The Treasury

Advice on COVID-19 Response - Tranche Three Information Release

September 2022

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Sector packages and CSP under Omicron

Date:	4 February 2022	Report No:	T2022/101
		File Number:	SH-1-6-1-3-3-22

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	Discuss at Weekly Agency Meeting	8 February 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Kevin Cho	Analyst, Regions, Enterprise and Economic Development	[39]	N/A (mob)	
Jean Le Roux	Manager, Regions, Enterprise and Economic Development		N/A (mob)	✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Refer the report to the Ministers of Revenue, Economic and Regional Development, Small Business, and Arts, Culture and Heritage.

Note any feedback on the quality of the report	

Enclosure: No/Yes (attached) OR Yes (iManage links)

Executive Summary

The COVID-19 Protection Framework (CPF) represents a significant shift in the way that New Zealand approaches its response to COVID-19. As we move away from an elimination strategy, the case for economic support decreases. In line with that change in strategy, the economic support focuses on supporting individuals and providing cashflow relief to adversely affected firms through tax relief (deferrals and remissions) and providing credit via the Small Business Cashflow Scheme (SBCS).

However, Omicron presents additional challenges and since the current outbreak and the nation-wide move to Red under the CPF, there have been many calls from adversely and potentially adversely affected sectors for additional financial support. Some of these are a result of Red, while others are particularly concerned with the Omicron outbreak and trends seen overseas during the outbreak such as shadow lockdowns, voluntary self-isolation, decreased consumption, staff absenteeism and the impacts of supply chain disruptions.

Feedback from business industry groups is that sectors including hospitality, arts and recreation, bricks and mortar retail, tourism and supporting industries are already reporting significant revenue declines. They are already heavily indebted and are in need of cashflow relief to give them the confidence through the Omicron outbreak. Business leaders have emphasised the need for the Government to signal what supports will be available. These industries have been requesting sector packages.

Some sectors have existing support packages, namely events and tourism, in recognition of the gathering limits under the CPF and border closures respectively. These sectors have received generous support packages to date and no further fiscal support is warranted.

Treasury's view remains that the preferred support mechanism are tax remissions and the SBCS. We do not believe that any sectors, in addition to those listed above should receive support packages. The impacts of the restrictions are felt more uniformly across these sectors, and are not confined to the impacts of the Omicron outbreak. Therefore, there are fewer risks associated with the schemes and creating precedent, including the expectation of economic support under Red settings.

For other sectors, such as hospitality and retail trade, that are experiencing decreased foot traffic and revenue due to Omicron outbreak, the risks associated with developing a series of sectoral packages outweigh the potential benefits. These sectors are difficult to define and target, and the packages tend to benefit those sectors with the strongest advocacy groups rather than those experiencing the greatest need.

If you want to explore further support for those specific firms and sectors, the COVID-19 Support Payment (CSP) could be used to target financial support in the form of a one-off grant to firms experiencing a greater than average revenue decline. The parameters of the CSP, such as the comparator period, revenue decline, base rate and FTE component rate, can be used to target support to those firms and, implicitly, sectors. [4]

Activating a one-off CSP payment could create a precedent risk, especially if the Omicron outbreak lasts for a long period of time.

The effectiveness of the CSP would decrease with additional sector packages, as the risk of double-dipping by firms increases. Therefore, if additional support is required, we encourage Ministers to choose to pursue a strategy of several sector packages or using the CSP.

Recommended Action

We recommend that you:

a. **note** that Cabinet noted that there would be a move away from broad-based support that had been provided under the Alert Level system to more targeted support under the CPF [refer DEV-21-MIN-0250];

b. **note** that the economic support currently available under the CPF is to support the health response through financially supporting individuals to self-isolate;

c. **note** that the Treasury does not see a need for further business support in response to Omicron, especially in the context of labour market tightness and inflationary pressure;

d. **note** that feedback from business industry groups is that sectors including hospitality, arts and recreation, brick and mortar retail, tourism and supporting industries are already reporting significant revenue declines, are already heavily indebted and are in need of cash flow; however, this is not consistent with the aggregate data we have received about bank balances and indebted;

e. **note** that if the economic impact of Omicron is worse than expected and economic support is required, then the two main options to are a heavily targeted CSP **or** sector-specific packages to those that are severely impacted;

