

Aide-mémoire



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA

Cabinet paper

Date: 17 February 2021 **Security Level:** Cabinet Sensitive

For: Hon Carmel Sepuloni, Minister for Social Development and
Employment

File Reference: REP/21/2/117

Aide-mémoire: Implementation of the COVID-19 Wage Subsidy February 2021 Scheme

**Cabinet
Committee**

Cabinet Meeting

Date of meeting

3:00pm – 4:00pm 17 February 2021

Minister

Hon Carmel Sepuloni, Minister for Social Development and
Employment

Proposal

The attached Cabinet paper seeks Cabinet agreement to implement the COVID-19 Wage Subsidy February 2021 scheme (WSSFEB21), in response to the elevated Alert Level 3 in Auckland (and Alert Level 2 across the country), if that period of higher alert level is seven or more consecutive days in total.

We recommend that you **support** the proposal

Key issues

Background

On 14 December 2020 Cabinet agreed to introduce a COVID-19 Wage Subsidy scheme in the event of any future escalation to Alert Level 3 or above, anywhere in New Zealand.

Following the recent community transmission cases of COVID-19 detected in a family in South Auckland, Cabinet agreed to raise Auckland's COVID Alert Level to Level 3 for three days from 11:59 pm on 14 February 2021, with the rest of the country rising to Alert Level 2 for the same period.

**The Cabinet paper proposes introducing a new COVID-19
Wage Subsidy**

In line with previously agreed settings, the proposed nationwide COVID-19 Wage Subsidy February 2021 scheme (WSSFEB21), will be activated by an alert level escalation to Level 3 or higher for seven days or more.

The WSSFEB21 would continue to be a two-week lump sum payment to eligible employers to provide support with paying wages to eligible employees.

The payment rates continue to be \$585.80 per week for each full-time employee (20 hours or more) and \$350 for part-time employees (less than 20 hours).

The main eligibility criteria for the wage subsidy scheme are:

- being a New Zealand employer, including self-employed or sole trader, but not a State Sector Organisation
- taking active steps to mitigate the financial impacts of COVID-19 on their business activity
- meeting the 40 percent predicted or actual revenue decline test over a 14-day consecutive period (linked to the specific alert level increase to Level 3 or higher) as discussed above
- employees are legally working in New Zealand and are not currently covered by the Leave Support Scheme or the Short-term Absence payment
- an obligation for employers to retain, for the duration of the subsidy, staff for whom they claimed the subsidy (or repay it if not), and to endeavour to pay at least 80 percent of those employees' ordinary salary or wages, or, at a minimum, to pay at least the value of the subsidy to those staff (or their normal wages if less)
- and repaying the subsidy where an employer has not met the eligibility criteria (for example, if the predicted revenue loss does not occur).

The scheme is expected to cost up to \$520 million every two-weeks, based on the current Alert Level status continuing, with funding provided from the first instance from the approximate \$1.3 billion underspend remaining in the existing Business Support Subsidy COVID-19 appropriation.

The Ministry of Social Development is preparing for the possible activation of the Wage Subsidy

The Ministry of Social Development (MSD) are currently preparing to implement WSSFEB21 in the event that the current alert level settings are sustained for longer than seven days (i.e. at least one region is at Alert Level 3 or higher on Saturday 20 February 2021).

Should these settings be sustained, the scheme would go live on 22 February 2021 and be open for two weeks until 7 March 2021. MSD is on-track to implement the WSSFEB21 within this timeframe.

Given that this subsidy is only triggered in the event that New Zealand remains at higher alert levels, there is a chance MSD may not be required to activate the subsidy if the alert levels reduce. MSD is required to prepare for implementation immediately in anticipation that the scheme may need to go live on 22 February 2021. Implementing the scheme requires significant operational resources from across multiple MSD business units which will be required or need to be ready in case the scheme needs to be activated.

Because of the resources committed to implementation, there will be trade-offs for other business tasks. This emphasises the importance of MSD having as long a lead-in time for go-live as possible.

The declaration form for the scheme is being updated

Officials are redrafting the declaration form made by applicants. The declaration is broadly consistent with other iterations of the Wage Subsidy and takes into account the changes to policy decisions since the last wage subsidy scheme.

The key changes include:

- a new revenue decline test: ensuring the decline is attributable to the effect of the current escalation to Alert Level 3
- a revenue decline of at least 40 percent over a period of 14 consecutive days when compared to:
 - the typical fortnightly revenue of the business over the period of six weeks immediately prior to the date of escalation
 - and a longer comparator period for businesses of a seasonal nature
- businesses are required to prepare and retain evidence to support their declaration, including how the revenue decline was attributable to the current escalation
- other minor changes to ensure the scheme is consistent with the Short-Term-Absence Payment and the Leave Support Scheme.

The Cabinet paper authorises the Minister of Finance and the Minister for Social Development and Employment, to make delegated decisions

The Cabinet paper seeks authority for you and the Minister of Finance to agree any minor policy consequential changes or operational settings required for MSD to implement this scheme.

The delegated authority includes implementation of the revenue drop test should the scheme be extended beyond the first two-weekly payment, as well as authority to agree up to \$10 million in operational funding from the COVID-19 Response and Recovery Fund (CRRF) for MSD to administer the WSSFEB21 and evaluate the wage subsidy schemes.

We are developing the joint advice for you and the Minister of Finance with the aim of providing it to you by 19 February 2021.

Financial implications

MSD is currently working through whether administrative funding will be required or whether this could be absorbed in baseline. If funding is required, this would likely be for additional FTE resource and IT costs. Administrative costs for

MSD would be higher the longer the scheme remains in operation.

State Sector Organisation Exemptions

The paper seeks agreement that exemptions previously provided to State Sector Organisations (including State Owned Enterprises) enabling them to apply for a COVID-19 Wage Subsidy Scheme will be automatically extended to this scheme and any future COVID-19 Wage Subsidy Schemes.

Our advice

We recommend that you **support** the proposal.

Author: (Outside Scope), Graduate Policy Analyst, Employment Policy)

Responsible manager: (Megan Beecroft, Policy Manager, Employment Policy)

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