



Treasury Report: Addendum to TR2020/912 - Clarification on eligibility for the current COVID-19 wage subsidy and leave Schemes and the implementation approach

Date:	24 April 2020	Report No:	T2020/1190
		File Number:	SH-3-0-6 (COVID 19)

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	<p>Agree to amend state sector organisations eligibility for the wage subsidy and essential workers leave Schemes to enable State Owned Entities, Crown Entity Companies, Mixed Ownership Model Companies and Crown Research Institutes to access the Schemes</p> <p>Agree to amend the definition of a revenue loss to include a fall in projected capital income of 30 percent for pre-revenue 'start-up' businesses that are 'seed' or 'venture' backed, or are Callaghan Innovation affiliated as of 17 March 2020, which have no other revenue other than government support and seed or venture capital</p> <p>Agree to forward this Report to the Minister for Social Development; Minister for Workplace Relations and Safety; Minister for Economic Development; Minister for Revenue, for decision.</p> <p>Agree to forward to the Minister of State Services and Education; Minister for Research Science and Innovation for noting.</p>	Tuesday 28 April 2020 for decision and referral to Ministers with Powers to Act for decision.

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
s 9(2)(a)	Senior Analyst, Welfare And Oranga Tamariki	+s 9(2)(k) (wk)	N/A (mob) ✓
s 9(2)(a)	Acting Manager, Welfare And Oranga Tamariki	+s 9(2)(k) (wk)	N/A (mob)

Minister's Office actions (if required)

Return the signed report to Treasury.

Refer a copy of the signed report to:-

Hon Carmel Sepuloni, Minister for Social Development for decision;

Hon Iain Lees Galloway, Minister for Workplace Relations and Safety;

Hon Phil Twyford, Minister for Economic Development;

Hon Stuart Nash, Minister for Revenue

Hon Chris Hipkins, Minister for State Services and Education

Hon Dr Megan Woods, Minister for Research, Science and Innovation

Note any
feedback on
the quality of
the report

--

Enclosure:

T2020/912 [Joint Report: Update on Wage Subsidies Scheme and Emerging Issues \(Treasury:4269032v1\)](#)

Treasury Report: Addendum to TR2020/912 - Clarification on eligibility for the current COVID-19 wage subsidy and leave Schemes and the implementation approach

This report provides revised recommendations in relation to state sector organisations' eligibility for the Wage Subsidy and Essential Workers Leave Schemes (the Schemes). It follows on from advice provided in *T2020/912 Joint Report: Clarification on eligibility for the current COVID-19 wage subsidy and leave Schemes and the implementation approach*, and should be read in conjunction with that Report.

The Report has been provided in response to a request for alternative options for state sector eligibility for the Schemes. The two options outlined below only provide access to the Schemes to the most commercially-exposed state sector organisations.

This report also seeks decisions on inclusion of pre-revenue firms, carrying across the recommendations from the previous report (T2020/912 refers).

Option A (officials' recommended approach)

1. This option would only provide access to the Schemes to the most commercially-facing state sector organisations, specifically:
 - a State Owned Enterprises (SoEs)
 - b Mixed Ownership Model Companies (MoMs)
 - c Crown Entity Companies (CEs) and
 - d Crown Research Institutes (CRIs)).
2. A comprehensive list of state sector organisations eligible for the Schemes under this option is provided at Appendix A.
3. This option is in line with Treasury's principle-based approach to providing business support (*Support for businesses affected by COVID 19: agency guidance (at 21 April 2020)*), which includes:
 - a Market-based solutions (i.e. those that do not involve Crown support) should be seen as the core source of resilience for business.
 - b Businesses should also be aware and making use of broad-based solutions, including the already significant spending and regulatory initiatives in place (for example, wage subsidies, the Business Finance Guarantee, COVID-19 leave, and changes to insolvency law).
 - c Where broad-based solutions are insufficient, sector-focused interventions could be considered to reduce risks around competitive neutrality.
 - d Bespoke support for a single firm should be seen as a last resort. For example, this may be appropriate when a firm is providing a non-substitutable essential service that a can be contracted for.
4. Consistent with these principles, companies in the Crown's commercial portfolio, including SOEs, CECs and MoMs, have been encouraged to seek support through the Wage Subsidy Scheme before seeking additional Crown support¹.