f. **note** that should you want to provide additional support to these sectors Treasury recommends a heavily targeted CSP to provide support to businesses and sectors that are severely impacted under Omicron;

g. **note** that the settings of the CSP can be configured to direct support to types of firms experiencing severe revenue decline, but cannot differentiate between the causes of revenue decline resulting from the Omicron outbreak;

h. **note** that the activation of a one-off CSP payment could create a precedent of support under the CPF, especially if the Omicron outbreak lasts for a long period of time;

i. **note** that sector packages already exist for the sectors whose ability to operate has been severely affected, namely the events, cultural and tourism sector;

j. **note** that having multiple sector packages presents boundary and definition issues, increases the risk of double-dipping and decreases the effectiveness of support such as the COVID-19 Support Payment (CSP);

k. **note** that there are non-financial levers that can be used to provide support to the most impacted sectors;

l. **discuss** this report with officials at the Weekly Agency Meeting on 8 February; and

Agree/disagree.

m. **refer** to the Ministers of Revenue, Arts, Culture and Heritage, Economic and Regional Development, and Small Business.

Refer/not referred.

Jean Le Roux
Manager, Regions, Enterprise and Economic Development

Hon Grant Robertson
Minister of Finance

Treasury Report: Sector packages and CSP under Omicron

Purpose of Report

1. This report provides advice on how the COVID-19 Support Payment (CSP) or sector packages could be used if Ministers wanted to provide additional support to firms and sectors facing liquidity problems as a result of the Omicron outbreak.

2. We would like to discuss the content of this report with you at the Weekly Agency Meeting on 8 February to inform your report back to Cabinet on further economic supports.

The Omicron outbreak and the economic response

3. COVID-19 Protection Framework (CPF) represents a significant shift in the way that New Zealand approaches its response to COVID-19. As we move away from an elimination strategy, the economic case for broad base economic support decreases. The economic support currently available under the CPF primarily focuses on the financial needs of individuals required to self-isolate. This is because the permissiveness of the Red setting allows most businesses to operate normally.

4. The Treasury's view remains that support to businesses for reduced revenue should primarily focus on providing liquidity assistance to financially distressed firms via tax flexibility, complemented by loan-based support through the Small Business Cashflow Scheme (SBCS) [TR2022/36].

5. Should Ministers want to provide additional business support, it should be highly targeted to those firms experiencing a severe decline in revenue and should avoid creating an expectation of ongoing support under Red settings or throughout the Omicron outbreak. If a choice is made to provide additional support to sectors, Treasury encourage Ministers to choose between developing sector packages or using the CSP. Pursuing a strategy that employs a combination of sector-specific packages and the use of the CSP would create administration and integrity risks.

The economic disruption caused by Omicron is likely to be more complex than previous outbreaks

6. During previous COVID-19 outbreaks the Government adopted an elimination strategy by employing lockdowns. Businesses could attribute customer behaviours and associated revenue decline to specific restrictions when applying for broad based support.

7. The situation under Omicron is more complex. There are a wide range of expected economic impacts at a firm level, including:

   a *Inability for businesses to open or operate at full capacity due to the CPF Red restrictions (gathering limits in particular).*

   b *Changing consumer behaviour*: Customers may choose to avoid certain activities or venues even though not compelled to do. As more people work from home, central city businesses experience a downturn in foot traffic. Overseas these consumer behaviours have been labelled 'voluntary lockdowns', as they can have a similar effect on revenue as mandated lockdowns.

c *Staff absenteeism*: Widespread sickness and self-isolation (mandated or voluntary) will mean firms will have reduced hours or be unable to open due to staff isolating. While *the* Leave Support Scheme (LSS) and Short-Term Absence Payment (STAP) assist with the wage costs of staff who are self-isolating, firms may still experience a decrease in revenue if they cannot open, or have reduced hours or output as a result of a fewer available staff. Sickness and self-isolation will particularly impact sole traders.

d *Supply chain disruptions*: Firms may experience a decrease in revenue due to difficulties in *accessing* goods and services as a result of supply chain disruptions.

8. These impacts make it more difficult to design targeted economic support mechanisms, especially distinguishing the direct economic implications of Government restrictions from voluntary consumer behaviour.

