The Treasury

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Office of the Minister of Finance

Chair, Cabinet

ECONOMIC SUPPORTS UNDER OMICRON

Proposal

1. This paper presents options for, and seeks agreement to, economic support for firms experiencing a revenue decline as a result of the Red COVID-19 Protection Framework (CPF) settings put in place to minimise the impact of the current Omicron outbreak on the health system and economy. I seek Cabinet's agreement to make changes to the settings of the Small Business Cashflow Scheme (SBCS) which will allow firms affected by the COVID-19 pandemic to take an additional low-interest loan. I also present options for agreement to activate a one-off COVID-19 Support Payment (CSPFEB22), or a series of fortnightly payments, designed to target firms in certain sectors experiencing severe revenue declines.

2. I am also seeking additional funding from the COVID-19 Recovery and Response Fund (CRRF) to fund the anticipated significant increase in uptake of the Leave Support Scheme (LSS) and Short Term Absence Payment (STAP) (together, the COVID Leave Schemes) as a result of the Omicron outbreak, and authority to delegate specific policy setting decisions to Joint Ministers once further work by officials has been carried out.

Relation to government priorities

3. This proposal supports the Government's overarching objective to keep New Zealanders safe from COVID-19, including by protecting lives and livelihoods. It does so by providing economic support to assist with cashflow for businesses that are severely impacted during the Omicron outbreak, and by seeking additional funding for the COVID-19 Leave Schemes that help businesses pay their employees who are required to self-isolate.

Executive Summary

4. On 29th November 2021, Cabinet: [CAB-21-MIN-0504]

    4.1. noted that when the COVID-19 Protection Framework (CPF) was released, the Minister of Finance indicated there would be a move away from the broad-based support that had been provided under the Alert Level system to more targeted support under the CPF;

    4.2. noted that the government has provided more than $25 billion of income and financial support to businesses since the onset of COVID-19;

    4.3. noted that moving away from broad-based support is appropriate as the CPF allows a greater level of freedom for vaccinated people than would be possible under the Alert Level system;

4.4. agreed to stop the Wage Subsidy Scheme (WSS) and the Resurgence Support Payment (RSP) on the implementation of the CPF in any part of New Zealand;

4.5. noted that if any further support is provided, it should not create a broad expectation from businesses as that could discourage businesses from learning to operate under all levels of the CPF;

4.6. invited the Minister of Finance to report back to DEV in early 2022 with advice on the future of economic supports under the CPF, once the economic impact of the CPF is better understood.

5. As the Red setting of the CPF permits most businesses to operate with few restrictions, broad-based business support like the wage subsidy is no longer appropriate in New Zealand's COVID-19 response. The New Zealand economy is in a strong position, having grown 4.9% in the year to September 2021 and with unemployment at a record low of 3.2%. Maintaining labour attachment is not a significant concern as it was in 2020. Businesses need to continually look for ways they can adapt to a more COVID-resilient economy and continued financial support risks undermining this transition.

6. However, some sectors are being disproportionately affected during this Omicron outbreak. While high frequency data continues to indicate overall resilience of the New Zealand economy, business representatives report significant impacts on some sectors as a result of the capacity limits on hospitality venues and events, and people choosing to work from home at this point in the Omicron response. The hospitality, private transport, arts and recreation, and some retail sectors are requesting additional government support to assist with cashflow.

7. High-frequency mobility and light traffic data are already indicating increased working from home and lower retail and recreation movements in some regions.

8. In light of reviews of economic data, I propose that the Government agrees to a further financial response during this phase of this Omicron outbreak. I propose a focus on assisting firms with cashflow pressures by extending Inland Revenue's flexibility for tax payments, progressing amendments to the Small Business Cashflow Scheme (SBCS), and either a one-off COVID-19 Support Payment (CSP), or series of fortnightly payments targeting sectors experiencing severe revenue decline.

9. I seek approval to change some parameters of the SBCS to increase the amount of funding available to eligible SMEs through the introduction of a 'top up' loan.

10. The top up loan will allow those firms who have already accessed the SBCS to draw down an additional $10,000 with a new repayment period of five years and the first two years being interest free.

11. After a business has agreed to the amount they want to borrow, I propose that firms be able to make four smaller withdrawals of lower amounts if that better suits their financial situation. I believe this new flexibility will encourage those firms hesitant to take on debt to withdraw smaller amounts, knowing that they can return to withdraw more funding under their loan cap later.

12. I also seek agreement to remove the first two years of accrued base interest from all borrowers who have, or will, take out a loan under the SBCS. This change will mean interest will only start accruing at the beginning of year three. For example, borrowers who took a loan in May 2020 will have the first two years' suppressed interest attached to their principal in May 2022. Firms may be facing challenges as a result of Omicron at this time and removing the suppressed interest will help to ease this burden.

13. The Treasury estimates that the net core Crown debt impact of the proposed changes to the SBCS will be in the region of $559.168 million. I recommend that this amount should be charged against the CRRF. This covers the cost of the changes, as well as meeting shortfalls in funding for the scheme under existing parameters that are expected as a result of the arrival of the Omicron variant. However, there is still significant uncertainty as to these estimates. Up to this point, the actual uptake has been lower than first anticipated.

14. I also seek agreement to the design parameters for a one-off COVID-19 Support Payment (CSPFEB22), or series of fortnightly payments, to assist firms experiencing a revenue decline due to the Omicron outbreak in New Zealand and meeting the other eligibility criteria. There are options for a 40%, 50% or 60% revenue decline test.

15. I seek Cabinet agreement to activate either:

    15.1. a one-off CSPFEB22 by submitting an Order in Council (OIC) to Cabinet the Executive Council. Applications for the CSPFEB22 will open on 28 February 2022, with initial payments starting from 1 March 2022 (Frequency Option 1), or

    15.2. a series of three CSPFEB22 payments, with the first payment to be made in line with the timeline in option 1 above, and the two subsequent payments each a fortnight apart. We will commit to reviewing the economic and health situation after the third payment (Frequency Option 2; preferred).

16. Two options are presented for the payment rate:

    16.1. Rate Option 1: A $3,000 base payment + $800 per FTE (capped at 50 FTE), and

    16.2. Rate Option 2: $4000 base payment + $400 per FTE (capped at 50 FTE).

17. The fiscal cost of the initial CSPFEB22 payment is forecast to cost between $30m to $270m for Rate Option 1, and between $20m to $260m for Rate Option 2, depending on the revenue decline test chosen. There are already sufficient funds in the RSP appropriation to meet the costs of this payment. The fiscal cost of subsequent payments are forecast to be $20m to $270m each, or $60m to $810m in total, dependant on decisions regarding the Rate Options and Revenue Decline Tests. If Frequency Option Two is chosen, Treasury will monitor uptake of the first payment and provide further funding advice if required.

18. These supports will complement the schemes already announced for the events and arts and cultural sectors, and work in tandem with the COVID Leave Schemes available to support employees to self-isolate and the Care in the Community programme, while reducing the risk of double-dipping across schemes.

