

The Treasury

Advice on COVID-19 Response - Tranche Three Information Release

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Cabinet

Minute of Decision

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Economic Supports under Omicron

Portfolio **Finance**

On 21 February 2022, Cabinet, following reference from the Cabinet Economic Development Committee:

- 1 **agreed** that broad-based business support is not appropriate to respond to Omicron as most businesses can operate with few restrictions under the Red setting of the COVID-19 Protection Framework;
- 2 **noted** that some sectors, namely hospitality, arts and recreation, private transport and retail, are disproportionately affected by the Omicron outbreak in New Zealand;
- 3 **noted** that sector-specific economic support is not the most appropriate means of providing immediate cashflow support to impacted businesses;
- 4 **noted** that the Commissioner of Inland Revenue has discretion to offer deferred payment on some tax obligations to businesses experiencing financial difficulty;
- 5 **noted** that Cabinet recently agreed to extend support for the events and arts and cultural sectors (CAB-22-MIN-0009 and DEV-22-MIN-0007 refer);
- 6 **noted** that the Leave Support Scheme (LSS) and Short-term Absence Payment (STAP) remain available to help businesses pay employees required to self-isolate;

Small Business Cashflow Scheme

- 7 **agreed** that new and existing SBCS borrowers be permitted to take out a top up loan;
- 8 **agreed** that this top up loan should be delivered as an increase of \$10,000 to the SBCS base rate;
- 9 **agreed** that new and existing borrowers be able to draw down loan amounts in up to four instalments over the lifetime of the scheme (the SBCS closes December 2023);
- 10 **agreed** that existing borrowers be able to draw down any un-borrowed loan amount from their original loan;
- 11 **agreed** to charge interest on new and existing loans after two years from that point forward, rather than backdating the interest to the start of the loan except in the event of a default;

- 12 **noted** it will take up to four weeks from Cabinet decisions for Inland Revenue to make the required changes;
- 13 **authorised** the Minister of Finance and the Minister of Revenue to make minor policy and technical decisions related to the loan scheme, consistent with the policy in this Cabinet paper;

Financial impacts of the Small Business Cashflow Scheme

- 14 **noted** that the financial recommendations in this section cover the impacts of three discrete decisions:
- 14.1 to provide a ‘top up’ SBCS loan (see paragraphs 7-9 above);
 - 14.2 to eliminate the backdating of interest on new and existing loans (see paragraph 11 above); and
 - 14.3 to provide funding for the expected increase in forecast uptake of SBCS loans (see paragraphs 19-20 below);

Provide a ‘top up’ SBCS loan

- 15 **noted** that the financial impacts of the decision to provide a ‘top up’ SBCS loan are as follows:
- 15.1 an increase of approximately \$1.666 billion in capital expenditure in the Small Business Cashflow Scheme COVID-19 appropriation, which is the amount lent by Inland Revenue to borrowers;
 - 15.2 an increase of approximately \$1.042 billion in capital receipts, which is the amount repaid by borrowers to Inland Revenue;
 - 15.3 an increase of approximately \$713 million in write-down in the Initial Fair Value Write-Down Relating to the Small Business Cashflow Scheme COVID-19 appropriation; and

15.4 an increase of approximately \$159 million in non-tax revenue for interest unwind;

	\$m – increase / (decrease)				
Vote Revenue	2021/22	2022/23	2023/24	2024/25	2025/26
Minister of Revenue					
Non-Departmental Capital Expenditure: <i>Small Business Cashflow Scheme COVID-19</i>	899.000	496.000	271.000	-	-
Non-Departmental Capital Receipts: Small Business Cashflow Scheme Receipts	(312.000)	(106.000)	(217.000)	(176.000)	(231.000)
Non-Departmental Other Expenses: <i>Initial Fair Value Write-Down Relating to the Small Business Cashflow Scheme COVID-19</i>	385.000	212.000	116.000	-	-
Non-tax revenue: Small Business Cashflow Scheme Interest Unwind	(7.000)	(38.000)	(51.000)	(42.000)	(21.000)
Total Operating	378.000	174.000	65.000	(42.000)	(21.000)
Total Capital	587.000	390.000	54.000	(176.000)	(231.000)

16 **agreed** to increase spending to provide for costs associated with the decision to provide a ‘top up’ SBCS loan, with the following impact(s) on the operating balance and net core Crown debt;