¹ Treasury's commercial performance team have been working to the understanding that SoEs, MoMs and CEs are eligible.

5. Excluding SOEs, CECs and MOMs from the Schemes means these companies will bypass a key Crown intervention designed to support firms through the COVID-19 crisis. Instead, many are likely to approach the Crown for bespoke support if they find they cannot access market-based solutions or broad based solutions.
6. A compounding factor is that despite the operational guidance that all state sector organisations are ineligible, we are aware of some state sector organisations that have applied for and been granted wage subsidies, including a small number of School Boards of Trustees, Airways Corporation of New Zealand, and potentially other organisations.² If decisions are taken to exclude all state sector organisations from accessing the Schemes, MSD would seek to recover these funds.
7. A further two known applications by state sector organisations have been received but are yet to be processed. **s 9(2)(b)(i)** [REDACTED] If these entities are ineligible to receive the wage subsidy, they may approach the Crown for additional support.
8. The direct fiscal cost of Option A is estimated to be up to approximately \$200 million (assuming 100% uptake). However, this may be offset by the reduced need for additional Crown support for the organisations able to access the Schemes. We propose the additional cost be met from within current appropriations for the Schemes.

Option B

9. This option aligns with the operational implementation of the Schemes to date, by excluding all state sector organisations but providing a mechanism to consider allowing access to state sector organisations on a case-by-case basis.
10. SOEs in particular are expected to compete with private sector firms, and would be disadvantaged by not having access to the Scheme in the same way that their competitors would. Not allowing access to the Schemes effectively pushes them closer to needing bespoke Crown support.
11. This could lead to more individual requests to Ministers for support. It may also be in conflict with signalling from some Ministers to state sector organisations around state sector eligibility.
12. There is no additional direct fiscal cost for Option B.
13. We understand you are interested in allowing CRIs to access the scheme. Allowing CRIs into the Schemes is estimated to cost up to approximately \$35 million³ at 100% uptake which we propose be met within current appropriations for the Schemes.

s 9(2)(a) [REDACTED]

Acting Manager, Welfare and Oranga Tamariki



**Hon Grant Robertson
Minister of Finance**

² MSD has taken action to recover wage subsidy grants made to Boards of Trustees, but not Airways Corporation of New Zealand

³ Note updated estimate from T2020/912

T2020/1190 Addendum to TR2020/912 - Clarification on eligibility for the current COVID-19 wage subsidy and leave schemes and the implementation approach

Treasury Report: Addendum to TR2020/912 - Clarification on eligibility for the current COVID-19 wage subsidy and leave Schemes and the implementation approach

Recommended Action

We recommend that Ministers With Power to Act: The Minister of Finance, Minister for Social Development and Minister for Workplace Relations and Safety, Minister for Economic Development and Minister for Revenue:

1. **note** that the COVID-19 Wage Subsidy and Essential Worker Leave Schemes (the Schemes) were stood up at pace and the details evolved swiftly in the context of fast evolving public health and international responses to COVID-19

Noted.

2. **note** that there has been continuous clarification and improvement of the operational approaches to the Schemes to address emerging issues raised by all stakeholders

Noted.

3. **note** that Cabinet has delegated authority to approve minor policy matters and operational details to Joint Ministers (CAB-20-MIN-0105), (CAB-20-MIN-0108) and (CAB-20-MIN-0130)

Noted.

4. **note** that officials from the Ministry of Social Development, Ministry of Business and Innovation, Internal Revenue Department were consulted in the development of this report and the State Services Commission and Ministry of Education have also been informed.

Noted.

State sector eligibility for the Schemes

5. **note** that Joint Ministers agreed on 16 March 2020 that the following state sector organisations would not be eligible for the Schemes:

- Public service (government departments)
- Non-public service departments (e.g. New Zealand Police and Parliamentary Services)
- Statutory and independent Crown entities, and
- Crown Research Institutes

Noted.

6. **note** that a range of state sector organisations, including State Owned Enterprises and Mixed Ownership Model Companies were not excluded from the Scheme under the 16 March 2020 decision

Noted.

