

Aide-mémoire



MINISTRY OF SOCIAL
DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Cabinet paper

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

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Economic response to future resurgences of COVID-19

Cabinet Committee

Cabinet

Date of meeting

14 December 2020

Minister

Hon Grant Robertson, Minister of Finance
Hon Carmel Sepuloni, Minister for Social Development and
Employment
Hon Dávid Parker, Minister of Revenue
Hon Stuart Nash, Minister for Small Business

Proposal

This joint Cabinet paper proposes a package of economic supports for use in the event of further resurgences of COVID-19 in the community. These are:

- A new Resurgence Support Payment (RSP)
- An improved Wage Subsidy Scheme (WSS)
- COVID-19 Leave Support Scheme (LSS) and Short-Term Absence Payment (STAP)
- Residential tenancy measures
- Childcare for Essential Workers Scheme.

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

Key issues

The new RSP and STAP are due to be in place from February 2021. Changes to the WSS will become available to implement as officials complete the work (see Appendix 1 for a summary of when the changes will be ready). In the interim the current WSS settings will be implemented in the event of a move to Alert Level 3 or above.

1. Resurgence Support Payment:

This scheme will be administered by IR who can stand it up early next year.

The RSP will provide one-off support for employers when the Alert Level is escalated from Alert Levels 1 to Alert Levels 2 or above. Eligibility criteria will be similar to the WSS except that a 30% revenue reduction has been chosen to reduce the 'cliff face' the

40% WSS criteria causes. The amount of the RSP (\$1,500 + \$400 per FTE) is capped at 50 FTE to target support towards smaller businesses.

The intent of the grant is to provide support for businesses for fixed costs, such as rent, when there has been a significant reduction in revenue. Unlike the WSS, there are no obligations to pay or retain staff.

2. Wage Subsidy Scheme:

While the core settings stay the same, the paper proposes changes to the scheme to improve its integrity and targeting:

- Confirming that the level of support will match the duration of the outbreak, rounded to the nearest two-week period (rec 26)
- Changing the eligibility criteria so that employers must attribute their revenue loss to the current escalation to Alert Level 3 (rather than COVID-19 generally) (rec 33)
- Changing the revenue comparison period to typical fortnightly revenue in the six weeks prior to Alert Level escalation (with exceptions for businesses with seasonal revenue fluctuations) (recs 36-38)

3. Leave Support Scheme and Short-term Absence Payment:

The LSS is available at all Alert Levels and intends to incentivise eligible employees and self-employed people to self-isolate and stay home when they or their dependents are required to self-isolate while awaiting the results of a COVID-19 test (rec 50).

Changes are proposed to the LSS to reduce the risk and extent of resurgences by supporting workers to stay home when sick, by addressing identified gaps (many workers are currently ineligible for the scheme) and inefficiencies (currently most people are required to self-isolate for 1 – 3 days, but the payment is for 14 days) (rec 52).

The introduction of a Short-term Absence Payment

- The introduction of a STAP, a one-off, flat-rate payment of \$350 to employers to support them in paying workers who: cannot work from home and need to miss a shift or more while waiting for test results in accordance with public health guidance or requirements; or have a dependent waiting for test results which means they have to miss a shift or more (rec 53)
- Significant expansion to eligibility settings to STAP to cover a broader range of people than the current LSS (rec 53)
- Proposed amendments to public health guidance recommending everyone who gets a COVID-19 test be asked to stay home while waiting for results (rec 51)

Change to when the LSS can be made available

Workers currently covered by the two-week lump sum LSS payment while awaiting a test result would no longer be eligible for this but instead be eligible for STAP in the first instance (rec 54).

The LSS will continue to be available to those who need to self-isolate for a longer period. Employers who receive the STAP could subsequently apply for the LSS if their worker is eligible and required to self-isolate for a longer duration (rec 54).

The changes to LSS and STAP will be ready to implement early next year, once eligibility settings and other policy decisions have been finalised (rec 60).

4. Other measures:

- Residential tenancy measures

In principle agreement is being sought to reinstate measures restricting residential tenancy terminations and freezing residential rent increases in the event of an escalation to Alert Level 4 (rec 45)

- Childcare for Essential Workers Scheme

Reinstating an improved scheme in the event of an escalation to Alert Level 4 that supports the ability of essential workers with children to attend work during a resurgence (rec 46)

Our advice

1. Resurgence Support Payment:

MSD's main interest with the RSP is how it interacts with the Wage Subsidy Scheme (WSS), Short-term Absence Payment (STAP) and COVID-19 Leave Support Scheme (LSS), and the consistency of definitions between them. MSD is working with IR to ensure consistency of mutual definitions across the schemes.

2. Wage Subsidy Scheme:

MSD supports the eligibility changes

MSD supports the changes to the scheme to confirm that its duration will be tied to the length of the Alert Level elevation. This will give employers more certainty and confidence to retain employees.

We also support the change to the revenue drop test. Linking the revenue drop to the most recent outbreak will ensure the scheme is better targeted and cost effective. Similarly, changing the revenue comparison period will ensure that businesses who have restructured and are otherwise profitable will not benefit from the scheme.

MSD is ready to stand-up the scheme

MSD is preparing to stand up the WSS over the holiday period in the event an escalation occurs. We are confident that we can open the scheme for applications quickly (likely within 5 days regardless of holidays). It may take longer to verify and pay applications which are unable to be automated. We are working with IR to minimise delays in this respect.

Improvements to the scheme will become available as officials complete work on them. We have included an overview of what will be ready and when in Appendix 1.

