

# The Treasury

## COVID-19 Information Release

April 2020

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In Confidence

Office of the Minister of Finance

Office of the Minister for Social Development

Chair, Cabinet

## **Expanding the COVID-19 wage subsidy scheme and adapting it to support furloughed workers**

### **Proposal**

1. This paper proposes options for Cabinet to:
  - 1.1 remove the cap of the existing COVID-19 wage subsidy scheme to increase the coverage of the scheme to more employees in larger firms, and
  - 1.2 consider the in-principle design of an enhanced '*furloughed worker*' COVID-19 wage subsidy scheme in the event that there is an increase to Alert Level 4.

### **Executive Summary**

1. The public health response and rapidly evolving economic situation require consideration of how we would support incomes and the economy through an extended period of suppressed activity or shutdown.
2. The Government has announced a four-level COVID-19 alert system. These alert levels specify the public health and social measures to be taken. New Zealand is currently at COVID-19 Alert Level 2.
3. The Government has already established the COVID-19 wage subsidy scheme, and the COVID-19 leave payment scheme, which manage some of the economic impacts of an Alert Level 2.

#### *Expanding the existing (active worker) COVID-19 wage subsidy scheme*

4. We propose that we expand the coverage of the wage subsidy scheme by removing the cap to enable more support for workers in medium and large sized firms.
5. In the event of moving to an Alert Level 3 this would be even more important.

#### *Introduction of an enhanced (furloughed worker) COVID-19 wage subsidy scheme*

6. In the event of an Alert Level 4 there will still be some firms that will need to operate (i.e. essential services, employees working from home, or firms with appropriate social distancing protocols implemented). It is therefore important that firms continue to have the ability to receive support.

7. There is also a need to modify the scheme to enable firms that do need to shut down under an Alert Level 4, to meet wage costs for an extended period of time. This scheme would support employers and employees to maintain an employment connection, but avoid incentivising unnecessary economic activity which may intensify or prolong the COVID-19 pandemic.

## **Background**

8. The Government has announced a four-level COVID-19 alert system. These alert levels specify the public health and social measures to be taken. New Zealand is currently at COVID-19 Alert Level 2.
9. As at Saturday 21 March 2020 the COVID-19 pandemic situation in New Zealand was at Alert Level 2. Officials are preparing advice for the possibility of moving to a level 3 and/or 4. The level of economic disruption associated with Alert Levels 3 and 4 is far greater than the level of disruption envisaged when the original wage subsidy settings were designed.
10. A number of countries, including the United Kingdom (UK) and Denmark have also recently announced business support packages through this period of disruption caused by COVID-19. The UK and Denmark scheme are targeted at furloughed workers due to their widespread shutdown of non-essential businesses.

## **Approaches to COVID-19 wage subsidy schemes**

11. There are two types of wage subsidy schemes for dealing with the economic impacts of COVID-19 that are emerging internationally.

### *Active worker retention schemes*

12. Australia and New Zealand's wage subsidy schemes are aimed at retaining employees in active work, providing lump sum payments to employers who retain active workers, aimed at small to medium enterprises. These settings encourage business continuity and increased economic activity. This objective is broadly appropriate while in Alert Levels 1, 2 and 3 while some, but not all, economic activity needs to be restricted.
13. The schemes are capped per-firm and are not likely to be expansive enough to prevent widespread redundancies. New Zealand's wage subsidy scheme is currently capped at \$150,000 per firm, and Australia's scheme is capped at AUD\$50,000 per firm, with additional wage subsidies to support retention of apprentices (50% of apprentice wages).

### *Uptake and costs of the New Zealand wage subsidy scheme to date*

14. As at 9am on Sunday 22 March 2020, over 45,000 applications have been made for the wage subsidy and leave payment schemes. If all current claims are approved, officials estimate a total of approximately \$1 billion will be paid out.
15. This is equal to 20 per cent of the \$5.1 billion allocation, five days after the scheme's commencement (79 days remaining). Total claims to date represent 8% of all businesses and 5% of all employees.