While electronic spending is only marginally down some sectors are reporting significant revenue declines as a result of Omicron

9. Available high-frequency data (1 February 2022) indicates only a small dip in activity during the first week under Red, with electronic spending only down 2.4% last week compared to the same week in 2020. This reflects the general permissiveness of the Red setting.

10. However, the fall in spending was largely concentrated in the food and beverage services, accommodation, and arts and recreation sectors. Furthermore, workplace movements are below baseline as more workers choose to operate from home. This aligns with feedback from business leaders that some CBD hospitality venues have experienced significant revenue declines of more than 40% since New Zealand went to Red. Some businesses however, such as suburban takeaway outlets, are not experiencing a substantial decline.

11. Tourism NZ (TVN) has provided commentary that the summer domestic tourism market has not performed as strongly as anticipated. They are seeing a slightly less optimistic picture and outlook for domestic holidays. This is likely indicative of a couple of factors, such as the impending Omicron outbreak in New Zealand at the time, and weaker economic sentiment in particular, both impacting on the domestic holiday plans for the coming 12 months, combined with the reality of entering the third year of the global pandemic.

12. Feedback from business leaders is that they fear that the Omicron outbreak will act as a shadow lockdown and that people-facing sectors, such as hospitality, will experience similar revenue declines as lockdowns under the Alert Level system. They have requested that the Government urgently signals what support will be made available to impacted firms. As cashflow is one of the biggest pressures facing these sectors, business leaders have requested an extension of Inland Revenue’s tax flexibility, as well as the Wage Subsidy Scheme (WSS) and RSP (CSP), and restart grants as used in Australia, where firms have gone into hibernation. BusinessNZ and Employers and Manufacturers Association (EMA) were sceptical about the role of loans and credit facilities as most of these firms have already leveraged all options and will not want to take on additional debt.

Should you want to provide additional support to severely impacted sectors, a highly targeted CSP is the second-best option

13. The objective of the CSP (previously the RSP) is to assist firms that experience a disruption in revenue as a result of public health restrictions.

14. CSP settings such as the revenue drop test, base payment rate and per FTE rate and the comparator period can be changed to achieve the objective of the CSP. The objective of the CSP could be to support firms and sectors most affected by Omicron whilst not setting a precedent for broad based support under Red.

15. If the CSP is activated, we recommend that it is a one-off payment. A minimum period in Red and/or a shift in phases to 2 or 3 could be considered as a trigger for opening applications for the CSP. The trigger should align with the objective behind the introduction of the CSP. A minimum period in Red would align with the objective of ensuring firms are supported during a prolonged period of public health measures. A trigger based on phases could acknowledge the additional economic impacts that a change in phases might have on businesses due to a change in consumer behaviour and staff absenteeism.

The revenue drop test can be used to target sectors and businesses most impacted by public health measures

16. A revenue drop test is likely to identify the firms most in need of economic support due to public health restrictions. It targets support to sectors and regions that are, on aggregate, most affected, while also ensuring firms in any sector or region that are affected are eligible. A revenue drop test of 30% was used for previous RSP payments to provide support to a greater breadth of firms while further targeting those that are most affected.

17. We expect most businesses will be able to continue to operate relatively normally at Red, evidenced by revenue decline reported during July RSP where Wellington was at Alert Level 2 (refer Table 1). However, during the Omicron wave, it is possible there is a short period of intense disruption due to change in consumer behaviour and worker absenteeism as cases rise. Therefore, a higher revenue decline than previous RSPs may be appropriate to target sectors, such as Accommodation and Food Services and Arts and Recreation Services that are likely to be the most affected by Omicron and limit the fiscal impact of the CSP.

18. A revenue drop percentage set between 60% and 80% would have targeting effects to assist businesses most affected by the Omicron wave. The choice of revenue drop percentage would reflect a trade-off between providing support to a breadth of firms and managing the fiscal impact of the CPS.

