



**Joint Report:** Responding to feedback from the business community  
on the COVID-19 Resurgence schemes

|              |                 |                     |   |
|--------------|-----------------|---------------------|---|
| <b>Date:</b> | Monday 12 April | <b>Report No:</b>   | T2021/775<br>REP/21/4/341<br>IR2021/158 |
|              |                 | <b>File Number:</b> | AD-1-58                                 |

**Action Sought**

|  | <b>Action Sought</b>                           | <b>Deadline</b> |
|--|--|-----------------|
| Minister of Finance (Hon Grant Robertson)                            | <b>Note</b> the recommendations in the report. | Monday 19 April |
| Minister for Social Development and Employment (Hon Carmel Sepuloni) | <b>Agree</b> to the recommendations.           |                 |
| Minister of Revenue (Hon David Parker)                               |  |                 |
| Minister of Small Business (Hon Stuart Nash)                         |  |                 |

**Contact for Telephone Discussion (if required)**

| <b>Name</b>    | <b>Position</b>   | <b>Telephone</b> | <b>1st Contact</b> |
|----------------|---|------------------|--------------------|
| 9(2)(a)        | Analyst, Transitions, Regions, and Economic Development, The Treasury | 9(2)(a) (wk)     | N/A (mob) ✓        |
| 9(2)(a)        | Manager, Transitions, Regions, and Economic Development, The Treasury | 9(2)(a) (wk)     | N/A (mob)          |
| 9(2)(a)        | Policy Director, Policy and Regulatory Stewardship, Inland Revenue,   | 9(2)(a) (wk)     | N/A (mob)          |
| Megan Beecroft | Policy Manager, Ministry of Social Development                        | 9(2)(a) (wk)     | N/A (mob)          |
| 9(2)(a)        | Policy Analyst, Employment Policy, Ministry of Social Development     | 9(2)(a) (wk)     | N/A (mob)          |

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

Return the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** No

15 APR 2021

## **Joint Report:            Responding to feedback from the business community on the COVID-19 Resurgence schemes**

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### **Executive Summary**

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In December 2020, Cabinet agreed to a package of measures to provide support during periods of public health alert level escalations, which included the COVID-19 Wage Subsidy Scheme (WSS) and a COVID-19 Resurgence Support Payment (RSP) scheme. The RSP has been activated twice and the WSS has been activated once during the February and March alert level escalation periods [CAB-20-MIN-0531 refers].

The Treasury's analysis of the February and March schemes suggests that in aggregate, the WSS and RSP are meeting the original objectives, including by sharing the economic costs and targeting support to those who need it.

However, members of the business community have reached out to Ministers and officials to highlight challenges faced at a firm level, particularly reflecting concerns around providing RSP support to businesses in commonly-owned-groups (COGs) and the understanding of the comparator period and seasonal revenue rules across both schemes. Following direction from the Minister of Finance, this report considers possible changes to the schemes or clarification of rules to address the concerns raised.

#### **RSP treatment of commonly-owned-groups**

Officials have considered the issue and acknowledge that the current settings may disadvantage COGs, however note the data on the scale of the issue is limited and any solution may result in increased fiscal costs and potential gaming of the scheme. We advise that any change to the scheme should also seek to ensure that SMEs are still the beneficiaries.

Officials have considered a range of options that make changes to the RSP scheme with the aim to address the issue. The recommended solution we have identified would maintain the 30% revenue drop test across the group, however allow for entities within the group to receive a RSP payment if the 30% revenue drop test is also met at an individual entity level. To help mitigate risks of gaming, Inland Revenue (IR) would also manually review all applications for these types of applicants. It is anticipated the volumes would be in the region of 100s which is manageable under IR's current operating model. To support the integrity of the scheme we also advise that communications and guidance on the changes stress that the intended recipients of the RSP, which are small businesses, remain. Initial Treasury calculations suggest that this change would not affect the overall fiscal forecasts for the scheme, as previous modelling assumed coverage for all affected small businesses, regardless of organisational structure.

We are seeking Ministers' direction to consult on this preferred option with the business community before finalising any changes to the scheme by the end of April.

#### **Comparator period and firms with seasonal revenue**

The revenue drop test and comparator period rules for both schemes are understood by the business community, however there appears to be confusion over the 'firms with seasonal revenue' rule. Officials recommend developing improved guidance for firms with highly seasonal revenue, which clearly communicates what types of activities can result in firms

having highly seasonal revenue. This paper seeks Ministers agreement to a definition of these types of business activities used for both schemes.

Additionally, there have been concerns expressed by some stakeholders that, due to their revenue already being suppressed by the impacts of COVID-19, it is difficult for them to demonstrate the needed revenue drop within the default comparator period and therefore the current policy settings do not provide the support they seek. It is not the intent of the RSP or the WSS to mitigate ongoing impacts of border closures, broader economic effects of COVID-19, and normal baseline revenue volatility. Officials therefore do not recommend a change to the comparator period or other policy settings that might address this concern.

The report also considers other matters including relating to communications surrounding the schemes (page 13) and clarification of the seven day activation period for both the RSP and WSS. Annex One provides performance and uptake information on the schemes.