19. The COVID Leave Schemes are expected to play an important role in the Omicron outbreak, particularly as we enter Phase 2, to support compliance with self-isolation requirements. To meet the additional costs of the COVID Leave Schemes resulting from the anticipated significant increase in uptake due to the Omicron outbreak, I seek:

19.1. Additional funding from the CRRF of $157 million to top-up the existing appropriation; and

19.2. Authorisation for the Minister of Finance and Minister for Social Development and Employment to draw down up to an additional $500 million from the CRRF or transfer funds from the Wage Subsidy appropriation to the COVID-19 Leave Support Scheme appropriation if required.

20. I also seek agreement to delegate authority to Joint Ministers (Finance, Social Development and Employment, and Workplace Relations and Safety) to:

20.1. Make decisions about eligibility for the COVID Leave Schemes, and employers' corresponding obligations to pay 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; and

20.2. Make decisions on the eligibility of certain categories of State Sector Organisations (SSOs) for the COVID Leave Schemes.

21. To support the Ministry of Social Development's ongoing critical role in the COVID response, particularly in providing support to individuals and households, I also seek additional funding of $30.7 million from the CRRF to retain up to 300 MSD frontline staff in 2022/23.

Background

22. As the Red setting of the CPF permits most businesses to operate with few restrictions, broad-based economic supports such as the Wage Subsidy Scheme (WSS) are no longer appropriate. The New Zealand economy is in a strong position with a tight labour market and significant inflationary pressure driven mainly by global supply chain issues. There is a risk that further generalised business support like the wage subsidy could exacerbate inflationary pressure, create precedents that are unsustainable in the medium-to-long-term, and impede the transition to a more COVID-resilient economy. COVID is likely to be with us for some time, so businesses must continue to look at ways they can adapt to operating in a new environment. Where we decide to provide additional support, it will therefore need to be designed in such a way that it is timely, temporary and targeted.

23. High frequency data continues to indicate overall resilience in the New Zealand economy; however, some sectors and regions are particularly affected. In the week ending 6 February 2022, national electronic card spending fell to 8.0% below the same week in 2020, with spending in Auckland 13.7% below 2020. Spending on food and beverage services and accommodation continues to trend downwards, and spending on arts and recreation services remains significantly below 2020 levels.

24. While the transition to Phase 2 as part of the Omicron response will assist critical businesses with access to Rapid Antigen Testing (RATs) and shortened self-isolation periods, feedback from industry is that some businesses within sectors such as hospitality, arts and recreation and private transport will experience a further decrease in revenue as we see higher case numbers.

25. The hospitality, private transport, and arts and recreation sectors are concerned about the implications of a “shadow” or “voluntary” lockdown as consumers adjust their behaviour in response to Omicron, which may have a similar impact on patronage as Alert Level 3. Google mobility data show that activity remained relatively stable at retail and recreation locations in the week ended 6 February, remaining above the January 2020 baseline. However, retail and recreation movements in Auckland, Hawke’s Bay, Otago, Wellington, and Tasman were below baseline. Workplace movements remain well below baseline, particularly in Auckland, and light traffic volumes remain below last year’s levels.

26. Experience overseas suggests that, as the outbreak continues, there could be significant pressure on supply chains and workforce disruption due to staff needing, or choosing, to isolate. A wide range of approaches to economic support have been employed overseas. Even governments which are in the process of relaxing public health restrictions are providing support. For example, flexibility on tax payment and debt (Iceland, Ireland, some Australian states), financial support through COVID-19 leave schemes (Ireland, Singapore, the United Kingdom), loan-based liquidity support (Ireland, Singapore, some Australian states), and/or targeted support for the sectors or businesses most affected (United Kingdom).

27. In view of all these points, I consider that support should be provided to businesses under Phase 2 in the following forms:

    27.1. Flexibility on tax payment and debt. The Commissioner of Inland Revenue is able to offer deferred payment on some tax obligations to firms experiencing financial difficulty.

    27.2. Financial support through the COVID-19 Leave Schemes to help businesses pay employees who are required to self-isolate.

    27.3. Loan-based liquidity support through the SBCS.

    27.4. Existing support packages for the events and arts and culture sectors.

    27.5. Targeted grants to the most affected businesses through a CSPFEB22 or series of fortnightly payments.

28. A timely, targeted, and temporary package of support will help minimise any additional inflationary pressure. Treasury’s view is that the Omicron outbreak itself will be mildly inflationary due to the impact of supply chain disruptions on prices. The support proposed will help offset any negative impacts on consumer demand.

Small Business Cashflow Scheme

29. The SBCS was introduced in May 2020 with the intention of providing cashflow support to SMEs with 50 or fewer FTEs through a loan from the Crown via Inland

Revenue. In order to qualify for support through the SBCS, a firm must meet the following criteria:

29.1. The business must have owned and operated by the applicant for at least six months;

29.2. The business must have experienced at least a 30% revenue decline. This is calculated by comparing any 14-day period in the past six months with the same 14-day period one year ago (or, if the comparator period was affected by COVID-19, the same 14-day period two years ago). The business must declare that the decline was due to COVID-19; and

29.3. The business must be viable and have a plan to remain so.

30. The maximum loan that a business can draw down is currently $10,000 plus $1,800 per FTE at time of application. A sole trader could borrow $11,800 while an SME with 50 FTEs could borrow up to $100,000.

31. Loans must be repaid within five years and have an interest rate of 3%, though this interest is suppressed for the first two years. During the same period, firms do not need to make repayments. Any loan which is repaid within the first two years will attract no interest.

32. Should a firm fully repay their loan they are eligible to take a second loan under the same eligibility criteria as above.

33. The scheme has been successful. To date over 119,000 applications have been approved and $1.9 billion has been loaned to SMEs across New Zealand. The vast majority of borrowers have been micro or small firms, with those between one and five FTEs making up over 80% of the loans paid so far.

34. The scheme is open until the end of 2023, and many businesses remain eligible and have not taken out a loan; 226,000 SMEs claimed the Resurgence Support Payment (RSP), which required a firm to demonstrate a 30% drop in revenue over a continuous seven-day period during a COVID-19 affected period. About 81,000 of these firms also claimed the SBCS, therefore 145,000 firms claimed the RSP but did not claim the SBCS.

35. Even without changes, the SBCS will continue to provide vital support to affected businesses that have not already taken a loan. For example, since the beginning of the Delta outbreak last August, Inland Revenue has approved applications worth around $180 million.

36. Under current terms, a firm with an SBCS loan (even those who did not borrow the full amount they were entitled to) cannot take a new loan until they have repaid their initial liability. Partly as a result of that, and the circumstances under which we first introduced the SBCS, 93% of borrowers took the full amount that they were entitled to.

37. The arrival of the Omicron variant, our decision to move away from broad-based economic support, and the likelihood of ongoing uncertainty over the rest of this year means that I believe we need to amend these terms to allow firms who need it to draw down from SBCS again, and increase the amount that they can borrow.

38. In order to make this funding available I propose a 'top up' loan be created. This loan is available to firms who have already taken an SBCS loan and will also be added to the amount available for firms who have so far not taken an SBCS loan.

