

The Treasury

Advice on COVID-19 Response - Tranche Three Information Release

September 2022

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Joint Report: Activating a CSP for Omicron

Date:	10 February 2022	Report No:	T2022/166 IR2022/052
		File Number:	SH-1-6-1-3-3-22

Action Sought

	Action Sought	Deadline
Hon Grant Robertson Minister of Finance Hon David Parker Minister of Revenue	Agree to the design parameters for activating a COVID-19 Support Payment.	11 February 2022

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Rose Austen	Senior Analyst, Regions, Enterprise and Economic Development	[39]	[35]
Jean Le Roux	Manager, Regions, Enterprise and Economic Development		✓
Carolyn Elliott	Policy Lead, Policy and Regulatory Stewardship, Inland Revenue		

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury and Inland Revenue
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Note any feedback on the quality of the report

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

Joint Report: Activating a CSP for Omicron

Executive Summary

This report seeks your agreement to the settings for a one-off COVID-19 Support Payment (CSP) to support viable businesses likely to be most affected by Omicron, should you decide additional economic support is needed.

A CSP should be considered as part of the suite of government economic supports including the Small Business Cashflow Scheme (SBCS), support for staff to self-isolate as well as existing sectoral packages.

In making our recommendations, we have considered the objective of the CSP being a one-off payment to provide additional support to targeted sectors due to the economic impact of Omicron, namely hospitality, arts and recreation, private transport and retail.

The key design parameters for a one-off targeted CSP are:

- **Revenue drop:** A higher revenue drop ensures only those firms that have experienced severe revenue declines as a result of Omicron receive the CSP. However, setting a revenue drop too high means that viable firms in target sectors that need assistance may not be eligible for support.
- **Payment rate:** Consisting of a base rate and an FTE component. A higher base rate is beneficial for smaller businesses who were the main recipients for previous RSPs and is based on fixed costs for the sectors most likely to be affected by Omicron. A higher FTE component is beneficial to larger businesses. A payment rate similar to the one issued under the Transition Payment of \$4000 + \$400 per FTE would cover 26% of the fixed costs of an average firm for four weeks.
- **Comparator period:** This is the period against which firms measure their revenue decline. Treasury recommends that applicants can choose seven (7) consecutive days in the six weeks period prior to 1 March 2022. During most of that period, New Zealand was under Red settings as well as some time in Amber.

These can be complemented by a declaration which assists to further target the CSP to the key sectors affected by the Omicron outbreak in New Zealand.

Inland Revenue officials will confirm the implementation timeframes on 11 February.

Officials recommend that other parameters such as limiting the payment to 50 FTEs, limiting the payment to eight times the actual revenue decline, business being in operation one month before activation, the commonly owned groups criteria and pre-revenue firm eligibility criteria remain the same as under the Resurgence Support Payment to minimise delivery risks and maintain familiarity with businesses.

We estimate the total fiscal cost of the CSP with recommended settings to be between \$75m and \$125m. There are sufficient funds in the Resurgence Support Payment (RSP) Appropriation (\$440m) to cover a one-off CSP. Please note that the RSP appropriation was linked to Alert Levels so a transfer of the funds to a new appropriation will be required.

Recommended Action

We recommend that you:

- a **note** that the objective of the CSP is to provide a one-off payment to additional support to target sectors (hospitality, arts and recreation, private transport and retail) due to the economic impact of Omicron;
- b **note** that the CSP is considered a part of a suite of government economic supports including the Small Business Cashflow Scheme, Leave Support Scheme, Short Term Absence Payment as well as existing sectoral packages;

Revenue drop

EITHER

- c **agree** to a revenue drop of 40%

Agree/disagree. *Agree/disagree.*

OR

- d **agree** to a revenue drop of 50%

Agree/disagree. *Agree/disagree.*

OR

- e **agree** to a revenue drop of 60%

Agree/disagree. *Agree/disagree.*

Payment rate

EITHER

- f **agree** to the lesser of a base rate of \$4,000 and \$400 per FTE or eight times the actual revenue decline experienced

