

# The Treasury

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

September 2022

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## Treasury Report: Decisions on the Resurgence Support Payment through the transition to the COVID-19 Protection Framework

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<b>Date:</b>	5 November 2021	<b>Report No:</b>	T2021/2795
		<b>File Number:</b>	SH-1-6-1-3-3-22

### Action sought

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	Action sought	Deadline
Hon Grant Robertson <b>Minister of Finance</b>	<b>Agree</b> the recommendations of this report  <b>Refer</b> this report to the Minister of Revenue	9 November 2021

### Contact for telephone discussion (if required)

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Name	Position	Telephone	1st Contact
Tayla Forward	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)

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<p><b>Return</b> the signed report to Treasury.</p> <p><b>Refer</b> this report to the Minister of Revenue</p>
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Note any feedback on the quality of the report

# Treasury Report: Decisions on the Resurgence Support Payment through the transition to the COVID-19 Protection Framework

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## Executive Summary

### Executive Summary

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This report seeks your agreement to a proposed approach to support firms' ongoing non-wage costs during the transitional period between the Alert Level Framework and the COVID-19 Protection Framework (the CPF).

This follows discussion at the Finance Priorities Meeting on 4 November, where you confirmed your preference for the Wage Subsidy Scheme to only be available for regions at Alert Level 3+ until the nationwide transition to the CPF.

You also indicated that the Resurgence Support Payment (RSP) should cease on the nationwide transition to CPF. You were open to advice on the period between the final scheduled RSP instalment on 26 November (after which Auckland is expected to move to the CPF) and the full implementation of the CPF. This report addresses that period.

#### If Auckland moves to the CPF at the end of November

Previously you signalled an appetite to acknowledge the prolonged period of severe restrictions in Auckland by providing a generous payment targeted to the region upon their transition to the CPF. COVID Ministers with the Power to Act have noted further advice on this is expected (CMG 21 Oct refers).

Treasury and Inland Revenue officials have explored options that seek to achieve the above policy objectives while keeping within the operational constraints. **We propose a RSP on 10 December be a generous payment targeted towards Auckland and "Auckland-affected" businesses impacted by Auckland's prolonged period of severe restrictions.** It would work as follows:

- It would be framed in public communications as an exceptional payment in acknowledgement of and compensation for the prolonged period of severe restrictions in Auckland.
- It would bring an end to the fortnightly cycles of the RSPAUG21 scheme. This would be broadly consistent with the expectations you have communicated to the business community in recent weeks.<sup>1</sup>
- In practice, the mechanism to target Auckland would be to add eligibility criteria requiring businesses to have received, or be eligible to receive, previous RSPs made since August 2021, specifically payments made on 17 September, 8 October, and 29 October. This will act as a proxy for having experienced prolonged Alert Level 3 restrictions.

We recommend the payment rate for this is \$5000 + \$100\*FTE (up to a cap of 50 FTE).

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<sup>1</sup> In your announcement on 22 October, you set out the expectation that more generous RSPs would be available nationwide "until Auckland has been able to move into the COVID Protection Framework".  
<https://www.beehive.govt.nz/speech/business-boost-transition-new-covid-framework>

## **If all of New Zealand moves to the CPF simultaneously at the end of November**

The option remains to instead issue a payment under the RSPAUG21 on 10 December for businesses in a wider set of regions. This may be appropriate if your preference is to support areas that move to Red settings for the first time, following a prolonged period at Alert Level 3 (effectively capturing the Waikato and Northland).

This would mean no exceptional payment is made to recognise the extended period of strain endured by Auckland firms, however it could still be possible to be generous with the payment amount.

We recommend the payment rate for this is \$5000 + \$100\*FTE (up to a cap of 50 FTE).

If either approach is chosen, we would provide advice ahead of Cabinet decisions on other design settings of the payment such as the impacted window.

## **If different parts of New Zealand move to the CPF at different times**

Following the final scheduled RSP instalment on 26 November and any 10 December payment, we recommend ending fortnightly RSPs under the RSPAUG21.

However, if New Zealand does not move to the CPF at the same time, it is possible that other regions, such as Waikato and Northland, may also endure a prolonged period under Alert Level 3 restrictions between now and their transition to the CPF. In light of the impacts of Alert Level restrictions to date, there may be a case for targeted payment for these regions upon their transition to the CPF.

Recognising this, as an exceptional approach confined only to the commencement of the CPF (anticipated in early 2022), a payment could be targeted to businesses affected by any region that moves from Alert Level 3 to Red. This payment would have a similar intent (compensation and acknowledgement of a prolonged period of severe restrictions) to the payment made to Auckland affected businesses. This payment could be calibrated to the period of time that region has spent at Level 3, therefore being potentially less than the payment made to Auckland affected businesses.

