

The Treasury

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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 a payment under the August RSP scheme on 12 November; and
 - 1.2 double the RSP payment amount from 12 November.
2. The paper also seeks agreement to:
 - 2.1 minor amendments to the Tax Administration Act 1994 to adapt the current RSP legislation into a generalised COVID-19 support payment framework, and
 - 2.2 appropriate additional funds for the Small Business Cashflow Loan Scheme (SBCS).

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. 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 on 24 August (RSPAUG21).
 8. Since the first activation, further payments have been made available on 17 September (CMG-21-MIN-0023 refers), 8 October and 29 October (CAB-21-MIN-0375). The RSP is now supporting firm viability through cashflow support for ongoing fixed costs during this prolonged period of disruption (CAB-21-MIN-0375).
 9. The scheme has been very successful at getting support to businesses to meet their non-wage costs. As at 1 November, Inland Revenue has received 482,799 applications for \$1,371,856,821.04 under the August RSP scheme.

Additional Resurgence Support Payments

10. On 21 October 2021, COVID-19 Ministerial Group agreed that further payments under the RSP August 2021 scheme would be available on 12 November, 26 November and 10 December as long as Auckland has not moved to the new COVID protection framework (CPF) (CMG 21 October 2021 refers).
11. The COVID-19 Ministerial Group agreed that, assuming the activation criteria is met, the additional payments will be paid at double the current rate, specifically:
 - 11.1 \$3,000 + \$800 FTE, or
 - 11.2 eight times the revenue decline.
12. 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.
13. The Order in Council, *COVID-19 Resurgence Support Payments Scheme (August 2021) Amendment Order (No 5) 2021*, gives effect to the above decisions for the payment on 12 November. Given the uncertainty as to when Auckland moves to the new CPF, I will return to Cabinet with another Order in Council for payments on 26 November and 10 December if Auckland is still under the current Alert Level Framework.

Achieving flexibility for future COVID-19 support payments

14. The Tax Administration Act 1994 provides authorisation for payments to be made under the RSP scheme. These sections contain specific references to supporting eligible businesses if there is a 'resurgence in New Zealand of COVID-19' or an escalation in 'COVID-19 Alert Levels.'

15. The shift from the current Alert Level Framework to the CPF, as well as the shift of focus from elimination to an approach based on minimisation and protection, means the current legislative framework requires amending. I am also considering what economic support should be available once New Zealand is operating under the CPF, depending on the design of this support, the existing legislation may not be fit for purpose.
16. I am proposing to adapt the existing RSP legislation into a generalised COVID-19 support payment framework. The new framework will retain the overall objective of supporting eligible businesses affected by COVID-19 restrictions but will not be linked to the current Alert Level Framework or limited to 'an escalation in 'COVID-19 Alert Levels'. These changes will also require minor consequential amendments to the Income Tax Act 2007.
17. The amended legislative framework will allow the Governor-General, by Order in Council, to authorise payments to be made to support eligible persons in New Zealand affected by the continuation of, or changes to, COVID-19 related measures or circumstances in New Zealand. This flexibility will allow the Government to continue to support businesses under a variety of scenarios.
18. Similar to the existing RSP provisions, the new COVID-19 support payments framework will provide that the activation criteria, eligible persons, circumstances of the payment, and calculation of payment amounts may be set by Order in Council.
19. I propose that Cabinet authorises myself and the Minister of Revenue to make decisions on the detailed design of these amendments. I also propose that Cabinet authorises the Minister of Revenue, in consultation with the Leader of the House, to introduce legislation containing these amendments on 23 November and progress under urgency.

Additional funds for the Small Business Cashflow scheme

20. In April 2020, Cabinet agreed to establish the Small Business Cashflow Scheme (SBCS) [CAB-20-MIN-0196]. The SBCS was introduced to provide loans to support small to medium businesses and organisations struggling with a loss of actual revenue due to COVID-19.
21. The closing date for applications was initially extended to 31 December 2020 [DEV-20-MIN-0131] before another extension was agreed, to extend the closing date to 31 December 2023 [CAB-20-SUB-0467].
22. The SBCS has operated since May 2020 with \$1.8 billion lent to date. Of that, \$1.4 billion was lent between May and June 2020, and \$0.3 billion lent within 2020/21 and just over \$0.1 billion lent in the 2021/22 year.
23. Over \$120 million has been lent to small businesses through the SBCS since the Alert Level change on 17 August 2021. Recently, this has averaged roughly \$1 million a day. If this trend continues, the appropriation limit will be exceeded towards the end of the calendar year. Additional funding is therefore required to ensure that this does not occur. However, officials anticipate that demand for SBCS loans will decrease over time, especially because small businesses can only take out one loan

