

The Treasury

Advice on COVID-19 Response - Tranche Three Information Release

September 2022

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Joint Report: Update on COVID-19 Support Payment

Date:	23 March 2022	Report No:	T2022/623
		File Number:	SH-1-6-1-3-3-22

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Agree to the recommendations	24 March 2022
Minister of Revenue (Hon David Parker)	Agree to the recommendations	24 March 2022

Contact for Telephone Discussion (if required)

Name	Position		Telephone	1st Contact
Rose Austen	Senior Analyst, Regions Enterprise and Economic Development, The Treasury	[39]	N/A (mob)	✓
John Marney	Manager, Regions Enterprise and Economic Development, The Treasury		N/A (mob)	
Thomas Allen	Policy Lead (Acting), Policy and Regulatory Stewardship, Inland Revenue	[35]		

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

<p>Lodge the attached Cabinet Paper</p> <p>Return the signed report to Treasury.</p>
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Note any feedback on the quality of the report

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

Joint Report: Update on COVID-19 Support Payment

Executive Summary

Cabinet agreed to activate the COVID-19 Support Payment Scheme (CSPFEB22) due to business circumstances arising from the effect of the public health measures (including the COVID-19 Protection Framework – Red setting) and the rapid increase of COVID-19 in the New Zealand community [CAB-22-MIN-0030 refers]. At that meeting, Cabinet agreed the CSP scheme would be a series of three fortnightly payments for eligible businesses that could demonstrate a 40% revenue decline. The rate for each payment is the lesser of \$4000 +\$400 per FTE (capped at 50FTE) or 8 times the revenue drop.

To date Cabinet has approved \$830m for the CSP and authorised delegated Ministers to draw down a further \$100m from the COVID-19 Response and Recovery Fund (CRRF) [CAB-22-MIN-0030 refers].

Payment 1 of the CSP opened on 28 February and has paid out \$399.49m. Applications for Payment 2 opened on 14 March and has paid out \$245.24m. Payment 3 will open on 28 March. Applications will close for all three payments on 5 May.

Based on current payment rates the current appropriation may be exhausted by 1 April 2022. Therefore, we recommend that you agree to immediately draw down the \$100m from the CRRF.

We also recommend that you seek Cabinet agreement to a further top up of \$600m from the CRRF ahead of the Budget Moratorium.

The draft Cabinet paper also authorises minor amendments to the Order in Council for the CSPFEB22 to address an inconsistency between the treatment of newly acquired businesses and the comparator periods that they can use.

The CSP, combined with previous business support initiatives such as the Resurgence Support Payment and the Small Business Cashflow Scheme, have comprised a major part of the Government's economic response to COVID-19. In line with best practice, significant government spending on this scale should be reviewed and evaluated. Inland Revenue and Treasury are preparing a review and evaluation of these schemes.

Recommended Action

We recommend that you:

- a **note** \$830m of funding has been appropriated to meet the cost of the COVID-19 Support Payment (refer CAB-22-MIN-0056);
- b **note** that Cabinet authorised delegated Joint Ministers to draw down up to an additional \$100m from the COVID-19 Response and Recovery Fund to meet the costs generated by CSPFEB22 (refer CAB-22-MIN-0056);
- c **note** the uptake of the CSPFEB22 has been higher than anticipated and has paid \$644.73m to affected businesses as at 22 March;

- d **agree** to draw down \$100m from the COVID-19 Response and Recovery Fund to meet the costs of the CSPFEB22;

Agree/disagree
Hon Grant Robertson

Agree/disagree
Hon David Parker

- e **approve** the following changes to appropriations to meet the higher-than-expected demand for COVID-19 Support Payments, as noted in recommendation d above, with a corresponding impact on the operating balance and net core Crown debt:

Vote Revenue Minister of Revenue	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
Non-departmental Other Expense: COVID-19 Support Payment	100.000	-	-	-	-

- f **agree** that the proposed change to the appropriation for 2021/22 in recommendation e be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

Agree/disagree
Hon Grant Robertson

Agree/disagree
Hon David Parker

- g **agree** that the expense incurred under the increase to the COVID-19 Support Payment appropriation under recommendation e be charged against the COVID-19 Response and Recovery Fund established as part of Budget 2020;