## **Other matters**

- Across all options above, if a business is impacted by Alert Level 2 at the implementation of CPF, we do not recommend any additional payment is made.
- A payment targeted to businesses affected by regions moving to Red after 10 December cannot be issued before mid-January, due to the Christmas/New Year shut down period. Therefore, there may be a lag between when a particular region moves to Red and the issuance of such a payment to the businesses in that region (and those affected through the supply chain).
- The proposed options are deliverable using current RSP infrastructure and can be implemented by Inland Revenue. However, Inland Revenue have requested that the details of the 10 December payment (and any potential payments in January) be decided on as soon as possible to provide sufficient time to make the necessary system changes.

## Recommended Action

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We recommend that you:

*If Auckland moves to the CPF at the end of November*

- a. **agree** that the payment under the RSPAUG21 issued on 10 December will be framed in public communications as an acknowledgement of and compensation for the prolonged period of severe restrictions in Auckland;  
*Agree/disagree.*
- b. **agree** to add new eligibility criteria for the 10 December payment requiring businesses to have received, or have been eligible to receive, RSP payments made on 17 September, 8 October, and 29 October. This will act as a proxy for having experienced prolonged Alert Level 3 restrictions;  
*Agree/disagree.*
- c. **agree** the impacted window for the payment will be set within Auckland's period at Alert Level 3, with officials to confirm the exact window ahead of Cabinet decisions;  
*Agree/disagree.*

*If all of New Zealand moves to the CPF at the end of November*

- d. **indicate** if your preference is to issue an exceptional payment on 10 December for businesses in all regions that have experienced a prolonged period at Alert Level 3 and moved to Red at the same time as Auckland, which would remove the exceptional approach away from Auckland;  
*Yes/no.*
- e. **note** the impacted window for this payment will be set within a period that would capture businesses' experiences at Alert Level 3 or above, with officials to confirm the exact window ahead of Cabinet decisions;

*In both of the above scenarios*

### **EITHER:**

- f. **agree** the payment rate for a payment issued on 10 December in line with recommendations (a) to (e) be set at \$5000, plus \$100 per FTE (up to a cap of 50 FTE), in order to differentiate this payment from RSP payments to date and support the public perception of the payment as specific to most affected businesses (total fiscal cost estimated at \$330 - 360 million) (**RECOMMENDED**);  
*Agree/disagree.*

### **OR:**

- g. **agree** the payment rate for a payment issued on 10 December in line with recommendations (a) to (e) be kept at a \$3000 base rate, plus \$800 per FTE (up to a cap of 50 FTE), (total fiscal cost estimated at \$330 - 360 million);  
*Agree/disagree.*

*If different parts of New Zealand move to the CPF at different times*

- h. **note** that some regions may have been under Level 3 restrictions for a prolonged period at the time of their transition to the CPF (e.g. in early 2022), and businesses in those regions might therefore expect or warrant similar support as is made available to Auckland affected businesses;

- i. **note** that a transitional payment to businesses in regions outside of Auckland could be calibrated to the impacts of the duration spent at Alert Level 3, making for a lesser payment rate than in the payment to Auckland affected businesses;
- j. **agree-in-principle** in this scenario to provide a transitional payment similar in intent (compensation and acknowledgement of a prolonged period of severe restrictions) to the payment described in recommendations (a) – (g) to businesses in any region that moves from a prolonged period at Alert Level 3 to Red upon the implementation of the CPF;

*Agree/disagree.*

*Next steps*

- k. **agree** that the decisions taken in this report will be reflected in your upcoming Cabinet Paper on economic support under the new COVID Protection Framework;

*Agree/disagree.*

- l. **note** that changes to payments made under RSPAUG21 scheme will require further changes to the existing Order in Council, which will need to be progressed through Executive Council ahead of the payment being made;
- m. **refer** this report to the Minister of Revenue.

Jean Le Roux

**Manager, Regions, Enterprise and Economic Development**

Hon Grant Robertson  
**Minister of Finance**

# Treasury Report: Decisions on the Resurgence Support Payment through the transition to the COVID-19 Protection Framework

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## Purpose of Report

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1. This report seeks your agreement to a proposed approach to supporting firms' ongoing non-wage costs during the transitional period between the Alert Level Framework and the COVID-19 Protection Framework (CPF).