## Recommended Action

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We recommend that you:

- a. **note** that Treasury analysis suggests that the Wage Subsidy Scheme (WSS) and Resurgence Support Payment (RSP) are meeting the original objectives, including by sharing the economic costs and targeting support to those who need it;
- b. **note** the WSS was successfully delivered, supported by action taken by officials to enable businesses to mitigate the risks inherent in using predicted revenue to meet eligibility criteria alongside the uncertainty of the timing of alert level de-escalation;
- c. **note** that Cabinet authorised the Minister of Finance and the Minister for Social Development and Employment jointly to make operational changes, and decisions on minor changes and clarifications to WSS settings, including on any further implementation details for the revenue decline test, test and comparator period (including exceptions to the default period), and reapplication requirements;
- d. **note** that Cabinet authorised the Minister of Finance, Minister for Small Business and the Minister Revenue to jointly make operational changes, and decisions on minor changes and clarifications to RSP settings, including on any further implementation details for the revenue decline test, test and comparator period (including exceptions to the default period), and reapplication requirements;

### *RSP treatment of commonly-owned groups*

- e. **note** that the 50 FTE cap rule significantly limits the amount of RSP support available to groups of firms that have a common owner but operate as separate entities;
- f. **note** that whilst data on the scale of this issue is limited and uncertain, information based on applications and queries received to date suggests around 40 groups (which may each employ hundreds of people) have been affected by this rule;
- g. **note** that adjusting RSP settings to accommodate this group of firms carries potentially significant fiscal costs; risks that larger, viable firms will benefit; and increases likelihood of gaming;
- h. **note** that the recommended solution is to maintain the 30% revenue drop test at a group level, however allow for entities within the group to receive a payment if the 30% revenue drop test is also met at an individual entity level;

- i. **note** that mitigations to the risks identified in recommendation e above include upholding the 30% income loss rule across the group as well as for the entities within the group; a strong message on the intention of the scheme in future communications; and for IR to manually review applications from these types of applicants where necessary;
- j. **note** that we do not recommend the COGs policy change apply to the WSS because the objectives of the WSS are appropriately met through the current policy settings;

*[For the Minister of Finance, Minister for Small Business and Minister of Revenue only]*

- k. **agree** that IR and Treasury officials will consult on this option for the RSP with the business community;

*Agree / Disagree*

*Agree / Disagree*

*Agree / Disagree*

Hon Grant Robertson  
**Minister of Finance**

Hon David Parker  
**Minister for Revenue**

Hon Stuart Nash  
**Minister for Small Business**

**If agree**

- l. **note** that officials will provide final advice for your decision on this matter following consultation and final operational and legal checks;

*Comparator period and seasonal revenue rules*

- m. **note** that the revenue drop test and comparator period rules for both schemes are largely understood by businesses, however for some, the seasonal rule should be clearly communicated to support businesses to better understand how to interact with the rule;
- n. **note** that MSD and IR will clearly communicate the guidance for firms with highly seasonal revenue to ensure the business community understand the scheme settings;
- o. **note** that Cabinet agreed in December 2020 that employers that have highly seasonal revenue be allowed to use a prior year comparator if they can show that the seasonality in their revenue makes it harder to meet the revenue decline test with the default comparator than if their revenues were not seasonal;

*[For the Minister of Finance and Minister for Social Development and Employment only]*

- p. **agree** that for WSS the eligibility criteria for businesses with highly seasonal revenue includes those with activities such as harvesting fruit and vegetables, music festival or event planners whose peak seasons are during the summer months, or tourism businesses with irregular (seasonal) revenue periods;

*Agree / Disagree*

*Agree / Disagree*

Hon Grant Robertson  
**Minister of Finance**

Hon Carmel Sepuloni  
**Minister for Social Development and Employment**

- q. **note** that for RSP the same approach has been taken when determining eligibility for businesses with highly seasonal revenue, as already set by the Commissioner of IR;
- r. **note** officials do not recommend any changes to the default comparator periods but recognise that in the event of another resurgence the dates of the periods will need to be adjusted to the circumstances at the time to reflect the new period at heightened alert levels;



*Seven-day activation period**[For the Minister of Finance and Minister for Social Development and Employment only]*

- s. **Agree** to the following interpretation of Cabinet's agreed activation trigger for future introductions of the WSS:
- a. the activation period of 'seven days, of which the seventh may be a partial day' means 'at least six 24 hour periods and one minute'; and
  - b. the 'timer' for the activation period begins at the time of the relevant increase in Alert Levels.

Agree / Disagree

Agree / Disagree

Hon Grant Robertson  
Minister of Finance

Hon Carmel Sepuloni  
Minister for Social Development and Employment

*[For the Minister of Finance, Minister for Small Business and Minister of Revenue only]*

- t. **Agree** to the following interpretation of Cabinet's agreed activation trigger for future introductions of the RSP scheme;
- a. the activation period of 'seven days, of which the seventh may be a partial day' means 'at least six 24 hour periods and one minute'; and
  - b. the 'timer' for the activation period begins at the time of the relevant increase in Alert Levels.