Agree/disagree
Hon Grant Robertson

Agree/disagree
Hon David Parker

- h **agree** to seek Cabinet agreement to top up the CSP appropriation of \$600m to be charged against the CRRF;

Agree/disagree
Hon Grant Robertson

Agree/disagree
Hon David Parker

- i **note** the inconsistency between businesses acquired before and after 16 January 2022, and the comparator periods they can use to demonstrate a 40% revenue decline;

- j **agree** to allow businesses acquired between 16 February 2021 and 15 January 2022 to use either the 2021 or 2022 comparator periods;

Agree/disagree
Hon Grant Robertson

Agree/disagree
Hon David Parker

- k **note** these business will also have to meet the other parts of the newly acquired business test for them to use the 2021 comparator period. Primarily, that the nature and character of the business has not substantially changed between the comparator period and the affected revenue period.

- l **note** the amendment in recommendation j does not have a fiscal cost.

m **authorise** officials to issue drafting instructions to the Parliamentary Counsel Office to implement the recommendation j;

Agree/disagree
Hon Grant Robertson

Agree/disagree
Hon David Parker

n **agree** to seek Cabinet's agreement to submit the amending Order in Council to Executive Council on 28 March 2022;

Agree/disagree
Hon Grant Robertson

Agree/disagree
Hon David Parker

o **agree** to lodge the attached Cabinet paper with the Cabinet Office;

Agree/disagree
Hon Grant Robertson

John Marney
**Manager, Regions Enterprise and
Economic Development
The Treasury**

Thomas Allen
**Policy Lead (Acting), Policy and
Regulatory Stewardship
Inland Revenue**

Hon Grant Robertson
Minister of Finance

Hon David Parker
Minister of Revenue

Joint Report: Update on COVID-19 Support Payment

Purpose of Report

1. This report provides an update on the uptake of the COVID-19 Support Payment (CSP) (CSPFEB22) as part of the Government's response to the Omicron outbreak and seeks Joint Ministers agreement to:
 - i draw down \$100 million from the COVID-19 Response and Recovery Fund (CRRF) for the CSP
 - ii seek Cabinet agreement to top up the CSP appropriation with a further \$600 million from the CRRF
 - iii authorise minor amendments to the Order in Council for the CSPFEB22 to address an inconsistency between the treatment of newly acquired businesses

Background

2. The aim of the February CSP was to support firms affected by the Omicron outbreak especially in the food and accommodation, arts and recreation, private transport and retail sectors. Treasury advised against the use of sector-specific packages to support cashflow challenges experienced by these sectors. Rather, Treasury advised using a broad-based tool, utilising the CSP along with amendments to the Small Business Cashflow Scheme (SBCS), to support firms experiencing a severe revenue decline due to the Omicron outbreak.
3. Cabinet agreed to activate the CSPFEB22 consisting of three fortnightly payments to eligible businesses that could demonstrate a 40% revenue decline. The rate for each payment is \$4000 +\$400 per FTE (capped at 50FTE) or the lesser of 8 times the revenue drop.
4. The affected revenue periods for each payment are:
 - Payment 1: 16 February to 4 April 2022
 - Payment 2: 7 March to 4 April 2022
 - Payment 3: 21 March to 4 April 2022
5. Applicants need to apply for each payment separately and need to demonstrate a 40% decline in revenue by comparing their affected revenue with seven consecutive days of typical revenue in the comparison period, either between 5 January to 15 February 2022 or 5 January to 15 February 2021.
6. Payment 1 of the CSP opened on 28 February and has paid out \$399.49m. Applications for Payment 2 opened on 14 March and has paid out \$245.24m. Payment 3 will open on 28 March. Applications will close for all three payments on 5 May.
7. In forecasting the cost of the CSP, we noted our low confidence in our estimates. As we were unsure about how the Omicron outbreak would impact economic activity, we ended up under-estimating the demand and fiscal cost of the CSP for many sectors.
8. Under the COVID-19 Protection Framework Red settings most economic activity can continue as normal. However, as people have become sick, self-isolated and/or worked from home there has been a decrease in electronic spending and people movements.

