

The Treasury

CAB-21-SUB-0398 - The COVID-19 Resurgence Support Payment

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Office of the Minister of Finance

Chair, Cabinet

THE COVID-19 RESURGENCE SUPPORT PAYMENT

Proposal

1. This paper seeks agreement to submit an Order in Council amending the COVID-19 Resurgence Support Payment (RSP) August 2021 scheme to the Executive Council. The proposed amendments will:
 - 1.1 allow third and fourth payments under the August RSP scheme;
 - 1.2 refine the scheme to better support members of commonly owned groups.
2. The paper also seeks agreement to changes to appropriations to cover the cost of the third and fourth payments.

Relation to Government Priorities

3. The proposals support the Government's overarching objective of keeping New Zealanders safe from COVID-19. This includes protecting jobs, livelihoods and strengthening the economy.
4. Specifically, the proposals will ensure a package of financial support is in place for businesses and individuals in the event of Alert Level escalations following future resurgences of COVID-19 in the community, with the aim of limiting the economic and social impacts if outbreaks occur. They also seek to reduce the risk of resurgences by supporting workers to stay at home when sick. These goals are complementary, as protecting New Zealanders from the virus will also support economic activity resuming quickly after any outbreaks.

Background

5. The RSP was designed to be a one-off payment to eligible businesses and organisations ("Businesses") in the event of an escalation in Alert Levels that lasts seven consecutive days or more. Under the RSP, eligible firms receive the lesser of:
 - 5.1 the formula amount (\$1,500 and an additional \$400 per FTE (up to 50 FTEs)); or
 - 5.2 four times the firm's experienced revenue drop over the impacted 7-day period.

6. Businesses can apply for the payment when there is an escalation to COVID-19 Alert Level 2 or above, the RSP is activated, and they have experienced a loss in revenue of at least 30% as a result of the escalation.
7. 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).
8. On 9 September 2021, the COVID-19 Ministerial Group agreed to issue a second payment of the RSP, paid at the same rate and eligibility criteria agreed for RSPAUG21. Applications for the second payment opened on 17 September 2021 (CMG-21-MIN-0023 refers).
9. On 20 September 2021, Cabinet agreed that the purpose of RSPAUG21 is now support firm viability through cashflow for ongoing fixed costs during this prolonged period of disruption, rather than provide a response to the initial Alert Level escalation (CAB-21-MIN-0375).
10. The scheme has been very successful at getting support to businesses to meet their non-wage costs. As at 28 September, Inland Revenue has received 217,316 applications for the first August payment for a total of \$641.82 million, with \$601.51 million disbursed. Inland Revenue has received 107,511 applications for the second August payment for a total of \$312.37 million, with \$294.97 million disbursed. The average amount applied under the first payment was \$2,953.42 and \$2,905.50 for the second.

Additional Resurgence Support Payments

11. On 20 September 2021, Cabinet agreed that a third and fourth payment under the COVID-19 Resurgence Support Payment (RSP) August 2021 scheme would be activated if anywhere in New Zealand is at Alert Level 2 or above (CAB-21-MIN-0375).
12. Subject to the Alert Level conditions being in place, it was agreed that applications for a third payment would open from 8 October 2021, and for a fourth payment from 29 October 2021.
13. Businesses would be eligible for these payments if they have experienced a loss in revenue of at least 30% over any seven consecutive days starting from the seven days prior to applications being available until the country returns to Alert Level 1. Applications would remain open for one month after a return to Alert Level 1.
14. The Order in Council, *COVID-19 Resurgence Support Payments Scheme (August 2021) Amendment Order (No 3) 2021*, will implement Cabinet's decisions on 20 September 2021 and amend RSPAUG21 to allow third and fourth payments under the scheme.

