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IN-CONFIDENCE

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

TE TAI ŌHANGA
THE TREASURY

Joint Report: An Intervention Strategy for Economic Policy Responses to COVID-19

Date:	Friday 6 March	**Report No:**	T2020/480
		File Number:	SH-1-6-1-3

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Direct** officials to prepare further detailed economic policy responses for Cabinet decisions	9 March 2020
Hon Phil Twyford **Minister of Economic Development**	**Refer** this report to Ministers on the CVD Cabinet committee, the Ministers of Social Development and Revenue, and any others at your discretion.	

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Udayan Mukherjee	Senior Analyst, Transitions Regions and Economic Development, The Treasury	s9(2)(k) [redacted]	s9(2)(g)(ii) [redacted]	✓
Dean Ford	General Manager, Economic Development and Transitions, MBIE			
Bryan Chapple	Deputy Secretary, Macroeconomics & Growth, The Treasury			

Minister's Office actions (if required)

Return the signed report to Treasury.
Refer to Ministers on the CVD Cabinet committee, and others at the discretion of the Minister of Finance.

Note any feedback on the quality of the report	

Enclosure: No

Joint Report: An Intervention Strategy for Economic Policy Responses to COVID-19

Executive Summary

It is clear already that COVID-19 will have a substantial and prolonged impact on the New Zealand economy. The most up-to-date data internationally suggests that the quarantine measures taken, especially in China, are very disruptive to global economic activity, through interconnected demand and supply chain impacts and financial system channels. A more severe outbreak of COVID-19 in New Zealand (or Australia) would lead to significantly lower growth longer-term – including potentially a recession.

Officials and Ministers will not know with certainty how serious the situation will become in real-time. The Government has a range of economic policy tools available to alleviate the situation as it develops. Decisions on how to use these tools will need to balance the risks of moving too early and potentially spending or locking in money unnecessarily, or moving too late to support affected firms and individuals when they need it.

Further analysis and data will help, but there are no unambiguous 'trigger points' that would make these judgements obvious. Nevertheless, clear and frequent communication about the Government's assessments, plans and options will help maintain confidence and reduce uncertainty in the community, which will itself help to sustain economic activity more broadly.

Annex 1 provides a summary of the main economic policy options that officials recommend be further developed in preparation for Cabinet decisions, either soon or if the situation deteriorates further. This will allow further work to understand implementation requirements, so that Ministers will be able to make more informed choices as the situation develops.

The current expansionary fiscal stance, and the capital investment package announced in December are supporting the economy, as well as the automatic fiscal stabilisers – that is, a reduction in tax receipts and an increase in welfare payments. Supportive monetary policy and an exchange rate depreciation have also provided macroeconomic support.

Therefore, given current information, unless a major economic slowdown becomes more likely in New Zealand, we consider that implementing a range of targeted measures should be the priority. These should have the objective of supporting firms that face cash flow challenges and maintaining employees' attachment to the workforce.

This will involve some additional fiscal spending, that could also act to support confidence and demand more generally. The banking sector's role in supporting firms facing cash flow challenges is also critical. We understand banks have prepared hardship packages for customers and are expecting demand for these to increase.

For individuals, most support will come via the normal operation of the benefit system. At Cabinet's direction, officials are already working on options for redeploying forestry workers to other sectors. However, there is also merit in developing further options to increase training and re-deployment for affected workers particularly where an affected sector is facing other market challenges and it may be helpful to retrain workers for different sectors. It will also be important to develop options to provide support to vulnerable individuals and families through community wellbeing and income support packages.

We also recommend that officials develop options for temporary wage subsidies for workers – focusing on specifically affected regions and where loss of labour market attachment is a

presenting risk. A major risk of implementing such a wage subsidy is that there will be pressure to extend it very widely or to maintain it longer than necessary. Such effects might impede desirable processes of economic transition in subsidised firms or sectors.

For businesses, there is some support currently available via Inland Revenue in of the form of relief from late filing and payment fees, and help to set up instalment plans to manage tax debt. Further support could be made available via grants or tax credits to targeted firms. This would be administratively complex, particularly if assessments need to be made about eligibility, whether delivered through the tax system or as a grant, as government does not have a system set up to do this at scale.

It is also worth noting that Inland Revenue are due to make a significant system change over Easter and then immediately enter a peak demand period following the issuing of tax assessments to customers. Diverting administrative focus from that to setting up new interventions could have an impact on how well the changes are embedded, and the ability to manage customer demand. Because of that, and because wage support targets both firms and helps maintain workforce attachment, we recommend focussing initially on wage subsidies.

A simpler alternative, which would send a signal of support, would be to reduce the interest charged by Inland Revenue for tax debt. This rate is currently 8.35% and could be reduced. This would provide some support to struggling firms who are late with tax payments. Retaining some level of interest is useful to retain an incentive for healthy firms to make tax payments on time. This measure could be taken for all firms and would therefore not require complex eligibility calculations.

An additional way to support firms could be through a programme to provide working capital lending. The Treasury's Export Credit Office already provides services along these lines to some exporters, in partnership with banks. At the moment, it is small-scale and targeted at a very specific part of the market. As with business grants or tax credits, it would require work to develop this option for other firms, but we recommend Ministers direct us to do that.

Should the situation require a macroeconomic policy response, our advice is to calibrate the response to how the shock transmits through the economy. This will differ, depending on the extent to which further disruption is global or domestic. There is scope for a further fiscal policy response given the healthy fiscal position, but permanent policy changes in response to a severe but short-term disruption could create long-term fiscal sustainability challenges. As the situation is unfolding rapidly, the Treasury is developing macroeconomic policy options now so that an appropriate fiscal stimulus can be delivered if it is needed.

Recommended Action

We recommend that you:

a. **note** that COVID-19 will, most likely, have a substantial and prolonged impact on the New Zealand economy;

b. **note** that initial policy responses agreed by Cabinet have focussed on supporting directly affected regions and sectors of the economy, where there is clear evidence that impacts have already been felt;

c. **note** that the economic impacts will likely broaden over time and impact households and firms across the economy, and that these effects will be exacerbated if major public health measures are required in response to an escalating domestic outbreak of COVID-19;

d. **direct** officials to develop further targeted firm support options for Cabinet decisions with priority on:

- a targeted wage subsidy scheme for workers in the most adversely affected sectors;
- training and re-deployment options for affected employees; and
- targeted working capital support for firms that face temporary credit constraints;

e. **note** that the Treasury and IR are continuing to consider tax policy options to support businesses to maintain operational continuity, with a priority on:

- More flexibility for small businesses by easing provisional tax requirements and reducing the interest rate on tax debt;

s9(2)(f)(iv)

f. **note** that the Treasury and MSD are continuing to consider welfare policy options tosupport household to maintain incomes and labour market attachment, with a priority on:

- employer support with regional and national targeting options;
- income relief programmes to provide temporary financial assistance for people who have lost their job or are unable to work due to COVID-19;
- community wellbeing requirements to provide support to vulnerable individuals and families;

g. **note** that in providing further analysis for Cabinet decisions, officials will highlight the trade-offs involved in targeting or limiting the scope of these policy options, and the operational and legislative issues involved in implementing them in a timely fashion;

h. **note** the Treasury's advice that a substantial domestic recession is not the current prediction, but it is a possibility, and a large fiscal stimulus should be delivered if this scenario becomes more likely;

i. **direct** the Treasury to develop macroeconomic advice for the Minister of Finance that sets outs options for an appropriate fiscal stimulus in preparation for decisions if the economic situation deteriorates further;

j. **refer** this report to the Ministers on the CVD Cabinet committee, the Ministers of Social Development and Revenue, and any others at your discretion.

Refer/not referred.

Bryan Chapple
Deputy Secretary, Macroeconomics & Growth, The Treasury
Economic Pillar Lead, COVID-19 Response

Hon Grant Robertson
Minister of Finance

Joint Report: An Intervention Strategy for Economic Policy Responses to COVID-19

Purpose of Report

1. This report brings together a range of analysis to help Ministers understand the potential economic impacts and response options to the COVID-19 outbreak:

    a. The first section explains officials' current assessment of economic impacts on New Zealand;

    b. The next two sections set how to approach decision-making on policy given the current uncertainty, and some broad categories of economic policy responses available;

    c. The last two sections explain, the general microeconomic and macroeconomic policy options available to Ministers;

    d. Annex 1 provides a summary of the main economic policy options that officials recommend be further developed in preparation for Cabinet decisions, either soon or if the situation deteriorates further;

    e. Annex 2 provides further detail on some of the possible fiscal stimulus options that could be developed, that the Treasury is considering as part of its further macroeconomic advice.

Updated assessment of the economic impact of COVID-19

2. On 21 February, the Treasury provided three stylised macroeconomic scenarios to the Minister of Finance on the potential impacts of COVID-19 (T2020/391 refers). There were:

    a. Scenario 1: A temporary global demand shock

    b. Scenario 2: A longer lasting domestic incomes shock

    c. Scenario 3: A global recession

3. The continued spread of COVID-19 outside of mainland China and the first confirmed domestic cases suggest that the economic impacts of the outbreak on New Zealand will be larger and more sustained than was reflected in earlier forecasts. Therefore, as a working assumption, this report takes the view that New Zealand is in a version of Scenario 2 right now.

4. There remains considerable uncertainty about the breadth and depth of impact within Scenario 2. The Treasury is working on further analysis that will provide more detail on the potential demand-side and supply-side channels of impact on the New Zealand economy.

5. The Ministry of Health is leading analysis to understand epidemiological scenarios around the potential spread of COVID-19 in New Zealand, beyond the current

confirmed cases. This will inform the public health responses that would be required if there are, in order of escalation: single or multiple clusters of confirmed cases, the start of community transmission, through to sustained and intensive community transmission.

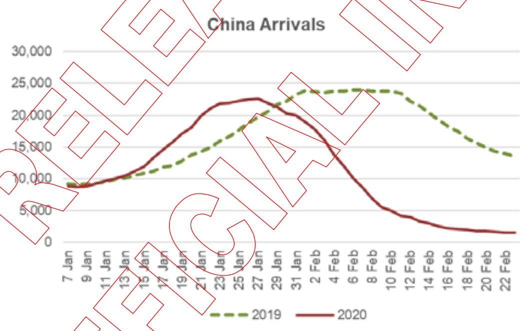
6. The necessary public health measures in any of those epidemiological scenarios would themselves have significant economic impacts. Most likely, these would be supply-side impacts, as domestic production supply chains or and labour supply is disrupted through widespread domestic self-isolation and quarantine measures and significant worker absence.

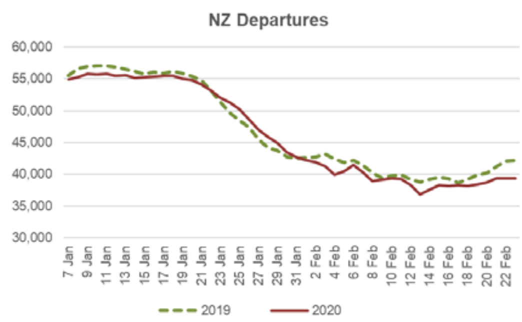
7. Understanding those economic effects will be a focus of the next stage of economic analysis. Nevertheless, at this moment, the major economic impacts that New Zealand is already facing are a result of the economic disruption and uncertainty from the global spread of COVID-19.

8. The rest of this section sets out some indicators of the current economic outlook. We first describe data on the sectors of the New Zealand economy directly affected by the global impact of COVID-19. Then we provide some indicators of more general impacts across the economy. Lastly we set out some indicators of the activity in China, where disruption has been centred to date.

Directly affected sectors of the domestic economy

9. **Tourism** - Data from customs on arriving and departing passengers shows that the 7-day moving sum of Chinese arrivals were down 89% as at 23 February compared to the same period in 2019, with total arrivals down 12% year-on-year. However, data from IATA, which gives an indication of intended travel 1-3 months from now (based on airline bookings), shows that countries excluding China are down about 12%. New Zealanders also appear to be less keen to travel, with New Zealand departures down 7% compared to 2019 as at 23 February.





Source: New Zealand Customs

10. **Merchandise trade** - Experimental data from Stats New Zealand shows that New Zealand's merchandise exports to China declined by 8% in the four weeks ending 23 February compared to 2019. It should be emphasised that before the COVID-19 outbreak, New Zealand's exports to China were growing strongly. Furthermore, this data is based on the intention to export, not actual exports, and given that Stats New Zealand has made this data available at a much shorter lag compared to their usual monthly trade data release, it could be prone to relatively larger revisions.

11. Given these factors, we think that the actual impact on trade may be larger than these figures suggest. At a sectoral level, meat exports to China are down \$113m compared to 2019, forestry exports are down \$61m, seafood exports are down \$40m, while dairy exports are \$101m higher. In volume terms, meat exports to China have halved, while

forestry volumes have fallen by 13%. Exports to countries other than China are roughly unchanged from 2019.

12. There is also increasing anecdotal evidence of supply chain disruption for New Zealand importers (including manufacturers using imported components).

13. In terms of **commodity prices**, as at 28 February, meat prices are down more than 20% compared to the start of the year, while forestry prices have fallen by 13.5%. Meanwhile, despite some weakness, dairy prices have recovered, and are up by almost 5% since the start of the year. On the import side, West Texas Intermediate oil prices have fallen by 27%.

Broader impacts on the New Zealand economy

14. **Social development** – MSD continues to respond to COVID-19. From 6 February to 2 March, MSD has received 465 calls specific to COVID-19. Most calls are from Auckland (40%), followed by Northland (15%). 31 hardship payments have been made to 26 clients that may relate to COVID-19, these have primarily been for food[1]. People who are self-isolating and unable to support themselves continue to approach MSD for support. MSD continues to monitor daily benefit numbers, but has yet to see significant changes. However, reports from industries indicate that there are already a large number of people who are out of work or are affected by reduced hours, for example, MPI have reported that as of February 24 2019 there were already 381 people without work and 876 people affected by reduced hours in the forestry industry.

15. **Labour markets -** The disruption to economic activity is having clear impacts on employment in particular sectors, and regions. The impact on contracted forestry workers is the most marked, as a result of reduced demand from China. These effects are especially pronounced in Tairawhiti. The region is expecting to lose around 1,000 jobs in the next six weeks, and Mori will be disproportionately impacted. A range of government agencies is responding to this risk in partnership with local industry. Tourism and the education sector are observing employment impacts. Should the more severe scenarios develop, we expect such adverse impacts would become more systemic, spreading to other sectors and regions

16. **Confidence** - In New Zealand, the ANew Zealand Business Outlook headline index fell by 6 points to -19 in February. However, only about a third of responses were received after COVID-19 started making headlines. The first sample group scored -14% for business confidence, while the second group reported a much worse -33%. The March index, which is due to be released on 31 March, is likely to show a notable deterioration.

17. The ANew Zealand-Roy Morgan New Zealand consumer confidence index eased by just 1 point in February to 122, following up on gains made at the end of 2019. We expect to see a weaker reading on the March index, which is due to be released on 27 March.

18. **Financial markets** - Financial markets have started reacting more strongly to COVID-19. As at 28 February, the New ZealandX Total Return Index was down 2.4%, having fallen by 6.8% since its 21 February peak. The 90-day interest rate has fallen by around 40 bps since the start of the year. The New Zealand trade-weighted exchange rate has depreciated by around 5%.

19. Ultimately, the most important financial channel is likely to be the credit channel. If firms face falling sales (or an inability to operate due to import constraints or quarantine

[1] Data should be treated as indicative only

restrictions), debt repayment will become difficult and some firms may default. We understand that banks are preparing hardship packages for their customers.

20. If defaults trigger stress amongst financial institutions, then lending more broadly will be reduced. The government and the Reserve Bank have tools they could use to offset this but all involve a degree of fiscal and financial stability risk. According to information provided by the Reserve Bank, the banks generally believe they are adequately liquid in the near term.

International outlook

21. China's manufacturing PMI fell from 50.0 in January to just 35.7 in February, its lowest level on record (below 50 denotes a contraction) and below market expectations. The non-manufacturing PMI fell from 54.1 to 29.6.