### *We propose the RSP on 10 December be a payment solely to Auckland and Auckland-affected businesses*

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2. Currently the final RSPAUG21 instalment is anticipated for 26 November (after which Auckland is now expected to move to the CPF). Previously you signalled an appetite to acknowledge the prolonged period of severe restrictions in Auckland by providing a generous payment targeted to the region upon their transition to the CPF. COVID Ministers with the Power to Act have noted further advice on this is expected (CMG 21 Oct refers).
3. A RSP payment on 10 December could target Auckland (and Auckland-affected) businesses by adding eligibility criteria requiring businesses to have received, or have been eligible to receive, previous RSPs made since August, specifically payments made on 17 September, 8 October, and 29 October. This will act as a proxy for having experienced prolonged Alert Level 3 restrictions.
4. This new rule will help target the payment to Auckland businesses that have been in a prolonged period of time under Alert Level 3 and 4 and therefore are the most likely to have been eligible for these payments.
5. Data shows that:
  - a 81,818 Auckland businesses received the 17 September payment (64% of total applications approved)
  - b 60,427 Auckland businesses received the 8 October payment (66% of total applications approved)
  - c 41,566 Auckland businesses received the 29 October payment (70% of total applications approved)
6. This can be compared against the recipients of the first RSP made on 24 August after Alert Levels increased for the entire country on 17 August – 91,303 Auckland businesses received the first payment (43% of total applications).
7. This new criteria would limit the availability of the 10 December payment to businesses impacted by other regions that have not been in a prolonged period of time under Alert Level 3 or 4, and would end the fortnightly cycle of RSP payments. These criteria will likely include some Waikato, and potentially Northland businesses, that received all three of these payments. This is because some Waikato and Northland businesses were able to demonstrate the necessary 30% revenue decline over 7 consecutive days before the impacted period was closed off on 1 November.

8. This approach may result in increased customer contacts for Inland Revenue as some businesses will seek to claim the payment despite not meeting this new eligibility requirement (either due to misunderstanding or knowingly trying to claim the payment despite not being eligible). Subject to your agreement to this new eligibility requirement, a declaration will likely be added to the RSP application form so that businesses must turn their mind to this new requirement.
9. The restrictions around the amount of time a business has been in existence would remain unchanged. Only businesses in existence for at least a month prior to start of this resurgence (17 August) would be eligible.
10. Other ways of targeting support to Auckland include:
  - a increasing the revenue drop threshold (not recommended); and
  - b framing the payment in public communications as targeting Auckland based and Auckland affected businesses (recommended).
11. We recommend the revenue drop level remain at 30% for this payment, to capture the greatest number of impacted Auckland businesses, given the RSP is already naturally targeting Auckland.
12. Of the most recent payment under RSPAUG21, when Auckland has been in Level 3 while most other regions are in Level 2, 71% of support has gone to Auckland businesses. On balance we are comfortable with the level of targeting achieved by the 30% threshold, and consider that lifting it to 40% would exclude many Auckland firms, diminishing the acknowledgement of the pressures on those firms.
13. [4] and [39]
- 14.
15. We therefore recommend that communications representing the payment as Auckland-specific be made in tandem with changes to the application process, amending the eligibility criterion as described above.
16. The impacted revenue period for this payment would be set during Auckland's weeks at Alert Level 3. Officials will confirm the exact commencement in future.

#### *Payment rate*

17. In order to differentiate this payment from RSP payments to date and support the public awareness of this payment as being specific to Auckland affected businesses, **we recommend the payment be made as a base payment of \$5000, with a smaller \$100 FTE component.**
18. The fiscal cost for this is estimated at \$330 - 360 million.
19. This approach would be useful to signal the payment is "exceptional" for the circumstances, and avoid setting expectations regarding ongoing support that may be provided under the 'steady state' in 2022.

20. The level of the recommended base payment rate provides greater flexibility to calibrate any future payments to regions transitioning from Level 3 to Red in proportion to the duration spent at Level 3 – the Waikato, for example, could receive a \$3000 + \$100 payment upon shift to CPF.
21. Alternatively, for greater consistency with previous payments, the rate set for the 12 and 26 November payments (\$3000 base payment + \$800 per FTE) could be retained. The estimated fiscal cost for this is the same as the option above.
22. Changes to payments made under RSPAUG21 scheme will require further changes to the existing Order in Council, which will need to be progressed through Executive Council ahead of the payment being made. Operational changes also involve some lead-in time. As such, Cabinet decisions are required on 22 November, to allow for the legislative and operational changes to be made.