Agree/disagree. *Agree/disagree.*

OR

- g **agree** to a different base rate and/or FTE component (please indicate)

Agree/disagree. *Agree/disagree.*

Comparator period

- h **agree** to set the comparator period as seven consecutive days within the six weeks prior to 1 March 2022

Agree/disagree. *Agree/disagree.*

Declarations

EITHER

- i **agree** to amend the declarations to target businesses only impacted by the New Zealand Omicron outbreak

Agree/disagree. *Agree/disagree.*

OR

- j **agree** to amend the declarations to target businesses only in specific sectors (not recommended by Inland Revenue)

Agree/disagree.

Agree/disagree.

k **note** the declarations above are not mutually exclusive, however choosing a combination may add additional administration for Inland Revenue.

l **note** other than the recommendations included in this report, officials do not recommend changing any other design parameters from the Transition Payment

Interactions between the CSP and other economic support

m **note** the CSP will complement the changes to the Small Business Cashflow Scheme (SBCS)

n **agree** recipients of the Ministry of Culture and Heritage one off emergency grant will not be eligible for the CSP

Agree/disagree.

Agree/disagree.

o **note** recipients of the Events Transition Support Payment Scheme would be eligible for this CSP

p **note** recipients of the CSP can also claim the Leave Support Scheme and Short Term Absence Payment

Next steps

q **note** officials will provide you with draft Cabinet paper text on activating the CSP on 11 February reflecting the decisions made in this report

Jean Le Roux
**Manager Regions, Enterprise
and Economic Development, Treasury**

Carolyn Elliott
**Policy Lead, Policy and Regulatory
Stewardship, Inland Revenue**

Hon Grant Robertson
Minister of Finance

Hon David Parker
Minister of Revenue

Joint Report: Activating a CSP for Omicron

Purpose of Report

This report seeks your decisions on the parameters of a one-off COVID-19 Support Payment (CSP) to assist firms and sectors which are viable but are particularly impacted by the Omicron outbreak in New Zealand.

Background

1. Although the COVID-19 Protection Framework (CPF) Red settings permits most businesses to operate as normal, the shift to Red on 23 January 2021 as a result of the Omicron outbreak has seen some sectors experience a significant decrease in revenue. While electronic spending is only marginally down nationally, business representatives (BusinessNZ, Employers and Manufacturers Association, Hospitality New Zealand, New Zealand Maori Tourism Board) have told Treasury that as a result of the capacity limits on hospitality venues and events and consumers staying or working from home, key sectors such as hospitality, private transport, arts and recreation, and some retail (the “target sectors”) are requesting additional government support to assist with cashflow. These sectors are worried that the effect of Omicron will result in a “shadow” or “voluntary” lockdown on their firms, where consumer behaviour mimics that of a lockdown similar to Alert Level 3.
2. You have received separate advice on amendments to the Small Business Cashflow Scheme (SBCS) (T2022/137; IR2022/047 refers). Consideration should be given to the timing of announcement(s) about these schemes as the SBCS is the main mechanism by which the Government prefers to provide financial assistance to Small Medium Enterprises (SMEs) experiencing a large revenue decline due to COVID-19.

Design Parameters of the COVID-19 Support Payment (CSP)

3. There are three key variables for designing a one-off targeted CSP payment to provide additional support to the target sectors; the revenue drop, comparator revenue period and the payment amount. These should work in tandem with the declaration statements to minimise applicants from other sectors.
4. To minimise delivery risks and maintain familiarity for businesses we propose the following aspects remain the same as the latest Resurgence Support Payments and Transition Payment:
 - i Payment is capped at 50 FTE rate;
 - ii Limiting the payment to eight times (8x) the actual revenue decline experienced by the applicant;
 - iii The business must have been in existence for at least one month prior to the activation of the CSP;
 - iv The eligibility criteria for commonly owned groups (COGs) and pre-revenue firms; and
 - v The terms and conditions under which the CSP payment is made remain the same as the Transition Payment (except for explicit changes in this report).