(unless they repay it in full, in which case they may be eligible for a new loan), and because restrictions on business activity are expected to loosen. The reforecast (and, by extension, the new funding sought) recognises this expected fall in demand.

24. The following table sets out the forecast changes due to the recent escalation in Alert Levels:

Non-departmental capital expenditure	\$m - increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
Small Business Cashflow Scheme					
BEFU 2021	175.000	172.000	90.000	-	-
HYEFU 2021	333.000	168.000	83.000	-	-
Forecast change	158.000	(4.000)	(7.000)	-	-

Financial Recommendations

Small Business Cashflow scheme

25. The increase to appropriations to meet the forecast cost of the SBCS would have a fiscal impact. Officials consider that this cost is best charged to the COVID Response and Recovery Fund, as it meets the criteria “core economic response measures to deal with a resurgence”.
26. Due to the forecast shortfall in 2021/22, an additional appropriation of \$225.624 million may be needed to ensure Inland Revenue can administer the SBCS in line with business demands.
27. However, given how uncertain the demand for the scheme is, I propose a lesser amount, with the intention of reassessing demand in the new year. This would reduce the pressure on the CRFF in the near-term.
28. I propose increasing the SBCS appropriation by \$115 million which would cover approximately \$1m a day, through to the end of March 2022. This would have a corresponding increase to the SBCS initial fair-value write-down appropriation of \$49.220 million with a total operating cost of \$164.220 million.

Vote Revenue Minister of Revenue	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26 & outyears
Non-departmental capital expenditure					
Small Business Cashflow Scheme	115.000	-	-	-	-
Total Capital	115.000	-	-	-	-

	\$m – increase/(decrease)				
Vote Revenue	2021/22	2022/23	2023/24	2024/25	2025/26 & outyears
Minister of Revenue					
Non-departmental other expenses					
IFVWD Small Business Cashflow Scheme	49.220	-	-	-	-
Total Operating	49.220	-	-	-	-

Resurgence Support Payment

29. Alongside the agreement to provide further payments under the RSP August 2021 scheme, CMG noted that further payments under the RSPAUG21 on 12 November, 26 November, and 10 December would be expected each to cost between \$220 – \$440 million, and agreed that the cost of the three payments will be met by new funding of \$1,320 million.
30. There are no additional financial implications relating the RSP resulting from the decisions taken in this paper, as the appropriation changes required to give effect to the policy decisions actioned in this paper were approved by CMG on 21 October.

Order in Council

31. The Order in Council, *COVID-19 Resurgence Support Payments Scheme (August 2021) Amendment Order (No 5) 2021*, would amend the COVID-19 Resurgence Support Payments Scheme (August 2021) Order 2021. The principal Order was made under section 7AAC of the Tax Administration Act 1994. The amending Order would allow a further payment to be made under RSPAUG21 at double the rate on 12 November 2021.
32. A waiver of the 28-day rule is sought to allow the amending Order to come into force on 12 November 2021, on the basis that the Order is required as soon as possible is necessary to help businesses directly impacted by the Alert Level change to cover their expenses.
33. The Order in Council complies with:
 - 33.1 the principles of the Treaty of Waitangi;
 - 33.2 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;
 - 33.3 the principles and guidelines set out in the Privacy Act 2020;

- 33.4 relevant international standards and obligations;
 - 33.5 the Legislation Guidelines (2018 edition), which are maintained by the Legislation Design and Advisory Committee.
34. 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

35. The Regulatory Impact Analysis (RIA) Team at the Treasury previously granted an exemption for the proposals relating to an additional Resurgence Support Payment on 12 November 2021, and doubling the RSP payment amount from 12 November 2021 from the requirement to provide a Regulatory Impact Statement. The exemption was on the grounds that they are intended to manage, mitigate or alleviate the short-term impacts of the declared emergency event of the COVID-19 pandemic, and implementation of the policy is required urgently to be effective (making a complete, robust and timely Regulatory Impact Statement unfeasible) [CMG 21 October refers].
36. In relation to the proposals in this paper, the RIA Team has determined that the technical amendments to the Tax Administration Act 1994 to ensure the current RSP legislation allow payments under the new COVID-19 protection framework are exempt from the requirement to provide a Regulatory Impact Statement on the grounds that they have no or only minor impacts on businesses, individuals and not-for-profit entities.

