

The Treasury

Advice on COVID-19 Response - Tranche Two Information Release

September 2022

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Joint Report: Preparing the August Resurgence Support Payment scheme for the new COVID-19 public health framework

Date:	15 October 2021	Report No:	T2021/2608 IR2021/484
		File Number:	SH-1-6-1-3-3-22

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Agree the recommendations of this report Refer to the Minister of Revenue	Monday 18 October

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Tayla Forward	Analyst, The Treasury	[39]	[35] ✓
Thomas Allen	Principal Policy Advisor, Inland Revenue		
Jean Le Roux	Manager - Regions, Enterprise and Economic Development		
Emma Grigg	Director – Policy and Regulatory Stewardship		

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

Return the signed report to Treasury.

Note any feedback on the quality of the report

Joint Report: Preparing the August Resurgence Support Payment scheme for the new COVID-19 public health framework

Executive Summary

This report confirms the approach to the frequency, activation trigger, and parameter settings for the remaining payments under the August RSP (RSPAUG21) scheme until the transition to the new public health framework has occurred, and seeks your agreement to amendments to the RSPAUG21 settings to accommodate the transition to the new COVID-19 framework.

It was agreed that there would be a one-off payment of the RSPAUG21 issued around the time of the implementation of the new Red, Amber, and Green (RAG) public health framework where there are businesses operating under “Red” settings. This payment will be referred to as the “Business Emergence Payment” (BE Payment). It was agreed:

- The payment rate would be increased to a \$2,000 base payment + \$500 per FTE for a single payment.
- The revenue drop threshold may either be increased to 40%, or remain at 30%.

The decision concerning the revenue drop threshold for this payment can be taken through this report, or taken to Cabinet.

Uncertainty around the timing of the implementation of the new RAG public health framework means there are different possibilities for the timing of the proposed BE Payment.

Continuing with the pattern of three-week intervals between payments from the last payment agreed to date (to be issued on 29 October) results in payments being made on 19 November and 10 December. Either of these payments could be the BE Payment, depending on the timing for implementation of the new public health framework.

- If the implementation of the new framework takes place ahead of 19 November, the payment on this date is proposed to be the BE Payment. There would be no 10 December payment in this case.
- If the implementation of the new framework takes place between 20 November and 10 December, the 10 December payment is proposed to be the BE Payment, in which case the 19 November payment would be issued under current parameter settings.

There is flexibility to change the dates of these payments in order to better coincide with the implementation of the new public health framework, provided there is sufficient lead-in time for Inland Revenue to operationalise the required changes, and for an Order in Council to reflect the date for the opening of applications.

It is proposed that any potential remaining traditional RSP payment and the BE payment follow patterns for setting the affected revenue and comparator periods set for other RSPAUG21 payments.

The change in public health framework also necessitates some further amendments to the RSPAUG21 scheme, given previous operational and design settings are linked to the existing Alert Level framework. Dates for the closure of the affected revenue period and the application period are proposed for December.

Recommended Action

We recommend that you:

- a **note** that you are receiving advice from Treasury alongside this report that addresses the broader economic support landscape, including the future RSP, to be provided during future resurgence events, and the proposed Business Resumption Payment.

Business Emergence Payment settings

- b **agree** that the payment under the RSPAUG21 with adapted parameters, to be issued around the introduction of the new RAG public health framework, will be referred to as the Business Emergence Payment (BE Payment).

Agree/disagree.

- c **note** that it was agreed that the BE Payment will issue a base payment of \$2000 per eligible applicant plus \$500 per full-time equivalent worker, up to a maximum of 50 FTE (T2021/2529 refers).
- d **agree** that the BE Payment will have an increased revenue drop threshold of 40% (**recommended**)

Agree/disagree.

OR:

- e **agree** that the BE Payment will retain the standard revenue drop threshold of 30%

Agree/disagree.