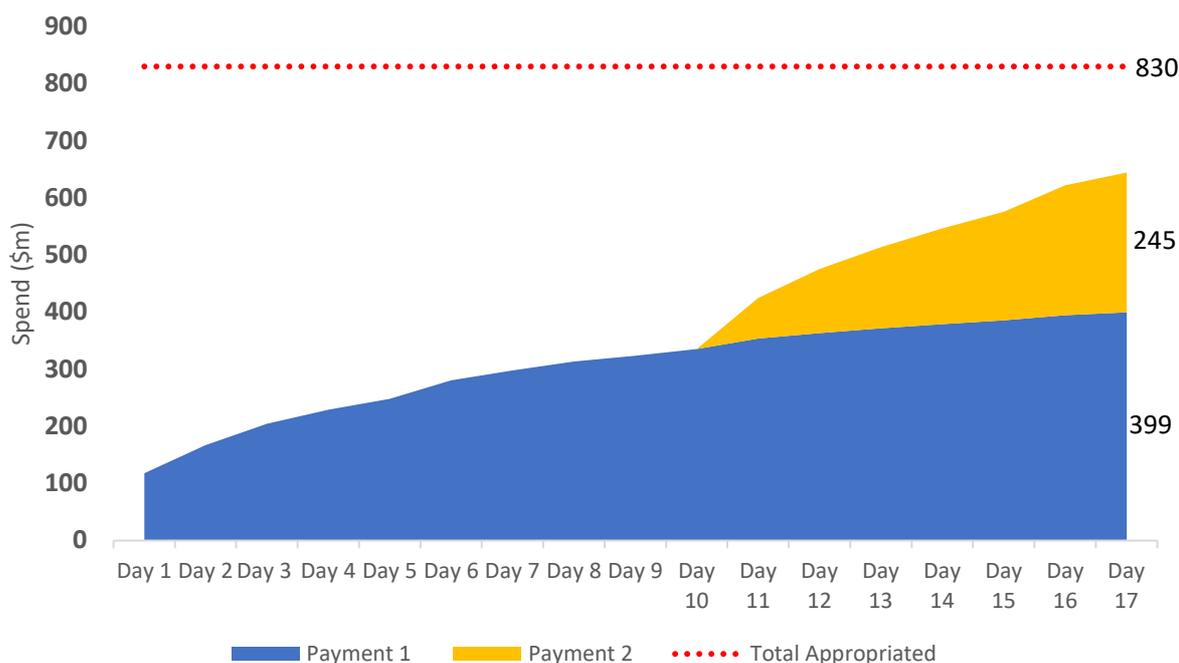
Across the economy we have seen businesses temporarily closing or decreasing their hours or services due to staff absences.

Uptake of the COVID-19 Support Payment

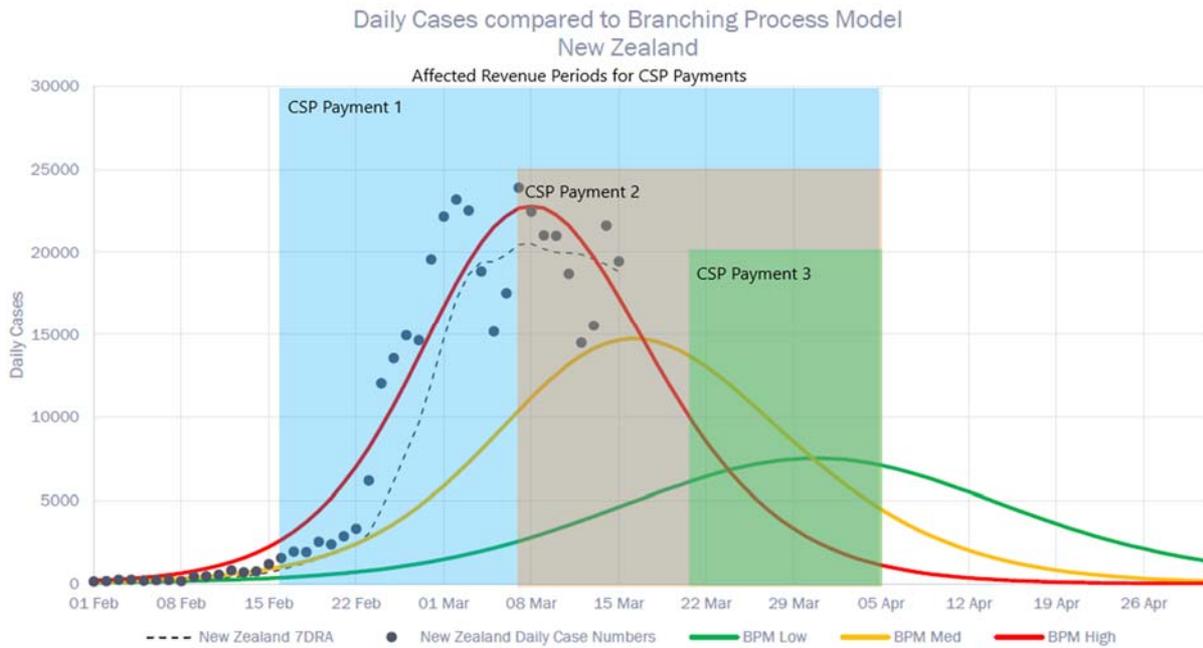
Uptake of the CSP has been a lot higher than we anticipated and further funding is needed