Agree / Disagree

Agree / Disagree

Agree / Disagree

Hon Grant Robertson  
Minister of Finance

Hon David Parker  
Minister for Revenue

Hon Stuart Nash  
Minister for Small  
Business

Jean Le Roux  
Manager, The Treasury

Meegan Beecroft  
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Kerryn McIntosh-Watt  
Policy Director, Inland  
Revenue

Hon Grant Robertson  
Minister of Finance

Hon Carmel Sepuloni  
Minister for Social Development and Employment

Hon David Parker  
Minister of Revenue

Hon Stuart Nash  
Minister for Small Business

## Joint Report: Further advice on the COVID-19 Resurgence schemes

### Purpose of Report

1. This report provides high level analysis of the COVID-19 Resurgence Support Payment February and March Schemes (RSP) and the COVID-19 Wage Subsidy Scheme March 2021 (WSS) during the February and March 2021 alert level escalation periods.
2. The report also provides advice on the issues the business community has raised, particularly about providing RSP support for businesses in commonly-owned-groups (COGs) and understanding of comparator period rules across both schemes. It also seeks clarification on the definition of the 7-day trigger for the schemes.

### Overview of schemes

3. The RSP and WSS have together provided \$388 million of fiscal support to businesses impacted by the public health restrictions of February and March 2021. Consistent with the severity and nature of the restrictions, uptake has been weighted towards the Auckland region, and accommodation and food services sector.

#### *Fiscal spend on resurgence support over February/March alert level elevation (\$m)*

|                            | Auckland   | Rest of NZ | Total, all New Zealand | Coverage  |
|----------------------------|------------|------------|------------------------|---|
| Wage Subsidy               | 128        | 45         | 173                    | 160,000 jobs  |
| Resurgence Support Payment | 161        | 54         | 215                    | 45,000 firms (for Feb 15 payment),<br>32,000 firms (for Feb 28 payment) |
| <b>Total</b>               | <b>289</b> | <b>99</b>  | <b>388</b>             |   |

4. The RSP has seen most applications coming from small businesses, in line with the intent of the scheme. The proportion of small employers (19 or fewer employees) receiving the WSS support has increased significantly compared to the previous WSS. To date, 69% of employee jobs supported are employed in businesses with under 20 employees, compared to 47% overall for the three previous WSS.
5. Treasury analysis suggests that the broad parameters of the respective schemes and the resurgence support package succeed at an aggregate level in providing support to the industries and regions where the impacts of restrictions are felt most acutely. More analysis can be found in Annex One.
6. As such, we recommend that further changes to the schemes should be made with caution not to shift the distribution of support away from the intended target groups.

### Overview of concerns from the business community

7. While at an aggregate level, analysis suggests the broad parameters of the resurgence support schemes are succeeding in providing support, the business community has reached out to officials and Ministers to highlight challenges faced at a firm level.
8. Officials have met with members from the business community to understand the challenges. There are two concerns that have been raised in many fora:

- a. *Commonly-owned groups (COGs) (RSP only)* – a concern that the criteria that firms are only eligible to apply for the RSP at group level, up to the 50 FTE cap. This means firms will only receive a single payment for the group level, not an individual firm level.
  - b. *Comparator period and seasonality rules (both schemes)* - concerns that the revenue decline comparator period and the seasonality rules are not clear for some firms resulting in unintended outcomes when comparing between businesses that are similar.
9. Following direction from the Minister of Finance, this report considers possible changes to the schemes or clarification of rules to address the concerns raised above.
  10. Other concerns raised by the business community relate to the six month in operation rule (RSP only) which requires firms to be in operation for at least six months to be eligible for the RSP, and concerns from events organisers requesting tailored support due the disruption to their business. We do not recommend considering either of these concerns further, and have supported your dialogue with the business community on these issues.

## Commonly-owned groups (COGs) seeking support through the RSP

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### ***Problem definition and scale***

11. The rule that the RSP is limited to 50 FTE across a group significantly limits the amount of support available to groups of firms that have a common owner but operate through separate entities, many of which are directly impacted by an escalation in alert levels. Such firms may not have the level of resilience expected in the original analysis for the RSP, as profits and losses are generally not shared across the group members. This means the RSP may not be adequately supporting SMEs that may have a legitimate claim to government support.
12. The original rationale for this approach (TR2020/3676 refers) was to tilt the support towards small businesses, recognising that larger firms are generally more resilient. Evidence around the uptake of the scheme shows it has been successful on that matter as 85% of applications firms have less than 5 FTE, and 94% have less than 10.
13. It is very difficult to identify the scale of this issue through official data. At an aggregate level we have compared geographic business units<sup>1</sup> with the number of enterprises in New Zealand and the figures are broadly similar.
14. However, according to those we have consulted with in the hospitality sector (which include group owners and business representative organisations), group models are relatively common. It is a way for hospitality firms (who tend to have small margins) to pool costs such as payroll administration, licenses, and marketing. Anecdotal examples we have heard suggest some groups employ hundreds of staff in total. However, the firms within the group operate as separate entities, so profits from one business are not generally transferred to another experiencing losses.
15. As at 1 April, IR analysis suggested around 2,500 distinct COGs had applied for the Payment across both rounds. 1,718 were approved, of which the highest volume (17%) came from accommodation and food services (427), followed by 10% (259) from the retail sector. In addition, as at 1 April, just 70 applications from 47 distinct COGs with 50 FTE (the highest number of employees the application allows) had applied for the

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<sup>1</sup> This is a separate operating unit engaged in one, or predominately one, kind of economic activity from a single physical location or base.

RSP, of which 44 were approved. 36% came from accommodation and food services industries.