39. Further support is also needed to assist those firms who took out an SBCS loan soon after the scheme was established. The supressed interest for these loans will attach to the liability after two years (which, for many borrowers, will be in May 2022), at exactly the time firms may be struggling with the aftermath of an Omicron surge. I recommend, therefore, that this interest not merely be supressed but removed. This would result in interest only accruing from the beginning of year three of the loan.

40. Because I am proposing the base interest should be removed, this has consequential impacts on other parts of the scheme.

The top up loan

41. The top up loan will be delivered through the existing SBCS system and will take the form of a new loan contract with an increase to the base rate of $10,000. An increase to the base rate more directly assists those small and micro firms who constitute the majority of SBCS users to date, and who are less likely to have cash reserves or commercial credit lines to maintain liquidity through a downturn. The SBCS will continue to run until December 2023 as originally intended.

42. I propose a $10,000 increase as it represents significant support to those small firms who make up the majority of existing borrowers under the SBCS. This approach, combined with the decision to increase only the base rate, focusses our support to the most common users of the SBCS.

43. Medium-sized firms will not benefit as much from this change. However, larger firms have, in general, more options for restructuring and financing compared to smaller firms, including via banks. They have also received a higher initial loan under the SBCS, and those firms who have not taken an SBCS loan may still do so.

44. A firm which had already taken the SBCS could borrow this additional $10,000 so long as they remained eligible for the scheme and had not defaulted on their previous loan. A firm which had not yet taken the loan would be able to access the loan with the new base rate of $20,000 as well as the FTE amount. That means that the maximum loan available under the SBCS going forward will be $110,000.

45. An additional $10,000 will allow firms to borrow enough to cover up to 45% of fixed costs for four weeks for the average firm with between 1-19 FTE. For the average micro firm (those between 1-5 FTE) this increases to the additional $10,000 will allow them to borrow enough to cover 85% of their fixed cost for four weeks.

46. I note that some borrowers may choose to take out a 'top up' loan and use the capital to repay their existing SBCS debt. The costings that officials have prepared have taken this into account.

47. In addition, I propose that existing borrowers who did not take the full loan amount they were entitled to in their current loan should be able to draw that additional amount when they apply for the top up loan. This accounts for approximately 6% of

borrowers. I note that there is a risk that some firms may have contracted in this period and therefore may draw a larger loan than they were previously entitled to.

48. I do not propose the conditions for accessing the loan are changed. The loan is designed to provide a flexible source of credit for impacted firms who would have difficulty accessing commercial credit, including those firms whose balance sheets have been stretched thin over the last six months or are stretched by this outbreak. It is also intended to remain available to access until the end of 2023, providing a flexible form of support to small businesses throughout the pandemic. As such, I believe that imposing restrictive criteria would be counter to this aim.

49. This is different to our goals for the CSP. As a one-off grant, the CSP is intended as a last resort for firms who are viable but are facing real difficulty during the Omicron outbreak. Limiting financial support through the CSP is appropriate to ensure that only those firms in severe distress at this time can access the grant, while financial support would be available through the SBCS to a broader set of firms affected in a broader set of ways by the pandemic on the condition that the money is then repaid.

Multiple drawdowns and re-borrowing

50. Some firms have expressed concern with taking on additional debt in such uncertain times. They are concerned about repayment and about over-leveraging their businesses.

51. Under the current SBCS rules, a firm that voluntarily elected to take less than it was entitled to could not return to borrow the remainder of their available funds if they were then in further financial distress. This may have prevented those who are more cautious from taking more funding if they need it.

52. I would also like the SBCS to remain a flexible tool for businesses to use beyond this Omicron outbreak to support small businesses during the recovery – many of whom may have stretched balance sheets – to manage the cashflow impacts of the pandemic flexibly. That gives businesses certainty, as well as reducing the need for further government support in response to any further economic impacts of the pandemic this year.

53. I propose therefore to amend these terms by allowing firms who already have an SBCS loan to take multiple drawdowns of their top-up loan, and those firms taking their first SBCS loan to make multiple drawdowns of their full loan amount until the scheme closes on 31 December 2023. The applicant will have to make the first drawdown at the time they apply. For example, a firm that has elected to take the $10,000 could take four equal drawdowns of $2,500, with the first drawdown being made at the time of the application.

54. The interest period would not change with each additional drawdown - the date of the first drawdown of the top up loan (for existing borrowers) or first drawdown (for new borrowers) will be the start date for calculating interest and repayment obligations, an additional drawdown will not create a new interest free period.

55. Allowing multiple drawdowns does create some administrative complexity. Therefore, I recommend limiting the total number of drawdowns to four (the initial loan, plus three

additional withdrawals). I believe this provides sufficient flexibility while also helping to maintain the integrity of Inland Revenue systems. If a borrower does not draw down the full amount they agree to by the end of 2023, then only the total amount they have drawn down will be added to the loan balance owing as at 1 January 2024.

56. A firm that defaults on its loan would not be able to take additional drawdowns from the point it defaults.

57. I propose to continue to allow firms who have repaid their full loan to return to the SBCS to take one additional loan, until applications for the SBCS close on 31 December 2023. This would only be available to firms who have fully repaid their entire liability and had not defaulted on any part of their loan.

Interest and repayment flexibility

58. Loans taken in May 2020 will shortly reach the end of their 2-year interest free period. Any loan not fully repaid in this period will accrue the whole of the first two years' interest on the first day of year three.

59. These settings were intended to encourage firms to fully repay their loan during the first two years. At the time we introduced the SBCS, we did not know how long the impact of COVID-19 would be felt and a two-year period appeared appropriate.

60. With the continuing impact of COVID-19 and the arrival of the Omicron variant it is clear that if we do not make a change to these settings, a significant number of firms will face an increase to their loan balance during or just after the Omicron outbreak. In the absence of change, Inland Revenue will need to begin informing borrowers of this interest, which may add to any financial stress they are experiencing.

61. As a result, I propose that we alter the terms of existing and future SBCS loans so that interest accrues after two years, rather than accruing from day one of the loan but only being charged after two years. This would likely reduce the overall level of interest payments that firms who do not repay early will make.

62. The above treatment will not apply to those who default on their loan. For a firm who defaults because they were never eligible for the loan, I propose charging default interest from the date the loan was taken. However, if a firm becomes ineligible during the lifetime of the loan, for example by falling off the companies register, I propose charging the default rate from the point they become ineligible. Once the default is rectified, the interest free period will continue again up to the two years.

63. Discussions with stakeholders has also shown us that firms are concerned with taking on new debt because they are not sure they can make repayments. When officials discussed this with them, many borrowers are not aware of the flexibility Inland Revenue can offer on repayment terms. This is particularly true for members of our Māori and Pasifika business communities – groups who so far have made comparatively little use of the SBCS and have reported that low levels of trust in Inland Revenue have impacted accessibility of the scheme.

64. Borrowers can approach Inland Revenue if they cannot meet their repayments obligations, or Inland Revenue can approach borrowers that fail to meet their

repayments obligations and agree to a tailored payment plan. [41]

Inland Revenue also can write-off amounts for individuals in cases of serious hardship. These powers are normally explicit and explained to taxpayers and borrowers on the Inland Revenue website. They are further explained when they contact Inland Revenue about the inability to repay.