Population Implications

37. 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.
38. 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

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

Communications

40. Inland Revenue will update its advice on their website to inform businesses of the RSP available on 12 November.

Proactive Release

41. 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 21 October 2021, the COVID-19 Ministerial Group agreed that additional payments under the COVID-19 Resurgence Support Payment August 2021 scheme would be activated on 12 November, 26 November and 10 December if anywhere in New Zealand is at or above Alert Level 2, and as long as Auckland has not moved to the COVID-19 Protection Framework.
2. **note** that, subject to the conditions set out in recommendation 1 being in place, further payments will be made at double the payment rate, \$3,000 + \$800 per full time equivalent worker.

Order in Council

3. **note** that a new Order in Council is required to amend the *COVID-19 Resurgence Support Payments (August 2021) Order 2021* to authorise Inland Revenue to make available a Resurgence Support Payment on 12 November 2021.
4. **authorise** the submission of the *COVID-19 Resurgence Support Payment Scheme (August 2021) Amendment Order (No 5) 2021* to the Executive Council.
5. **note** that a waiver of the 28-day rule is sought so that the Order in Council can come into force by 12 November 2021, on the grounds that the scheme should be amended as soon as possible to allow a further payment to help businesses directly impacted by the prolonged escalation in Alert Levels.
6. **agree** to waive the 28-day rule so that the Order in Council can come into force by 12 November 2021.
7. **note** that I will return to Cabinet to seek authorisation for the 26 November and 10 December payments.

Resurgence Support Payment flexibility

8. **note** that the existing legislation in the Tax Administration Act 1994 may not allow the Resurgence Support Payment to be activated under the new COVID-19 Protection Framework.

9. **agree** to amendments to the Tax Administration Act 1994 and Income Tax Act 2007 to modify the existing Resurgence Support Payment rules into a general COVID-19 support payment framework.
10. **authorise** the Minister of Finance and the Minister of Revenue to make decisions on the detailed design of the amendments referred to in recommendation 9.
11. **authorise** the Minister of Revenue, in consultation with the Leader of the House, to introduce a Bill under urgency on 23 November 2021 containing the amendments in set out in recommendation 9.

Financial Recommendations

12. **agree** to appropriate only part of the remaining forecast cost of the Small Business Cashflow Loan Scheme, with a total operating balance impact of \$164.220 million.
13. **approve** the following increase of \$115.000 million to provide for the part-year forecast cost of the Small Business Loan Scheme, with 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 capital expenditure					
Small Business Cashflow Scheme	115.00 0	-	-	-	-
Total Capital	115.000	-	-	-	-

14. **approve** the following increase to the initial fair-value write-down, to give effect to the decision at recommendation 13 above, with corresponding impact on the operating balance only:

	\$m – increase/(decrease)				
Vote Revenue Minister of Revenue	2021/22	2022/23	2023/24	2024/25	2025/26 & outyears
Non-departmental other expenses					
IFVWD Small Business Cashflow Scheme	49.220	-	-	-	-
Total Operating	49.220	-	-	-	-

15. **agree**, that the proposed change to appropriations for 2021/22 in recommendations 13-14 above, be included in the 2021/22 Supplementary Estimates, and that in the interim, the increase be met from Imprest Supply.
16. **agree** that the expenses incurred under paragraph 13-14 above be charged against the COVID-19 Response and Recovery Fund, established as part of Budget 2020.
17. **note** that \$1,320 million was appropriated to meet the cost of the 12 November, 26 November, and 10 December payments issued under RSPAUG21 [CMG 21 October refers].

Authorised for lodgement

Hon Grant Robertson
Minister of Finance