16. This corroborates the anecdotal evidence shared with us by the hospitality sector, but also indicates the absolute number of COGs affected is small. This may reflect that COGs with more than 50 FTEs have decided not to apply, but could also be understood as an indication that the size of the issue is somewhat limited and therefore relatively straightforward for IR to triage.
17. However, the challenges of amending the scheme to accommodate such groups relate to the legal definition of entities that are structured this way, and the need to avoid inadvertently opening the scheme to a significant range of firms that do have the ability to withstand shocks at a group level where profits and losses are indeed shared.

#### ***How commonly-owned groups are currently defined***

18. A COG of businesses is considered to be one where each business has the same combination of owners. It does not matter whether those owners have the same proportion of ownership in each business.
19. A business may also be treated as being in a COG if it is in substance part of a larger group of businesses. For example, this may occur where:
  - a. The group has a dominating shareholder or group of shareholders and the businesses operate together as if they were one; or
  - b. The group of businesses involves a complex ownership structure where the overall control is centralised, and the businesses are in substance one enterprise.
20. Annex 2 provides more detail on how a member of a COG is defined through the Order in Council for the RSP. We propose using the same definition for entities that can form part of a group for the purposes of RSP.
21. We note a branch of a company/entity is not a 'specified person' under the current settings and is therefore not eligible to apply for the RSP. The legal view is therefore that the proposed approach outlined below (which would exclude branches, as a branch is not a separate entity) is in line with the current statutory framework and the related Order in Council.

#### ***Implications of potential RSP rule changes***

22. We suggest there is merit in amending the rules to allow for separate group members to apply for the RSP. Their identity as a separate group member can be verified through the IR system and manual checks. However we caution that:
  - a. The core purpose of the scheme should remain: supporting vulnerable firms to withstand impacts of AL changes. This means aiming to avoid issuing payments to larger, more resilient firms.
  - b. The number of firms that are currently negatively affected by the COG rule is understood to be small.
  - c. The feasible options for reform are still relatively blunt. It is very likely viable firms with the financial resilience to withstand these shocks would benefit. Gaming risks may also increase. However IR has robust integrity measures in place to mitigate this.
23. We also note that should you agree to proceed with changes to the RSP settings, IR will require time to adjust the application system. If a resurgence were to occur in the intervening period, a retrospective application process may need to be considered. This is enabled by the relevant legislation.



## Options analysis

24. Taking these implications into account, we have assessed the below solutions to the issue of COG's eligibility according to the following criteria:

- a. fiscal responsibility;
- b. operational feasibility; and
- c. targeting effectiveness (limiting gaming potential or the risk that payments are issued to viable, resilient businesses).

| Option   | Operationally feasible?        | Targeted?   | Benefits   | Risks/Challenges   | Recommended?   |
|--|--------------------------------|---|--|--|--|
| 1. Allow the RSP to be issued where:<br><br>(a) the constituents of a group are separate entities;<br>(b) <u>each constituent entity has met the 30% threshold test.</u><br><br>As with current model, relies on declaration.                                | Yes. [no more than two weeks]  | No. Most "blunt" approach.  | 30% threshold ensures firms in need benefit.<br><br>Guarantees availability of payment to SMEs in a group directly affected by the AL change.  | Greater gaming risks that firms structure themselves this way to benefit from the grant.<br><br>Highest fiscal cost, but challenging to forecast.  | No   |
| 2. Allow the RSP to be issued where:<br><br>(a) the <b>group</b> incurs a 30% revenue drop <u>and</u><br>(b) payments go to <u>only the constituent entities that experienced the 30% revenue drop.</u><br><br>As with current model, relies on declaration. | Yes [no more than two weeks]   | More than above option. Likely to tilt payments towards sectors most hit.   | The group-level requirement is unchanged from RSPFEB21 and RSPMAR21, so is consistent, fair and creates a higher bar for support than the above option, meaning we judge it to be the most cost effective way to address issue with existing system build. | Does not eliminate risk that major groups that we expect to have the financial buffers to withstand additional short shocks are supported.<br><br>Potentially more confusing for businesses. | <b>Yes</b> , subject to Ministers' comfort with the risks identified; further consultation with business groups; and strong messaging that the purpose of the scheme is still to support small businesses. |
| 3. Maintain single base payment but increase the FTE cap across a group.   | Yes [no more than two weeks]   | More likely to benefit groups in need.                                      |  | Tilts support away from purpose of the scheme, towards larger businesses. Inconsistent with SBCS definition of SME.  | No   |
| 4. Allow RSP payments to be made on a per-legal entity basis to <u>hospitality</u> firms, where each entity has met the 30% threshold, ( <u>requires declaration</u> ).  | Yes, [no more than four weeks] | Yes. But can only operate on a high-trust model, given definitional issues. | Responds to sector requests.   | Boundary issues, risk only responding to an organised sector response and missing firms that have a claim for support. This could expose the government to risks of judicial review.         | No   |

***Fiscal implications***

25. The fiscal costs resulting from the proposed options are highly uncertain – we estimate \$15 – 35 million, about 10% of the current fiscal cost. There is limited data available to identify with accuracy the number of enterprises that are likely to become eligible for payments, given the variability in organisational structures of COGs. As such, these fiscal costs should be treated as indicative estimates only.
26. These costs are driven by the unknown number of large COGs who have to date elected not to apply for the RSP, who would apply were the \$21,500 cap on payments lifted. The overall costing model used for the RSP to date was built to the policy intent, assuming coverage for affected small businesses regardless of organisational structure. Therefore, any policy change to COGs would not affect the overall costings for the scheme, as it reflects an improvement in alignment with policy intent.
27. Of the options presented above, Option 1 is most expensive, followed by Option 2, and Option 4 the least expensive (ignoring Option 3 as this is dependent on parameter settings), but all fall within the margin of error in costing this change.