22. Higher frequency data on China's activity shows that, while there has been some improvement, the economy continues to operate at a much reduced capacity level. Coal consumption is currently at 67% of 2019's level, while property sales for 30 key cities are at 61%. Congestion levels have also started picking up, but are still down by about a third compared to the end of last year (for Tier 1 cities). There are still a large number (more than 100 million) of migrant workers that are yet to return to work. This has two implications: 1) most manufacturing companies are still operating at a reduced capacity, and 2) when these people do return, there is a risk of a spike in new infections.

23. Global stock markets have also fallen. China's Shanghai-Shenzhen-300 Index is down 3.8% compared to the start of the year, the Australia All Price Index has declined by 4.3%, while the S&P 500 is down 8.6%. Volatility levels have also increased sharply: the CBOE Market Volatility Index (VIX) reached 40.1 on 28 February, compared to about 13 at the start of the year. The last time the index was this high was in August 2015.

Considering economic policy responses under uncertainty

24. The situation is developing quickly and we have incomplete information. Notwithstanding the ongoing analysis described above, there will continue to be ambiguity over coming months about which the economic impacts New Zealand is facing. There will also be uncertainty about the impact that interventions will have under any likely scenario ahead.

25. This creates two particular challenges for deciding on an appropriate response to the outbreak:

- **Information lags**: Our assessment of the economic impacts of the outbreak relies heavily on backward-looking indicators. As a result, it is unlikely that we will have a timely sense of the optimal points for implementing policy responses.

- **Implementation lags**: Any policy response will take time to design and then implement. By the time it is clear that action is desirable, it may be too late to implement a timely response.

26. Ministers will therefore need to make a series of judgements about their risk tolerances when considering the scale and type of policy response. Fast action may pose implementation risks and could end up being unnecessary. In contrast, the Government may be unable to provide a timely response if it decides to delay action until better information is available.

27. As this suggests, Ministers will need to consider a key judgement in respect of information and data: are Ministers prepared to wait to get better information before taking action, or do they judge that the risks of inaction outweigh the risks associated with a timely (but potentially unnecessary) response?

28. In light of that uncertainty, there are no clear 'trigger points' that would provide an unambiguous signal that further economic policy responses are required. Nevertheless, clear and frequent communication about the Government's assessments, plans and options will help maintain confidence and reduce uncertainty in the community, which will itself help to sustain economic activity more broadly.

How should Cabinet decide on its economic policy response?

29. Given the information emerging about the outbreak and the level of global market disruption it has already caused, it is likely New Zealand will face a longer lasting domestic shock – that is, some version of Scenario 2. Even if this is ultimately avoided, we will not be sure for some time. Therefore it is prudent, at this stage, to plan for this scenario, while also being mindful to preserve exit options from new interventions where possible.

30. Some microeconomic interventions may be 'least regrets' under most potential future paths. Policy decisions may be protective if the current economic impacts deepen or broaden. And in the event of a best case-scenario, these options may deliver some value anyway.

31. An example of this is the recent tourism package, boosting international marketing efforts. It aims to create a flow of Australian visitors through the year, and promote New Zealand as a destination through the key booking period of April to June for longer haul markets (who will arrive November 2020 to March 2021). This protects our tourism sector throughout the year, and in the event that there is only a limited outbreak, is still expected to generate a sizeable return on investment.

32. Still, there is a risk when taking precautionary policy action of this nature. Policy interventions may end up supporting sectors of the economy which only end up facing shorter disruptions, and come to rely on this support. This is a fundamental trade-off, but the risks may be able to be mitigated with detailed policy design and careful communication.

33. The time it would take to effectively implement any new interventions should also be a factor taken into account when choosing any policy responses, to ensure that economic support is timely if the situation deteriorates. This is especially true when options require long lead times for design and implementation. That is why we recommend you direct officials to work up details now of possible interventions.

34. As mentioned above, the Treasury is currently working on further analysis that will provide more detail on the potential demand-side and supply-side channels of impact on the New Zealand economy. This will assist officials to advise Ministers on which potential policy options are most likely to address the specific economic and social impacts of COVID-19.

When should Cabinet decide its economic policy response?

35. The next section of this report describes some of these potential options, which are summarised in Annex 1. This will also include initial advice on the suitability and ease of implementation of these options, and what trade-offs would need to be considered in further policy design.

36. If Cabinet wants to choose a more expansionary Budget 2020, including considering the size and composition of spending decisions, then this can be considered over the next four weeks as the Budget package is finalised.

37. As discussed below, it is also possible to take decisions after this should the situation require it, but this will have consequences for the Budget production process. The Minister of Finance will be receiving ongoing advice from the Treasury about how to consider the trade-off between the Government's fiscal strategy and the downside economic risks from COVID-19.

Categories and principles for economic policy responses to COVID-19

38. Table 1 sets out four general categories of economic policy responses that can be helpful to simplify the general options available to Ministers.

39. Annex 1 of the report summarises a range of potential policy options under each of these categories, for further development ahead of Cabinet decisions soon, or as required if the situation deteriorates.

Table 1: Four categories of economic policy responses

Categories	Description
1. Leveraging existing policy settings	This involves upscaling current response activity, or augmenting/adjusting current business-as-usual activity to support the economic response to COVID-19. While leveraging existing policy settings, many initiatives will require additional funds and/or ministerial decisions to expand the scope of activity.
2. New targeted microeconomic interventions	Initiatives could be designed to target specific affected groups: • *sectors* of the economy that are directly impacted; • *regions* of New Zealand which are most affected; • *firm support* for business that may benefit from temporary support; • *households* that are vulnerable to labour market disruption. Some decisions have already been made by Cabinet, including: • tourism marketing package (aimed at boosting domestic visitors and keeping momentum for international visitors later in the year) • Enhanced Regional Business Partners programme (supporting firms with capability and connecting with further assistance) In the context of making decisions in uncertainty, some of these options are 'least regrets', against the downside risks. Further policy work is required to develop the specifics, and some will involve lead time.

3. A broader package of options to support economic activity	The Capital Investment Package announced in December will provide some support to the economy through 2020 and beyond. However, this was partly designed in response to the pre-existing softening of economic indicators. Budget 2020 provides an opportunity to create additional fiscal stimulus relative to what was signalled in the 2020 Budget Policy Statement. This could be across the economy and/or tailored to some of the specific economic impacts being seen. Cabinet can take the downside risks from COVID-19 into account to ensure continued expansionary fiscal policy.
4. Design and implement a large fiscal stimulus	If there is a reasonable expectation of a prolonged downturn, then a large fiscal package would likely be appropriate to provide a timely stimulus and support incomes. In this scenario an ideal response would be timely, temporary and targeted, with the overall response calibrated to the specific circumstances. We would first consider a combination of large tax and transfer options, as these will have shorter lead times and wider coverage across the economy than options such as a capital investment package, which would be subject to capacity and agency constraints, and may be difficult to deliver in the presence of supply disruptions.

40. Table 2 sets out a framework that Cabinet has considered when making initial decisions over the past few weeks. Officials have and will continue to use these principles to guide their assessment of any recommended economic policy responses to Cabinet.

Table 2: Principles to guide economic policy responses

Principles	**Assessment**
Balanced and proportionate	The scale and scope of the response is in proportion with the anticipated duration and scale of the economic impact.
Aligned with broader Government direction	The economic response should not be counter to broader Government policy, and ideally support Government objectives (short and/or long term).
Sustainable	The response should be able to scale with the impact (up or down), and should aim to avoid creating on-going reliance or support. Therefore there should be an exit strategy for policy interventions.
Ease of implementation	For short term responses, simple and quick implementation is desirable, which may involve trade-off with targeting and proportionality.
Best decision under uncertainty	The response is ‘least regrets’ – that is the risk of over-investing has been considered against the risks of under-investing.

Further targeted microeconomic policy interventions

41. The microeconomic policy interventions (Categories 1 and 2) are most appropriate for addressing a modest economic impact. Even if the macroeconomic impacts are more severe, these types of interventions can support the broader fiscal stimulus options discussed in the next section. This could support resilience in particular parts of the economy, and speed recovery in targeted regions. By providing targeted support, particularly affected groups will be able to minimise losses and be better placed to resume normal business operations and employment activity as the economy recovers.

Targeted options to support directly impacted firms, sectors, and regions

42. Under the first category of interventions – leveraging existing policy settings – options comprise greater information, advice (diversifying, resilience), and well-being support for firms and business owners. Some of these are already underway, such as through the expansion of the Regional Business Partners programme.

43. The second category of policy response – further targeted microeconomic interventions response – could include support the export-oriented sectors of the economy most affected, including targeted marketing and communications and trade events. It also could include financial support for affected firms, though given the potential scale, this should have a high threshold for activation. Also, there are some options to relax regulatory restrictions such as quotas, as has been done for lobster fisheries.

44. Regional support for affected areas could be considered where the local economy is heavily reliant on affected sectors, and therefore there are substantial spillovers. Options for regional responses include upscaling more general responses for the affected region, and regional taskforces or planning, which could include accelerating infrastructure projects to create local economic stimulus.

45. Other forms of targeted support could include firm support, such as working capital arrangements, relaxing immigration settings (in the event of workforce issues) and job loss cover for affected workers.

Using the welfare system to provide broader support to households and labour markets

46. MSD can also administer a range of microeconomic policy interventions to support people impacted by the economic consequences of COVID-19. This includes a range of options including providing support for employers to keep workers attached to their jobs, additional income support for individuals out of work, and wider social support for impacted community and families.

Employer Support

47. Employers impacted by COVID-19 could be supported with an Employer Subsidy to keep workers who have reduced hours, attached to their employers. Note that there is a risk of subsidies going to businesses who do not need them, and/or supporting businesses who are struggling for unrelated reasons. This could include funding to cover the wages of staff working reduced hours or funding for those who need training/upskilling in and alternative area of work. This could start at a regional level and be scaled up to a national level if required.

Income Support

48. The Income Support Options provide financial assistance to people who no longer have work (or need supplementary assistance while in work) as a result of COVID-19. This includes removing stand-down periods for Main Benefit assistance (so that people

can access Main Benefit assistance in a shorter timeframe[2]), increasing benefit payments (which is covered in further detail in the macroeconomic response options), and an option to establish an Income Relief Programme (temporary financial assistance for people who have been made redundant[3] or are unable to work due to COVID-19, including additional income support payments and possible funding for training) .

Resourcing and Community Support

49. In order for MSD to effectively respond to increased number of people in need of financial assistance, additional staff may be required to meet increased demand pressure and to deliver the Employer and Income Support options above. This would include additional frontline, call centre and brokerage staff. Additional funding for community providers may also be required to help communities that are suffering adverse social outcomes, build resilience and maintain wellbeing though COVID-19. This would involve increasing funding for service providers to provide wrap-around support services for vulnerable individuals and families impacted by COVID-19.

50. These packages should not be considered in isolation. There could be strong rationale for combining some options across various packages, to ensure there is no duplication of response. The appropriate set of options will also depend on options put forward by other agencies to provide a cohesive response. Some of these options could be further targeted (towards specific regions or sectors) or scaled up to a national level depending on need. In addition, some of these options are already under consideration in Budget 2020.

Targeted tax policy options to provide broader support firms facing disruption

Activities already underway

51. An economic disruption will reduce cash flow for some firms. This will affect their ability to continue operating while also meeting their tax obligations. Inland Revenue has already implemented a number of measures to assist taxpayers with paying the right amount of tax in a way that is manageable. These measures include relief from penalties for late payment and late filing, the establishment of instalment arrangements to help taxpayers pay off outstanding tax debt, and setting up tailored tax codes for individual taxpayers with multiple jobs so they do not have to pay secondary tax. These measures are sufficient to assist taxpayers through a period of moderate economic disruption.

Additional measures

52. Economic disruption may have a negative impact on business continuity for some firms. Without assistance, some otherwise profitable firms may be unable to continue to operate.

53. One option for assisting firms in this position is to reduce the interest rate applied to tax debt (currently 8.35%). In past emergencies (such as the Canterbury earthquakes), the interest rate on tax debt has been set to zero for affected taxpayers in situations when meeting tax obligations would put individuals at physical risk. This measure would reduce the cost of not paying a tax debt, and reduce the financial penalty associated with under-estimating provisional tax. However, it would also reduce the incentives for tax compliance. We recommend against adjusting the interest rate on tax debt at the

[2] Further advice on options for Stand Down periods will be considered by the COVID-19 Cabinet committee on 4 March 2020.
[3] Similar to the ReStart package used in the GFC

present time, but this option could be considered further if the economic context deteriorates further.

54. Another option for assisting firms is to temporarily set the provisional tax uplift to zero, rather than the usual 5% that applies under normal conditions. This will allow businesses to pay less in provisional tax throughout the year (with a potentially higher tax bill at the end of the year). This measure recognises that businesses are unlikely to experience income growth during the period of the economic shock.

55. Officials have identified a number of other options for providing support through the tax system. These options would require a significant amount of time to develop and implement, so they may be unsuitable for providing assistance to taxpayers in a timely manner. These options include:

- Allowing companies to carry back a loss to a previous tax year and get the value of the loss refunded.
- s9(2)(f)(iv)

56. Officials have also considered a deferral of PAYE or GST payments. In our judgement, a deferral of PAYE or GST payments is unlikely to provide significant support to businesses in a targeted way, but would cause significant disruption to the tax system.

- A deferral of GST payments would actually provide the greatest assistance to unaffected taxpayers. It would not provide any assistance to exporters (as GST is not applied to exports), or to businesses receiving a GST refund (due to GST spent on businesses expenses being greater than GST received on sales). Taxpayers affected by the economic disruption taxpayers are more likely to see a reduction in their GST receipts (due to a decrease in sales) and are therefore more likely to receive a GST refund.

- A deferral of PAYE payments would not assist employers, as they are currently required to hold PAYE deducted from an employee's wages on trust for the Commissioner of Inland Revenue.4 The PAYE system is not only used to provide employees with a credit for tax liabilities on their salary and wages, but is also used to collect child support, repay student loans, collect ACC levies, and provide a mechanism for contributing to KiwiSaver. Allowing employers to convert employee salary and wages into working capital of the business would set an undesirable precedent and risks the integrity and wider taxpayer confidence in the tax system. We would not recommend that businesses use tax deducted on behalf of employees to pay for other business activities.

Options for targeting support

57. The impact of any economic disruption could affect certain sectors of the economy more than others. However, the tax system is not well suited to target particular sectors of the economy. In fact, we understand from discussions with Inland Revenue that it may not be administratively feasible to target tax support to particular sectors.

58. It is more feasible to target assistance to particular regions. In previous emergency events, such as the Canterbury earthquakes and the Hawkes Bay gastroenterology outbreak, the Government introduced tax measures to support the affected regions. However, the ability to access emergency tax measures on a regional basis generally requires self-assessment by taxpayers. This creates some integrity risk for the tax system.

[4] Tax Administration Act 1994, s 167

59. It is likely to be more effective to target tax relief at specific activities that you wish to encourage during a period of economic disruption. This could include the use of investment incentives to encourage investment and payments to cover employee sick leave costs in the event that some employees contract COVID-19. Officials can provide further advice on these options at your request.

Preparing a broader macroeconomic policy response

60. Should the economic situation deteriorate and a substantial domestic recession becomes likely, then microeconomic interventions alone won't provide a sufficient degree of support to the economy. A large fiscal stimulus should be delivered as a macroeconomic response if this scenario becomes more likely.

61. The purpose of a macroeconomic response would be to mitigate the impacts of COVID-19 on the wider economy. The aim would be to support living standards by providing broad stimulus, which in turn supports demand and business confidence, and consequently economic activity, jobs and incomes.

62. In general, monetary policy is preferred over fiscal policy as a macroeconomic stabilisation tool for a wide-ranging demand shock. This is because it has shorter lags compared to fiscal policy, interest rates can be changed quickly and, unlike fiscal policy, monetary policy decisions are easily reversed. While interest rates are low, there remains some scope to lower them further. However, for a substantial monetary policy easing, the Reserve Bank may resort to monetary policy tools that are untested in New Zealand, and fiscal policy may be a preferable lever.

