SUBMISSION

Consultation on the New Zealand Income Insurance Scheme

April 2022

Restaurant Association of New Zealand submission to the Ministry of Business, Innovation and Employment

(09) 638 8403
info@restaurantnz.co.nz
Restaurant Association of New Zealand
45 Normanby Rd, Mt Eden
Auckland 1024

Executive Summary

While the Restaurant Association understands the need for the New Zealand Income Insurance Scheme, we are concerned by several provisions within the discussion document that we would like to see addressed, particularly as they relate to the hospitality sector and pressures placed on employers.

The government has gone to great lengths in recent months to acknowledge that, while the majority of the economy is operating close to normal, the hospitality sector has experienced a significant drop-off in business[1]. With the refinement of the COVID Protection Framework, and a recent move to orange, our sector is only just now looking like we are entering the early stages of recovery.

With that in mind we are concerned the discussion document takes a suspicious and negative view of employers. All Restaurant Association members have been impacted by COVID-19, some severely so, and such negative undertones is an affront to the efforts made by hospitality operators over the past two years to keep their businesses solvent and their workers connected to employment. Having a discussion document that proposes sweeping changes which will once again erode financial stability and business confidence is something our sector views with grave concerns.

Notwithstanding, we believe support inherent in the Scheme is positive for those most vulnerable and it is an important protection for those who, through no fault of their own, find themselves displaced from work.

As such, the Restaurant Association makes the following recommendations:

- **Recommendation 1**: The Scheme should be funded through general taxation instead of levies on employees and employers.
- **Recommendation 2**: The Government should fund contributions for the first two years of the Scheme for those sectors most acutely impacted by COVID-19 such as hospitality.
- **Recommendation 3**: The cap on leviable and insurable income should be reduced to $60,000 to ensure support is targeted to those who need it most.
- **Recommendation 4**: A contribution cap should be introduced as part of the Scheme, to ensure that those who are not claiming insurance do not continue paying premiums for a Scheme they do not utilise.

[1] PR: New financial support for businesses affected by Omicron

- **Recommendation 5**: Bridging payments should not be introduced and the Scheme should instead focus on clear enforcement standards, including penalties for those employers who manipulate the Scheme.

- **Recommendation 6:** Outstanding circumstances such as a global financial crisis, pandemic or natural disasters should not impact employer ratings.

Introduction

1. The Restaurant Association of New Zealand (the Restaurant Association) welcomes the opportunity to make a submission on the government consultation on the New Zealand Income Insurance Scheme (the Scheme).

2. It is worth noting at the outset we believe the Scheme is a necessary and important protection for those who, through no fault of their own, find themselves displaced from work. Certainly, the pandemic illuminated the precarious state of workforce settings and skills shortages across a number of sectors.

3. While we acknowledge the intent of the protections offered by this Scheme, the consultation has come at an unfortunate time for our sector.

4. The government has gone to great lengths in recent months to acknowledge that while the majority of the economy is operating close to normal, the hospitality sector has experienced a significant drop-off in business.

5. With the refinement of the COVID Protection Framework and the recent move to orange, our sector has finally settled into the early stages of recovery.

6. However, a discussion document that proposes sweeping changes, which will once again erode financial stability and business confidence, is something our sector views with much disdain.

7. In addition, we are concerned the discussion document takes a suspicious and negative view of employers. While all sectors have unscrupulous operators that we must disavow and protect employees from, taking a generally negative approach to employers fails to acknowledge the vast majority who do the right thing by their staff.

8. All Restaurant Association members have been impacted by COVID-19, some severely so, and such negative undertones is an affront to the efforts made by hospitality operators over the past two years to keep their businesses solvent and their teams connected to employment.

9. The pandemic was a stark reminder of how many hospitality proprietors consider their team, their whānau. Rather than cull in order to shore up profit margins, many of our members reported letting go of staff only to ensure the existence of their business in the future. Many of these employers found it difficult knowing they could not ensure any ongoing financial support to their employees.

10. Despite this in-principle support for select elements, we remain concerned with the proposals across several areas that we would like to see addressed, particularly as they relate to the hospitality sector and the pressures placed on employers.

11. Realistically the recovery from COVID-19 for hospitality is going to be long and challenging as we grapple with skills shortages, increasing costs of doing business and lingering uncertainty.

12. We have weathered over two years of subdued trading and it will take time to pay down increased debt and build our reserves as a sector. Our members have only recently been able to take the first steps towards the beginning of any real recovery following the move to orange on 13 April 2022.

Cost of the Scheme

13. The Restaurant Association is concerned at the lack of data provided regarding the anticipated financial impact on businesses.

14. The table at Appendix A1 (page 10) sets out the total annual and weekly levy payable by $10,000 salary point, the cost of which is set to be split equally by both employers and employees.

