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Announcement by Deputy Prime Minister and Minister of Finance the Hon. Mark Brown

Cook Islands COVID-19 Economic Response Plan: Phase II Progress Report and announcement on the Wage Subsidy scheme

16 August 2020, 6pm

Kia Orana

Introduction

I know many of you will still be feeling a sense of disappointment and shock at the news of the COVID outbreak in New Zealand this week. While the news has changed our outlook slightly, it should not come as a major surprise, this news is a part of our new reality our ‘new-norm’, a world in which we need to be aware, be prepared and be able to react quickly to any sign of the virus.

It is for this reason that we made the decision this week to close our border again, acting quickly to ensure our safety. It is also for this reason that we will continue to work hard with New Zealand to ensure that we can open, when it is safe, and that we will do so, as safely as possible, to make sure we protect our people and our country. As with everything, the situation with our air bridge is still up in the air, but we hope that over the coming weeks we will have more certainty.

As that work continues with our taskforce, and as New Zealand act to get on top of their cluster, I am here today to provide you with an update on the progress on our Government’s Economic Response Plan, and to provide you with some reassurances for the months ahead.

Phase II performance update

You will recall that Phase II of our Economic Response Plan, with a total value of \$76 million, and supported by a budget appropriation of \$64 million, comprises three themes:

- **Lifeline support:** Continuing the short-term focus on supporting the livelihoods of people and businesses that we started in Phase I back in April.
- **Recovery:** Kick-starting economic growth over the medium-term with a number of new measures designed to encourage investment.
- **Transformation:** Moving to a smarter, greener economy over the longer-term with several new smart, and I daresay, innovative ideas to encourage a more diversified and resilient economy.

While many have asked about the timelines for the wage subsidy, I do want to remind you that many of our other support initiatives already extend beyond 30 September.

Lifeline Support: Supporting livelihoods

The aim of Lifeline Support is to reduce the financial stress that many of you are facing right now.

Wage Subsidy

The key measure under Lifeline Support is the Wage Subsidy, which targets businesses that have been badly hit by COVID-19, and is designed to ensure that employers keep their staff on the payroll and keep business going as best as possible under the current circumstances. The Wage Subsidy as you recall was extended until September under Phase II, at an increased rate of \$320 per week for full-time staff.

Last week I asked my officials to broaden the application of the Wage Subsidy to ensure that eligible Company Directors have the ability to be paid the wage subsidy at the full-time rate, as opposed to the part-time rate, from the August subsidy, broadening the support provided.

As of 14 August, 307 businesses have received the wage subsidy for July, with 2388 staff receiving the wage subsidy. The total private sector workforce in our country is approximately 6,000 employees. This means around 40% of all workers rely on the government wage subsidy. This has resulted in total funding of \$3.1 million for the July month alone. So far, over the life of the Economic Response Plan we have provided total support of \$14.4 million under the wage subsidy.

Interest Hibernation Program

The Interest Hibernation Program aims to support Cook Islands businesses and individuals by reducing the burden of existing debt held with Cook Islands commercial banks. Under this program, the Government will cover 70 per cent of interest from all applicable loans from 1 July 2020 to 30 June 2021, up to the maximum relief of \$175,000 per individual or business.

The Government is close to signing the final contracts of this eagerly anticipated program with the commercial banks. I know that some of you have been concerned that you are still seeing your interest being added to your account, but please be assured that the 70 per cent will be paid by MFEM in October for the period July to September, and again in January for the period October to December, and will continue until June 2021. Many of you who will receive this interest relief also own rental properties. If you are getting help with your loan repayments then please pass that help on to your tenants who are also struggling at this time.

Tax-free threshold

For those of you that do take a look at your pay slips, you will have noticed a small reduction in your PAYE Tax deduction. This is due to the Government raising the tax-free threshold for individuals from the current \$11,000 per year to \$12,800 on 1 July. We will raise it further to \$14,600 from 1 January 2021 to put more money in the pockets during the next year. This is a permanent measure that will remain in place even once the economic situation returns to normal.

Unemployment Benefit

While the Government's focus is on keeping people actively engaged in the workforce, the Phase I unemployment benefit measure was extended from 1 July to 31 December at a rate of \$266 per week for the first 4 weeks of unemployment, dropping down to \$150 per week for the following 3 months.