9. The uptake of the CSP has been a lot higher than we anticipated. Early indications suggest this has been driven by several related factors:
 - Staff absences – staff self-isolating either with a household contact or testing positive with COVID-19. This can have a flow on effect where a firm cannot operate due to staff absences and must send healthy staff home or decrease hours or services.
 - Sole traders / companies with one staff member – where the sole employee must self-isolate and cannot work from home, they may report a 90-100% revenue decline over the 7 days that they were self-isolating. In this situation, they can meet the eligibility criteria of the CSP and claim the Leave Support Scheme (LSS).
 - Consumer behaviour in response to the Omicron outbreak – Mobility data suggests that many people are working from home despite not being required to. This is a particular problem for businesses in Central Business Districts.
10. To date Cabinet has approved \$830m for the CSP and authorised delegated Ministers to draw down a further \$100m from the CRRF [CAB-22-MIN-0030 refers]. Based on current payment rates the current appropriation may be exhausted by 1 April 2022.
11. Due to the high uptake, we recommend that you agree to immediately draw down the \$100m from the CRRF.
12. We also recommend that you seek Cabinet agreement to a further top up of \$600m from the CRRF ahead of the Budget Moratorium. Due to the uncertainties associated with the Omicron outbreak and when economic activity will pick up, we recommend taking a conservative approach and requesting a substantial top up for the CSP. This should mitigate the risk of the appropriation being exhausted due to a higher-than-expected uptake and leaving Inland Revenue unable to pay CSP applications during the Budget Moratorium (starting 11 April 2022).

Cumulative CSP Spending as at 23 March 2022



13. The above graph shows total amount paid out under CSP 1 and 2. The amount applied for is higher, \$481.9m for CSP 1 and \$301.6m for CSP 2 as of 23 March. There is a lag between the amount applied for and the amount paid out due to the time it takes to review applications. Based on the RSP, around 94% of the total amount applied for has been paid out.
14. There is significant overlap between applications for the first and second CSP. Of the 46,000 recipients of the second CSP, only 3,600 of them did not also receive the first CSP. Although CSP 2 has only been open for nine days, we are seeing a reduced uptake compared to payment 1. There have been 60,600 applications for payment 2 after nine days, compared to 71,400 applications for CSP 1 during the same period.
15. This may indicate shifting impacts over time, with a number of businesses possibly no longer being impacted whilst others are only now becoming impacted.
16. Although it is trending downwards, we expect to see a higher uptake right before applications close for the scheme, like the previous RSPs.
17. As applicants need to apply for each payment separately, it is difficult to predict the demand for each payment. As shown in the graph below, if over the next week cases substantially drop and economic activity improves (especially in Auckland), then we expect the demand for payment 3 to be lower. As people do not need to self-isolate if they have tested positive for COVID-19 and have self-isolated within the previous three months, and as we pass the peak of the curve, there should be fewer staff absences. This should make a difference to the number of sole-traders and micro firms that apply for the CSP.
18. A risk associated with the concurrent payment schedule and affected revenue periods is that, if we experience a large wave of cases between 21 March and 4 April, more businesses across the country could be forced to close or decrease their hours due to staff absences. This could increase the demand for all three payments as affected businesses may then be able to use one 7-day consecutive period of revenue decline for all three CSPs.