### *'Furloughed worker' wage subsidy schemes*

16. The overarching objective of a 'furloughed worker' scheme is to support otherwise viable employers to survive the shutdown period and remain connected to their employees so that the economy is better able to restart when COVID-19 has been eliminated. This is an appropriate objective under Alert Level 4 scenario. UK and Denmark schemes share this objective, due to their decisions to implement widespread shut downs of non-essential businesses.
17. Under the UK scheme, all businesses are eligible to claim the Coronavirus Retention Scheme and the grant will cover 80% of employees' salary for retained workers (subject to a wage cap of £2,500 per month per employee – just above the UK median wage). In addition, payments will be backdated to 1 March 2020. The scheme is open for an initial three months, without a limit on the amount of funding available for this scheme. The scheme will apply to workers already laid off if businesses rehire them, however it does not apply to the self-employed.
18. The Danish Government has set aside \$2.6 billion Danish Krone to prevent layoffs within private companies facing financial pressures from COVID-19. The scheme lasts for three months and the Danish Government will cover 75% of the salaries of employees paid on a monthly basis who would otherwise have been fired, with companies paying the remaining 25%. The scheme is subject to a cap of 23,000 Danish Krone and workers are required to give up 5 days of paid annual leave. For hourly workers covered by the agreement, the government will cover 90% of their wages, up to 26,000 Danish Krone per month. However, the self-employed, owner-managers and many on casual contracts are not be covered by the Danish Government's scheme.

### **Raising the cap of our 'Active worker' COVID-19 wage subsidy scheme**

19. The existing wage subsidy scheme does not cover approximately 56% of the workforce because of a \$150,000 cap per employer.
20. The cap of support per firm limits the fiscal risk to the Crown. However it means that for firms with more than 21 employees, the subsidy makes up an increasingly smaller proportion of the total wage costs. Though there are relatively fewer firms above the cap they employ larger workforces.
21. To more effectively extend the wage subsidy support to employees of medium and larger firms the cap needs to increase.
22. We recommend to remove the cap immediately. A move to Alert Level 3 or higher will have significant effects for firms of all sizes across the economy, and we have heard feedback that these firms are already struggling under the current situation.
23. The table below shows the indicative fiscal costs of increasing the cap per firm to, \$350,000; \$750,000; and uncapped (removing the cap).
24. The costings in this table assume approximately 50% uptake:

	<b>\$150k cap</b>	<b>\$350k cap</b>	<b>\$700k cap</b>	<b>Uncapped</b>
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	(Status quo)			
Direct Fiscal costs with approx. 50% uptake	\$5.1b	\$5.9b	\$6.6b	\$9.3b
Approx. number of fulltime employees eligible per firm	21	50	100	n/a
Number of firms that reach the cap	16,431	5,895	2670	n/a
% of people in work eligible (Including self-employed)	51%	62%	69%	100%

### Other changes are needed to improve the existing schemes

25. There are a number of minor clarification and changes required to improve the design of the current COVID-19 wage subsidy and leave payment schemes. These include:

25.1 Clarifying the scope of both schemes to include registered charities, non-governmental organisations and incorporated societies;

25.2 Clarifying the revenue loss assessment rules to support high-growth firms.

26. Further detail on these proposals is attached at Annex One.

### Transitioning to a furloughed worker Alert Level 4 wage subsidy scheme

27. International experience suggests that shutting down parts of the economy is a key tool for slowing the transmission of COVID-19. Were New Zealand to move to an Alert Level 4, many businesses would stop all or a majority of their trading activities, with economic activity confined to firms involved in:

27.1 Essential services;

27.2 Work that could be undertaken from home; and/or

27.3 Activity that could be undertaken whilst maintaining social distancing.

28. This economic shutdown would need to be maintained for long enough to cease community transmission and eliminate the virus within New Zealand.