OR:

- f **agree** that the decision on the revenue drop threshold for the BE Payment will be presented to Cabinet

Agree/disagree.

Activation of further payments under RSPAUG21, including the Business Emergence Payment

- g **note** that uncertainty around the timing of the implementation of the new RAG public health framework means there are different possibilities for the timing of the proposed BE Payment.
- h **note** that parameter changes to allow for the proposed BE Payment to be made cannot be operationalised ahead of the 29 October payment, which will therefore retain the current payment rate and revenue drop settings.
- i **note** that at the time of providing this advice the legal framework for the new RAG system has not yet been finalised and therefore officials are unable to confirm whether amendments to the Tax Administration Act 1994 will be required to continue to operate the RSP.

- j **note** that if the new RAG framework is implemented prior to 29 October, at a minimum, an Order in Council will need to be made to ensure the scheduled 29 October payment can be activated.
- k **agree** that the activation trigger for a payment under the RSPAUG21 on 19 November will be:
- i. at least part of New Zealand is in Alert Level 2 or higher and there has not been a nationwide return to Alert Level 1 since 17 August; or
 - ii. the Government implements the new RAG framework before that time, and at least part of New Zealand is under Red settings and there has not been a nationwide return to Amber or Green since the introduction of the RAG framework.

Agree/disagree.

- l **agree** that Inland Revenue will make a payment under the RSPAUG21 available on 19 November, subject to the activation triggers described in the recommendation above being met, and this payment will be either:
- i. The BE Payment, if the new public health framework has been implemented; or,
 - ii. A payment under current parameter settings, if the new public health framework is yet to be implemented.

Agree/disagree.

- m **agree** that, if the BE Payment is not made on 19 November, Inland Revenue will make a payment under the RSPAUG21 available on 10 December, and this payment will be either:
- i. The BE Payment, if the new public health framework has been implemented by this date; or,
 - ii. A payment under current parameter settings, if the new public health framework is yet to be implemented.

Agree/disagree.

- n **note** that there is flexibility to change the dates of these payments in order to better coincide with the implementation of the new public health framework, provided there is sufficient lead-in time for Inland Revenue to operationalise the required changes, and for an Order in Council to reflect the date for the opening of applications.
- o **note** that if the transition to the RAG framework is delayed beyond 10 December, further advice can be provided on additional payments.
- p **note** that the fiscal cost of the BE Payment depends on the choice of revenue drop threshold: with a 40% revenue drop, the cost is estimated at \$30 – 60 million, with a 30% revenue drop, the cost is estimated at \$110 – 170 million.
- q **note** that a payment under current parameter settings, if the new public health framework is yet to be implemented, is expected to cost approximately \$200 million, subject to Alert Level conditions in place at the time.

Detailed design settings for further RSPAUG21 payments

r **agree** that, consistent with recent payments under RSPAUG21, the affected revenue period for the 19 November payment and the 10 December payment (if required) should commence seven days before applications open.

Agree/disagree.

s **agree** that the affected revenue periods for all payments under the RSPAUG21 scheme will end the earlier of either a nationwide return to Alert Level 1, or Amber/Green settings under the RAG framework, or:

- i. 10 December, if the BE Payment is activated for the 19 November payment,
- ii. 17 December if the BE Payment is activated for the 10 December payment.

Agree/disagree.

t **agree** that the application periods for all payments under the RSPAUG21 scheme will end one month after the end of the affected revenue period, and that Inland Revenue will not process applications over the Christmas/New Year holiday period.

Agree/disagree

u **note** that until officials have clarity on the details of the new framework, there remains a possibility of uncovering implementation issues.

v **refer** a copy of this report to the Minister of Revenue for their information.

Refer/Not referred.