63. In addition to a monetary policy response, we would expect further exchange rate depreciation and support from the automatic fiscal stabilisers – that is reduced tax collections and increased welfare payments – should this situation deteriorate further.

64. Any fiscal policy response needs to be calibrated to the shock and how it transmits to the economy. COVID-19 is likely to cause a negative demand shock through a loss of export demand and cautious consumers. There is also potential for COVID-19 to cause a negative supply shock in New Zealand through supply chain disruption that reduces availability and increases prices of capital and intermediate inputs. As is the case currently in China, an outbreak in New Zealand would also create a supply shock if workers are taken out of the labour force temporarily.

65. In response to a negative demand shock, a demand side intervention (for example, an increase in welfare payments) might be appropriate to cushion any impact on living standards, while also supporting confidence. The scale of any fiscal policy response would need to increase in proportion with the shock. However, demand side interventions will not address supply disruptions. For example, disruption to global supply chains caused by quarantine measures and travel and trade restrictions cannot be fully offset by measures to support demand domestically, given the challenges associated with quickly shifting excess productive capacity within the economy.

66. The nature of the response in each scenario is set out below at a high-level, with more detailed policy options for a potential recession set out in Annex 3.

67. As a next step, we will develop further macroeconomic advice that:

   - sets out how demand and supply shocks will impact the economy in different scenarios;

- sets out the appropriate macroeconomic policy responses to different types of shocks, which will include analysis on the extent to which monetary and fiscal policy can effectively respond to a supply shock;
- addresses information lags by identifying leading indicators that that can inform our view on what the economic impact is, and when a substantial fiscal response is necessary; and
- draws on international experiences responding to COVID-19 and other similar shocks.

In response to a longer lasting domestic incomes shock, consider a further loosening in the fiscal stance

68. Scenario 2 envisages a prolonged shock to domestic incomes, but falls short of a large recession as per scenario 3.

69. In this scenario, we expect macroeconomic support will mostly be provided by monetary policy, the exchange rate and the automatic stabilisers. We also note monetary policy is already accommodative and that the capital investment package announced in December is providing a degree of support to the economy.

70. Any higher spending in Budget 2020 needs to be weighed against other considerations such as the Government's overarching fiscal strategy and maintaining value for money in expenditure. Short of a large-scale fiscal stimulus, which we recommend reserving for a large recession type situation as per scenario 3, the macroeconomic effects of slightly more spending are likely to be limited. To this end, temporary spending initiatives that do not create long-term fiscal sustainability challenges are preferable.

71. There are also choices about the composition of spending within the Budget. Spending more on the response to COVID-19 will necessarily leave less fiscal headroom for progressing other priorities. The appropriate balance will depend on the initiatives under consideration through the Budget process and the need to respond at a microeconomic level to the disruption caused by COVID-19. We can provide more advice on these tradeoffs as required.

In response to the potential of a large recession, deliver a large discretionary fiscal stimulus

72. Scenario 3 is a large recession, in which case a large scale fiscal stimulus would be appropriate.

73. s9(2)(f)(iv) [redacted]

74. [redacted]

75. [redacted]

s9(2)(f)(iv)

76. [redacted]

77. [redacted]

78. [redacted]

79. [redacted]

Coordinating a fiscal policy response with the Budget

80. At this stage we have not seen a widespread economic impact that justifies a significant macroeconomic response as set out under scenario 3. However we are monitoring the situation closely and will continue to do so in the lead up to the Budget.

81. Given how rapidly moving the economic situation is, the key priority is to focus on making the best decisions at any point in time, and not letting the normal budget process constrain flexibility. While progressing decisions in line with timelines for the Budget would be ideal, it is possible to make central adjustments to the fiscal forecasts or take other steps to acknowledge changing circumstances (as was done after the Canterbury earthquakes, for example).

82. The exact consequences for Budget production will depend on the timing and nature of any decision (T2020/507 refers). If decisions (that are significant at a macroeconomic level) are taken long after our economic forecasts are finalised on 30 March, the economic consequences of those decisions will not be fully factored into our forecasts. If decisions are taken after our fiscal forecasts are finalised on 23 April, then our ability to incorporate the direct effects of any decisions in our fiscal forecasts will be limited. As noted above, we would work with the Minister of Finance's office to mitigate those impacts, but in general, limiting any disruption within the broader Budget process will make it easier to incorporate decisions taken late.

Annex 1: A summary of potential economic policy responses to COVID-19, for further development (prepared by Treasury, MBIE, MSD and IR)

	Supporting people to maintain incomes and labour market attachment	Supporting businesses to maintain operational continuity and re-deploy staff	Macroeconomic policy approach
<u>Leveraging existing policy settings and levers</u> This involves upscaling current response activity, or augmenting/adjusting current and existing support and regulatory mechanisms to support the economic response to COVID-19.	**<u>Increase MSD frontline staff (MSD)</u>** This would reduce the risk of long waiting times and poor service for MSD payments with increased demand, supporting the effectiveness of other response options. Because of the uncertainty in demand and the 3-month lead time for recruitment, options for the scale and cost of staff recruitment would need to be developed, incorporating the degree of flex possible within existing operations. **<u>Community wellbeing package (MSD)</u>** Increasing funding to Community Service Providers for services that build financial capability and provide targeted advice and support for individuals and families who face hardship. This would support communities with the broader wellbeing consequences of COVID-19. This could be implemented at a regional or national level. **<u>Access to personal wellbeing and financial counselling (MPI)</u>** For example counselling services provided via Rural Support Trusts, Fisheries, New Zealand's fisher wellbeing programme and the Forest Industry Safety Council. Small scale but could have a significant benefit for individuals. Limited capacity to scale up current initiatives. **<u>Communications strategy (MBIE)</u>** Using existing channels of communication to ensure policies are communicated to businesses. For example, deploy the business.govt.nz Boost platform to reach SMEs. Low cost and low risk as uses existing channels, will benefit businesses across the economy	**<u>Tax relief (IR - Already underway)</u>** Relief from late filing/payment fees, and help to set up instalment plans to manage tax debt. Taxpayers are able to reassess their provisional tax and seek refunds for overpaid provisional tax. Supports businesses struggling to pay provisional tax, GST and other tax types. Minor integrity risks, and systems already in place and operational **<u>Redeployment of workers (MBIE/MPI – already underway)</u>** Programmes within biosecurity and or conservation that could be used to redeploy suitable forestry workers. There may be geographical, logistical and capacity constraints. **<u>Increase work brokerage services (MSD)</u>** Temporary, regional expansion of existing employer-facing brokers to support labour market attachment through advice to employers on redundancy, on the range of supports available, and pro-active placements for at-risk employees. This may also require additional funding for existing wage subsidy products. An expanded service would be required to support the roll-out of any Employer Subsidy package. **<u>Primary sector support via Income Equalisation regime (IR)</u>** Administered by IR, needs Minister for Primary Industries to declare an "adverse event" to loosen the rules around this regime. Supports agricultural businesses, subject to eligibility requirements, and provides no benefit to businesses not previously in the scheme. A low-risk option, easily implemented after the Minister declares an "adverse event".	Automatic stabilisers are already operating, including an exchange rate depreciation, and a likely decrease in tax receipts and increase in welfare payments.
<u>New targeted microeconomic interventions</u> Initiatives could be designed to target sectors, regions, firms, or household that are directly and immediately impacted.	**<u>Removing benefit stand down periods (MSD - Already underway)</u>** Removing the one week delay for benefit payments is a way to provide impacted individuals quicker access to income support. **<u>Targeted Income Relief Programme (MSD)</u>** Temporary financial assistance for people who have been made redundant, including income support payments and possible funding for training. This would soften the income drops suffered by leaving work, reducing the risk of hardship, disrupted housing status and of long-term unemployment. A targeted payment recognises the specific risk of potential hardship faced by those losing work as a result of COVID-19. Further consideration will be needed on options for people who are self-isolating and therefore not being paid. A new income relief payment would allow this to be time-limited and more easily reversible than changing settings to existing payments. This maintains options relative to permanent changes to existing benefits but could also be used alongside benefit increases. Options to target regionally would need to be explored. This measure introduces issues with deciding eligibility and with equity because existing job seeker support, sole parent support and supported living payment recipients may face additional hardship as well. The interaction with any wage subsidy would need to be considered to avoid double-dipping. s9(2)(f)(iv) [redacted]	**<u>Employer Subsidy (MBIE and MSD)</u>** A wage subsidy that employers and other impacted groups can access to support with the challenges associated with COVID-19, which could include funding such as wage cover or training, subject to suitable targeting criteria. This is likely to ease short-term, regional, business cashflow challenges and retain labour market attachment. This may be appropriate in the short-term and to the extent economic impacts are regionally-concentrated. An Employer Subsidy could also be rolled out nationwide if required. However, it carries significant fiscal risk if expanded across multiple regions or nationally and may also prevent economic adjustment. Any regional use of such a package should be communicated and include strict expansion decision criteria to avoid setting a precedent for other regions. Note this would require additional staff to administer. **<u>Provisional tax threshold (IR)</u>** *(This is a current Budget 2020 bid)* Remove some small businesses from provisional tax regime, targeted to those who have between $2,500 and $5,000 of tax to pay. Would provide a one-off cash benefit of $350m across the economy. Not sector specific and would reduce compliance costs for small businesses. Brings minor integrity risks and is fast to implement. Would be better to do sooner rather than later, so small businesses can stop provisional tax payments. First payment of the next tax year is on 28 August 2020 for many businesses. s9(2)(f)(iv) [redacted] **<u>Targeted Working Capital Support for Firms (Treasury)</u>** Partnering with banks, to support firms that face temporary credit constraints, backed by government guarantees to some extent. Would take time to set up, but could leverage from the operational experience of the Export Credit Office. **<u>Regional relief package (MBIE and MSD) eg Tairawhiti</u>** A regional fund those employers and other impacted groups can access to support. Likely to ease short-term, regional, business cashflow challenges and retain labour market attachment. May be appropriate in the short-term and where economic impacts are regionally-concentrated. It carries significant fiscal risk if expanded across multiple regions or nationally. Any regional use of such a package should be communicated and include strict expansion	The less targeted these interventions are, the greater the fiscal cost could be, but there may be scope for reprioritisation.

		decision criteria to avoid setting a precedent for other regions. Because of the non-regional nature of COVID-19 it may not be practical to limit responses by region. Note this would require additional staff to administer. **Review immigration, temporary and tourist visa settings, visa rollover options (MBIE)** Reduces strain on labour supply, supports tourists and those potentially stranded in New Zealand. Complements re-engagement plan. Visa expiry dates can only be extended if an epidemic is declared (otherwise manual workaround required). Needs to be considered in conjunction with other responses. Would need to balance allowing the movement of people whilst protecting against the spread of the virus. **Consistent, market-focused medium- and long-term recovery plan (Education New Zealand, Tourism New Zealand)** Includes recovery of Chinese market and diversification of New Zealand business, support for destination planning and resilience of regions. Trade support to re-engage travellers for 2020/2021 season. Specifics of the policies require further development. Compliments existing government activity, considerable spillovers within regions and across sectors. Targeted marketing activities could be very effective. Requires barriers to movement of people to be removed, would take time to develop and implement, timing is critical as early recovery support would be more effective but early implementation could be damaging. **Options for adjustment to employment law settings to address gaps in leave or pay** Options require development and overlap with wage subsidies proposals. Legislation necessary for many options, lead time of 2-4 months.	
A broader package of options to support economic activity		**Investment incentives** (targeted at a specific ***activity***, rather than a sector) s9(2)(f)(iv) [redacted] **Temporarily reduce interest on tax debt (Use of money interest, or UOMI)** Reduces the interest businesses pay on tax debt. Will benefit all businesses, but will be most beneficial for struggling businesses. The current rate for underpayment of tax is 8.35%. On average about $46m of UOMI is paid to Inland Revenue by businesses each year. Do not recommend cutting the rate to zero as this should be reserved for situations when there is an emergency event where individuals' physical safety would be at risk if they were to comply with their tax obligations. Work would complement an existing tax policy project that is reviewing the formula setting underlying the calculation of UOMI rates. Reduces the incentives for tax compliance. Administratively straightforward but requires legislation.	Cabinet can take the downside risks from COVID-19 into account when taking Budget decisions, and could consider a looser fiscal stance relative to what was signalled in the 2020 Budget Policy Statement. This could be across the economy and/or tailored to some of the specific economic impacts being seen.
Design and implement a large fiscal stimulus	**Large welfare package to increase main benefits (MSD)** Additional income support provided to all main benefit recipients to improve income adequacy. This provides a fiscal stimulus mechanism which is broader-based than targeted welfare. Tax credits would need to be considered as well. If permanent, this would have long-term fiscal consequences. This is aligned with the long-term reform direction of the welfare overhaul. A main benefit increase could be implemented on 1 July 2020 if a decision is made prior to 31 March 2020. s9(2)(f)(iv) [redacted]	s9(2)(f)(iv) [redacted]	If there is a reasonable expectation of a prolonged downturn, then a large fiscal package would likely be appropriate to provide a timely stimulus and support incomes.

Annex 2: Further detail on policy options for a large fiscal stimulus (prepared by Treasury with input from MSD and Inland Revenue)

Personal tax options

Measure & short term impact	Fiscal impact (per annum)	Temporary	Implementation timeframe	Long-term efficiency / distributional impacts (including compliance)	Operational / administrative impacts and risks
s9(2)(f)(iv) [redacted]					

s9(2)(f)(iv)

[redacted]

Business tax options

Measure & short term impact	Fiscal impact (per annum)	Temporary	Implementation timeframe	Long-term efficiency / distributional impacts (including compliance)	Operational / administrative impacts and risks
Reinstate building depreciation Provides a stream of **expected** cash benefits to business that own buildings. No material cash benefit until end of 2020 Supports business confidence.	Scalable Eg. $600m (for a 2% DV rate)	No	**Implementation across the year possible**, but must apply for full 2020/21 tax year. To maximise effectiveness on behaviour, decision preferred as soon as possible. **Lead time** determined by legislation timeline – approx. **3-4 months**.	Reduces costs for the owners of affected buildings only. Should put downward pressure on rents for both businesses and individuals over the long term. Increases business investment and GDP over the long term.	Low Admin impact - No system changes for IR, but will require changes for businesses. Design questions (e.g. cost base to use, depreciation rate) will need to be decided on before implementation.

Lift provisional tax thresholds from $2,500 to $5,000 Provides cash flow benefit to taxpayers. Equivalent to a **one-off cash payment** to SME taxpayers. Benefit comes from a **timing advantage** by deferring tax payments to the end of future tax years.	One-off impact on cash balance and net debt of $350m Ongoing cost of $3m due to lost penalties and interest	No, but fiscal impact is one-off	**Implementation across the year possible**, but must apply for full 2020/21 tax year. To maximise effectiveness on behaviour, decisions preferred as soon as possible. **Lead time** determined by legislation timeline – approx. **3-4 months**.	Targets small businesses. Will reduce compliance costs for small businesses going forward. Tax still needs to be repaid eventually - may cause impacted businesses to have large tax bills/debt at the end of the year.	Low Admin impact - No system changes for IR, but will require changes for businesses. Will reduce the number of taxpayers in the provisional tax regime. This could make enforcement and tax collection more difficult for these small companies.