29. If the economic shutdown was too modest or if activity was restarted too soon, New Zealand would be likely to experience a second wave of COVID-19 cases, necessitating a second shutdown period. This would mean economic cost of the original shutdown period would have been inflicted, to achieve little benefit. Repeated shutdowns for long periods of time, will greatly increase the overall harm to the economy.

30. A typical policy response to a slowing economy is to offset this using either monetary or fiscal stimulus. The goal is to stimulate activity and ideally cushion whatever adverse event is occurring so that employment and incomes recover quickly.
31. But in the situation of COVID-19, a policy response that restarts activity would be inappropriate and act against the need for people to remain at their homes. Instead, we need to shift to a furloughed workers model, which supports people to reduce their economic activity enough to reduce transmission of the virus. These policies should act to ensure:
- 31.1 People are supported to stay at home and firms cease trading, rather than being forced to return to work for financial reasons; and
- 31.2 Otherwise viable firms survive the shutdown period and remain connected to their employees so that the economy is better able to restart when COVID-19 has been eliminated.
32. New Zealand's current wage subsidy scheme encourages economic activity to continue. In particular it seeks to preserve employment and provides an ongoing work incentive, while the UK's job retention scheme is only available for employees who are temporarily not working due to COVID-19.
33. In the event that we move to an Alert Level 4 there will still be some firms that can or will need to operate (i.e. essential services, employees working from home, or firms with appropriate social distancing protocols implemented). The definition of essential services necessary to sustain society through an Alert Level 4 is still being considered at the time of writing.
34. There is also a need to be ready to provide support to firms that do need to shut down under an Alert Level 4 to meet wage costs through a period of extended economic shutdown. This scheme would support employers and employees to maintain an employment connection, but avoid incentivising unnecessary economic activity which may intensify or prolong the COVID-19 pandemic.

### **Delivering support through the existing welfare system**

35. The current welfare system could alternatively provide income support for people who lose their income during an Alert Level 4 situation. Cabinet has already agreed to remove stand-down periods to expedite people getting on to a benefit.
36. The benefit is paid at a lower rate than that proposed for the furloughed worker Alert level 4 wage subsidy scheme – the current Job Seeker Support benefit is currently paid at \$218.98 net (although rates will increase on 1 April). Delivering support through the benefit system would mean workers would be available for jobs elsewhere in the economy, although could also result in workers losing attachment to their employers and likely wage scarring. This could slow the recovery. It would also place significant additional administrative burdens on MSD – the wage subsidy scheme is delivered through employers resulting in a much smaller number of interactions.



## **In principle design of a furloughed worker scheme**

37. To implement a furloughed worker scheme in NZ and support the economy through a 'shutdown' period, the existing COVID-19 wage subsidy and leave payment schemes would need to change. The scheme would incentivise employers to keep employees at home as much as possible. It would also provide support to people who still need to remain at home and self-isolate.
38. Indicative features of a furlough Alert Level 4 wage subsidy scheme could include:
  - 38.1 All employers adversely affected by COVID-19 could be eligible to receive the wage subsidy (i.e. there would no longer be a 30% drop in revenue test)
  - 38.2 Employers should still have taken measures in advance of receiving the subsidy including engagement with their banks.
  - 38.3 There would no longer be a requirement that employers must commit to maintain the employee's income at 80% of their previous income
  - 38.4 Employers receiving the wage subsidy must pay employees their ordinary hourly rate for any hours that they do work, but they would be able to reduce the employee's hours to zero.
  - 38.5 However, if an employee cannot work and doesn't have paid leave, or the employer reduces the hours of the employee so much that their ordinary wages would earn them less than \$585.80, their employer must pass on the subsidy in full. In practice this would mean:
    - 38.5.1 All specified full-time employees (greater than 20 hours before scheme started) would be entitled to a minimum income from their employer of \$585.80 per week.
    - 38.5.2 All specified part-time employees (fewer than 20 hours before the scheme started) would be entitled to a minimum income from their employer of \$350 per week.
  - 38.6 It also means that employer would be able to require \$585.80 worth of work from an employee at their ordinary hourly rate, before paying any additional wages beyond the subsidy. The employee is effectively providing a limited 'on-call' service to the employer.
  - 38.7 If an employee leaves the employment of the employer, the employer should stop receiving subsidies in relation to the specified employee. This would allow employees to re-deploy themselves into work as demanded by essential services.
  - 38.8 Employers that have received a subsidy through the existing Covid-19 wage subsidy scheme, would have the conditions attached to that subsidy changed to the conditions of this scheme, and would be expected to use the funding provided to them to date.