Table 1: Firm sectors by revenue drop percentage declared during the Wellington outbreak in July (Wellington at Alert Level 2 and excluding firms in Auckland)

	Rest of NZ						
	30-40	41-50	51-60	61-70	71-80	81-90	91-100
Accommodation and Food Services	49%	20%	11%	6%	2%	5%	7%
Administrative and Support Services	16%	11%	10%	10%	11%	9%	32%
Agriculture, Forestry and Fishing	13%	13%	13%	0%	38%	0%	25%
Arts and Recreation Services	12%	11%	9%	9%	11%	2%	46%
Construction	6%	14%	6%	3%	6%	6%	58%
Education and Training	14%	14%	18%	14%	0%	9%	32%
Electricity, Gas, Water and Waste Services	100%	0%	0%	0%	0%	0%	0%
Financial and Insurance Services	38%	8%	15%	8%	8%	0%	23%
Health Care and Social Assistance	33%	26%	9%	9%	7%	2%	14%
Information Media and Telecommunications	11%	11%	21%	7%	14%	4%	32%
Manufacturing	21%	23%	10%	5%	13%	5%	24%
Other Services	35%	16%	14%	9%	7%	5%	14%
Professional, Scientific and Technical Services	17%	15%	10%	9%	9%	5%	35%
Public Administration and Safety	25%	50%	25%	0%	0%	0%	0%
Rental, Hiring and Real Estate Services	14%	0%	24%	5%	24%	5%	29%
Retail Trade	33%	17%	15%	12%	4%	4%	13%
Transport, Postal and Warehousing	26%	20%	18%	11%	7%	5%	13%
Wholesale Trade	33%	16%	18%	6%	2%	4%	22%
(blank)	21%	19%	7%	6%	12%	5%	31%

The comparator period can be set to attribute revenue decline to specific public health measures

19. The comparator period determines the comparative basis for the revenue drop and therefore impacts eligibility.

20. The comparator period could be based on a period of normal revenue under the new CPF, whilst acknowledging the additional economic impact of Omicron. We expect most businesses that are COVID-19 Vaccine Certificate compliant will be able to operate relatively ‘normally’ at Red. Therefore, an appropriate comparator period could be set at any 14-day consecutive period in the four to six weeks prior to the activation of the CSP and the introduction of the CPF including periods at Red.

21. The different levels of economic activity during the Christmas and New Year’s trading period should be considered when setting a comparator period for the CSP. The Christmas and New Year’s trading period has different impacts on regions and sectors and may not reflect a typical period of income for businesses. This currently limits the options available to set a comparator period.

Base payment rates and FTE payment rates can be adjusted and include wage costs, but integrity risks will need to be considered

22. The choice of base and FTE payments rates determines the level of support. The base rate could be based on mean ongoing costs for sectors where we anticipate a disproportionate economic impact as a result of Omicron such as Accommodation and Food Services, Arts and Recreation Services, Retail Trade and Transport, Postal and Warehousing.

23. Initial RSP payments were set at a rate of $1,500 + $400 per FTE with the final transition payment rate set at $4,000 + $400 per FTE. Table 2 is adapted from the Annual Enterprise Survey and the base rate could be set between $2,000 and $4,000 to acknowledge ongoing costs faced by the sectors likely to be most affected by Omicron.

24. The FTE payment rate could incorporate the WSS. The full WSS does not have to incorporated as support for firm's wage costs for workers needing to comply with public health measures exists in the form of the LSS and STAP, and the key objective of the WSS (supporting labour attachment) is not a current concern. The per FTE payment rate could be set between $400 and $800 to be consistent with the approach towards the base payment rate.

25. However, agencies cannot compel employers to pass this onto their employees which presents integrity issues with ensuring employees receive the support. Given the tight labour market and the greater costs associated with hiring costs, we assume that firms would prefer to pay staff wages and retain staff than not pay wages and risk losing staff.

26. We note sole traders present a greater integrity risk, and caution should be made against over weighting payments to this group. There is also the integrity risk of setting a high payment rate and revenue drop test and the decline in revenue being attributable to individual firms' decisions to temporarily suspend operations, and not the impact of Omicron.

Table 2: Mean ongoing costs by sector per employee count from the Annual Enterprise Survey.