As of 11 August, we had 17 people receiving the unemployment benefit extension, meaning that we have 17 people that have been unemployed for more than 4 weeks who have registered with INTAFF.

Hardship Fund

The Emergency Hardship Fund, was established to provide quick and easy payment assistance to help families get back on their feet. While only 2 people

have recently applied and are being processed, no funding has yet been paid out to other recipients. But this is a fund that we have set up for cases of genuine hardship, it is there if you need it. I encourage you to come forward to the Ministry of Internal Affairs if you find that you are in hardship and need the support, our Government stands ready to provide help.

Business Continuity Credit Facility

The Business Continuity Credit Facility, a collaboration with Bank of the Cook Islands, supports access to low cost financing to allow businesses to weather the economic storm and minimise business closures with increased working capital for daily cash-flow needs

The facility, which provides loans at a rate of 3 per cent, has had 62 applications as of 14 August, with 4 approved and our first loan paid out on Friday the 14th.

The Credit Facility is open for applications until 30 September at the latest, so I would encourage those of you that are interested, but have yet to put in an application, to ensure that you apply by that deadline.

Sole Trader Grants

For sole traders, who are not eligible for the Credit Facility, the Government has provided another one-off cash grant of \$3,000. As of 14 August, 308 sole traders have applied for and received the second grant, for a total value of nearly \$1M.

Business trading protection & debt hibernation

In July, the Government introduced new legislation that provides temporary protection for company directors who trade whilst insolvent, and gives businesses protection from their creditors.

The company director protection introduces a ‘protection period’ for directors of financially stressed companies, this suspends director liability in respect of insolvent trading under the Companies Act 2017. The debt hibernation measure provides businesses (companies, partnerships, sole traders) that file the required notice, with a 3-month protection from creditors’ enforcement action on existing debt. You can file the notice on the new COVID-19 BDH registry on the Ministry of Justice website.

Superannuation, electricity

You will also be aware that the Government extended the reduction in superannuation contributions for both employees and employers for another 3 months, with a further reduction from three to one percent. In addition, electricity discounts are being provided in both Rarotonga and Aitutaki.

Recovery – Kick-starting growth

As you know we have three themes of support, the second is Recovery – Kick-starting our growth. We know that the pain of COVID will be here even after our borders reopen, whenever that may be. To ensure that growth continues, we have introduced several new, integrated growth initiatives from July.

Training Subsidy

For the last three years we have faced a significant skills shortage, and even now, during a substantial economic downturn, we still have constraints in some sectors and instances where no applications are received for jobs. To encourage people and businesses to upskill, we have introduced two measures.

The Training Subsidy is a complementary measure to the Wage Subsidy. Those businesses that put 75% of their employees through training and applied for the training subsidy have guaranteed wage support through to September, regardless of whether business picks up before then. At the end of the training program, the business will receive a training grant. To date, 50 businesses are on the training subsidy, with a total of 650 employees covered by these payments.

Fees Free

As many of you know we also have a broader skills initiative - Fees Free, which is open to anyone, at the Cook Islands Tertiary Training Institute and a select number of certificates offered by the University of the South Pacific between June and December 2020. As of 31 July, almost 2000 people have registered for Fees Free courses. Nearly 200 have taken up USP courses and the rest have enrolled at CITTI. This is a tremendous number of people that have chosen to take the opportunity to upskill and gain a qualification.

Business tax incentives

As of 1 July the Government is offering tax measures such as accelerated depreciation to encourage business investment in new productive equipment,

buildings and other capital works, to accelerate economic growth the other side of the pandemic. These measures will be in place until 31 December 2021.

Business Growth Loan Program

The Business Growth Loan Program, a collaboration between the Government and Cook Islands commercial banks that choose to join, will provide low cost Government-guaranteed loans to those businesses that wish to invest in upgrading or expanding their business.

The Government will provide an 80 per cent loan guarantee, and is targeting interest rates of 5 to 6 per cent per year, with up to \$15 million of new loans supported by this program. We are close to making the final arrangements for this program in partnership with the banks. With just some finer details of the agreement to finalise.

I therefore expect the program to be open for applications within days not weeks. And it will remain open until available guarantee funds are exhausted, subject to funds borrowed under a business growth loan being drawn down by 30 June 2021 at the latest.

Transformation: Moving to a smarter, greener economy

Last, we move to the theme of transforming our economy. The Government is implementing three key diversification and sustainability measures in Phase II of our Economic Response Plan.