38.9 It could remain in place while we are at Alert Level 4, and possibly for a short period after that to allow for a transition back to normal operations.

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40. This scheme would not resolve all of the issues facing employers and employees through an Alert Level 4 scenario. There are significant issues which warrant further consideration, including:

40.1 The adequacy of \$585.80 per week as the level of support this subsidy would provide;

40.2 Other measures to protect individuals welfare including consideration of payment holidays for mortgages, utilities and rent and no eviction notices;

40.3 Alignment with the wider support for businesses including credit guarantees to support lending.

41. Further decisions on the final design of the scheme will potentially need to be taken quickly. We are therefore recommending that the Minister of Finance and Minister for Social Development return to Cabinet to seek agreement on detailed design parameters.



## **Administrative implications**

### **Increasing the cap**

42. If Cabinet decides to remove the cap today, MSD anticipate being able to receive applications from larger businesses from tomorrow. However, it may be challenging to process all applications within the target 5 business day window.
43. Officials are working through transitional arrangements for large firms who have already applied to be able to get coverage for an additional number of employees. We propose for the revised setting to apply to all new applicants, previous grants and people whose applications are yet to be processed at the date the cap changes.
44. Applications for the wage subsidy are being processed by MSD with support from Inland Revenue (IR).

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### *Impacts at COVID-19 Alert Level 2 (current setting)*

45. MSD and IR have undertaken a high level impact assessment of the widening of access to the wage subsidy. Due to the likelihood of a significant increase in the number of employers seeking the wage subsidy (and the sick leave payment) if the cap were to change, MSD and IR anticipate there will be increased administrative costs. The size of this impact will be largely determined by the percentage of applications can be processed through automation, which is supported by the data share between MSD and IR. Therefore, MSD and IR will look to streamline both the data share and business process in order to process applications as soon as practicable, whilst reducing fraud and integrity risks at the point of processing applications from employers.
46. A more detailed impact assessment will be completed by both MSD and IR once the detailed design and design principles have been finalised. This assessment will also consider any related contacts or subsequent integrity work that may be required by either MSD or IR.

### *Impacts at COVID-19 Alert Level 3*

47. Due to the likelihood of a significantly increased population of employers seeking the wage subsidy and the sick leave payment, MSD and IR advise they anticipate there will be significantly increased administrative costs for both MSD and IR. The size of this impact will be largely determined by what percentage of applications can be processed through automation.

### **Moving to the furloughed worker Alert Level 4 wage subsidy**

48. Officials are still determining how long it will take to stand up the Alert Level 4 wage subsidy model. In the event Alert Level 4 was declared in the coming week, it may be a number of days before the system is live making payments. However, employees in firms already significantly impacted by COVID-19 may already be covered by the existing COVID-19 wage subsidy scheme.
49. The key impact of this change would be a significant increase in the number of qualifying businesses and therefore application volumes.

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## Financial Implications

### *Increasing the Cap*

50. The table below provides indicative costs of the proposal to increase the current \$150,000 cap per firm:

	<b>\$150k cap</b>	<b>\$350k cap</b>	<b>\$700k cap</b>	<b>Uncapped</b>
Direct Fiscal costs	\$5.1b	\$5.9b	\$6.6b	\$9.3b
% of people in work eligible (Including self-employed)	51%	62%	69%	100%

51. The fiscal costs for the capped scenarios account for approximately a 50% uptake rate across all sectors excluding the public sector.