15. At first glance an employer being required to pay a levy of $692.50 on top of an annual salary of $50,000 may not seem like much, however as shown in the figure at Appendix A2 (page 10), 76% of our members employ between 0-20 staff.

16. This means 76% of our members will be paying up to an extra $13,850 per year, a large additional cost for a medium to small business in the hospitality sector.

17. The average profit margin for hospitality is between 4-7%. Other industries may be able to increase their prices to meet changes in the cost of doing business, there is only so much that consumers are willing to pay for a cup of coffee.

18. Therefore our primary recommendation is that the Scheme be funded from general taxation, rather than a levy on employers and employees.

Recommendation 1: The Scheme is funded through general taxation instead of levies on employees and employers.

19. If the Scheme cannot be funded from general taxation, we recommend the government funds the Scheme for the first two years of its implementation for those sectors who have been most adversely affected by COVID-19 such as hospitality - the effects of which are shown in the figure at Appendix A3 (page 11).

20. A grace period of two years will, at the very least, support the hospitality sector to rebuild, reset and prepare for the additional costs incurred under the Scheme.

Recommendation 2: The Government should fund contributions for the first two years of the Scheme for those sectors most acutely impacted by COVID-19 such as hospitality.

Proposed income cap

21. The Scheme discussion document makes the case for a cap on insurable and leviable income set at the same rate as the accident compensation scheme, currently $130,911. Such a cap would entitle someone earning that salary to compensation of $2,014 per week - equivalent to an annual salary of more than $104,729.

22. Given the desire to ensure the Scheme supports those who find themselves displaced back into employment, the Restaurant Association submits such a high rate of coverage would not provide any incentive to look for work during the insurance period. In fact, a rate this high would entitle the recipient to insurance payments equivalent to just shy of twice the median wage.[2]

23. We submit the Scheme's cap should be lowered, and recommend a cap of $60,000 in order to ensure the support provided by the Scheme is targeted towards those who need it most.

Recommendation 3: The cap on leviable and insurable income should be reduced to $60,000 to ensure support is targeted to those who need it most.

24. For a small business, a cap of $60,000 would provide some security by limiting the additional cost to an employer of this Scheme to an annual maximum of $831 per

[2] Based on the July 2021 median wage of $27 per hour and the equivalent 1.0FTE salary of $56,160.

employee, while still supporting displaced workers with insurance payments of up to $923 per week.

25. If the Scheme's cap cannot be lowered across the board we suggest sector based income caps, set at $60,000 for the hospitality sector. As outlined in the table at Appendix A4 (page 11), this would reflect coverage for over 90% of Hospitality workers

26. We also consider it important to note that the financial impact of the Scheme on employers means there is a possibility the Scheme will have a direct negative impact on wage growth.

27. For a sector with such narrow profit margins, this change will undoubtedly impact business bottom lines, and hamper the ability of the sector to maintain wage growth at their current rates.

28. For example, despite the pandemic the hospitality industry performed well when it came to wage growth - wages increased by an average of 6.5% in the year to June 2021, surpassing the 2.1% increase recorded across all industries over the same period[3].

29. Skill shortages across the industry continue to drive fierce competition for workers and this, along with minimum wage increases, the low unemployment rate and a rise in immigration remuneration salary thresholds, are key factors pushing wages upwards.

30. To address this issue, we suggest the introduction of a maximum contribution amount for those who have not made a claim under the Scheme, capped at or near the equivalent entitlement of the maximum leviable and insurable income.

Recommendation 4: A contribution cap should be introduced as part of the Scheme, to ensure that those who are not claiming insurance do not continue paying premiums for a Scheme they do not utilise.

31. Assuming a maximum leviable and insurable income of $60,000 for the purposes of this calculation, contributions would be capped at $24,000. For someone earning the maximum leviable amount or more, it would take approximately 14 years of full time employment to reach the contribution cap.

[3] Statistics New Zealand 2021 Labour Market Statistics

32. A contribution cap also acts as recognition of the near-zero cost from the majority of society who will never make a claim under the Scheme and who, without a cap on contributions, would spend their entire working lives paying for a Scheme they never use.

Integrity of the Scheme

33. The Restaurant Association agrees with the position that employers should give at least four weeks' notice to employees (and therefore the insurer) before redundancy takes effect. We consider this a sensible measure that allows all parties to prepare for their immediate futures and mirrors current best practice when giving notice to employees.

34. However, the proposal to introduce bridging payments poses a significant financial challenge for our members.

35. The table at appendix A5 (page 12) shows the cost to employers of the proposed bridging payment arrangement by $10,000 salary point.

36. Insolvency or restructuring is one of the most difficult times of any business owner's life. Expecting a small business to pay anywhere from $1,800 to more than $8,000 over four weeks to each former employee only increases the pressures faced by businesses owners at the point when bridging payments are to be triggered - in fact, more than 93% of our members said they would simply not be able to afford these costs.

