

# The Treasury

## Advice on COVID-19 Response - Tranche Three Information Release

September 2022

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### Information Withheld

No information has been withheld.

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Office of the Minister of Finance

Chair, Cabinet

## **Further Funding for the COVID-19 Support Payment February 2022 Schemes**

### **Proposal**

- 1 This paper seeks Cabinet agreement to:
  - 1.1 appropriate additional funds of \$600 million from the COVID-19 Recovery and Response Fund (CRRF) to cover the increased demand for the COVID-19 Support Payment February 2022 (CSPFEB22);
  - 1.2 a minor amendment to the Order in Council for the CSPFEB22 to address an inconsistency between the treatment of newly acquired businesses; and

### **Relation to Government Priorities**

- 2 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.

### **Background**

- 3 Cabinet agreed to activate the COVID-19 Support Payment (CSPFEB22) in relation to the business circumstances arising from the effect of public health measures (including the COVID-19 Protection Framework – Red setting) and the rapid increase in the number of COVID-19 cases in the New Zealand community (CAB-22-MIN-0030). At that meeting, Cabinet agreed that the CSP scheme would be a series of three fortnightly payments, along with other eligibility criteria, and made a commitment to review the situation following the third payment.
- 4 Cabinet agreed that for each CSP payment, eligible firms can receive the lesser of:
  - 4.1 \$4000 base payment + \$400 per FTE (up to 50 FTE); or
  - 4.2 eight times the firm's experienced revenue drop over the impacted 7-day period.

- 5 The affected revenue periods for each payment are:
  - 5.1 Payment 1: 16 February to 4 April 2022
  - 5.2 Payment 2: 7 March to 4 April 2022
  - 5.3 Payment 3: 21 March to 4 April 2022
- 6 Payment 1 of the CSP opened on 28 February and has paid out \$399.49 million. Payment 2 opened on 14 March and has paid out \$245.24 million. Payment 3 will open on 28 March. Applications will close for all three payments on 5 May 2022.
- 7 Cabinet noted that the current funding for the CSP may not be sufficient, and that officials will monitor the uptake of the first payment and report back to Cabinet if there is projected to be a funding shortfall (CAB-22-MIN-0030).
- 8 The uptake of the CSPFEB22 has been higher than anticipated and, as of 23 March, Inland Revenue had paid \$644.73 million to 159,418 applicants.
- 9 The main sectors that are accessing the payment are Accommodation and Food Services, Construction, Other Services and Retail.
- 10 Micro-businesses account for 63% of the total volume of applicants for payments 1 and 2. Of all approved applications, 57% of businesses had only one employee. This is broadly consistent with the percentage of micro-firms that received the August Resurgence Support Payment (RSPAUG21).

#### **Further funding for the CSP is required**

- 11 To date, \$830m of funding has been appropriated to meet the cost of the COVID-19 Support Payment (refer CAB-22-MIN-0056). Cabinet authorised delegated Joint Ministers to draw down a further \$100m from the CRRF to meet the costs generated by CSPFEB22 (CAB-22-MIN-0056), which we have done.
- 12 In forecasting the cost of the CSP, Treasury noted their low confidence in the estimates, as they were unsure about how the Omicron outbreak would impact economic activity and demand for the CSP. Under the COVID-19 Protection Framework Red setting most economic activity can continue as normal. However, as people have become sick, self-isolated and/or worked from home, there has been a decrease in electronic spending and people movements.
- 13 Across the economy we have seen businesses temporarily closing or decreasing their hours or services due to staff absences.
- 14 Based on current payment rates, the appropriation may be exhausted by 1 April 2022.
- 15 As applicants need to apply for each payment separately, it is difficult to predict the demand for each payment. If over the next week cases

substantially drop and economic activity improves, especially in Auckland, then we expect the demand for Payment 3 to be lower. As people do not need to self-isolate if they have tested positive for COVID-19 and have self-isolated within the previous three months, there should be fewer staff absences as we pass the peak of the curve. This should make a difference to the number of sole-traders and micro-firms that apply for the CSP.

- 16 However, a risk associated with the concurrent payment schedule and affected revenue periods is that, if we experienced a large wave towards the end of March (and during the affected revenue period for all three payments), more businesses across the country may be forced to close or decrease their hours due to staff absences. This would mean we may see an overall increase in the demand for all three payments.
- 17 I therefore seek Cabinet's agreement to a further top up of \$600m from the CRRF ahead of the Budget Moratorium. Due to the uncertainties associated with the Omicron outbreak and when economic activity will increase, I recommend taking a conservative approach and requesting a substantial top up for the CSP. This should mitigate the risk of the appropriation being exhausted due to higher than expected uptake and Inland Revenue being unable to pay the CSP to applicants during the Budget Moratorium (from 11 April 2022).

#### **Technical amendments to the Order in Council for newly acquired businesses**

- 18 In addition to seeking further funding, I seek agreement to amend the Order in Council to address a consistency issue in the comparator period(s) for newly acquired businesses.
- 19 Under current rules, only businesses acquired after 16 January 2022 are able to use the previous owner's revenue during the comparator period to demonstrate eligibility for the CSP. Businesses acquired since the 2021 comparator period, but before or on 16 January 2022, are only able to use the 2022 comparator period (not the 2021 comparator period). Businesses that are required to use the 2022 comparator period may be unable to demonstrate the 40% revenue decline due to already being impacted by COVID-19, leaving them no alternative way to demonstrate their revenue decline.
- 20 Officials recommend, for the purposes of the 2021 comparator period, that if a business is acquired between 16 February 2021 and 16 January 2022, that business should be allowed to demonstrate a typical week's revenue by using the revenue received by the previous owner during the 2021 comparator period. They will also have to meet the other requirements of the newly acquired business test for them to use the 2021 comparator period; primarily, that the nature and character of the business has not substantially changed between the comparator period and the affected revenue period.
- 21 This amendment will align the rules with the treatment of businesses acquired after 16 January 2022. This means that a small number of businesses (one we are aware of) that have been acquired since the 2021 comparator period

and have lower revenue during the 2022 comparator period due to COVID-19, will be able to use the 2021 comparator period to demonstrate the necessary revenue decline to be eligible for the CSP.