#### *Transitioning to a furloughed worker scheme*

52. Initial high level estimates of a furloughed worker scheme are around \$12-15 billion for a term of 12 weeks. This estimate is based on the following assumptions:
- 52.1 Uptake for 80-100% employees in all sectors excluding public administration, health and education sectors.
  - 52.2 Provides \$585.80 per week for full time employees
  - 52.3 Provides \$350 per week for part time employees
  - 52.4 No cap per-firm, to include all employees of all businesses.
  - 52.5 Scheme duration 12 weeks.
53. In a regional Alert Level 4 (eg in Auckland only), the population share of the region can be used as a proxy for estimated costs (Auckland 35%).
54. The 80% scheme is based on a scenario where some industries, (growers and farmers and fishers for instance) will still be able to work (albeit with social distancing models in place, so productivity will be lower).
55. Agriculture - firms receiving produce may not be able to operate at anywhere near capacity, but there will be some economic activity, and therefore some retention of employees.
- 55.1 Utilities will still operate as essential services.
  - 55.2 Logistics are likely going to experience increased demand to supply households and businesses with goods.
  - 55.3 Many small services businesses will be able to operate either from home or within confines of social distancing in workplace.
  - 55.4 Firms that rely on larger ones for their supply chain will be disrupted.
56. In a total economic shutdown scenario, with 100% uptake of the scheme, we estimate the scheme to cost around \$14.86 billion over 12 weeks, excluding the public administration, health and education sectors.

#### **Legislative Implications**

57. Officials do not anticipate additional legislative changes arising from this paper.

## Impact Analysis

58. A Regulatory Impact Analysis did not apply because this was a policy proposal directly related to the COVID-19 response.

## Consultation

59. The Ministry of Business, Innovation and Employment, Ministry of Social Development, the Inland Revenue Department and the Treasury have been involved in the development of this Cabinet paper. Crown Law were informed.

## Communications

60. The Minister of Finance will announce that the Government has decided to remove the cap.
61. In the case of announcing the move to a worker furlough scheme, it would only be announced publicly for four weeks of support, with an option to extend.

## Proactive Release

62. Proactive release will be delayed until such time that the Government can properly consider the impacts of proactive release.

## Recommendations

The Minister of Finance and the Minister for Social Development recommend that Cabinet:

1. **note** that on Monday 16 March, Cabinet agreed to implement a temporary COVID-19 wage subsidy scheme to help affected employees and businesses to adjust to the impact of COVID-19 [CAB-20-MIN 0108];
2. **note** the government has announced a Four-Level COVID-19 Alert System. These alert levels specify the public health and social measures to be taken. New Zealand is currently at COVID-19 Alert Level 2.
3. **note** internationally two types of wage subsidy schemes are emerging in response to COVID-19, those which focus on active workers, and those which focus on furloughing workers;
4. **note** that New Zealand's existing COVID-19 wage subsidy scheme is an active worker model, focussed on supporting employment and economic activity;

### *Removing the \$150,000 cap on support per employer*

5. **note** that a move to Alert Level 3 or higher will have significant effect for firms of all sizes across the economy;
6. **note** that to scale up existing measures the cap of \$150,000 per firm should be removed;
7. **agree** to remove the cap on the COVID-19 wage subsidy scheme;

8. **approve** the following change to appropriations to fund the COVID-19 wage subsidy scheme with a corresponding impact on the operating balance and net core Crown debt:

	<b>\$m - increase/(decrease)</b>				
<b>Vote Social Development</b>	2019/20	2020/21	2021/22	2022/23	2023/24 & outyears
<b>Minister for Social Development</b>					
<b>Non-Departmental Other Expense:</b>					
Business Support Subsidy Covid-19	4,200		-	-	-
<b>Total Operating</b>	<b>4,200</b>		-	-	-