***Implications for the WSS settings***

28. The purpose of the WSS is to provide support to employers to pay wages if they are struggling to do so as a result of an escalation to Alert Level 3 or above while at the same time sharing the associated costs between Government, employers and employees across economic sectors and encourage the shift to a COVID-19 resilient economy.
29. Business units within a single corporate entity are not eligible to apply for the WSS individually. This includes business structures with different programmes, branches, or divisions that are differently affected by the current escalation in Alert Levels, but that employ all their workers under one corporate entity.
30. Business structures made up of legally separate companies where the employment relationships exist within each separate company are required to apply individually for the subsidy if they meet the eligibility criteria.
31. Discussion about challenges of access to the RSP for small businesses may raise similar questions in regard to the WSS. However, officials consider the objectives of the WSS are appropriately met through the current policy settings. We therefore do not recommend any changes to the WSS in this regard.

***Clarifying guidance on comparator periods and seasonal revenue***

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32. The settings for the RSP and WSS schemes are broadly similar to ensure consistency and simplicity for applicants. However, now these schemes have both been operationalised, there appear to be some design aspects that present challenges to applicants.
33. Many of the challenges we are seeing about seasonality and comparator period interpretation reflects lack of clarity or ambiguity for applicants, or concerns about the ease of use for businesses who are unable to show their typical earnings during the six week default period. It is possible that similar types of businesses are receiving inconsistent support through these schemes.
34. Operationally there has been some feedback from applicants for the WSS that the revenue decline test has been easier than in previous iterations of the scheme. This could suggest that businesses are more familiar with the settings of the scheme now

and are finding less difficulty in understanding what it's for and who is eligible for support.

***The revenue drop test and comparator period rules for both schemes are understood, however there appears to be confusion over the 'firms with seasonal revenue' rule***

35. To be eligible for the RSP, firms must experience a 30% drop in revenue over a continuous 7-day period when compared to their 'typical revenue' during a comparator period. This is referred to as the 'revenue drop test'. To be eligible for the WSS, firms must experience a 40% drop in revenue over a continuous 14-day period when compared to their 'typical revenue' during a comparator period.
36. Both schemes include a 'seasonal comparator period' option to cater for businesses with highly seasonal revenue and for whom the default comparator period does not contain a period in which they would generate their 'typical revenue'.
37. The scheme settings allow firms to self-identify as being one that has highly seasonal revenue, consistent with the high-trust model. Firms that choose to use the seasonal comparator period instead of the default period are required to retain evidence to show the basis on which they consider their revenue to be seasonal and how the seasonality makes it harder to meet the decline in revenue with the default comparison period.
38. Feedback from businesses and patterns emerging from operational practice have revealed two issues in regard to supporting firms with highly seasonal revenue:
  - a. Understanding what types of businesses this applies to, and;
  - b. Understanding how to use the seasonal comparator period.

***Facilitating better understanding of the types of businesses able to use the seasonal comparator period***

39. It appears that understanding what constitutes a business with highly seasonal revenue has been dominated by businesses that are seasonal in a very traditional sense, for example fruit orchards, where fruit is ripe and sold over a distinct period within the year. This could mean that businesses with highly seasonal revenue, for example events companies that hold a large event annually that is cancelled due to Alert Level changes, may have been less sure whether to apply for the scheme because they struggled to demonstrate a genuine drop in revenue due to the default comparator period requirement.
40. There are many similar examples where firms could have highly seasonal revenue but fall outside of the common interpretation of a seasonal business. For example:
  - a. a firm working in conservation, such as riparian planting, that generates a lot of revenue during the planting season and has lower levels of revenue at other times of the year;
  - b. a café in a university has seasonal revenue due to its inherent reliance on university term times; and
  - c. tourism businesses whose peak seasons start at specific times, such as those based around ski sites or which are reliant on bird migratory habits.
41. Guidance already available for applicants to the WSS provides examples of business activities that may result in highly seasonal revenue, such as harvesting fruit and vegetables, music festival or event planners whose peak seasons are during the summer months, or tourism businesses where the season starts on a specific date.
42. Officials seek clarification that this guidance reflects Ministers' intention for the WSS, noting that this provides consistency across both schemes, will enhance

communication with the business community and facilitate better understanding of the seasonal-revenue related settings.