65. I propose to work with the Minister of Revenue on communicating to firms that are struggling to comply with their tax obligations to contact Inland Revenue to explore potential relief options, like instalment arrangements and the possibility of write-offs in circumstances of serious hardship.

Implementation timeframes

66. I will update Cabinet on the date at which these changes to the SBCS will be made. It will take up to four weeks from Cabinet decisions for Inland Revenue to make the required changes.

Fiscal implications - Small Business Cashflow Scheme

67. Although highly uncertain, officials estimate that up to $1.666 billion could additionally be sought by businesses through the extended SBCS. The costings are primarily based on assumptions on take-up, with an assumption of 75% of existing borrowers requesting a top-up, and 20% of RSP recipients who have not already borrowed taking up the extended loan. The assumption used for existing borrowers is high because the top-up may be used by some businesses to partially repay their original borrowing. The top up loan amounts have been assumed at the maximum available, being an additional $10,000 for those with existing loans and, for new borrowers, $20,000 for each firm plus $1,800 for each FTE. The average loan size for a new borrower is assumed to be about $23,000 which is $10,000 more than the existing average new loan.

68. Consistent with an increase in the amount lent under the scheme, there is also an expected increase in capital repayments of $1.042 billion over the forecast period.

69. The loans will need to be written down (the initial fair value write down, which is also applied to the current scheme). Currently, for loans under the present settings, the write-down is 42.8%. This is due to the concessional interest rate, as well as an allowance for the time value of money and the possibility of borrowers defaulting. Officials advise that, due to the great deal of uncertainty as to the appropriate write-down rate, appropriation decisions should be made based on the current rate. On that assumption, this would total $713 million over the forecast period. It is important to note that this is not likely to be the actual cost of the scheme to the Crown, and that the cost is more likely to be lower.

70. The next annual review [25] will be able to incorporate actual repayment behaviours for the original lending, most of which reaches the two-year point in May 2022.

71. The initial write down will impact the operating balance before gains and losses (OBEGAL). Adjustments to the write down will be needed over the life of the loans,

and officials will report on those adjustments as part of the usual financial reporting cycle.

Interest Unwind

72. The write down is partially counteracted by an adjustment for the time value of money, known as interest unwind. As time moves on, loans become closer to being repaid and are therefore worth more. This increase in value is recognised as interest unwind. The interest unwind is calculated using a discount rate appropriate for low-rated commercial and unsecured lending. Officials estimate that the increase in non-tax revenue from interest unwind will be approximately $159 million over the forecast period.

Expected shortfall in SBCS appropriations

73. As of 31 January 2022, approximately $183 million has been spent during the current financial year in in the Small Business Cashflow Scheme appropriation, and there is approximately $126 million remaining.

74. Officials expect that, even in the absence of any policy decisions relating to the SBCS, there is likely to be an increase in demand for loans, largely due to Omicron. Consequently, there could be a shortfall in funding available in the two SBCS appropriations. The Budget 2022 preliminary forecast estimates that, across the two appropriations, there will be an expected shortfall of $294.168 million in 2021/22 (based on $515 million in borrowing through the scheme in this financial year). I therefore recommend increasing the appropriations accordingly.

75. Likewise, as of 31 January 2022, approximately $78.5 million has been spent during the current financial year in the *Initial Fair Value Write-Down Relating to the Small Business Cashflow Scheme COVID-19* appropriation. There is approximately $53.5 million remaining. The Budget 2022 preliminary forecast estimates that, without any policy changes, there is an expected shortfall of $88.168 million in 2021/22.

76. It is proposed to increase the current SBCS appropriations to reflect the increased cost of the extended scheme by increasing the *Small Business Cashflow Scheme COVID-19* appropriation by $1.666 billion over the forecast period and increasing the *Initial Fair Value Write-Down Relating to the Small Business Cashflow Scheme COVID-19* appropriation by $713 million over the forecast period.

77. It is noted that the cost of the extended scheme will be separately disclosed as a separate component of both appropriations in the supporting information to the Estimates.

78. It is proposed that the above changes to appropriations for 2021/22 be included in the 2021/22 Supplementary Estimates and, in the interim, the increases be met from Imprest Supply.

CRRF implications

79. Consistent with previous decisions in relation to the Small Business Cashflow Scheme, the impact on the net core Crown debt over the forecast period from the extended scheme will be charged against the COVID-19 Response and Recovery Fund (CRRF) established as part of Budget 2020. The impact includes the forecast uptake of the extended scheme, the impact of the change to the interest charged, and the forecasted uptake that would have occurred due to the omicron outbreak. Officials estimate that the net core Crown debt impact of the proposed changes will be $559.168 million.

COVID-19 Support Payment(s)

80. The Taxation (COVID-19 Support Payments and Working for Families Tax Credits) Act 2021 amended the Tax Administration Act 1994 to adapt the RSP scheme into a broader CSP scheme framework. The CSP retains the overall policy objective of the RSP, which is to assist people and businesses with costs when there has been a significant reduction in revenue due to COVID-19 related measures. However, unlike the RSP, the CSP is not specifically linked to an escalation in levels under the COVID-19 Alert Level Framework.

81. The Tax Administration Act 1994 (as amended) authorises the Commissioner of Inland Revenue to make payments to eligible persons in New Zealand who are financially affected by a public health measure, business circumstance, or matter that is related to COVID-19.

82. The Commissioner can only make such a payment if the CSP scheme has been declared active (activation) by way of an Order in Council. The Order in Council may also (among other things):

    82.1. specify the period for and circumstances in which the CSP scheme will operate;

    82.2. describe a class or classes of persons who may apply for support under the CSP scheme;

    82.3. describe the amount of the payment to which they may be entitled.

83. An Order in Council is required to activate the CSP scheme and set the parameters of the grant. The Commissioner of Inland Revenue will determine and publish the eligibility criteria and terms and conditions applying to the CSP.

84. A CSP scheme needs to be declared in relation to a COVID-19 circumstance (which can include a public health measure, a business circumstance or a matter that is related to COVID-19) or a group of such circumstances.

85. I seek Cabinet's agreement to a scheme being declared in relation to 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 New Zealand. I seek to activate the CSPFEB22 by submitting an Order in Council to the Executive Council.

86. The key design parameters which will assist in targeting the CSP payment to the target sectors (hospitality, arts and recreation, private transport and retail) are the

revenue drop, the comparator and affected revenue periods, and the accompanying declarations.

87. To minimise delivery risks and maintain familiarity for businesses all other aspects, for example persons eligible for the grant and the requirement that a business must have been operating for at least one month, remain the same as the Transition Payment [DEV-21-MIN-0250 refers].

Revenue drop

88. I seek Cabinet's agreement to set the revenue drop rate at either 40%, 50% or 60%. This setting helps define the class of persons that can apply for the CSP. I believe this will be the most effective way of targeting firms within the sectors most likely to experience a severe disruption as a result of the Omicron outbreak while not setting a precedent for broad-based support under Red.

