The Treasury

Advice on COVID-19 Response - Tranche Two Information Release

September 2022

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Decisions on the Transition Payment for 10 December

Date:	16 November 2021	**Report No:**	T2021/2914
		File Number:	SH-1-6-1-3-3-22

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Agree** to the settings for the transition payment **Refer** the report to the Minister of Revenue	17 November 2021

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Jason Batchelor	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 this report to the Minister of Revenue.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Decisions on the Transition Payment for 10 December

Executive Summary

This report seeks your agreement to the settings for the transition payment (the payment) to support the shift to the COVID-19 Protection Framework (the CPF). It provides two main options, according to your preferences on the primary purpose of the payment.

The primary purpose of such payment could be to:

- acknowledge the prolonged period Auckland (and to a lesser extent Waikato and Northland) have spent in heightened Alert Levels **(RECOMMENDED – Option 1)**; or
- to provide support to businesses affected by regions that enter the CPF in Red to support them to transition to the new settings **(Option 2)**.

A mix of both is possible, but this is not recommended as it is likely to be fiscally costly, could be confusing for applicants, and could set a precedent for future support for businesses moving to Red under the CPF.

Setting the affected revenue period is the most effective way to target support towards a specific purpose.

In addition, we have considered the following aspects while developing the options:

- The payment should differ sufficiently from previous RSP payments to avoid any confusion on purpose;
- A more generous payment (and associated communication) would avoid having to provide further support for some time after the transition to the CPF;
- Because the base rate has the greatest impact on sole traders and small businesses, we recommend that this is the component used primarily to distinguish this payment from previous RSPs;
- Retaining current eligibility criteria (including 30% revenue decline) would ensure familiarity of the business community with the approach taken; and
- The payment should clearly be framed as a one-off payment to avoid setting expectations that such support would be provided on an ongoing basis support under the CPF.

Under all options, Inland Revenue will not be able to process applications that require manual review over the Christmas/New Year period, between 24 December and 5 January.

The two options that relate to the above purposes and design considerations are as follows:

Option One*: Support businesses that have been affected by prolonged COVID-19 restrictions* ***(RECOMMENDED)***

This option would target businesses which have been affected by prolonged periods under heightened Alert Levels (Auckland, Waikato and Northland) and are therefore expected to shift to Red under the CPF.

- To achieve such targeting, we recommend setting the affected revenue period between 3 October and 9 November as only these regions were in Alert Level 3 during this period, while the rest of the country was under Alert Level 2.

- We recommend the base rate is increased to $4,000 and the per FTE component is similar to the early RSPs at $400 per FTE.

- Under this option, we estimate 77% of the total amount of support would go to Auckland, Waikato, and Northland and 23% would go to the rest of New Zealand.

- We estimate the largest proportion of total amount of support would go to the retail trade sector at 26% followed by arts, recreation and other with 19%, construction at 14% and the food and beverage services sector at 12%.

- The total fiscal cost of this option is estimated at $490 million.

***Option Two**: Support businesses moving to the CPF Red settings independently of situation to date*

This option is not linked to whether regions have spent extended periods in Alert Level 3 or 4.

- The affected revenue period would be set between 29 November and 10 December. This would capture the first 11 days under the CPF (assuming all of New Zealand moves to the new framework on 29 November), therefore integrating the impact of transitioning to Red.
- A transition to the CPF later than 29 November would reduce the time when support could be issued prior to the Inland Revenue shutdown period, between 24 December and 5 January. There will also be risks associated setting an appropriate affected revenue period, due the change in economic activity during the holidays.

- We recommend for this option to set the rate at the same level as Option One ($4,000 + $400 per FTE).
- Under this option, we estimate 75% of the total estimated amount of support would go to regions we expect to shift to Red (Auckland, Waikato, Northland, Bay of Plenty, Taranaki, and West Coast) and 25% would go to the rest of NZ.
- We estimate the largest proportion of support would go to the arts, recreation and other sector with 19% followed by food and beverage services with 19% and retail with 11%.
- The total fiscal cost of this option is estimated at $180 million.

An option combining aspects of Options One and Two (alternative hybrid option) is also available. The affected revenue period would be set between 3 October and 10 December. This approach has the highest projected fiscal cost and business coverage. It also has all the drawbacks of Option Two, such as a greater risk of creating precedent for future payments.

The paper also provides options to extend RSP eligibility to newly acquired and established businesses. The Minister of Revenue raised this issue at the joint Ministers meeting on 11 November.

The paper you plan to take to Cabinet on the COVID-19 economic support landscape on 22 November will be updated to include decisions from this report.

