

Aide-mémoire



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

Cabinet paper

Date: 28 February 2021 **Security Level:** Cabinet Sensitive

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

File Reference: TBC

Aide-mémoire: Activation of the COVID-19 Wage Subsidy March 2021 Scheme

**Cabinet
Committee**

Cabinet Meeting

Date of meeting

11.00am, 1 March 2021

Minister

Hon Carmel Sepuloni, Minister for Social Development and
Employment

Proposal

The attached Cabinet paper seeks Cabinet agreement to
activate the COVID-19 Wage Subsidy March 2021 Scheme
(WSSMAR21), in response to the elevated Alert Level 3 in
Auckland for seven consecutive days, from 6.00am on 28
February 2021.

We recommend that you **support** the proposal

Talking points

Please find below some talking points, if you asked to speak to
any technical aspects of the WSSMAR21:

Office of the Auditor General Report:

- MSD are working with IR and TSY on a programme of work to address the recommendations in the OAG report (which are mainly focussed on post-payment integrity checks).
- MSD will ensure that any learnings/improvements we identify will be applied to future wage subsidy schemes.
- We have already made changes to the declaration to ensure applicants are providing documentary evidence of how the decline in revenue was attributable to the move to Alert Level 3 on 14 February 2021. This addresses one of the recommendations in the report.
- Agencies will receive the final draft for comment next week, and the final report will be tabled in the House in April.

Start date for the scheme:

- MSD are on track to open the WSSMAR21 for applications from Monday 8 March 2021.
- If Ministers decide to bring forward the implementation date, MSD can implement WSSMAR21 as early as 1pm on Thursday 4th March (provided that minor policy/implementation decisions are made by 2 March 2021).
- Bringing forward implementation is operationally feasible but would be less aligned to the timing of the RSP and may complicate timing for a second wage subsidy payment (if applicable).

Key changes since the last iteration of the wage subsidy:

- There is a new revenue decline test: ensuring the decline is attributable to the effect of the current escalation to Alert Level 3
- The new revenue decline required will be at least 40 percent over a period of 14 consecutive days when compared to:
 - typical 14-day consecutive period of revenue for a business in the six weeks prior to the 14 February (subject to Cabinet's agreement)
 - 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.

Evaluation funding:

- MSD are currently working on an evaluation of the Wage Subsidy Scheme that will evaluate the short term impact of the scheme on businesses and employees. It will look at outcomes such as business recovery and the maintaining of employer-employee connections.

s9(2)
(f)
(iv)
OIA

- s9(2)(f)(iv) OIA

- s9(2)(f)(iv) OIA

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, for a period of seven consecutive days [CAB-20-MIN-0531 refers].

Following the recent community transmission cases of COVID-19, Cabinet agreed to raise Auckland's COVID Alert Level to

Level 3 for seven consecutive days from 6.00am on 28 February 2021, with the rest of the country rising to Alert Level 2 for the same period [Cabinet-21-MIN-0041 refers]. This fulfils the activation criteria agreed by Cabinet.

The Cabinet paper proposes activating a new COVID-19 Wage Subsidy

The paper seeks agreement to activate the WSSMAR21, in line with the settings previously agreed to by Cabinet

The WSSMAR21 will be a nationwide scheme, but employers must have been affected by the current escalation to Alert Level 3 or above.

The WSSMAR21 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)
- 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 staff for the duration of the subsidy, 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)
- businesses will be required to keep evidence to support their eligibility as set out in the declaration (for example, records showing the specific effects on their business and the resulting impact on revenue)
- 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 paper proposes that the revenue comparator period should be updated from the settings agreed by Cabinet in December 2020

Cabinet agreed to a default comparator period for the revenue decline to be the typical fortnightly revenue in the six weeks prior to the Alert Level escalation that triggered the scheme [CAB-20-MIN-0531 refers].

As the elevated Alert Levels that began on 14 February are likely to have depressed business revenue in Auckland and beyond, the six weeks prior to 28 February is not an appropriate comparator period, as some firms will find it difficult to demonstrate a revenue decline relative to this period.

The paper proposes that the comparator period for the revenue decline test be a typical 14-day consecutive period of revenue in the six weeks prior to the 14 February. This provides a more appropriate comparator as it was a period entirely at Alert Level 1.

The Cabinet paper seeks to authorise the Minister of Finance and the Minister for Social Development and Employment to make minor policy 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.

This includes decisions on:

- further revenue decline assessment periods should the scheme be extended beyond an initial two-week period
- the revenue decline test for pre-revenue and highly seasonal firms; and
- other minor policy and consequential policy decisions or operational settings for the WSSMAR21.

We are developing the joint advice for you and the Minister of Finance with the aim of providing it to you by 1 March 2021.

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.

Businesses will be able to get the WSSMAR21 alongside the Resurgence Support Payment

The WSSMAR21 will operate alongside the Resurgence Support Payment (RSP) delivered by Inland Revenue. The RSP is designed to support businesses meet their fixed costs, while the WSSFEB21 focuses on labour market attachment (by supporting employers to pay workers wages).

Eligible businesses will be able to receive both the RSP and the WSSMAR21 at the same time. Cabinet decisions will be required to re-activate the RSP, with the scheme expected to open on 7 March 2021.

Applications remain open for the Leave Support Scheme and Short-Term Absence Payment. Businesses will not be able to

receive the Wage Subsidy for the same employee at the same time as receiving these other payments.

Work is underway across government to ensure that there is clear communications material which outlines which payments businesses can apply for and when they will be available.

Our advice

The Ministry of Social Development is on track to implement the WSSMAR21

The Cabinet paper currently proposes that the WSSMAR21 be open for applications from Monday 8 March 2021.

If Ministers decide to bring forward implementation, MSD can implement WSSMAR21 as early as 1pm on Thursday 4th March (provided that minor policy/implementation decisions are made by 2 March 2021). This option is operationally feasible but would be less aligned to the timing of the RSP and may complicate timing for a second wage subsidy payment (if applicable).

Applications will be open for two weeks from the date of implementation. Payments will be made to Businesses (including self-employed workers) within five working days of applications opening.

As agreed by Cabinet in December [CAB-20-MIN-0531 refers], if Alert Level 3 is extended to last three weeks or more, the WSSMAR21 will be extended to provide a further two-weekly payment.

MSD will continue to administer the scheme using a high-trust model, using existing integrity measures.

Additional administrative funding for MSD is not currently required

Additional administrative funding for MSD is not required this financial year. Costs associated with the implementation of the WSSMAR21 (including FTE and IT costs) will be covered within MSD's baseline resources.

s9(2)(f)(iv) OIA

The declaration form for WSSMAR21 is being updated

Officials are updating 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:
 - typical 14-day consecutive period of revenue for a business in the six weeks prior to the 14 February (subject to Cabinet's agreement)
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- 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.
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