payment there was a level of certainty that a part of New Zealand – likely Auckland – would be at Alert Level 2 or above at the time it would be open for applications. However, this is not necessarily the case for the third payment and 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 applications open for a payment, this would need to be disregarded as it fails the 7-day test outlined in paragraph 20. Together, these factors could create confusion for applicants.
- 27 I propose the impacted window commences from seven days before applications open. This will be the simplest to understand, ensures minimal lag between impact and payments, and is well targeted to the firms experiencing ongoing disruption.
- 28 The impacted window for each RSP payment would end at the same time, immediately before a nationwide return to Alert Level 1.

Other points of clarification

- 29 The application dates are set at 8 and 29 October and will not deviate if Alert Levels increase between payments.
- 30 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.
- 31 Owing to the final release of Inland Revenue's Business Transformation programme, all systems will be closed down for a period at this stage indicatively planned for 4pm on 21 October to 8am on 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.
- 32 Applications for all payments available under RSPAUG21 will be permitted until one month following a nationwide return to Alert Level 1.

Order in Council

- 33 The existing RSP legislation in the Tax Administration Act 1994 allows for an activated RSP scheme to be amended by Order in Council, and that an amendment can accommodate additional payments under the RSPAUG21 scheme.
- 34 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*. I will seek Cabinet approval to submit the amending Order to Executive Council before applications open for the third payment.
- 35 Officials will also continue to monitor the extent to which any changes to the scheme made in future are in line with legislative obligations.

Financial Implications

- 36 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. The main determinant of the fiscal cost of the RSP scheme is the Alert Level situation in place during the agreed impacted window.
- 37 The duration, level and fiscal cost associated with elevated Alert Levels is uncertain and evolving. Ahead of decisions confirming the restrictions in place at the time of the payments, there will be considerable uncertainty around the cost of the third and fourth payments.
- 38 The table below provides the Treasury's indicative estimates of the costs of RSPAUG21, subject to decisions on the impacted window:

	Fiscal cost
Current appropriation limit for RSPAUG21	\$1,130 million
RSPAUG21 – estimated final cost for first payment	\$700 million
RSPAUG21 – estimated final cost for second payment	\$430 million
RSPAUG21 – estimated cost for third payment	\$100 – 200 million
RSPAUG21 – estimated cost for fourth payment	\$40 – 120 million
Estimated combined cost of four RSPAUG21 payments	\$1,270 - \$1,450 million

- 39 Funding to meet the costs of each of these payments will be sought as increases to the existing appropriation once there is greater clarity on the Alert Level scenario near the time of each payment. The estimated cost of each of the payments will be more refined at this time, as the Alert Level situation in place becomes clear. New operating funding will be drawn from the COVID-19 Response and Recovery Fund (CRRF).
- 40 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].
- 41 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.

Impacts of additional payments on Inland Revenue's administrative costs

- 42 In mid-December 2020, Inland Revenue received administrative funding of \$9 million from the COVID-19 Response and Recovery Fund to support the administration of the RSP scheme (CAB-20-MIN-0531 refers). The RSP has since been activated in February 2021, March 2021, July 2021, and August 2021. The increase in RSP activations has meant an increase in customer contacts, pre-approval reviews, web messages, and changes to web content and training materials. RSPAUG2021 has been the largest RSP activation receiving over 200,000 applications, compared to a maximum of 45,000 applications previously.
- 43 To enable Inland Revenue to recover some of its business-as-usual operations while providing ongoing support to the COVID-19 response, including initiatives such as additional payments under the RSPAUG21, it is proposed to increase the agency's baseline in the short term to cover the increase in administrative costs. There is some uncertainty around the likely impact of the further initiatives, and Inland Revenue will continue to monitor this.
- 44 The profile of the funding recognises that Inland Revenue will incur some costs to ensure the applications and payments are processed quickly, given the high volumes expected. This initial activity is followed up in subsequent years with post-payment verification, audits, and any associated debt collection. Most of this activity will occur in 2022/23, with a tail in the following two years. However, given uncertainty around the size of these costs, Inland Revenue is requesting funding for only three years.
- 45 The administrative cost increase of \$5 million over three years recognises the anticipated costs of the RSP initiative, especially the (initially) high-trust nature of the payments. Some capacity will need to be built and retained, but if further funding is required, this will be sought separately, such as through the Budget process.

Impact Analysis

- 46 Treasury's Regulatory Impact Analysis team has determined that this proposal for the third and fourth payments under the Resurgence Support Payment August 2021 Scheme 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, and link to the published SAR].
- 47 This exemption is granted on the condition that the Cabinet paper clearly demonstrates the estimated fiscal costs and sustainability of the third and fourth payments, and outlines any relevant contextual changes since the previous impact analysis was developed.