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

Emma Grigg
**Director – Policy and Regulatory
Stewardship**

Hon Grant Robertson
Minister of Finance

Joint Report: Preparing the August Resurgence Support Payment scheme for the new COVID-19 public health framework

Purpose

1. This report confirms the approach to the frequency, activation trigger and parameter settings for the remaining payments under the August RSP (RSPAUG21) scheme until the transition to the new public health framework has occurred, and seeks your agreement to amendments to the RSPAUG21 settings to accommodate the transition to the new public health framework.

Background

2. You recently received advice [T2021/2529] on a package of COVID-19 economic supports suited to the new alert framework under development, which establishes Red, Amber, and Green (RAG) public health settings. The timing of the transition to the new public health framework remains uncertain, but is at this stage expected to be in place from mid-November.
3. It was agreed that there is a case for a more targeted, more generous, and one-off payment of the RSPAUG21 issued around the time of the introduction and application of “Red” settings somewhere in the country. The payment rate would be increased to a \$2,000 base payment + \$500 per FTE for a single payment. This payment will be referred to as the “Business Emergence Payment” (BE Payment).
4. There is a further decision to be taken on whether to retain the revenue drop threshold of 30% (as used to date) or increase it to 40% for this payment (Treasury’s recommended option). We understand that you may wish to present the choice of revenue drop threshold to Cabinet Ministers for decision. Material supporting that decision is also provided.
5. With these parameter changes pinned to the transition to the new public health framework, the timing of the shift to the new framework will affect the nature of the RSP support offered ahead of a low-restriction environment being achieved. This report sets out our proposed approach to the remaining payments under the RSPAUG21.
6. Decisions are sought to allow the scheme to continue to support businesses under the new RAG framework. A number of changes will be required to adapt the RSP to this new framework, as the scheme’s activation and eligibility criteria are presently linked to Alert Levels. This also applies to the proposed BE Payment.
7. Further advice will be provided on 22 October on the future RAG-RSP to be activated in future resurgence events, under the RAG framework. This scheme will be distinct from RSPAUG21.
8. Adjacently, officials are considering options for the Business Resumption Payment (previously referred to as the “Kickstart” payment) to support businesses after a prolonged period under Red settings as they transition back to higher activity under Amber settings (T2021/2576 refers). The design of the Business Resumption Payment has dependencies with the the future RAG-RSP. This will also be considered in the advice signalled for next week.

Further payments under the RSPAUG21 scheme

9. There are two variations in parameter settings which could apply to future payments under the RSPAUG21:
 - a **Standard RSPAUG21 parameter settings, to be used until the introduction of the new framework:** standard payment rate, 30% revenue test.
 - b **The unique, one-off payment, paid when the new public health framework is introduced:**
 - increased payment rate, possibly higher revenue threshold (subject to Cabinet decision, discussed later in this report) in order to direct relatively more support towards the industries and regions most impacted to date, who are likely to experience ongoing reductions in activity under Red settings and benefit less from pent-up demand.
 - This was referred in previous advice as the “exit payment”, but will now be referred to as the “**Business Emergence Payment**” (**BE Payment**). This is to be the final payment of RSPAUG21.
10. The parameter settings for any RSP provided in future resurgences (ie. distinct from RSPAUG21) taking place under the RAG framework, including any payment made upon a move down from Red settings, will be considered in the advice to be provided on 22 October.
11. In previous advice, we indicated that the BE Payment could be made available as early as 19 November, and recommended this form of support coincide with the shift in public health framework. There is, however, uncertainty around the timing of the implementation of the new framework.
12. The rest of this report aims to clarify the approach to delivering further payments of the RSPAUG21 until the transition to the new framework occurs, and secure the policy detail required for Inland Revenue to progress with making the payments operational.

29 October payment under the RSPAUG21 scheme

13. On 20 September, Cabinet agreed that a payment of the RSPAUG21 should be activated on 29 October if anywhere in New Zealand is at Alert Level 2 or higher on 29 October, and there has not been a nationwide return to Alert Level 1 since 17 August (CAB-21-MIN-0375).
14. Due to systems constraints, Inland Revenue is unable to make any further changes to the minimum revenue decline threshold, payment rate or eligibility criteria for the 29 October payment. The payment will accordingly be made under the standard parameter settings, regardless of whether the new public health framework has been implemented.
15. If the Government decides to implement a new RAG framework prior to 29 October, an Order in Council will need to be made before the new framework is implemented to ensure that customers can continue to apply for existing payments under the RSPAUG21.