89. The revenue drop test is the most effective way to target support to where it is needed most. It captures the businesses within specific sectors that are most affected and, by proxy, targets particular sectors over those less affected. Advice throughout our COVID-19 response from officials is that this is a more effective way of getting support to sectors that require it, than attempting to set up a payment scheme which would 'only' target one specific sector. This would bring complexity into the design of any such scheme due to businesses in a particular sector not operating conforming business models. There is also no comprehensive list of businesses in sectors like hospitality, accommodation, tourism and others.

90. Although most firms can operate as normal under Red settings, the disruptions caused during Omicron, including supply chain disruptions and staff shortages due to isolation requirements, may mean that a range of businesses could experience a revenue drop as a result of Omicron. We expect that most of those firms would only experience a modest decline.

91. [25]

92. If the revenue drop is set too high, it may encourage firms to voluntary close so they can demonstrate the required revenue decline. Analysis based on the reported revenue decline during the July RSP when Wellington was at Alert Level 2 (a proxy for Red-like settings) suggests that the three proposed revenue drop options would target the payment towards firms within the accommodation and food services, arts and recreation services, and retail the most, as opposed to being a broad-based support measure.

93. Setting the revenue drop at a higher rate compared to the RSP (set at 30% under the Alert Level system) is also a way of differentiating this payment from the RSP. For SMEs that have a revenue decline of more than 30%, the SBCS is also available. This can also assist firms with cashflow and liquidity during the Omicron outbreak.

Comparator period and affected revenue period

94. The comparator period determines the comparative basis for the revenue drop. Businesses use the comparator period to select seven consecutive days of 'typical' revenue to compare with seven consecutive days in the affected revenue period to determine the revenue decline. It is intended that periods will be selected that will assist, to the extent possible, in helping target support to businesses most affected by the impact of Omicron rather than COVID-19 generally.

95. I have considered options for the comparator period used. One option is a six week comparator period starting six weeks prior to entering phase two of the Omicron response. This would be from between 4 January to 15 February 2022.

96. The second option considered is the similar six week period in 2021 (4 January to 15 February).

97. The second option would exclude businesses set up after 14 February 2021. Analysis from IR indicates that there have been 145,000 new GST registrations since 1 March 2021.

98. Regarding the first option discussed above, the Treasury estimates that the economy wide impact of the Orange settings are between 2%-3% of GDP at Red, and 1%-3% at Orange.

99. Regarding the second option, Treasury estimates that the aggregate impact of Alert Level 1 settings were a reduction in GDP of between 3% and 4% of GDP.

100. If the single CSP is agreed to, then the affected revenue period should be limited to six weeks starting from 16 February. However, if multiple CSPs are agreed to, then each one will have their own affected revenue period which will be set at the time of activation.

Payment rate

101. I seek Cabinet's agreement to set the payment rate for the CSPFEB22 payment(s) at either:

    101.1. $3000 + $800 per FTE (capped at 50 FTE). This is the same rate as the final Resurgence Support Payment under the Alert Level Framework, or

    101.2. $4000 + $400 per FTE (capped at 50 FTE). This is the same rate as the Transition Payment to firms as New Zealand entered the COVID-19 Protection Framework.

102. The payment consists of a base rate and an FTE rate. A higher base rate benefits micro firms (one to five FTE) over larger firms, whereas a higher FTE rate would favour larger firms (six to fifty FTE).

103. The payment rate has been calculated based on providing a level of cover for ongoing fixed costs faced by firms. The use of the payment is flexible for recipients and the CSP can be used by businesses to cover their cost pressures. I recommend using the same rates as the COVID-19 Protection Framework Transition Payment ($4000 +

$400 per FTE, capped at 50 FTE). These rates distinguish the payment from previous RSPs but maintain consistency with the Transition Payment.

104. The Treasury estimates a one-off CSP at $3000+$800 per FTE would assist the average firm with 1-19 FTE with 20% of their fixed costs for six weeks. For micro firms, the one-off CSP should assist the average firm with 1-5 FTEs with 24% of their fixed costs for six weeks.

105. A one-off CSP at $4000+400 per FTE will assist the average firm with 1-19 FTE with 18% of their fixed costs for six weeks. For micro firms, the one-off CSP should assist the average firm with 1-5 FTEs with 26% of their fixed costs for six weeks.

106. It is likely that a one-off payment will not be sufficient to support firms over the near-term period up to and around the expected peak in Omicron cases. Modelling indicates a peak in cases is expected six-to-eight weeks after the emergence of Omicron in the community, based on international experience. Evidence from New South Wales shows that soon after the peak, once cases start to decrease, consumer behaviour (and associated pent up demand) begin to return to normal.

107. Option 2 – three payments made fortnightly– is anticipated to assist the average firm with 1-19 FTE with 61% of their average costs over six weeks at the $3000+800 option, or 53% of their fixed costs over six weeks at $4000+400. This would assist micro firms (1-5FTE) with 73% or 79% of their fixed costs, respectively.

Changes to declarations

108. In order to ensure the people we want to receive this support are able to receive it, the Commissioner of Inland Revenue sets declarations applicants need to make.

109. These declarations will support the purposes of the scheme and the provisions of the Tax Administration Act 1994. It is intended that, to the extent possible, these declarations will promote the policy objectives of the scheme to target revenue drop related specifically to Omicron. We also note the recent findings of the Office of the Auditor General in relation to MSD’s administration of the WSS.

110. Attributing the COVID-19 circumstance to 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 will ensure the businesses we want to target will be eligible for the CSP. Also I want to ensure that businesses that have taken reasonably practicable steps to minimise revenue losses, but need to close can also receive the CSP.

111. It will ensure businesses that are in the CBDs that can operate but do not have the customers because people are working from home or isolating are also eligible. Critically, those business that choose not to open for some other reason will not be eligible. Although the declaration is set by the Commissioner of Inland Revenue, I recommend the applicants declare:

111.1. The applicant attributes this decline in revenue to the effect of the public health measures (including the COVID-19 Protection Framework- Red setting), or business circumstances related to COVID-19 in New Zealand that applied during the applicant's 7 day affected revenue period. And that the business has taken reasonably practicable steps to minimise revenue losses.

112. I also recommend requiring 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. The risk of non-CVC firms being able to demonstrate a revenue drop is in part mitigated by selecting a comparator period which is wholly covered by the CPF when CVC requirements were implemented. Selecting a comparator period immediately before the move to Phase 2 of the Omicron response helps meets this objective.

Interactions with historic and other existing economic supports

113. Economic support has been deemed necessary for a small range of specific sectors, such as events and tourism, in recognition of the public gathering limits under the CPF and border closures respectively. These sectors have already received support packages and no further sector-specific support is warranted.

114. Some sectors, particularly hospitality, are difficult to define and target, and support packages tend to benefit those sectors with the strongest advocacy groups rather than those experiencing the greatest need. The nature of Omicron also means that not all firms within a sector will be equally impacted, making some sector-specific packages low value for money spending. Developing a series of sector-specific support packages would create a crowded landscape of support for businesses, increasing the risk of double-dipping and further exacerbating administrative complexities.