	Mean ongoing costs		
Firm size (employee count)	**1--5**	**6--9**	**10--19**
Accommodation and Food Services	2,600	4,800	8,100
Administrative and Support Services	2,400	7,700	18,000
Arts and Recreation Services	3,700	12,800	16,500
Construction	6,500	20,500	
Education and Training	1,900	3,700	5,500
Electricity, Gas, Water and Waste Services	6,800	34,600	45,900
Health Care and Social Assistance	1,900	5,800	9,400
Information Media and Telecommunications	5,200	16,500	37,300
Manufacturing	4,800	16,000	28,800
Other Services	1,900	6,200	13,600
Professional, Scientific and Technical Services	2,100	7,300	15,700
Public Administration and Safety	2,800	16,400	9,300
Rental, Hiring and Real Estate Services	5,600	10,500	18,900
Retail Trade	1,700	3,800	8,400
Transport, Postal and Warehousing	4,100	13,400	33,300
Wholesale Trade	4,300	8,000	23,200

The declaration requirements for applicants can strengthen the connection to impacts from Omicron, however it is not possible to achieve perfect alignment

27. The current approach is to require firms to declare that their revenue drop is a consequence of public health measures and that they hold records to demonstrate this as part of their application. This assists in limiting the support provided to firms that demonstrate an actual revenue drop during the period of disruption.

28. The likely situation under Omicron means that not all decline in revenue will be directly attributable to public health measures. Changing consumer behaviour, staff absenteeism and supply chain issues are not a direct result of public health measures and hence difficult to implement in declaration requirements.

29. A declaration to ensure the use of COVID-19 vaccine passes for a business' operations could be incorporated. [4]

30. The application form can also include an agreement from the applicant to pass on any designated wage portion to their employees. The terms and conditions would advise that the applicant agree to abide by all declarations, otherwise they would be in default and be required to repay the CSP. [4]

31. [4]

32. A more prescriptive application process also risks considerable increasing call volumes to Inland Revenue, as well as generating uncertainty for businesses who may seek advice before applying, resulting in increased compliance costs. Delays in agreement on the declarations for the CSP presents a delivery risk.

The fiscal cost of the CSP is unclear but it is unlikely additional funding would be required for a one-off payment

33. In the absence of further understanding and data on consumer behaviour changes and business decisions, it is hard to predict the likely uptake of the CSP and therefore difficult to model its fiscal impact. The fiscal cost of RSP payments was dependent on Alert Level settings at the time of activation. The fiscal cost ranged from $640 million when all of NZ was at Alert Level 4 to $110 million when Auckland region was at Alert Level 3 and the rest of NZ at Alert Level 2, both with a payment rate of $1500 + $400 per FTE.

34. We do not anticipate that additional funding would be required for a one-off payment of the CSP. There is $440 million remaining in the RSP appropriation after applications for the RSP have closed, which we consider should be enough for a one-off payment of the CSP.

35. The activation of the CSP would require a funding transfer from the RSP appropriation to a new CSP appropriation to reflect the change from the Alert Level system to the CPF.

36. Inland Revenue requires two weeks from the Cabinet decision to have the CSP implemented, however this timeframe is dependent on clear decisions regarding eligibility settings being provided. The proposed changes in this paper can be achieved with the current legislation and include the need for an Order in Council to be approved by the Executive Council and signed by the Governor General. Comparatively, sector-specific support is likely to require more time to ensure the support is targeted and tailored towards individual sectors.

The Government has already committed to a range of sector packages for the sectors whose ability to operate has been most severely limited as a result of COVID-19 restrictions

37. Sector packages can be designed specifically for the needs of industry on a bespoke basis. This means that sector support can be more effective and targeted as it considers the specific needs and circumstances at play.

38. As a result of these considerations, economic support was deemed necessary for a small range of specific sectors and the packages outlined below have been provided.

39. Sector packages can also include more strategic support, rather than just financial aid, to address broader issues (e.g. business advice and mental health support); in the case of tourism, this could include advice about scaling down and hibernation. Generally, these measures are better suited to help firms transition to a COVID-resistant economy rather than providing short term or emergency liquidity.

40. The main sectors that have benefited from sector packages are:

- *Events:* The COVID-19 Events Transition Support Payment scheme (ETSP) was established in November 2021 to provide confidence to event organisers to continue planning events over the 21/22 summer by providing certainty for large-scale in-person ticketed events (5,000 pax). The scheme covers 90% of unrecoverable costs for eligible events that are cancelled or postponed due to public health settings (i.e. Red level). Ministers have agreed to remove all triggers over the summer period (not public yet) and officials estimate the total cost of the scheme will be $150 million over the summer period. The Minister for Economic and Regional Development will be taking further proposals to Cabinet on 8 February to expand the ETSP and extend the date of coverage from 3 April 2022 to 31 January 2023.