Towards the implementation of the new public health framework: 19 November and 10 December payments

16. Until the transition to the new framework occurs, there is the possibility to provide additional RSP payments. To date, there have been three-week intervals between payments under the RSPAUG21. We recommend continuing in this regularity until the new framework is introduced to provide certainty to the business community.

17. Further payments should be issued under the standard parameter settings for the RSP used to date, until the introduction of the new RAG framework, whereupon the parameter changes (to the payment rate and revenue drop) described in 1b above will apply to the final payment of RSPAUG21.
18. The alternative is to not make any further payment until the change in framework is implemented.
19. The BE payment would consequently take place on either 19 November or 10 December:
 - **If the transition to the RAG framework takes place before 19 November, the BE Payment would be made available on 19 November.** This would be the final payment under RSPAUG21 - there will not be a 10 December payment in that case.
 - **If the transition to the RAG framework takes place between 20 November and 10 December, the BE Payment would be made available on 10 December.** The payment on 19 November would be under standard parameter settings, and parameter changes would apply to the payment on 10 December.
 - **If the transition to the RAG framework is delayed beyond 10 December,** further changes in approach may need to be considered. Officials can provide further advice nearer the time if this situation looks likely to eventuate.
20. There is flexibility to change the dates of these payments in order to better coincide with the implementation of the new public health framework, provided there is sufficient lead-in time for Inland Revenue to operationalise the required changes, and for an Order in Council to reflect the date for the opening of applications.
21. Inland Revenue is undertaking preparations should a payment on 10 December be required.

Detailed settings – affected revenue, comparator, and application periods

22. Officials recommend the setting for the comparator and affected revenue periods for the 19 November payment and possible 10 December payment follow the same pattern as used in the RSPAUG21 payments to date, wherever possible:
 - a The affected revenue period, the period from which applicants must nominate a consecutive seven-day period to measure their revenue decline, will begin seven days before applications open for either payment.
 - b The comparator period, the consecutive seven-day period which reflects the business's typical weekly revenue (selected from the six-week period prior to an Alert Level escalation) will remain the same as the other payments issued under RSPAUG21 - a typical week in the six weeks prior to the original escalation on 17 August.
23. The implementation of the new public health framework necessitates some further amendments to the RSPAUG21 scheme, given current operational and design settings are linked to the existing Alert Level framework. Specifically, there is a need to set:
 - a An end date for the affected revenue periods for all of the payments made under RSPAUG21, and;
 - b A date when applications for all payments under RSPAUG21 will close.

End date for affected revenue period

24. The affected revenue period for all payments under RSPAUG21 was due to end immediately before a nationwide return to Alert Level 1. Under the new RAG

framework, it is unclear when the affected revenue period for payments under the RSPAUG21 will end.

25. Officials recommend that the end-date for the affected revenue periods for all payments under RSPAUG21, once the RAG framework is introduced, should be the earlier of either a nationwide return to 'Amber' or 'Green', or a fixed date as follows:
 - a If the 19 November payment is the final exit payment, officials recommend the end date for the affected revenue period be 10 December. This would mean the affected revenue period for the proposed final exit payment on 19 November will be four calendar weeks (starting 12 November).
 - b If a payment on 10 December is required, officials recommend the end date for the affected revenue period be 17 December. This would mean the affected revenue period for the proposed final exit payment on 10 December will be two calendar weeks (starting 3 December).
26. Setting fixed dates is simpler from an operational perspective, and is therefore the recommended option.