115. Therefore, I consider using the CSP is the best means of delivering efficient support to the firms within the sectors which are experiencing severe revenue decline as a result of Omicron. For SMEs in other sectors or firms in the target sectors which have only experienced a moderate revenue decline of more than 30%, the proposed amendments to the SBCS should ensure that they have access to cashflow.

116. We may want to consider if there are non-fiscal/regulatory ways to encourage sectors to become more COVID resilient.

117. The CSPFEB22 will complement the changes to the SBCS. Eligible firms can receive both the SBCS and the CSPFEB22. Recipients of the CSPFEB22 can also claim the LSS and STAP.

118. With regards to the other sector support, recipients of the Ministry of Culture and Heritage one off emergency grant will not also be eligible for the initial CSPFEB22 payment. The $5000 one off emergency grant is for self-employed individuals/sole traders who can show proof of practice as a cultural sector practitioner and show proof of a loss of income or opportunity. As the quantum and coverage of the CSPFEB22 is similar to the emergency grant, applicants should not be able to receive both [CAB-22-MIN-0009 refers]. Officials are working to ensure if option 2 is recommended (three fortnightly payments) that recipients of the Ministry of Culture and Heritage one off emergency grant are able to apply for payments 2 and 3.

119. Recipients of the Events Transition Support Payment (ETSP) Scheme and the Arts and Cultural Events Support Scheme would be eligible for the CSP. This is because

these schemes cover unrecoverable costs (up to 90% in the case of events that have been prohibited from operating due to public health restrictions) rather than lost revenue with the aim of providing certainty to the events sector and incentivise events to proceed in the interests of broader economic and social wellbeing. (DEV-22-MIN-0007 refers).

120. Annex 1 outlines the different types of economic supports available for businesses and sectors during Omicron.

Estimated fiscal impacts

121. Based on a payment rate of $3000 + $800 FTE, Treasury estimates the fiscal cost of each CSP to be between $170m - $270m at a 40% revenue drop, $50m - $130m at a 50% revenue drop, and $30m - $80m at a 60% revenue drop. Based on a payment rate of $4000 + $400 FTE, Treasury estimates the fiscal cost of each CSP to be between $160m - $260m at a 40% revenue drop, $40m - $120m at a 50% revenue drop, and $20m - $70m at a 60% revenue drop. The Treasury has low confidence in the estimates due to the unknown level of uptake in response to Omicron in the community.

122. 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).

123. For most CSPFEB22 payment options in this paper, additional funding is unlikely to be required given there is $440 million remaining in the RSP appropriation. The remaining balance minus $10 million for outstanding RSP claims can be transferred to a new CSP appropriation as part of the Cabinet approval for activating the CSPFEB22. If a series of fortnightly payments and a 40% revenue drop is agreed then further funding may be required. Should that option be taken forward Treasury will monitor uptake of the first payment and provide further funding advice if required.

124. Similar to the approach taken for the RSP and WSS, any underspends in the CSP appropriation after the scheme closes will be retained and could be used to fund payments under any future activation of the CSP scheme (subject to Cabinet approval).

Order in Council

125. The proposed CSPFEB22 can be delivered within the current provisions of the Tax Administration Act 1994 and its definition of a CSP scheme. To implement the CSPFEB22, an Order in Council is required to activate the scheme and set its parameters. The Commissioner will determine and publish the eligibility criteria and terms and conditions applying to the CSPFEB22.

Inland Revenue

126. Inland Revenue continues to play a critical role in the COVID-19 response providing support to Individuals and businesses through new and existing economic support packages:

126.1. Small Business Cashflow scheme

126.2. COVID Support Payment

126.3. MSD and support to LSS and STAP

126.4. Ministry of Culture & Heritage support for the Cultural Sector Emergency Relief Fund for self-employed and sole traders in the cultural sector

126.5. Application of COVID remission for use of money and hardship relief provisions

126.6. Ongoing Integrity work for Resurgence Support payment, Small Business cashflow scheme and income tax positions from payment of wage subsidy.

127. [4]

128. Inland Revenue has advised me on the impacts decisions made in the Cabinet paper will have on the department.

COVID Leave Support Scheme and Short-Term Absence Payment (COVID Leave Schemes)

129. Officials have been reviewing the policy, operational and integrity settings for the COVID Leave Schemes in light of Omicron, and in particular as we enter Phase 2 of the Government's Omicron plan. Relevant Ministers agreed to report back to Cabinet on any proposed changes following further advice from officials [CAB-22-MIN-0007 refers].

130. The COVID Leave Schemes are expected to play an important role in the Omicron outbreak to support individuals required to self-isolate in accordance with public health guidance.

131. The Minister of Finance, Minister for Social Development and Employment and Minister for Workplace Relations and Safety have delegated authority to make minor policy decisions and clarify eligibility criteria regarding the LSS and STAP, including to align eligibility settings with public health guidance regarding testing, self-isolation and staying at home when sick [CAB-20-MIN-0531 refers]. Officials are monitoring the Omicron situation and providing advice to joint Ministers on how to ensure the COVID Leave Schemes remain fit for purpose in an Omicron environment.

132. In reviewing the LSS and STAP policy settings in light of Omicron, officials have identified the below areas which may result in changes to the Scheme settings.

Further work is needed to identify what changes (if any) are required, and I seek authority to delegate decision making on these specified matters to joint Ministers.

Joint Ministers have requested advice on whether changes are required to employer payment obligations

133. Employers who are required to self-isolate in accordance with public health guidance should remain at home and should not go to work. The COVID Leave Schemes are available to support employers to pay employees in these circumstances. However, possible gaps have been identified in employment payment obligations, including in the COVID Leave Schemes. For example, where there is no employment law obligation for employers to pay staff who are required to self-isolate. In these circumstances, the current LSS and STAP payment settings may not provide appropriate incentives for employers to apply for the subsidy and/or to pay the relevant employees at an appropriate rate while receiving the subsidy. There is a particular issue for casual or "variable hours" employees.

134. Joint Ministers (Finance, Social Development, and Workplace Relations and Safety) have requested further advice on these issues and request Cabinet approval that Joint Ministers' delegated authority includes making decisions about eligibility for the LSS and STAP when employers have no employment law obligation to pay staff who are required to self-isolate or are awaiting COVID-19 test results.

Considering changes to eligibility for certain State Sector Organisations

135. State Sector Organisations (SSOs) are currently ineligible for the COVID Leave Schemes [CAB-20-MIN-0105 refers)]. However, the Minister of Finance can grant exceptions to SSOs on a case-by-case basis allowing them to access the Schemes.

136. This approach to SSOs was decided at a time when the WSS, rather than the COVID Leave Schemes, was the primary economic support available and where numbers of workers self-isolating (in a non-lockdown scenario) was relatively low. In light of the WSS no longer being available and the anticipated higher numbers of workers needing to self-isolate during the Omicron outbreak, officials are revisiting the rationale for excluding certain categories of SSOs, in particular State-Owned Enterprises and Mixed Ownership Model Companies, from the COVID Leave Schemes. Officials are monitoring the situation, including for if there is an increase in requests from SSOs for an exception, and intend to provide further advice to Ministers on options to amend the current approach to SSOs if appropriate.