37. The inclusion of a caveat whereby employers become eligible for a refund of their bridging payment if they assist with the redeployment of displaced staff - while an admirable attempt at mitigating the financial impact to employers - fails to recognise these pressures being faced by those who are in the process of becoming insolvent.

38. There is also potential for an increased risk of insolvencies with such a rise in the cost of restructuring.

39. It is our view that bridging payments imposed on those who are already grappling with the decision of whether or not to close their business, will be pushed to closure far earlier than anticipated with such a marked increase in the cost of closing the business.

40. Clearly these outcomes have been considered, with reference to the recovery of bridging payment costs from liquidators where an employer becomes insolvent and cannot afford the bridging payments.

41. While we understand the desire to prevent gaming of the Scheme, such a one-sided solution to what is at present a theoretical issue is an unfair and callous penalty for businesses who are already facing financial non-viability by the time this clause is triggered.

42. Taking such a punitive approach towards businesses based on the generalisation that employers will be looking for loopholes in the proposed Scheme is an affront to those employers who have done the right thing by their teams throughout the pandemic, and are at present focused on rebuilding their businesses.

43. For these reasons, the Restaurant Association does not support the introduction of bridging payments as part of the Scheme.

44. Instead we recommend a focus on the introduction of well thought out and resourced enforcement processes along with strident penalties, as a fair and equitable way to address potential gaming of the Scheme.

Recommendation 5: Bridging payments should not be introduced and the Scheme should instead focus on clear enforcement standards, including penalties for those employers who manipulate the Scheme.

45. The Restaurant Association believes we should be encouraging entrepreneurship in Aotearoa New Zealand and a poorly structured employer rating regime could conceivably impact such a mindset.

46. As such, we support the introduction of employer ratings which recognise the rare but sometimes necessary restructuring and or closure of a business.

47. A solitary instance of redundancy, closure or restructuring should not impact an employer's rating. We suggest that employer ratings should only start being negatively impacted if there is more than one instance of such an action being taken within an 18 month period.

48. This would prevent scrupulous employers from being deemed 'bad' employers, after taking a rare but necessary step in securing the conduct of their business.

49. Given the experience of the majority of our members who have significantly altered their operations in direct response to New Zealand's COVID-19 approach, we

recommend that outstanding circumstances such as a global financial crisis, pandemic or natural disasters should not impact employer ratings, with specific settings to be further designed in consultation with all sectors.

Recommendation 6: Outstanding circumstances such as a global financial crisis, pandemic or natural disasters should not impact employer ratings.

About the Association

50. The mission of the Restaurant Association of New Zealand is to be the link between good food and good business so that our Member's restaurant or café can succeed. We're passionate about our vibrant industry, which is full of interesting, talented and entrepreneurial people.

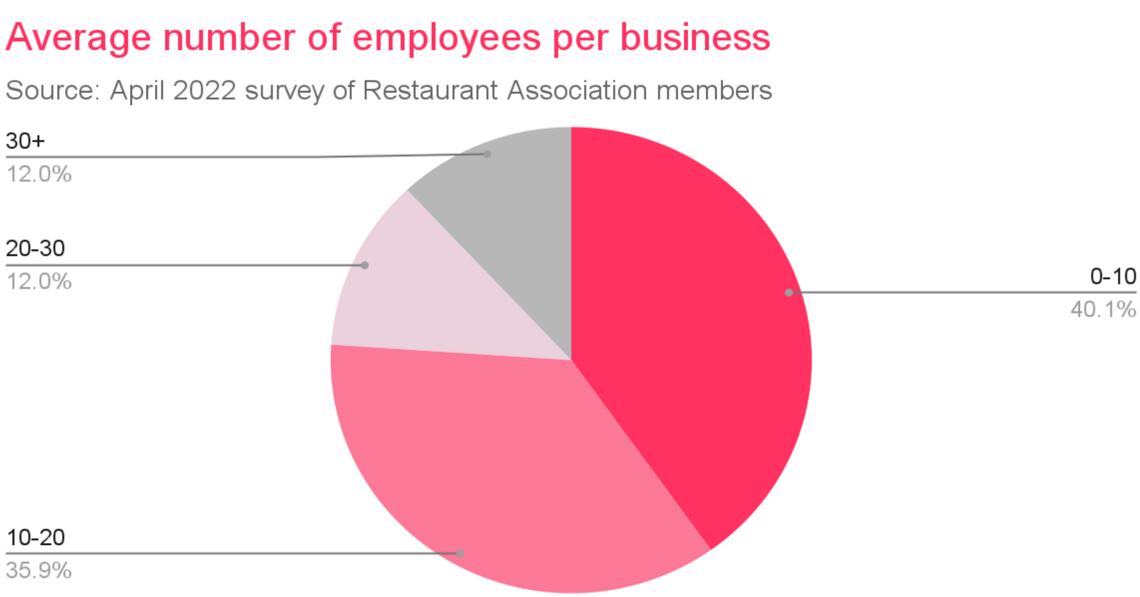
51. Since 1972, the Association has worked to offer advice, help and assistance in every facet of the vibrant and diverse hospitality industry. We are the representative body for more than 2,500 hospitality businesses, with Members covering the length and breadth of the country. We are organised into 13 regional branches and led by a national office located in Mt Eden, Auckland.