	\$m – increase / (decrease)				
Vote Revenue	2021/22	2022/23	2023/24	2024/25	2025/26
Operating Balance and Net Core Crown Debt Impact	-	-	-	-	-
Operating Balance Only Impact	378.000	174.000	65.000	(42.000)	(21.000)
Net Core Crown Debt Only Impact	587.000	390.000	54.000	(176.000)	(231.000)
No Impact	-	-	-	-	-

Eliminating the backdating of interest

17 **noted** that the cost of the decision to eliminate the backdating of interest has an approximate fiscal cost of \$211 million, although the true fiscal cost will be reflected in the fair-value write-down and interest unwind calculated by an external valuer and disclosed by Inland Revenue at the end of the financial year;

- 18 **authorised** the Minister of Finance and the Minister of Revenue jointly to make adjustments to the fiscal impacts arising from the calculation of the fair-value write-down and interest unwind as a consequence of the decision to eliminate the backdating of interest;

Expected shortfall in funding

- 19 **noted** that even without changes to the SBCS, there is an expected shortfall in the two SBCS appropriations of \$294.168 million, largely due to an expected increased take-up of loans because of Omicron;
- 20 **agreed** to increase these two appropriations by a total of \$294.168 million new funding to meet the expected shortfall;

Appropriations impact

- 21 **agreed** to increase the Small Business Cashflow Scheme COVID-19 and Initial Fair Value Write-Down Relating to the Small Business Cashflow Scheme COVID-19 appropriations by \$2,673.168 million over the forecast period, which is the sum of:
- 21.1 the increase in capital expense and initial fair-value write-down arising from the decision to provide a ‘top up’ SBCS loan;
- 21.2 the decision to appropriate \$294.168 million new funding to meet the expected shortfall.

Appropriation Impact:

	\$m – increase / (decrease)				
Vote Revenue	2021/22	2022/23	2023/24	2024/25	2025/26
Minister of Revenue					
Non-Departmental Capital Expenditure: Small Business Cashflow Scheme COVID-19	1,105.000	496.000	271.000	-	-
Non-Departmental Other Expenses: <i>Initial Fair Value Write- Down Relating to the Small Business Cashflow Scheme COVID-19</i>	473.168	212.000	116.000	-	-
Total Impact	1,578.168	708.000	387.000	-	-

- 22 **agreed** that the proposed change(s) to appropriations for 2021/22 in recommendation 21 be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase(s) be met from Imprest Supply;

CRRF Impact

- 23 **agreed**, consistent with previous decisions in relation to the Small Business Cashflow Scheme, to charge the net core Crown debt impact of the above decisions over the lifetime of the loans, which is \$559.168 million, against the COVID-19 Response and Recovery Fund (CRRF), established as part of Budget 2020:

	\$m – increase / (decrease)				
Vote Revenue Minister of Revenue	2021/22	2022/23	2023/24	2024/25	2025/26
Extension of SBCS	587.000	390.000	54.000	(176.000)	(231.000)
	2026/27	2027/28	2028/29		
	(222.000)	(102.000)	(35.000)		
Increase due to the impact of Omicron	2021/22	2022/23	2023/24	2024/25	2025/26
	294.168	-	-	-	-
Total CRRF impact	2021/22	2022/23	2023/24	2024/25	2025/26
	881.168	390.000	54.000	(176.000)	(231.000)
	2026/27	2027/28	2028/29		
	(222.000)	(102.000)	(35.000)		

Confirming COVID-19 Support Payment settings

- 24 **agreed** the activation of a COVID-19 support payments scheme (CSPFEB22) should be declared in relation the business circumstances arising from the effect of the public health measures (including the COVID-19 Protection Framework- Red setting) and the rapid increase in COVID-19 in the community in New Zealand;
- 25 **agreed** to require applicants to declare they are complying with the COVID-19 Vaccine Certificate regime, and that their revenue decline is not attributable – in whole or in part – to the fact they are choosing not to use Vaccine Certificates;
- 26 **agreed** to the following design criteria for the CSP scheme:
- 26.1 be a series of three payments, each a fortnight apart and with a commitment to review the situation following the third payment;
- 26.2 targeted to the extent possible to persons and businesses particularly impacted by the COVID-19 Protection Framework and the effect of arrival and rapid increase of omicron cases;
- 27 **agreed** to the following parameters for the CSPFEB22 scheme:
- 27.1 firms will be eligible if they have experienced a revenue decline of:
- 27.1.1 at least 40 percent;
- And:
- 27.2 base rate of the lesser of \$4,000 and \$400 per FTE (capped at 50 FTE), or eight times the actual revenue decline experienced;