9. **note** this takes the total amount appropriated to the wage subsidy scheme to \$9.3 billion;
10. **agree** that the proposed changes to appropriations for 2019/20 above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
11. **agree** that expenses incurred under the recommendations above will be established outside Budget allowances, with a corresponding impact on the operating balance and net core Crown debt;
12. **agree** that the new cap will apply to all new applications, applications made and yet to be processed by MSD, and that any person who has already been granted the wage subsidy may make a further application in relation to new employees not included in the original application for an amount up to the new cap;
13. **delegate** authority to Minister of Finance, the Minister for Economic Development, and the Minister for Social Development to increase/decrease funding for the COVID 19 wage subsidy scheme if required;

*Transitioning to a furloughed worker level 4 wage subsidy scheme*

14. **note** that there may be a need to transition to an enhanced Wage subsidy scheme if New Zealand moves to an Alert Level 4;
15. **invite** the Minister of Finance and Minister for Social Development to return to Cabinet to seek agreement on detailed design parameters for the transition to a furloughed worker wage subsidy scheme;

16. **discuss** significant issues which warrant further consideration, including:
- 16.1 The adequacy of \$585.80 per week as the level of support this subsidy would provide;
  - 16.2 Other measures to protect individuals welfare including consideration of payment holidays for mortgages, utilities and rent; and no eviction notices;
  - 16.3 Alignment with the wider support for businesses including credit guarantees to support lending;

***Other minor changes to the existing scheme (as per Annex One)***

***Leave Payments***

17. **note** that Cabinet delegated authority to the Minister of Finance, Minister of Social Development, and Minister of Workplace Relations and Safety to approve other policy matters and operational details;
18. **note** that Cabinet agreed that eligibility of the scheme is open to all firms, the self-employed, and for contractors;
19. **note** that the Cabinet decision does not explicitly include registered charities, incorporated societies, non-government organisations, or post settlement governance entities (ie, Maori Authorities) who can also be employers;
20. **note** that this creates gap in our public health strategy to delay the onset of community transmission of COVID-19;
21. **agree** that registered charities, incorporated societies, non-government organisations, or post settlement governance entities are eligible for the leave payment scheme to support their workers who cannot work from home, but need to self-isolate, they are able to do so;
22. **agree** that workers who are staying at home in line with stage two guidance, and workers whose employers have asked them to remain away from work in line with this guidance, are eligible;

***Wage Subsidies***

23. **note** that Cabinet delegated authority to the Minister of Finance, Minister of Economic Development and the Minister of Social Development to make technical design changes and minor policy decisions about the Subsidy;
24. **note** that to be eligible for the payment, businesses must be registered and operating in New Zealand;
25. **note** that this Cabinet decision does not explicitly include registered charities, incorporated societies, non-government organisations, or post settlement governance entities who can also be employers;



26. **note** that these organisations may also have a drop-in revenue leading them to reduce staff hours or lay-off their staff;
27. **agree** that registered charities, incorporated societies, non-government organisations, or post settlement governance entities are eligible for the Subsidy;
28. **note** that under a literal interpretation of the revenue loss assessment agreed by Cabinet, some businesses may not be eligible;
29. **note** that cabinet agreed that the wage subsidy would apply to all businesses, and that the revenue loss assessment will be based on a period of at least one month and the loss of revenue is at least 30 percent lower than the equivalent period one year ago;
30. **note** that the application of this revenue loss assessment means that some businesses are inadvertently excluded from the scheme;
31. **agree** that new businesses (ie, where they are less than a year old) are also eligible where they can demonstrate the revenue loss assessment against a similar time period (ie, 30 percent loss of income attributable to COVID-19 comparing January 2020 to March 2020);
32. **agree** that high growth firms (eg, ones that have had significant increase in revenue) are eligible where they can demonstrate the revenue loss assessment against a similar time period (ie, 30 percent loss of income attributable to COVID-19 comparing January 2020 to March 2020);
33. **agree** that self-employed people with variable monthly incomes are eligible if they can demonstrate the revenue loss assessment against the previous years' monthly average (i.e. 30 percent loss of income attributable to COVID-19 comparing March 2020 to the average monthly income in the period March 2019 to March 2020);
34. **note** that clarifying revenue loss assessment for the subsidy to these firms does not incur any additional fiscal risk as each of these firms were included in cost modelling.