### ***Supporting businesses to better understand how to apply the seasonal comparator***

43. Cabinet has decided that both schemes should enable employers that have highly seasonal revenue to use a prior year comparator if they can show that the seasonality in their revenue makes it harder to meet the revenue decline test with the default comparator period than if their revenues were not seasonal.
44. It is apparent that in addition to clarifying what types of business activity may result in seasonal revenue, guidance on how to use the seasonal comparator may be warranted.
45. There are slight differences in how the seasonal comparator is implemented for each scheme. The WSS uses a blunt tool of comparing the current revenue test period with the same 14-day period in either 2020 or 2019 (recognising that COVID-19 may have impacted revenue during 2020). The RSP settings enable a more case-by-case approach to be taken whereby firms can select what they consider to be a typical revenue period from a prior year. For many, this has been a 'this time last year' comparator, however some, such as events companies, are allowed to select an equivalent event to demonstrate the difference in revenue so long as they can demonstrate this is a reasonable representation of their revenue.
46. Officials recommend developing improved guidance for firms with highly seasonal revenue, that clearly communicates what types of activities can result in firms having highly seasonal revenue, and how these firms should use the seasonal comparator period to attest their eligibility for the schemes.
47. This approach will retain the core settings of both schemes and recognises the schemes are working well overall, achieving intended outcomes, and employers and employees are familiar with the core settings.

### ***Retaining the default comparator period definition***

48. The default comparator period, from which a 'typical' 7 days (RSP) and/or 14 days (WSS) can be selected, was a conscious design choice that supports the objective of providing support to mitigate the impact of the contemporary escalation in alert levels, and ensures the change is the main factor leading to the decline in revenue.
49. There has been concern expressed by some stakeholders that, due to their revenue already being suppressed due to the impacts of COVID-19, it is difficult for them to demonstrate the needed revenue drop within the default comparator period and therefore the current policy settings do not provide the support they seek. However, altering the scheme settings to allow the demonstration of revenue decline over a prolonged period would require a fundamental change in the purpose of the scheme.
50. Instead of supporting businesses to meet costs during individual increased alert levels, such a change would mean that the schemes instead represent a payment that addressed broader and more sustained impacts of COVID-19 on New Zealand's economy.
51. It is not the intent of the RSP or the WSS to mitigate ongoing impacts of border closures, broader economic effects of COVID-19, and normal baseline revenue volatility. Officials therefore do not recommend this intent change.

## Communication surrounding the schemes

52. Recent resurgence periods have highlighted the importance of communication and therefore the understanding of support available amongst the business community. Communication surrounding the availability and eligibility settings of the schemes have impacted the uptake and user experience of the schemes in ways outlined below.
53. IR and MSD will be working with Connected (website, phone and face-to-face service) and business.govt.nz to strengthen communications around eligibility and availability of support, including the RSP and WSS. Connected is one of the key platforms government uses to communicate COVID-19 related support to employers and employees and business.govt.nz is the platform that government uses to communicate business support and are well skilled in doing so.

### ***Mitigating the risks inherent in using predicted revenue to meet eligibility criteria alongside the uncertainty of the timing of alert level de-escalation***

54. Overall, the WSS was rolled out successfully and achieved its intended purpose to support employers to retain and to continue paying the wages for their employees.
55. The March WSS used both actual and predicted revenue decline, similar to the Wage Subsidy Resurgence scheme, to allow businesses the chance to pre-empt the loss they expected to experience during the escalated alert levels.
56. While this criteria allows businesses some certainty regarding the support they could receive through the subsidy, it also risks putting businesses into a position of needing to repay the subsidy, or unduly receiving the subsidy, if a decision to de-escalate in alert levels during the period they predicted a revenue decline meant they did not experience the revenue loss and became ineligible for the scheme.
57. To mitigate this risk in the March WSS, following the decision to de-escalate in alert levels after seven days, MSD proactively emailed all businesses who had applied early with the option to withdraw their application. This was to ensure that businesses had a fair opportunity to exit the scheme if they considered they would be in-eligible.
58. While officials are comfortable with this mitigation, we wish to make you aware of the risk of employers being disadvantaged in the applications process when using predicted revenue to assess eligibility alongside the uncertainty of the duration of heightened alert levels.

### ***First and second iterations of the Resurgence Support Payment***

59. Uptake for the second RSP (RSPMAR21) is tracking below the expected levels. Despite the second escalation of alert levels in March involving a higher and more prolonged period of restrictions, and therefore a more severe estimated impact on businesses, it is likely that the final cost of the RSPMAR21 will be less than the first (RSPFEB21). The fiscal spend on each of these two schemes will in that case not be commensurate to economic impact.
60. There is no clear explanation for this, however it is possible that there was not wide awareness in the business community that a business could receive a payment for both periods. There have been 22,500 applicants who have applied in both application periods, representing 30% of all applications – we would anticipate a significantly higher percentage of businesses being eligible in both periods.
61. This explanation is consistent with insights from our engagement with stakeholders, which highlighted uncertainty around applying for both periods. There may be value in communicating this aspect, that businesses can receive payments for alert level escalation period.



***Communications to strengthen integrity***

62. We have learnt from the WSS that strong messaging and media scrutiny on complying with the spirit of the scheme, in combination with publishing the names of companies that have received payments, has fostered greater accountability at the firm level and decreased the number of applications from large firms that have the resilience to respond to short alert level escalations.
63. To support the integrity of the RSP, we therefore recommend that any changes to accommodate COGs should be accompanied with strong messaging and guidance to reiterate that the purpose of the scheme is to support small businesses.