- *Cultural Sector*: On 1 February, Cabinet agreed to provide the cultural sector with 121.2 million of new funding due to the impact of CPF Red settings and Omicron. This included extension of the Arts and Culture Event Support Scheme (ACESS); the Cultural Sector Emergency Relief Fund; and the Screen Production Recovery Fund.

- *Tourism:* The tourism industry was provided with $600 million in support through Budgets 2020 and 2021, due to the impact of border closures. Of this funding, $324.2 million has been spent, with another $191.7 million allocated or contracted to be spent (including the Kickstart fund). The reopening of New Zealand's border will significantly impact the revenue and profitability of the tourism industry.

41. The recent extensions to these packages should be sufficient for these sectors and Treasury advises against providing further support to these sectors.

42. In addition to these sector packages, support has also been provided to businesses in Auckland due to the significant impact on the local economy and community wellbeing of extended periods at higher Alert Level restrictions during the Delta outbreak.

The nature of the current Omicron context means sectoral support packages are unlikely to continue to be the most effective method of supporting businesses in need

43. The nature of Omicron means not all firms within a sector will be equally impacted. For example, anecdotal evidence suggest that suburban eateries and takeaway businesses are not experiencing as much of a revenue decline as cafes in the CBD of large cities. This means that providing support to a whole sector is likely to result in low value for money spending.

44. Similarly, providing support on a sector basis is likely to raise boundary and definition issues. For example, in the case of the hospitality sector, there are questions around whether accommodation is included; how to treat hospitality operators within other businesses (e.g. garden centre cafes); and the role of auxiliary services such as photographers or technicians who contribute to larger events. This makes it hard to estimate exactly how large the impacts, and costs, of a support package would be, and harder to maintain principled boundaries that justify intervention in some sectors but not others.

45. The bespoke and tailored nature of sector packages means they can take a long time to develop and deliver. This makes them less suitable for providing the timely support most needed in the current climate. For example, although the cultural sector package appears to be largely new, it was only able to be quickly developed and delivered due to the fact it built and expanded upon existing schemes. A brand new package of that scale would have required significantly more time. Likewise, the grant portion of support built upon an existing model that meant it could be quickly replicated and implemented.

46. In the scenario that sector packages are hastily developed, there is a risk that they are not sufficiently targeted. For example, the Auckland package was designed and delivered quickly, but northern Waikato and Northland complained of missing out despite also being in tighter public health settings for longer periods than other parts of New Zealand. The accommodation and hospitality sectors were also excluded, causing frustration amongst the relevant industry associations.

47. Sector support packages carry greater administrative cost and complexities. This comes from designing new bespoke systems, processes, communications with sector and contracts for each individual package, as well as quality assurance of services for third parties. For example, in the Regional Business Partnership Network, there is a requirement that people have reasonable plans prior to providing implementation grants. In the Auckland mental health package, a clinical advisor needs to effectively assess the cost effectiveness of the interventions different providers offer so funding can be effectively prioritised.

48. In addition, providing a number of sectoral packages is likely to create a crowded landscape of support. This further increases administrative complexities, both for government and for businesses, and increases the risk of business accessing multiple sources of available funding. The risk of double-dipping increases if economic support consists of sector packages as well as the use of a broad-based tool such as the CSP.

Non-financial levers could be considered to support the most impacted sectors

49. Regulatory change could assist businesses in supporting a transition to a COVID-19 resilient economy [T2022-36] while limiting the fiscal cost to the Crown and avoiding settings a precedent or expectation of ongoing support.

50. For example, the Sale and Supply of Alcohol Act could be amended to expand outdoor dining during COVID-19 restrictions. The recent letter from Auckland Council (Auckland Council letter to MOF, 25 Jan) highlighted that this would make a considerable difference to the viability and profitability of smaller businesses in the region. If you are interested in how regulatory changes can support businesses, we can provide further advice on this.

Next Steps

We would like to discuss this briefing with you at the Weekly Agency Meeting on 8 February.