### If all of New Zealand moves to the CPF at the end of November

23. The option remains to instead issue a payment under the RSPAUG21 on 10 December for businesses in a wider set of regions. This may be appropriate if your preference is to support areas that move to Red settings for the first time, following a prolonged period at Alert Level 3 or above. In practice this would likely tilt support towards Auckland, the Waikato and Northland.
24. This would mean no exceptional payment is made to recognise the extended period of strain endured by Auckland firms and the communications approach explained in paragraph 10(b) would need to be amended.
25. In this scenario we would recommend the same approach to the payment rate as described in paragraphs 17-22.
26. We would advise you of the appropriate impacted window for this approach ahead of the next Cabinet paper on this topic.

### If different parts of New Zealand move to the CPF at different times

27. Some regions may have been under Level 3 restrictions for a long period at the time of their transition to the CPF. The duration between Auckland's movement to Red settings under the CPF and a nationwide move to CPF remains uncertain, but could be several weeks.
28. Beyond the payment on 10 December outlined above, we have proposed there be no recurring RSP support available in this period due to the Christmas/New Year period. The earliest next available payment date will be 14 January.
29. However, this does not mean businesses impacted by ongoing restrictions would be unsupported over the Christmas period; you confirmed at FPM on 4 November your preference that businesses in regions operating under Level 3 would be able to access further rounds of the Wage Subsidy Scheme.
30. As an exceptional approach confined only to the commencement of the CPF you have the option to issue a payment to businesses affected by regions that move from Alert Level 3 to Red, which is similar in intent (compensation and acknowledgement of a prolonged period of severe restrictions) to the payment targeted to Auckland affected businesses.

31. In this approach, targeting would likely be undertaken by a mechanism consistent with that decided for the payment specific to Auckland based and Auckland affected businesses (see paragraph 3).
32. There is flexibility on the rate for this payment including the option to calibrate the payment rate to the duration that region has spent at Level 3, making it less than the payment to Auckland businesses.
33. Businesses that received the 10 December payment would not be eligible for such payment as by definition they would have already transitioned to the CPF by then and would therefore not be under the Alert Level system.
34. This would provide for the equitable treatment of businesses in regions experiencing severe restrictions. It would be framed in public communications as an exceptional payment in acknowledgement of and compensation for the prolonged period of severe restrictions and lower expectations for ongoing broad-based support as we transition to the new system.
35. The total fiscal cost of such a payment depends heavily on the specific regions in which the businesses the payment is available for are operating in/affected by, as well as the payment rate set. In the scenario where eligible Waikato-based businesses receive a payment of (e.g.) \$3000 + \$100\*FTE (up to 50 FTE), the fiscal cost is estimated at \$50 - 100 million.
36. Following this payment, we recommend no other further economic support be paid under RSPAUG21.
37. If it is your preference to agree this payment in principle, we would issue further advice in due course.

## Next Steps

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38. After you have taken the decisions set out in this paper, Cabinet material will be prepared by officials to support the Cabinet item on the COVID-19 economic support landscape, currently planned for 22 November.
39. Work on the Order in Council will be undertaken by officials in line with your decisions from this paper.

## Annex: RSP support received by Auckland and hospitality firms to date

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40. This analysis focuses on payments 3 and 4 of the RSPAUG21 (opened 8 October and 29 October, respectively), for which Auckland and much of Waikato were at Alert Level 3 and other regions were at Level 2 – with the exception of parts of Northland spending time at Level 3.
41. Overall, an increasing proportion of each payment is going to Auckland and hospitality businesses. Significant portions of support outside of areas in Alert Level 3 is going to hospitality businesses (25% and 29% in the most recent payments, respectively).

### *RSPAUG21 Payment 3*

42. As at 4 November, uptake of payment 3 for the hospitality industry is \$37.7 million. 51% of this support has been to Auckland hospitality firms, and 9% to Waikato hospitality firms.

43. 68% of payment 3 support has been to Auckland firms, increasing from 63% in payment 2 and 41% in payment 1 (for which other regions were also under more severe restrictions). Of Auckland firms supported, around 12% are in hospitality.
44. Outside of Auckland and Waikato (ie, in regions mostly experiencing lesser restrictions), hospitality firms account for around 25% of uptake.

*RSPAUG21 Payment 4*

45. As at 4 November, uptake of payment 4 for the hospitality industry is \$22.1 million. 59% of this support has been to Auckland hospitality firms, and 9% to Waikato hospitality firms.
46. 71% of payment 4 support has been to Auckland firms, of which around 16% are in hospitality.
47. Outside of Auckland and Waikato (ie, in regions mostly experiencing lesser restrictions), hospitality firms account for around 29% of uptake.