Welfare options

Measure & short term impact	Fiscal impact (per annum)	Temporary	Implementation timeframe	Long-term efficiency / distributional impacts (including compliance)	Operational / administrative impacts and risks
Main benefits increase by $25 per week for families *with and without* children Increase to short term private consumption spending. Impact potentially high due to the high propensity of low income households to spend rather than save additional income.	Scalable $420m per annum	No	Usually a **4 month lead time** from decision to implementation. Faster implementation may be possible at some times of the year, subject to consultation with MSD – **Main benefit changes for 1 July** could be possible if **decisions** are made by **31 March**. Changes to main benefit levels can be made via order in council and do not need legislation.	Targeted to beneficiaries (approx. 300,000 of the lowest income individuals and families). Excludes low-income working families and New Zealand' recipients. Consistent with the long-term direction of the Government's Welfare Overhaul. Previous advice had indicated that main benefits are not adequate; this proposal addresses income adequacy concerns and supports child poverty reduction.	**Any implementation outside of 01 April significantly increases operational workload for MSD**, as exceptions need to be manually processed. This is a current Budget 2020 initiative.

s9(2)(f)(iv)

[redacted]

s9(2)(f)(iv)

[redacted]

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: An illustrative economic framework to guide decisions on COVID containment measures

Date:	9 April 2020	**Report No:**	T2020/971
		File Number:	SH-3-0-6

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	**Note** the initial framework proposed in the report to guide decisions on COVID containment measures at different alert levels	None

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Udayan Mukherjee	Senior Analyst, Covid-19 Strategy and Policy	s9(2)(k)	N/A (mob)	✓
Andrew Rutledge	Manager, Economic Strategy and Productivity		N/A (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: An illustrative framework to guide decisions on COVID containment measures

Executive Summary

This report proposes a framework to move from an “Essential Services” framing to one based on “Safe Economic Activity”, based on an appropriate plan to manage the transition for businesses, schools, workers and customers.

The intended outcome of this framework is greater clarity about how decisions about business operations will be made. A transparent principles-based framework for identifying activity that can occur safely at different alert levels will promote certainty about ongoing economic activity. The key question the framework asks is: “Can the risk of COVID transmission be managed adequately?”

The report sets out three questions that form the basis of an approach to guiding decision making on resuming economic activity in different industries.

1. How should the government judge which businesses should operate?
2. What does ‘Safe Economic Activity’ look like?
3. How can we implement a regulatory system to put this into practice?

The consequence would be that sectors with low risk profiles, and/or a strong ability to mitigate public health risk, can operate as part of step-down to level 3 and be supported by an appropriate regulatory regime.

Under this approach, the transition plan would be developed in consultation with business and unions. This work could be expedited as part of MBIE’s current engagements with the Business Advisory Council and others. The Treasury will work closely with MBIE and NCMC to coordinate further development of this framework.

Recommended Action

We recommend that you:

a **note** the initial framework developed in this paper to move to a regulatory regime where ‘Safe Economic Activity’ is permitted consistent with a COVID elimination strategy;

b **note** that the Treasury will work with MBIE, NCMC and other economic agencies to develop this framework over the coming week, including in consultation with business and unions.

Andrew Rutledge
Manager, Economic Strategy and Productivity

Hon Grant Robertson
Minister of Finance

Treasury Report: An illustrative economic framework to guide decisions on COVID containment measures

Context and Next Steps

1. The Government is aiming to make decisions on how to step-down from Alert Level 4 on Monday 20 April. In Alert Level 4, the guiding framework for whether economic and other activity can occur has been whether an activity constitutes an 'essential service'.

2. This simple rule provided valuable clarity in a crisis. In stepping down to Alert Level 3, we have time to develop a framework that continues to promote elimination and maintain public safety, but at lower economic and social cost.

3. This report proposes we move from an "Essential Services" framing for economic activity to one based on "Safe Economic Activity", with an appropriate plan to manage the transition for businesses, schools, workers and customers. This plan will be developed in consultation with business and unions.

4. There are several parts of the government working through descriptions of what activity and operations can occur at different alert levels, and in particular as we step down from Alert Level 4. MBIE is currently consulting with the Business Advisory Council and others and is developing a more detailed set of principles to guide who can operate.

5. The National Control Management Centre (NCMC) has been coordinating daily stand-ups with a network of regulators as part of managing the oversight of essential services under Alert Level 4. The main challenges surfacing from experiences in workplaces relate to concerns about availability of personal protective equipment (PPE) and hand sanitiser, and a lack of clarity about 'what is safe'. This network of regulators appears to be operating well and may serve as a valuable forum for aligning workplace guidance and ensuring consistency of messages or principles for safe operating.

How to judge which businesses can operate

6. An elimination strategy, if successful and quickly achieved, is the best way to limit both long term public health and economic/social impacts from COVID-19. Even on a successful path to elimination, the potential for local lockdowns will remain as we step down through alert levels. Infection clusters could emerge that trigger wider outbreaks that overwhelm local health system capacity – particularly in regional New Zealand.

7. Some workplace closures and restrictions on social gathering will continue to be required. With a step-down to Alert Level 3, businesses and schools will likely remain closed unless the Government can provide clear guidance on what activity can occur. Work needs to occur to clarify this.

8. This should occur within the current alert level framework. One way of approaching this is to be clear that Alert Level 4 was focused on "essential services", but Alert Level 3 should be focused on "safe economic activity". The principles will need to incorporate:

   a) the degree of inherent contact risk or necessity of close contact for operation

   b) ability to mitigate risk (e.g. current level of regulation / efficacy of new regulation)

9. Based on this framework (shown in Figure 1), the key question is: "Can the risk of COVID transmission be managed adequately?"

10. Answering this question requires intelligence about the ability to enforce physical distancing in the workplace, and the ability to participate in contract-trace arrangements. Regulatory attention should focus stringently on the extent to which any given economic activity poses a risk of COVID transmission, R_0. Where that risk is low, longer-term wellbeing would be enhanced by allowing the activity to take place.

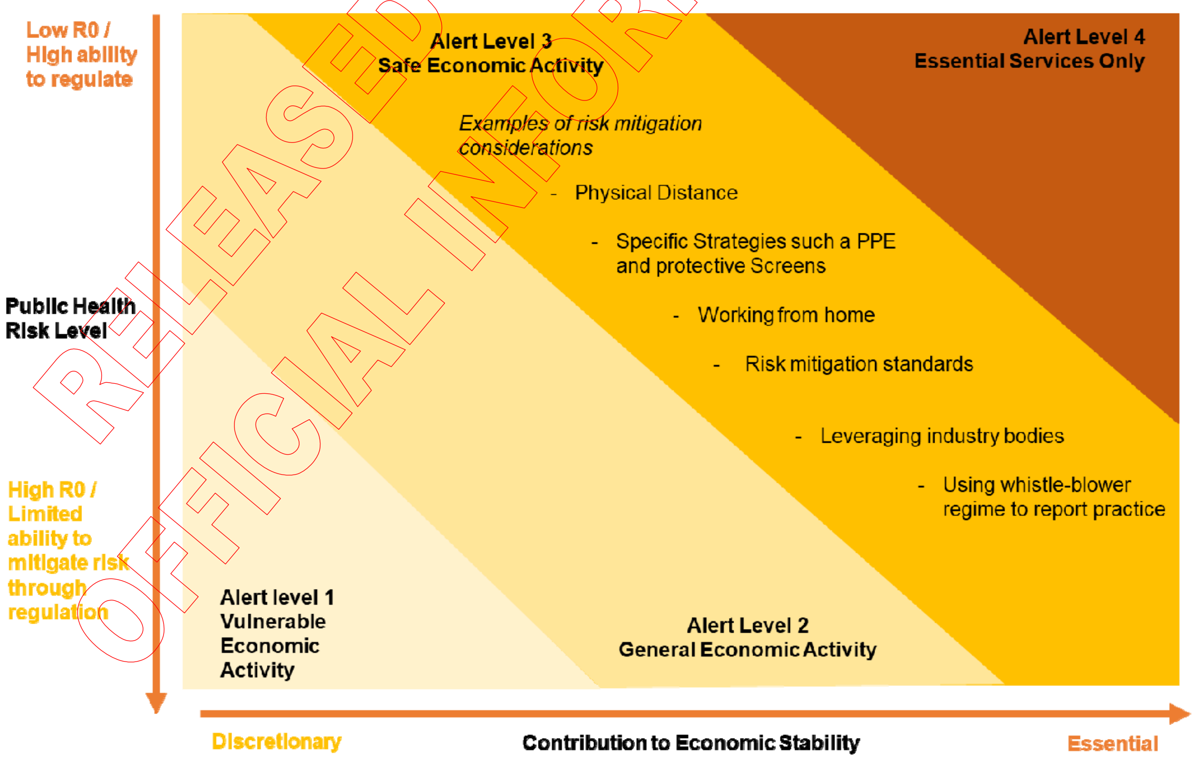
11. If New Zealand remains in alert level 4 for longer, then we recommend that the definition of essential services be broadened, based on criteria relating to the activity's contribution to the economy:

    a) share of economic activity – output and employment (regionally or nationally)

    b) strategic importance to economic recovery (complementarity, position in value chain, comparative advantage).

12. Annex 1 provides information about New Zealand Industries' economic contribution by GDP and Employment Share, and Figure 1 (immediately below) provides an illustrative example of the framework.

Figure 1: Framework for aligning Alert Levels with communicating safe economic activity



What does ‘Safe Economic Activity’ look like?

13. Under any Alert Level, there are questions about which businesses can operate and how they must operate. A framing that moves away from ‘Essential Services’ toward ‘Safe Economic Activity’ will focus business-operators on the risks they are able to manage. It should also guide focused regulatory policy decisions and guidance material, with the objective that as much economic activity occurs consistent with the strategy to eliminate COVID-19.

14. Our perception of ‘safe’ may change over time. The Government’s risk tolerance could increase as we get more information about specific transmission risks, as health system capacity grows, and as options become available to manage the virus.

15. Emerging information indicates that some measures may be more effective against the virus, and less costly to society and the economy, than others. However the major driver of this effectiveness is the degree of contact.

16. Any decisions could adopt some form of precautionary principle to begin with, and consider:

- Sectors most able to operate flexibly/remotely.
- Sectors with a low rate of inherent contact between staff (e.g. automated factories)
- Sectors with fewer vulnerable people (e.g. youth, schools, ECEs)
- Sectors that strongly complement other sectors (day care, transportation, energy, IT, mental health support).
- High value-add sectors, especially in manufacturing
- Sectors with a high degree of skills (construction, IT)
- Regions with low infection rates

17. Also relevant is the ability of an enterprise to change operating models or workplace practices to reduce contact risk. An example is how small retail food operators have shifted into contactless delivery during Alert 4. Another example is how meat processors have spaced workers further apart on the production line, with a resulting improvement in public health measures but a drop in output.

18. An approach like this would entail new regulatory burdens on businesses, so we will need to continue relaxing some requirements and taking a more risk-based approach to enforcement.

Implementing a practical regulatory system to put this into practice

19. A framework that aims to allow ‘Safe Economic Activity’ will require careful implementation. It calls for a regulatory system that allows for risk-management and is backed by enforcement. This will not be simple to set up. But we do have precedents to draw upon from existing regulatory systems that balance social risk and economic activity.

20. Clear and Consistent Messaging to the public from as early as possible. This will allow families, whānau, businesses, schools etc. to prepare for the move, and where possible, put arrangements in place to work within the new settings in advance.

21. Information/guidance**:** AoG structures need to work with industry bodies and tripartite social partners to develop communications material and specific guidance about how to navigate Alert Level 3 restrictions, building on existing health and safety guidance. This includes guidance for businesses about what counts as appropriate public health measures for their operating circumstances, and guidance for workers about their rights and how to stay safe at work.

22. Support for regulators and the public**:** The public needs a channel for queries about Alert Level 3, like the unit that has been stood up to respond to essential services queries. Regulators will also need to work with industry organisations ahead of the move to make sure they can field questions from their constituents.

23. Monitoring and enforcement**:** Lower Alert Levels will bring more people movement and this means it will not be as easy to spot non-compliance. Regulators will need to be clearer about how they monitor non-compliance, the consequences of non-compliance, and when and how enforcement powers are used. Workers and customers may need a safe, probably anonymous, way to report unsafe practices by firms, by phone or online.

24. The AoG has an opportunity to build on the existing safe practice guidelines for the primary sector. MPI has already designed safe practice guidelines and a verification system in the primary sector (defined as essential services in Alert Level 4) that could be used as a model more broadly in Alert Level 3.

25. These should be developed with industry bodies and unions. Existing regulatory audit and accreditation systems across different sectors that will be recognised by businesses and can be leveraged. The most obvious is generic health and safety guidance that could serve as a default vehicle for all businesses, tailored to known risk.

26. This approach will require an assurance regime so that businesses can operate confidently, and Ministers are satisfied we have access to information that can trigger a containment response. This may require adapting substantial parts of existing regulatory regimes to accommodate new requirements, as MPI has already done in the primary sector.

27. It would be useful to coordinate existing capability from across the public sector. There is an opportunity to utilise pandemic response protocols designed for primary sector biosecurity events and/or the food safety system. Or expertise on workplace safety could be used to contribute to the design of this new regulatory concept.

28. It will also be important to learn from overseas experiences of larger scale community transmission, to identify risky enterprises, and best-practice approaches to mitigating contact risk. We may need to adapt techniques and technologies developed elsewhere for local use.

Case Study: MPI - Covid 19 Safe Practice in the primary sector

29. Cabinet took the decision to include food and beverage production and processing as essential services. Wool, forestry, pulp and paper businesses were not included as essential in the original Cabinet decision.

30. MPI provided guidance on its website on the definition of essential primary sector business and for businesses providing essential goods and services inputs for food security and animal welfare objectives (veterinary services, animal feed and fodder, biosecurity, supply chain).

31. It established a register for safe practice and in consultation with the Ministry of Health, developed guidance on how businesses can adapt their operating models and workplace practices to keep essential workers safe.

32. Businesses with more than five people working at a site were required to register. As at Thursday 9 April, 18,410 businesses had registered with MPI.

33. MPI staff triaged registrations based on level of risk to human health. For businesses that did not have a robust plan / processes in place, further information was provided and followed up to collect further information before progressing to further steps, including on-site verification.

34. Verification of business practices began on Monday 30 March, focussing on site visits to the most high risk premises and remote verification (a phone interview) of others in the medium to high risk categories.

35. As at Thursday 9 April, a total of 2,730 on-site verification visits and 2,401 remote verifications have been completed. From this process, 9 warning notices have been issued, of which four have been re-inspected and had the warning notice lifted. Five are still outstanding.

36. If businesses still do not comply following this warning, MPI will refer the business to National Emergency Management Agency for consideration of a direction to shut down under section 91 Civil Defence Emergency Management Act by the National Controller. A rapid authorisation process is currently being organised for such directions.

Annex 1: NZ Industry by GDP and Employment Share

	Share of GDP	Share of Overall Employment
Agriculture, forestry, and fishing	5%	6%
Mining	1%	0%
Primary industries	**7%**	**6%**
Manufacturing	10%	9%
Electricity, gas, water, and waste services	3%	1%
Construction	6%	9%
Goods-producing industries	**19%**	**19%**
Wholesale trade	5%	4%
Retail trade and accommodation	7%	15%
Transport, postal, and warehousing	4%	4%
Information media and telecommunications	3%	2%
Financial and insurance services	6%	3%
Rental, hiring, and real estate services	13%	2%
Prof, scientific, technical, admin, and support	10%	13%
Public administration and safety	4%	6%
Education and training	4%	9%
Health care and social assistance	6%	11%
Arts, recreation, and other services	3%	6%
Service industries	**67%**	**73%**
not specified (HLFS)	-	1%
unallocated and balancing item (GDP)	8%	-
Total	**100%**	**100%**

TE TAI ŌHANGA
THE TREASURY

Reference: T2020/990 SH-1-6-1-3-3-13

Date: 14 April 2020

To: Minister of Finance (Hon Grant Robertson)

Deadline: Before 10:30am Wednesday 14 April
(if any)

Aide Memoire CBC papers on implementing a move from Alert Level 4 to 3

At 10:30am on Wednesday 15 April, CBC will be meeting to discuss two papers relating to implementing a step-down from Alert Level 4 to Alert Level 3.

The key decision being sought in the paper '*Implementing a move from Alert Level 4 to 3'* is to agree the proposed settings at level 3 and level 2 as per the annexes. The paper '*Taking a Regional Approach to Covid-19 Alert Levels'* provides an option for a geographically phased approach.

The Treasury has been feeding in to these papers and has seen draft versions. We are supportive of their recommendations. This note provides some guidance for thinking about the decisions being presented to Ministers, based on the choice they will be asked to make on Monday 20 April about a potential step-down from Alert Level 4.