Consultation

- 48 The Treasury and Inland Revenue prepared this paper. The Ministry of Business, Innovation and Employment and the Department for the Prime Minister and Cabinet were consulted.

Communications

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

Proactive Release

- 50 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 Cabinet:

- 1 **note** that on 9 September 2021, 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. It was 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);
- 2 **agree** that the RSPAUG21 is now supporting firm viability through cashflow support for ongoing fixed costs during this prolonged period of disruption, rather than in response to the initial Alert Level escalation;
- 3 **note** that one of the key rules of the scheme is that eligible applicants must demonstrate a 30% loss in revenue occurs over 7 consecutive days. Given that the window between the additional RSP payments will be three weeks, there are choices about what would activate applications and when to measure impacts;
- 4 **agree** that applications for the third and fourth payments of the RSPAUG21 will be activated if anywhere in New Zealand is at or above Alert Level 2 on the respective application dates and there has not been a nationwide return to Alert Level 1 since 17 August;
- 5 **note** that “impacted window” refers to the seven consecutive day period at elevated Alert Levels 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 **agree** that if the activation criteria set out in paragraph 4 are met, third and fourth payments of the RSPAUG21 will be paid at the same rate and according to the same eligibility criteria agreed for RSPAUG21, with the impacted period commencing 7 days before each application opens;
- 7 **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;
- 8 **note** that applications for all payments available under RSPAUG21 will be permitted until one month following a nationwide return to Alert Level;
- 9 **agree** that the application dates are set at 8 and 29 October 2021 and will not deviate if Alert Levels increase between payments;
- 10 **note** that if a nationwide return to Alert Level 1 occurs, but an increase in Alert Levels follows, Cabinet could decide to activate a new RSP scheme (e.g. RSPOCT21, with the supporting Order in Council) and applications would be possible seven consecutive days later, subject to constraints detailed in the following recommendation;

- 11 **note** that owing to Inland Revenue's Business Transformation programme, any RSPAUG21 applications and payments will not be possible throughout the shutdown period, which is at this stage indicatively planned for between 4pm on 21 October and 8am on 28 October;

Order in Council

- 12 **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;
- 13 **note** that, following decisions in this paper, the Minister of Finance will issue drafting instructions to the Parliamentary Counsel Office to implement the decisions set out above; and will seek Cabinet approval to submit the amending Order in Council to the Executive Council before applications open for the third payment;
- 14 **agree** that the Minister of Finance, in consultation with the Minister of Social Development and the Minister of Revenue as appropriate, is authorised to further clarify and develop policy matters relating to the proposals in this Cabinet paper in a manner not inconsistent with the policy recommendations contained in the paper;

Financial Recommendations

- 15 **note** that a total of \$1129.9 million was appropriated to meet the cost of the first and second payment under RSPAUG21 [CAB-21-MIN-0328, CAB-21-MIN-0344 CMG-21-MIN-0023 refer];
- 16 **note** the expected final costs of the first payment and second payments made under the RSPAUG21 are \$700 million and \$430 million respectively, subject to the uptake and the evolving nature of the current COVID-19 resurgence event;
- 17 **note** the early indicative costs of the third and fourth payment are \$100 – 200 million and \$40 – 120 million respectively, subject to the Alert Level scenario in place at the time of the payments;
- 18 **note** that the Minister of Finance will return to Cabinet to gain approval for the financial implications of each of the third and fourth payments, which will be sought separately as increases to the existing appropriation drawn from the COVID-19 Response and Recovery Fund (CRRF), within the ranges set out in recommendation 17;
- 19 **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];
- 20 **approve** the following changes to appropriations to enable Inland Revenue to administer the RSP scheme consistent with the decisions above, with a corresponding impact on the operating balance and net core Crown debt;

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)				
<i>Investigations</i>	1.200	1.200	0.600	-
<i>Services to inform the Minister and the public about entitlements and meeting obligations</i>	0.400	0.400	0.200	-
<i>Services to process obligations and entitlements</i>	0.400	0.400	0.200	-
Total Operating	2.000	2.000	1.000	-

- 21 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;
- 22 agree** that that the expenses incurred under the recommendation above be charged against the COVID-19 Response and Recovery Fund;
- 23 agree** that the administrative funding for Inland Revenue in 2023/24 relates to post-payment verification, audit and debt-collection activities;
- 24 note** that Inland Revenue is likely to incur costs in 2023/24 and 2024/25 relating to post-payment verification, audit and debt-collection activities, of which only the funding in 2023/24 is approved at recommendation 19 above.

Authorised for lodgement

Hon Grant Robertson

Minister of Finance