SMART Economy Initiative

The SMART Economy Initiative is intended to stimulate innovative, commercially viable ICT business ventures. These are on the back of the improved internet connectivity following the commissioning of the Manatua Cable and the recent reforms of the monopoly telecommunications market. The initiative provides grants and tax credits to support commercial business ventures providing innovative ICT applications and services to business and consumers in the Cook Islands and abroad. A total of \$2 million in grant funding is available under this initiative.

The initiative has a two-stage application process. As of 14 August, we have had 15 Stage 1 applications, with 8 approved to proceed to Stage 2. We have received 1 completed Stage 2 application and expect to make the first grant in the next few weeks.

Smart AgriTech Scheme

The SMART AgriTech Initiative is designed to foster innovation and productivity in our commercial agricultural sector. The scheme provides grant funding to support investment in smart, productivity-enhancing agricultural technology and equipment to improve the commercial viability of agricultural businesses and the economic sustainability of the agricultural sector. A total of \$1 million in grant funding is available under this scheme.

The scheme has a two-stage application process, with applications assessed by the AgriTech Panel. As of 14 August, we have had 8 Stage 1 applications, with 2 approved to proceed to Stage 2.

Both the SMART Economy and AgriTech measures will remain open for applications until the available grant funds are exhausted.

Green accelerated depreciation measure

The third measure is an enhanced accelerated tax depreciation initiative to encourage business investment in environmentally sustainable assets, with a focus on greening our economy. This measure will be available until 31 December 2021.

Wage Subsidy extension

I can now turn to the topic that many have been asking about – what we plan to do with the Wage Subsidy after 30 September.

We acknowledge the uncertainty facing businesses as we approach the half-way mark of this critical support measure, particularly given the recent setback of the COVID outbreak in Auckland. As such, I am pleased to announce that our Government will extend the Wage Subsidy by a further 3 months, that is, from October until the end of December this year.

This extension will remain in place regardless of whether quarantine free-travel with New Zealand is established earlier, which I still hope will be the case. The Wage Subsidy will be extended on the same terms and conditions that are currently in place – that is, \$320 per week per full-time employee and half that for part-time employees. Equally, business will no longer be eligible for the subsidy if at any time their turnover increases to more than 50 per cent of the turnover in the same month last year.

I trust that this announcement will provide some certainty to businesses, to better enable them to plan until the end of the year, and to their employees, to provide them with assurance that Government wage support will continue and that hardship will be reduced.

I know that many of you are also sole traders and are equally affected by the closure of borders. To address this, the Government will also provide another sole trader business grant in October of \$3,000 to current recipients to ensure that you receive continued support.

Fiscal impact

No doubt this extension announcement will come as a surprise to those who believe that the Government is about to run out of money. However, let me assure you of two things. First, we expect the Wage Subsidy extension to fall within our current 2020/21 budget appropriation, that means that all of the budget fiscal forecasts remain the same – as a Government we are not proposing to spend more money, rather we are prioritizing within our appropriated expenditure and are now better able to forecast the total spend.

Second, we are closely monitoring our fiscal position and forecasts within this ever-changing environment, our officials are again running the numbers and looking at both best and worst case scenarios and the Government's required response. I want to reassure you that we will take the necessary steps to ensure that we remain financially sustainable as we navigate our way through this pandemic.

While we do not yet have our economic data from April, I can tell you that our revenue to July has held up a little better than we had anticipated, with above forecast tax collections – we believe that this is evidence that the Economic Response Plan is working – people are spending their money and economic activity is taking place, we also know that this is in part due to the strict tax compliance requirements built into the ERP. That means, if you want to receive the government support package then register yourself or your company, this makes sure that everyone receives their fair share and everyone pays their fair share of tax. By doing this more of our people will receive more of our support.

The news from New Zealand has however made things that little more uncertain impeding our ability to develop a strong picture of the economy – for now. In the coming weeks we will get more data and the situation will become clearer.

In the meantime, our Government will continue to support our economy, through the ERP, and through the numerous infrastructure projects taking place around our islands. We continue to work together, Government, private sector and the community, to ensure that our country gets through this pandemic together, as one. Many of you will recall the talk I gave back in March when we first closed our borders. My message was simple, let us all do what is possible, let God do what is impossible. That message still stands today. May God continue to bless our people and our country.

Meitaki Ma'ata, Kia Manua.