- 22 This amendment will be available to applications for all three CSP payments from 28 March.
- 23 Given it is a simple change which improves the fairness of the scheme, it is recommended an amendment to the Order in Council be made to address this issue and Inland Revenue's website updated. Given the minor nature of the change, it does not have a fiscal cost.

### **Financial Implications**

- 24 This paper seeks a total of \$600 million in additional funding to be charged against the CRRF for the CSPFEB22.

### **Order in Council**

- 25 To implement the changes agreed to in this paper, an Order in Council is required to amend the initial Order in Council that activated the CSP scheme (the COVID-19 Support Payments Scheme (Omicron Outbreak) Order 2022).
- 26 The proposed COVID-19 Support Payments Scheme (Omicron Outbreak) Amendment Order (No. 2) 2022 would amend the CSP scheme. This Order will be made under section 7AAC of the *Tax Administration Act 1994*.
- 27 The proposed Order will come into force on 28 March 2022.
- 28 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.
- 29 The Order in Council complies with:
- 29.1 the principles of the Treaty of Waitangi;
  - 29.2 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;
  - 29.3 the principles and guidelines set out in the Privacy Act 2020;
  - 29.4 relevant international standards and obligations;
  - 29.5 the Legislation Guidelines (2018 edition), which are maintained by the Legislation Design and Advisory Committee.
- 30 There are no anticipated grounds for the Regulations Review Committee to draw the Order in Council to the attention of the House of Representatives under Standing Order 327.

## Impact Analysis

### Regulatory Impact Assessment

- 31 The Treasury's Regulatory Impact Analysis team has determined that this proposal is exempt from the requirement to provide a Regulatory Impact Statement on the grounds that it is intended to manage the direct actions taken to protect the public in response to a declared emergency event and required urgently to be effective (making a complete, robust and timely Regulatory Impact Statement unfeasible).

### Population Implications

- 32 The proposals in this paper will support our minimisation and protection approach to prevent the worst impacts of COVID-19, for the benefit of all New Zealanders. The CSP provides additional financial support to firms to allow them to continue to pay their staff and cover non-wage costs. This benefits individuals employed by those firms.
- 33 Uptake of the CSP has been broad across sectors, ethnicities, and regions, benefitting a wide cross-section of society including women, Māori, and Pasifika, who make up a large proportion of some of the most affected sectors.

### Consultation

- 34 Inland Revenue was consulted in the development of this paper.

### Communications

- 35 Inland Revenue will update its advice on their website to inform businesses of the change to the comparator period for newly acquired businesses.

### Proactive Release

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

### Recommendations

The Minister of Finance recommends that Cabinet:

- 1 **note** Cabinet has previously appropriated \$830m for the CSPFEB22;
- 2 **note** that delegated Ministers have drawn down a further \$100m as authorised by Cabinet;
- 3 **note** that there has been higher-than-expected demand for CSPFEB22, which means there is anticipated to be a shortfall of funding;
- 4 **note** that, based on current uptake of the CSPFEB22, the appropriation may be exhausted by 1 April 2022;

- 5 **approve** the following changes to the *COVID-19 Support Payment* appropriation to meet the higher-than-expected demand, with a corresponding impact on the operating balance and net core Crown debt:

| Vote Revenue<br>Minister of<br>Revenue  | \$m – increase / (decrease) |         |         |         |                       |
|---|-----------------------------|---------|---------|---------|-----------------------|
|   | 2021/22                     | 2022/23 | 2023/24 | 2024/25 | 2025/26 &<br>Outyears |
| Non-departmental<br>operating expense:<br><i>COVID-19 Support<br/>Payment</i> | 600.000                     | -       | -       | -       | -                     |

- 6 **agree** that the proposed change to the appropriation for 2021/22 in recommendation 5 be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 7 **agree** that the expenses incurred in recommendation 5 above be charged against the COVID-19 Response and Recovery Fund established as part of Budget 2020;

*Technical amendments to the Order in Council for newly acquired businesses*

- 8 **note** the inconsistency between businesses acquired before and after 16 January 2022, and the comparator periods they can use to demonstrate a 40% revenue decline;
- 9 **agree** to allow businesses acquired between 16 February 2021 and 16 January 2022 to use either the 2021 or 2022 comparator periods;
- 10 **note** that these businesses will also have to meet the other requirements of the newly acquired business test for them to use the 2021 comparator period (primarily, that the nature and character of the business has not substantially changed between the comparator period and the affected revenue period).
- 11 **note** the amendment in recommendation 9 does not have a fiscal cost.
- 12 **authorise** the submission of the COVID-19 Support Payment Scheme (Omicron Outbreak 2022) Amendment Order (No.2) 2022 to the Executive Council.
- 13 **note** that a waiver of the 28-day rule is sought so that the Order in Council can come into force by 28 March, on the ground that the scheme should be amended as soon as possible to allow a further payment to help businesses directly impacted by the Omicron outbreak.
- 14 **agree** to waive the 28-day rule so that the Order in Council can come into force by 28 March 2022.

Authorised for lodgement

Hon Grant Robertson  
Minister of Finance