Authorised for lodgement

Hon Grant Robertson

Minister of Finance

## **ANNEX ONE: Other changes to improve the existing COVID-19 wage subsidy and leave payment schemes**

### *Clarifying scope of the leave payment scheme*

1. The COVID-19 leave support scheme is designed to support and incentivise workers to stay home as part of the Government's public health strategy to delay the onset of community transmission of COVID-19.
2. Cabinet agreed that all firms, the self-employed, and contractors are eligible to apply for the Scheme.
3. There are, however, some employers who were meant to be included in the leave support scheme, but who do not explicitly fit the definition of being a firm, self-employed, or contractors. Specifically, registered charities, non-governmental organisations, and incorporated societies.
4. The intention of the leave payment was to support any person to self-isolate, and as such should include these organisations and be open to the form of labour provided (ie, full time employee, casual, contractor or self-employed). Not being explicitly eligible for the scheme leaves a gap in our public health strategy to delay the onset of community transmission of COVID-19.
5. Reconfirming that recommendation 7.7 includes these employers and ensure that it is clear that charities are eligible and workers cannot work from home, but need to self-isolate, they are able to do so.

### *Clarifying scope of the COVID-19 wage subsidy*

6. The COVID-19 wage subsidy is designed to support employers to help affected employees and businesses to adjust to the impact of COVID-19, not to support businesses for the duration of that impact.
7. Currently businesses that are registered and operating in New Zealand, including the self-employed and sole-traders can apply for the Subsidy on behalf of their employees who must be legally working in New Zealand.
8. As with the leave payment scheme, it is not clear that registered charities, non-governmental organisations, and incorporated societies are eligible for the wage subsidy. Without clarity on this matter, these organisations may not realise they could apply for the Subsidy to support staff retention.

### *Clarifying the applications of the revenue loss assessment*

9. In addition, about 12 percent of businesses are created in any one year. This means that about 66,000 businesses are unable to demonstrate the revenue loss assessment as they are not able to show a previous year of revenue. These new businesses are intended to be included in the Subsidy, and were included in the costing of the scheme. However, the method of assessing revenue unintentionally excludes new businesses from the scheme.

- 11 We propose that new businesses be included by demonstrating their revenue loss against a similar period in the past (ie, if the business has been in existence for three months, the business can assess revenue loss against that period)
- 12 Cabinet agreed that the scheme would apply to all businesses, and that the revenue loss assessment will be based on a period of at least one month and the loss of revenue is at least 30 percent lower than the equivalent period one year ago. The application of that revenue loss assessment means that some businesses are inadvertently excluded from the scheme.
- 13 A small but economically significant set of business demonstrate high growth. Comparing their revenue loss attributable to COVID-19 from a month in the year previous will distort the economic impact of the outbreak on these businesses. For example, a high growth firm may have \$100,000 of revenue in March 2019 rising to \$300,000 in January 2020, and then being impacted by COVID-19 to reduce to \$200,000 in March 2020.
- 14 That business has incurred business costs, including new employees, over the growth period. According to the revenue assessment model, that high growth firm would not have seen a 30 percent income loss. However, as attributed to COVID-19, the income loss is actually much higher and meets the eligibility threshold. These organisations were included in the costing of this scheme, it is simply the method of assessing revenue that has made these high growth businesses excluded from the scheme.
- 15 The application of the income assessment test also disadvantages a number of self-employed, including in the creative sector. Revenue for these self-employed varies from month to month. Enabling people who are self-employed to demonstrate that they have an income loss attributable to COVID-19 on an average monthly revenue basis – i.e. so they can assess the loss from March 2020 against their average income from March 2019 to March 2020.
- 16 Clarifying that these organisations are eligible for the wage subsidy will ensure that, where they have taken active steps to mitigate the impact of COVID-19 on their viability, they can access financial support to retain their staff.