**Seven day activation period**

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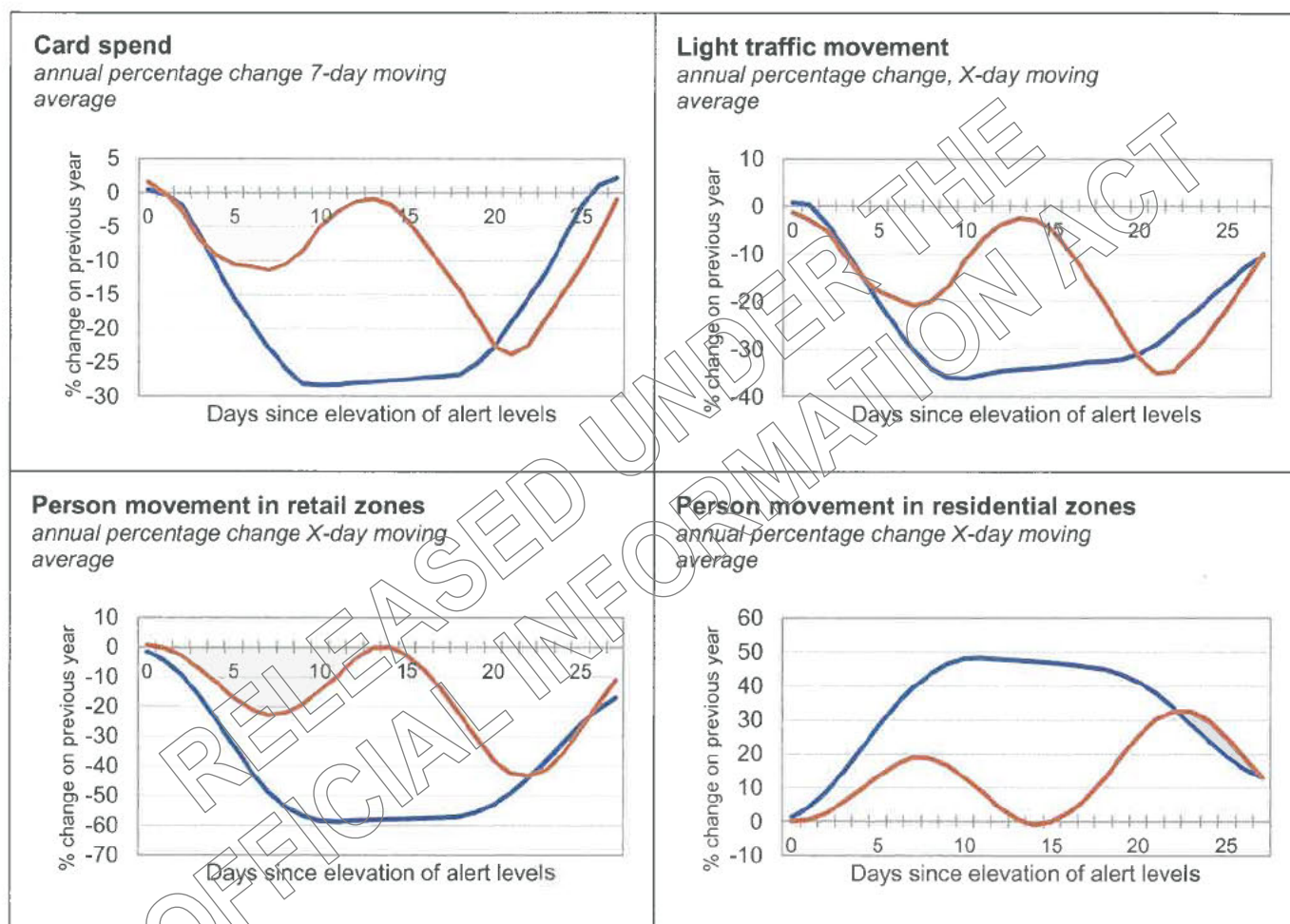
64. Cabinet has agreed that the WSS will be activated after a minimum period of seven days at Alert Level 3 or above, anywhere in New Zealand, of which the seventh day may be a partial day, and subject to Cabinet approval at the time. An analogous trigger, of seven days at Alert Level 2 or above, applies to the RSP [CAB-20-MIN-0531 refers].
65. The alert level escalations in February and March revealed this wording for the activation trigger has different possible interpretations. This ambiguity leads to inefficient operational decision-making and may reduce certainty for business.
66. We propose to use the following interpretation of Cabinet's agreed triggers in future. Officials used this interpretation for the February and March schemes.
  - a. The activation period of 'seven days, of which the seventh may be a partial day' means 'at least six 24 hour periods and one minute'; and
  - b. The 'timer' for the activation period begins at the time of the relevant increase in alert levels.

## Annex 1: Further analysis of RSP and WSS uptake

- Treasury analysis of economic impacts and assessment of high frequency indicators suggest the impact on economic activity from the recent resurgence events was about 50% of the August 2020 Auckland outbreak. This is mostly as a result of the duration of restrictions; the behavioural response to Auckland's restrictions appears to broadly reproduce that seen in August.