A further refinement to the scheme is required

15. The way in which a small number of commonly owned groups (COGs) are structured impacts their entitlement to a payment under the RSP scheme. Issues arise where all employees for the group are employed by one member of the group (that often does not meet the required revenue loss). This is primarily done for administrative reasons, and while the legal employment relationship is with one member, in practise these employees work for other group members.
16. The issue with this structure is that these employees cannot be included in the calculation for other members because these members are not their legal employer. As a result, the other members of the group that have no employees are only eligible for the \$1,500 base payment, and not for the \$400 per employee amount.
17. Ideally, the way in which a business is structured should not impact its legitimate entitlement to support. Around 6,900 applicants have identified themselves as part of a COG in the RSPAUG21.¹ While it is difficult to determine how many COGs may be in the above situation, Inland Revenue is aware of around a dozen COGs that could be.
18. I have considered solutions to address this issue that can be deployed quickly to give businesses in this situation certainty as to their RSP entitlement. I recommend a targeted solution that amends the calculation of the payment amount for COGs. Eligible members of a COG would be able to receive an amount based on their day-to-day employment arrangements, as opposed to the legal employment relationships within the group.
19. For the vast majority of COGs that have working arrangements that reflect their legal employment relationships, there will be no change. The maximum cap of 50 FTE employees will still apply to each COG member, along with all other existing eligibility criteria.

Implementation

20. The RSP is administered by Inland Revenue. I understand that Inland Revenue is focused on delivering the Government's COVID-19 response and other critical activities. The Department is also preparing for the final release of its Business Transformation (BT) Programme. To enable their systems to upgrade, their systems will be closed down from 21 to 28 October, during which time businesses will not be able to apply for the RSP.
21. While Inland Revenue is able to administer the proposals covered in this paper, in the lead up to the BT final release in October, they have advised me that no further changes that may have an impact on their systems will be possible.
22. A \$5 million increase to Inland Revenue's appropriation over the forecast period was approved on 20 September 2021 (CAB-21-MIN-0375) to cover the additional costs associated with a third and fourth payment. The administrative funding covers post-payment verification, audits, and debt-collection activities.

¹ Note, some of these businesses may have incorrectly identified themselves as being part of a COG.

23. The proposed refinement to the rules that apply to COGs has minor administrative impacts on Inland Revenue. COG members who are impacted will be able to amend any previous applications for the August RSP. Inland Revenue will also contact those Businesses that they are aware of who applied for the RSP but were declined on the basis they did not meet the eligibility requirement of being the legal employer.

Financial Implications

24. 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.
25. 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.
26. Auckland remaining at Alert Level 3 through the month of October would result in costs near the upper estimates (around \$200 million per payment). Earlier progressions down Alert Levels lessen the cost.
27. The table below provides the Treasury's indicative estimates of the costs of RSPAUG21:

| | 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 – 200 million |
| Estimated combined cost of four RSPAUG21 payments | \$1,270 - \$1,530 million |
| Further amount to appropriate to meet costs of RSPAUG21 – payments 3 and 4 | \$400 million |

28. I propose appropriating \$400 million in new operating funding to provide for coverage of the payments in a scenario where Auckland remains at higher Alert Levels across

the payment periods. New operating funding will be drawn from the COVID-19 Response and Recovery Fund (CRRF).

29. However, any worsening public health scenario which requires Alert Level 3 to be in place nationwide, upon the commencement of the impacted period for a payment, would result in payments estimated at \$300 million. If a resurgence which required a return to Alert Level 4 nationwide were to take place, all payments would have an estimated final cost of up to \$700 million. In either case, further funding would need to be sought.
30. 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].
31. 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 Cabinet approval).
32. The fiscal cost of the COGs amendment is expected to be minor and within the existing appropriation.

Order in Council

33. The Order in Council, *COVID-19 Resurgence Support Payments Scheme (August 2021) Amendment Order (No 3) 2021*, would amend the COVID-19 Resurgence Support Payments Scheme (August 2021) Order 2021. This Order was made under section 7AAC of the Tax Administration Act 1994. The amending Order would allow third and fourth payments to be made under RSPAUG21 and will amend the rules for COGs.
34. The settings for the third and fourth payments would come into force on their application dates, 8 October, and 29 October, respectively. The amendment for COGs will come into force on 8 October 2021, however COGs will be able to amend previous applications under the August RSP.
35. A waiver of the 28-day rule is sought, on the basis that amending the eligibility criteria as soon as possible is necessary to help Businesses directly impacted by the Alert Level change to cover their expenses.
36. The Order in Council complies with:
 - 36.1 the principles of the Treaty of Waitangi;
 - 36.2 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;
 - 36.3 the principles and guidelines set out in the Privacy Act 2020;
 - 36.4 relevant international standards and obligations;

36.5 the Legislation Guidelines (2018 edition), which are maintained by the Legislation Design and Advisory Committee.