- 28 **noted** that using a comparator period of seven consecutive days within the six weeks prior to 15 February 2021 would exclude businesses that have opened in the previous year;
- 29 **agreed** to set the comparator period as seven consecutive days within the six weeks prior to the shift to Phase 2 of the Omicron response being 15 February 2022;
- 30 **authorised** the Minister of Finance and the Minister of Revenue to make policy and technical decisions related to the COVID-19 Support Payment, consistent with the policy in this Cabinet paper;
- 31 **noted** the intention that, for the most part, other design parameters are likely to remain unchanged from the Transition Payment [DEV-21-MIN-0250];

Interactions between the CSP and other economic support

- 32 **agreed** recipients of the Ministry of Culture and Heritage one-off emergency grant will not also be eligible for the first CSP agreed in paragraph 26;
- 33 **noted** recipients of the Events Transition Support Payment Scheme would be eligible for this CSP scheme;
- 34 **noted** recipients of this CSP scheme can also claim the SBSC and the LSS and STAP for eligible workers;

Order in Council

- 35 **noted** that an Order in Council is required to activate a COVID-19 Support Payment Scheme (CSPFEB22) to authorise Inland Revenue to make available the CSP scheme;
- 36 **authorised** the submission of the COVID-19 Support Payments Scheme (Omicron Outbreak) Order 2022 to the Executive Council;
- 37 **noted** that a waiver of the 28-day rule is sought so that the Order in Council can come into force by 28 February 2022, on the grounds that the eligibility criteria should be amended as soon as possible to help businesses directly impacted by COVID-19;
- 38 **agreed** to waive the 28-day rule so that the Order in Council can come into force by 28 February 2022;

Financial implications of the CSPFEB22

- 39 **noted** that a total of \$3,150 million was appropriated to meet the cost of RSPAUG21 payments (CAB-21-MIN-0328, CMG-21-MIN-0023, CAB-21-MIN-0375, COVID-19 Ministerial Group 21 October, CAB-21-MIN-0504 refers);
- 40 **noted** at \$4000 + \$400 FTE the initial CSPFEB22 is expected to cost between \$160m - \$260m at a 40 percent revenue drop, \$40m - \$120m at a 50 percent revenue drop, and \$20m - \$70m at a 60 percent revenue drop, subject to the uptake and evolving nature of the Omicron outbreak. This cost will be met from a new COVID-19 Support Payment appropriation; and that subsequent payments are expected to cost a similar amount per payment;
- 41 **noted** that Vote Revenue 2021/22 includes a non-departmental other expense appropriation, COVID-19 Resurgence Support Payment;

42 **noted** that as the scope of the appropriation refers to Alert Levels under the previous alert level system, a new appropriation with a new scope is needed to reflect the change to the traffic light system under the CPF;

43 **agreed** to establish the following new appropriation:

Vote	Appropriation Minister	Title	Type	Scope
Revenue	Minister of Revenue	COVID-19 Support Payment	Non-departmental Other Expense	This appropriation is limited to providing support to eligible firms adversely financially affected as a result of COVID-19 by a public health measure, business circumstance, or other related matter.

44 **approved** the following fiscally neutral adjustment to provide for partial transfer of the unspent balance of the existing appropriation to the new appropriation, with no impact on the operating balance and/or net core Crown debt:

Vote Revenue Minister of Revenue	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
Non-departmental Other Expense:					
COVID-19 Resurgence Support Payment	(430.000)	-	-	-	-
COVID-19 Support Payment	430.000				

45 **agreed** that the change to the 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;

46 **agreed-in-principle**, subject to confirmation of the amounts by Joint Ministers (Finance and Revenue) following completion of the audited financial statements for 2021/22, to the transfer to the COVID-19 Support Payment non-departmental other expense in 2022/23 of amounts unspent:

46.1 in the COVID-19 Resurgence Support Payments non-departmental other expense in 2021/22 as a technical adjustment; and

46.2 in the COVID-19 Support Payment non-departmental other expense in 2021/22 as an expense transfer;