### High frequency indicators throughout August and February/March outbreaks

— August 2020 outbreak — February/March 2021 outbreak



### Comparing estimated GDP impact and scale of fiscal support in resurgence events

|  | Days spent above Alert Level 1 |           |           |           | Economic impact, Treasury estimates (\$ million GDP) |            |            |           |            |            |
|--|--------------------------------|-----------|-----------|-----------|--|------------|------------|-----------|------------|------------|
|  | Auckland                       |           | RoNZ      |           | Auckland   |            | RoNZ       |           | Total NZ   |            |
|  | Aug                            | Feb       | Aug       | Feb       | Aug  | Feb        | Aug        | Feb       | Aug        | Feb        |
| AL3  | 18                             | 10        | 0         | 0         | 510  | 290        | 0          | 0         | 510        | 290        |
| AL2  | 38                             | 10        | 40        | 10        | 160  | 40         | 230        | 60        | 390        | 100        |
| <b>Total</b>   | <b>56</b>                      | <b>20</b> | <b>40</b> | <b>10</b> | <b>680</b>   | <b>330</b> | <b>230</b> | <b>60</b> | <b>900</b> | <b>390</b> |
| Economic impact in February period, compared to August |                                |           |           |           | 50%  |            | 25%        |           | 45%        |            |

**February/March support provided greater coverage and stronger targeting of economic impacts than that in August**

|   | Auckland |     | RoNZ |     | Total NZ |     |
|---|----------|-----|------|-----|----------|-----|
|   | Aug      | Feb | Aug  | Feb | Aug      | Feb |
| Economic impact of alert level elevations | 680      | 330 | 230  | 60  | 910      | 390 |
| Fiscal spend on resurgence support        | 480      | 289 | 320  | 99  | 790      | 388 |

- The level of fiscal support relative to economic impact has been greater in the recent resurgence event than in August. This is in line with the original policy intent of the resurgence package, which recognised the need to address the issue that small business' balance sheets had become more stressed over time. The implication is that the fiscal case for significant change to the schemes is limited.
- Economic impacts resulting from alert level elevations in February/March were more concentrated in Auckland than those resulting from August/September elevations, when, though still weighted towards Auckland, impacts were felt relatively more widely.
- Uptake for the RSPMAR21 is tracking below expected. Despite the second escalation of alert levels in February involving a more prolonged period of restrictions, and therefore a more severe estimated impact on businesses, it is likely that the final cost of the RSPMAR21 will be less than the RSPFEB21, meaning the level of support provided by the second RSP is lower than intended relative to the level of economic disruption.

**Comparing regional distribution of economic impacts and distribution of fiscal spend, between February/March and August**

|  | August | February |
|--|--------|----------|
| Economic impact in Auckland as a proportion of total economic impact | 75%    | 85%      |
| Fiscal spend in Auckland as a proportion of total fiscal spend       | 60%    | 75%      |

- Relative to August, increased regional targeting is evident in the greater concentration of spend in Auckland, over and above the level to be expected given the distribution of economic impacts.
- Despite this improvement in regional targeting, fiscal support relative to economic impact has remained high outside of Auckland, both in August and in February.
- The Treasury has simulated resurgence support uptake based on assumptions of alert level impacts by industry, to determine the distribution of fiscal support under the RSP and the WSS that is commensurate with our understanding of industry impacts.
- Comparing simulated uptake with actual uptake, the distribution of fiscal support mirrors the distribution of economic impact in most industries, suggesting that the broad parameters of the respective schemes and the resurgence support package succeed at an aggregate level in providing support to the industries where the impacts of restrictions are felt most acutely.
- February has seen proportionately more spend directed towards hospitality than in August. Across industries, uptake reflects modelled industry impacts, suggesting sectoral targeting has been effective. Differences in the distribution of economic impacts across industries could be partially attributed to differing levels of adaptation between industries.

**Comparing industry distribution of economic impacts and fiscal spend, between actual February/March uptake of resurgence support, and simulated uptake based on Treasury modelling of economic impacts**

|  | WSS    |           | RSP    |           | Total resurgence support |           |
|--|--------|-----------|--------|-----------|--------------------------|-----------|
|  | Actual | Simulated | Actual | Simulated | Actual                   | Simulated |
| Accommodation and Food Services                  | 28%    | 31%       | 20%    | 18%       | 24%                      | 24%       |
| Retail Trade                                     | 10%    | 13%       | 10%    | 10%       | 10%                      | 11%       |
| Arts and Recreation and Other Services           | 11%    | 9%        | 12%    | 9%        | 11%                      | 9%        |
| Construction                                     | 8%     | 6%        | 9%     | 9%        | 8%                       | 8%        |
| Professional, Scientific, and Technical Services | 6%     | 5%        | 7%     | 7%        | 7%                       | 6%        |
| Administrative and Support Services              | 6%     | 5%        | 6%     | 5%        | 6%                       | 5%        |
| Transport, postal and warehousing                | 3%     | 6%        | 7%     | 6%        | 5%                       | 6%        |
| Wholesale Trade                                  | 4%     | 3%        | 4%     | 3%        | 4%                       | 3%        |

## Annex 2: Definition of group members for the RSP

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1. The Order in Council for the RSP uses the term 'specified person' to describe who is eligible to apply.
2. The list of entities provided below can be considered as entities within a group – the 'group members'.
3. Specified person means:
  - a. an individual who is self-employed
  - b. a body corporate or an unincorporated body
  - c. a registered charity
  - d. an incorporated society
  - e. a post-settlement governance entity
  - f. a trust
  - g. a partnership (as defined in sections 8 and 9 of the Partnership Law Act 2019)
  - h. any department of State or organisation in the State services (as defined in section 5 of the Public Service Act 2020) that is approved by the Minister of Finance as a participant in the RSP scheme
  - i. a non-government organisation
  - j. a pre-revenue firm
  - k. a joint venture