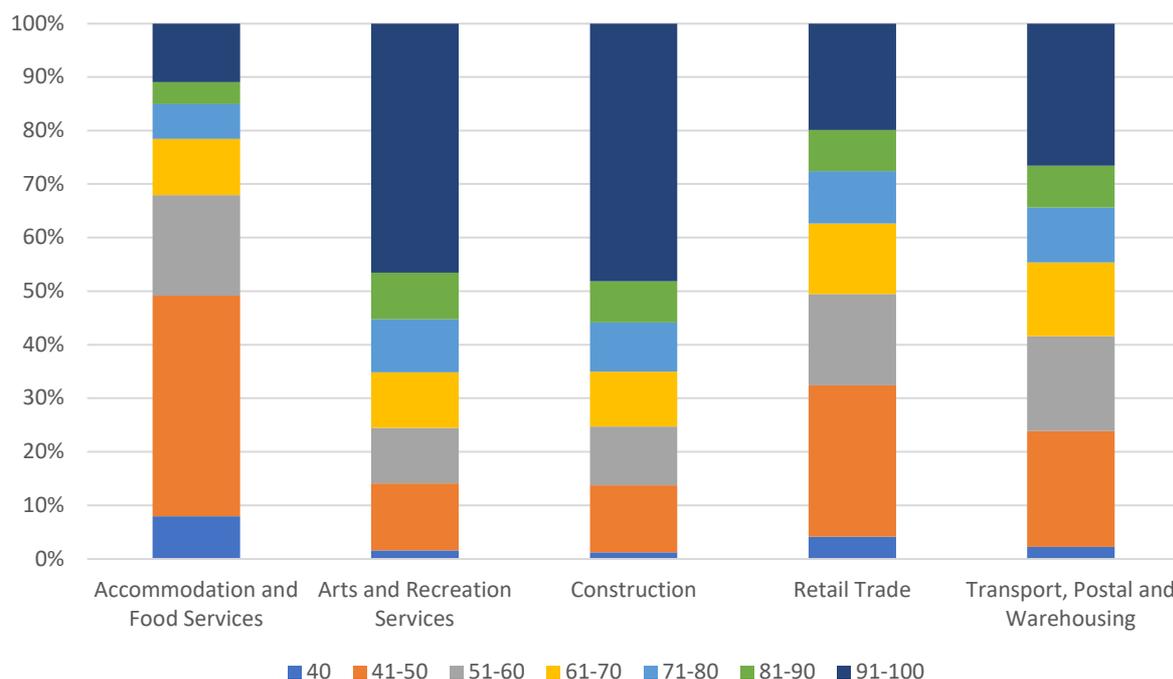


19. Despite the fiscal pressures the CSP poses there are limited avenues to amend the settings and decrease demand. As each of the payments and payment rates have already been announced, there would be equity concerns if we amended any aspect, such as lowering the payment rate, which would unfairly benefit those who had already received the payment.

The main sectors that are benefiting from the CSP are construction and food and accommodation services

20. The main sectors benefiting from the CSP are Accommodation and Food Services, Construction, Other Services, Retail Trade, Professional, Scientific and Technical Services and Transport, Postal and Warehousing. These sectors collectively account for 63% and 64% of payment amounts of payment 1 and 2, respectively.
21. The revenue drop varies significantly between sectors. More than 40% of approved firms in the Construction, Arts and Recreation, and Professional, Scientific and Technical Services reported revenue declines of 90-100%. Whereas, 60% of all approved applications from the Accommodation and Food sector had a revenue decline of between 41 and 60%.
22. The 40% revenue drop agreed by Cabinet has been effective in targeting the hospitality industry. Setting the revenue drop higher may have disadvantaged the hospitality industry and would not have mitigated the high uptake we have seen in other industries.