Date for closure of applications

27. Similar to the above issue, the date when applications close for all payments under RSPAUG21 is set to one month after a nationwide return to Alert Level 1. Consistent with the current framework, officials recommend closing the application period for all payments under the RSPAUG21 one month after the affected revenue period ends. Due to Inland Revenue's Christmas/New Year shutdown period, it should be signalled in advance that applications will not be processed during this time.

Table 1: Summarizing proposed settings for 19 November and 10 December payments under the RSPAUG21

				<i>If the transition to the RAG framework takes place before 19 November</i>		<i>If the transition to the RAG framework takes place between 20 November and 10 December</i>	
	Comparator period	Affected revenue period	Closure of applications	Payment rate	Revenue drop threshold	Payment rate	Revenue drop threshold
19 November	<i>6 weeks prior to 17 August</i>	12 Nov – 10 Dec	10 Jan	\$2000 + \$500*(FTE)	30% or 40%	\$1500 + \$400*(FTE)	30%
10 December	<i>6 weeks prior to 17 August</i>	3 Dec – 17 Dec	17 Jan	No payment		\$2000 + \$500*(FTE)	30% or 40%

**blue shading indicates the BE Payment*

28. The settings for the comparator and affected revenue periods are relatively flexible from a systems perspective and can be revised if the situation changes. If you wish to issue either of these payments on a different day to better coincide with the implementation of the new public health framework, the same rules for setting comparator, affected revenue, and application periods will apply.
29. Beyond the BE Payment, there would be no further RSP-based support until the Business Resumption Payment is implemented. Officials will only be able to provide clarity around the nature and timing of this payment next week.
30. If the new RAG framework is adopted before 19 November, Inland Revenue will not have had time amend their system (including application forms) to fit the new RAG framework. From a customer perspective, the payment will be made using the same wording in the application documents used during the current elevated Alert Levels.

This may confuse some businesses, but clear communications should mitigate any confusion.

31. By 10 December, Inland Revenue would have had time to amend its systems to be better aligned with the new public health framework.

Order in Council

32. In legal terms, the BE Payment is a payment made under the RSPAUG21 scheme. The change in name functions only as a communication device.
33. An Order in Council will be required to amend both the affected revenue period and the application period for the existing payments under the RSPAUG21 scheme to fit the new RAG framework. To progress a 19 November payment, and, if necessary, a 10 December payment, all of these changes could be included in the same Order in Council.
34. Agreement to a 19 November payment (and any additional payments in December if desired) can be sought at Cabinet when the broader economic support package (T2021/2576, which you will receive in parallel with this paper, refers) is considered. An Order in Council could then be prepared based on decisions made, and agreed to by Cabinet prior to the payment on 19 November. If you wish to exercise the available flexibility around the date for the November payment, the date must be confirmed through this Order in Council.
35. The details of the legal framework for the new RAG system have not yet been finalised. Therefore, officials are unable to confirm whether amendments to the Tax Administration Act 1994 (TAA) would be required to continue to operate the RSP under the proposed RAG framework. It is possible that the provisions under the TAA will still allow Inland Revenue to make payments, provided that the new RAG framework remains a "COVID-19 Alert Level system", and if at least part of New Zealand is at a raised level. If this is the case, then amendments to the RSP scheme will still be able to be made by Order in Council. However, this is subject to the final design of the new framework.
36. Until officials have clarity on the details of the new framework, there remains a possibility of uncovering implementation issues.

Supporting information to determine the revenue drop threshold for the Business Emergence Payment

37. To date you have agreed that the BE Payment:
 - a Will be a one-off payment of the RSP upon the implementation of the new public health framework, to signal greater emphasis on adaptation to new public health settings;
 - b Will be paid at an increased rate of a \$2,000 base payment + \$500 per FTE.
38. There is a further decision to be taken on whether to retain the revenue drop threshold of 30% (used to date) or increase it to 40% (recommended option). We understand that you may wish to present the choice of revenue drop threshold to Cabinet Ministers for decision. The below information supports this decision.
39. We understand you are keen to tilt support towards Auckland, assuming restrictions continue to be more severe in that region than in the rest of New Zealand. In addition, we expect that economic activity is likely to be more limited in the hospitality and events sectors under any ongoing restrictions, and that these industries are less likely

to benefit from pent-up demand upon the easing of restrictions, putting more pressure on these industries than others and supporting a case for more targeted support.