Recommended Action

We recommend that you:

a **note** that a one-off transition payment for the shift to the COVID-19 Protection Framework (the CPF) will be activated on 10 December through the Resurgence Support Payment (RSPAUG21) (agreed to in principle on 21 October 2021, by the COVID-19 Ministerial Group);

EITHER

b **agree** that the payment will target businesses affected by prolonged periods under heightened Alert Levels (Option One) (Recommended);

Agree/disagree.

OR

c **agree** that the payment will target businesses affected by shifting to Red on the introduction of the CPF (Option Two);

Agree/disagree.

OR

d **agree** a combined option where the payment targets both businesses that have experienced prolonged periods in heightened Alert Levels as well as businesses that are shifting to Red on the introduction of the CPF (Alternative hybrid option).

Agree/disagree.

e **agree** that the payment will be issued at a rate of $4000+$400*FTE, up to a total of 50 FTE;

Agree/disagree.

f **note** that under the recommended rate, the total estimated fiscal cost of Option One is $490m, Option Two is $180m, and the Hybrid option is up to $670m;

g **note** the transition payment will follow an RSP instalment anticipated for 26 November, which will be paid at a rate of $3000+($800*FTE), up to a cap of 50 FTE.

Closing application periods

h **note** that the application period for the RSPs activated on 29 October, 12 November, and 26 November 2021 close six weeks after the affected revenue period (which, based on a 29 November 2021 transition date, we expect to be 10 January 2022);

i **agree** the application period for the transition payment will close at the same time as recommendation g, which we expect to be 10 January 2022 (if you agree to recommendation b (Option One));

Agree/disagree.

j **agree** the application period for the transition payment close six weeks after the affected revenue period (if you agree to recommendation c or d (Option Two or alternative hybrid option));

Agree/disagree.

Support for newly established or recently acquired businesses

k **note** that owners of newly established businesses, and recently acquired businesses, are unable to claim the RSPAUG21 if they have not been operating the business for at least 1 month prior to 17 August;

l **note** that Inland Revenue officials have identified an option to allow owners of recently acquired businesses to be eligible under RSPAUG21,

m **note** Inland Revenue officials do not recommend making any change due to the delivery risks associated with making an urgent change particularly given the small number of businesses impacted;

n **agree** to allow recently acquired businesses as described in paragraphs 51 to 56, to be eligible for RSPAUG21 payments, made on and after October 29;

Agree/disagree.

o **note** that Inland Revenue officials have not identified a suitable amendment to allow newly established businesses to claim RSPs;

Next steps

p **agree** that the decisions taken in this report will be reflected in your upcoming Cabinet Paper on economic support under the COVID-19 Protection Framework

Agree/disagree.

q **note** that changes to payments made under the 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;

r **note** we require decisions on this payment from you by 17 November in order for it to be included in your Cabinet paper scheduled for discussion on 22 November;

s **refer** this report to the Minister of Revenue;

Refer/Not referred.

Jean Le Roux
Manager - Regions, Enterprise and Economic Development

Hon Grant Robertson
Minister of Finance

Treasury Report: Decisions on the Transition Payment for 10 December

Purpose of Report

1. This report seeks your agreement to the design of the transition payment ("the payment") to be issued on 10 December. It provides two main options for the purpose of the payment with associated rate and impacted period.

2. The paper also outlines possible changes to the rules around newly acquired and established businesses, which are currently ineligible for the RSP.

Background

3. This advice follows previous advice provided (T2021/2795 refers) and discussions with you at the joint Minister of Finance and Minister of Revenue meeting on 11 November.

4. To support the transition to the COVID-19 Protection Framework (CPF) for businesses, you have indicated a preference that the payment on 10 December should be framed as more generous and unique; and called a "transition payment".

5. The transition payment will come after the final ordinary RSP instalment anticipated for 26 November and which will be paid at a rate of $3000+$800 per FTE.

6. We assume in this report all of New Zealand shifts to the CPF on 29 November.

7. Under all options, Inland Revenue will not be able to process applications that require manual review over the Christmas/New Year period, i.e. between 24 December and 5 January.

Design of Transition Payment

8. The purpose of this payment could either be to:

   a Acknowledge (i.e. compensate for) the prolonged period Auckland (and to a lesser extent Waikato and Northland) under heightened Alert Levels **(RECOMMENDED)**; or

   b to provide support to businesses affected by regions that enter the CPF in Red, to support them to transition to the new settings.