Talking points for CBC

We recommend that discussion at CBC focus on the following questions:

1. What does success look like from a public health point of view? How will we know the conditions for stepping down to Alert Level 3 has been met?
2. How can a continuation of Alert level 4, or the implementation of Alert Level 3, trade-off between:
   a) Risk of transmission and
   b) Economic costs
3. What level of assurance can be provided by regulatory authorities to businesses and workers that their activities meet an appropriate level of safety?
4. How will businesses' monitoring of workforce movements interact with and support the public health response – the testing, tracing and enforced quarantine operations?

The key changes proposed in the paper

The key shift proposed in the paper '*Implementing a move from Alert Level 4 to 3'* is in workplace, education and personal movement rules. The paper attempts to balance loosening constraints for social and economic outcomes with continuing to manage public health risk.

For workplaces this means moving *from* all workplaces (except essential services) being closed, *to* all workplaces able to open if they can operate safely, subject to some public-facing exclusions. 'Safe' in this context means being able to maintain physical distancing and adopting appropriate public health measures. With personal movements, the change to Alert Level 3 will offset some negative social outcomes by allowing two bubbles to join.

At Alert Level 3, there is a different hierarchy of controls, permitting greater people movement into workplaces, and more economic activity. Non-essential businesses may operate from their premises if workers cannot work from home, but only where appropriate public health measures can be taken – at the discretion of individual businesses. The specific exclusions identified in the proposed Alert Level 3 settings are designed to reduce unnecessary people movement and customer-contact, with most targeted at public facilities/venues.

Within the Government's elimination strategy, it will be essential in moving to Alert Level 3 to quickly identify any outbreak clusters and take steps to contain the spread, including at a regional level (see above).

Treasury supports the staged approach to reopening businesses described in the paper. We consider a triage system for high-risk enterprises, linked to testing and tracing arrangements, and potentially a verification scheme targeted initially at higher-risk work places (processing, manufacturing, construction, warehouses) should be considered.

This will be challenging. Given the interdependences in the economy it could also be easy to miss a business type that is essential to some functionality of the permitted groups.

The Treasury's Approach to these CBC Papers

A successful elimination strategy, if quickly achieved, remains the best way to limit the economic impact of COVID-19. Of all the economic scenarios in our forecast analysis published on Tuesday, this strategy involves nominal GDP recovering the fastest and strongest over the next four years. This is primarily because it assumes Alert Levels 1 and 2 from June 2020. This reinforces the objectives of this paper – which is to de-escalate Alert Levels in a way that supports elimination and minimises the chances of a future re-escalation.

In preparing this note, we have considered how the proposed Alert Level 3 settings could play out according to three different health policy scenarios for the next few months. We have drawn these out to guide this note and to inform how the Committee may wish to discuss the proposals, with the objective that as much economic activity be allowed to occur, within the bounds of public safety set by the Director General of Health.

Scenario 1: Ministers are not satisfied that we have seen enough of a reduction in cases, meaning we stay at Alert Level 4 for longer than the initial 4 weeks.

- On balance, if there is doubt next week about the efficacy of Alert Level 3 to deliver a successful elimination strategy, there should be a continuation of Alert Level 4 to allow time to ensure that safe economic activity can be identified at any alert level. The regulatory actions focussing on identifying and communicating what is safe economic activity (including partnering with businesses to develop these expectations) should be expedited. This would make a subsequent move to Alert Level 3 more effective. It could also enable a loosening of Alert Level 4 to allow more safe activity to occur in the meantime.
- Alternatively, the approach in the paper '*Taking a Regional Approach to Covid-19 Alert Levels'* could be adopted. This would take a regional approach to de-escalating from Alert Level 4, starting in low-density regions. This would need to be balanced with the lower levels of health care available in regional NZ, and the relevant travel times to regional centres.

Scenario 2: We drop back to Alert Level 3 and we don't see a rise in cases, enabling a progression down to Alert Level 2.

- With scenario 2, the main risk is a very slow resumption of activity because employers and workers are either unsure about 'what is safe', or about whether 'appropriate' measures are in place to prevent risks. Businesses and workers could therefore be reluctant to take any perceived risk.
- There appear to be three main ways to limit this risk:

  a) Economy-wide measures: Public health tracing and testing

  b) Workplaces: interventions at the enterprise level, supported by sector-level guidance where appropriate

  c) Individual level: General guidance (e.g. on bubble limits) and safe practices in environments with a high risk of contact

Scenario 3: We drop back to Alert Level 3, but see a subsequent rise in cases, meaning we need to go back up to Alert Level 4.

- This is the least preferred scenario. Switching between levels, particularly tightening after an initial loosening, could create a negative behavioural response through a loss of public support for COVID containment policies. This would manifest as low-compliance, higher costs of enforcement, and a broader loss of public trust in the operations of government.
- Any regulatory strategy (including any sector collaboration) should have its main objective to avoid this scenario. This would occur by identifying what particular activities in different workplace contexts are the most risky (focusing on essential services first), and how risks can be best mitigated.

Feedback from businesses indicate a gap in measures focused on workplaces. While a collaborative approach to developing guidance and support with businesses and unions would be desirable, it may not be enough. A regulatory strategy should also target the large number of businesses not covered by cooperative or collective agreements (including SMEs).

An appropriate regulatory strategy is one where Government sets rules, but businesses decide how to apply them and are held accountable for those decisions. This approach will require an assurance regime so that businesses can operate confidently, and Ministers are satisfied that public health officials have access to information about business operations to trigger a localised containment response.

There remain options to adjust the Alert Level Settings

Under all scenarios, Ministers should explore options to adjust the existing containment measures and definitions of essential services to the extent possible, so that they are the least restrictive to achieve the public health objective of reducing contact risk, taking into account the economic and social costs of the current measures. This will maximise the likelihood that the virus is contained and focus on opening up all economic activity that can be conducted safely, based on the advice of the Director General of Health. It will be important for advice to understand the inter-dependencies between many settings, particularly transport, education, and workplace measures.

Under Alert Level 4, firms can only operate outside of the home if they are providing services which are essential to the necessities of life, as defined by the DG of Health issuing notices under s70 of the Health Act. This means that if working from home is not possible, only essential services are permitted to continue to operate outside the home. The policy decisions about essential services continue to be refined and clarified, the public and businesses have found it challenging to find out what is essential.

Recommendation 2 of the paper asks Ministers to note that the existing Alert Level framework can be modified to take account of lessons learned during the lockdown, and to reflect emerging international evidence about the effectiveness of various measures. There appear to be a few ways to do this:

- altering the rules about workplaces and certifying some to operate based on their use of PPE and physical distancing
- enabling more deliveries and reducing barriers to e-commerce and
- broadening the essential services definition, and tightening enforcement/monitoring, by taking a transparently risk-based approach. If legal rules under the Health Act are limiting this, Ministers should look to change (update) the legislation urgently to enable a more balanced approach to targeting the public health risk.

We consider Ministers should explore the option to modify the existing Alert Level framework and ask:

- Are there any legal barriers to altering the public health rules to enable more economic activity within current Alert Level settings?
- What are the highest-value tweaks at the margin that may enable more economic activity?
- How can any tweaks to the existing arrangements be linked to increased testing and tracing capabilities? and
- How to balance the risk of uncertainty in public messaging about Alert levels with the benefits of increase economic activity?

Support for workers

Work should be expedited to address the gap in current policies to support workers who need to stay away from work or are unable to work due to public health restrictions (both for their workplace and childcare/support centres).

Several workers in Alert level 3 will not be eligible for the wage subsidy or the essential workers leave scheme if these policies remain in place during alert level 3 with current eligibility restrictions. Ministers are currently considering the wage subsidy and will need to consider the future of the essential workers leave scheme as alert levels change.

Ben Temple, Principal Advisor, Covid-19 Response Strategy and Policy, s9(2)(k)
Alastair Cameron, Manager, Covid-19 Response Strategy and Policy, s9(2)(k)

Adam Antao [TSY]

From:	Ben Temple [TSY]
Sent:	Tuesday, 14 April 2020 9:55 PM
To:	Hermano Pinto [TSY]; ^Parliament: Natalie Labuschagne
Cc:	Alastair Cameron [TSY]
Subject:	RE: TSY BAG: Aide Memoire: (T2020.990) CBC papers on implementing a move from Alert Level 4 to 3
Attachments:	Aide Memoire (T2020.990) CBC papers on implementing a move from Alert Level 4 to 3.doc; Aide Memoire (T2020.990) CBC papers on implementing a move from Alert Level 4 to 3.pdf

Hi Natalie, in case useful for your cover note:

- This A-M provides some guidance for thinking about the choices being presented to Ministers at CBC about implementing a step-down from Alert Level 4 to 3.

- The Treasury has been feeding in to these papers and supports their recommendations.

- Treasury proposes discussion focus on four main areas, looking ahead to a decision on Monday 20 April about whether to step down alert levels:

    - What does success look like from a public health point of view?
    - How can a continuation of Alert level 4, or the implementation of Alert Level 3, trade-off between a) Risk of transmission and b) Economic costs
    - What level of assurance can be provided by regulatory authorities to businesses and workers that their activities meet an appropriate level of safety?
    - How will businesses' monitoring of workforce movements interact with the public health response – the testing, tracing and enforced quarantine operations?

Some additional points to note in case the MoF is interested about the interaction of a reduction in alert levels with the wage support scheme, and relevant (for example) if the essential services definition is broadened (not covered in the paper – sorry):

- Essential workers – technically they are not excluded from the wage subsidy, but in practice essential services are less likely to meet the 30% revenue drop test so largely left out. There is however the essential workers leave scheme for essential workers who need to stay away from the workplace due to health reasons.

- Workers who return to work safely after move to alert level 3 either in full or part capacity –these workers are covered as long as there is a 30% revenue drop – for example, meat workers now can only work fewer shifts due to social distancing for example. There will be more people in this particular boat under level 3. Also note that if their employer already applied for the wage subsidy under level 4, mechanically this just continues for a 12 week period.

- Workers who can't return to work safely either because childcare not available or their workplace not yet considered safe - these workers are covered, subject to the 30% rule again.

Ben

Ben Temple | Principal Advisor | Te Tai Ōhanga – The Treasury
s9(2)(k) | s9(2)(g)(ii) | Email: ben.temple@treasury.govt.nz
Visit us online at https://treasury.govt.nz/ and follow us on Twitter, LinkedIn and Instagram

Pre-Cab 20 April 2020

- The Treasury will brief the Minister of Finance, and Associate Ministers of Finance on Monday 20 April 2020, 9:00am – 9:45am

Papers for Cabinet consideration

COVID-19: Transitioning Out Of Level 4

Rt Hon Jacinda Ardern, Prime Minister

Treasury contact: Ben Temple s9(2)(g)(ii)

Sign out contact: Alastair Cameron s9(2)(g)(ii)

Description: This paper reviews New Zealand's progress in countering the spread of COVID-19 and sets a path for the next period.

Comments	Fiscal Implications	Treasury Recommendation
The Treasury provided comments on an early draft of this paper, before any public health advice about triggering a decision had been inserted. We consider the framework agreed at CBC for stepping down to Alert Level 3 provides a good basis for this decision. The challenge is opening up activity carefully while managing the risk of transmission. If there is not sufficient confidence in testing and tracing capacity, spending slightly longer in Alert Level 4 now, to avoid a more lengthy return later, would likely be better for economic outcomes.	There are no direct fiscal impacts resulting from this paper. The Treasury has produced a range of scenarios of the economic impacts of different periods spent under lockdown. They estimate that each quarter at Alert Level 4 reduces economic activity by 40 per cent, and each quarter at Alert Level 3 reduces economic activity by 25 per cent.	**Support.**

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Pages 2 - 10 of this document have been deleted as they are not relevant to this request.

DRAFT

PreCab 28 April 2020

- The Treasury will brief the Minister of Finance, and Associate Ministers of Finance on Monday 4 May 2020, 10.30am – 11.15am.
- This briefing is based on the Treasury's understanding of the agenda on Friday 1 May 2020. If necessary, the Treasury will provided an updated PreCab briefing on Monday morning.

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Papers for Cabinet consideration

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RESTRICTED

COVID-19 Preparing to Review New Zealand's Level 3 Status

Rt Hon Jacinda Ardern, Prime Minister

Treasury contact: Ben Temple, Principal Advisor, COVID Economic Response s9(2)(g)(ii)

Sign out contact: Tim Ng, Deputy Secretary s9(2)(g)(ii)

Description: This paper outlines the factors for considering whether and when to move to Alert Level 2 (to be decided at Cabinet 11 May) and proposes timing, transition, and localised targeting options.

Comments	Fiscal implications	Treasury Recommendation
Alert Level 2 involves a substantial reduction in restrictions relative to Alert Level 3, largely relying on voluntary compliance. The paper expresses confidence that a step-down will be possible next week, but outlines choices in case there is doubt, including: • taking more time for understanding community transmission and resolving implementation issues • transitioning lower risk and high return activities (healthcare, education, workplaces including retail and hospitality), before other activities (public venues, mass gatherings, sport and inter-regional travel) • targeting any potential re-escalation of controls at localised outbreaks. While specific thresholds for triggering a move are identified in Table 2 and recommendation 2 (based on the Director General of Health's assessment of community transmission), the final decision will remain with Ministers. With reduced risks of transmission, balancing public health and other factors (economic, social, distributional, social licence and implementation) becomes more acute. This briefing has been based on the version of the paper circulated for Ministerial consultation.	There are no direct fiscal impacts resulting from the paper. Significant economic and indirect fiscal impacts arise from the continued imposition of Alert Level 3. The main costs of extending Alert Level 3 come from: • the restriction of economic activity, particularly retail, hospitality, and domestic tourism • prolonged psychological effects of isolation, distancing, financial insecurity, and restricted educational attendance • reduced access to elective procedures and primary healthcare.	**Support.** Given the significant living standards impacts and risks with continued distancing and physical movement controls, Ministers could ask for specific information about the economic, social, and compliance implications of progressively removing measures.

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s9(2)(f)(iv)

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Pages 4 - 9 of this email chain have been deleted as they are duplicates of emails found in Item 8.

SENSITIVE

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Assessing the costs and benefits of moving to Alert Level 2 and approach to future advice

Date:	8 May 2020	**Report No:**	T2020/1192
		File Number:	SH-1-6-1-3-3-13 (Health)

Action sought

	Action sought	Deadline
Hon Grant Robertson (Minister of Finance)	Note that the Treasury recommends Option A in Monday's Cabinet Paper, subject to more information being provided by the Director General of Health.	Monday 11 May 2020

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ben Temple	Principal Advisor, COVID Policy and Strategy	s9(2)(k)	s9(2)(g)(ii)	
Tim Ng	Chief Economist			✓
Geraldine Treacher	Manager, COVID Policy and Strategy			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Assessing the costs and benefits of moving to Alert Level 2 and approach to future advice

Executive Summary

Having reduced numbers of new cases to very low levels and built up testing, tracing and isolation capacity, Ministers are now in a position to make choices about the phasing and pace of re-opening the economy. This will involve balancing potential economic outcomes against what is known about the health risks.

In preparing advice, our objective has been to allow as much safe economic activity as possible, while maintaining consistency with New Zealand's elimination strategy (T2020/971 refers).

This paper presents a framework that helps navigate the range of relevant public health and economic objectives, principally by seeking to balance:

a) the risks each type of economic interaction or activity poses, with

b) the economic and social benefits of these interactions.

The paper outlines the high-level impacts of different Alert Level choices and explores safeguards that should help advance both public health and economic objectives. The objective of these safeguards is twofold: to reduce transmission risks and enable a faster resumption of productive and inclusive economic activity, which will contribute to social wellbeing.

Given much more movement and contact at Alert Level 2 (AL2), it is almost impossible to over-invest in contact tracing and tracking to minimise the risk of new cases getting out of control. Maximising track and trace capability, including apps, will enable a faster loosening, and a less likely re-introduction, of restrictions.

