

The Treasury

Advice on COVID-19 Response - Tranche Three Information Release

September 2022

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Treasury Report: Draft Cabinet paper: Economic supports under Omicron

Date:	11/02/2022	Report No:	T2022/204
		File Number:	SH-1-6-1-3-3-22

1. Action Sought

	Action Sought	Deadline
Hon Grant Robertson Minister of Finance	<i>Comment on the attached draft Cabinet paper</i>	14/02/2022

2. Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Rose Austen	Senior Analyst, Regions, Enterprise and Economic Development	[39]	[35] ✓
Patrick West-Oram	Senior Analyst, Tax Strategy		
Jean Le Roux	Manager, Regions, Enterprise and Economic Development		
Stephen Bond	Manager, Tax Strategy		

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

Return the signed report to Treasury with any comments on the Cabinet Paper

Note any feedback on the quality of the report

Enclosure: **No**

Treasury Report: Economic Supports under Omicron

Recommended Action

We recommend that you:

- a **comment** on the attached Cabinet paper

Treasury Report: Economic Supports under Omicron

Background

1. This paper seeks your feedback on the attached draft Cabinet Paper (Annex 1) proposed for Cabinet Economic Development Committee (DEV) on 16 February.
2. The Cabinet Paper sets out the policy choices for delivering economic support as part of managing the Omicron outbreak in New Zealand.
3. The policy choices are related to:
 - a. Amendments to the Small Business Cashflow Scheme (SBCS), and
 - b. A one-off COVID Support Payment (CSP)
4. The Cabinet Paper also seeks additional funding from the COVID-19 Recovery and Response Fund (CRRF) to fund the anticipated significant increase in uptake of the COVID Leave Support Scheme (LSS) and Short Term Absence Payment (STAP) (together, the COVID Leave Schemes) as a result of the Omicron outbreak.

Small Business Cashflow Scheme

5. The Cabinet paper recommends changes to the Small Business Cashflow Scheme (SBCS), namely increasing the base rate of the loan by \$10,000, allowing borrowers to take multiple draw downs, and removing the interest from the first two years of all current and future loans under the scheme. This is consistent with your decisions on previous joint reports [T2022/137; IR2022/047 and IR2022/051; T2022/183 refer].
6. There may be some minor technical decisions still be taken, especially on the financial aspects. A recommendation has been added to the Cabinet paper to grant power to act on such matters to you and the Minister of Revenue.

COVID Support Payment

7. The Cabinet paper seeks agreement to the parameters of a one-off COVID Support Payment (CSP) which is intended to provide economic support for firms which have experienced a significant reduction in revenue (at least 50%) due to COVID-19 related measures associated with the Omicron outbreak.
8. The current draft paper notes that you will come back to Cabinet to activate the CSP when the situation calls for by bringing the associated Order in Council (OIC) to Cabinet.
9. The payment rate of the CSP will be set at \$4,000 plus \$400 per FTE (with a cap of 50 FTE). This is similar to the settings of the Transition Payment. This means the maximum payment to a business is \$24,000.

10. Firms must demonstrate a revenue drop of 50% in the comparator period. The comparator period is recommended to be set as a six-week window before either 1 March or the activation date.
11. These recommendations are consistent with those you agreed in joint report T2022/166; IR2022/052.
12. You have indicated the CSP should be a one-off payment. There is a risk in activating the CSP too soon that there may be requests for additional payments throughout the outbreak. This risk increases the longer the outbreak lasts.

Implementation

13. Inland Revenue have advised that if changes are made to the SBCS and the CSP at the same time, both schemes will be ready for delivery on 14 March.
14. If Ministers want to activate the CSP earlier than 14 March, Inland Revenue could have it ready for 28 February. However, this may push back the delivery of the SBCS by one week (to 21 March).

Funding the Leave Support Scheme and Short Term Absence Payment

15. Regarding the Leave Support Scheme (LSS) and Short Term Absence Payment (STAP) (together, the COVID Leave Schemes), the Cabinet paper seeks:
 - a additional funding from the CRRF of \$157 million to meet the additional costs of the COVID Leave Schemes (LSS and STAP) resulting from the anticipated significant increase in uptake resulting from the Omicron outbreak;
 - b 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.
16. The Cabinet paper also seeks agreement to delegate authority to Joint Ministers (Finance, Social Development and Employment, and Workplace Relations and Safety) to:
 - c 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
 - d make decisions on the eligibility of certain categories of State Sector Organisations (SSOs) for the COVID Leave Schemes.

17. While Joint Ministers (Finance, Social Development and Employment, and Workplace Relations and Safety) have delegated authority to make minor policy decisions and clarify eligibility criteria regarding the LSS and STAP [CAB-20-MIN-0531 refers], we consider that the above decisions are beyond the scope of the existing delegated authority and therefore, for the avoidance of doubt, authority should be sought in the Cabinet paper to extend delegated authority to the above areas.
18. To support the Ministry of Social Development's ongoing critical role in the COVID response, particularly in providing support to individuals and households, the Cabinet paper also seeks additional funding of \$30.7 million from the CRRF to retain up to 300 MSD frontline staff in 2022/23.

Financial Implications

Small Business Cashflow Scheme – Fiscal Impact:

19. These changes have a substantial fiscal cost, although these are somewhat uncertain given the uncertainty around how many current loan-holders will repay their existing SBCS loan with a new top-up loan. Officials estimate that:
 - a There will be approximately \$1.666 billion in additional borrowing as a result of the policy change. A further \$713 million for the initial fair value write down. These amounts will need to be appropriated.
 - b Any decision to eliminate the backdating of interest will result in \$189 million in foregone interest payments. It will also lead to an increase in initial fair value write-down, although this is yet to be calculated.
 - c A further \$294.198 million should be appropriated to meet an expected increase in demand for SBCS loans.
 - d The total impact on the CRRF would therefore be \$975.6 million over the forecast period (which reflects the net debt impact, and does not include some accounting adjustments).
20. The existing SBCS appropriations can be used, and the figures above are net of unspent funding in these appropriations.

Overall Impact on CRRF and Imprest Supply:

21. The proposals in this paper will require new funding from the CRRF amounting to just over \$1.1 billion (\$975.6 million for the SBCS and \$157 million for the LSS and STAP). Factoring in the delegation sought for Joint Ministers to approve up to a further \$500 million, there is a potential CRRF impact of up to \$1.6 billion.
22. In seeking your agreement to increase the size of the CRRF to respond to the Omicron outbreak [T2022/63 refers], we provided you with options based on the initial estimated CRRF impact of changes to the SBCS (approximately \$500 million). Given the upward revision of these estimates and other emerging funding requests, there is likely to be increasing pressure on the CRRF in the near future.

23. [33]

24.

Jean Le Roux
Manager, Regions, Enterprise and Economic Development

Stephen Bond
Manager, Tax Strategy

Hon Grant Robertson
Minister of Finance