9. In developing the options for the payment, we have also considered the following aspects:

   a The payment should be differentiated from previous RSP payment rates to show that it a unique payment as part of moving to the CPF;

   b The rate (consisting of the base rate and per FTE rate) and coverage should be more generous than an ordinary RSP;

   c Because the base rate has the greatest impact on sole traders and small businesses, we recommend that it is primarily used to distinguish this payment from previous RSP;

d The payment should be framed as a one-off payment to avoid setting expectations that such support would be provided on an ongoing basis under the CPF; and

e To maintain familiarity for businesses the eligibility criteria remains the same, including the revenue drop threshold, which remains at 30%.

10. For the proposed options, we do not recommend changing the rule limiting the payment to eight times (8x) the actual revenue decline experienced by the applicant.

11. There are three key variables for designing an RSP payment; the affected revenue period, the base rate, and the per FTE rate.

Affected revenue period

12. To achieve a particular purpose for the payment, the affected revenue period can be used to target businesses operating in regions where the Alert Level circumstances at the time mean they are most likely to have experienced revenue declines.

    a Selecting a period when Auckland, Waikato, and Northland were in Alert Level 3 and the rest of New Zealand was in Alert Level 2 (i.e. between 3 October and 9 November), would target support towards businesses in those regions.

    b Alternatively selecting a period when all of New Zealand is under the CPF will naturally target regions operating under Red.

Payment rate

13. The base rate has the greatest impact on sole traders and the businesses with a low number of employees. The FTE rate has the greatest impact on larger businesses.

14. In order to differentiate the payment from previous payments and support public awareness of this payment as being specifically for affected businesses, we recommend the payment be made at a greater rate than previous RSPs. Further details on the payment rates and the likely coverage of support to regions and sectors are detailed in Annex One and Two.

15. For all options, we have modelled a base rate of either $4000 or $5000. We have proposed the $4000 figure as the more fiscally conservative option. This approach would signal the payment is "exceptional" for the circumstances. The increase in base rate also provides greater support to very small businesses relative to larger SMEs.

16. It will however be critical to communicate clearly that this level of generosity is exceptional and is not correlated in any way to the level of support that may be provided under the 'steady state' in 2022.

17. In order to moderate the fiscal cost of the payment, we modelled two FTE rates: the original RSP and the doubled rate from the recent activations of $400 and $800, respectively.

Options for the Transition Payment

Option One: Support *businesses that have been affected by prolonged COVID-19 restrictions* ***(RECOMMENDED)***

18. If your preferred purpose of the payment is to support businesses in regions that have been most affected by prolonged periods under heightened Alert Levels (Auckland, Waikato, and Northland), we recommend setting the affected revenue period between 3 October and 9 November. During this timeframe these regions were all under Alert Level 3 (before the move to Alert Level 3, step 2 when restrictions were lifted for retail businesses) and the rest of New Zealand was in Alert Level 2.

19. This option has a clear purpose and clearly signals support for businesses most affected by prolonged periods under heightened Alert Levels. It ensures support is linked to the Alert Level framework, and not to the CPF.

20. Under this option, we estimate 77% of the total amount of support would go to Auckland, Waikato, and Northland and 23% would go to the rest of New Zealand.

21. We estimate the largest proportion of total amount of support will go to the retail trade sector at 26% followed by arts, recreation and other with 19%, construction at 14%, and the food and beverage services sector at 12%.

22. We recommend the payment rate for this option to be $4000+$400*FTE, up to a cap of 50 FTE. The associated total fiscal costs are estimated at $490m.

Option Two: *Support businesses moving to the CPF Red settings independently of situation to date*

23. If your preferred purpose of the payment is to support businesses affected by the transition to Red settings under the CPF regardless of whether they have been in prolonged period of heightened Alert Levels, then we recommend the affected revenue period is 29 November to 10 December.

24. A later transition to the CPF than 29 November would reduce the time when support could be issued prior to the Inland Revenue shutdown period, between 24 December and 5 January. There will also be risks associated with setting an appropriate affected revenue period, due the change in economic activity during the holidays.

25. This option also has the clear purpose of helping with the transition to the CPF in Red settings. It will only capture businesses that have a decline in revenue due to the impacts of Red settings.

26. This option risks setting expectations that there will be continued support under Red settings or when regions move from Green or Orange to Red in the future. It also might exclude many businesses in Auckland that have had reduced trading for prolonged periods. This could be exacerbated by potential pent up demand in Auckland, further limiting the number of Auckland businesses that could be eligible for this payment.

27. Assuming all of the country moves to the CPF on 29 November, the recommended affected revenue period would capture the first 10 days during which businesses have been operating under Red and the associated revenue decline in that period. It would cover the immediate transition to Red.