37. 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.

Impact Analysis

Regulatory Impact Assessment

38. 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.
39. The treatment of commonly owned groups of firms was not analysed in the Report.

Population Implications

40. The proposals in this paper will support our national effort to eliminate COVID-19, for the benefit of all New Zealanders. The RSP provides additional financial support to firms to allow them to continue to pay their staff and cover non-wage costs, and quickly continue operations as soon as Alert Level restrictions allow. This benefits individuals employed by those firms.
41. Uptake of the RSP has been broad across sectors, ethnicities, and regions, benefitting a wide cross-section of society including women, Māori, and Pasifika, who make up a proportion of some of the most affected sectors. We expect extending the eligibility criteria to be consistent with these population implications.

Consultation

42. Inland Revenue and the Treasury jointly prepared this paper.

Communications

43. To provide businesses with clarity on this change, I will make an announcement as soon as practical. Inland Revenue will also update its advice on their website.

Proactive Release

44. This paper will be proactively released with any appropriate withholdings as soon as practicable after public communication of the change.

Recommendations

The Minister of Finance recommends that the Committee:

1. **note** that on 20 September 2021, Cabinet agreed that a third and fourth payment under the COVID-19 Resurgence Support Payment August 2021 scheme would be

activated if anywhere in New Zealand is at or above Alert Level 2 (CAB-21-MIN-0375).

2. **note** that, subject to the Alert Level conditions being in place, a:
 - 2.1 third payment will be available for applications from Friday 8 October; and
 - 2.2 fourth payment will be available for applications from Friday 29 October.
3. **note** the way in which a small number of commonly owned groups are structured impacts their entitlement to the resurgence support payment.
4. **agree** that the calculation of a payment under the COVID-19 Resurgence Support Payment August 2021 scheme should be amended to allow eligible members of a commonly owned group to receive an amount based on the day-to-day working arrangements of the member.

Order in Council

5. **note** that a new Order in Council is required to amend the current eligibility requirements in the COVID-19 Resurgence Support Payments (August 2021) Order 2021.
6. **authorise** the submission of the COVID-19 Resurgence Support Payment Scheme (August 2021) Amendment Order (No 3) 2021 to the Executive Council.
7. **note** that a waiver of the 28-day rule is sought so that the Order in Council can come into force by 8 October 2021, on the grounds that the eligibility criteria should be amended as soon as possible to help businesses directly impacted by the Alert Level change to cover their expenses.
8. **agree** to waive the 28-day rule so that the Order in Council can come into force by 8 October 2021.

Financial Recommendation

9. **note** that a total of \$1129.9 million was appropriated to meet the cost of RSPAUG21 [CAB-21-MIN-0328, CAB-21-MIN-0344, CMG-21-MIN-0023 refer].
10. **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].
11. **note** the third and fourth payments made under the RSPAUG21 are expected to cost between \$140-400 million cumulatively, subject to uptake and the evolving nature of the current COVID-19 resurgence event.
12. **agree** that the cost of the third and fourth payments issued under RSPAUG21 will be met from within the COVID-19 Resurgence Support Payment appropriation, topped-up with new funding of \$400 million.

13. **approve** the following changes to appropriations to give effect to the policy decision in recommendation 1 above, with a corresponding impact on the operating balance and net core Crown debt:

| | \$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 | 400.000 | - | - | - | - |

14. **agree** that the proposed change to appropriations for 2021/22 in recommendation 13, above, be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply.
15. **agree** that the expenses incurred under recommendation 12 above be charged against the COVID-19 Response and Recovery Fund (CRRF), established as part of Budget 2020.
16. **note** that the amendment to the calculation of a payment under the COVID-19 Resurgence Support Payment August 2021 scheme for commonly owned groups is minor and within the existing appropriation.

Authorised for lodgement

Hon Grant Robertson
Minister of Finance