7. **note** that operational communications indicate that all state sector organisations listed in the State Services Commission (SSC) Guide to Central Government Agencies (Appendix D of T2020/912 attached) are ineligible for the Schemes

Noted.

8. **note** that operationally:

- a. we are confident that public service, non-public Service departments and Crown entities have been excluded from the Schemes;
- b. some entities in the state sector have received subsidies (e.g. a small number of School Boards of Trustees and NZ Airways Corporation) and we have taken steps to recover payments from some entities;
- c. the inconsistent treatment of state sector organisations reflects the high trust approach to implementation and the low level of pre-approval processes alongside some conflicting messages about eligibility.

Noted.

9. **note** that we require confirmation of Ministers' intent regarding the state sector's eligibility to resolve operational inconsistencies, and to take steps to approve or recover payments accordingly.

Noted.

10. **note** the decisions for excluding certain state sector organisations from the Schemes were taken prior to the Level 4 shut-down

Noted.

11. **note** that some state sector organisations, including State Owned Enterprises, Crown Entity Companies and Crown Research Institutes, have experienced significant reductions in commercial revenues as a result of COVID-19 and may require additional funding to maintain employees and/or remain solvent

Noted.

12. **consider** the following two options in relation to state sector organisations' eligibility for the Schemes:

EITHER

Option A (officials' recommended approach)

- a. **agree** to officials' recommended option to confirm the current operational approach, such that all state sector organisations are ineligible for the Schemes, except for the following types of state sector organisations, (which would be eligible if they meet the usual Scheme criteria):
 - State Owned Enterprises
 - Crown Entity Companies (other companies)⁴

⁴ Does not include Crown Entity Subsidiaries of NZIST, Other Crown Entity Subsidiaries or School Boards of Trustees
T2020/1190 Addendum to TR2020/912 - Clarification on eligibility for the current COVID-19 wage subsidy and leave schemes and the implementation approach

IN-CONFIDENCE

- Mixed Ownership Model Companies
- Crown Research Institutes

Agree disagree

- b. **note** the fiscal cost of agreeing to recommendation 12.a is estimated to be up to approximately \$200 million (assuming 100% uptake)

Noted.

- c. **note** that accessing the Schemes will reduce the need for additional Crown support for the organisations able to access the Schemes, but some eligible state sector organisations may still require additional support

Noted.

OR

Option B:

- d. **agree** to confirm the current operational approach, such that all state sector organisations are ineligible for the Schemes, but allow consideration of exceptions on a case-by-case basis

Agree disagree

- e. **agree** to an exception to 12.d to enable Crown Research Institutes to access the Schemes

Agree disagree

- f. **note** that the estimated fiscal costs of including Crown Research Institutes in the Schemes at 12.e is estimated to be up to approximately \$35 million (assuming 100% uptake).

Noted

- g. **note** that without access to the Schemes, State Owned Enterprises who have requested financial support from the Crown on the assumption that they could access the Schemes may require additional Crown support.

Noted

- h. **agree** to delegate responsibility of determining state sector organisations' eligibility on a case-by-case basis to the Minister of Finance

Agree disagree

Pursuant to recommendation 12(h), the Minister of Finance has indicated support for New Zealand Post Limited, KiwiRail Holdings Limited and Television New Zealand Limited as eligible state sector organisations.



Pre-revenue (start-up) businesses eligibility for Schemes

13. **note** that pre-revenue research and development ('start-up') businesses are ineligible for the Schemes because they rely on a mix of venture capital investment and grant funding that is not defined as revenue and there is a risk that many may fail or make researchers redundant as they are not able to raise capital during the COVID-19 Alert Level shutdowns

Noted

14. **note** there are fiscal implications of allowing pre-revenue 'start-up' businesses to access the Schemes, estimated to be between \$20 million and \$40 million

Noted

15. **note** that access to the Schemes may not provide sufficient support to prevent failures of start-up firms, which could increase the deadweight loss of the Schemes

Noted

16. **note** that the Ministry of Business, Innovation and Employment is preparing advice for the Minister of Research, Science and Innovation on other possible support measures for Research and Development businesses, even if they become eligible for the Schemes

Noted

17. **agree** to either:

- a. continue with the current operational approach which excludes employers that cannot demonstrate a 30 percent revenue loss due to COVID-19 from the Wage Subsidy Scheme

Agree disagree

OR

- b. officials preferred approach that, for pre-revenue 'start-up' businesses that are 'seed' or 'venture' backed, or are Callaghan Innovation affiliated as of 17 March 2020, which have no other revenue other than government support and seed or venture capital, the definition of a revenue loss be amended to include a fall in projected capital income of 30 percent for the purposes of the Schemes' 30 percent revenue loss qualifying rule

Agree disagree

18. **note** that if you agree to extend the Schemes to pre-revenue ('start-up') businesses then we will amend the guidance for applicants to reflect the rules applicable to pre-revenue firms and MSD may, as part of any audit of such firms, consult with Callaghan Innovation to confirm whether recipients were legitimate Research and Development 'start-up' business

Noted

Overall implementation approach

19. **note** that decisions to make state sector organisations or pre-revenue start-up firms eligible will take effect up to five working days following instructions being received by the Ministry of Social Development

Noted

20. **note** that a consolidated record of decisions establishing the Schemes made through Cabinet and Joint Ministers are summarised in Appendix A of T2020/912 attached

Noted

21. **note** that internal and independent audit, assurance and review processes have been developed by the Ministry of Social Development (MSD) in consultation with Treasury to complement the 'high-trust' approach for implementing the Schemes and these are outlined in Appendix B of T2020/912 attached

Noted

22. **agree** to forward a copy of this Report to the Minister for Social Development; Minister for Workplace Relations and Safety; Minister for Economic Development; Minister for Revenue, Minister of State Services and Education; and Minister for Research Science and Innovation.

Agree disagree.

Financial Recommendations

23. **note** that estimated fiscal costs of including State Owned Enterprises, Mixed Ownership Model Companies, Crown Entity Companies (Other companies) at 12.a will incur expenses of up to approximately \$200 million (assuming 100% uptake) against the existing Business Support Subsidy Covid-19 appropriation

Noted

24. **note** that the estimated fiscal costs of including Crown Research Institutes in the Scheme at 12.e is estimated to be up to approximately \$35 million, at 100% uptake.

Noted

25. **note** that agreeing to 17.b to include Pre-revenue Start Ups in the Schemes will incur expenses of approximately \$20 million to \$40 million

Noted

26. **agree** to incur additional fiscal costs of including Pre-revenue Start-Up Businesses and Crown Research Institutions in scope of eligibility for the Schemes under the existing Business Support Subsidy appropriation

Agree disagree

27. **note** that the original Wage Subsidy Scheme costings of \$8 billion to \$12 billion made assumptions that the majority of state sector organisations would be eligible

Noted

28. **note** that at this stage, our estimated fiscal cost of the Scheme remains unchanged

Noted

29. **note** that no appropriation changes are required at this stage, because the original appropriation was made at the upper bound of estimated fiscal cost (\$12 billion)

Noted

30. **note** that decisions taken to increase access to the Schemes will push the likely final cost towards the upper bound of the estimate (\$12 billion)

Noted

Appendix A

State Sector Organisations that would be eligible for the Schemes Under Option A

State Owned Enterprises:

Airways Corporation of New Zealand Limited
Animal Control Products Limited
AsureQuality Limited
Electricity Corporation of New Zealand Limited
KiwiRail Holdings Limited
Kordia Group Limited
Landcorp Farming Limited
Meteorological Service of New Zealand Limited
New Zealand Post Limited
New Zealand Railways Corporation
Quotable Value Limited
Transpower New Zealand Limited

Mixed Ownership Model Companies

Genesis Energy Limited
Mercury NZ Limited
Meridian Energy Limited

Crown Entity Companies – Other companies

Crown Irrigation Investments Limited
New Zealand Venture Investment Fund Limited
Radio New Zealand Limited
Television New Zealand Limited

Crown Research Institutes

AgResearch Limited
Institute of Environmental Science and Research Limited
Institute of Geological and Nuclear Sciences Limited
Landcare Research New Zealand Limited
National Institute of Water and Atmospheric Research Limited
New Zealand Forest Research Institute Limited
The New Zealand Institute for Plant and Food Research Limited