28. Under this option, we estimate 75% of the total amount of support would go to businesses affected by the expected to shift to Red (in Auckland, Waikato, Northland, Bay of Plenty, Taranaki, and West Coast) and 25% would go to the rest of New Zealand.

29. We estimate the largest proportion of total amount of support will go to the arts, recreation and other sector with 19% followed by food and beverage services with 19%, and retail at 11%.

30. We recommend the payment rate for this option is also $4,000 + $400*FTE, up to a cap of 50 FTE. The associated total fiscal cost is estimated at $180m. Officials have less confidence in the estimated fiscal cost, as there is less certainty about potential economic impacts during this period and under the CPF.

Alternative: *A hybrid approach*

31. If you wish to combine both purposes, an option is to combine the above two options by having the affected revenue period span when regions that have been most affected by prolonged periods under heightened Alert Levels (Auckland, Waikato, and Northland) and areas moving into in Red settings. The affected revenue would therefore be from 3 October to 10 December.

32. This option would have wider coverage to help businesses, as it would be a hybrid of the two options canvassed: it would deliver support to businesses affected by restrictions in Auckland, Waikato, and Northland as well as businesses in regions that are impacted by the move from Alert Level 2 to Red. However, it is untargeted and would allow businesses that have not felt the economic effects of the most recent public health restriction to apply.

33. This approach could also dilute the messaging of the purpose. This muddling of purposes could be difficult to communicate and may create perceived inequities. For example, Auckland businesses may not appreciate being eligible for the same payments as parts of the country that have not experienced the prolonged periods under heightened Alert Levels.

34. We recommend the payment rate for this option is also $4,000 + ($400*FTE), up to a cap of 50 FTE.

35. Like Option Two, officials have less confidence in the estimated fiscal cost as there is less certainty about potential economic impacts during this period and under the CPF. It is likely to be the most expensive option, totalling between $580 and $670m.

Comparison of the options

36. The fiscal cost of Option Two is substantially lower than Option One because we assume the level of economic activity under Red to be broadly similar to that of Alert Level 2. We therefore expect a more limited number of businesses to experience the 30% revenue decline.

37. You have indicated that support should not be available to businesses which do not comply with CVC (Covid-19 Vaccination Certificates) requirements. It is not currently possible to condition the granting of support to the use of CVC. Businesses operating without CVCs in regions at Red are more likely to be able to demonstrate the necessary 30% revenue decline due to the economic impact of stronger public health measures compared to businesses operating with CVCs.

38. The hybrid approach has the highest projected fiscal cost and business coverage. It also has all the drawbacks of Option Two including potentially creating a precedent for businesses moving to Red and may be more likely to provide support to businesses that choose not to use CVCs.

39. Officials recommend Option One, based on it having a clear purpose that supports Auckland, Waikato, and Northland, is generous and does not create precedent issues with regions moving to Red in the future.

Further decisions sought on the RSP

Setting a close date for the application period

40. The 10 December Payment should be introduced with a defined affected revenue period, which will depend on the option chosen.

41. We recommend applications should the payment remain open for six weeks after the end of the affected revenue periods.

42. If you agree with Option One, the application period for the payment should close at the same time as previous RSPs under RSPAUG21, which we expect to be 10 January 2022.

43. If you agree with Option Two, the application period for the payment should close six weeks after the affected revenue period;

Extending support to newly established and acquired businesses

44. At the joint Ministers meeting on 11 November the Minister of Revenue raised the issue of newly established and recently acquired businesses, which are not currently able to claim the RSP.

45. Current RSP rules require the applicant to have been operating a business for at least one month prior to 17 August 2021 (i.e. from 17 July at the latest). Therefore, businesses which started operating after 17 July 2021 have not been eligible for the RSPAUG21.

46. This issue has not been significant in the past due to short periods at elevated Alert Levels. The current prolonged period of COVID-19 restrictions results in these businesses falling outside of the eligibility rules. Despite this, officials estimate that a very few businesses will be in these situations.

Newly Established Businesses

47. Inland Revenue officials do not recommend making changes to the RSP eligibility criteria to include newly established businesses for payments under RSPAUG21.

48. Inland Revenue officials have explored options to address this issue, such as:

    a allowing newly established businesses to use a comparator period (the period businesses assess a typical week's revenue) during COVID-19 restrictions; or

    b create a speculative revenue test assessing the revenue they would have received, were COVID-19 restrictions not in place.