Recommended Action

We recommend that you:

a **Note** that there is uncertainty about the public health assessment of containment risks associated with moving to Alert Level 2, and whether the systems in place can adequately manage outbreak risks.

b **Note** that the draft version of Monday's Cabinet paper and other work we have seen implies that the risks are low.

c **Note** that our assessment is based on commentary in the draft Cabinet paper that:

i. contact tracing, case isolation, and widespread testing are considered effective enough to manage outbreaks

ii. quarantine and border controls are expected to be effective,

iii. regulators will promote safe economic activity that is not too onerous for most businesses to comply with, and

iv. clear and comprehensive public information and guidance will remain a critical risk mitigant.

d **Note** that Treasury estimates that the cost to the country of two weeks at AL3 rather than AL2, in terms of lost output alone, would be around $1.4b.

e **Agree** to test with Cabinet:

i. the assessment of factors in recommendation c above, and

ii. whether more work is needed on scenario planning for a potential second outbreak, so that the government can act early to minimise economic damage.

f **Note** that, subject to the Director-General of Health's assessment (which we have not seen) the Treasury's advice is to move straight to AL2 as fast as possible, (Option A as presented in the Cabinet paper), as we consider that the economic and social costs of waiting for at least two further weeks (Option C) exceeds, by some margin, the benefits that the two extra weeks would provide; and

g **Note** that Option B in the Cabinet paper (delaying some high-risk activities) could be considered if this option is clarified and a strong case is presented for it.

Tim Ng
Chief Economist

Hon Grant Robertson
Minister of Finance

Treasury Report: Assessing the costs and benefits of moving to Alert Level 2 and approach to future advice

Purpose of Report

1. The purpose of this paper is to set out a framework for making choices in the management of COVID-19, considering public health risks and economic and social impacts, to help guide public health choices and outline high-level impacts of different choices about moving between Alert Levels. Specifically, this paper briefs you on the key economic considerations around a potential move to AL2 and outlines what Ministers are being asked to weigh the COVID-19 transmission and containment risks against.

2. This paper provides advice on decisions to move from Alert Level 3 to 2, outlining a framework for considering the impacts of different choices and the underlying costs and benefits of measures to respond to the pandemic. Previously we considered the economic and public health objectives were aligned, particularly in the context of weak information about COVID-19 and the extent of community transmission and the preparedness of the operational public health response. There is now much more certainty about the cases we have, transmission risks, and our ability to reduce them. There has also been a significant reduction in case numbers.

3. We consider that the risks of a severe or poorly controlled outbreak are much lower now, and there are large costs involved in waiting to get better information. The Treasury recommends bringing a more systematic assessment of public health risks against economic and social costs.

Background and context

4. The Treasury's initial advice on altering Alert Levels proposed a framework for moving from an "Essential Services" framing to one based on "Safe Economic Activity" (T2020/971 refers). The intended outcome of this framework was greater clarity about how decisions about business operations will be made, to promote certainty about ongoing economic activity. The key question the framework asks is: "Can the risk of COVID-19 transmission be managed adequately under different circumstances?" We consider that this remains the key question.

5. The system of Alert Levels and movements between them is well-established. In terms of moving from AL3 to AL2, Cabinet decided on Monday [CAB-20-MIN-0199 refers] that the principal matters to be taken into consideration are:

- the Director-General of Health's satisfaction that:
  - there is reasonable certainty that transmission of the virus is restricted to individual households or known clusters (i.e. no significant community transmission)
  - sufficient capacity and capability exists in testing and contact tracing
  - self-isolation, quarantine and border measures are robust and adhered to

- there is capacity in the health system
- effects on the economy and society
- impacts on at-risk populations
- the extent to which people and businesses understand, accept, and abide by the measures, and
- the ability to implement and operationalise the restrictions.

6. The freedoms and restrictions under AL2 were further refined this week [SWC-20-MIN-0033 refers] and communicated to the public. AL2 would represent a significant opening-up of the economy and society compared to AL3. This lower alert level would permit widespread economic activity, allowing all businesses to open if they can do so safely. Retail, hospitality, movie theatres, gyms etc. could open, subject to rules around large gatherings. Domestic travel and sports would be allowed. Physical distancing would be relaxed people that are known, or in situations where contact tracing is in place. Early childhood centres, schools and tertiary institutions would be open and students expected to attend, but it is likely that discretion about opening and restrictions on capacity would will limit the ability of some parents and caregivers to go back to work

7. The urgency of the Government's response and the need to make least regrets decisions means that there is significant uncertainty to inform our own judgement about likely health risks of different virus course scenarios.

Immediate decisions facing Ministers

8. On Monday, Cabinet will consider if, and when, to move the country from AL3 to AL2.

9. We have seen a version of the Cabinet paper but understand that this could move around further before Monday. The paper proposes three options:

- Option A: move to AL2 at 11:59pm on May 13. This would be the earliest possible move to AL2.
- Option B: move to AL2 in two steps – making most of the changes on May 13, but leaving some risky activities (eg gatherings and sport) until at least two weeks later on Wednesday 27 May.
- Option C: stay at AL3 for at least two more weeks, i.e. until at least May 27. This would provide better information on how much the virus spreads in AL3, keep that spread at the lowest possible level for longer and reduce the chances that widespread community transmission will re-emerge.

Indications of public health risk are positive

10. The Cabinet paper we have seen does not contain the Director-General of Health's opinion on the public health situation and outlook, and his final advice is not expected until the Monday of the Cabinet decision.

11. We have also not seen a detailed background assessment of the risks, but the indications are positive. There are now high-capacity testing, tracing, and tracking measures in place, given the number of cases relative to other countries that have removed stringent containment measures. While international comparisons are difficult, New Zealand's total per capita testing rate appears similar or higher than places which are also doing well in managing transmission risk. New Zealand has significantly increased testing capacity, but has not taken the approach of other countries to signal testing or capacity targets. Testing was previously governed by case definition, but now emphasis has shifted to asymptomatic infections. We understand tests carried out at supermarkets in Covid-19 hotspots (Queenstown, Waikato, Canterbury and Auckland) have returned negative results.

12. One indication of testing effectiveness is the positivity rate—the fraction of tests that return a positive result. A high positivity rate suggests a low likelihood of reaching all infected cases. Conversely, a low positivity rate suggests broad testing and being more likely to find infected cases. New Zealand's positivity rate on all tests from 22 January to 30 April was 1.7%, whereas the rate for last week alone (29 April to 5 May) was 0.05%. This rate, whether overall or for each day, is still very low compared with other countries, indicating New Zealand does a significant amount of testing compared to confirmed cases. As of 5 May, the number of tests per confirmed case (137.1) is higher than Australia (97.4) and only exceeded by Taiwan (149).

13. It would be preferable for public health experts to provide a clear view of the ability of the controls to contain and manage an outbreak and an assessment of the level of risk of it not doing so. At this point, we have seen no information to suggest New Zealand cannot contain any outbreaks of COVID-19 arising from existing clusters and there appears to be a high level of confidence that border arrangements are tight. However, tracing capabilities have not been tested at scale.

14. Our best guess is that the Director-General of Health will be satisfied that the public health criteria for moving to AL2 have likely been met, albeit with some risks identified and some caveats – most likely in support of Option B.

Weighing costs and benefits

15. There have been attempts to compare the costs and benefits of responding to the virus, with most focusing on the projected death rates generated by deterministic epidemiological models under different scenarios. The same models were used to inform the Ministry of Health's advice, with each scenario representing a different strategy for responding to the outbreak. Choices on value of life here can fundamentally alter the conclusions. We can provide some advice on these if you wish.

16. Choices and scenarios in the early stages of the crisis were conditioned by factors that are quite different now: knowledge of the base rate of cases in the population, the dynamics of R_0, the ability to test, trace, and isolate and acute care capacity. The outcomes associated with different choices are therefore likely to be quite different now.

Challenges with using cost benefit analysis

17. Cost benefit analysis recognises that there are costs and benefits in terms of health, economic and social outcomes associated with the choices the government has to make in the management of the pandemic response. Health outcomes and economic activity are interdependent. Healthy populations usually result in stronger economies, and a larger economy has more resources to devote to improving and extending lives.

18. This does not mean that lives and economic activity or resources are somehow equivalent and can be traded off against each other. Costs constitute health and healthcare outcomes, including mortality and morbidity from conditions other than COVID-19, because of reduced use of health services and delays in treatment of other illnesses result from prioritising resources on COVID-19. Money spent keeping businesses afloat while closed cannot be spent on other activity, such as health infrastructure, although debt can obviously be used to share costs across generations.

19. Studies based on deterministic models generating a particular number of lives saved are highly dependent on assumptions. There are also technical challenges about how to make non-monetary impacts and different probability distributions quantitatively commensurable. While the risk (though not the incidence or timing) of economic losses might be reasonably linear, virus transmission dynamics with ineffective controls are exponential.

20. Estimates are useful for comparing the potential impact of different policies at a point in time, but very quickly lose meaning as behaviour changes. There are also differing moral perspectives, reflecting that different groups in society are impacted under different scenarios and that there are choices in valuation technique.

21. The economic scenarios published last month gave a sense of the magnitude of direct cost to the economy from reduced output under different Alert Levels. Every additional month in Level 4 directly reduces annual GDP by about three per cent and every additional month in Level 3 reduces it by about two per cent. These are impact (direct) effects on output. The longer run consequences for future economic performance are more complex (where measurement is imperfect) and non-linear firm failures and labour market detachment. This is why it is important to be confident that the virus is under control before total relaxation.

22. Our view is that monetisation challenges do not preclude the production or the importance of an informative CBA. We can say that the initial costs of the containment measures are likely to have far outstripped by the costs of uncontrolled outbreak. This scenario would have overwhelmed the health system and likely led to a much deeper and longer lasting disruption to the economy.

23. This assessment does not hold for decisions from now on. While uncontrolled outbreak was a reasonable scenario to contemplate in the early stages, the nature of the interaction between health risk and economic outcomes has changed markedly, because of strengthened controls.

24. Emerging international studies have looked at impacts beyond the direct costs of regulated closures (i.e. firm failures, labour market scarring). These suggest probabilities are more-or-less linearly related to duration, and more sensitive to the duration of a lockdown than its stringency—suggesting that more severe restrictions can reduce economic damages if they successfully shorten the duration of a lockdown. High-exposure final-consumption sectors like catering and tourism are the most vulnerable to containment, as they are exposed to a drop in demand and to contagion from other struggling enterprises.

Our approach to weighing up the pros and cons

25. In the early stages, the risks associated with the options were not symmetric, with huge downsides for both health and economic outcomes. Decisions were required quickly to avoid the worst outcomes in the presence of large uncertainty. Those decisions helped to "buy time" by getting ahead of the virus. New Zealand has gained international recognition for flattening the infection curve quickly and positioning government agencies to identify and stamp out future outbreaks by reducing cases dramatically.

26. Given this success, the Treasury recommends taking a risk-based approach to stepping down to AL2 that recognises that the dynamics of the outcomes associated with choices around AL2 have changed dramatically. This approach considers the reasoning behind the decision, what we expect the decision to achieve, and what evidence exists to support that reasoning.

27. This approach is intended to help Ministers evaluate whether the decision achieves what is expected for a reasonable cost. Looking at the immediate implications requires consideration of the costs of a decision to delay a move to AL2 (economic activity, jobs, wellbeing), compared with the benefits of a reduced likelihood of subsequent re-escalation of Alert Levels. To do this, we have compared Option A to immediately step down on Wednesday 13 May (two days after Cabinet) with Option B to wait an extra two weeks (Wednesday 27 May). The objective is to quantify, as far as possible, the economic and social costs of a two-week delay in going to AL2.

28. To analyse the long run economic consequences of either moving directly to AL2 or waiting another two weeks, we have considered the risk that moving too early results in an increased possibility of transmission (R moves higher than 1) and a subsequent move to re-escalate Alert Levels.

29. We have considered this by comparing an estimate of the expected economic costs arising from a higher level of public health risk at AL2 with the expected economic costs arising from an extra two weeks at AL3. If the costs arising from the risk of moving directly to AL2 outweigh the costs of staying at AL3 by more than the direct loss in economic output from an extra week at AL3 compared with AL2, our advice would be to step-down to AL2.

30. This judgement relies on the probability of subsequently re-escalating Alert Levels. Based on Cabinet's criteria for considering changing Alert Levels, this judgement depends on the DG of Health's reasonable certainty that transmission of the virus is restricted to individual households or known clusters—i.e. the likely trajectory of community transmission risk under each option. This in turn relies on a public health modelling judgement, taking into account the efficacy of tracing and quarantine measures that reduce the probability that R>1.

The Treasury's estimate of the economic implications of the current decisions

31. We have updated our previous estimates of economic impacts to take account of the revised Alert Level settings and considered the option to phase in AL2 over 2 weeks. Economic activity (in the measured economy) could reduce by approximately 24 per cent under AL3, compared with approximately 13 per cent in AL2. The two-week delay under Option C would therefore result in directly lost output of approximately $1.4b compared with Option A. Annex 1 contains more details of these calculations.

32. Given these numbers, we consider a clear demonstration of public health risk reduction would be needed to support any decision to delay (i.e. Options B or C). The proposal to wait two weeks may reduce the probability of a future re-escalation of Alert Levels, and the economic and psychosocial costs that would imply, but the difference in probabilities of this occurring is not clear. With the information we have at the time of writing, it appears that Ministers are being asked to buy an unknown amount of risk reduction for $1.4b of lost economic activity, on top of any social costs of continued lock-down.

33. These estimated direct reductions in output do not take into account the fact that more enterprises or organisations on the brink of closure may tip over under Options B or C than in Option A, which would add to the economic costs. Nor do they include longer-run costs or wellbeing implications of uncertainty. These estimates do take into account assumptions about continued restrictions in public transport, ECE and school capacity under AL2, which will have a negative effect on workforce availability and economic activity.

34. Comparing Option B with Option A, the two-week transition under Option B will see continued pressure on entertainment and hospitality firms, and on social capital from extended restrictions on gatherings, public venues and sport. This raises risks of a loss in social licence and a reduction in compliance with public health guidelines about distancing and hygiene but are likely to be manageable with clear and effective public communications and regulatory enforcement.

Other impacts

35. T2020/1298 looks at initial information about the labour market impacts of the COVID-19 response. It reflects our expectation that the groups of workers most vulnerable to poor employment outcomes because of COVID-19 are those same groups who are the most vulnerable under normal economic conditions.

36. The sectors likely to have the largest output reductions employ a higher number of young people (under 30 years old). The share of men and women workers working within the most affected sectors is similar, but ethnic minorities have slightly higher shares of their workers in the most impacted sectors, particularly Asian workers. The regions that have relatively high shares of their workers in the most impacted sectors are West Coast, Otago, Nelson and Tasman—all reliant on regional travel and tourism, although some regions maybe better insulated from adverse effects because of their industry structures.

37. In addition, more time at AL3 will have psychological effects on people as a result of social distancing and financial insecurity and health effects through the lack of access to normal health services (for example elective procedures) at AL3. The significance of these broader economic and social costs, and the very strong likelihood they will be substantial, warns against "just in case this works" policies.

38. T2020/1210 provided a Living Standards Framework and He Ara Waiora analysis of impacts from COVID-19 and the imposition of the lock-down containment measures. Impacts on jobs and incomes are most visible in the emerging data. There are significant inter-generational distributional impacts as the costs will fall mainly on younger New Zealanders. Younger (and unborn) New Zealanders will bear the burden of repaying public debt. Younger New Zealanders will also bear the brunt of the economic and social costs, particularly from labour market scarring. Survey evidence suggests general wellbeing is holding up well. This reflects the positive impact of the Government's response strategy. However, risks remain of invisible issues surfacing as we move out of lockdown.

39. Experience suggests that a recession of this severity is likely to have a number of long-term impacts on wellbeing, through a deterioration in the capital stocks which underpin wellbeing. The greatest long-term risks are to human capital, particularly educational achievement and labour market scarring, and to social capital.

Assessing benefits

40. This analysis has only looked at the cost side of extending the bundle of containment measures that make up AL2 and AL3 within the domain of the measured economy, rather than looking at the relative merits of those individual measures. The cost-benefit balance could change depending on the success of all the interventions being tried, including several more tests, highly effective tracing and quarantine operations, increased use of personal protective equipment, and the discovery of an effective vaccine.

41. Until there is clearer information about the effectiveness of these measures, the nature of the broad restrictions on economic activity, personal movement, and home lock-downs mean we are only able to realistically look at the costs over time to compare with a largely subjective assessment of risk.