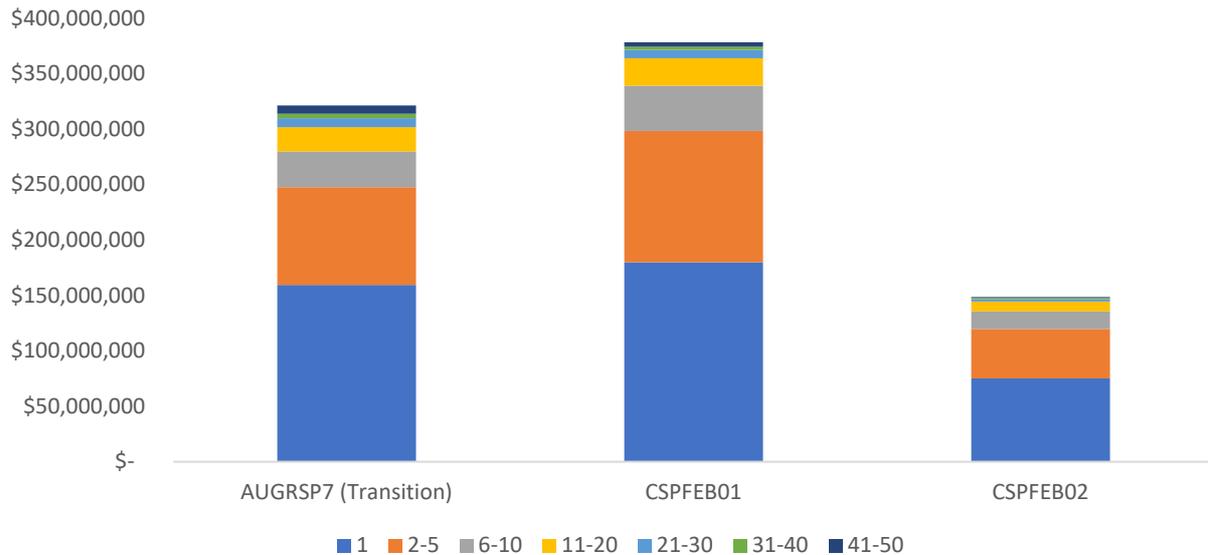
CSPFEB % of Revenue Drop Reported by industry



Micro firms are the largest beneficiaries of the CSP

- 23. Micro-firms account for 63% of the total volume of applicants for payments 1 and 2. Of all approved applications 57% only had one employee. This is broadly consistent with the percentage of micro-firms that received the RSPAUG21.
- 24. In deciding the payment rate, Cabinet agreed to a rate with a more generous base rate that favoured micro-firms over large firms. In undertaking our analysis of the payment rate, we analysed the average non-wage costs for different firm sizes across different sectors. On average, a fortnightly payment of \$4000+\$400 would cover 79% of non-wage costs for a micro firm (1-5 FTEs). However, it does vary between only covering 36% of construction, 90% of accommodation and food service, and 137% for retail trade within the same segment.
- 25. To mitigate risk of the Government over-paying firms which have a small revenue, the payment rate is the lesser of \$4000+\$400 per FTE or 8 times the revenue drop experienced. This is the same rate and calculation as the Transition Payment, and we did not review this rate for the CSP.
- 26. Of the applications to date, approximately 9,000 of sole traders have received less than the \$4,400 amount. These applicants would have used the “8 times the revenue decline experienced” method.

RSP & CSP Proportion of Payment by FTE size



Use of the 2021 comparator period

27. Approximately 12.8k (8.4%) of applications have used a comparator period from January/February 2021. Of those 19.6% are Accommodation and Food Services, 9.2% Construction, 8.8% Professional Services and 8.1% Retail.

Technical amendments to the Order in Council for newly acquired businesses

28. In addition to seeking further funding we recommend that you seek Cabinet's agreement to amend the Order in Council to address a consistency issue in the comparator period(s) for newly acquired businesses.
29. Under current rules, only businesses acquired after 16 January 2022 can use the previous owner's revenue during the comparator period to demonstrate eligibility for the CSP. Businesses acquired since the 2021 comparator period but before or on 16 January 2022 are only able to use the 2022 comparator period (not the 2021 comparator period). Businesses that are required to use the 2022 comparator period may be unable to demonstrate the 40% revenue decline due to already being impacted by COVID-19 in the 2022 comparator period, leaving them no alternative way to demonstrate their revenue decline.
30. Officials recommend, for the purposes of the 2021 comparator period, if a business is acquired between 16 February 2021 and 15 January 2022 that business should be allowed to demonstrate a typical week's revenue by using the revenue received by the previous owner. They will also have to meet the other parts of the newly acquired business test for them to use the 2021 comparator period. Primarily, that the nature and character of the business has not substantially changed between the comparator period and the affected revenue period.
31. This amendment will align the rules with the treatment of businesses acquired after 16 January 2022. This means that a small number of businesses (one we are aware of) that have been acquired since the 2021 comparator period and have lower revenue during the 2022 comparator period due to COVID-19, will be able to use the 2021 comparator period to demonstrate the necessary revenue decline to be eligible for the CSP.