Appendices

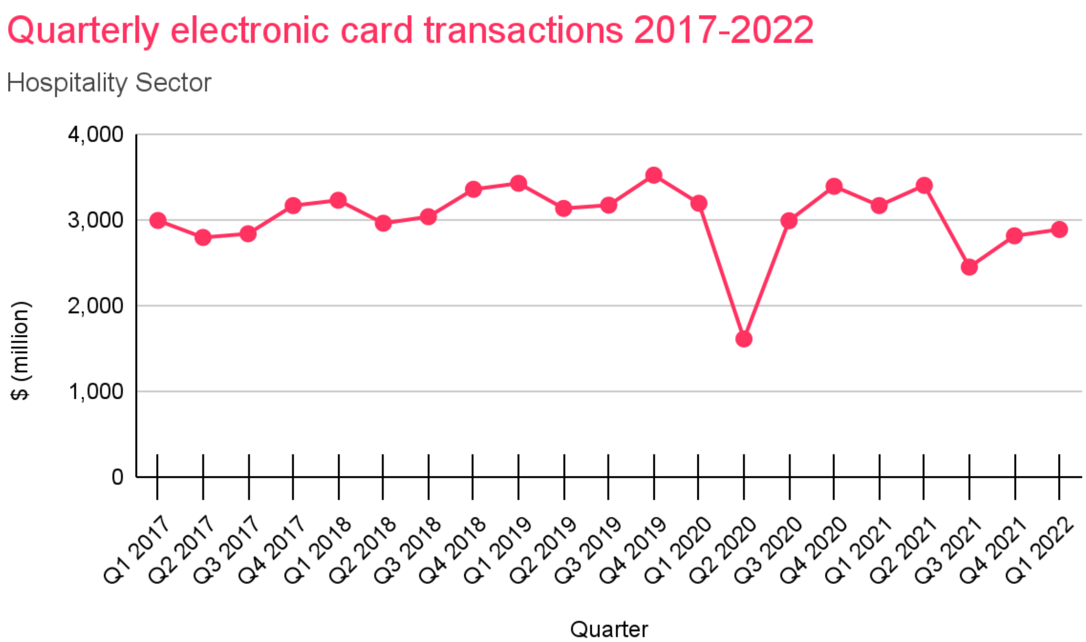
A1: Levy costs by $10,000 salary point

Annual Income	Total Annual Levy	Weekly Income	Weekly Levy
$30,000	$831	$576.92	$15.98
$40,000	$1,108	$769.23	$21.31
$50,000	$1,385	$961.54	$26.63
$60,000	$1,662	$1,153.85	$31.96
$70,000	$1,939	$1,346.15	$37.29
$80,000	$2,216	$1,538.46	$42.62
$90,000	$2,493	$1,730.77	$47.94
$100,000	$2,770	$1,923.08	$53.27
$110,000	$3,047	$2,115.38	$58.60
$120,000	$3,324	$2,307.69	$63.92
$130,911+	$3,626.23	$2,517.52	$69.74

A2: Average number of employees per business



A3: Hospitality sector quarterly electronic card transactions 2017-2022



A4: Number of employees per $10,000 salary band

Annual Income	Salaried Employees	Waged Employees[4]
$40,000-50,000	120	10,005
$50,000-60,000	364	1,467
$60,000-70,000	416	537
$70,000-80,000	21	21
$80,000-90,000	87	46
$90,000-100,000	7	8
$100,000+	89	1

[4] The classification of waged employees by salary band is based on the calculation of hourly wages to the equivalent of a 1.0FTE salary.

A5: Bridging payment cost by $10,000 salary point

Actual Annual Income	Weekly Bridging Payment	Total Bridging Payment
$30,000	$461.54	$1,846.15
$40,000	$615.38	$2,461.54
$50,000	$769.23	$3,076.92
$60,000	$923.08	$3,692.31
$70,000	$1,076.92	$4,307.69
$80,000	$1,230.77	$4,923.08
$90,000	$1,384.62	$5,538.46
$100,000	$1,538.46	$6,153.85
$110,000	$1,692.31	$6,769.23
$120,000	$1,846.15	$7,348.62
$130,911+	$2,014.02	$8,056.06