42. A major challenge to economic modelling during the crisis is our uncertainty about the virus and the unpredictability of human behaviour. There are significant biological and social/behavioural factors driving transmission dynamics. Epidemiological and economic modelling can't easily provide qualitative insights. Officials have therefore moved from using static deterministic models to more sophisticated analyses of relative risks, costs and benefits.

43. Officials are working with Professor Shaun Hendy to apply a stochastic model fitted to live New Zealand case data. This model analyses how random transmissions can play out when case numbers are low, as is our current position. In such a scenario, transmission is highly sensitive to chance infections. A 'good' or 'bad' run of chance infections early-on can significantly alter the long-term trajectory of the epidemic. Such analysis helps illuminate the risk management choices around our investments in testing, tracing, and case isolation. The stochastic model captures this by simulating many random sequences, so that the 'set' of possibilities can be analysed, as well as the average outcome.

Advice on current decisions

44. As discussed above, the human costs of remaining at AL3 are very high, compared to being in AL2. The public health risks moving down a level appear manageable, although we have not seen the Director-General of Health's advice and would ideally have access to a clearer assessment of these risks in preparing this advice.

45. Of the eight criteria agreed by Cabinet for a move to AL2, we don't currently know for certain that the four public health criteria have been met, as these depend on the satisfaction of the Director-General, but indications are positive, as described above. The Cabinet paper also indicates that the other four criteria for moving to AL2 have been met.

46. Treasury's advice is not to support Option C, which proposes a delay of at least two weeks.

47. Justification for Option C would require showing that the benefits of a two-week delay (for example, more information and a lower starting point for active cases, reducing the probability of having to go bacl to AL3) were so great that they outweigh the Cabinet-agreed criteria and more importantly that they outweigh the very high and measurable human costs of waiting at AL3. The Cabinet paper we have seen does not demonstrate this benefit. Option C also appears to be a change from the strategy of elimination to one of pursuing zero active cases.

48. Option B has some merit, in line with an argument saying that we can do contact tracing and isolation at greater scale but we can't know for sure, so should leave higher risk activities until we have a better idea of our capacity to respond. Higher-risk activities would presumably include those where strangers gather and in particular where alcohol is consumed.

49. However, we would make three points about Option B:

    1) There is little clarity in the Cabinet paper about what activities are considered high risk and which aren't, and how to draw that line in a sensible and fair way. Nightclubs, for example, would almost certainly be considered high risk, but what about restaurants and cafes selling alcohol? Rules on gatherings would need to be very carefully designed and communicated to permit low-risk gatherings – a drink with the neighbours, for example – but capture those with higher public health risks. Otherwise there could be a de facto continuation of the bubble concept in AL2.

    2) SWC this week made significant changes to the rules and guidelines around gatherings and hospitality (requiring seating for example) for the very reason that they are higher risk activities. Ministers might consider whether these changes to *manage* risk are enough, without the need to *avoid* it altogether.

    3) Impacts of Option B depend largely on behaviour, and the precise set of activities that are allowed or disallowed, and we cannot make the same assessment of output losses as with Option C.

50. As noted above, we have not had enough sight of the work assessing the containment risks associated with moving to AL2 and whether the systems put in place can manage outbreak risks. However, the Cabinet paper and other work implies that the risks are low and that contact tracing, isolation of confirmed or suspected cases, and widespread testing are considered effective enough to manage outbreaks, quarantine and border controls are expected to be effective, and we can promote safe economic activity that is not too onerous for most businesses to comply with. You could test this during the Cabinet discussion, drawing on the Director-General's assessment.

51. If the risks are low, then Treasury's advice is to move straight to AL2 as soon as possible, i.e. Option A. We have not seen evidence that the very large economic and social costs of delaying at least two weeks (Option C) are worth bearing while waiting for risks to become very low or for them to be eliminated.

52. You could consider supporting Option B if more information is provided on the activities in question, their risks, and any unintended consequences, and a strong case is presented for it, for example by the Director-General.

Next Steps

53. Treasury has been working with the National Crisis Management Centre, establishing a modelling working group to map out COVID-19 scenarios and support continuous refinement of Professor Hendy's model with clear governance across different data systems. The objective of this work is to support the provision of timely and qualified modelled estimates to enable proactive decision making and response to manage and resolve COVID-19 and manage risks around data sources and quality.

54. These efforts are driving strategic advice and operational response planning, providing insights about health resourcing, public messaging implications, and intelligence needs. Our next steps are to develop the models further and use them to inform the public and improve the predictability of decisions about alert levels, focusing on scenarios where outbreaks may occur.

55. We will continue to engage with officials to encourage the active consideration of economic impacts alongside clear assessments of public health risks. This includes any further advice that is needed for implementing a step-down, advice on extending the national bubble to Australia and the Pacific and any advice that might be required on returning to AL3.

Annex One

The Treasury uses valuation techniques in a similar way to the scenarios work. CBAx contains monetised values for a range of impacts and allows comparisons of differing impacts in a common unit. These values were sourced from techniques designed for specific purposes (such as health system prioritisation and road safety investment appraisal) and may not be applicable to different policy contexts, where society may have a range of different objectives.

Our approach to estimating the lost economic output from extending Alert Level 3 looked at detailed categories of output and identifying the sectors most directly affected by the loosening of restrictions. We then estimated the additional GDP loss from remaining in AL3 compared with moving to AL2, relative to pre-COVID GDP.

We have updated our previous estimates of economic impacts to take account of the revised alert level settings and considered the option of moving to AL2 compared with staying at AL 3, or phasing in Alert Level 2 over 2 weeks.

For each of ANZSIC category if economic activities, illustrative assumptions were made about the extent of directly-curtailed activity due to restrictions. A summary of the estimated reductions is presented below. Sub-category output declines range from 80% (in accommodation and food services, and in arts and recreation services) to -10% (i.e. an increase in healthcare and social assistance activity).

GDP activity under different Alert Levels			
	Level 2	Level 3	Level 4
Changes in GDP in representative quarter (percent change from Q4 2019)	-13%	-24%	-39%
Primary sector	90%	81%	71%
Manufacturing	90%	72%	44%
Construction	90%	60%	10%
Electricity, gas, water, and waste services	90%	90%	80%
Wholesale Trade	90%	70%	40%
Retail Trade	80%	70%	40%
Accommodation and food services	60%	20%	20%
Other services	85%	75%	58%
Government (local, central, education and health)	95%	93%	90%
Total	87%	76%	61%

Activities involving inter-regional travel, including domestic tourism, and direct contact between consumers and businesses, are clearly affected by loosening restrictions on movement and on retail and hospitality businesses. While takeaway sales and on-line sales being possible at AL3 may have prevented a full cessation of activity in some businesses, transaction data suggests the declines in output have been significant.

More general economic activity would also be positively affected, because shifting from 2m to 1m physical distancing enables more workplaces to open, policies affecting labour availability such whether schools are operating in a restricted manner would place significant limits on the extent to which children could return (and therefore parents return to work).

The direct impact on manufacturing sectors from an immediate shift to AL2 results from some businesses being less employment intensive or able to adjust operations to accommodate 1m physical distancing.

The cost estimate of two weeks at AL3 compared with AL2 is approximately $1.4bm. The impact on annual GDP growth would depend on how long these measures remain in place.

The majority of the impact on output from Alert Levels 3 and 4 was construction, followed by rental, hiring, and real estate, and then professional, scientific, and technical services. At Alert Level 2, the greatest reduction comes from rental, hiring, and real estate.

These estimates are based on an assumption of applying Alert Level 3's broad lockdowns, travel restrictions, and retail/hospitality business restrictions nation-wide, rather than to particular regions only.

RESTRICTED

PreCab 11 May

- The Treasury will brief the Minister of Finance, and Associate Ministers of Finance on Monday 11 May 2020, 8.45am – 9.30am.
- This briefing is based on the Treasury's understanding of the Cabinet agenda on Monday 11 May 2020.

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Papers for Cabinet consideration

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Review of COVID-19 Alert Level 3

Rt Hon Jacinda Ardern, Prime Minister

Treasury contact: Grant Johnston, Principal Advisor, COVID Policy and Strategy s9(2)(g)(ii)

Sign out contact: Tim Ng, Deputy Secretary s9(2)(g)(ii)

Description: This paper provides three options for moving the country from Alert Level 3 to Alert Level 2.

Comments	Fiscal implications	Treasury Recommendation
The paper proposes three options: • Option A: move to Alert Level 2 on 13 May 2020 • Option B: move to Alert Level 2 in two steps, with some activities such as gatherings and sport not permitted until at least 27 May • Option C: remain in Alert Level 3 for at least two more weeks. Remaining at Alert Level 3 has large costs for people and businesses. The Treasury estimates that the cost of two weeks at Alert Level 3 rather than Alert Level 2, in terms of lost output alone, would be approximately $1.4 billion. This paper does not demonstrate that the benefits of staying at Alert Level 3 for two more weeks (Option C) would outweigh the costs.	There are no direct fiscal impacts from this paper. A successful move to Alert Level 2 would have a large, positive fiscal impact as it would enable greater economy activity.	After considering the Director General of Health's final advice on Monday, we recommend you **support Option A**, to move to Alert Level 2 on 13 May, **if** contact tracing, case isolation and widespread testing are considered effective enough to manage outbreaks, and border controls are robust. We have not seen evidence that the economic and social costs of delaying the move by at least two weeks (Option C) warrant waiting for risks to become very low or for them to be eliminated.

RESTRICTED

Option B has some merit but there is little clarity in the paper about what is considered high-risk, where the line is drawn, and how this relates to the de-risking of some activities (including bars and gatherings) decided this week at the Cabinet Social Wellbeing Committee. We are preparing a briefing today (T2020/1192 refers) which includes more discussion and advice on this Cabinet paper. Please note that this briefing, and the Treasury Report, are based on a version of the paper that does not contain public health advice from the Director-General of Health.		You may wish to consider supporting Option B if more information is provided on the activities in question, their risks, and any unintended consequences.

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Pages 4 - 8 of this document have been redacted as they are not relevant to this request.

TE TAI ŌHANGA
THE TREASURY

Reference: T2020/1603 SH-1-6-1-3-3-13

Date: 22 May 2020

To: Minister of Finance (Hon Grant Robertson)

Deadline: 25 May 2020

Aide Memoire: Cabinet paper on Alert Levels 1 and 2

The Prime Minister is taking a paper to Cabinet this coming Monday (25 May) which proposes:

- options to loosen the temporary Alert Level 2 (AL2) rules on groups of more than ten people congregating, and
- indicative timing for Cabinet to consider moving to Alert Level 1 (AL1).

These two decisions are connected by the fact that any delay in increasing social grouping limits means delaying the full implementation of AL2 and therefore delaying the consideration of AL1.

Our advice is to:

- loosen the social grouping rules as soon as practicable
- consider on June 8 whether to move to Alert Level 1.

More detailed recommendations are in the sections below. Our recommendations are based on the very low number of COVID cases in New Zealand, existing rules to limit the risk of gatherings at AL2 and the social and economic costs of restrictions at AL2. They are also consistent with the Government's COVID strategy of moving between alert levels based on previously-agreed criteria, accepting the risk there could always be outbreaks, and having the contract tracing and testing capacity to manage any downside risks.

Note that we have seen a draft version of the paper that was circulated to agencies for comment, but not the subsequent version for Ministerial consultation nor the advice of the Director-General of Health.

Social grouping rules

Cabinet decided that when the country moved to AL2 there would be a temporary restriction on social groupings of more than ten people [CAB-20-MIN-0220 refers]. No more than 10 people could go out together as a group but they could go to a restaurant with an overall cap of 100. Weddings and church services were restricted to 10 people, although funerals and tangi could have 50 people in some circumstances.

The draft Cabinet paper for Monday proposes three options:

- raise the social grouping limit to 100 people as soon as practicable, which we understand as being from next weekend, thereby fully implementing AL2 (Option A)
- raise the limit to 50 people for now (Option B)
- stay with the existing limit of 10 for now (Option C).

Gatherings, particularly with alcohol, have previously been the centre of clusters (for example the Bluff wedding). However, Ministers have since agreed rules around gatherings during AL2 to mitigate these risks – for example, an overall cap of 100, seating for indoor functions, recording of attendees for contract tracing, physical distancing and hospitality guidelines [SWC-20-MIN-0033]. Moreover, the risks of transmission at gatherings is much lower now as undetected community transmission in New Zealand is highly unlikely.

We recommend that you support the option in the Cabinet paper that would allow groups of 100 people to associate as soon as is practicable (Option A in the version we have seen).

Cabinet consideration of AL1

On the face of it, the eight criteria previously set by Cabinet for a move to AL1 [CAB-20-MIN-0199] have already been met.

Three of the public health criteria have been met because the Director-General has previously said he is satisfied there is sufficient capacity and capability in testing and contact tracing; quarantine and isolation measures are robust; and there is capacity in the health system. The four non-public health criteria are also met, as moving to AL1 would be better for the economy and society; would not adversely affect at-risk populations; will gain high levels of public acceptance; and involve relatively little implementation compared to higher Alert Levels.

This leaves only one public health criterion to be met for a move to AL1, which is the Director-General's satisfaction that "transmission is restricted to isolated cases" which Cabinet was previously advised would be indicated by "sporadic cases only – no or few cases with unknown transmission for many days".

The current pattern of COVID transmission is one of isolated cases. There are now only 28 active cases in the country. There have been few new cases in the last fortnight, of which most have been health care workers treating COVID patients (which haven't led to wider outbreaks) or old cases that have been reclassified or confirmed. Over the last seven days there have been over 35,000 COVID tests and only 3 genuinely new cases – a positivity rate of below 0.01 percent. There have been no cases of unknown transmission since April 2. Risks around the source of transmission therefore seem very low.

There remains a question about whether the loosening of restrictions under AL2 has had, or will have, any effect on transmission. While this is unlikely, since the best evidence is that there is no undetected community transmission, it would be prudent to wait until some more time passes under AL2. However, we do not consider that the benefits from waiting weeks longer (more information and a marginal reduction in risk) are outweighed by the significant ongoing costs. This is especially the case in an environment where, until there is a vaccine, there will always be risk.

AL2, while significantly better than AL3, is still more costly than AL1. Physical distancing on public transport networks and in workplaces, in particular, continues to depress economic output by limiting both workforce participation and productivity. Our rough estimate is that the cost of two weeks at AL2 compared with AL1 would amount to around $900m in lost output. This cost does not include deepening pressure on business balance sheets, particularly for tourism and hospitality businesses which will continue to struggle to meet costs while observing distancing and capacity rules.

We recommend that you table a recommendation at Cabinet saying “agree that Cabinet will consider on Monday June 8 whether to move the country to Alert Level 1”.

By June 8, three-and-a-half weeks will have elapsed since AL2 was imposed. We consider that any negative impacts on transmission should be observable by then.

The recommendation should not say “agree that Cabinet will consider whether to adjust the Alert Level…” as this wording can be interpreted as referring simply to rule tweaks within AL2 itself.

Grant Johnston, Principal Advisor, COVID Strategy, s9(2)(g)(ii)
Ben Temple, Principal Advisor, COVID Strategy, s9(2)(g)(ii)
Geraldine Treacher, Manager, COVID Strategy, s9(2)(g)(ii)

IN CONFIDENCE

DRAFT

PreCab 25 May 2020

- The Treasury will brief the Minister of Finance, and Associate Ministers of Finance on Monday 25 May 2020, 11.10am – 11.55am.
- This briefing is based on the Treasury's understanding of the Cabinet agenda on Friday 22 May 2020. An updated PreCab briefing will be provided on Monday morning if required.

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Papers for Cabinet consideration

Review of COVID-19 Alert Level 2 Controls

Rt Hon Jacinda Ardern, Prime Minister

Treasury contact: Grant Johnston, Principal Advisor, COVID Policy and Strategy s9(2)(g)(ii)

Sign out contact: Geraldine Treacher, Manager, COVID Policy and Strategy s9(2)(g)(ii)

Description: This paper proposes options for loosening the rules around social groupings under Alert Level 2, and contains indicative timing for Cabinet to consider moving the country to Alert Level 1.