32. There are some integrity risks associated with the change, specifically the extended amount of time between a business applying for support and when they acquired the business. This time gap means there is a greater chance that a business has changed in nature or character, as well as the greater difficulty in acquiring revenue information from the previous owner to establish eligibility. Despite this, we already allow businesses acquired after 16 January 2022 to use the 2021 comparator period (and, therefore, the previous owner's revenue information from that period), so this risk already exists.
33. Given it is a simple change which improves the fairness of the scheme, it is recommended an amendment to the Order in Council be made to address this issue. Given the minor nature of the change, it does not have a fiscal cost.

Further COVID-19 economic support

34. Treasury strongly advises against the use of any further grants to alleviate the pressures of COVID-19 for fixed or wage costs.
35. Public health measures dictating self-isolation and consumer behaviour are primarily driving demand for the CSP rather than capacity limits under Red settings. As a result, we expect that as the peak passes there should be less demand for the CSP.
36. The amendments to the Small Business Cashflow Scheme are also now live and this provides a further avenue to firms concerned about their cashflow as a result of COVID-19.
37. As RSP and CSP payments have evolved over time, if Ministers were to consider any further payments using the CSP infrastructure, we recommend making a number of changes to the scheme. For example, increasing the comparison periods from 7 days to 14 days so firms need to demonstrate a sustained revenue drop and separate self-isolation requirements from revenue decline. We would also recommend reviewing the payment rate and frequency, especially for micro-businesses.
38. Treasury has provided complementary advice on improving the economy's resilience to COVID-19, to help inform the strategy for the COVID economic recovery beyond the immediate response to the Omicron outbreak [T2022/275 refers].

Interactions between the CSP and Leave Support Scheme

39. The affected revenue period for all three CSP payments ends on 4 April and applications close on 4 May 2022. However, businesses will still at this stage have access to the COVID Leave Support Scheme (LSS) and the Short Term Absence Payment (STAP) (if eligible) to support workers to comply with public health rules related to self-isolation and testing.
40. As the Government's COVID public health response evolves, particularly around testing and self-isolation, decisions need to be made on the role of LSS and STAP as a Government support going forward. Treasury and Ministry of Social Development officials have provided initial advice to joint Ministers (Finance and Social Development and Employment) on key considerations for deactivating the LSS and STAP [T2022/481 refers], and intend to discuss options further with the Minister of Finance ahead of a planned report back to joint Ministers in April 2022.

Evaluation of small business supports and impacts

Purpose and scope

41. The CSP, combined with previous business support initiatives, has comprised a major part of the Government's economic response to COVID-19. In line with best practice, significant Government spending on this scale should be reviewed and evaluated, particularly when taking into consideration the fast pace at which the payments were stood up. The findings of the evaluation would then be used to inform policy advice and the delivery of similar interventions to support businesses in future.
42. The scope of the evaluation will focus on the most significant COVID-19 business support administered by Inland Revenue - including the COVID-19 Support Payment, Resurgence Support Payment (RSP), and Small Business Cashflow Scheme (SBCS).
43. The review will take into consideration the integrity of the schemes and reflect the wider context under which the schemes were operating. For example, they sat alongside several other economic individual and business supports and many of the initiatives evolved over time to meet the needs of businesses.
44. The evaluation will be led by Inland Revenue, in partnership with the Treasury. To ensure transparency and integrity when engaging with businesses, an external party may be commissioned to conduct the research and engagement required for the evaluation

Timing and how the work could be used

45. It is proposed that the evaluation is undertaken relatively promptly, with the aim of being completed within a year. This will ensure that insights are still relevant and that findings can meaningfully be used in administering any future pandemic-related business support.

Next Steps

46. We would like your feedback on the attached Cabinet paper to lodge on Thursday 24 March for Cabinet's consideration on 28 March.
47. Officials will instruct the Parliamentary Counsel Office to draft the amending Order in Council to give effect to the decisions in this report.