137. On this basis, I seek agreement to delegate authority to 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

138. Based on the most recent health case scenarios for Omicron, officials estimate that the COVID Leave Schemes could cost up to $300 million over the next 12 weeks. We note however that there are significant uncertainties around the modelling, as well as

behavioural responses in terms of uptake of the Schemes, and changes to public health guidance.

139. Currently the COVID Leave Support Scheme appropriation has around $143 million remaining. Based on the cost estimate mentioned above, we seek to draw down an additional $157 million from the CRRF to ensure there is sufficient funding available to cover demand over at least the next 12 weeks.

140. Costings for the COVID Leave Schemes are inherently uncertain and additional funding may be required beyond that sought in this paper. Therefore, I seek authorisation for 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:

140.1. by a transfer from the Business Support Subsidy COVID-19 appropriation (which currently has approximately $450 million of unspent funding) to the COVID-19 Leave Support Scheme appropriation; or

140.2. by a further drawdown up to $500 million from the CRRF.

Ministry of Social Development (MSD) administrative funding

141. MSD continue to play a critical role in the COVID-19 response particularly in providing support to individuals and households. One-year's additional funding of $30.7 million is sought from the CRRF to retain up to 300 MSD frontline staff in 2022/23. Funding for these frontline staff was provided as part of the first COVID funding round in 2020 [CAB-20-MIN-0219.25 refers] and further funding was provided in Budget 2021 [CAB-21-MIN-0116.27 refers], but overall funding significantly decreases between 2021/22 and 2022/23. Without further funding for 2022/23, these frontline staff positions will cease on 30 June 2022 and the number of frontline staff will decrease from 7,371 in 2021/22 to 6,837 in 2022/23 (a 7 percent decrease).

142. Retaining these existing frontline staff will support MSD in its role delivering on-going COVID-related activities, such as the LSS and STAP. Demand for these COVID Leave Schemes is anticipated to rise significantly as case numbers rise, especially as Omicron spreads. This funding will also then enable MSD to continue delivering employment and income support services to people with increasingly complex needs.

Legislative Implications

143. The Order in Council (COVID-19 Support Payments Scheme (Omicron Outbreak) Order 2022) would activate the CSP scheme. This Order was made under section 7AAC of the Tax Administration Act 1994.

144. This Order comes into force on 28 February 2022.

145. 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 COVID-19.

146. The Order in Council complies with:

146.1. the principles of the Treaty of Waitangi;

146.2. the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;

146.3. the principles and guidelines set out in the Privacy Act 2020;

146.4. relevant international standards and obligations;

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

147. 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 Statement

148. Treasury's Regulatory Impact Analysis Team has determined that the proposal on the Economic support in response to Omicron is exempt from the requirement to provide a Regulatory Impact Statement. The exemption is on the grounds that the proposal is to alleviate the short-term impacts of the declared COVID-19 emergency and is required urgently to be effective (making a complete, robust and timely Regulatory Impact Statement unfeasible).

Population Implications

149. Implementing the CSPFEB22 and the amendments to the SBCS will be of benefit to all New Zealanders as it will support our national effort to manage the Omicron outbreak, and will provide additional financial support to businesses to allow them to continue to pay their staff, and quickly continue operations as restrictions allow.

150. We expect the CSPFEB22 and SBCS to be of benefit to a broad cross-section of society including employers and employees, including women, Māori and Pacific communities, who make up a significant proportion of workers in some of the most affected sectors.

151. The proposals in this paper will help to alleviate the cash-flow difficulties being experienced by Māori and Pacific businesses, provided they can be accessed equitably. If not, there will be a disproportionate risk to the Māori economy and small Pacific businesses, particularly micro enterprises and sole traders. Some of the impediments to access in the past have been distrust in government agencies, digital barriers and communication of what support is available.

152. Revenue loss from COVID-19, and inequitable access to economic supports, could undermine the ability for Māori businesses to invest in research and development, with flow-on impacts for the growth of the Māori economy and for New Zealand's productivity growth. The 2021 Productivity Commission Frontier Firms report showed that currently this contribution is significant as Māori businesses do more research and development than other business types.

Human Rights

153. There are no human rights implications resulting from the proposals made in this paper.

Consultation

154. This paper has been prepared by Treasury and Inland Revenue. MSD was consulted.

Communications

155. MSD and Inland Revenue will provide communications on the application details for the new schemes on their websites and will ensure the Government's official Unite Against COVID-19 website is up to date.

Proactive Release

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

Recommendations

The Minister of Finance recommends that the Committee:

1. **agree** 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. **note** that some sectors, namely hospitality, arts and recreation, private transport and retail, are disproportionately affected by the Omicron outbreak in New Zealand;

3. **note** that sector-specific economic support is not the most appropriate means of providing immediate cashflow support to impacted businesses;

4. **note** that the Commissioner of Inland Revenue has discretion to offer deferred payment on some tax obligations to businesses experiencing financial difficulty;

5. **note** 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. **note** 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. **agree** that new and existing SBCS borrowers be permitted to take out a top up loan;

8. **agree** that this top up loan should be delivered as an increase of $10,000 to the SBCS base rate;

9. **agree** 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. **agree** that existing borrowers be able to draw down any un-borrowed loan amount from their original loan;

11. **agree** 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. **note** it will take up to four weeks from Cabinet decisions for Inland Revenue to make the required changes;

13. **authorise** 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. **note** that the financial recommendations in this section cover the impacts of three discrete decisions:

    14.1. to provide a 'top up' SBCS loan (see recommendations 7-9 above);

    14.2. to eliminate the backdating of interest on new and existing loans (see recommendation 10 above); and

    14.3. to provide funding for the expected increase in forecast uptake of SBCS loans (see recommendations 18-19 below);

Provide a 'top up' SBCS loan

15. **note** 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 **Minister of Revenue**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**

Non-Departmental Capital Expenditure: *Small Business Cashflow Scheme COVID-19*	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: *Initial Fair Value Write-Down Relating to the Small Business Cashflow Scheme COVID-19*	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. **agree** 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. **note** 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. **authorise** 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. **note** 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. **agree** to increase these two appropriations by a total of $294.168 million new funding to meet the expected shortfall;

Appropriations impact

21. **agree** 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 **Minister of Revenue**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Non-Departmental Capital Expenditure: Small Business Cashflow Scheme COVID-19	1,105.000	496.000	271.000	-	-
Non-Departmental Other Expenses: *Initial Fair Value Write-Down Relating to the Small Business Cashflow Scheme COVID-19*	473.168	212.000	116.000	-	-
Total Impact	1,578.168	708.000	387.000	-	-

22. **agree** that the proposed change(s) to appropriations for 2021/22 in recommendation 20 be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase(s) be met from Imprest Supply.