Integrity approach

We understand that PMO asked for more information on the integrity measures MSD has undertaken through the audit process.

We provided further information which was included in the body of the Cabinet paper (paragraphs 87-89, see Appendix 2)

WSS' interaction with insurance

The MoF's office has requested information on the WSS' interaction with business interruption insurance. Through the WSS declaration, employers agree to repay part or all of the subsidy if they receive insurance for any costs covered by the subsidy. This issue has not been a frequent issue in the audit process. A few employers have queried with MSD whether they have to repay the subsidy because of this obligation and have received different responses because of the varied nature of insurance structures. There is no blanket rule on whether an employer has to repay the subsidy after receiving insurance. Some insurances specifically cover the costs of paying staff, while others do not. MSD understands this has been a source of confusion for some employers and will clarify its position for any future iteration of the scheme.

3. Leave Support Scheme and Short-term Absence Payment:

There is still detail to be worked through on how the STAP and amended LSS will be implemented. MSD will hold the pen on this advice. This advice will be provided to you by late January/early February. This includes information on:

- Go live date – anticipate from mid-February 2021
- Repayment obligations
- Interactions between the LSS and STAP (i.e. time between applying for each)
- Finalised policy decisions (i.e. can a person only receive one STAP per test)
- Obligations that need to be covered in the declaration
- How to mitigate identified risks (outlined below).

Risks:

It is difficult to anticipate the take-up of the STAP but it is possible that it will require a significant amount of additional FTE – MSD will provide you with advice on how best to approach staffing.

MSD will operate the payment in a high trust manner with little verification or auditing as it will not be possible to check whether the employee has had a test and needs to stay home (rec 57).

LSS and STAP eligibility criteria needs to be finalised around health guidance. It will be critical that MSD works closely with the Ministry of Health, to ensure the guidance is fit for purpose.

Communications:

The Minister of Finance is proposing to publicly announce the resurgence support package before Christmas.

Because a significant amount of the operational detail is still to be determined through further advice early in 2021, we consider a high-level announcement would reduce the risk of providing inaccurate information on the specifics of the supports.

MSD's ability to deliver multiple schemes and BAU:

In the event of an escalation to Alert Level 3 or higher, MSD may need to provide a significant number of payments for the WSS as well as continue to pay LSS and STAP as required. MSD's ability to process applications under the STAP will be limited in situations where applications are open for WSS. Any resurgence may have a flow-on impact on our ability to deliver on other work such as the Flexi-Wage expansion or meeting the peak demand for seasonal work (rec 59).

Talking points

Leave Support Scheme and Short-term Absence Payment:

- Linking eligibility for the STAP and LSS to Ministry of Health's guidance makes it easier for employers to determine any entitlement.
- The paper identifies a range of risks for MSD relating to the amended LSS and the introduction of the STAP including that:
 - this will be a high-trust scheme,
 - there will potentially be significant staffing implications
 - further work is needed to confirm final eligibility settings.
- MSD has work underway on policy settings that can address some of these risks prior to planned implementation in mid-February 2021.

MSD's ability to deliver multiple schemes and BAU:

- In the event of a move to Alert Level 3 or above, there will be considerable pressure on MSD to deliver support package products and this may have a flow-on impact on MSD's ability to deliver on other commitments, such as the Flexi-Wage expansion.

Communications:

- It is important that any public announcement on the resurgence support package doesn't inadvertently get ahead of decisions still to be made on eligibility criteria on the STAP and LSS.

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Appendix 1 – Information on timings for WSS

When will improvements to the WSS be ready?

The Cabinet paper notes that not all of the agreed improvements will be ready immediately in the event of an outbreak (rec 77). In the event of an outbreak officials will prepare a Cabinet paper or report to joint Ministers (depending on delegations and timing) which will outline what improvements will be ready.

Improvements ready prior to Christmas

- Payments to match the duration of the outbreak, rounded to the nearest two-week period (rec 26).
- Increasing visibility and publicity around audit, enforcement and repayments, including through Ministerial consultation (rec 32.1) – we will contact your office to discuss this in the near future.
- Improving guidance for applicants to reduce error rates and improve automation (rec 32.2)
- Changing the eligibility criteria so that employers must attribute their revenue loss to the current escalation to Alert Level 3 (rather than COVID-19 generally) (rec 33)

Improvements we are endeavouring to have ready prior to Christmas but may take longer

- Changing the revenue comparison period to typical fortnightly revenue in the six weeks prior to Alert Level escalation (with exceptions for businesses with seasonal revenue fluctuations) (recs 36-38)

Improvements likely not ready until February

- Clarifying the rules under the scheme including the definition of 'revenue' and eligibility of company groups (this will take time and will need to be consistent with IR's RSP definitions)

Appendix 2 – wording on MSD’s integrity approach (paras 87 – 89)

MSD’s original approach to WSS integrity built on the applicant declarations for each scheme and included pre- and post- payment checks of employer details, a coordinated complaints process, a thorough investigations process, and a repayment process. This approach has been refined over time, and enhancements made for later schemes will carry through to future schemes.

These include enhanced up-front controls, and the exception of applications that appear to pose some integrity risk in relation to their entitlement for previous schemes (including where repayments have been requested).

Pre-payment validation of information with IR and pre-payment checks of large employers (with more than 80 employees) will also apply to future schemes. This includes more detailed discussions with these large employers to ensure their information is correct, that they met the eligibility criteria before approval, and that they understand their obligations under the scheme.

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