47 **noted** that agreement to a revenue drop of 40 percent as outlined in paragraph 27 means current funding may not be sufficient, therefore officials will monitor the uptake of the first payment and will report back to Cabinet if there is projected to be a funding shortfall;

COVID Leave Scheme settings

- 48 **noted** that Joint Ministers (Finance, Social Development, and Workplace Relations and Safety) have requested advice on whether current employee payment requirements (under the COVID Leave Schemes) place appropriate incentives on employers to apply for the Schemes;
- 49 **authorised** Joint Ministers (Finance, Social Development and Employment, and Workplace Relations and Safety) to make decisions about eligibility for the COVID Leave Schemes, and payment of the subsidy to employees, when employers have or may have no employment law obligation to pay staff who are required to self-isolate or are awaiting COVID-19 test results;
- 50 **noted** that State Sector Organisations (SSOs) are currently ineligible for the COVID Leave Schemes, however the Minister of Finance can grant an exception to SSOs on a case-by-case basis;
- 51 **noted** that the rationale for excluding SSOs from the COVID Leave Schemes is currently under review by officials in light of the Omicron environment;
- 52 **authorised** Joint Ministers (Finance, Social Development and Employment, and Workplace Relations and Safety) to make decisions on the eligibility of certain categories of SSOs (in particular, State-owned enterprises and Mixed Ownership Model companies) for the COVID Leave Schemes;

Additional funding for COVID Leave Schemes

- 53 **noted** that based on current Omicron scenarios, cost modelling suggests that the COVID Leave Schemes (LSS and STAP) may cost around \$300 million over the next 12 weeks, which will be met through a combination of:
- 53.1 \$143 million remaining in the COVID-19 Leave Support Scheme appropriation (as at 10 February); and
- 53.2 \$157 million in new funding from the COVID-19 Response and Recovery Fund;
- 54 **agreed** to provide an additional \$157 million to meet the additional costs of the COVID Leave Schemes resulting from the anticipated significant increase in uptake resulting from the Omicron outbreak;
- 55 **approved** the following changes to appropriations to provide for the decision in paragraph 54 above, with a corresponding impact on the operating balance and net core Crown debt:

Vote Social Development Minister for Social Development and Employment	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
Non-departmental Other Expenses:					
COVID-19 Leave Support Scheme	157.000	-	-	-	-
Total Operating	157.000	-	-	-	-

- 56 **agreed** that the expenses incurred under paragraph 55 above be charged against the CRRF established as part of Budget 2020;
- 57 **agreed** that the change to the 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;
- 58 **noted** costings for the COVID Leave Schemes are uncertain and additional funding may be required;
- 59 **noted** as at 10 February 2022, there is approximately \$450 million of unspent funding in the Business Support Subsidy COVID-19 appropriation, which could be used to fund the COVID Leave Schemes if required;
- 60 **authorised** the Minister of Finance and the Minister for Social Development and Employment to make the necessary changes to appropriations and/or drawdowns to provide additional funding for the COVID Leave Schemes funded either:
- 60.1 by a transfer from the Business Support Subsidy COVID-19 appropriation to the COVID-19 Leave Support Scheme appropriation; or
- 60.2 by draw down up to \$500 million from the COVID-19 Response and Recovery Fund;

Ministry of Social Development administrative funding

- 61 **noted** that to manage the risk of compromised service delivery in the face of the uncertainty brought about by the impacts of COVID-19, the Ministry of Social Development is seeking to retain approximately half of the current capability in its frontline staff for 2022/23, pending further work to identify the needs in future years;
- 62 **agreed** that the Ministry of Social Development retain a proportion of existing frontline staff to enable timely and flexible responses to support clients including through the LSS and STAP;
- 63 **approved** the following changes in appropriation to give effect to the policy decision in paragraph 62 with a corresponding impact on the operating balance and net core Crown debt:

Vote Social Development Minister for Social Development and Employment	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
Multi-Category Expenses and Capital Expenditure					
Improved Employment and Social Outcomes Support					
Departmental Output Expense:					
Improving Employment Outcomes (funded by revenue Crown)	-	30.700	-	-	-
Total Operating	-	30.700	-	-	-

- 64 **agreed** that the expenses incurred under paragraph 63 above be charged against the CRRF established as part of Budget 2020;
- 65 **agreed** that the change to the 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.

Michael Webster
Secretary of the Cabinet