49. The revenue decline test is based on comparing a business's 'typical' revenue to the affected revenue. This causes an issue for newly established businesses because these businesses are unlikely to have received revenue that has not been impacted by COVID-19 restrictions. If we were to allow newly established businesses to use a comparator period during a time of COVID-19 restrictions, it may be difficult for these businesses to demonstrate a 30% revenue decline because the comparator period has already been impacted.

50. Further, allowing newly established businesses to use a speculative revenue test raises integrity concerns and would be challenging for Inland Revenue to verify. It also could increase the risk of fraud and false applications.

Recently Acquired Businesses

51. People who have acquired businesses in the period less than one month prior to 17 August 2021 or later, have been excluded from applying for the RSPAUG21.

52. To enable recently acquired businesses to be eligible for the RSPAUG21, the test that sets how long a business must have been in operation could be amended. The amendment would allow a person to satisfy the test where they have acquired a business which has been in operation for at least one month.

53. Inland Revenue officials recommend that in order to satisfy this test, the business must be carrying on the same or similar activity as before the change in ownership. For example, if an applicant buys a café and largely continues to operate a café, the applicant would satisfy the test.

54. The current rules also require the revenue decline test to be the revenue received by the applicant (the current owner), this means revenue from the previous owner over the comparator period cannot be used. This test would need to be amended to allow the applicant to use the revenue received by the previous owner over the comparator period in order to demonstrate the necessary 30% revenue decline during the affected revenue period

55. To give effect to this proposal, minor system changes are required. Inland Revenue estimates it will be able to deliver this change by 10 December. Subject to your agreement to this change, officials recommend that this change only apply to RSP made available on and after 29 October (this would include the final 10 December payment). RSPs made before that time will have been closed off, with applications closing on 1 December. Reopening RSPs prior to 29 October would have broader implications which would be difficult to administer.

56. Note that, if you agree to this change, urgent amendments will be included in an OiC for agreement at Cabinet on 22 November (at the same time and in the same OiC required for the 26 November RSP). Given the urgency required to make this change and the risks associated with making changes quickly, officials' preference is for no change.

Next steps

57. Cabinet material will be prepared by officials to support the Cabinet item on the COVID-19 economic support landscape, currently planned for 22 November.

58. Work on the Order in Council will be undertaken by officials in line with your decisions from this paper.

Annex One: Estimated Cost of Options

Options	Base Rate ($)	FTE Rate ($)	Estimated Cost ($m)
Option One: Support businesses that have been affected by prolonged COVID-19 restrictions	5000	800	690
	5000	400	580
	4000	800	600
	4000	**400**	**490**
Option Two: Support businesses moving to Red under the CPF	5000	800	260
	5000	400	210
	4000	800	230
	4000	400	180
Option Three: Support both business in prolonged restriction and shifting to Red	5000	800	820-950
	5000	400	680-790
	4000	800	710-830
	4000	400	580-670

Annex Two: Estimated sectoral and regional breakdown for each option

Sector	Option 1 Affected Regions (Auckland, Northland and Waikato)	Option 1 Rest of NZ	Option 2 Affected Regions (Regions in Red)	Option 2 Rest of NZ	Option 3 Affected Regions (Option 1 + Option 2)	Option 3 Rest of NZ
Accommodation	72%	28%	88%	12%	80%	20%
Administrative and Support Services	72%	28%	82%	18%	77%	23%
Agriculture	65%	35%	55%	45%	60%	40%
Construction	87%	13%	76%	24%	82%	18%
Education and Training	63%	37%	50%	50%	56%	44%
Electricity, Gas, Water, and Waste services	57%	43%	67%	33%	62%	38%
Financial and Insurance Services	60%	40%	79%	21%	69%	31%
Food and beverage services	**65%**	**35%**	**83%**	**17%**	**74%**	**26%**
Health Care and Social Assistance	61%	39%	55%	45%	58%	42%
Information Media, Telecommunications	70%	30%	75%	25%	73%	27%
Manufacturing	37%	63%	56%	44%	47%	53%
Professional, Scientific, and Technical Services	58%	42%	76%	24%	67%	33%
Public Administration and Safety	69%	31%	60%	40%	65%	35%
Rental, Hiring and Real Estate Services	82%	18%	78%	22%	80%	20%
Retail Trade	**94%**	**6%**	**65%**	**35%**	**79%**	**21%**
Transport, Postal and Warehousing	68%	32%	76%	24%	72%	28%
Wholesale Trade	62%	38%	66%	34%	64%	36%
Arts and Recreation and Other Services	70%	30%	76%	24%	73%	27%
Total*	**77%**	**23%**	**75%**	**25%**	**76%**	**24%**

*projected percentage of total spend