5. Any changes to the above could result in delays in the implementation of the CSP.
6. In making recommendations on each of the key variables, we have taken into account the objective that the CSP should be a one-off payment. Likewise, we have sought to reinforce that the Red setting allows most businesses to operate normally. The timing of the CSP payment will also be important in ensuring that it is a one-off.

Revenue drop

7. Setting the revenue drop 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. We have modelled the fiscal impact of setting the revenue drop at 40%, 50% and 60%.
8. Although most firms can operate as normal under Red settings, the disruptions caused by Omicron, including supply chain disruptions and staff shortages, may mean that a range of businesses could experience a revenue drop as a result of Omicron. We expect that those firms would only experience a modest decline.
9. Evidence provided to Treasury suggests that viable hospitality firms in the Wellington CBD are currently experiencing a 30-35% decline in revenue compared to regular trading. They are forecasting their revenue decline peaking at 60% at the end of March compared to trading in mid-late January 2022 and an average 40% - 50% revenue drop compared to the proposed comparator period.
10. As a result, we do not anticipate most businesses will experience a revenue drop of more than 60%. In addition, setting a high revenue drop that firms are unlikely to be able to meet may encourage them to voluntarily close causing them to experience the required revenue decline.
11. Setting the revenue drop at a higher rate compared to the RSP (set at 30%) is also a way of differentiating this payment from the RSP. For SMEs that have a revenue decline of more than 30% but less than the revenue drop chosen for the CSP, the Small Business Cashflow Scheme is also available. This can also assist firms with cashflow and liquidity during the Omicron outbreak.

Comparator period

12. The comparator period determines the comparative basis for the revenue drop. Businesses use the comparator period to select a period of 'typical' revenue, to compare with their affected revenue to determine the revenue decline. This period should be set to target businesses most affected by the impact of Omicron.
13. We recommend setting the comparator period as a six-week window before 1 March 2022. Applicants would be able to select a typical seven consecutive days of revenue within this period. During most of that period, New Zealand was under Red settings as well some time in Amber prior to 23 January.
14. Including a timeframe which includes Red reinforces the Government's position that most firms can operate normally under Red and is representative of regular trading. A six-week period prior to 1 March also excludes the Christmas and New Year's trading period, which is often not reflective of usual trading patterns for many firms.
15. For simplicity and consistency, we suggest that the approach for the CSP is similar to the RSP and Transition Payment, comparing to the period immediately prior to activation of the CSP, rather than comparing to 2021 or 2020.

Affected revenue period

16. The affected revenue period refers to the period where businesses can select seven consecutive days of affected revenue. The affected revenue period can only be set

once we know when the CSP will be activated. It should be set at the length of time we envisage the peak of Omicron to last, if support is designed to targeted to those most impacted by Omicron.

Payment rate

17. The payment consists of a base rate and an FTE rate. A higher base rate benefits micro firms (1-5 FTE) over larger firms, whereas a higher FTE rate favours large firms. Given the objective is to ensure this is a one-off payment, we recommend a generous one off payment.
18. The payment rate has been calculated based on providing a level of cover for ongoing fixed costs (refer Table 1) 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 including wage costs. We recommend using the same rates as the Transition Payment (\$4000 + \$400 per FTE, capped at 50 FTE). This rate distinguishes the payment from previous RSPs but maintains consistency with the Transition Payment.
19. We expect at the recommended payment rate, the CSP will assist the average firm with 26% of their fixed costs for four weeks. Based on current models, we should begin to experience the tail of the outbreak after four weeks. Evidence from New South Wales shows that soon after the peak, once cases start to decrease, consumer behaviour begins to return to normal.