CRRF Impact

23. **agree**, 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. **agree** to 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. **agree** 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. **agree** to the following design criteria for the CSP scheme:

    26.1. **either**:

    option 1: be a one-off payment

    OR

    option 2: 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. **agree** to the following parameters for the CSPFEB22 scheme:

    27.1. firms will be eligible if they have experienced a revenue decline of one of

        27.1.1. at least 40%

        27.1.2. at least 50%

        27.1.3. at least 60%

    And either

    27.2. a base rate of the lesser of $3,000 and $800 per FTE (capped at 50 FTE), or eight times the actual revenue decline experienced,

    OR

    27.3. 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. **agree** to set the comparator period as seven consecutive days within the six weeks prior to 15 February 2021

    OR

29. **agree** 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. **note** that using the comparator period in recommendation 28 will exclude businesses that have opened in the previous year.

31. **authorise** 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.

32. **note** 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

33. **agree** recipients of the Ministry of Culture and Heritage one-off emergency grant will not also be eligible for the CSP, or the first CSP if option two of the recommendation 26 is agreed;

34. **note** recipients of the Events Transition Support Payment Scheme would be eligible for this CSP scheme;

35. **note** recipients of this CSP scheme can also claim the SBSC and the LSS and STAP for eligible workers;

Order in Council

36. **note** 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;

37. **authorise** the submission of the COVID-19 Support Payments Scheme (Omicron Outbreak) Order 2022 to the Executive Council;

38. **note** 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;

39. **agree** 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

40. **note** 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);

41. **note** at $3000 + $800 FTE the initial CSPFEB22 is expected to cost between $170m - $270m at a 40% revenue drop, $50 - $130m at a 50% revenue drop, and $30 - $80m at a 60% 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;

42. **note** at $4000 + $400 FTE the initial CSPFEB22 is expected to cost between $160m - $260m at a 40% revenue drop, $40m - $120m at a 50% revenue drop, and $20m - $70m at a 60% 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;

43. **note** that Vote Revenue 2021/22 includes a non-departmental other expense appropriation, COVID-19 Resurgence Support Payment;

44. **note** 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;

45. **agree** 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.

46. **approve** 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:

	$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	(430.000)	-	-	-	-
COVID-19 Support Payment	430.000				

47. **agree** 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;

48. **agree-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:

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

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

49. **note** if a revenue drop of 40% with Option 2 is agreed then the current funding may not be sufficient. 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

50. **note** 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;

51. **authorise** 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;

52. **note** 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;

53. **note** that the rationale for excluding SSOs from the COVID Leave Schemes is currently under review by officials in light of the Omicron environment;

54. **authorise** 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

55. **note** that based on current Omicron scenarios, our 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:

    55.1. $143 million remaining in the COVID-19 Leave Support Scheme appropriation (as at 10 February); and

    55.2. $157 million in new funding from the COVID-19 Response and Recovery Fund;

56. **agree** 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;

57. **approve** the following changes to appropriations to provide for the decision in recommendation 56 above, with a corresponding impact on the operating balance and net core Crown debt:

	$m – increase/(decrease)

Vote Social Development Minister for Social Development and Employment	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**	-	-	-	-

58. **agree** that the expenses incurred under recommendation 57above be charged against the CRRF established as part of Budget 2020;

59. **agree** 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;

60. **note** costings for the COVID Leave Schemes are uncertain and additional funding may be required;

61. **note** as at 10 February, 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;

62. **authorise** 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:

    62.1. by a transfer from the Business Support Subsidy COVID-19 appropriation to the COVID-19 Leave Support Scheme appropriation; or

    62.2. by draw down up to $500 million from the COVID-19 Response and Recovery Fund;

Ministry of Social Development administrative funding

63. **note** 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;

64. **agree** 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;

65. **approve** the following changes in appropriation to give effect to the policy decision in recommendation 64 with a corresponding impact on the operating balance and net core Crown debt:

	$m – increase/(decrease)				
Vote Social Development Minister for Social Development and Employment	**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**	**-**	**-**	**-**

66. **agree** that the expenses incurred under recommendation 65 above be charged against the CRRF established as part of Budget 2020;

67. **agree** 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.

Authorised for lodgement

Hon Grant Robertson

Minister of Finance

Annex 1: Table comparing economic support schemes

Scheme	**Type**	**Eligibility**	**Payment**	**Maximum support available**	**Limitations**
COVID-19 Support Payment (CSP) [Option 1]	Grant	Firms experiencing more than 40/50/60% revenue drop • in business for at least 1 month • Cap of 50FTE	$4,000 plus $400 per FTE Cap of 50 FTE can be used for fixed or variable costs	$24,000	Cannot receive CSERF
COVID-19 Support Payment (CSP) [Option 2]	Grant	• Firms experiencing more than 40%/50%/60% revenue drop • In business for at least 1 month • Cap of 50FTE	$4,000 plus $400 per FTE Cap of 50 FTE can be used for fixed or variable costs	3 x $24,000 $72,000	Cannot receive CSERF and the initial payment
Small Business Cashflow Scheme (SBSC) [proposed]	Loan	SMEs, economy-wide • Must have 50 or fewer FTEs. • In business for at least 6 months • Must be viable (going concern) • Repayment in 5 years. First two years interest free; interest accrues at 3% from year 3	$20,000 plus $1,800 per FTE Multiple drawdowns allowed Core operating costs or capital costs for COVID adaptation	$110,000 for business or organisation $21,800 for sole traders	Cannot be passed onto shareholders or owners as dividend
COVID-19 Leave Support Scheme (LSS)	Grant	Employers (including self-employed)	Weekly payment. $600 per week for full-time workers $359 for part-time workers	Depends on eligible workers and length of self-isolation.	

Short-Term Absence Payment (STAP)	Grant	Employers (including self-employed)	One-off payment of $359	Depends on eligible workers and frequency of tests	Can only apply for it once, for each eligible employee, in any 30-day period
Events Transition Support Payment scheme (ETSP)	Underwrite	Large-scale event: In-person paid event with over 5000 attendees. Or business event with 200+ ticketed attendees • Scheduled to occur before 31 January • Proof of financial commitment before NZ moved to Red on 23 January 2022	90% of unrecoverable costs (not profit or revenue)	Depends on event costs	Cannot receive ACESS or underwritten by local government or insurer
Arts and Culture Event Support Scheme (ACESS)	Underwrite	Arts and cultural sector event Scheduled to occur before 31 January 2023 Proof of financial commitment before NZ moved to Red on 23 January 2022 Attendee capacity of 100—5,000 ticketed or 5000+ un-ticketed (free)	Unrecoverable costs (not profit or revenue)	$300,000	Cannot receive ETSP or underwritten by local government or insurer
Cultural Sector Emergency Relief Fund (CSERF)	Grant	Cultural sector organisation • Organisations who contribute to creating, presenting, protecting, and distributing arts, culture and heritage in any medium (excluding news content and sports) • Self-employed/sole-trader must show proof of their employment in the Sector and proof of loss of income or loss of opportunity for income due to the Red setting	For organisations, the shortfall between revenues and costs over the six-week period following their application (or reapplication) For self-employed/sole-traders, a one-off payment of $5,000	Can apply for additional funding at the end of six weeks. Maximum funding over all applications: $300,000 for an organisation $30,000 for self-employed/sole-trader.	-