40. We continue to advise that the revenue drop test should serve as the targeting mechanism for economic supports during resurgence events, because it effectively identifies the firms in need of economic support as a result of the impacts of public health restrictions. Evidence from previous resurgence events has shown the RSP both targets support towards those sectors or regions on aggregate that are most affected by higher Alert Levels, while also ensuring firms in any connected sector or region benefit (T2021/775 refers).
41. Increasing the revenue drop test applied for the transition payment to 40% would, in effect, mean relatively more support would reach Auckland, with support provided to far fewer firms overall. It would ensure a greater share of support reached hospitality and events firms, which we judge to be fair in light of the anticipated impacts of Red settings on these sectors.
42. We therefore suggest the RSP should be more targeted under Red settings in the transition period, by increasing the revenue drop threshold to 40%.
43. We acknowledge that there will be some businesses who have benefitted from RSPAUG21 payments to date who will be excluded by the raise in revenue drop threshold. These are the businesses experiencing a lesser impact due to the restrictions.

Table 2: Indicative fiscal cost of Business Emergence Payment under different revenue drop thresholds

	Status quo (30% revenue drop)	More targeted (40% revenue drop)
<i>Fiscal cost of BE Payment (\$ million)</i>	110 - 170	30 - 60

Table 3: Indicative support to hospitality and Auckland businesses under different revenue drop thresholds

A: Red nationwide

Revenue drop threshold	Businesses covered	Proportion of total support directed to hospitality industry, in dollar terms (number of businesses)	Proportion of total support directed to Auckland, in dollar terms (number of businesses)
30	50,000	35% (12,500 businesses)	35% (16,500 businesses)
40	15,000	50% (6,500 businesses)	35% (5,500 businesses)

B: Red in Auckland, Amber outside of Auckland

Revenue drop threshold	Businesses covered	Proportion of total support directed to hospitality industry, in dollar terms (number of businesses)	Proportion of total support directed to Auckland, in dollar terms (number of businesses)
30	30,000	25% (5,500 businesses)	60% (16,500 businesses)
40	8,000	40% (2,500 businesses)	70% (5,500 businesses)

Fiscal implications

44. The total cost of a payment under the RSP is closely tied to the severity of the impacts of the public health restrictions on eligible businesses.
45. The duration, level and fiscal cost associated with the new framework for restrictions are uncertain and evolving. Ahead of decisions confirming the restrictions in place at the time of payment, there will be considerable uncertainty around the cost of any further payments.
46. As referred to in Table 2 above, the fiscal cost of the BE Payment depends on the choice of revenue drop threshold:
 - a With a 40% revenue drop: \$30 – 60 million.
 - b With a 30% revenue drop: \$110 – 170 million.
47. The fiscal cost of another RSP payment made prior to the implementation of the new public health framework, and under standard parameter settings, under the assumption that Auckland and possibly some adjacent regions are under Alert Level 3 while other regions remain at Alert Level 2, would be expected to cost approximately \$200 million.
48. Any re-escalation in restrictions regionally or nationwide, resulting in more severe restrictions, such as use of lockdown conditions, would generate additional costs over and above those presented above.
49. Further funding will be sought to meet the costs of the payment on 19 November and possible payment on 10 December at Cabinet when agreement is sought to the broader economic support package.
50. Inland Revenue is monitoring the administrative impacts of additional payments and whether additional funding is required. Any further funding required will be sought as part of final Cabinet decisions on economic support under the new RAG framework.