Table 1: Proportion of fixed costs covered by CSP by firm size (FTE) and payment rate

		Firm size		
		1 to 5	6 to 9	10 to 19
Weekly fixed costs		\$ 3,600	\$ 11,800	\$ 19,500
Payment amount		Proportion of 4 weeks of fixed costs covered by CSP		
Base	Per FTE	1 to 5	6 to 9	10 to 19
\$3,000	\$400	31%	19%	16%
\$4,000	\$400	39%	22%	18%
\$5,000	\$400	48%	25%	20%
\$6,000	\$400	56%	28%	21%

20. Other government support including the SBCS can also assist with cashflow during the Omicron outbreak. The COVID-19 Leave Support Scheme (LSS) and Short-term Absence Payment (STAP) are also available to help employers pay staff who cannot work from home while they self-isolate or wait for COVID test results.
21. The LSS is paid out at the rate of \$600 a week for full-time workers who work 20 hours or more a week and \$359 a week for part-time workers who were working less than 20 hours a week. The STAP is a one-off payment of \$359 for each eligible worker.

Estimated Fiscal Costs

22. Based on our recommended payment rate ((\$4000 + \$400 per FTE), we estimate the fiscal cost of a one-off CSP to be between \$160m - \$260m (refer Table 2). Note we have low confidence in the estimates due to the unknown impact of changes in consumer behaviour and staff absenteeism on businesses.

Table 2: Estimated total cost of CSP by revenue drop and payment rate

Payment Amount		Revenue drop		
Base	per FTE	40%	50%	60%
\$3,000	\$400	\$120m - \$230m	\$30m - \$90m	\$20m - \$70m
\$4,000	\$400	\$160m - \$260m	\$40m - \$120m	\$20m - \$70m
\$5,000	\$400	\$200m - \$300m	\$50m - \$130m	\$30m - \$80m
\$6,000	\$400	\$240m - \$340m	\$60m - \$160m	\$30m - \$80m

23. Additional funding is unlikely to be required for a one-off payment of the CSP given there is \$440 million remaining in the RSP appropriation. The balance which can be transferred to a new CSP appropriation as part of the Cabinet approval for activating the CSP.

Changes to declarations

24. The likely scenario under Omicron means that the decreased revenue experienced by firms will not be directed related to public health measures. Changing consumer behaviour, staff absenteeism and supply chain disruption are indirect effects of Omicron and Red settings.

25. Inland Revenue could amend the declaration to state that the revenue decline is due the New Zealand Omicron outbreak. This would exclude businesses that have a revenue decline due to international supply chain issues and the border closure. Alternatively, the declaration could include confirmation the business is operating in a specified sector.

26. [4]

- 27.

- 28.

29. Inland Revenue strongly advises against any sector-based declarations. There are difficulties in defining what sectors be included and the boundary issues associated with that. There would also be many ancillary businesses that may rely on a specified sector, but because they are not named, will not be eligible. [4]

Interactions with other economic supports

30. The SBCS is the primary form of broad-based economic support to help businesses through the Omicron outbreak. The CSP will complement the changes to the Small Business Cashflow Scheme (SBCS). Eligible firms can receive both the SBCS and the CSP. Recipients of the CSP can also claim the LSS and STAP.
31. With regards to the other sector support we have recommended that recipients of the Ministry of Culture and Heritage one off emergency grant will not also be eligible for the CSP.
32. Recipients of the Events Transition Support Payment Scheme would be eligible for this CSP.

Timing of opening applications

33. Inland Revenue officials will confirm the implementation timeframes on 11 February.

Next steps

34. Cabinet material will be prepared by officials for consideration by Cabinet on 14 February.
35. After Cabinet has agreed to the parameters of the CSP, officials will prepare the Order in Council and accompanying Cabinet Paper so it can be submitted to Cabinet and the Executive Council when you would like it activated.