Comments	Fiscal implications	Treasury Recommendation
Cabinet has previously agreed [CAB-20-MIN-0199 refers] that New Zealand should move to Alert Level 1 if the transmission of COVID is restricted to isolated cases, where there are no or few cases with unknown transmission for many days. Alert Level 2, while significantly better than Alert Level 3, is still more costly than Alert Level 1 due to constrains on economic activity. Physical distancing on public transport networks and in workplaces, in particular, continues to depress economic output by limiting both workforce participation and productivity. Treasury estimates that the cost of two weeks at Alert Level 2, relative to two weeks at Alert Level 1 amounts to approximately $900 million in lost output. We recommend considering a move to Alert Level 1 in two weeks, on June 8 2020. Further information on these issues has been provided to the Minister of Finance in an Aide Memoire (T2020/1603 refers).	There are no direct fiscal impacts from this paper. A successful move to Alert Level 1 would have a large, positive fiscal impact as it would enable greater economic activity.	We recommend that you: • support the option in the paper that would allow groups of 100 people to associate as soon as is practicable (Option A in the version we have seen) • table a recommendation at Cabinet, which states "agree that Cabinet will consider on Monday June 8 whether to move the country to Alert Level 1". This has been provided to your office separately.

Please note that this briefing, and the Aide-Memoire, are based on a version of the Cabinet paper that does not contain advice from the Director General of Health.		

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Pages 3 - 4 of this request have been deleted as they are not relevant to this request.

Adam Antao [TSY]

From: Grant Johnston [TSY]
Sent: Thursday, 28 May 2020 11:43 AM
To: ^Parliament: Natalie Labuschagne
Cc: Geraldine Treacher [TSY]; Ben Temple [TSY]
Subject: Draft TR on an intermediate step between Alert Levels 2 and 1
Attachments: 4284608_Treasury Report_ Potential for a COVID-19 Alert Level 1.5.DOC

[SEEMAIL][SENSITIVE]

Hi Natalie

As we discussed on the phone, here's a draft TR on the idea of "Alert Level 1.5" that MoF raised with Caralee. Now that I've done a bit of digging, the short story is:

- You were interested in an option for an intermediate step between AL2 and AL1
- It looks like the policy process will be throwing up an option like this, and quite soon (June 8)
- This option will be informed with public health advice, s9(2)(g)(i)

Let me know if you've got any questions or helpful suggestions. I'll try to get it over in the morning but there is still a possibility of unhelpful interactions between this and a SWC paper for June 3 that might have to be sorted out. But I promise not 4:59pm like previous Fridays!

Cheers
Grant

TE TAI ŌHANGA
THE TREASURY

Grant Johnston | Principal Advisor | Te Tai Ōhanga – The Treasury
s9(2)(k) | s9(2)(g)(ii) | Email/IM: grant.johnston@treasury.govt.nz

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Potential for an intermediate step between COVID-19 Alert Levels 2 and 1

Date:	29 May 2020	**Report No:**	T2020/1670
		File Number:	SH-1-6-1-3-3-13

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance**	Note that options for an intermediate step between Alert Levels 2 and 1 could be created, through a combination of record-keeping and gathering requirements, but may not be needed as the current pattern of COVID-19 transmission supports a direct move to Alert Level 1.	2 June 2020

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Grant Johnston	Principal Advisor, COVID Strategy	s9(2)(k) [redacted]	s9(2)(g)(ii) [redacted]	✓
Geraldine Treacher	Manager, COVID Strategy			

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Potential for an intermediate step between COVID-19 Alert Levels 2 and 1

Executive Summary

You asked the Treasury Secretary for advice on the possibility of an intermediate step between Alert Levels 2 and 1 – an "Alert Level 1.5".

Under Alert Level 1, people's freedoms will look as they did before COVID-19, albeit with strict border controls. The Prime Minister is proposing that this be confirmed at SWC on Wednesday (June 3).

The Prime Minister will also take a paper on adjusting Alert Levels to Cabinet on June 8. The key criterion for moving to Alert Level 1 is the Director-General of Health's satisfaction that "transmission is restricted to isolated cases". Today New Zealand has only one active case of COVID-19 and the last known case of community transmission was on April 2. If this pattern does not change over the next week, our advice would be to agree on June 8 to move to Alert Level 1 straight away.

However, if Ministers were reluctant to move fully to Alert Level 1 at the June 8 meeting, then an intermediate step could have merit if it means an earlier move down from Alert Level 2. An intermediate step would involve maintaining requirements for record-keeping and/or restrictions on large gatherings, while removing the Alert Level 2 rules around physical distancing that are the primary limits on economic activity.

Both the SWC meeting on June 3 and the Cabinet meeting on June 8 would give you an opportunity to raise this issue if you think it could hasten a downward move in Alert Levels or mitigate some of the risks, however low, of Alert Level 1. You could also highlight the economic impact of continued physical distancing and the importance of its removal as soon as possible, unless there are very strong public health reasons not to.

The June 8 Cabinet paper may propose that some form of record-keeping for attendance at very large events be kept, but probably as a permanent feature of Alert Level 1, not as an intermediate step between Levels 2 and 1.

Recommended Action

We recommend that you:

a **note** that the Prime Minister will take a paper to Cabinet on June 8 considering adjustments to the Alert Level and that this is likely to contain a simple choice between moving to Alert Level 1 (possibly with a minor additional requirement around record-keeping at very large events) and staying for longer at Alert Level 2

b **note** that the Treasury's advice, if the current pattern of transmission continues, would be to move straight to the full Alert Level 1

c **note** that there are no intermediate steps between Alert Levels 2 and 1 being developed to our knowledge, but that any such step could involve maintaining requirements for record-keeping and/or restrictions on large gatherings, and should remove the Alert Level 2 rules around physical distancing that are the primary limits on economic activity

d **note** that Treasury will brief you on the June 8 Cabinet paper, including on any options within it

Agree/disagree.

Geraldine Treacher
Manager, COVID Strategy

Hon Grant Robertson
Minister of Finance

Treasury Report: Potential for an intermediate step between COVID-19 Alert Levels 2 and 1

Purpose of Report

1. You asked the Treasury Secretary for advice on the possibility of an intermediate step between Alert Levels 2 and 1 – an “Alert Level 1.5”. This paper provides background on forthcoming decisions, identifies physical distancing as the key economic difference between Alert Levels 2 and 1, and notes some options for an intermediate step between Levels.

Analysis

2. Table 1 below compares the main features of Alert Levels 2 and 1. There are three key characteristics of Alert Level 2:

   a. rules around physical distancing

   b. requirements to keep records of attendance for contact tracing purposes, and

   c. restrictions on gatherings and events, including hospitality guidelines.

3. Logically, an intermediate step between Alert Levels 2 and 1 would involve removing one or two of these sets of rules, but not all three at once. There would also be flexibility to amend the current gathering rules, including limits on the size of gatherings and events, and to amend the record-keeping requirements, e.g. for certain places or events only.

Table 1. Comparison of restrictions at Alert Levels 2 and 1

	Alert Level 2	**Alert Level 1**
Physical distancing	People should keep 2 metres from those they don’t know, in public and retail stores. Keep 1 metre in other environments like workplaces, gyms, and cinemas where practicable.	No physical distancing requirements.
Sport and recreation	Participating in sports and recreational activities allowed, subject to conditions on gatherings, record keeping, hygiene requirements and – where practical – physical distancing.	Sports and recreational activities allowed.
Travel and transport	Physical distancing and other risk mitigating measures in place on public transport and aircraft.	No restrictions on domestic travel.
Gatherings and events	All indoor and outdoor gatherings restricted to 100 people, with physical distancing, infection prevention and control, and recording of attendees for contact tracing. Hospitality guidelines to be strictly adhered to (incl the three S’s).	No restrictions.

Public venues	Venues like libraries and pools can open if they comply with public health measures and ensure physical distancing and record keeping.	No restrictions.
Workplaces	Businesses must operate safely, including meeting appropriate public health requirements for their workplace (e.g. contact tracing systems and physical distancing). All businesses are encouraged to use alternative ways of working if possible. Close contact services can operate if they meet public health measures including robust record keeping, good hygiene practices and minimised contact to the extent possible.	Businesses must operate safely, including meeting appropriate public health requirements for their workplace (e.g. handwashing).
Health and disability services	Health and disability services operate normally as far as possible. Physical distance and infection control guidelines followed, and remote consultations used where possible.	No restrictions.

Physical distancing is the key economic difference between Alert Levels 2 and 1

4. Physical distancing has important economic impacts – it restricts economic activity by changing normal work practices, limiting the availability of public transport and making some people reluctant to go to work. Our previous advice to you [T2020/1603] has been that the cost of two weeks at Alert Level 2 compared with Alert Level 1 would amount to around $900m in lost output alone, driven in the main by the effects of physical distancing on workforce participation and productivity. High frequency data on Level 2 is consistent with this estimate, with light traffic being 20 percent below normal for this time of the year, and card spending for categories other than food being 20 to 70 percent below normal.

5. We consider that any substantive step down from Alert Level 2 would need to remove rules on physical distancing as this is the key to unlocking more economic activity. Any changes that kept physical distancing would be better considered as tweaks to Alert Level 2.

6. We therefore think there are three options for an intermediate step between Alert Levels 2 and 1 – to remove rules on physical distancing and either:

    a. maintain (perhaps amended) requirements for record keeping and restrictions on gatherings

    b. only maintain requirements for record keeping

    c. only maintain restrictions on gatherings and events.

We do not have an assessment of the public health risks, however these appear very low

7. We do not know how much the options in para 10 would change the risks associated with Alert Level 1. Intuitively, large gatherings are a risk to transmission of COVID-19, especially those where people are drinking, and are close together in a confined space, for example at a bar, a conference or a concert. Contact tracing might also be difficult from large gatherings, especially if people have not had to buy a ticket and register their details. On the other hand, there is a very low risk of transmission given the small and decreasing number of active cases in New Zealand, no known community transmission since April 2 and strict border controls. Large events are also a source of economic activity, have psychosocial benefits and promote domestic travel and tourism.

None of these options are currently under development

8. An option for an intermediate step involving limits on large gatherings (a variant of option c in para 10) was previously being considered for the June 8 Cabinet paper on Alert Levels but has since been discarded.

9. The June 8 Cabinet paper may propose that some form of record-keeping for attendance at very large events be kept on, but probably as a permanent feature of Alert Level 1, not as an intermediate step between Levels 2 and 1. This would be a very mild restriction and rolled into the definition of Alert Level 1.

10. In the body of the SWC paper for June 3, the Director-General of Health says, in relation to Alert Level 1, that "it is recommended [that] the power to set limits on numbers or conditions for very large gatherings is retained". So it is possible another intermediate option might emerge between now and June 8, but we think this is unlikely.

11. Both the SWC meeting on June 3 and the Cabinet meeting on June 8 would give you an opportunity to raise record keeping and/or restrictions on gatherings if you think it could hasten a downward move in Alert Levels or mitigate some of the risks, however low, of Alert Level 1. You could also highlight the economic impact of continued physical distancing and the importance of its removal as soon as possible, unless there are very strong public health reasons not to.

Next Steps

12. We will brief you on the June 8 paper on Alert Levels on Friday 5 June, including on any option that is developed between now and then that lies between Alert Level 2 and the full Alert Level 1.

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Briefing for Social Wellbeing Committee Wednesday 3 June 2020

Date:	29 May 2020	**Report No:**	T2020/1696
		File Number:	MS-5-3-SWC

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon David Parker **Associate Minister of Finance** Hon Shane Jones **Associate Minister of Finance** Hon James Shaw **Associate Minister of Finance**	**Read** prior to Social Wellbeing Committee meeting	9:30 am, Wednesday, 3 June 2020

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Ahmer Ranjha	Graduate Analyst, Education and Population Agencies	s9(2)(k)	N/A (mob)	✓
Nicky Lynch	Manager, Education and Population Agencies		s9(2)(g)(ii)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Briefing for Social Wellbeing Committee Wednesday 3 June 2020

Executive Summary

The Treasury is aware of 6 items on the Social Wellbeing Committee agenda for Wednesday 3 June 2020. The table below provides Treasury comment and recommendations on key items, and identifies any relevant fiscal impacts.

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The Treasury has also provided comment for the following expected late item:

- COVID-19 – Alert Level 1 controls.

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Page 3 of this request has been deleted as it is not relevant to this request.

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COVID-19 – Alert Level 1 controls

Rt Hon Jacinda Ardern, Prime Minister

Treasury contact: Grant Johnston, Principal Advisor, COVID Strategy s9(2)(g)(ii)
Sign out contact: Geraldine Treacher, Manager, COVID Strategy s9(2)(g)(ii)

Description: This paper asks Ministers to confirm the settings for Alert Level 1 that were previously agreed by Cabinet

Comments	Fiscal Implications	Treasury Recommendation
The settings for Alert Level 1, along with those for other Alert Levels, were agreed at CBC on 15 April 2020 [CBC-20-MIN-0041 refers] and publicly communicated.	There are no direct fiscal impacts from this paper. A successful move to AL1 would have a positive fiscal impact as	**Support** the recommendations. **Note** that Cabinet is likely to consider a move to Alert Level 1 on June 8.

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This paper confirms those settings. As a result, people's freedoms under Alert Level 1 will look much as they did pre-COVID, albeit with strict border controls. Alert Level 1 will enable more economic activity than Alert Level 2 as it removes the requirements for physical distancing, thereby allowing work places and public transport, in particular, to operate as normal. The paper makes the point that large gatherings are a higher risk for transmission of the virus. It flags that when Cabinet takes a decision to move to Alert Level 1, Ministers may consider requiring organisers of gatherings over a certain size to maintain records of attendees to enable contact tracing. This is relevant to your request for advice on an intermediate step between Alert Levels 2 and 1 (an "Alert Level 1.5") and we have sent you a Treasury Report on this issue today [T2020/1670]. Note that this briefing, and the TR, are based on the version of the paper circulated for Ministerial consultation.	it would enable greater economic activity.	

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Recommended Action

We recommend that you **read** this report prior to the Social Wellbeing Committee meeting at 9:30 am on Wednesday 3 June 2020.

Nicky Lynch
Manager, Education and Population Agencies

Hon Grant Robertson
Minister of Finance

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DRAFT

PreCab 8 June 2020

- The Treasury will brief the Minister of Finance, and Associate Ministers of Finance on Monday 8 June 2020, from 9.00 to 9.45am.
- This briefing is based on the Treasury's understanding of the Cabinet agenda on Friday 5 June 2020. An updated PreCab briefing will be provided on Monday morning if required.

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COVID-19: Review of Alert Level 2

Rt Hon Jacinda Ardern, Prime Minister

Treasury contact: Grant Johnston, Principal Advisor, COVID Policy and Strategy s9(2)(g)(ii)

Sign out contact: Geraldine Treacher, Manager, COVID Policy and Strategy s9(2)(g)(ii)

Description: This paper proposes two dates for moving down to Alert Level One – Option A is to move on June 9, and Option B is to move on June 16.

Comments	Fiscal implications	Treasury Recommendation
The paper notes that: • there is only one active case of COVID-19 remaining • the last new case involving a person not already self-isolating was on 15 May, and there has been no confirmed case of community transmission since 2 April • we can now have a high degree of confidence (at least 95% and probably much closer to 100%) that there are no infectious people in New Zealand • the criteria Cabinet agreed for moving to Alert Level One, including transmission being restricted to isolated cases [CAB-20-MIN-0199], have been met. The only benefit from waiting another week, until June 16, would be to go from a very high level of confidence that there is no COVID-19 in New Zealand to a very, very high level. However, given the social and economic costs of waiting (around $450 million in lost output alone), strains on social license and public health measures in place, we do not believe this level of caution is justified. This briefing is based on an earlier version of the paper circulated to officials that did not contain advice from the Director-General of Health.	There are no direct fiscal impacts from this paper. Moving to Alert Level One would have a large, positive fiscal impact as it would enable greater economy activity.	We recommend that you **support Option A** in the paper, which is to move to Alert Level One on 9 June 2020.

Pages 2 - 5 of this request have been deleted as they are not relevant to this request.